

Anthony Williamson  
Energy Sector Development Division  
Department of Primary Industries  
[energysaverincentive@dpi.vic.gov.au](mailto:energysaverincentive@dpi.vic.gov.au)

14 April 2011

**RE: Victorian Energy Efficiency Target Expansion Regulatory Impact Statement**

The Moreland Energy Foundation (MEFL) welcomes the opportunity to provide input to the Department of Primary Industries (DPI) regarding the Regulatory Impact Statement (RIS) on the expansion of the Energy Saver Incentive scheme (ESI).

In MEFL's view, expansion of the scheme to SMEs and a doubling of the scheme target is the least that is required to harness the potential of this scheme to cut household and business energy costs, and cost-effectively reduce greenhouse gas emissions. There is significant energy saving potential in the SME sector, and an expanded scheme would address the gap in policy support for this sector.

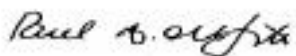
Energy efficiency is one of the best ways to achieve low cost and lasting reductions in household and business energy bills, and the ESI scheme has already cost-effectively reduced Victoria's emissions and cut energy costs for consumers. According to the RIS modelling, an expanded scheme would deliver over \$2.6 billion in benefits to the economy.

Given the significant benefits of this scheme for consumers and the economy as a whole, we support its expansion, but query the decision to only model three options. In particular, we suggest that further modelling should be commissioned in order to assess the impact of a higher target. A higher target could deliver additional cost-effective savings and emissions cuts. In the context of public concern about rising electricity prices, Victoria's 20% emission reduction target, and the impending introduction of a carbon price, this is an opportunity that should not be overlooked.

Further detailed feedback on specific aspects of the RIS are discussed below.

Please do not hesitate to contact Eli Court on 9385 8529 or at [eli@mefl.com.au](mailto:eli@mefl.com.au) to discuss the issues raised in this submission.

Yours sincerely



Paul Murfitt, CEO

## Introduction

MEFL is an innovative not-for-profit organisation established by the City of Moreland in 2000 to reduce greenhouse gas emissions. MEFL works within and beyond the Moreland community to implement a range of energy efficiency programs, including behaviour change programs, research and demonstration projects and advice and information services.

This submission relies upon MEFL's research work, and experience in delivering a range of energy saving programs to the community. These activities and programs are detailed in our previous submission (dated 19 November 2010) regarding the expansion of the ESI scheme (attached), and include:

- The Zero Carbon Moreland project, and related projects;
- Bulk buy schemes, including for solar panels and solar hot water systems;
- Auditing and retrofitting programs, including targeted draught proofing and shading programs;
- A full-time sustainability advice service, including advice for business and community members who are building or renovating;
- The Take Action and On-Ground Assessment of the Energy Efficiency Potential of Victorian Homes research projects, which look at the energy efficiency opportunities in the residential sector;
- An evaluation of the energy efficiency opportunities for businesses and industry in the Newlands Rd Industrial Area;
- The Clean Energy Solutions project, which is investigating the most effective business models for large scale uptake of energy efficiency measures.

## Outline of submission

This submission addresses:

1. Expansion of the scheme
2. The case for split targets
3. Treatment of generator profits
4. Barriers to cost-effective energy efficiency
5. Omission of complementary measures in the analysis
6. Modelling of costs and benefits of energy efficiency measures, including modelling assumptions and assumed administrative overheads
7. Eligibility for the scheme

## Expansion of the scheme

The RIS concludes that the preferred option is a doubling of the scheme target to 5.7 million tonnes of greenhouse gas abatement per year.

As noted above, in MEFL's view, the expansion of the scheme to SMEs and a doubling of the scheme target is the least that is required to harness the potential of this scheme to cut household and business energy costs, and cost-effectively reduce greenhouse gas emissions.

The ESI scheme has already cost-effectively reduced Victoria's emissions and cut energy costs for consumers. Energy efficiency is one of the best ways to achieve low cost and lasting reductions in household and business energy bills.

Given the benefits of this scheme for consumers, we query the decision to only model three options. In particular, we suggest that further modelling should be commissioned in order to assess the impact of a higher target. A higher target could deliver additional cost-effective savings and emissions cuts. In the context of public concern about rising electricity prices, Victoria's 20% emission reduction target, and the impending introduction of a carbon price, this is an opportunity that should not be overlooked.

As we noted in our previous submission, participation in the expanded scheme should also be monitored and the target be reviewed at an early date.

### **Split targets**

As noted in our previous submission, the different barriers and issues facing households, small business and larger businesses indicate that there should be a split in the scheme's targets to provide separate targets for each sector. Further information on the rationale for this target splitting is in our previous submission.

The Department should also consider quarantining a proportion of the residential target for low income households, which has been employed in the UK energy efficiency certificate scheme.

### **Treatment of generator profits**

MEFL is concerned about the treatment of reduced generator profits as a cost in the RIS analysis.

While decreased generator profits may be a cost resulting from the scheme, there are a range of other similar costs and benefits that are not included in the analysis. There does not appear to be any justification for including one and not the others.

One clear example is the profits that will flow to new and existing energy efficiency services businesses, and energy efficiency product manufacturers. These increased profits are a clear benefit of the proposed regulations, and should be included in the analysis.

Given the large relative costs that decreased generator profits represent in the analysis, and the large potential benefits from increased profitability of new and existing energy efficiency related businesses, the results of the RIS analysis should be regarded as potentially significantly underestimating the benefits of the scheme.

## Barriers to cost-effective energy efficiency

MEFL provided an assessment of the critical barriers to cost-effective energy efficiency measures in its previous submission. The three barriers we identified were:

- Cost barriers;
- Split incentives;
- Information and resource barriers.

For further detail, see our previous submission.

This analysis is based on our experience in delivering energy efficiency measures in the Moreland community. If the Department is seeking further evidence regarding these and other barriers to energy efficiency, there is the possibility of MEFL conducting further research and evaluation work alongside its current and future energy efficiency projects, and we would welcome further discussion about these opportunities.

## Omission of complementary measures

While MEFL recognises the practical need to limit the scope of this RIS process, we are concerned that the omission of complementary measures may undermine the accuracy of the modelling, and is likely to result in sub-optimal outcomes.

In practice, a combination of policy initiatives is required to achieve the best results when the objective is behaviour change. This point was recognised in a recent OECD report entitled 'Greening Household Behaviour: The Role of Public Policy', and has been borne out in MEFL's various community engagement and energy efficiency programs.

As noted in our previous submission, the following measures in addition to an increased target will facilitate the best outcomes for the expanded ESI scheme:

- More research about energy and cost savings from particular energy efficiency measures better official, publicly available and user friendly information and much better marketing of the scheme;
- Better regulation of energy data, and easier access to this data;
- Policies designed to hasten the development of the energy services sector and energy efficiency financing services, and assist consumers to understand these new services;
- Policies designed to address split incentives, including environmental upgrade legislation and the implementation of mandatory disclosure for the residential and the smaller commercial sector.
- More ambitious and regularly updated minimum energy performance standards, and the introduction of initiatives to encourage high efficiency products.

These measures are detailed further in our previous submission.

## **Modelling of costs and benefits of energy efficiency measures**

While the modelling and assumptions in the RIS are generally reasonable, we believe that further research and analysis of the on-the-ground impacts of various energy efficiency measures should be carried out in conjunction with the expanded scheme, with a view to building a strong body of evidence about the costs and benefits of different energy efficiency measures in different contexts.

This evidence will help households better understand how energy efficiency can help them cut their household energy costs, and thus reinforce the scheme.

MEFL has over ten years experience in implementing and evaluating a range of energy efficiency measures in homes and businesses, and would welcome the opportunity to work with the Department on the design and delivery of further research.

## **Eligibility**

MEFL welcomes the proposed approach to eligibility, namely to define eligibility on an ‘exclusions’ basis.

As described in the RIS, the ESI scheme is designed to overcome barriers to the uptake of energy efficiency measures. These barriers exist, albeit to differing degrees, for all businesses not covered by existing schemes such as the Energy Efficiency Opportunities and Environment and Resource Efficiency Plans schemes. Without good reason to the contrary, it is proper that the scheme should apply to all businesses except those already covered by an existing scheme.