

7 June 2005

Dr Neil Byron
Presiding Commissioner
Productivity Commission
Locked Bag 2
Collins Street East
Victoria 8003

Dear Dr Byron

Thank you for the opportunity for Engineers Australia to respond to the Productivity Commission's Draft Report on Energy Efficiency.

Engineers Australia is disappointed by some aspects of the Productivity Commission's review and draft recommendations, however it recognises the document does represent an excellent consolidation of many of the issues surrounding energy efficiency.

From the outset, it should be stated that Engineers Australia accepts the validity of greenhouse science and this is one of the drivers for our views on energy policy. Energy efficiency and energy saving are significant strategies in greenhouse gas reduction because it can in many instances ultimately pay for itself. We find it a difficult premise to consider energy efficiency without some consideration of greenhouse issues. Indeed, we are concerned that Australia may ultimately pay a high price in reduced demand for its goods and services if it is seen to be out of step with the international community.

Engineers Australia has been considering energy efficiency and energy utilisation in transport, the building environment and the energy sector itself for some time now. We provide for your attention copies of three reports by Engineers Australia into these sectors.

We note and agree that energy saving measures are, and will continue to be, a significant issue for consumers, builders, manufacturers and others faced with meeting and paying for newer and tougher requirements. However this needs to be balanced with consideration of the costs of alternatives to saving energy. At the same time that the Productivity Commission has released this draft report, the NSW's government has considered its own white paper into its energy future. The consequence of not addressing energy efficiency, particularly in the built environment, has lead to NSW having to increase significantly both its generation and distribution investment for the electricity supply in that State. This will not come cheaply for NSW citizens.

Engineers Australia considers that mandatory energy requirements should be an alternative or adjunct to a simple price mechanism for addressing energy efficiency. We hold this view because we are concerned about the broader economic impacts of simply relying on price strategies alone. We believe the energy prices required to drive significant energy demand reductions could have devastating impacts on the broader economy. Whilst it is reasonable for the Productivity Commission to promote analysis of sectoral and social impacts of efficiency requirements and schemes, it is also important to consider the impact of the alternative of simply relying on price mediated mechanisms alone.

We note the Productivity Commission's criticisms of energy rating systems and models. We believe that these criticisms should not be overstated because even imperfect modelling and rating systems carry important indicative information that is valuable to the individual consumer and is educative for the community more generally. We are surprised at the Productivity Commission's general tenor of scepticism. We support and encourage the widest use of energy rating tools because it is a step towards bridging the information gap for purchasers and consumers and it keeps energy efficiency more prominently in the public mind.

With respect to the Productivity Commission's recommendations related to energy performance ratings for existing dwellings, we do not agree with the Productivity Commission's criticism of NatHERS. All modelling systems are just that, models. We believe that the NatHERS scheme has the benefit of broad contribution from, and testing by, stakeholders in the industry. It is therefore a significantly advanced approach to energy rating systems.

We also note that the Productivity Commission's suggestion that some work of the Australian Building Codes Board in relation to energy requirements within the Building Code of Australia be delayed. We consider that such an approach would lead to further disparate approaches, State by State, and we would consider this a retrograde situation. The Productivity Commission finds difficulty with the disparate system employed by the various States and Territories, but at the same time the Productivity Commission believes that the work of the Australian Building Codes Board should be slowed down to allow for better investigation for what currently is in train. These statements sit poorly together. We believe the Productivity Commission's recommendation that the Australian Building Codes Board delay its work on energy efficiency provisions is likely to in fact increase the level of State and Territory variation.

Implicit in the Productivity Commission report is that the test for market failure should include irrational behaviour. We agree with the Productivity Commission that some individual and business decisions are made for rational short-term considerations. We consider such decision making regrettable when even medium-term financial considerations may produce far better energy utilisation. We consider that issues such as access to capital and inability to capture all flow-on benefits are amongst a number of causes of market failure. We wonder whether the Productivity Commission may be applying too stringent a test for market failure.

Engineers Australia has consistently stated that we need programmes to encourage social change with respect to business community attitudes to sustainable and efficient use of energy. We believe that energy efficiency should place equal emphasis on the supply side of efficiency through energy industry initiatives and demand side of efficiency through user incentive schemes. We agree that pricing mechanisms are also valuable but should not be utilised in isolation. Engineers Australia also supports increasing the mandatory targets for renewable energy from 2% to 10% over five years.

Engineers Australia welcomes the opportunity to comment on the Productivity Commission's draft report and we thank the productivity commission for considerable of our submission.

Yours sincerely

Peter Taylor