

Friday 15th April 2011

The Multi-Party Climate Change Committee Secretariat
GPO Box 854
Canberra ACT 2601
Australia

Dear Sir/Madam,

MPCCC Carbon Price Mechanism - Clean Energy Council Submission

The Clean Energy Council (CEC) is the peak body representing Australia's renewable energy and energy efficiency industries. Its priorities are to:

- create the optimal conditions in Australia to stimulate investment in the development and deployment of world's best clean energy technologies;
- develop effective legislation and regulation to reduce energy demand and improve its efficient use; and
- work to reduce costs and remove all other barriers to accessing clean energy.

The CEC advocates the development of policies on behalf of its members at federal and state government levels and promotes understanding of the industry and its potential through channels such as industry events, forums, conferences, newsletters and publications. The clean energy industry includes generation of electricity using wind, hydro, solar, biomass, geothermal and ocean energy as well as the emerging technologies and service providers in the energy efficiency sector, which includes solar hot water and cogeneration.

Support for a carbon price as soon as possible

The CEC supports the introduction of an efficient and effective carbon price as soon as possible.

The CEC believes a carbon price is critical to create long term certainty for clean energy investment in Australia and maximise outcomes for clean energy development and deployment. It is crucial therefore that any consideration of a carbon price (in its various forms) assesses the implications for the development and deployment of renewable energy technologies and energy efficiency in Australia.

A carbon price is the most cost efficient means of lowering abatement levels

Emissions trading schemes and carbon taxes are already in place in countries such as New Zealand, South Korea, and the European Union. These indicate that a direct price on carbon is the most cost efficient means of achieving economy-wide abatement. The CEC believes that the introduction of a cap and trade emissions trading scheme (ETS) is the most effective and cost-efficient way to achieve Australia's emissions reduction targets.

However, it is crucial to recognise that a carbon price alone will not be sufficient to drive the

rapid deployment of renewable energy technologies. Therefore, the CEC also believes additional complementary measures are needed to target market failures that will continue to exist in the short-to-medium term, at least until a carbon price matures and becomes integrated into the Australian economy.

Clearly defined transition from fixed price scheme to cap-and-trade scheme

The CEC supports the initial introduction of a fixed price carbon scheme, as a pragmatic means of placing a price on carbon and providing industry certainty. This fixed price scheme should however transition to a cap-and-trade scheme as soon as practically possible following consideration of a range of factors including the extent of commensurate progress on a carbon price amongst Australia's trading partners. The conditions under which the transition to a floating price will occur and the rules affecting the floating price must be clarified before the commencement of the scheme. Without such certainty, it will be very difficult to commercialise clean energy projects, where those investments – generally with an investment life beyond 15 years - span the fixed and floating periods of the scheme.

One approach to providing certainty needed for renewable energy investment is to institute a price floor, which could help reduce volatility in the carbon price following transition to a floating market price. However rules around how the floor will be managed must be defined from the outset of the scheme. An effective price floor should:

- Provide investment certainty on the downside carbon price
- Reduce risk associated with energy price forecast
- Have minimal negative impact on the assumptions of equity investors
- Incentivise off-takers to commit to long-term renewable energy contracts

The most important component of a potential price floor will be clarity and consistency – the market will best be served by clearly defined parameters on how the floor will be managed. Failure to do this may undermine the potential benefits of a carbon price floor.

Complementary Measures

While the introduction of a price on carbon will remove one distortion from the energy market that disadvantages renewable energy, it is unlikely to be sufficient, on its own, to drive the deployment of clean energy. Hence, the CEC believes a range of effective complementary measures be retained or introduced to ensure clean energy is developed and deployed until the carbon price scheme matures in the longer term.

i. Introduction of complimentary measures for clean energy

The CEC supports the introduction of carefully targeted complementary measures that address clearly identified market barriers faced by clean energy technologies. These market failures impact both emerging and mature clean energy technologies, from the research and development stage through to the demonstration and commercialisation phase.

They include the externalities and spillovers identified by Professor Garnaut in the update of the Garnaut Review, namely the inability of private investors in R&D to fully contain the social value of their investments; and the higher initial costs (such as labour, regulatory, financial and

manufacturing costs) borne by early movers over later movers – the latter who then share the benefits at no direct cost to themselvesⁱ.

Failure to provide complementary measures to address these barriers will result in later movers imitating rather than innovating, thereby reducing or delaying their investment in clean energy technologies to the detriment of society overall. Conversely, the accelerated development of a range of clean energy technologies can ensure future carbon abatement in the energy sector is achieved at lower cost, while maximising job creation in these industries.

ii. **Introduction of complementary measures for energy efficiency**

The CEC also supports the introduction of carefully targeted complementary measures to address the market failures faced by energy efficiency. Information barriers, upfront capital obstacles, behavioural and organisational difficulties, and split or misplaced incentives can be addressed through the implementation of energy efficiency initiatives, such as government grants and education campaigns. This will drive the uptake of energy efficiency practices within the community and reduce the cost impacts of a carbon price by shielding households and businesses from increased energy prices. Such measures in parallel with a carbon price will provide for the highest chance of uptake in the short amount of time available. See attached outline of the CEC's recommended energy efficiency policy mechanisms.

iii. **Continuation of existing complimentary measures**

Furthermore, the CEC believes that the continuation of existing complimentary measures is justified and required to support clean energy and energy efficiency outcomes in addition to a carbon price. These measures include:

- continuing and robust commitment to the expanded Renewable Energy Target(e-RET). Of more than 300 programs introduced by Australian governments to tackle climate change, the e-RET is recognised as achieving the most significant carbon abatement, with minimal costs to Australian consumers. Furthermore, the e-RET has played an important role in expanding Australia's capacity to further reduce emissions in the future. ⁱⁱ
- long-term and firm commitment to existing key clean energy initiatives, including the Solar Flagships Scheme, Solar Cities and existing projects encompassed within the Clean Energy Initiative; and
- nationally consistent support for small scale solar PV, solar hot water and other small, medium and large scale renewable energy generators

A price on carbon alone – at least in the short to medium term - is unlikely to deliver the optimal level of deployment of these proven technologies. Even with the most optimistic forecasts of a price on carbon, achievement of the Government's commitment to the 20% Renewable Energy Target (RET) will require strong complementary measures, including continuation of the RET.

These complimentary measures operating in parallel with a price on carbon will continue to expand the capacity of the renewable energy industry to reduce emissions and ultimately delivery abatement at a lower overall economic cost in the longer term.

Carbon Revenue

Since overcoming market barriers will be critical to Australia's ability to make deeper and faster emissions cuts at the lowest cost in the future, it is prudent and appropriate to direct some proportion of revenue from the carbon pricing structure toward supporting such innovation. While providing an additional source of revenue, it will also ensure a more sustainable source of revenue and attempt to overcome the ongoing changes and uncertainty in the level of capital support for early stage technology development.

As stated by Professor Garnaut in the update of the Garnaut Review, support for innovation should extend from basic research and development, to the demonstration and commercialisation of clean technologies.ⁱⁱⁱ In particular, the CEC supports Professor Garnaut's conclusion that revenue should be used to add to existing commitments to lift Australia to a proposed \$2-3 billion annual commitment to research, development and commercialisation expenditure. Wise reinvestment of carbon price revenue will further help Australia make the shift to a low carbon economy at lowest cost to business and consumers.

Independent Carbon Bank (ICB)

Quarantined revenue directed toward renewable energy and energy efficiency innovation would best operate if insulated from political cycles and delivered through an independent body at arm's length from government. For example, an Independent Carbon Bank (ICB) established with a high degree of executive independence in the exercise of its powers and analogous to the Reserve Bank of Australia (RBA). Similar to the RBA, the ICB should operate independently, to achieve a series of operational targets and objectives that are clearly defined by government.

Comprised of banking and venture capital specialists, renewable energy and energy efficiency industry experts and those with international experience in carbon abatement, the ICB should also be responsible for:

- determining how, where and when to link into international trading schemes based on its own independent assessment of the integrity of those schemes
- address all other market failures identified in the creation of such a scheme
- allocate funding to various complementary measures, including research, development and deployment of clean energy

It would then accordingly allocate funds concentrated around:

- emerging technologies (to fill gaps left by private sector capital).
- initiatives designed to scale-up energy efficiency projects in low-income households, and the business sector.
- programs that encourage the uptake of domestic renewable energy and energy efficiency and compensate low income households for increases in electricity prices.
- any compensation for emission intense trade exposed sectors and other transitional assistance.

Establishment of the ICB would depoliticise the collection and expenditure of carbon revenue, and ensure all funds from the carbon pricing scheme are re-invested prudently to

drive the decarbonisation of the Australian economy. This would resolve detailed political problems for the government potentially arising from the scheme and aid the long term stability of the carbon market.

International Linkage

Australia's carbon pricing scheme should be designed so as to maximise the probability and effectiveness of linking with other international carbon pricing schemes. While the importation of international permits can ensure Australia achieves abatement targets at least cost, it is important that the environmental credibility and integrity of the scheme is preserved and that genuine transformation of the Australian economy occurs. The CEC believes therefore that there should be some limit placed on the percentage of international permits eligible to meet any emissions target.

The CEC and its members would be happy to discuss these issues further with you as your review progresses. If you have any further questions please contact Matthew Warren via telephone on 03 99294110 or by email: matthew@cleanenergycouncil.org.au

Yours sincerely

[original signed]

Matthew Warren

Chief Executive Officer

ⁱ Update Paper 7: Low emissions technology and the innovation challenge.

<http://www.garnautreview.org.au/update-2011/update-papers/up7-key-points.html>

ⁱⁱ Learning the hard way: Australia's policies to reduce emissions - A Grattan Report.

http://www.grattan.edu.au/pub_page/077_report_energy_learning_the_hard_way.html

ⁱⁱⁱ Update Paper 7: Low emissions technology and the innovation challenge.

<http://www.garnautreview.org.au/update-2011/update-papers/up7-key-points.html>

ESTABLISHING A NATIONAL ENERGY SAVINGS INITIATIVE

Introduction

Energy efficiency remains one of the most important policies that Governments can deliver to both emissions reductions but also protect consumers from rising electricity bills.

The CEC has prepared this proposal as part of a series of position papers to be put to the Federal Government in response to the Prime Minister's Task Group on Energy Efficiency Report.

Background

The recent release of the PM's Report outlined 5 key action areas for consideration by Government. This included:

1. Energy efficiency target - Setting an aspirational national energy efficiency target of improving our primary energy intensity by 30 per cent between now and 2020.
2. *Energy savings initiative - Establishing a transitional national energy savings initiative that would replace existing and planned state energy efficiency schemes and be phased down as a carbon price matures.*
3. Governance - Resetting the governance framework of energy efficiency so that responsibility for its delivery, coordination and implementation is clear.
4. Innovation, data and analysis - Providing a stronger enabling environment for energy efficiency innovation by improving information, data and analysis.
5. Culture - Building on energy efficiency culture in Australia through a long-term, nationally integrated strategy.

Developing a national market for energy efficiency is a priority and an important step in incentivising the energy market to drive energy efficiency improvements and removing barriers to its uptake.

The CEC supports energy efficiency measures which minimise administration costs, simplify delivery mechanisms and allow for accountability and confidence to be instilled in the sector.

A national energy efficiency policy that brings together the existing state schemes under one set of rules will reduce confusion, reduce transaction costs and improve the delivery of energy efficiency measures to end users. This should be a tradable mechanism to ensure least cost such as a white certificate trading scheme. Any national scheme should replace existing state schemes rather than add an extra layer of compliance.

There is strong support for the replacement and or phasing out of state energy efficiency schemes and the creation of a national approach, however there are reservations regarding the introduction of an additional scheme which places additional obligations on energy retailers.

Why is it important

Australia is facing a challenge around energy affordability, due to rapidly rising world energy prices and infrastructure spend. A national energy efficiency scheme can complement a well-designed carbon price and help businesses and households respond to higher energy prices.

Energy use and greenhouse gas emissions from energy use continue to rise. The latest available data indicates that:

- In 2010 the energy sector was the largest source of greenhouse gas emissions comprising 76.6 per cent of Australia's total emissions¹.
- Emissions from stationary energy rose by 52.1 per cent between 1990 and 2008, the largest growth in any sector².
- Estimates for the year ending September 2010 indicate that stationary energy emissions have increased by 0.7 per cent³.
- Emissions from electricity generation across all sectors have increased by 57.8 per cent since 1990⁴.
- The largest drivers of increased indirect emissions from the generation of purchased electricity are the manufacturing, residential and the services, construction and transport sectors⁵ (See Table 1)
- Residential energy use is forecast to rise a further 16% by 2020⁶
 - The contribution of electricity to residential energy consumption is forecast to increase from 46% in 1990 to 53% in 2020 with gas consumption increasing from 30% to 37% over the same period⁷. The main drivers for this growth are:
 - Increase in the electricity consumed by electrical appliances
 - Increase in mains gas for space heating
 - Increase in electricity use for space cooling. This is forecast to be the fastest growing end use with growth of around 16% per year⁸
- In the commercial sector electricity accounts for 73% of energy use with HVAC applications, lighting and general use (cooking, refrigeration, office equipment etc.) the dominant end uses accounting for 61%, 18.6% and 19.2% of total energy use respectively⁹.

¹ Department of Climate Change and Energy Efficiency, 'Quarterly update of Australia's National Greenhouse Gas Inventory', September 2010. <http://www.climatechange.gov.au/climate-change/~media/publications/greenhouse-acctg/greenhouse-gas-inventory-september-2010.pdf>

² Department of Climate Change and Energy Efficiency, 'National Greenhouse Gas Inventory accounting for the Kyoto target', May 2010. <http://www.climatechange.gov.au/climate-change/~media/publications/greenhouse-acctg/national-greenhouse-gas-inventory-2008.ashx>

³ Department of Climate Change and Energy Efficiency, 'Quarterly update of Australia's National Greenhouse Gas Inventory', September 2010. <http://www.climatechange.gov.au/climate-change/~media/publications/greenhouse-acctg/greenhouse-gas-inventory-september-2010.pdf>

⁴ Department of Climate Change and Energy Efficiency, 'National Greenhouse Gas Inventory accounting for the Kyoto target', May 2010. <http://www.climatechange.gov.au/climate-change/~media/publications/greenhouse-acctg/national-greenhouse-gas-inventory-2008.ashx>

⁵ Department of Climate Change and Energy Efficiency, 'National Inventory by Economic Sector, 2008'.

<http://www.climatechange.gov.au/~media/publications/greenhouse-acctg/national-inventory-by-economic-sector-2008.pdf>

⁶ Department of Environment, Water, Heritage and the Arts 2008, 'Energy Use in the Australian Residential Sector 1986-2020'

⁷ Ibid

⁸ Ibid

⁹ Department of Climate Change 2008, *Australia's national greenhouse accounts National Inventory by Economic Sector 2006*

- In manufacturing, electricity only makes a small contribution to energy use in this sector (26.9%). Kilns, Co-generation, Boilers and General Use (this includes: motors, specialized thermal applications and building services – lighting, office equipment etc.) are the dominate end uses in manufacturing (16.5%, 15.7%, 15.3%, 15% respectively)

Table 1. Australia’s Indirect Greenhouse Gas Emissions from the Generation of Purchased Electricity (Scope 2 Emissions) by Economic Sector 1990, 2008 (a) (b) (c) (d)¹⁰

	Emissions (Mt CO ₂ -e) ^(a)		Change in emissions (%)
	1990	2008	1990 - 2008
All Electricity Generation	129.5	204.3	57.8%
Primary Industries	9.2	15.1	63.5%
Agriculture, Forestry and Fishing	1.6	1.5	-1.2%
Mining	7.7	13.5	76.7%
Manufacturing	42.2	63.6	50.6%
Services, Construction and Transport	24.6	46.0	87.1%
Residential	33.8	48.7	43.8%

Source: Australian Greenhouse Emissions Information System: <http://agels.climatechange.gov.au/>
Notes: a) Emissions limited in accordance with the Kyoto Protocol accounting provisions.
b) Scope 2 emissions account for greenhouse gas emissions from the generation of purchased electricity. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organisational boundary of the entity (NGER 2006).
c) The estimate of scope two emissions from electricity generation consumed within the electricity, gas and water sector includes own use of electricity by generators and is not necessarily purchased electricity. As these emissions do not necessarily meet the definition outlined at (b) they have been omitted from the table above. Electricity generation emissions attributed to the electricity, gas and water sector were 19.6 Mt CO₂-e in 1990 and 31.0 Mt CO₂-e in 2008.
d) Sectoral emission totals do not sum to all electricity generation emissions as the electricity, gas and water sector is not included in the above table as outlined at (c).

These figures indicate that energy demand, and associated greenhouse gas emissions, are forecast to continue to grow, particularly in the residential sector, and more needs to be done to reduce the demand for energy. This is highlighted by the 2008 report for the Department of Environment, Water and Heritage and the Arts (DEHWA) *‘Energy Use in the Australian Residential Sector 1986 -2020’*. This report concluded that:

‘while existing and proposed energy programs are holding the line in terms of energy use at a household level, it is the significant increase in household numbers (61% from 1990 – 2020) that is driving the rapid growth of energy consumption in this sector (62% from 1990 – 2020). In the absence of substantial new policy measures, energy consumption from the residential sector will continue to rise at a significant rate.’

¹⁰ Ibid

A comprehensive energy saving policy framework

Demand side measures can deliver:

- low-cost greenhouse gas abatement;
- a cost-effective alternative to investment in new energy supply infrastructure;
- lower energy bills for residential and industrial consumers; and
- reductions in peak demand
- the potential to balance the naturally variable renewable supply

In order to develop a comprehensive energy saving policy framework, we need a clear and strong vision for energy efficiency in the Australian economy. This should be framed around two main aims:

- To improve demand side response; and
- To increase efficiency of energy use.

A key barrier to investment in sustainable energy is that the full environmental costs are not included in the price of energy. The federal governments Carbon Pollution Reduction Scheme (CPRS) seeks to address this by creating a price for carbon. While a price signal will help to drive uptake, it alone will not deliver significant energy efficiency improvements. This is because:

- in the residential sector, energy demand is relatively inelastic to price – this means that a carbon price signal would be muted for this sector;
- energy efficiency is not seen as an energy resource in the energy market, which means that the full value of energy efficiency isn't realised (including deferring investment in supply infrastructure);
- there are a range of other barriers to energy efficiency that a carbon price won't address, including:
 - energy efficiency is rarely core business in organisations, and energy efficiency is not seen as a priority when making capital investment decisions;
 - there can be significant transaction costs with finding energy efficient alternatives, also referred to as 'hassle factor';
 - there is a lack of availability of timely and effective information, products and services;
 - bounded rationality, where consumers make decisions that may not be perfectly optimal, but are rational given their particular context, such as constraints on their time, or lack of information.

The current package of measures aimed at improving energy efficiency in Australia is a complicated mix of State and Federal initiatives that includes information schemes, grants and/or rebates, regulations and minimum standards. These individual initiatives have been developed to address one or other of the identified barriers to energy efficiency, or specifically to help consumers respond to the expected effect of a CPRS.

This raft of measures in place across jurisdictions has resulted in a confusing picture as to the role and policy framework for energy efficiency. The *National Strategy for Energy Efficiency*¹¹ begins to bring together a number of the different state and federal schemes into a more effective and co-ordinated package. Its focus is on providing support to consumers – through information, skills and training as well as material assistance - and the acceleration and co-ordination of national standards for appliances and buildings.

Whilst this is a welcome step we believe, and as the data above indicates, more needs to be done to develop a comprehensive policy framework for energy efficiency across Australia.

A national policy for energy efficiency should be developed that that puts a value on demand side measures.

Benefits of a National Energy Savings Initiative

The potential benefit of the establishment of a national policy for energy efficiency includes:

- **potential for all Australians to benefit from new energy efficiency investments, reducing exposure to rising electricity prices;**
- **benefits in reduced network investments due to reduced peak loads;**
- **national consistency for obligated parties under existing state schemes and reduced transaction costs; and**
- **increased coverage and access to greater measures than existing piece meal schemes, and a more efficient regulatory regime.**

Models for a National Energy Savings Initiative in Australia

In the World Energy Council's 2008 survey of Energy Efficiency Policies around the world about half of the surveyed countries had set up energy efficiency markets. The foundation of these schemes is the establishment of mandatory targets for energy efficiency, with the target usually imposed on the energy retailers (also known as a Supplier or Retailer Obligation). Some countries such as Italy and France as well as two states in Australia –NSW and Victoria - utilise a traded market model such as White Certificates to deliver these

¹¹ http://www.coag.gov.au/coag_meeting_outcomes/2009-04-30/docs/National_strategy_energy_efficiency.pdf

targets, whilst other governments – notably the UK and South Australia - utilise a non traded model.

The traded model

In these schemes the achievement of the target is demonstrated by the surrender of energy efficiency (White) certificates. White certificates can be created by third parties who install eligible measures, these are then sold to the entity responsible for achieving the target (for example the energy retailer). Examples of this are the Victorian and NSW state schemes, explained below.

The non-traded model

In these schemes certificates are not created and delivery of the target becomes the responsibility of the liable entity (for example the energy retailer). Perhaps the most developed scheme of this kind is the Carbon Emission Reduction Target (CERT) in the UK. This is aimed at delivering energy efficiency improvements in domestic households with every energy retailers given a target for the amount of carbon savings they must achieve through the installation of energy efficiency measures in their customer's homes. Key features of the scheme are:

- Current target is to deliver measures that will provide overall lifetime carbon dioxide savings of 293 MtCO₂ by December 2012.
- Retailers can fulfil their obligations by carrying out any combination of approved measures including installing insulation, high efficiency appliances or boilers, however 68 per cent of the target must be met through professionally installed insulation products.
- Retailers can trade between themselves, but in practice very little trading occurs
- Generally retailers subcontract to energy service companies to deliver energy efficiency measures to homes.
- A proportion of the target has to be met through energy efficiency measures applied to priority groups (typically low income households or the elderly).
- The scheme allows retailers to meet a small proportion of their obligation through market transformation measures (such as micro-generation to vulnerable groups) and demonstration projects (such as measures aimed at influencing consumer behaviour).

Energy efficiency markets in Australia

There are currently three States in Australia that have implemented energy efficiency schemes – New South Wales, Victoria and South Australia. These schemes are explained below.

New South Wales

The NSW Energy Savings Scheme (ESS) is designed to increase opportunities to improve energy efficiency by placing obligations on liable parties to undertake or pay for energy efficiency programs. The target from 1 July 09 is 0.4% of total annual electricity sales and ramps up to 4% by 2014 (equivalent to 8.5 million tonnes of CO₂-e). From 2014-2020 the scheme will deliver energy efficiency improvements that will save around 3.2 million CO₂-e per annum

Each Energy Savings Certificate (ESC) represents 1 tonne of CO₂-e saved from an eligible activity. Penalty rate is set at \$24.50 per MWh for any shortfall of certificates, adjusting with inflation. The ESS is modeled on the end-use energy efficiency part of the Demand Side Abatement component of the Greenhouse Gas Reduction Scheme (GGAS). This part of GGAS ceased with the commencement of the ESS on 1 July 2009.

As the ESS covers the residential, commercial and industrial sectors of the economy, the scope for recognised energy savings activities is broad. Eligible activities must reduce the electricity consumption of the site. However the scheme excludes activities that are undertaken to comply with any statutory requirement, activities that are eligible to create renewable energy certificates, or activities that reduce the scope or quantity of production or service such as losing part of a factory.

Trade-exposed industries that are particularly intensive users of electricity have a proportion of their electricity consumption partially exempt from the ESS.

The Department of Industry and Investment announced an amended Ministerial Order was published in the Government Gazette on 24 December 2010. It includes the new exemption categories of manganese production, ammonia production, ceramic floor and wall tile production, and magnetite concentrate production, whilst coke production has been removed. In addition, petroleum refining and ethene production have been reclassified as highly emissions intensive and the allowed percentage for exemption increased from 60% to 90%. The amended Ministerial Order will apply from 1 January 2011, and will govern the calculation of Exempt loads for the 2011 Compliance year onwards, until revoked.

South Australia

The Residential Energy Efficiency Scheme (REES) has two targets – reduce greenhouse gas emissions in household use and deliver energy audits to low income households. The targets for next 3 yrs are:

2009: reduce emissions by 155,000 tonnes of CO₂-e, complete 3,000 energy audits

2010: reduce emissions by 235,000 tonnes of CO₂-e, complete 5,000 energy audits

2011: reduce emissions by 255,000 tonnes of CO₂-e, complete 5,000 energy audits

Retailers are obliged to report on energy efficiency activities and energy audits for checking against targets. This scheme commenced 1 January 2009 and operates in 3 yr phases; 2009 – 2011, 2012-2014.

Eligible activities currently include:

- Replacement of inefficient light bulb with energy efficient light bulb
- Replacement of inefficient showerhead with low flow showerheads
- Installation of ceiling insulation
- Installation of high efficiency heating and cooling systems
- Installation of insulated ductwork to ducted reverse cycle air conditioner, or to a gas central heater
- Installation of weather sealing products
- Installation or retrofitting of high efficiency water heaters
- Destruction of old or second refrigerator or freezer.

Additionally, a 35% of target savings from low-income households is a key feature of the scheme.

Victoria

The Victorian Energy Efficiency Target (VEET) aims to reduce greenhouse gas emissions from households by 10 % by 2010 and Victoria's overall emissions to 60 % by 2050. For the first three years of the scheme (2009-2011), the target is a reduction of 2.7 million tonnes of CO₂-e per annum. This three-year target is expected to reduce emissions by 8.1 million tonnes. The scheme utilises Victorian energy efficiency certificates (VEECs). Each VEEC created represents one tonne of carbon dioxide equivalent (CO₂-e) abated by a prescribed activity.

The scheme operates in 3 yr phases, with new scheme targets and prescribed activities being set for each phase. The first phase of VEET scheme operates from 1 January 2009 - 31 December 2011.

Prescribed activities include:

- Installation of solar water heaters or solar retrofit kits
- Installation of high efficiency ducted heating and space heating products to replace low efficiency products
- Installation of insulation, thermally efficient windows and weather sealing products
- Installation of low energy lamps
- Replacement of non-low flow showerheads with low flow showerheads
- Replacement of low efficiency water heaters with high efficiency water heaters

- Purchase of high efficiency refrigerator or freezer and destruction of old ones
 - Purchase of high efficiency electric or gas clothes dryers
 - Purchase of high efficiency televisions
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Establishment of a National Energy Savings Initiative

The CEC supports the establishment of a National Energy Savings Initiative bringing together the State schemes and extending coverage to all States and Territories.

The CEC supports the Task Group's recommendation for a transitional national savings initiative so long as it:

- is tradeable with a centralised exchange; and,
- has retailers as the obligation point
- pre-defines conditions for phase out of the initiative
- has national coverage
- has residential, commercial and industrial coverage
- provides for linkages to support for low-income earners
- minimises costs for certificate creation
- ensures robust compliance
- simplifies governance and administration

1. Tradeable with a centralised exchange

A tradeable scheme gives a transparent price signal and should keep prices down by creating as broader possible market for whoever has the obligation rather than restricting a good idea that is confined to a bilateral agreement. It opens the market up to many providers by giving them the opportunity to operate in a market to provide the lowest cost solution without being restricted to having to find a buyer in market where there will be fewer energy retailers to do business with.

Full tradability of energy efficiency certificates is:

- a. Consistent with the Task Groups design principles (in particular transparency)
- b. Crucial to reduce costs, encourage competition in the provision of energy efficiency services and facilitate new entrant energy retailers; and,

- c. Central to enabling a more smooth transition from existing state schemes, which are primarily tradeable with a centralised exchange (Victoria & NSW are in this way market based, SA is not).

2. Places the obligation on energy retailers

Retailers have the trading capability and the direct relationship with the customer, including information provision, customer service centres, complaints resolution facilities and contractor relationships. In terms of successful transition from existing state schemes, all existing state schemes have retailers as the obligation and subsequent harmonisation into a national scheme will therefore be more expedient by retaining this central feature.

All companies holding electricity and gas retail licences should be liable under the scheme, along with large energy users that purchase directly from the wholesale market. Voluntary opt-in should be allowed for other large-energy users.

3. Pre-defines conditions for phase out of the initiative, in particular what is meant by a 'mature carbon price'

The Task Group recommends the initiative be transitional and phased out when there is a 'mature carbon price', however the report offers no further detail. While a 'mature carbon price' is an important factor affecting investment decisions, it is not the only factor affecting investment decisions. Conditions for any phase out should be clearly defined and include consideration of the operation of a mature energy efficiency market – i.e: informed and enabled consumers, removal of the barriers to energy efficiency investment and application of time-of-use pricing.

4. National coverage

To ensure lowest cost energy efficiency the Scheme should cover all States and Territories and incorporate the existing state schemes. There should be no state based quotas – that is, a fully national and fungible market should be established, similar to how the MRET works.

5. Residential, commercial and industrial coverage

The scheme should be applied to the residential, commercial and industrial energy use, ensuring complementarily with the establishment of a carbon price. Trade exposed industries could be considered for exemption in line with rules developed under a national carbon scheme.

6. Operate alongside effective support for low income households

Energy efficiency plays an important role in protecting low income households from rising electricity prices. Social targets in a national energy savings initiative may not deliver the best results in terms of savings for low income households, may add costs and be complex to implement.

Alternatively, targeted communications that could encourage uptake of the scheme by disadvantaged households, along with funding directly distributed to community and welfare organisations experienced in delivering energy efficiency programs would be supported.

7. Minimises certificate creation costs

Certificate creation fees should be minimal. A robust certificate audit process needs to be in place to ensure scheme integrity

8. Robust compliance

To ensure the scheme is delivering actual savings, a preference would be for compliance to be determined based on metered energy savings – this would however depend on the extent of adding additional costs to the scheme. A robust deeming methodology for credits may be allowed where metered savings is impractical, or would add significant costs to the scheme.

There should also be due consideration given to the credits associated to the activities (products and services) eligible under the proposed scheme to mitigate market saturation of low cost and low impact products.

A mechanism to fast track new technologies into the scheme is required. New methodologies are critical to ensure sufficient supply of energy efficiency measures. A common barrier is putting the burden on developers to prove their technology. There is no incentive for people to develop methodologies if they cannot recover the costs of doing so. The regulator could potentially develop methodologies or have some arrangement whereby costs can be recovered for methodology development.

Additionally installers should be adequately trained to help prevent negligence or roting, and to encourage safe practices.

Sufficient lead times (preferably 6 months) should be ensured if technologies are “pulled” from the scheme OR if a change to the number of certificates per installation is to be changed.

9. Governance and administration

Avoid creating new bodies for governance or administration as this just adds cost and complexity. Setting up a new body for governance or for administration takes more time than leveraging off existing organisations.

Given ORER's experience in managing the MRET, including a registry function and familiarity with operating tradable schemes consideration could be given to the regulator's role in administering a national energy savings initiative.



The Clean Energy Council is the peak body representing Australia's clean energy sector. It is an industry association made up of more than 440 member companies operating in the fields of renewable energy and energy efficiency.