

## **Introduction**

The Energy Retailers Association of Australia represents the core of Australia's energy retail organisations and is the peak energy body which interacts with customers and the industry. Many of the ERAA membership are also participants in the energy services industry. Retailers are information-rich in relation to their energy customers, and as such, are in a strong position to identify and progress specific commercial opportunities for improvements in energy efficiency (demand-side management). Notable examples of this include:

- Origin Energy's Energy Efficiency Team facilitated the implementation of an energy reduction plan at Amcor that saves the company \$1.5 million in costs and 29 000 tonnes of CO2 annually;
- Ergon Energy Pty Ltd, in partnership with Suncoast Gold Macadamias (SGM), has developed and commissioned a co-generation plant fuelled by waste nut shell. The facility provides power to run SGM's entire operations and exports enough electricity to the grid to power around 12,000 homes, reducing CO2 by around 9500 tonnes, annually;
- AGL worked with Sunbeam Australia to identify savings in energy use and related areas. Total savings were \$55,000 and a reduction of CO2 of 12,000 tonnes annually. The capital cost of the project is expected to be recovered within a year;
- ENERGEX's Energy Efficiency Projects Team has undertaken a lighting energy efficiency project at the Royal Brisbane Hospital (RBH) that reduces energy costs by \$110,000 and CO2 emissions by more than 1,100 tonnes, annually;
- ENERGEX and RBH plan to work on further energy efficiency opportunities within the hospital; and
- Aurora Energy (in partnership with Energetics Pty Ltd) developed One-2-Five, an energy management tool comprising a structured process for examining all the key elements required to manage energy effectively. Aurora has had initial success with rolling the One-2-five program out to its major industrial customers.

### **In-principle position on energy efficiency policy**

The ERAA strongly supports the establishment of a national policy framework for energy efficiency. The prime focus of the framework should be to encourage energy efficiency initiatives that are economically viable after the full benefits and costs have been taken into account.

The ERAA holds the view that, in most circumstances, market forces lead to the best use of energy resources. In many cases, energy retailers and energy customers have a natural incentive to pursue energy efficiency initiatives without regulatory encouragement. In competitive energy markets customers looking to reduce their energy bill represent a commercial opportunity for energy retailers looking to differentiate their service offering. A market for energy efficiency services has emerged without regulatory intervention and is delivering energy efficiency improvements, in particular, from the commercial and industrial sectors.

In cases where market forces are demonstrably inadequate and some form of regulatory intervention is justified, typically in the residential sector, government energy efficiency programs should be designed to address the source of the market inadequacy directly. Mandatory Energy Performance Standards for equipment and appliances is a good example of appropriate regulation in this regard (given the transaction costs and information problems faced by end-users of energy).

## Terms of Reference

The energy services industry is an integral part of energy efficiency policy outcomes directly, and greenhouse gas policy outcomes indirectly. While the ERAA concurs with the terms of reference, which identifies the greenhouse gas benefits of “an efficient, low emissions economy”, the ERAA considers these to be distinct areas of policy requiring distinct policy rationale.

As far as the overlap between energy efficiency and greenhouse gas (GHG) abatement objectives is concerned, the ERAA is firmly of the view that independent application of policy in these areas is critical to ensuring least cost outcomes in terms of energy efficiency and for the economy overall.

The public good inherent in GHG abatement may require some form of policy intervention but it does not follow that energy efficiency policy should be used to target emissions abatement objectives. Higher levels of energy efficiency are one of many potential sources of abatement with uncertain and varying costs over time. Moreover, a comprehensive GHG abatement policy should be:

- Nationally based;
- Focussed on all sectors of the economy, including power generation, agriculture and transport;
- Market-based; and,
- Take into account developments at the international level, especially proposals for the post-2012 period.

Accordingly this Inquiry should focus on the energy services industry in the context of cost effective energy efficiency outcomes, independently of subsequent greenhouse gas benefits that may arise. The Inquiry terms of reference is focussed is on three main policy questions, to which this submission responds:

- *What is the efficient level of energy services industry development – how sophisticated and internationally competitive should the local energy service industry be?*
- *What barriers are there to the development of the energy services industry – what are the underlying impediments to further development of the energy services industry? and*
- *What is government’s role in development of the energy services industry – which government measures are appropriate for enhancing efficient development and which ones are not?*

## **Efficient level of energy services industry development**

The appropriate size, character and relative competitiveness of the energy services industry in Victoria is determined by the demand for (and value of) its products and services. Businesses and households will demand energy efficiency products and services only where there are net benefits available from investing in and using them.

The extent of these net benefits is largely determined by fundamental factors, such as the price of energy, climate, underlying energy-intensity of industries etc, which will vary across countries (and across Australian jurisdictions). For example, relatively high energy prices raise the pay-off from energy efficiency investments and justify the provision of more sophisticated and costly technologies to the market (and associated R&D and labour). As pointed out by the Productivity Commission in its recent Inquiry final report "The Private Cost Effectiveness of Improving Energy Efficiency" (2005), Australia's rate of improvement in energy efficiency is below OECD norms, which is consistent with having lower than average energy prices.

In the ERAA's view, having the most technologically advanced or sophisticated energy services industry, by international standards, is not an appropriate policy objective. In the absence of market failure-based barriers to its development, market forces can be relied upon to determine and deliver the efficient level of energy services industry development in Victoria.

## **Barriers to energy services industry development**

Anything that impedes suppliers and buyers of energy services from realising the full net benefits available from improvements in energy efficiency is relevant to policy in this area. The Productivity Commission (2005) identifies these barriers as 'market failures' drawing a distinction between other barriers (such as cost and risk related impediments and behavioural and cultural norm related impediments).

Energy services industry policy can only be justified on efficiency grounds, if it targets and addresses barriers emanating from market failure. The Productivity Commission (2005) identified several specific cases of market failures relevant to energy efficiency largely related to information failure.

Market failures may impede the energy services market directly. For example, split incentives may cause a builder to choose an energy related technology based purely on upfront capital cost with little regard for running costs incurred by the user, leading to higher costs overall. Market failures may also impede the energy services market indirectly via the energy market more generally. For example non-cost reflective network pricing may encourage excessive use of air conditioners (or adoption of less efficiency product options) beyond that which would occur if the end consumer faced the true cost.

In the ERAA's view only barriers of this nature constitute an impediment to the development of the energy services industry potentially warranting policy intervention. Policy designed to support the energy services sector, in the absence of market failure, is likely to result in a net cost to the economy.

## **Government's role in energy services industry development**

The role of governments in the energy services industry is to optimize its performance, where market forces are failing to do so, and where government policy is able to do so. Government intervention for any other reason is likely to come at the expense of other sectors, energy consumers and tax payers (if public funds are diverted from other areas yielding a net benefit).

The National Framework on Energy Efficiency (NFEE) overseen by the Ministerial Council on Energy (MCE) was established to coordinate state-based and commonwealth government policy responses in this area. The NFEE has demonstrated a role for government in many areas of energy efficiency, which pass the market failure criterion. For example mandatory energy appliance performance standards and building energy efficiency regulations, both of which are well premised on the existence of information failure. The ERAA is generally supportive of these energy efficiency regulations and the support they automatically provide to the energy services industry (in the form of greater demand for its products and services than would otherwise be the case).

The ERAA also strongly endorses the Productivity Commission (2005) recommendations, which require policy evaluation before NFEE Stage One Proposals are implemented. Notwithstanding the Commission's reservations regarding some aspects of the process, the ERAA considers NFEE valuable and vital to rational, coordinated policy initiatives in this area.

In the ERAA's view, government policy action outside of the MCE/NFEE process would be retrograde and would run the risk of delivering inefficient energy efficiency outcomes overall. This does not of course preclude the usefulness of findings from State-based Inquiries into energy efficiency for use as inputs to the MCE/NFEE process. Although it would appear to be sensible to conduct such inquiries as a part of the established nationally coordinated process, as opposed to conducting separate Inquiries in each jurisdiction.