ENVIRONMENT AND NATURAL RESOURCES COMMITTEE

Energy Services Industry Subcommittee

Inquiry into energy services industry

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Ms A. Coe, Executive Director, Victoria Division;
Mr A. Kaspura, Policy Analyst, National Office; and
Mr D. Belfield, Member, Engineers Australia.
The CHAIR — I welcome Alison Coe, executive director, Victoria division; Mr Andre Kaspura, policy analyst, Victoria division and Mr Deane Belfield, member, of Engineers Australia. Thanks for your time today; we really do appreciate it. All evidence is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review; however, if you make comments outside the precincts of the hearing, they are not protected by parliamentary privilege. All evidence is being recorded, and you will receive a proof version of the transcript in the next couple of weeks. We have three-quarters of an hour. We would appreciate having 15 minutes to ask you questions at the end, so I will hand over to you, Alison.

Ms COE — Thank you very much. On behalf of Engineers Australia, Victoria division and Engineers Australia I would like to thank the committee very much for the opportunity to speak. We thought we would structure our presentation today by Mr Kaspura starting off with a contribution to be followed up by Mr Belfield. We will then take questions from the committee.

Mr KASPURA — A minor correction: I am from the national office of Engineers Australia.

The CHAIR — Thank you, Hansard will pick that correction up.

Mr KASPURA — The way we are going to try to do this is for me to speak about some general matters and for my colleague Dean Belfield to amplify it with some specific comments relating to some of the topics and also relating to state-specific type matters.

I thought before starting my remarks I would refer to something that occurred on 10 February, which was an agreement at COAG to a new collaborative action plan to climate change that contained in it a number of agreements for all jurisdictions which will have a key influence on the background to your inquiry. This agreement reaffirmed that collaborative and individual actions are needed, which I think is very important to recognise. There was, for the first time, formal recognition that climate change is occurring and will continue to occur. And there was recognition that post 2004 very significant reductions in greenhouse gasses would be unavoidable. They were saying that not only should we be talking about mitigation action, but it is now time to start talking about adaptation policies and strategies, which is the very first time I have seen reference to that kind of approach. There was recognition, albeit implicitly, in the text of the document that energy prices will rise somewhat but even so the emphasis in policy should be on trying to minimise the costs associated with climate change.

The reason I mention that background is that when it came to addressing your terms of reference which are very specific to the industry, I found it very difficult to do that without reflecting on broader issues. Engineers Australia is predominantly a supply-oriented organisation. Engineers Australia accredits university degrees in engineering. Hearing suspended due to equipment malfunction.

Mr KASPURA — Perhaps rather than going right back to the beginning, I might start off with what I was saying about trying to address your terms of reference. I found it very difficult to do it in a very tight way because there was not a lot around. The key issues really revolved around demand.

On the supply side of things Engineers Australia accredits university courses in engineering and has done so for many years. We have a subsidiary company that retrains engineers and updates career training. We also play a role in accrediting the level of immigrants or aspiring immigrants to this country, to ensure that there is a correct understanding of their skills and competence. Finally, we have a view on regulation.

At the moment there is very little regulation throughout Australia of the profession, and such as it is typically comes under building codes. We have a view that some co-regulation may be appropriate in future but for the moment the key issue for Engineers Australia is that the demand side in the energy efficiency industry is simply not there. The main reason why the industry is so small and so fragmented is inconsistency in the signals that are being sent to the industry, there are policy overlaps, poor standards, price signals reinforcing market distortions and there is a general hesitancy to proceed in many circles.

Let us look at the significance of energy in household budgets. It is around 3 per cent typically according to the Australian Bureau of Statistics consumer expenditure surveys. It is important to focus on that. Draw the distinction between what is going on in water and what is going on in energy efficiency — most of the literature attributes the gains that have been made in water conservation to the effect of quantitative water restrictions.
Certainly a lot of the water-saving devices that have been installed, are being retrofitted and are being promulgated are important. They are important in two ways: they contribute in a small way to saving water, but they contribute in a much larger way to reinforcing a message in the minds of the community that it is important to save water.

There is nothing equivalent going on in the energy efficiency area. I have given some examples in the paper of the kinds of overlaps that we are talking about. At the broad level what I have tried to do as a surrogate is use the Australian Greenhouse Office projections of greenhouse savings to 2012 as a surrogate for measures of saving in electricity, if you like, because there is a direct relationship here.

All of the mitigation programs in Australia contribute about 37.6 megatons of greenhouse gas saving up to 2012. When they did their accounting they had to drop out some 18 megatons as a result of overlaps and double counting between different programs. Individually the people associated with those particular efforts involved in overlaps are all working very, very hard and effectively to try to do their best, but the result of it is they are getting in each other’s way. When this sort of thing translates back to consumers and business people, there are mixed messages. That has to be straightened out. There has to be a consistent message so that the energy efficiency industry has a background which is conducive to overall development and future growth.

I think it is important to understand how important these things are. The COAG paper said quite explicitly that energy efficiency has been the single greatest source of gains in greenhouse gas emission consistently in Australia so far. It is likely to continue down that track. If we are looking at beyond Kyoto, it is important to understand the dimensions of change that are likely. If we look at what overseas commentators are suggesting as the level of mitigation, they are saying about a 50 per cent cut, which in Australia’s context means about 142 megatons. Think what energy efficiency, renewable energy and demand management does at the present time. All of the policies that exist in Australia at the present time contribute approximately 18.6 megatons. If you scale 18.6 against the 37.6, that is about half of Australia’s effort is in that basket of things called energy efficiency, demand management and so on. Project that forward to 142 and you are talking about 70 odd megatons.

So the industry in capability and scale will have to change from delivering about 18.6 megatons to delivering something in the order of 70 megatons. That is a huge quantum leap and it is not going to happen by regulating professions. It is going to happen by providing a stable environment in which messages are clearly transmitted, demand is clearly understood at its source and people know where their investment dollars are going to go. Within that figure I have included 6.6 megatons attributable to the mandatory renewable energy target, and if you scale it up in terms of the scale of the renewable energy sector it has to grow seven times its present size. That is merely allowing for that sector to contribute to mitigation in the same proportion as it is now. It is not asking for anything more than that.

It is important to reflect on some of the arguments in dwelling on renewable energy as examples of inconsistency. The most common argument I have seen in the literature relates to renewable energy not yet being commercially viable. It is nearly there so commentators will concede. The reality is that renewable energy is operating on the high left-hand end of the average cost curve. The only way you are going to get them to be viable is to move them down the cost curve by increasing production so they are operating at a level where they can achieve economies of scale. This has happened in every other large-scale industry that Australia has. The fossil fuel industries achieved this under government ownership.

If you think back over the history of that industry over the past decade or so, it had humble beginnings as well, and it was under government ownership and stewardship that the industry grew to the sort of scale and commercial viability that it presently has. If it is good for the goose, it is good for the gander is the simple argument. The only defensible economic argument for supporting an industry is infant industry arguments, and renewable energy fits that to a tee.

It is also important to refer again to the COAG paper in appreciating how distorted the alleged economics of this area are. The COAG paper suggested that in the period up to 2020 Australian governments collectively will have spent and committed approximately $1 billion in greenhouse gas mitigation. A very large share of that is attributable to fossil fuels. It is an implied subsidy, and that implied subsidy is being paid by the Australian taxpayer. Yet there are serious arguments against providing assistance for renewable energy. There is no consistency here, and that has to be straightened out. Whichever way our politicians choose to go, it has to be consistent.
I am being told that I have run out of time and need to give my colleague a chance, so I might round off by making one last statement: the proposal from Engineers Australia is that no single action is going to straighten out greenhouse gas mitigation. It needs to be a diversified strategy in a risk management context. Energy efficiency and renewable energy have important roles in that, and so too will fossil fuels — no-one can walk away from that industry — and the associated carbon capture and sequestration. But an important issue to bear in mind is that none of that new technology is going to come free; it is all going to cost, and it is all going to impact on the price of electricity.

The German example I tendered in the paper is one in which people accept that there are going to be costs associated with mitigation and the development of new energy-efficiency-type industries. We face it squarely and allow this to happen gradually, over time, at a pace the community and industry can absorb, so there is not a catastrophic price shock to the economy. With that, I will hand over to Deane Belfield.

Mr BELFIELD — I would like to start by taking a macro view of this whole topic rather than zeroing in on specific energy-efficiency services. We can accept that there are two scenarios. One is we maintain business as usual, which has seen very small-scale initiatives and improvements in certain areas, but on balance has been largely ineffectual since emissions are still increasing at an unacceptable rate. There is a lot happening around the fringes — and that is fine; we often feel good about that — but in terms of the proportions of what we are dealing with it is a drop in the ocean.

The other scenario is some sort of radical change. For each of these scenarios there is a consequence. Clearly the consequence of business as usual is that it is not, and is not going to be, publicly acceptable to continue doing what we have been doing. We would be talking not so much about climate change but climate adaptation in quite profound ways, and the impact would be severe environmentally at a community level and economically as well. We are potentially going to lose a large business opportunity to overseas. We are seeing that happen in front of us day by day. That is a business as usual scenario, which I do not think is acceptable.

The other option, a more radical change — I will explain why in a moment — is about having an effective response, a large-scale response and seeking alignment between all sectors of the community. As a consequence you are going to see environmental improvement — it is highly likely — in the way we would like it to happen, and energy efficiency will be part of that picture. However, due to the long time frames involved, the efforts for transitioning and other impacts, it may still be inadequate. We need a better way, essentially. Energy-efficiency services do involve engineers. Most people in the community may not be aware of this, but engineers actually design the technology and design the solutions. They sometimes implement them, but not in isolation. They are central to the solutions.

Looking at the desired outcome — and I make no apology for taking this perspective, because it puts it in context, and it is more likely that if we do that we will be motivated to change what we are currently doing — if we accept option B, that we need to significantly change what we are doing, it will involve policies, planning, resources and commitment in three areas: technical, environmental-political and behavioural. Technically, as André has already stated, we have the solutions, we have the capability, and we have the capacity, although I should mention the experience of the late 1980s and early 1990s and what has happened to the energy-efficiency-services industry in the last 10 to 15 years, that essentially it has been decimated to the detriment of the community at large.

So there is the technical result path, the economic and political result path and the behavioural path. If we have the technical capability and it is not happening, then the economic-political and behavioural result paths, as I call them, are critical. For example, from a behavioural point of view the current initiatives that are in place I do not think are very effective. I am sure there are rebates on solar hot-water panels and other things to do with energy efficiency, but because electricity and energy generally are so cheap, those sorts of changes are not going to be cost driven.

We have seen great changes starting to happen with water. Why? Because we can touch it, we can drink it, we can feel it, we can relate to it, and we have got regulations that tell us when we can and cannot water our gardens. We have got things we can do about it. It is very tangible. We see there is a consequence when our lawn goes yellow, not green any longer, and we make a choice about that. We also know that when petrol prices rise by 20 per cent everybody screams blue murder and says, ‘This is unacceptable’, because we feel it; it is very tangible.

Around energy pricing and the consequence of consuming energy — it is largely emissions that we are talking about here — public awareness generally is very low, and I think most people feel their ability to respond is quite
low. It is not the same as water; you cannot just go and turn your energy tap off; you do not necessarily see the
lawn going yellow because of a lack of energy; and you do not necessarily have the community awareness that you
can only do things at certain times of the day — that is, as yet. However, it is very clear that all the evidence says it
is certainly more cost effective to save and be efficient than the alternative.

I would like to move on to talk about some of the issues, and I base this on experience both in my own work and
talking with industry in general — that is, hiatus caused by the existing uncertainty in this sector is leading to
people not making business decisions because they see a risk, and therefore they will not invest, and therefore
energy efficiency is just not happening at the level we are talking about. It is very small. For example, a significant
energy consumer such as the dairy industry, which uses a lot of electricity and gas for heating and the milk-drying
process, will at best have costs at 3 per cent of turnover.

When you are a CFO looking to make decisions about where to spend the next dollar and where to invest capital, if
it is even going to get a look-in, returns on investment of 15 to 20 per cent for energy-efficiency projects are way
down the pecking order and invariably do not happen unless there is another good reason such as regulation. It is
not about saving money, because electricity, gas and so on are far too cheap by comparison.

Just for the record, we talk about losing technology business to Asia because of energy prices, and the federal
government makes those comments as well, but it is a complete furphy — a myth. As of about three years ago the
price of electricity in China was US $0.43 per megawatt hour which is several times what we pay here. So that puts
the argument into perspective, and I think that is lost on the community at large.

It is only about pricing to the extent that we pay far too little for our energy to encourage the sorts of behaviour and
changes around the energy efficiency industry that we would like to see. It is about timeframes as well because
these changes do not happen quickly. Investment in energy efficiency technologies does not happen quickly. The
environmental impacts that flow from them are very often long term, unfortunately many times that of political
cycles and it is therefore too hard.

The AGOs greenhouse challenge program which I was intimately involved with for some years was a voluntary
program and companies would do it on a no-regrets basis if they thought they could save money and the CEO had a
public commitment to it. So they would shuffle the order of their priorities to introduce some energy efficiency
programs which they perhaps would not otherwise have done. Voluntary schemes do not work.

If we are going to do something about this, and we accept that a business-as-usual approach is not acceptable, then
it only leaves one option, and that is some form of regulation regardless of the squeals and so on. They will pale
into insignificance if the business-as-usual option continues.

I would now like to make some Victorian-specific comments. Since the late 1980s and early 1990s the energy
efficiency services industry has been decimated in many respects. There was quite a capability at that point based
on mandatory energy audits that were required by the government but that program fell apart and does not exist in
that form any longer. The EPA is doing some small things around the edges, but that is one of the overlap
syndromes that we are seeing. So a lot of people who built this capability, invested heavily in it, are no longer in the
industry.

We invested in climate change in the late 1990s but you cannot make a living on promises and uncertainty; you
need commitment from a regulatory perspective, which is the only way it will work because companies will not do
it willingly, for the business reasons I outlined. Some sort of regulatory certainty needs to be provided.

My second point is that there is a conflict in the eyes of many. If you look at the Victorian government’s role - on
the one hand it supports the extension of Hazelwood, which does not make sense from a climate change
perspective, and yet on the other hand it says that energy efficiency is a good thing and we need to do more of it. Its
renewal energy fund is being promoted by Sustainability Victoria. What is going on here? What is the government
trying to tell the community at large?

Smart interval metering is an important step, and I believe that is coming, but once again it will take some years
before it percolates through the system and influences people’s behaviour. So businesses are confused and will not
commit if they perceive there is a risk in doing so. They need certainty. The business benefit of energy efficiency is
perceived as low on the balance sheet and hence there is a need for some sort of mandatory support.
We also need much stronger incentives to drive behavioural change. A $500 rebate for photovoltaic vinyl panels or for a hot water system when you are forking out $3000 or $4000, which might be double that before tax, when most families are cash strapped is not going to work for most people and it is not generally done for financial reasons but for warm and fuzzy reasons or to show to the kids that you are walking the talk and those sorts of things.

There are other impediments that need to be recognised certainly around the building industry which the previous speakers from the City of Melbourne talked on about green buildings and so on. There are severe split incentives between the developers of buildings and the tenants who occupy them. People want to get a return as quickly as possible, and therefore they will build the cheapest building they can to get the same return. As long as green buildings are not valued by the market place that will continue, and by ‘green buildings’ I mean ones that are energy efficient, are conducive to greater productivity, they look after people’s interests — you have fresh air and those sorts of those things. A whole body of work is being done on that at the moment, and the Building Commission is doing some good work on that as well.

In essence business and the wider community is information starved as to what is really happening and what they can do about it. Generally communication is very poor. When we see petrol prices go up at the bowser we know we get a jolt the next time we fill the car — which might be once or twice a week — so that we ask ourselves, ‘Are prices coming down?’ . So that is at the front of our minds. Energy prices are not at the front of our minds, and even the relationship between energy prices and the environmental impact in terms of pollution and amount of energy consumed is not a clear relationship in most people’s minds.

How many people in this room or in the community understand what a kilogram of carbon dioxide looks like? How much space does it take? I will give you a tip; it is about a fridge full. A tonne of carbon dioxide would fill a 50-metre swimming pool. So there is a difficulty in relating tangibly to what we want to do about something. The business case for energy efficiency is generally inadequate. Clearly, the government’s role is to create a framework to facilitate desired outcomes by addressing the issues we have raised here.

In closing I acknowledge that what I am presenting complements what Andre talked about because there is a lot of detail in the paper. If we look at each of the seven points that were raised, the progress to date in developing energy efficiency in Victoria is very poor; it was much better 15 years ago. But the industry has been largely decimated and there are not many players in the game. There are a lot of bit players simply because they do it as part of something else they are doing. So there is huge potential to address and improve that.

The range of services and technologies available and the diversity of business models compared with overseas is quite low simply because if people cannot make a living out of it and there is no cost incentive from a business perspective, then we are not going to see it happen. But we certainly have the skills. As engineers we have learnt how to do it and we are often doing it but it is not a core function for our business.

I have no doubt that as a state we can be very competitive but we need the opportunity to do that. The regulatory framework needs to be in place to support that. I have mentioned the barriers. Pricing is a barrier and uncertainty is probably the major barrier. People do not know where they stand and there are too many other things going on in their lives, both personally and in business to head down that path. Recently I was talking to some businesses in the green triangle in Western Victoria where there are a lot of opportunities. They echoed those comments in relation to wind power, biomass power, geothermal power and all sorts of other areas certainly around community-type power schemes. There is enormous capacity but no will at this stage.

I want to make another point in terms of the training. Lots of people talk about conducting energy audits and while Engineers Australia accredits a lot of the university-based courses I am not aware of any benchmarking standard that is enforced for energy audits. Anyone can go out and conduct an energy audit if a client wants to pay for it, certainly at the small and medium enterprise level. There is credibility attached to that and professional organisations will make sure they have the appropriate standards in place.

There is insufficient information about this whole industry in general and about energy efficiency. What is the base line and what are we working towards? If we are not clear about that, how do we know — even if we are clear in terms of the outcomes that we are looking for — exactly what we should be doing and where our starting point is? To conclude I will reiterate the previous point about the role of government. I encourage the Victorian government
as strongly as I possibly can to work towards creating a framework for facilitating these sorts of outcomes and to develop the energy efficiency services industry further.

Ms DUNCAN — Why were we doing better 10 or 15 years ago and not doing so well today? I guess you would argue that it is all of those price incentives and inconsistent messages. You have talked about developing a framework. Could you give us three key messages about what that framework would do? Governments would like to do more, but there is a thing called public opinion. It is very good to hear people here say that electricity is really cheap, but I can tell you that in rural parts of Victoria you would not find many people who would agree with you. In fact they think electricity is extraordinarily expensive. What would you suggest?

Mr BELFIELD — It is all about communication. If they were told the price that Chinese people have to pay for electricity, suddenly they would realise that their energy is cheap. It is a priority issue for most people and for most businesses. On all factual comparisons energy is cheap in this country. It is a perception issue.

From a behavioural communication point of view, a great deal can be done with a little. With the 5-star rating the government has introduced — which started last year in about June, and this year in the commercial building sector — once again it is a drop in the ocean in terms of the megatonnes of carbon dioxide released or saved. The behavioural impact of that is very significant. Suddenly people start using the jargon and talking about getting 5 stars for their new building, and that will flow through. You will see people starting to value buildings — and their own dwellings and others — in a way that has not happened before.

Even though it is only new and 80 per cent of the building market is existing buildings, that is something that has to be addressed. Industry can gear up for that very quickly. You would be amazed. They are all in a holding pattern, and when the chequered flag drops, off they go. They can respond quickly. You can do a lot with a little, believe it or not, but you need to get awareness as a starting point.

Ms DUNCAN — I agree with you on the awareness issue. The thing that has made the water issue a little easier was the fact that we have had nine years of drought and we continue to have drought. It is hard to demonstrate climate change and the problems with climate change in the same way as you can demonstrate water shortage by showing a half-empty dam, and that helps government. I suspect that a lot of the things that we have done in the last few years would not have been possible without a drought. What is the equivalent? People are already starting to see the effects. There is debate in the scientific world; although it is not mainstream science, it is pretty consistent. People do not want to believe there is a problem. You hear George Bush saying, ‘We have the technology, we can sort it’, without making any reference to behavioural change at all. It is a worldwide mixed message, is it not?

Mr BELFIELD — I think the message accepted by and large worldwide is that it is not a ‘maybe’ or an ‘if’. Everyone accepts that the scientific debate has won essentially.

Ms DUNCAN — Among scientists?

Mr KASPURA — Yes.

Mr BELFIELD — Overwhelmingly.

Mr KASPURA — That was the point I was trying to make in this new COAG collaborative action plan. This document says quite unambiguously that climate change has occurred and will continue, and this is acceptance of the argument. Certainly there will still be a proportion of scientists and other knowledgeable people who will argue against it, but I think we are over the hump in terms of that debate. It is very important to see that in the context of where we have come from — that is, where Australia’s part in the original Kyoto discussions was for us to be allowed to increase greenhouse gas emissions. That in part goes back to your question to Deane about what happened to the industry. The message was quite palpable.

There have been a variety of fairly negative pronouncements over the years on government support for mandatory renewable energy, and more messages are communicated there. As Deane was emphasising, the key is communications. In my paper I tried to emphasise the numerous examples in which the message is not being communicated to people. Even something as straightforward as energy ratings on appliances is quite ambiguous. The example I gave I conducted from the perspective of a consumer who wanted to use the available Internet information. You arrive at a thing which says that the more energy-intensive appliance is the cheaper appliance by a
long, long way, and that is what consumers react to. Never mind that at another level it is a bad decision. That has to be unravelled in some way, and I think that is why as an organisation we would support that kind of policy, but it has to be made consistent so that everyone is singing from the same song book.

Mr BELFIELD — We factor that into the training and so on, and it becomes a standard part of the way that we do business. At the moment with uncertainty you cannot build that into training capability and the capacity to do it.

I will give one example in terms of communication. You talked about how we are able to see low water levels in dams. I was recently in China — in the last year I have done a lot of work — and I visited the city of Tianjin, which is a sister city of Melbourne. The reason for the visit was because the Chinese government, from President Hu downwards, had said, ‘We have this economic growth that is out of control and need to put the handbrakes on. While this economic growth is happening we are realising rapidly that we cannot see across the city any more. We are coughing and spluttering and the environment, air quality and so on are deteriorating very fast’. From my own point of view, I could have looked into the sun on a daily basis, probably for as long as I cared to, and it would not have impacted on my eyes all because all I could see was a pink ball in the sky. It could have been something else; it may not have been the sun at all, but it was the sun. That was because of the heavy smog and pollution, and that is the price that we are paying. So in our comfort zones in Australia we need to be mindful that we live in one world; we do not just live in Victoria. We need to understand the relationship that we have to that bigger picture.

As I was travelling down to Tianjin the traffic was slowed. In fact the highways were closed to public transport. I was there at 6 o’clock in the morning and it was, ‘Sorry, no transport’. So what do you do? Essentially we hijacked a car, and we found on the freeway that as the traffic got slower and slower the smog got thicker and thicker. We got to the point where we were almost at a standstill. Why? It was because of the pollution. To give you a graphic picture — and this is very powerful from a communication point of view, and I am happy to give you a photograph — you could not see the tail-lights of the car in front of you 3 metres away. If you want an example like an empty dam, that is compelling.

That is why they are greening the GDP. Our politicians at a federal level love to talk about our GDP levels and how well we are doing, but in fact they missed the most important components of all. The Chinese realised that they have a huge crisis on their hands, and that is why they want to green their GDP. I rest my case.

The CHAIR — I will make what is probably an unnecessary comment about the Productivity Commission report that basically said, ‘We are such a bit player, let us not worry about it’. So we may have COAG this month, but the productivity report came out in November, or was it December?

Mr KASPURA — It is a very unfortunate report.

The CHAIR — It is very unfortunate, but it is there. Talking of the 5 star, in our last report we accepted that by international standards this is very minor. They are not big standards by any stretch of the imagination, but still as a government we have to face people in industry who say we are putting all these extra costs on them. It is very much double sided. Every time you inch one way you have something else that is going totally in the other direction. I do not see it as government’s own problem; it is a problem for everybody, and until we can get some industries on board to say, ‘We have got to do things differently’, then we are really stuck with the frustrations that organisations like yours face. Governments also face them.

Mr HILTON — I just made the statement that, obviously, politics is the art of the possible.

Mr KASPURA — Yes.

Mr HILTON — Some of the suggestions, which maybe in an ideal world we could implement, are just not feasible in a Realpolitik situation. I am interested in energy efficiency services at the household level. Given that it is 3 per cent of the household’s expenditure — and these services presumably will cost some money — it seems there is a lack of obvious return on that investment, to conduct an audit or whatever, unless we can clearly demonstrate that it is beneficial, from an economic cost point of view, to commission these services. Are we really saying that the industry will never develop and that there is just no imperative for it to do so?

Mr KASPURA — I do not think we are. I think it comes back to communications. Certainly the direct expenditure of a household on energy is about 3 per cent. There are indirect costs. The half billion or so dollar
subsidy to fossil fuels in the coming years, which I referred to earlier, is being paid for by taxpayers. It is possible to do some calculations, to attribute that and to say to people that they are paying this much directly, but they are going to be paying this much as well out of their taxes if we have to build another power station — forget all the greenie sorts of references to greenhouse gases.

Part of the original motivation for energy efficiency was to obviate the need for further investment in power stations; huge infrastructure costs a lot of money. I think it is important for people to understand the implications for them of these downstream costs. That is part of the communication message, and it has to start at consistency. You cannot say the 5-star appliance system is wonderful and it tells you all these things when it is demonstrably the case that some things do not quite work in that example. You have to unravel that. However, I think there is a significant cost to households. Ultimately they just need to think about New Orleans.

Mr HILTON — To the average consumer, these things about greenhouse gases and tonnes and tonnes of CO$_2$ are so nebulous that it just does not resonate in any meaningful way. I do not feel that it is in any way feasible to try to convince a consumer that there are some non-financial impacts when they look outside and they see a clear blue sky. There is an argument, which you have probably heard, that increasing information does not necessarily change behaviour. In fact there is no evidence that it does; all it does is increase — —

Mr KASPURA — This is where I think my colleague Deane’s point about regulation is quite important. The 5-star residential rating does carry an important message to buyers of new houses, but most of us do not participate in that process. Most people live in an existing house and are not moving. This energy efficiency thing has to be regulated in such a way that, incrementally, the existing stock of housing is brought into play. That will assist in putting more power behind the message. Right now it is quite easy to despair about the capacity to get out a consistent message. All of these things start humbly, and consistency has to be the key.

Mr BELFIELD — Can I just refer you to a study by the Building Commission looking at the value of a house that has 5-stars and one that does not. If you live in an existing house, you think, ‘Why should I spend all this money putting solar panels in’ — or whatever the measure might be — ‘because I will not get a return on it’. We all are mindful of our balances; we probably all spend more than we earn, I suspect — it is does not matter where we start from. However, we do know that when we want to sell our house, if it is in good shape and it is clean and we have got a nice garden, there is a fair chance, so we are told, that we will actually get more for the house.

Flowing through from the value of having a 5-star rating on the house is that not only is it more comfortable and more efficient, but the market values it such that you could easily get an extra 10 grand in your back pocket by spending $1000 or $2000 more on energy efficiency. If the evidence was that there was some certainty around that, which the Building Commission has information about, then it will simply be an economic decision — people will do it. But they will not do it if they are living in that house and they are not thinking about selling, unless they have kids like we have that pester them — although not all kids talk about these things — or there is some other warm and fuzzy, less tangible reason for doing it.

Ms COE — I will just take up from Deane on that. I think that would be the future generation’s kind of perspective. I remember an ad when I was younger that had an old man and his grandson walking through the forest, and the old man says, ‘Look around the forest because the lyrebirds will not be here in 25 years time’. I can remember that from 20 years ago. That was a very emotional ad. I think even in the publicity on water we have seen that it is the emotional, future generations thing that is getting people to take that particular slant. So there is economic and there is also emotional, for want of a better word, that can be very compelling.

Mr BELFIELD — Talking about the art of the possible, can I point you to some research that I think Clive Hamilton did about demographics, population and where people’s personal interests lie. From an environmental point of view, it is the mid-40 to 70 age group that are the most interested, most keen and most aware. The least aware age group — and ironically it coincides with the current federal government’s term in office, but I will make no comment on that — is the 18- to 29-year-olds. It is our future generation that will making decisions. They will be the ones sitting in your seat and in my seat. It is very much what government says in terms of walking the talk, and the messages that are passed through in all sorts of obvious and less obvious ways are absolutely critical.

Mr KASPURA — Can I go back to the question of how you get the hook into a message. Another way is to talk across issues rather than in little silos. The example I wrote about in the paper was the washing machine —
it changes the moment you bring water and electricity together; the two together clearly and unambiguously favour one style of machine. Perhaps that is a way to think about it: as an addition to what has already been achieved in getting a message across on water. It is just a slight extension.

The CHAIR — Can I just talk about the National Framework for Energy Efficiency. I assume we have a lot of people who work on the framework, who give advice to all governments about what should be in it, what the standard should be and what should be out. How do we, as a community, get into a situation where we have such appalling standards for airconditioners?

Mr KASPURA — Primarily because there has been a focus on minimum standards as opposed to best practice standards. The are examples in Internet literature which showed that a lot of airconditioners in Asia are actually far more efficient than the airconditioners used here. There is nothing wrong with the mandatory energy efficiency framework; on the whole it is very sane and sensible and logical. However, choosing minimum standards is not the way to go. You have to go for best practice, and you have to back that with a policy of researching how best practice improves over time and adjusting your standards upwards.

Mr BELFIELD — Would you send your children to a school where only the minimum standards were acceptable, or would you actually strive for something closer to best practice?

The CHAIR — One of the advantages of being as old as I am is that I do not have school-age kids anymore. I think we will call it quits there, unless Vaughn has something pressing to ask.

Mr BENJAMIN — This committee is focusing on energy efficiency, but in terms of transmission and distribution lines are there gains in efficiency to be had?

Mr BELFIELD — Without a doubt. If you, in terms of your research capacity, seek to understand the costs of transmitting power and the costs of the losses associated with power, they can be quite significant.

Mr BENJAMIN — But with respect to best practice are there technologies that could be implemented in Australia in terms of up-to-date transformers —

Mr BELFIELD — In transmission and distribution?

Mr BENJAMIN — Or something like that?

Mr BELFIELD — There are, and that is happening at certain interchange points. Where they have to do something that is new such as build new infrastructure they will build in that capability, and, of course, it makes sense for that to happen. Between South Australia and Victoria you see that. You see it with the DC link up near Murray, a very efficient process there, and is all about minimising the loss because they recognise how expensive that is.

But a point that I bring you back to is that when talking to some people from Pacific Hydro in western Victoria where they are doing a lot of wind farms and looking at a lot of other options, they said that because of the lack of certainty in the minds of the network people, the distribution and transmission people, in terms of what they can and cannot do and the lack of incentive for them to play ball — because they are a critical part of the picture — these local distributed generation projects are just not happening. The other parts of the jigsaw puzzle are all ready to go, and their view is that the weak link is exactly in that area, the transmission and distribution area. It is not just about costs of the losses but actually about the policy sitting behind them in terms of what they can and cannot do.

Mr BENJAMIN — In terms of the technology adopted by the companies, is it best practice?

Mr BELFIELD — Only in some instances. With best practice, once again it comes down to that financial bottom line. They will not spend a cent more doing anything unless there is a regulatory framework that says that they do need to adopt best practice as a role in government.

The CHAIR — Thank you very much.

Witnesses withdrew.