

25 September 2007

National Framework for Energy Efficiency
By email: E2WGSecretariat@industry.gov.au

Dear Sir/Madam

NFEE STAGE TWO CONSULTATION PAPER

Origin is pleased to provide comment on the National Framework for Energy Efficiency (NFEE) Stage Two consultation paper. We see energy efficiency as a key element of an efficient and effective greenhouse policy response, and support the Ministerial Council on Energy's (MCE) efforts through the NFEE process.

Background on Origin

Origin has a heritage of over 140 years of operation and is proud to be Australia's leading fuel integrated generator-retailer. We have established a comprehensive list of strategies and actions to reduce our emissions and publicly report performance against these in our Sustainability Reports. They include improving the company's greenhouse gas measurement, seeking economic avenues for reducing greenhouse gas emissions, further investment in low emission initiatives, reducing fugitive emissions from the business and providing clean energy choices to our customers.

Origin is Australia's leading GreenPower provider, a market leader in the provision of domestic solar PV, a leading provider of carbon offsets through our Carbon Reduction Scheme, and a retailer of energy efficient products through our Origin retail shops.

Policy context

As the consultation paper correctly notes, the greenhouse policy outlook for Australia has significantly changed since NFEE was first established in 2004. There is now bipartisan support for the introduction of a comprehensive emissions trading scheme (ETS), which Origin fully supports. There is also a wide recognition that any additional measures should be complementary to emissions trading - that is, address policy gaps or market failures not overcome by the price on carbon. Other measures need to be considered in this context to help ensure that they do not distort the efficiency of the carbon price signal, thus minimising the cost of achieving any given greenhouse gas abatement task.

Origin agrees that while the price on carbon should help encourage the uptake of energy efficiency activities over time, significant non-price barriers are likely to remain in place. These barriers are well-documented and difficult to overcome without well-designed, targeted measures. We see NFEE as being a useful platform for coordinating the policy response at a national level, but also feel that there is room for accelerating the pace of development. It is essential that programs and measures developed in Stage One and Stage Two are followed-through with adequate resources (backed by political buy-in) to ensure that long-term benefits are achieved.

While an open debate about energy efficiency policy in the context of emissions trading is yet to take place, Origin has an initial view on the way forward. We feel that a comprehensive package of direct regulation and incentives, combined with effective education and information campaigns is more likely to lead to efficient and effective outcomes than complex market-based approaches like “white certificates” trading schemes. This approach is likely to entail far fewer transaction costs and will avoid the complex verification, monitoring and additionality issues inherent to white certificates schemes. Many of these issues become even more complicated in the context of emissions trading - in particular, there is the double counting problem that arises because carbon is already priced under the ETS. For these reasons, Origin does not currently see a strong case for “white certificates” schemes such as the Victorian Energy Efficiency Target in the context of emissions trading. The focus should instead be on addressing the remaining non-price barriers (information asymmetries, split incentives etc). We believe that there is still significant work to be done in this respect.

The public good aspect of improving energy efficiency (reduced greenhouse gas emissions) means that there is a strong justification for government funding - even where there are private benefits (cost savings). This is particularly true where education/information campaigns are concerned. To date government spending on greenhouse/energy efficiency campaigns has been negligible when compared with water for example, despite widespread agreement on the importance of the issue. There is some recent evidence of high-quality campaigns, for example the Victorian Government’s “black balloons” ads, but not on the scale required to drive a deep change in consumer thinking on energy use. It is likely that considerable funding will be required to develop campaigns of the quality and intensity required to have an impact on a national scale.

Another important development is the COAG work to streamline energy and greenhouse gas reporting, which has implications for the data collection exercise outlined in the paper. Origin notes that the anticipated passage of the *National Energy and Greenhouse Reporting Bill* will set the legislative foundation, while the streamlining process itself will take place over the next two years or so. We strongly support the streamlining objective and where possible would like to see any energy efficiency data collection conducted in a way that does not create new reporting requirements. We strongly agree, however, that there is value in collating a comprehensive set of energy efficiency data to help identify further opportunities and better inform policy development. Ideally this can be done without resulting in an increase in reporting requirements.

NFEE stage two proposals

Origin strongly supports the NFEE Stage Two proposals outlined in the consultation paper. Brief comments on a number of the individual measures are:

- MEPS/E3 Program - strongly support the ongoing expansion and strengthening of MEPS and suggest that the potential for additional gains through stronger enforcement also be explored.
- Incandescent lighting phase out strategy - broadly support the policy measure, provided that the potential for perverse outcomes is avoided (for example, addressing the risk that this could encourage a switch to even less-efficient options like halogen down-lights).
- National hot water heater strategy - strongly support targeting both new and replacement hot water systems; ideally this would be achieved through a

combination of direct regulation (phasing-out of electric systems) and incentives (such as the recently expanded rebates for solar hot water systems).

Mandatory implementation of energy efficiency projects

The consultation paper notes that the Council for the Australian Federation is currently developing a mandatory measure aimed at medium-large energy users and that MCE will consider a specific proposal later this year. Origin has some concerns with this process as it appears to be occurring outside of NFEE and could thus lead to increased regulatory overlap and inefficiency.

In particular, it is not clear how this measure would impact on/interact with the Energy Efficiency Opportunities (EEO) program. Origin is a supportive participant in EEO. In our view, if there is a perceived need for “strengthening” EEO this does not mean that a new scheme is needed; instead, the debate should occur in the context of the existing scheme and the broader greenhouse policy framework.

In addition, if such a debate is to take place it would logically be informed by the information gathered during the first round of assessments (due to be completed by the end of next year). Otherwise it would seem that intervention is assumed to be justified without having even considered what may or may not be possible.

We would not like to see this policy developed without proper consultation. In the absence of a specific proposal to comment on, an initial view is that implementation is likely to be challenging. Defining exactly what is to be mandated and enforcing this in a meaningful way (such that it results in real outcomes) may be quite difficult.

Further work streams

Origin supports the further work streams outlined in the consultation paper and would like to offer a few additional suggestions and comments for consideration:

- Where the residential sector is concerned, we see the split incentives issue in the rental market as being a key barrier still to be addressed. One option could be to link rental increases to energy efficiency upgrades (for example, every time the rent is increased the tenant would have the right to ask for an efficiency upgrade to be implemented, with simple rules administered by the residential tenancies authority).
- Tax incentives should also be considered as part of an incentives package. For example, the UK Government has introduced a reduced rate of VAT for the professional installation of a range of energy saving materials and microgeneration technologies in residential properties. Stamp duty might also be linked to energy efficiency ratings (for example, if the seller meets certain energy efficiency standards, the buyer incurs a lower stamp duty rate - it becomes a selling point).
- Low or zero interest loans underwritten by government could encourage the uptake of projects with high up-front capital costs. This would seem particularly suited to lower income households and small businesses that have limited access to funding for non-core business projects.
- The provision of funding for energy efficiency improvements in the commercial and industrial sectors could leverage significant uptake in the private sector. While programs such as EEO help identify opportunities, this does not necessarily free-up scarce funding for projects.

- On the broader issue of funding programs, the provision of adequate public resources (both financial and administrative) is clearly a key determinant of success. We believe that in some cases well-designed programs have been developed but the follow-through in terms of on-going funding and administrative support have produced disappointing results. The revenue raised from permit auctioning under emissions trading could provide a potential source of funds. An alternative funding mechanism is the NSW Energy Savings Fund model, which raises revenue through distribution tariffs.

If you would like to discuss any of the issues raised in this submission further please do not hesitate to contact me on the number listed below.

Yours sincerely

[submitted by email]

Killian Wentrup
Carbon Regulation Manager
Energy Risk Management
02 8345 5590 - killian.wentrup@originenergy.com.au