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Energy Efficiency Inquiry
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To Whom It May Concern:

EUAA Comments on PC's Issues Paper – Inquiry into Energy Efficiency

The Energy Users Association of Australia (EUAA) welcomes the opportunity to provide a submission to the Productivity Commission (PC) on its Draft Report –Energy Efficiency.

The EUAA recognises that the timing of this further submission is towards the final stages of the PC's Inquiry. However, the Association represents the interests of many of Australia's largest energy users across all jurisdictions. Many of these organisations are participating in a range of energy efficiency-related programs, and many will need to comply with future requirements, for example the Commonwealth's Energy Efficiency Opportunities Assessment (EEOA). Several of our members are involved in the development of this measure via consultation with the Commonwealth Government.

The EUAA requests that the Productivity Commission takes the attached comments on the Draft Report into consideration in the preparation of its final report and recommendations.

The attached submission sets out our views on the Draft Report. The views are formed solely on the basis of what is in the best interests of energy users. The EUAA is uniquely placed to provide the PC with such a view, given its involvement in both national and state issues and its position as the national association of energy users.

If you have any queries regarding our comments you can contact me on telephone number (03) 9898 3900 or e-mail roman.domanski@euaa.com.au.

Yours sincerely

[original signed]

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PC Energy Efficiency Inquiry Draft Report Submission*

The EUAA is a peak body representing the interests of a wide range of businesses relating to energy matters. Our members cover all Australian states, represent many sectors, and most are large energy users that contribute significantly to the Australian economy.

The EUAA is a non-profit organisation focused entirely on energy issues. Members determine EUAA policy and direction. The EUAA represents a wide spectrum of end-users in all Australian States and has over 75 Members (and growing), predominantly business end-users with activities across all states and many sectors of the economy, and including many of the largest energy users in Australia. EUAA activities cover both national and sub-national issues [see <http://www.euaa.com.au/> for more information on the EUAA].

As highlighted previously, many EUAA members already have a commitment to undertake energy efficiency within their organizations and have done so in the past. Some have deliberate strategies and internal energy saving targets in place. These are mainly set for commercial reasons such as saving costs, although a number also take into consideration their desire to save energy for environmental reasons (eg as part of the Greenhouse Challenge program or similar State programs, or simply as an expression of ‘good corporate citizenship’).

The EUAA re-iterates several points from its submission to the Productivity Commission’s Issues Paper – Inquiry into Energy Efficiency; specifically:

1. There are a **large number of energy efficiency programs** at Commonwealth and state-based levels in operation throughout Australia, some based on sound public policy, and some that have not been well considered and which have excessive costs of compliance for the outcomes generated. Some programs, like the energy audits required of manufacturers under Victorian EPA’s SEPP scheme, **do not recognise early action** via other initiatives, whether in-house driven or achieved via participation in other programs. This clearly places an unfair imposition on business.

* The EUAA received a grant from the National Electricity Consumers Advocacy Panel to help prepare this submission. Energetics assisted in its preparation. We would like to gratefully acknowledge the support of both parties. However, all views expressed are our own.

2. The **lack of co-ordination** between jurisdictions and integration of programs frequently results in the multiplication of administrative effort by business (and government) to meet comparable objectives, thus imposing unnecessary costs. The EUAA sees that the Commonwealth has an important role to encourage all **Governments to co-ordinate their activities** (between programs and across jurisdictions) to achieve greater energy efficiency uptake in a more economical way for industry. The MCE appears to provide the best forum for this to occur through the National Framework for Energy Efficiency (NFEE).
3. Provision of **incentives to business** and benchmarks is preferred to poorly designed regulatory measures that simply add cost and deliver little of value to either the business concerned or the nation.
4. The Energy Efficiency Opportunities Assessment (EEOA) measure, **if designed and implemented effectively**, and in **full consultation with industry**, especially to ensure that it takes account of commercial considerations, may be a step in the right direction towards a co-ordinated approach to energy efficiency that reduces transaction costs and is recognised across jurisdictions.
5. The EUAA has undertaken a great deal of work in addressing the role of demand management in the National Electricity Market (NEM) and this has been recognised by the MCE. It recommends that policy makers, regulators and providers of energy **facilitate greater use of demand management** in order to encourage consumers to respond to price signals, consume less energy and reduce prices and improve competitiveness. The EUAA welcomes support for demand side response by the MCE as a positive step towards achieving this.
6. ‘Audit’ (technical opportunities study) programs need to be appropriately targeted to engage industry in a consultative, co-operative process that **gains internal ‘buy-in’** at all levels. Assessors involved in such programs need to have the necessary **knowledge of the relevant industries and processes** to be able to add value, and an assessor accreditation/certification scheme could be designed to facilitate this.
7. It should be noted that the largest energy losses are in the supply side and distribution of the energy to the end users and some actions are certainly possible to make the supply chain more efficient. End users can influence the efficiency of the supply and distribution of energy by altering their usage patterns. Even small reductions (a few percentage points) in the use of energy at peak times will create energy savings equivalent to the total consumption of some 300,000 homes.

Drawing on the above comments to the PC’s Issues Paper, and the Draft Report, the EUAA offers the following additional comments in relation to a number of the draft findings and draft recommendations of the Draft Report.

Comments on Selected Draft Report Findings and Recommendations

DRAFT RECOMMENDATION 11.2

National Framework for Energy Efficiency Stage One proposals (that are not directly affected by other recommendations) should be deferred until independent evaluations of existing energy efficiency programs have been undertaken . The evaluations should determine the effectiveness of these programs in promoting the uptake of cost-effective energy efficiency improvements.

The EUAA concurs with the PC's view that proper evaluations of energy efficiency programs should be conducted, and sees this as a matter of sound public policy. Equally important is that the objectives, costs and benefits of all aspects of the NFEE Stage One measures be properly evaluated, in consultation with stakeholders, as a matter of sound public policy before implementation. However, the EUAA would be concerned if the proposal that the NFEE Stage One process be deferred until such time as independent evaluations of existing programs have been carried out resulted in a long delay implementation. Specifically:

- ◆ A key component of the NFEE has been to develop a platform for national co-ordination in relation to energy policy. The fragmented nature of existing policies and programs creates high costs to business and end users, leads to inefficient use of resources and can have adverse impacts on investment decisions. The deferment of NFEE Stage One risks maintaining the *status quo* and this aspect of the NFEE at least should proceed without further delay.
- ◆ National leadership, co-operation between governments and delivery of certainty in policy direction across all jurisdictions and in the NEM is critical to ensure that investment decisions related to energy efficiency can be made with predictable outcomes.
- ◆ Review of existing policies should be integrated into, or conducted in parallel with the evolution of the NFEE. This approach should be embedded in the NFEE process on an ongoing basis, in order that reviews, needs-assessments and improvements can be made on a continuous basis.
- ◆ Review of policies should be conducted in a transparent manner, and involve consultation with industry and other end users such that the true costs and benefits can be determined with accuracy and better inform ongoing policy development.

The EUAA believes that, in the absence of continuing momentum towards a national approach, that involves close co-operation between governments and consultation with end users, the retention of the status quo will adversely affect EUAA members and energy users more broadly, via ongoing high transaction costs, uncertainty in decision-making related to energy efficiency, and fragmented policy approaches across all states and in the NEM.

DRAFT RECOMMENDATION 8.1

A policy of mandatory energy efficiency opportunities assessments is not warranted on private cost-effectiveness grounds. There would be no justification for mandating the implementation of Energy Efficiency Opportunities Assessment results.

Many of the EUAA’s members and other large users will be required to comply with the requirements of the Energy Efficiency Opportunities Assessment (EEOA) measure. Energy efficiency opportunities assessments may assist to identify, and augment existing procedures for, identifying cost-effective energy savings. The EEOA:

- ◆ Should involve close consultation with energy users to ensure that it:
 - Is influenced by commercial and practical considerations;
 - Is designed to better inform and add value to industry;
 - Can improve competitiveness;
 - Encourages innovative energy saving solutions for industry which do provide viable commercial returns; and
 - Is not administratively burdensome; and
 - Avoids measures with excessive transaction costs compared to the savings benefits.
- ◆ Can provide a nationally-consistent framework for assessment of energy efficiency opportunities, and outcomes can serve to better inform governments of barriers to energy efficiency that warrant their involvement and/or the provision of incentives. The alternative may be greater exposure of business to fragmented and inconsistent energy efficiency schemes by different jurisdictions.
- ◆ Should be developed in conjunction with the development of assessment standards that are more appropriate to the needs and whole-of-business focus of industry.
 - Any measures to accredit assessors / auditors should be founded on an identified need and benefit from accreditation and recognise commercial and practical imperatives as key drivers and the need for industry knowledge as a core competency, and not simply address “traditional” focus areas of many energy efficiency programs such as generic energy using technologies.
- ◆ Should be recognised within all jurisdictions as meeting their requirements for assessment of energy efficiency opportunities and reporting of same, including recognition for early action, to the extent such requirements may exist on a voluntary or mandatory basis. For example, organisations that meet the requirements of the planned DEUS mandatory energy assessments by the 200 largest energy users in NSW should have efforts here recognised within the EEOA measure, and vice versa. Similarly with the State Environment Protection Policy (Air Quality Management) (SEPP (AQM)) mandatory requirements on licensed premises run by the EPA in Victoria.

The EEOA measure is still under development, as is the DEUS scheme. The EPA scheme has been in place for long enough to establish that it has some serious shortcomings and should be reviewed. Hence, it is timely to incorporate the above elements, in consultation with energy users, and help to deliver cost-effective and value-adding outcomes. Provided this is done, the EUAA believes that the EEOA program, though perhaps not perfect, can make a worthwhile contribution to national

energy efficiency policy and objectives and could be used to avoid the costs of separate and inconsistent State schemes. However, we recognise the risks that, if this is not done, then the PC’s lack of faith in the program will be realised.

DRAFT FINDING 12.1

A national energy efficiency target is a poorly focused policy instrument that would be very difficult and costly to implement in an effective manner. It cannot be justified on the grounds of privately cost-effective energy efficiency. It may help to drive investment in energy efficiency, but this would be at the expense of economic efficiency. As a measure to address greenhouse gas abatement, it has serious disadvantages compared to other options such as an emissions trading.

The EUAA supports the finding on a national energy efficiency target. Energy users do not see the need or justification for such a target, especially if it were poorly designed and not aligned to robust benefit-cost analysis. A single target would also fail to recognise industry specific differences and large trade exposed industries would be particularly badly affected. The issue of setting baselines, consistent measurement and treatment of past efforts (early movers) would also be amongst the many vexed issues in such an approach.

DRAFT FINDING 13.1

More cost-reflective pricing has the potential to improve energy efficiency by influencing both consumer and supplier behaviour, particularly in the longer term when consumers have both more information and opportunity to modify their behaviour, and producers have the opportunity to respond to changed market conditions.

DRAFT RECOMMENDATION 13.1

Any mandated roll out of interval metering devices should be subject to a comprehensive benefit–cost analysis. Mandated roll out of technologies should not preclude choice in the device or competition between service providers.

The EUAA supports these recommendations. The adoption of cost-reflective pricing and rollout of interval metering as a means of providing improved signals to consumers can have positive energy and demand outcomes, and lead to lower prices, where cost-effective. However cost-reflective pricing alone is unlikely to lead to improvements in energy efficiency and demand response. Other measures are required to support this, such as information and education, as well as the provision of incentives (‘carrots’) in some instances, not simply reliance on ‘sticks’.

In addition the EUAA considers that:

- ◆ Regulatory measures such as those adopted in some jurisdictions to recognise cost recovery for investment in demand management should be adopted consistently throughout the NEM. The existing incentive regime for regulation of energy networks has done virtually nothing to encourage networks to undertake demand management as opposed to their normal practice of augmenting the network. Quite simply, the regime rewards regulatory

‘gaming’ for increased capex combined with a strategy of spending on capex up to a defined regulatory service level (often less than the allowance as the difference is retained by the business). From a demand management perspective, the only way to overcome this is to provide some specific incentive (or obligation) to ‘invest in some DM’.

- ◆ Market-based Demand Side Response (DSR) trials in which the EUAA has been extensively involved have shown that very significant cost-effective potential savings to energy users via demand management (including energy efficiency) and lower prices are possible. This applies especially to ‘lopping off’ the peaks in demand, which are growing strongly and, in the absence of DSR, will require substantial infrastructure investment in future. However, DSR opportunities can also contribute to the incentives to introduce energy efficiency technologies.

In this way, the market that has been introduced via the National Electricity Market (NEM) can be used to good effect to provide commercial incentives for more DSR. The EUAA trial showed the willingness of large energy users to respond to price-based signals for DSR in respect of both opportunities in the NEM energy market (eg in response to high pool prices) and also if built into the incentive regime for network pricing. However, certain positive steps, outlined in the EUAA DSR Trial Report, are needed in both areas if these opportunities are to be realised. In particular, there is a need to create customer and market awareness, to remove barriers to take up, to ensure the establishment and sustainability of a DSR facility operator and to improve incentives for network DSR through changes to the regulatory regime. Copies of the DSR Trial report have previously been provided to the PC and are available from www.euaa.com.au under *Demand Side Response*.

- ◆ Regulatory and policy approaches should seek to fully exploit the significant potential benefits that can arise to end users from Demand Management, and should seek to build capacity among end users, retailers and distributors to develop and implement measures that are cost-effective, improve network asset utilisation and lead to lower prices. These measures can reduce costs for end users while at the same time provide a very good rate of return for capacity constrained utilities.

Additional General Comments

Policy Perspective

The EUAA generally is supportive of the PC’s position that energy efficiency is not an end in itself and should only be supported if it achieves economical outcomes, that market interventions should only be introduced if there is a demonstrable positive benefit-cost outcome and that market oriented and less interventionist policies should be preferred. We also support the PC position that business users already have commercial incentives to apply energy efficiency measures and do so. However, this often goes unseen and unnoticed.

The PC's Draft Report also makes reference to Australia's "cheap" energy as being a factor in determining how much energy efficiency is undertaken. Whilst this may be the case, energy is a major source of comparative advantage for Australian industry and this should be clearly stated. It would be poor policy to impose energy efficiency obligations on industry that damage this advantage. If Government's have a policy goal of industry achieving more energy efficiency than they do of their own volition, then they should provide assistance to industry to do so.

In trade exposed sectors, the cost of energy is not the only driver for energy saving. These businesses are also driven to save energy out of a need to remain competitive in their output markets and will undertake energy efficiency for this reason regardless of the cost of energy.

It would also be relevant for the PC to consider that there are cost pressures on energy prices in the future, including through greenhouse and energy efficiency policies, such that the comparative advantage we have in energy may be threatened,

The EUAA notes the Draft Report's comments relating to the need for objectives in relation to energy efficiency policy to be clarified, for example, where the reduction of greenhouse gas emissions is the real policy target.

- ◆ The EUAA concurs that the clarification of objectives will influence the instruments that are chosen to achieve this goal, and that a coherent, soundly-based national response is required.
- ◆ The EUAA concurs that energy efficiency is one of the potential responses to an objective such as reduction in greenhouse gases, but not the only response. The clarification of policy objectives in this regard would lead to a greater range of potential response mechanisms and lead to more cost-effective solutions.
- ◆ The EUAA notes that initiatives aimed at improving the operation of the NEM and cost-effectiveness to end users and providers, including demand management, can be a further policy objective in which energy efficiency can have a role, but not necessarily the only or the most cost-effective role. Demand management initiatives explicitly recognise this in seeking cost-effective solutions from a range of potential measures. The EUAA believes that the PC can and should make more of this in its final report. We again refer to the report on our DSR Trial (available from www.euaa.com.au) and the forthcoming report on our DSR sectoral case studies, which will be published soon (an advance copy can be made available to the PC on request).

Energy Efficiency Incentives for Business

The PC has tended to adopt a position that EE incentives should not be provided to business users, as they already have sufficient drivers to introduce EE measures through their business imperatives to save costs and to act as 'good corporate citizens' in helping to mitigate greenhouse impacts. Whilst we agree with the PC's position that business is motivated to save energy costs, we also believe that for the PC to then draw

the conclusion that no energy efficiency incentives should be provided to businesses, does not recognise the full set of circumstances that prevail.

First, business consumers in Australia are responsible for around two-thirds of energy use and it is therefore perhaps natural that governments seek to involve them in EE campaigns. Large users are especially susceptible.

Secondly, business users are more concentrated as a group than domestic users, who are numerically far larger and therefore more difficult to ‘harness’ and ‘motivate’. Business users also have more resources and are better equipped to activate EE measures. This again makes them a natural ‘target’ for government EE measures

Thirdly, on grounds of ‘equity’ and ‘pain sharing’ governments will probably always seek to have industry involved in EE.

Finally, the perception that Australian business has access to “cheap” energy (also advanced in the PC draft report) is an added factor motivating government and some in the community to ‘target’ industry for EE action. As mentioned above, this often fails to appreciate that our relatively low energy prices (by some international standards) are a source of important comparative advantage for Australia and help promote a more competitive nation with important economic benefits. (Note that recent OECD data shows that Australia has relatively low energy prices but is by no means the lowest and already has higher prices than several of our competitor nations, with the threat that prices will only rise in future.) Moreover, trade exposed Australian energy users already face the imperative of international competition as an incentive for greater EE. The introduction of costly and onerous EE measures could damage our competitiveness.

The EUAA is therefore not in complete agreement with the PC’s draft report on this. As mentioned elsewhere in this submission, we agree that costly, onerous and interventionist EE policies should not be applied to businesses. But, for the reasons advanced above, we also believe that there is a case for providing businesses with financial incentives to undertake more EE, or earlier action on it, than would be the case with pure commercial drivers operating and that governments are unlikely to exempt business users from EE actions. Unless the PC recognises this, there is a greater risk that business will be saddled with costly, onerous and interventionist EE measures.

Minimum Energy Performance Standards

The EUAA is supportive of mandatory energy performance standards (MEPS) only to the extent that these have demonstrable benefits to end users and purchasers, are applied when other possible approaches to improvement are not cost-effective, are supported with rigorous analysis, serve to eliminate the poorest-performing products and practices, and encourage cost-effective improvements via innovation by manufacturers.

Summary and Conclusions

The EUAA supports energy efficiency policy measures that are:

- ◆ Based on sound analysis and rationale;
- ◆ Nationally consistent;
- ◆ Developed in consultation with end users;
- ◆ Appropriate to the overarching policy objectives; and importantly,
- ◆ Cost-effective to energy users and sound commercially (or provide incentives to bridge the gap between sound commercial practice in energy efficiency and any government policy objective).

The Draft Report identifies a number of areas within current policies and programs where the above objectives may not be satisfied. The EUAA is in agreement with the Draft Report’s analysis and findings in most of these areas.

However, the EUAA believes that the recommendation that proposed NFEE Stage One measures be deferred until evaluations of existing programs is conducted may lead to a continuation of the current scenario, where energy users face multiple transaction costs across multiple jurisdictions to satisfy the requirements of a range of policy objectives and measures. A pragmatic approach, that seeks to recognise the need for greater national consistency, co-operation and co-ordination in energy efficiency and the role this can play in removing current poor policy and regulatory practices in the energy efficiency area, is a more sensible forward path. It is possible that adoption of this aspect of the NFEE is therefore useful, whilst recognising that some other elements of the NFEE may not be as sound and should be thoroughly assessed.

Many members of the EUAA will need to comply with the proposed EEOA measure. Important attributes of the measure should include close consultation with industry, recognition within all jurisdictions, and appropriate knowledge by assessors of industry needs. National consistency in such an approach is an important aspect.

The EUAA re-iterates its support for cost effective demand management responses, market-based approaches to improve signals for demand management through DSR and cost-reflective pricing in the electricity market. The EUAA DSR Trial showed this to be the case (see www.euaa.com.au for the trial report). This can have an important bearing on incentivising the use of economical demand management initiatives in the NEM, resulting in a ‘lopping’ of peak electricity demand growth and also greater energy efficiency enabling technology. We believe that the final PC report needs to address this important matter more fully.