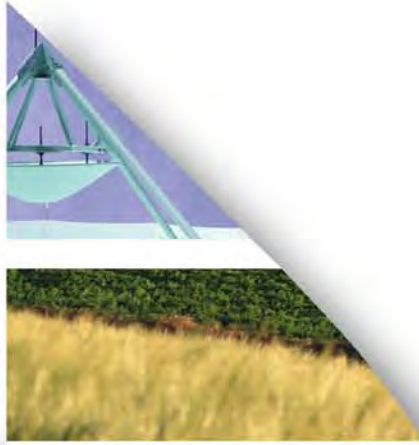




**AUSTRALIAN
INDUSTRY
GREENHOUSE
NETWORK**



Australian Industry Greenhouse Network: Comments on National Framework for Energy Efficiency – Stage Two Discussion Paper

28th September 2007

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NATIONAL FRAMEWORK FOR ENERGY EFFICIENCY – STAGE TWO CONSULTATION PAPER

Introduction

The Australian Industry Greenhouse Network (AIGN) is a network of industry associations and corporations which contribute to the climate change policy debate and see value in joint industry action on climate change policy issues in order to promote sustainable industry development. Energy efficiency is an important driver for all companies represented in AIGN's membership, many of which are energy intensive and/or are producers of energy commodities and services.

AIGN has previously responded to the discussion paper foreshadowing the implementation of the National Framework for Energy Efficiency (NFEE) Stage One. At this time AIGN welcomed the priority accorded by the Ministerial Council on Energy (MCE) to improving co-operative energy efficiency activities across Australia and supported the development of an appropriately designed national framework on energy efficiency.

Energy efficiency improvement programs can have the potential to offer cost-effective greenhouse gas emission abatement and at the same time maintain and strengthen the competitiveness of Australian industry. In developing energy efficiency improvements AIGN considers the following principles to be fundamental:

- *National Consistency and Co-ordination* – a nationally consistent and co-ordinated approach is necessary to maximise the potential benefits.
- *Cost-effectiveness* – policies and programs should only target those energy efficiency improvements which are commercially cost-effective and practicable.
- *Comprehensiveness* – the national framework should address energy efficiency improvement opportunities across all energy sources and across all relevant sectors of the Australian economy;
- *Targets Market Failure and Regulatory Impediments* – programs and policies should be targeted to address market failure and regulatory impediments to the uptake of commercial energy efficiency actions.

Governments have a legitimate role in addressing barriers provided action taken is cost-effective and leads to a demonstrable and significant improvement in national welfare

- *No Disadvantage Principle* – energy efficiency programs should explicitly acknowledge that programs and policies under their auspices are underpinned by, and are consistent with, the Federal Government's commitment to avoid greenhouse policy measures which disadvantage 'early movers' or discriminate against new entrants.
- *Streamlined and Effective Administration* – amongst other things, the implementation design of energy efficiency programs should aim to minimise transactions and compliance costs.

In the context of these principles, AIGN welcomes the opportunity to provide comment on the elements of the consultation paper of specific import to AIGN.

Section 7: NFEE Stage 2 Policy Considerations

The NFEE Stage Two Consultation Paper states that the MCE has directed that the measures should:

- deliver net public benefit;
- deliver least cost greenhouse gas abatement that does not exceed the cost of alternate measures being undertaken across the economy; and
- ensure ongoing national co-ordination of energy efficiency action.

AIGN would consider these directives to be broadly in line with the AIGN policy principles outlined above, however we would suggest that:

- there should be a 'significant, demonstrable net public benefit'
- the proposed measures should be considered in the context of a national emissions trading scheme to be introduced in the near future
- national co-ordination of energy efficiency action should be prioritised and expanded to ensure a streamlining of energy efficiency measures.

The consultation paper describes the current policy environment with regard to energy efficiency measures. It

correctly acknowledges the myriad of existing Commonwealth, and State and Territory policies and programs that target energy efficiency. However AIGN would suggest that the consultation paper does not substantively address a key issue for industry, specifically the role of the NFEE within a broader goal of streamlining existing measures to ensure the existence of nationally consistent policies and programs that address energy efficiency in the context of reducing greenhouse gas emissions.

AIGN considers that national coordination and national uniformity of these programs, as with greenhouse specific programs and policies, is imperative for the efficient governance of the economy. Compliance and transactions cost associated with energy efficiency programs and related greenhouse emissions reduction programs are unduly high and an increasing burden on management. Most firms represented in AIGN operate across the country and differing programs and requirements in each jurisdiction diminish enthusiasm to proactively participate with all of them and significantly increase compliance burdens.

Significant work has been progressed in streamlining the data-set required for greenhouse and energy programs, specifically through the introduction of the *National Greenhouse and Energy Reporting Act 2007*. Whilst supporting this important initiative, AIGN argues that this is a first step in the ultimate goal of streamlining greenhouse and energy programs, and the removal of programs, or elements of programs, that are duplicative and redundant.

Industry does not object to nationally consistent, carefully designed, efficient programs relating to greenhouse and energy. It does suggest that there is good reason to consider the policy problem which greenhouse and energy programs are intended to address and to determine if the current layers of regulation are required to meet the desired outcome. This requirement has been recognised by both the Prime Ministerial Task Group on Emissions Trading and the Australian Government's *Climate Change Policy*.

Section 7.1: Energy efficiency data

AIGN is concerned that the consultation paper proposes to establish “a program to identify, collect and analyse energy efficiency data”, contrary to other initiatives to streamline greenhouse and energy reporting. AIGN has since been reassured verbally that such a program aims to fill gaps in energy efficiency information, particularly with respect to the building and residential sector, and where possible will use data from existing reporting measures. AIGN seeks formal clarification that this will be the case, and of how this program will fit within existing data collection measures, including the recently legislated National Greenhouse and Energy Reporting system.

Section 8: Proposed NFEE Stage 2 Measures

Section 8.1: Continuing Measures

Energy Efficiency Opportunities (EEO)

AIGN and its members have been significantly involved in the development and implementation of the EEO program and support the objectives of the program and its continued implementation, at least until the introduction of a national emissions trading scheme.

Section 8.3: Mandatory Implementation

While AIGN remains supportive of the EEO program at present, we do not support any proposal to develop a measure that would require large and medium energy using sites to identify energy efficiency opportunities and implement those that have a payback period of less than three years. The EEO program is in its infancy, and any move to extend its remit to include mandatory action is premature and unwarranted.

It should be noted that pay-back periods are not the only criteria by which companies consider whether an investment in a particular energy efficiency project is considered commercial and practicable. There are a number of factors which industry would take into account when considering investment in energy efficiency improvements, including but not limited to, their strategic priorities and directions, workplace health and safety issues; and operational considerations, such as spare

operating capacity to minimise process disruptions or unplanned shutdowns.

In AIGN members' industries, new plants tend to be large investments and energy efficiency often improves in step changes. The fact that older, less energy efficient plant, continues to operate alongside latest, 'best practice' facilities is not proof of inefficiency but confirmation that the older assets remain competitive. Proponents of replacing capital stock with new plant incorporating latest energy efficient technologies, or of accelerating that process, do not understand the ordinary dynamics of any capital consuming, private enterprise industry. Premature capital stock replacement costs money and resources, just like any other investment in energy efficiency, and energy savings need to offset that cost.

Competent firms understand this trade-off, and those for whom energy represents a significant cost also monitor the energy saving potential of new equipment, new processes and new technologies pertinent to their operations.

Simply, investment in energy efficiency is a significant commercial decision that takes in a range of factors, and if there is a benefit in investment based on that range of factors, then industry will take on those opportunities in the course of proper commercial decision-making. In this context the introduction of an emissions trading scheme and the associated repricing of electricity to reflect the cost of carbon will provide a significant incentive for further investment in energy efficiency.

Conclusion

The NFEE Stage Two consultation paper discusses some measures that are not of strong import to AIGN's core interests, and are better addressed by those sectors that are specifically concerned with these measures.

AIGN does broadly support the stated directives of the MCE, however it does have concerns that the consultation paper has appeared without warning to stakeholders and in apparent isolation to the other initiatives. It does not substantially indicate how the NFEE Stage Two measures will fit with various initiatives being pursued nationally, in particular a national emissions trading scheme. At the same time, the proposal to include

a new data collection program requires further clarification, and the foreshadowed proposal to mandate action on EEO is of great concern.



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