

Committee Secretary
Senate Economics Legislation Committee
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20 June May 2014

Re. Inquiry into Energy Efficiency Opportunities (Repeal) Bill 2014

Dear Committee Secretary

The Energy Efficiency Council welcomes the opportunity to provide a submission to the Inquiry into Energy Efficiency Opportunities (Repeal) Bill 2014.

The Energy Efficiency Council is the peak body for Australia's experts in energy efficiency, cogeneration and demand-management. The Council's members have been deeply involved the Energy Efficiency Opportunities (EEO) program and have in-depth knowledge of how the program is implemented across hundreds of sites in Australia.

The Council strongly recommends that the Senate Committee reject the proposal to repeal the EEO Act. The EEO program should be extended with minor modifications because:

- The EEO program has been effective in delivering economic benefits to Australia. An independent review of the EEO program by ACIL-Tasman in 2013 estimated that the program had saved energy users over \$323 million per annum, leading them to conclude *"Our conservative estimate of the ratio of industry's cumulative benefit to cumulative cost attributable to the EEO Program is 3.67, net of implementation and compliance costs."*¹
- The EEO program is still required to build energy users capability and boost Australia's international competitiveness. While many energy users have significantly improved their energy management capability, the majority still have gaps in their core capabilities. In 2012 over 70 per cent of EEO participants stated it still wasn't standard practice for staff to have access to information about energy use in routine operations (ACIL-Tasman 2013).
- Independent reviews of the EEO program found that the benefits of continuing the program to 2016-17 would substantially exceed compliance costs. A conservative estimate reported in the ACIL-Tasman report suggests net financial savings to participants of \$178 million per year, which is ten times the Government's inflated estimate of the compliance cost.
- The EEO program is well-designed, with the International Energy Agency identifying the program as a global 'leading-edge' program². However, there are opportunities for modest changes that would reduce compliance costs without significantly reducing the program's benefits. In May 2013 the Council recommended minor changes to the EEO, including:
 - Allowing companies that have developed good energy management practices to exit the program;
 - Developing a single energy use /savings reporting portal; and
 - Reducing reporting requirements.

¹ ACIL-Tasman 2013 *Energy Efficiency Opportunities Program Review*, Prepared for the Department of Resources, Energy and Tourism, Canberra.

² Statement of Maria Van Der Hoeven, Executive Director of the International Energy Agency, 2013

There is no justification for repealing the EEO Act

No sound reason has been put forward for repeal of the EEO program. The Explanatory Memorandum for the repeal bill sets out four justifications for repeal of the EEO program. None of these justifications is backed by data and all these justifications are demonstrably incorrect.

1st incorrect argument: The EEO is no longer necessary as energy prices are rising and participants have now adopted sound energy management protocols

The EEO program is even more critical during periods of rising energy prices. As stated in the Explanatory Memorandum: *"An increase in energy prices can place additional focus on reducing energy use... However, increases in energy prices do not necessarily mean a business has the appropriate people, with skills and experience relevant to improving energy productivity, or the ability to collect good quality data required to immediately identify energy productivity improvements."*

ACIL-Tasman's independent review of the EEO in 2013 recommended extending the EEO program because *"while [energy management] capability is improving it is yet to consolidate and become fully embedded."* For example, between 2005 and 2012 the EEO successfully increased the number of companies where it was standard practice for key staff to have access to relevant information about energy use in 'routine operations' from 16 per cent to 28 per cent. However, it is still not standard practice in 70 per cent of participants.

2nd incorrect argument: The EEO program duplicates other programs

It is abundantly clear from the Explanatory Memorandum itself that the EEO program does not duplicate other programs. There is some limited overlap of reporting requirements with the National Greenhouse and Energy Reporting Scheme (NGERS), which can be simply remedied by minor changes to the NGERS portal.

3rd incorrect argument: There are net benefits from repealing the EEO Act

The Explanatory Memorandum states that repealing the EEO Act will deliver \$17.7 million in benefits each year (reduced compliance costs). The Council notes that this figure appears to be grossly inflated, and that the RIS itself estimates that replacing the EEO program with a more streamlined 'Energy Productivity Program' would reduce compliance almost as much as completely repealing the EEO Act (\$13 million reduction in compliance costs per annum).

However, the Explanatory Memorandum and RIS fail to mention the very significant costs of repealing the EEO Act, despite a cost estimate being freely available. Detailed analysis commissioned by the Department of Resources, Energy and Tourism in 2013 found that continuing the EEO program would deliver \$178 million per annum in net benefits³. These benefits would be lost if the program was repealed, so the cost of repealing the EEO Act would be \$178 million per annum, ten times the benefits of repealing the Act. Therefore, there is a significant net cost to repealing the EEO Act.

The omission of freely available data on the costs and benefits of repealing the EEO program in the RIS contravenes basic principles of good governance. The omission of this data means that the RIS fails in its primary task of assisting Senators to assess the merits of various regulatory options.

4th incorrect argument: Energy users do not support the EEO

The RIS implies that EEO is not supported by energy users. However, there has been no formal consultation on the repeal of the EEO Act. Furthermore, our experience is that front-line engineers and site managers strongly support the EEO. In contrast, government relations staff have a more negative view as they face the compliance costs of the program but do not personally reap the benefits of the program.

Furthermore, given that the EEO program delivers benefits to the community more broadly, including lower wholesale electricity prices and reduced greenhouse gas emissions, any decision on the future of the EEO program needs to account for broader community views.

³ ClimateWorks Australia 2013, *Energy Efficiency Opportunities Program Additionality Analysis*, ClimateWorks, Melbourne.

Summary

The Energy Efficiency Council:

- Notes that the Explanatory Memorandum and RIS omit key data and do not offer any sound justification for repealing the EEO Act.
- Notes that repealing the EEO Act will have a net cost to the community. The RIS estimates that repeal will reduce compliance costs by \$17.7 million per annum, but these benefits are massively outweighed by the loss of \$178 million per annum in program benefits
- Strongly recommends continuing the EEO Program to, at the very least, complete its second round (2012-2017)
- Continues to advocate modest changes to the EEO Program to ensure that it continues to deliver major benefits whilst reducing compliance costs. These are:
 - o Allowing companies that have already developed good energy practice to graduate and exit the program;
 - o Developing a single energy use /savings reporting portal; and
 - o Reductions in reporting requirements.

We look forward to the opportunity to presenting directly to the Senate Economics Legislation Committee and assisting it with its Inquiry in any way we can.

Yours sincerely

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