

7 March 2011

Mr Blair Comley  
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Business  
Council of  
Australia



Dear Blair

**GOVERNMENT RESPONSE TO REPORT OF THE PRIME MINISTER'S TASK GROUP ON ENERGY EFFICIENCY**

The BCA appreciated the opportunity to participate in recent stakeholder workshops intended to inform the government's response to the report of the Prime Minister's Task Group on energy efficiency. Further to our participation in these workshops, I would like to reinforce our main concerns with the recommendations of the report relating to an aspirational energy efficiency target and a transitional energy savings initiative.

The measurement of energy efficiency across the economy is complex and requires its own 'step-change' in improved data and analysis. The recently released *Energy Efficiency Data Framework: Interim Report* is a positive first step towards establishing a framework for this data and analysis, but it also highlights the difficulties of measurement and interpretation. While the measurement of energy efficiency will improve over time, in the short term it may undermine the meaningfulness of the target and its traction in the community. As the interim report suggests:

...there are very considerable and indeed growing challenges in accessing reliable data on energy efficiency in Australia, and there remains considerable confusion in the use of key terms such as 'energy efficiency', 'energy intensity' and 'energy indicators'

Using the target as a means to build awareness and a culture of energy efficiency in Australia may also be challenging given that it will be just one of three targets – in addition to established targets on emissions reduction and renewable energy.

Progressing the measurement of energy efficiency should be the immediate priority as this will provide a better baseline for levels of energy efficiency and data on the least cost solutions for improving energy efficiency and understanding how these solutions contribute to emissions reduction. The need for a target could then be reconsidered once further data is available and a carbon price is in place. Setting a target to improve energy efficiency at this stage is premature.

The BCA agrees with the Prime Minister's Task Group's finding that it would be premature to recommend an energy efficiency obligation without a comprehensive consultation process, detailed modelling and costing, and a regulatory impact assessment. The BCA has previously outlined its principle that energy efficiency policies should pass a test to provide evidence that the benefits associated with the implementation of the policy outweigh the costs of implementation. At this stage, a compelling case for the need for an energy efficiency obligation has not been made.

In particular, the BCA would expect that a rigorous regulatory impact assessment would consider a range of options and address the following issues in ensuring that the benefits of an obligation outweigh the costs:

- **Barriers to Energy Efficiency:** As the Productivity Commission has observed, financial incentives do not directly address the market failures impeding the uptake of energy efficiency improvements. It is not clear that an energy efficiency obligation effectively targets the market failures and other barriers listed in the Task Group's report. Split incentives between landlords and tenants appears to be the most relevant market failure, however, less than a third of homes are rented in Australia suggesting that a national energy efficiency obligation is a disproportionate response to this particular problem. International jurisdictions have used the restructuring of contractual relationships to effectively deal with this issue. It appears that in the presence of a carbon price, information provision will be critical to addressing many of the other barriers.
- **Cost of abatement:** If the energy efficiency obligation's interaction with a carbon price mechanism is designed and managed poorly, it can further undermine the effectiveness of the obligation. For example, in the presence of a price on carbon an energy efficiency obligation can create incentives to pursue high-cost abatement opportunities, as lower cost opportunities are already exploited based on the incentive of the carbon price mechanism. Alternatively, it could result in the certification of energy efficiency activities that would have occurred anyway.
- **Compliance costs:** Energy efficiency schemes can have significant compliance costs (in some cases up to 40 per cent of the certificate price). These costs will ultimately be borne by energy retailers or passed through to consumers (in the form of reduced rebates) rather than directly contributing to energy efficiency. The level of overall compliance costs should be carefully assessed and not simply justified on the basis that they are lower than multiple state-based regimes.
- **Impact on innovation:** Energy efficiency obligations inevitably create rules about the activities that are eligible in meeting the target. This can have the effect of constraining innovative least-cost energy efficiency solutions or creating artificially high demand for certain products, which ultimately increases their price.

In a letter to your predecessor last year, the BCA suggested that energy efficiency policies developed should specify policy outcomes, a clear process for their implementation, conclusions and evaluation and their relationship to any emissions trading scheme or other emissions reduction policies.

Consultations to date have provided no further clarity on the future policy process including the timing of the government's response and the opportunity for further consultation prior to policy decisions being locked in. I would urge the department to clearly communicate the process as part of the government's response or earlier if appropriate.

I would welcome the opportunity to discuss these issues in further detail. The BCA's response to the full recommendations of the report is summarised in the attached table.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M Tarrant', written in a cursive style.

**Maria Tarrant**  
Acting Chief Executive

cc The Hon Greg Combet AM, MP, Minister for Climate Change and Energy Efficiency  
The Hon Martin Ferguson AM, MP, Minister for Resources, Energy and Tourism  
Mr Drew Clarke, Secretary Department of Resources, Energy and Tourism

## ATTACHMENT – BCA RESPONSE TO RECOMMENDATIONS OF PRIME MINISTER’S TASK GROUP

Recommendation	BCA Response
<p>1. Agree to an aspirational national energy efficiency target of improving our primary energy intensity by 30 per cent between now and 2020.</p>	<p><b>DO NOT SUPPORT</b></p> <ul style="list-style-type: none"> <li>• Setting a target to improve energy efficiency at this stage is premature.</li> <li>• Progressing the measurement of energy efficiency should be the immediate priority as this will provide a better baseline for levels of energy efficiency and data on the least cost solutions for improving energy efficiency and understanding how these solutions contribute to emissions reduction.</li> <li>• The need for a target could then be reconsidered once further data is available and a carbon price is in place.</li> </ul>
<p>2. Agree to the introduction of a transitional energy savings initiative to replace existing and planned state energy efficiency schemes, subject to detailed consultation on its design.</p>	<p><b>DO NOT SUPPORT</b></p> <ul style="list-style-type: none"> <li>• The BCA has previously outlined its principle that energy efficiency policies should pass a test to provide evidence that the benefits associated with the implementation of the policy outweigh the costs of implementation.</li> <li>• At this stage, a compelling case for the need for an energy efficiency obligation has not been made.</li> <li>• The BCA expects that a rigorous regulatory impact assessment should consider a range of options and address the issues identified that could prevent the benefits of the obligation outweighing the costs.</li> </ul>
<p>3. Agree to further work that will outline new national governance for COAG consideration later this year.</p>	<p><b>SUPPORT</b></p> <ul style="list-style-type: none"> <li>• There is merit in consolidating governance arrangements to more effectively deal with the energy efficiency agenda.</li> <li>• Governance reforms should not result in additional layers of bureaucracy.</li> <li>• The Ministerial Council on Energy (MCE) should be the single Ministerial Council responsible for energy efficiency in order to integrate energy efficiency into the broader energy reform program. For example, increasing demand side participation in the national energy market goes hand in hand with energy efficiency.</li> <li>• An energy efficiency implementation body would be most effectively established under the Australian Energy Market Commission (AEMC).</li> </ul>
<p>4. Agree to improve the data, information, and analysis tools necessary to enable energy efficiency innovation, to track the national target, and to underpin future policy development.</p>	<p><b>SUPPORT</b></p> <p>The BCA fully supports strong efforts in this area and considers that developments in this area should be given time before a national target is seriously considered.</p>

Recommendation	BCA Response
<p>5. Agree to the development and design of a long-term national strategy to build a culture of energy efficiency.</p>	<p><b>SUPPORT</b>  A national strategy would also make a useful contribution to pursuing increased energy efficiency provided that its scope is sufficiently broad rather than simply focusing on the policy initiatives proposed by the Task Group.</p>
<p>6. Consider the suite of other sectoral proposals in Part 3 of the report that are aimed at addressing specific barriers to energy efficiency improvement in particular areas of the economy. Several sectoral proposals could usefully be progressed at low cost and without compromising later government decisions in relation to the recommended foundation measures:</p> <ul style="list-style-type: none"> <li>- Enhance the assessment and verification requirements and expand the coverage of the <i>Energy Efficiency Opportunities Act 2006</i> to include large energy generators and energy transmitters and distributors, and major greenfield and expansion projects.</li> <li>- Consider the introduction of a mandatory light vehicle CO2 standard, a Commonwealth fleet emissions target and the development of interoperability standards for electric vehicles, as well as a clear government statement on electric vehicles as a part of our future vehicle mix and supporting global collaboration on improving vehicle fuel efficiency.</li> </ul>	<p><b>SUPPORT IN PART</b></p> <ul style="list-style-type: none"> <li>• The BCA strongly supports efforts to reduce barriers to energy efficiency in the Australian energy market.</li> <li>• Sectoral proposals will make an important contribution to improving energy efficiency and these proposals are worthy of more detailed analysis and consideration, but it should be kept in mind that: <ul style="list-style-type: none"> <li>- Mandating certain investments can significantly distort firms' investment decisions.</li> <li>- Performance standards can drive energy efficiency but to be effective, they must provide flexibility and sufficient lead time for business to develop innovative solutions. The proposal to streamline energy performance standards is an important element of making them work more effectively.</li> </ul> </li> </ul>

Recommendation	BCA Response
<ul style="list-style-type: none"><li>- Reduce the barriers to energy efficiency in the Australian energy market.</li><li>- Streamline and expand minimum energy performance standards and introduce high energy performance standards through the current national legislation process.</li></ul>	