

Tasmania

Productivity Commission Draft Report

Inquiry into Energy Efficiency

Tasmanian Government Submission

June 2005

INTRODUCTION

The Tasmanian Government welcomes the opportunity to provide a response to the Productivity Commission Draft Report on its Inquiry into Energy Efficiency.

The Tasmanian Government acknowledges that it has not historically pursued energy efficiency measures as strongly as other jurisdictions. A contributor to this has been the high penetration and traditionally low cost of wood fuel. However, changes in environmental awareness, lifestyle and the increasing cost of wood as a fuel source are providing the impetus for the Tasmania Government to begin focusing on the benefits of promoting energy efficiency.

The Government also recognises the role of energy efficiency and demand-side participation in energy markets as a means of maximising the value extracted from our energy resources and achieving an appropriate balance between supply and demand. In this regard, the Tasmanian Government is working to establish programs that will improve energy efficiency and reduce the State's greenhouse gas emissions through a combination of legislative and education measures.

In addition to the traditionally high penetration of wood, the absence of market opportunities has meant that Tasmania's energy businesses have had little commercial incentive to assist Tasmanian consumers to reduce their demand. Entry to the National Electricity Market through Basslink means that these impediments are no longer relevant. Energy saved in Tasmania is now energy potentially sold to the mainland, earning additional revenue for Tasmania's energy businesses and displacing sources of fossil fuelled generation that damage the environment.

Additionally, the Tasmanian Government recognises that energy is a significant expense in the operation of the Tasmanian economy. An ability to reduce local energy consumption will provide wider flow-through benefits to the State, particularly in terms of manufactured and processed goods. Based on this the Tasmanian Government aims to implement and develop policies in relation to energy efficiency that provide net environmental benefits, recognising that these will also contribute to the broader social and economic benefits.

The Tasmanian Government considers that some of the recommendations drawn from the Inquiry do not fully cover the issues relating to the broad range of environmental and social benefits arising from energy efficiency. This is a direct result of the assessment by the Commission of potential benefits of individual energy efficiency programs and the view that government policy intervention should be underpinned by the limited test of net private benefit to individual producers and consumers. While the draft Report focuses on greenhouse gas emission reduction as the main environmental benefit arising from improved energy efficiency and reduced energy consumption, it unfortunately does not take into account the broader environment benefits, such as air and water quality. These are benefits particularly to Tasmania as well as all other States.

COMMENTS ON KEY SPECIFIC POINTS

"Firms and households generally implement energy efficiency improvements that are cost effective for them - most do not deliberately waste energy. But energy has been cheap and is only a small percentage of total outlays for most Australian firms and households."

There is no evidence to support the claim that most firms and households generally implement cost effective energy efficiency measures. Arguably, this assertion is contradicted by the conclusions reached in the draft Report about the key barriers to energy efficiency, such as information failures and split incentives. The existence of these barriers means that many firms and households are simply not in a position to recognise energy waste or identify cost effective energy efficiency improvements.

"The most important barriers to improving energy efficiency appear to be:

- ***A failure in the provision of information***
- ***The different incentives facing those who take decisions about installing energy-efficient products ... and those who might benefit from using them."***

The draft Report recognises these as important barriers to energy efficiency. Two key government approaches to addressing these barriers have been the mandatory provision of information through energy labelling, and minimum energy performance standards. These measures are very cost effective for government to implement, affect all players in a market and, at least in the case of Minimum Energy Performance Standards (MEPS), provide guaranteed and long-term reductions in energy consumption. It is recognised, however, that price elasticity and the significant capital costs associated with conversion to efficient alternatives may impact on these measures. To address this possibility, market and regulatory approaches may be needed, particularly when the benefit is a common social good such as pollution or climate change.

"Some regulatory responses to these problems are appropriate. But the Commission favours light-handed responses and information provision whenever possible, rather than overly prescriptive and intrusive approaches."

It is doubtful whether information provision and light-handed approaches alone will have any significant and long-term impact on greenhouse gas emissions. Certainly, there is little, if any, evidence to support such a

contention. It is considered more likely that it will require a combination of strategies including regulated approaches such as MEPS and mandatory energy labelling.

"Mandatory measures - such as minimum performance standards - override consumer and producer sovereignty, and are inconsistent with the proposition that the energy efficiency improvements they provide are privately cost effective."

This point appears to be a consequence of the narrow terms of reference and the focus on cost effectiveness in private hands.

There is no evidence to suggest that the number of brands and models or product features available to consumers has been limited by MEPS. What is restricted is the level of inefficiency. Consumer organisations such as the Australian Consumers Association, that exist to defend consumer rights, are highly supportive of mandatory labelling and MEPS.

Appliance choice for consumers is increasing and real prices for most consumer appliances are decreasing (driven largely by the products coming out of China and a number of other countries with low labour costs), even though MEPS for products were first introduced in 1999.

Before new MEPS are introduced a Regulation Impact Statement (RIS) is conducted. This takes into account the likely cost impact and cost effectiveness on the consumer and the community. If it is not cost effective then it will not be introduced. The Commonwealth Office of Regulation Review must approve the RIS, itself part of the Productivity Commission, and by the Ministerial Council on Energy following a period of public consultation where industry and other stakeholders are able to review the RIS and put forward their views.

Cost effectiveness is not and should not be the only consideration

"A sufficient case has not been made for the imposition of a national energy efficiency target and tradeable obligations. There would be many practical difficulties in defining and administering the scheme and complying with the obligations placed on regulated entities."

At present there has been no firm policy proposal for the introduction of a national energy efficiency target and tradeable obligations. While State Governments are investigating a national Emission Trading Scheme, no formal decision has been made as to whether to actually implement such a scheme. However, if an Emissions Trading Scheme were to be implemented it might negate any need for NEET.

The nine point National Framework for Energy Efficiency (Stage One) measures, recently endorsed by the Ministerial Council on Energy, should be deferred until independent evaluations of existing energy efficiency programs have been undertaken.

The Stage One National Framework for Energy Efficiency (NFEE) measures are based upon existing programs and it is not clear if the draft Report is advocating the abandonment of existing programs, which are already recognised as successful and are providing cost effective greenhouse gas abatement. It also needs to be recognised that programs already in place, which involve regulation, will have been subject to either a national or state RIS process.

Where Stage One NFEE proposes the introduction of new energy efficiency policies/programs the process will involve research (national and international) program design, stakeholder consultation and, where appropriate the completion of RIS processes. The measure would only be introduced if it can demonstrate that it is cost effective and produces net national benefits.

RESPONSE TO DRAFT FINDINGS

Draft Finding 5.1(p.69)

Behavioural and organisational limitations on the adoption of energy efficiency improvements do not of themselves warrant government intervention. Understanding these limitations may, however, be helpful in designing efficiency programs that address environmental externalities, information failures and other sources of market failure.

Consumer behaviour can be changed by better information and education, however such measures are likely to have greater impact and uptake if they are also aligned with Government intervention. It is considered that multi-layered approaches will impact on the differing drivers that motivate both consumers and organisations to develop energy efficient practices. Consideration should be given to the effect that individual behaviours today will have on future generations.

Draft Finding 5.2 (p.74)

Other barriers and impediments that are not market failures (for example, high transaction costs, risk and uncertainty in implementation) may provide rational reasons for the non-adoption of energy efficiency improvements that appear (to an outsider) to be privately cost effective. The role of governments in addressing these issues may be quite small.

Government's role needs to be multi-layered providing strategies that take the consumer and organisations over the threshold to actively take up energy efficiency measures.

For business such measures must provide worthwhile incentive for expending the time and money on the introduction of changes to energy use and employee behaviours for a commodity that is seen as 'being on tap' and with little consideration often given to the cost of the item.

The draft Report identifies the cost of information as an important part of the overall transaction cost. Governments can play a very strong role in this area toward reducing the

transaction costs involved in the uptake of energy efficient solutions by business. Examples are:

- Provision of detailed information on how to implement efficiency measures and on projected payback times;
- Incentives to promote the uptake;
- Promotion of demonstration projects; and
- Support of energy performance contracts.

Draft Finding 6.1 (p.95)

Numerous case studies have found that producers and consumers fail to adopt some energy efficiency improvements that appear to be cost effective for them. These case studies, however, are based on many debatable assumptions, including:

- *the criterion for cost effectiveness;*
- *business-as-usual improvements in energy efficiency;*
- *extrapolation of audit and best practice study results to a whole sector; and*
- *representativeness of simulated producers and consumers.*

Case studies are used to avoid undertaking comprehensive studies that would be resource heavy in both time and dollars. Nevertheless, whilst case studies are only as strong as their assumptions are valued, many provide good examples of market failure. This finding implies that the problem is with the case studies.

Draft Finding 11.1 (p.250)

National uniformity has been achieved in the regulation of energy labelling and minimum energy performance standards (MEPS) for electrical appliances and this is appropriate. If a revised scheme for energy labelling and MEPS for gas appliances is to be introduced, a similar approach to coordination would be desirable.

It is noted that the National Framework for Energy Efficiency (NFEE) Stage One provides for the inclusion of gas appliances and equipment under the Appliance and Equipment Work Group.

Draft Finding 11.2 (p.253)

The current state and territory based variations in energy efficiency standards for new houses increase costs for the building and building products industries. The case for such variations appears to be weak.

The actions planned under the NFEE to increase uniformity in national building energy efficiency requirements should assist in addressing this issue.

Draft Finding 11.3 (p.260)

The National Framework for Energy Efficiency (NFEE) has the potential to improve national coordination and guide the development of energy efficiency programs. At present, however, there is insufficient clarity on the rationale for, and the objectives of, government intervention. There has also been insufficient evaluation of past policies and programs.

Under NFEE Stage One a detailed investigation and analysis of options including an assessment of the costs and benefits and a program of public and industry consultation will be undertaken. One aspect of the analysis is to examine the lessons learnt from previous policies and programs.

Draft Recommendation 11.2 (p.260)

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.

It is not clear whether this refers to all of NFEE Stage One or specific programs, especially as the Productivity Commission agrees, generally, with some of the programs. It is not feasible, nor sensible, to put existing programs on hold. A case in point is the highly successful National Appliance and Equipment Energy efficiency Program.

Where NFEE Stage One is introducing new programs they will be subject to research, program design, stakeholder consultation, and where appropriate a Regulatory Impact Statement.

Draft Finding 12.1 (p.278)

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 scheme.

Whilst State Governments are pursuing a national Emissions Trading Scheme, no Government has yet put forward a proposal for a National Energy Efficiency Target (NEET). It is not logical to dismiss a NEET scheme without adequate investigation having been conducted including the experience of other countries. It should be noted that many European countries are considering such a scheme.

RESIDENTIAL

Draft Finding 7.1 (p.120)

Appliance energy performance labels are not a major determinant of which appliances householders buy. But the labels do have some influence on consumers after they have short listed products on the basis of characteristics such as price, performance, capacity and style. While the benefits of energy performance labelling may have been overstated in regulatory impact assessments, labelling is likely to have produced net benefits for consumers.

Labelling is a policy tool for overcoming information barriers and helping to create a consumer demand for higher energy efficient products and it is recognised that it is not a key factor for consumers. However, they are an influence on the consumer at the point of purchase as they are highly visible. Their impact and effectiveness is most relevant where there are a variety of energy efficient products available. It should be noted that the impact of appliance MEPS when targeting the appropriate appliance types is likely to be much more significant than mandatory energy labelling.

Draft Recommendation 7.1(p.134)

The National Appliance and Equipment Energy Efficiency Committee should adopt procedures to ensure that future regulatory impact assessments of appliance minimum energy performance standards (MEPS) include a more comprehensive analysis of:

- ***why consumers - with guidance from an energy performance label - are not best placed to judge what is in their best interests;***
- ***whether a voluntary standard, such as the Energy Star program, would be more cost effective;***
- ***what proportion of consumers would be prevented from buying appliances that are more cost effective for them;***
- ***the extent to which consumers would be forced to forgo product features that they value more highly than greater energy efficiency;***
- ***the distributional impacts, including the extent to which MEPS are regressive;***
- ***whether MEPS would reduce competition and how this would affect prices and***

service quality; and

- *whether a disendorsement label would achieve a more cost-effective result.*

The use of MEPS is more effective than energy labelling. It is not relevant to have labels or MEPS for every product. The National Appliance and Equipment Efficiency Committee ensures that the appropriate use of MEPS and labels is made to ensure that maximum and cost-effective greenhouse gas abatement is achieved.

MEPS are introduced after extensive industry consultation and provision of relevant lead times are provided, thus ensuring industry is not negatively impacted.

It is highly unlikely that manufacturers would support a disendorsement label.

Draft Recommendation 7.2 (p.138)

Before the States and the Northern Territory mandate energy performance ratings for existing dwellings at the time of sale or lease, the Ministerial Council on Energy should commission an independent evaluation of the ACT rating scheme that has operated since 1999. The evaluation should include an assessment of:

- *the accuracy of home energy ratings in predicting the actual energy performance achieved by home buyers and tenants; and*
- *the costs, benefits and effectiveness of the scheme, taking account of the diverse preferences and financial circumstances of individual home buyers.*

The NFREE Building Group is undertaking research into the mandatory disclosure of house energy performance at time of sale or lease. This work will be part of the development and design work, which will inform a Regulatory Impact Statement process.

Currently trials of energy rating software are being undertaken to ascertain effectiveness and level of community acceptance.

Draft Finding 7.2 (p.149)

Energy efficiency standards for residential buildings are based on computer simulation models - such as the Nationwide House Energy Rating Scheme energy-rating software - that exclude many of the determinants of a building's actual energy efficiency.

The Nationwide House Energy Rating Scheme (NATHERS) only rates the thermal efficiency of a building shell and does not claim to do anything else. This is only one of the determinants that affect the energy efficiency of a house, the others being climate, type and efficiency of appliances, type of hot water system, user behaviour, the number of occupants and size of the house.

NATHERS can only compare thermal comfort between housing types and designs. It is inappropriate to attempt to compare houses on all determinates of energy efficiency as occupancy and user patterns will change the energy efficiency of the house.

Draft Finding 7.3 (p.149)

A ranking of residential buildings by star rating (using energy-rating software such as Nationwide House Energy Rating Scheme) may be very different from a subsequent ranking based on actual energy consumption or efficiency.

Comparison of a house for thermal energy efficiency is valid as it is a comparison of like house and design. Domestic energy consumption can change dramatically based on the occupancy and user patterns.

Draft Recommendation 7.3 (p.156)

New or more stringent energy efficiency standards for residential buildings should not be introduced until existing standards have been fully evaluated. The evaluation should be commissioned by the Australian Building Codes Board to:

- ***consider whether defining building standards in terms of simulated heating and cooling loads is an effective way to raise actual energy efficiency;***
- ***investigate whether weaknesses in energy-rating software distort the housing market in favour of particular building designs that are not necessarily the most cost effective, particularly over the longer term as innovations are made in building design;***
- ***evaluate costs and benefits in a way that takes account of the diverse preferences and financial circumstances of individual home buyers;***
- ***assess how effectiveness and compliance costs differ between the deemed-to-satisfy and performance-based standards;***
- ***analyse the distributional impacts of standards on different socio economic groups, including first-home buyers and less-affluent groups; and***
- ***examine the process used to set the stringency of standards in the Building Code of Australia, including the impact of any increase in stringency by individual States and Territories.***

Whilst there may be merit in what is suggested it should be noted that the ABCB introduce energy efficiency measures only after comprehensive cost benefit analysis.

COMMERCIAL AND INDUSTRIAL

Draft Finding 8.1(p.166)

There are many reasons why firms might choose not to adopt energy efficiency improvements that appear to be privately cost-effective, but the only two that might warrant government intervention are market failures in regard to information and split incentives.

The statement that market failures in regard to information and split incentives are key reasons for government intervention is accurate. However they are not the only reasons that may warrant government intervention. Sentiment expressed during the NFEE stakeholder consultations was for a wider level of Government intervention. Government energy efficiency policy and programs are not solely for the private benefit of firms but for the benefit of the wider community.

Draft Finding 8.2 (p.170)

Government should not become involved in accreditation of energy consultants and energy service companies because an industry or professional association like the Australasian Energy Performance Contracting Association can adequately perform this function.

While this finding is agreed with, the role of Government in facilitating the development of an accreditation scheme, as proposed in NFEE Stage One, should be noted.

Draft Finding 8.5 (p.184)

The Commission does not support provision of direct subsidies to firms to undertake energy efficiency improvements which are privately cost effective for those firms. Subsidies may, however, have a role in encouraging the uptake of improvements that have important spillover effects.

The Tasmanian Government agrees with this statement. Governments provide assistance to firms to implement energy efficiency improvements with the view that a number of objectives will be met that provide larger community benefit rather than being privately cost effective for the firm - that they are is of benefit to the firm. Often a key aim is to demonstrate the benefits to be gained and thus promote uptake in the wider industrial community and look for the associated change in employee behaviour.

Draft Finding 8.6 (p.186)

The case for government subsidies to encourage energy efficiency improvements should be separated from the means of funding those subsidies, such as by hypothecated levies.

The issue of government funding of subsidies has been highlighted as part of the work to be undertaken for NFEE Stage Two.

Draft Recommendation 8.1(p.191)

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 (EEOA) results.

The EEOA does not require firms to implement EE opportunities. However, any change is dependant on the consultation with industry, government and stakeholder and then the development of the EEOA. The EEOA will have to undergo the approved Regulatory Impact Statement prior to it being implemented.

Draft Recommendation 8.2 (p.197)

Energy efficiency standards for commercial buildings should not be introduced without a more thorough evaluation of the costs and benefits of such a policy and a comprehensive analysis of the other policy options. In such an evaluation, the Australian Building Codes Board should give greater consideration to:

- ***the sensitivity of regulatory impact statement estimates of cost savings to the assumptions used;***
- ***the costs of introducing energy efficiency standards, including administration costs and compliance costs; and***
- ***the effectiveness of standards in achieving higher actual energy efficiency.***

It is noted that the energy efficiency provisions for commercial buildings were developed by the ABCB in close consultation with stakeholders and industry experts.

GOVERNMENTS AS ENERGY USERS

Draft Finding 10.2 (p.239)

Addressing cost-effective energy efficiency in procurement policies, provided there is sufficient flexibility, could lead to environmental benefits and a small increase in the overall efficiency and effectiveness of government operations. There may be some additional benefits through demonstration effects and market development, but these are unlikely to justify procurement decisions which are not cost effective for government operations.

Government in this instance can lead by example ensuring that energy efficient appliances are purchased where cost effectiveness is demonstrated. The Tasmanian Government

Procurement principles advocate value for money which includes consideration of maintenance and running costs over the lifetime of the product and energy conservation.

ROLE OF ENERGY MARKET REFORM

Draft Finding 13.1 (p.295)

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.

The usage of cost reflective pricing is more likely to result in curtailment of energy use whilst price is high and/or a redistribution of energy use to a cheaper time period. Neither of these measures will see a reduction of total energy use through efficiency gains. There is future potential that cost reflective pricing will create life quality issues for segments of the population and provide greater social barriers for the general public.

Draft Recommendation 13.1 (p.298)

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.

This recommendation is supported.