ENVIROMENT AND NATURAL RESOURCES COMMITTEE

Inquiry into energy services industry

Melbourne — 20 February 2006

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Mr S. Kenihan, Consultant Technical Adviser; and
Mr P. Whittle, Finance Manager, ICLEI — Local Governments for Sustainability.
The CHAIR — The committee welcomes Mr Stephen Kenihan, who is the consultant technical adviser, and Mr Peter Whittle, who is the finance manager, from ICLEI — Local Governments for Sustainability. I thank you for your time today. All evidence taken by the committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, if you go outside the precincts of the committee hearing, your comments will not be protected by parliamentary privilege. I ask you to make an opening statement, and then we will ask some questions.

Mr KENIHAN — Thank you for having us here today. I realise that you are familiar with ICLEI, but I will give you a bit of an introduction anyway. I have been with ICLEI for five or six years, and so has Peter, so we come to the committee today with a reasonable amount of experience of local government.

ICLEI is a membership association of local governments, and local government associations in some cases. They have all made a commitment to sustainable development by taking our programs to implement at a local community level. ICLEI’s membership includes more than 475 local governments, representing nearly 300 million people worldwide. The Australia and New Zealand office, which has recently become the Oceania secretariat for ICLEI, supports 97 ICLEI members within the region in Australia and New Zealand.

There are 210 Australian councils currently participating in the Cities for Climate Protection (CCP) campaign, our main greenhouse reduction campaign that represents 80 per cent of the Australian population. We have almost stopped recruiting; we now have very good coverage of the capital cities, and we are unlikely to expand much beyond that.

We are here today representing our members and CCP participants, predominantly in Victoria, but feel we are well positioned to have an overview of issues affecting local government both nationally and internationally through our experience at ICLEI. On the basis of ICLEI’s role and our membership base we chose to address only the fourth and seventh terms of reference in our submission to the inquiry. We took perhaps a narrower view than some of the terms of reference in that we were speaking of the energy performance contracting industry rather than energy services in a broad sense. For those reasons, we are happy for our contribution today to be relatively brief, if the committee chooses.

As noted in our submission, Victorian local governments have been participating in the CCP campaign for six years and have actively been implementing efficiency measures over that time. During all of that time there has only been one instance of a Victorian CCP council — the City of Darebin — using an energy services company to fund and implement energy efficiency initiatives through the energy performance contracting (EPC) model.

In response to the committee’s invitation to submit to this inquiry, we have considered the reasons why this might be the case and concluded on the basis of finance theory that the market is simply responding to market forces. The level of development of the energy services industry in Victoria suggests that the returns are not adequate to compensate for the risk of investment. CCP conducts an annual survey of greenhouse gas reduction actions being undertaken by local governments across Australia. Many of these involve improving energy efficiency at the end use, predominantly in council facilities, buildings and increasingly in the commercial sector in their communities.

It is clear from these annual surveys and papers produced by experts such as Alan Pears from whom you have just heard and a number of other people in the industry that there is no shortage of opportunities to improve energy efficiency. We are left to wonder why in Victoria there are very few instances of this happening.

In New South Wales there are a number of councils making use of energy performance contracts to implement energy efficiency projects in a range of facilities. I checked this morning and at last count there were five councils implementing a total of six projects, and that is one more since our submission of last October. We think it is reasonable to assume that equivalent energy efficiency projects in New South Wales and Victoria would deliver similar reductions. The amount of savings available from energy efficiency projects is directly related to the energy reduction, so one could assume that there was a greater level of revenue available from energy efficiency projects in New South Wales than in Victoria. That tends to be the only distinguishing factor we can see.

The main differential between the two states — the electricity prices are very similar — is the additional revenue stream in New South Wales that is available through the greenhouse gas abatement scheme (GGAS), which adds about 1.4 cents per kilowatt hour of savings to the benefit of any energy efficiency project, taking into account compliance costs that might give an extra value of about 1.25 cents per kilowatt hour, which is 7 or 8 per cent
higher than in Victoria. I note that that value is a little lower than Alan Pears’s, but it is in that region of 7 or 8 per cent. It is our submission that the additional 7 or 8 per cent in New South Wales has made the difference. We are seeing the development of an industry in that state, but we really have not seen it here.

In conclusion, the failure of the market to respond to energy efficiency opportunities in Victoria could be attributed to the relatively low level of revenue that is likely to flow from these savings, considering the capital investment that is required for the projects. We are making a quite straightforward conclusion that it is simply the lack of revenue from the cost of energy in Victoria that is the cause of the lack of development of the industry in Victoria.

Mr HILTON — Do you see the councils as having a role in providing advice and information to consumers in terms of energy usage and efficiency?

Mr KENIHAN — They certainly do that through the cities for climate protection (CCP) program.

Mr HILTON — Do you see that extending to advice as to which is the most efficient airconditioner or most efficient washing machine in terms of energy usage? My question relates to the role of councils in providing information to consumers, and I am extending that to the use of certain appliances which may be more efficient than others. Do you see the council having a role at that level in providing that advice?

Mr KENIHAN — Yes, I do. We see them as information brokers in the main. We do not expect them to be experts in the field, but through our program we build their capacity so that they know where to find the information. We have a lot of information available through our program web site, and in many cases that is just links through to other organisations so they know where to look.

We are simply not resourced to have all the answers and to provide them with those. We act as a broker and allow them to set themselves up as a broker for their communities so that they can direct the residents or the business owners to the right information, rather than get it direct from council.

Mr WHITTLE — A little bit further on that — Stephen may be a little bit more familiar with the figures — we break the CCP program down into the savings from what they call the corporate sector, which is actually savings within council, and the savings from the community sector, which is effectively savings for which council are not directly responsible. Certainly over the last couple of years the community savings have increased at a far quicker pace than the corporate savings, which suggests that some of that would be from councils playing a sort of information-sharing role with the communities.

Mrs COOTE — Stephen, you said that ICLEI has over 400 members worldwide. Amongst those members, in your opinion which would be the benchmark in this area?

Mr KENIHAN — In terms of energy efficiency?

Mrs COOTE — Yes.

Mr KENIHAN — Probably Toronto, it has done a lot. It was one of the first councils, and that is where our head office is. They have been engaged for the longest.

Mrs COOTE — What do you think the key to their success has been? Obviously they have been doing it for some time as you have just enunciated, but what is their ongoing success attributed to?

Mr KENIHAN — I think Canada, in some respects, is similar to the situation in New Zealand and Tasmania in that they rely to a great extent on hydroelectricity, so any increase in energy use has to be supplied through additional hydro or other fuels. There is a fair bit of community resistance to additional hydro in all of those three localities because of the impact that it is now recognised it has on the ecosystem.

The marginal cost of supplying additional power through other means is higher than energy efficiency, so that tends to focus the mind on reducing energy use or at least stabilising it so they do not need to expand supply. Beyond that, there seems to be a bit of culture in north-eastern USA and southern Canada that is developing in this area. I would like to think that we had something to do with that, but I am sure we are not the only factor.

Mrs COOTE — So presumably the cultural change is what you would see as something we could start to address, to look at and try to build back into our local cultural? Would that be a challenge?
Mr WHITTLE — I must admit I am not aware — being a finance manager I more aware I suppose of the economics around some of these things as opposed to the politics. Even Steve I suppose is not quite — but I am certainly not abreast of the politics of it, particularly internationally, so I am not sure that I could provide a comment on that.

Mrs COOTE — It is just that, from our point of view, where do you start? It would be interesting to see what might be a benchmark worldwide to know what we could copy. With so many members being interested and engaged in this issue it would be interesting to have a look to see where we could copy.

Mr KENIHAN — In Australia I nominate the City of Melbourne as doing some very interesting work, and probably Hornsby in northern Sydney — they would be the two that stand out for us. There are a number of others that are trying. There is often a long lead-up time for some of these projects in getting the idea embedded in council. On a three or four-year election cycle it is easy for things to swing back the other way before anything happens.

Ms DUNCAN — You mentioned earlier that there is only one CCP council that is using an outside energy services company. Why do you think that is the case?

Mr KENIHAN — There is one in Victoria — that is, the City of Darebin. I think the revenue that is available is simply not sufficient to provide an economic return or a return that is able to compete with other uses of the money. So if we are expecting private sector and industry to come in and fund a range of projects under an EPC model, they are not going to do that if they are only going to make 8 per cent when they can make 5 to 6 per cent by putting it into bonds; that 2 per cent is not adequate to compensate for the risk of going ahead with the project.

Ms DUNCAN — So why is it viable for Darebin?

Mr KENIHAN — I have not spoken in depth to them as to why they pursued it. The EPC model got a lot of exposure through ICLEI a couple of years ago. They clearly thought that their opportunities were great enough to make it work. They put out a request for a proposal and one of the respondents thought that the opportunities were great enough. It may be that they were particularly inefficient to start with.

Ms DUNCAN — Thanks. I am not from Darebin!

Dr KOOPS — I was just wondering — there are other energy efficiency things that have been implemented by local government, presumably, because you talk about them in your submission. Are you collecting any data or information on that? Is that information being put around through your councils that are part of your network? Apart from energy performance management, are there other things that are happening that you could tell us about?

Mr KENIHAN — We do quite a lot of surveying. We develop tools for council use that input a description or the information that is necessary — how many lights and what wattage et cetera before and after, so they can calculate the benefit of the project we might be doing. We provide those tools to councils on an ongoing basis, and they are welcome to send them in at any time. Once a year we go through a process of surveying intensely for two or three months and put out a report every year on the range of things that are being done across Australia, by state and by sector, whether it is industrial, commercial or residential et cetera or within their own operations.

That is in summary form and released every year through the AGO. We produce summary state reports that are distributed to all participating councils in the state. They go to the mayor and several other people in the council. From that range of actions we pick the best and draw case studies and examples of what councils do and provide that to other councils in the states across Australia, if it is relevant.

Mr WHITTLE — There are just two things that I could add to that. One is that this report that Steve referred to, which is called the measures report, as well as doing everything that Steve pointed out, actually captures the amount in tonnes of CO\(_2\) that is saved across the campaign. That has climbed fairly rapidly over the last few years, not only with the identified savings that councils can make, but just because we have more councils involved every year. I think we have 210 councils involved now. Additionally in that report there are all sorts of financial data as to the combined costs of these measures as well as the impact on CO\(_2\) reductions, so it is a good read.
Mr KENIHAN — We also try to capture the financial savings from each of the measures wherever possible, where there is one, and where it can be attributed just to the project. It enables us to get an indication of what the likely return is going to be from different sorts of measures. Not all of the 210 are reporting — some of them are in the early stages of the program; and I think up to about 140 of them have been reporting this year. We are just getting to the stage where we can start doing some analysis of the returns by state or by type of action, but we are probably not quite there yet; we do not have enough information.

The CHAIR — Can you give me your thoughts on what you think the capacity of the energy services industry would be? If we work up energy performance contracting or if we ramp up the funds available to local governments to employ energy auditors to go out and do energy audits in residential houses for low income people and these sorts of things, is the capacity actually there within our work force to respond to that increased demand?

Mr KENIHAN — I can probably only speak for local government, but I think the capacity is developing at officer level at least and probably management level in local government to know how to do the things you have mentioned. In the past there have been a number of programs to funds initiatives like those — auditing as you have described.

I think in the early days a lot of those audits just sat on the shelf because they were not quite sure what to do with them. One of the early things that we do through our campaign is get them off the shelf and see if they are still relevant and show them how to implement them.

The CHAIR — Thank you very much.

Committee adjourned.