

24 October 2005

The Secretary
Senate Economics Legislation Committee
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Dear Sir/Madam

EUAA submission to the Senate Inquiry into the Provisions of the Energy Efficiency Opportunities Bill 2005

The Energy Users Association of Australia (EUAA) appreciates the opportunity to provide a submission on the Inquiry into the *Energy Efficiencies Opportunities (EEO) Bill 2005*.

The EUAA is a non-profit organisation focused entirely on energy issues on behalf of large business end users of electricity and/or gas. The EUAA currently has over 80 members, including many of Australia's largest energy users. Membership ranges across a number of sectors, including mining, manufacturing, construction, commercial property and the service sector. Therefore, many of our members are directly affected by the requirements of the EEO Bill. Our web site www.euaa.com.au contains further details, including about our members.

Our members have expressed concerns regarding the impact that the EEO program could have on the costs of their business compared to the benefits that are derived. This submission will highlight some of the concerns that members have expressed to the EUAA regarding the program.

For many of our members energy is one of the largest operating costs for their business; for others it represents a significant expenditure of many millions of dollars each year. Considering that energy is a substantial cost component, it already receives significant operating and management focus. This is because large energy users recognise the competitive benefits that can be achieved by minimising their energy costs and therefore, the costs of production. As a result, for many large users the EEO Bill is unlikely to result in these companies identifying significant new commercial energy efficiency measures beyond those that their existing internal programs and decision-making hurdles already identify.

Considering that most of the large energy users that this program targets already have some internal processes to identify energy efficiency opportunities, we believe there is a limited benefit from merely reporting these to government and thereby forcing additional compliance costs. Larger companies have seen substantial year-on-year increases in government and regulatory compliance costs since the mid 1990's (a fact recently highlighted by bodies such as the Business Council of Australia and the subject of a recent supporting announcement by the Government to reduce these). One of our members puts these cost increases in the order of 30 per cent per annum.

Such cost pressures add to the difficulty of competing in the international market place, particularly against larger international competitors with lower labour costs.

Noting that the costs from the program remain uncertain due to, in part, a lack of details about obligations, it is probable that the costs will be significant and will most likely result in resources being diverted to reporting rather than getting on with the core business. One result is that, formal processes within the EEO Bill may direct effort towards, smaller, lower value areas of the business, taking limited resources away from higher value opportunities. This could even be counterproductive to the aims of the scheme, if a diversion of resources leads to missed opportunities and therefore, lower levels of energy savings.

As you may be aware, New South Wales (NSW) has recently enacted the *Energy Administration Amendment (Water and Energy Savings) Act 2005* (WES Act). The broad aims of the WES Act are identical to those for the EEO Bill. However, the schemes are actually quite different in terms of the detail and reporting requirements. The EUAA considers that it is unreasonable to impose additional costs, and most likely, duplicate provisions on large NSW energy users.

Should the EEO Bill progress, we believe it would be prudent for the Commonwealth Government to allow the NSW scheme to take precedence and that compliance with the federal legislation should be voluntary for NSW energy users who have completed obligations under that scheme. The basis for this view is that the NSW scheme was in place first and large users have already been preparing to comply with the scheme. In addition, a requirement to also comply with the EEO program would create an unreasonable cost to industry without delivering any additional benefit. The EUAA is aware that the Commonwealth Government officials responsible for implementing the EEO scheme have been working closely with NSW Government officials to discuss commonality of schemes and welcomes this. However, it has also been made clear that differences will remain and that these could increase compliance costs for large users with dual obligations under both schemes. Hence, it is important to ensure that compliance under the NSW scheme meets the primary requirements of the EEO program; avoiding the need for industry to meet both schemes.

It is worth noting that the high level nature of the EEO Bill forces much of the detail about implementation into subordinate instruments such as regulations and guidelines. This has created some additional initial uncertainty about the ultimate shape of the EEO scheme and its impact on affected energy users. Naturally, Parliamentary debate on details will be limited as a result, although the Department of Industry, Tourism & Resources (DITR) is undertaking a series of consultation exercises on the scheme and EUAA and its members are involved in these. DITR is also running pilot schemes on the measure and several of our members are involved in these. We consider that it is important for DITR to pay serious attention to the views and practical experience of energy users in implementing the scheme, which should not seek to 'micro manage' energy efficiency within companies. Giving effect to a scheme that fails the test of practical implementation at reasonable cost would be highly undesirable.

It is also likely that the scheme will require "high level" sign off of assessments within companies. This would seem to be desirable if the measure and its implementation by affected organisations is to be taken seriously.

The EUAA asks that this Inquiry carefully consider the economic merits of the EEO Bill. To this point, we don't believe that any rigorous analysis has been conducted on what benefits will actually be realised from the program and if these benefits outweigh the costs to industry. In fact, the Productivity Commission's draft report on Energy Efficiency, released earlier this year, was critical of the EEO scheme. As mentioned above, the view from our members is that, due to the importance that energy has on their cost structures, they already take steps to ensure they are energy efficient where it is commercially sensible to do so. As a result, the EEO Bill would simply add a compliance burden to industry to report energy efficiency information without any additional benefit.

Short of forcing implementation of identified "opportunities", which we would oppose as imposing non-commercial obligations on large users, the only way to address this would be through an incentive from government to implement non-commercial opportunities identified in the EEOs. One possible justification for this would be a deliberate government policy to encourage energy efficiency beyond strict commercial measures on grounds that this is desirable on greenhouse or even broader economic grounds. This would require a subsidy to those required to undertake the steps.

New South Wales (NSW) has recently provided for grants to fund energy saving projects to the total value of \$40 million per annum for five years. We are yet to see how successful this will be. However, the means used to fund this is via a levy on all energy users in NSW. This is quite different to a subsidy funded out of consolidated revenue and forces users to pay for energy saving initiatives with certain (probably inefficient) re-distributive effects. For example, those providing the funds could well end up subsidising others receiving the grants (which can even include the NSW government-owned utilities). Economic efficiency in funding and re-allocation by way of grants will only be enhanced if the allocation mechanism and decisions are themselves efficient, which remains to be seen. We would favour any Commonwealth subsidy for energy efficiency to be provided via consolidated revenue.

The Committee should also consider that the Productivity Commission draft report on Energy Efficiency identified over 100 energy efficiency measures undertaken in Australia over the past five years. This is a large number of schemes and shows the scope for overlap, duplication, conflicting objectives and confusion among energy users. Some rationalisation of these measures is clearly needed.

Finally, the EUAA would like to draw the Committee's attention to the important role that demand management (DM) can play in encouraging energy efficiency, as well as improving the performance of reformed electricity markets including the National Electricity Market (NEM). The Ministerial Council on Energy (MCE) has an objective of enhancing Demand Side Response (a form of DM) but this agenda has seen limited action for more than a year. This is disappointing given the important role that DSR can play in promoting healthier and more competitive energy markets (eg DSR remains virtually non-existent in the NEM some seven years after its formation), delaying the need for costly new investment in energy infrastructure to meet peak demands (the Electricity Supply Association of Australia (ESAA) estimate

that some \$30 billion in new investment is required over the next 20 years) and reduce greenhouse emissions.

The EUAA undertook a trial of a DSR aggregation facility in late 2002 and this showed the potential that exists and also that end users would be willing to undertake DSR if they had the incentive to do so and had access to a facility operator. The estimated benefits to energy users were some \$2 billion per annum, or a 10 per cent reduction in electricity prices. An independent report on the Trial was released and can be downloaded from the EUAA web site (www.euaa.com.au).

The EUAA has subsequently undertaken a series of DSR case studies, with assistance from AusIndustry, aimed at creating awareness of DSR opportunities (a major weakness that emerged from the DSR Trial) and helping DSR providers establish a businesses case for DSR. These confirm the potential benefits of DSR to end-users. A report on the case studies is ready to be released and will be posted on our web site.

We would also like to draw to the Committee's attention that an independent company, *Energy Response Pty Ltd*, has now been set up as the first DSR aggregator in the NEM and has collected some 170 MW of DSR to date (equivalent to a medium sized peaking generator as a fraction of the cost of building it).

It is also worth noting that the grants available under the NSW Energy Saving Fund can be allocated to demand management measures.

If there are any questions about the submission or you would like to discuss any issues further please do not hesitate to get in contact the EUAA's Manager Policy and Regulation, Mr Scott Stacey, on telephone number (03) 9898 3900.

Yours sincerely

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