

SUBMISSION

RECEIVED

28 OCT 2005

28 October 2005

NO. 18

ENVIRONMENT AND NATURAL
RESOURCES COMMITTEE

The Hon. Ms Jenny Lindell, MP
Chair
Victorian Parliamentary Environment and Natural Resources Committee
Level 8, 35 Spring Street
Melbourne Vic 3000

Dear Ms Lindell,

Inquiry into the Energy Services Industry

Thank you for the opportunity to submit to the Victorian Parliamentary Environment and Natural Resources Committee *Inquiry into the Energy Services Industry*. ICLEI A/NZ agrees that a competitive energy services sector is an essential requirement for the development of an energy efficient Victorian economy.

Victorian local governments participating in the Cities for Climate Protection (CCP) Campaign have been actively implementing energy efficiency measures for the past six years. During this time there has been only one instance of a Victorian CCP council using an energy services companies to fund energy efficiency initiatives. The Parliamentary Inquiry is therefore timely and welcome.

Capital is attracted to the energy services sector, as it is across the private sector, by an adequate return on investment. The return able to be generated by an investment must be sufficiently higher than the risk free rate to take into account the risk associated with the investment. The failure of an energy services industry to develop in Victoria suggests that the available returns are not sufficient to compensate for the investment risk.

The inadequacy of returns available for an investment in energy efficiency may be due to one or both of:

- A lack of energy efficiency opportunities, such that the amount of energy able to be saved by an investment is small;
- The revenue accruing over a given time period from the energy saved by an investment is small.

ICLEI A/NZ does not believe that there is a lack of energy efficiency opportunities, a view that is supported by many studies that have been conducted in Australia over the past decade.

One conclusion that may be drawn is that the cost of Victorian energy is not high enough to attract the capital required for energy efficiency to be considered a mainstream private sector investment.

ICLEI A/NZ does not advocate increasing the price of energy, due to the adverse economic impact and negative effect such a measure would have on low income earners. The alternative approach of pricing the emissions resulting from energy use should, however, be considered.

It is notable that four CCP councils in New South Wales are currently implementing a total of five energy efficiency projects using energy services companies. A further eight NSW CCP councils have reported to ICLEI A/NZ that Requests for Proposals have been made or that funding has been allocated to actively consider the approach.

The cost of energy is quite similar in Victoria and NSW, but the energy services companies in NSW have available to them the additional revenue stream that accrues from generating Greenhouse Gas Abatement Certificates under the Demand Side Abatement provisions of the NSW Greenhouse Gas Abatement Scheme. This additional revenue stream is apparently sufficient to raise the return on investment to a level that covers the risk premium of the investment.

Prior to the introduction of the NSW Greenhouse Gas Abatement Scheme, there was only one reported instance of a CCP council in NSW using an energy services company.

There is currently a low level of use by local government of the energy services sector in all states except NSW. Two CCP councils in SA have recently reported that the use of such services is being considered, while one Victorian CCP council has been approached by the same energy services company used by the Victorian council with a current contract. Interestingly, this company is based in NSW so it may be seeking to establish a base in Victoria in anticipation of the introduction of a similar scheme to that currently operating in NSW.

In the absence of any other clear market factors influencing the supply of private sector energy services in Victoria and other states, it would not be unreasonable to consider that it is the NSW Greenhouse Gas Abatement Scheme that is the key differential between the market in NSW and that in other states.

ICLEI A/NZ is encouraged by the work currently being undertaken by the Inter-jurisdictional Emissions Trading Working Group and is confident that the use of an appropriate mechanism that resulted in a price on energy-related emissions would assist the development of an energy services sector in Victoria.

We would be pleased to further assist the Parliamentary Inquiry in any way it deemed desirable.

Yours sincerely,



Wayne Wescott
Chief Executive