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Hon Jenny Lindell MLC
Chair, Environment and Natural Resources Committee
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**ENVIRONMENT AND NATURAL
RESOURCES COMMITTEE**

Dear Chair

INQUIRY INTO THE ENERGY SERVICES INDUSTRY

In response to your letter to Minister Theophanous on 8 August 2005 regarding the Committee's inquiry into the Energy Services Industry, I am pleased to respond to your request for a written submission.

The Department of Infrastructure (DOI) has contributed to a consolidated response on behalf of DOI and the Department of Sustainability and Environment (DSE) and the Department of Innovation, Industry and Regional Development (DIIRD). We offer the additional comments in response to your specific questions.

Stakeholders

A series of historic reports within the Australian context have been generated that have evaluated companies that provide energy efficiency services (Energy Services Companies or ESCOs) (refer below). These reports identify an extensive list of stakeholders and the Committee is directed towards these reports.

- Redding Energy Management/ACIL Economics and Policy Pty Ltd (1996): "Facilitation of a Competitive Energy Efficiency Services Industry"
- Redding Energy Management (1997): "Energy Efficiency Services Industry"
- ACIL Economics and Policy (1997): "Assessment of Developments in the Energy Services Industry in Australia" and more recently:
- McLennan Magasanik Associates Pty Ltd (2005): "The Australian Energy Services Sector".

A more extensive range of documentation is available in the international domain.

Of the stakeholders within Victoria, DOI suggests key stakeholders, would include, but not be limited to:

- Australian Energy Performance Contracting Association Limited (AEPCA);
- energy consultants, such as Genesis Automation (Geoff Andrew), Energetics (Patrick Denvir) and Energy Conservation Systems (Peter Szental); and
- energy service providers such as the Australian Insulation Council.

Current Reform Programs

An overview of the Victorian Energy Efficiency Strategy, the Renewable Energy Strategy and the Energy Technology Innovation Strategy and how these strategies will facilitate the development of the energy services sector has been provided in the consolidated departmental response.

It is interesting to note that whilst the ESCO industry has evolved significantly over the last decade, the next decade is likely to engender more change. Trends both in Victoria, Australia and overseas are leading to an increase for the demand for energy efficiency and consequently ESCOs. Some of the key areas of change are:

- subsidy removal – as subsidies are decreased or removed from energy prices as a result of the contestability throughout the supply chain, this makes the true cost of energy more apparent to the end user and increases the incentives for efficiency;
- international competition – the impact of global competition has increased pressure on industry to improve efficiency in all aspects of operations, including energy use;
- constrained power supply – Victoria's electricity growth is increasing at 1% per annum with 2% per annum for peak demand. In terms of shortage of supply, or for areas that may be subject to network constraint, there is an incentive for distributors and retailers to work with large consumers to look at energy efficiency and demand side response opportunities as a more cost effective means of addressing energy supply. There is also an incentive on retailers to more efficiently procure and on-sell energy to consumer; and
- environmental concerns – environmental concerns and programs to address global warming are important drivers of energy efficiency and the ESCO industry.

Jurisdictional Performance

It is difficult to be definitive regarding the most progressive jurisdictions with respect to ESCOs, as this will depend on what particular aspect of the services sector is being considered.

For example, in the area of Energy Performance Contracting (EPC), NSW and Queensland have a high profile due to the following actions:

- > NSW through the former Sustainability Energy and Development Authority (SEDA) paid for facilitation of EPC in NSW amongst "Energy Smart Business" network by paying for tender evaluation advice;
- > NSW SEDA and Australian Greenhouse Office developed best practice guidelines for EPC;
- > NSW DTF established a fund for implementation of EPC in the NSW government sector, leveraging government's higher borrowing capacity and lower interest rates;
- > EPC activity in Queensland is strong due to the Queensland Government's Energy Management Strategy Target of reducing the government's electricity bill by \$22 Million by 2008;
- > Queensland Department of Public Works has developed best practice guidelines and has established a panel of 6 accredited ESCOs as preferred suppliers; and

- > South Australia initiated the "Adelaide Building Tune Ups Project" accounting for 15% of office space in the core Adelaide commercial market (equating to 10 buildings and approximately a one star improvement).

Victoria's profile has grown in recent years and will continue to grow as a result of initiatives contained largely in existing strategies and future programs and development, such as the Energy Efficiency Strategy and the Renewable Energy Strategy.

Implications of National Reform Programs

Energy Performance Contracting (EPC) is a small, ill defined and emerging industry, and standards within the industry vary widely. As part of the development of the Energy Efficiency Strategy, DOI is seeking to develop this sector through a government leadership role as well as a broader uptake in the industrial and commercial sector to overcome barriers such as complicated contract terms and low returns to the customer in the first years, requiring a longer term contract.

For example, this may involve:

- > promotion and increased awareness of Energy Performance Contracting and Energy Service Companies;
- > development of standard contracts;
- > best practice guidelines on monitoring and verification and baseline determination;
- > promotion of EPC to government departments as an option to achieve the government's energy saving target;
- > establishment of a government fund to facilitate EPC in the government sector including Victorian local government;
- > provision of funding for the facilitation of feasibility studies, energy audits and/or preparation of financing applications;
- > support for the National Framework for Energy Efficiency (NFEE) Stage I recommendations including the requirements for Energy Efficiency Opportunity Audits and disclosure requirements;
- > facilitation of technical transfer and promotion of best practice case-studies; and
- > creation of partnerships and links with centres of best practice and innovation.

By comparison, Victoria would be the leading jurisdiction with respect to building regulations within the residential sector, energy efficiency audit requirements under the Environment Protection Act 1970 and further initiatives under the National Framework for Energy Efficiency. This has resulted in a greater profile for energy auditors and energy consultants over recent years.

At the national level, DOI is involved in energy market reform through the Ministerial Council on Energy (MCE). The Ministerial Council on Energy (MCE) was established by the Council of Australian Governments (COAG) in 2001 to deliver economic and environmental benefits for Australia from implementation of the COAG national energy policy framework.

In December 2003, MCE identified the need to increase participation of end users in energy markets to "achieve effective competition and maximise the benefits of market reform" for energy consumers. Ministers recognised that low levels of user participation are a shortcoming of current energy market operations and that strong inter-linkages exist between improved demand side response and cost-reflective price signals accessed through appropriate metering technology.

Following consultation in 2004 on user participation issues, the MCE agreed to:

- > Removal of Regulatory and Market Barriers. Develop and implement a demand side response action plan to identify and remove any regulatory, market and technical impediments for demand side response, with opportunities for stakeholder involvement.

- > Low Cost Load Control Technologies. Commission a study to identify low cost load control technology and other technologies that could assist consumers in voluntarily managing their energy use.
- > Consumer Awareness, Information and Training. Conduct and report on a consultancy project to examine consumer awareness, information and training needs relating to the NEM and user participation. Pending the outcomes of the report, an action plan will be prepared to develop appropriate, targeted and relevant information to both small and large users.

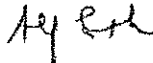
Initial consideration of the points above highlighted the linkages between the issues for demand side response. In seeking to improve end user participation in the energy market and improve the efficiency of the market, it was agreed that the latter two elements be considered in the development of the demand side response action plan.

This work is still progressing and whilst focussed on providing a greater demand side response from consumers will, by default, also facilitate a greater demand for energy efficiency services ranging from demand side response aggregators, energy performance contractors, energy audits, interval metering and software providers.

In summary, a cost-effective and robust energy services industry is an essential delivery mechanism to address the Greenhouse Challenge. We therefore commend the inquiry and look forward to assisting you in this process.

If you require further information, or would like to reschedule the meeting, please contact Dr Helen Murphy of the Energy and Security Division on telephone 9655 6681.

Yours sincerely



ALF SMITH
Acting Secretary

28 / 10 / 2005