

Monday 8th July, 2013

David Blowers
Energy Sector Development Division
Department of State Development, Business and Innovation
GPO Box 4440
MELBOURNE VIC 3001

Dear Mr Blowers,

Re: Environment Victoria Submission, Review of the Energy Saver Incentive: Issues Paper – June 2013

Environment Victoria is pleased to provide comments to support the review of the Energy Saver Incentive (ESI). The ESI addresses a number of barriers to the broad uptake of energy efficiency measures in Victorian homes, and Environment Victoria strongly supports the continuation and expansion of the ESI beyond 2014.

Barriers to the uptake of energy efficiency measures

The ESI has been effective in overcoming a number of barriers to the uptake of energy efficiency measures. The ESI has:

- reduced payback times on items which require an up-front investment.
- driven the creation of an energy services industry which has provided information about energy efficiency to customers, and made energy efficiency services including the installation of ESI accredited measures, more readily available to customers.
- provided a financial motivator to disseminate energy efficiency information to Victorians, and fill an identified information gap. The appetite for information and support for reducing energy use across Victoria is strong. Energy efficiency programs such as Kildonan UnitingCare's have been heavily subscribed. Research conducted for the Clean Energy Council in 2011 found that 89% of those surveyed were willing to take action to use less energy.
- been successful in providing benefits to relatively disadvantaged areas. A high proportion of the VEECS created in disadvantaged areas were created through measures provided free to households, including efficient lights and showerheads.

The Performance of the ESI

The Victorian ESI has been effective in achieving its fundamental goal of promoting the uptake of energy efficiency improvements in residential premises. More than 2 million installations have taken place under the ESI to early 2013. VEET Phase 1 easily met its target and Phase 2 is well on track to meet its targets, resulting in a total 23mt CO₂-e savings from energy efficiency.



This has had a significant impact on energy consumption in Victoria. Demand for electricity has fallen in Victoria over the past four years. Demand reductions show no signs of abating. Electricity consumption in Victoria was 2.0% lower in the first 6 months of 2013 than the first six months of 2012.¹

The Australian Energy Market Operator AEMO estimates that activities supported by the ESI have resulted in 500 GWh electricity savings per annum in Victoria from 2011/12.²

The ESI has also had a positive impacts on jobs and business in Victoria. There are 140 businesses accredited under the scheme and 66 of these have created certificates. The scheme has supported the creation of many new businesses and enabled the expansion of existing businesses (including many SMEs). It has been estimated that 2000 full time employees are currently working both directly and indirectly within the scheme.

Complementarity with national emissions reduction schemes

The Energy Saver Incentive was established with multiple objectives; reducing greenhouse gas emissions, reducing household energy use and bills, and supporting Victorian businesses engaged in energy efficiency.

The national Clean Energy Future Act was established with the principle objective of reducing greenhouse gas emissions.

COAG's 2008 Complementarity Principles³ essentially outline four key tests for complementarity of policy with an emissions trading scheme:

1. The measures are targeted at a market failure that is not expected to be adequately addressed by the Carbon Pollution Reduction Scheme;
2. Complementary measures should be tightly targeted to the market failure identified in the above criteria that are amenable to government intervention;
3. Complementary measures may also be targeted to manage the impacts of the Carbon Pollution Reduction Scheme on particular sectors of the economy;
4. Where measures meet the above criteria, they should generally be implemented by the level of government that is best able to deliver the measure.

The Energy Saver Incentive is designed to address the inefficient use of energy at the small and medium scale (in households and small business). Households and small businesses face market barriers and failures that will not be resolved by a price on carbon. These include split incentives, access to capital and information gaps. The ESI therefore meets the first of the complementarity tests.

¹ Brazzale, Ric; Coal down, renewables up, as NEM consumption falls again.

<http://reneweconomy.com.au/2013/coal-down-renewables-up-as-nem-consumption-falls-again-35962>.

² <http://www.aemo.com.au/Electricity/Planning/Forecasting/National-Electricity-Forecasting-Report-2012>

³ http://www.coag.gov.au/sites/default/files/20081129_complementarity_principles.pdf

The Energy Saver Incentive is designed to address some market failures such as access to capital and information barriers. The lower cost measures in the ESI sidestep problems of split incentives (e.g. rental households can benefit from subsidised efficient lighting or weatherstrips) – therefore the ESI meets the second of COAG’s tests.

The ESI assists households to use less energy and therefore buffers households against rising energy bills, to which a carbon price is contributing. Therefore the Energy Saver Incentive meets COAG’s third test.

Finally the Energy Saver Incentive is delivered by the appropriate level of government, with state oversight through the Essential Services Commission. Over time it may be deemed appropriate for energy efficiency schemes to be run nationally, but in the absence of a specific national proposal for a white certificates trading scheme, the ESI complements a national carbon price.

Looking forward

Home insulation is the most effective way to increase the thermal efficiency of a dwelling. Up to 40% of energy for heating can be saved by installing ceiling insulation alone. Ceiling insulation is particularly effective in Victorian climate zones.

Insulation was effectively removed from the ESI to avoid duplicating the Federal Home Insulation Program. This national program no longer exists, and there is no scheme in operation to incentivise the installation of this essential home energy efficiency measure. Including ceiling insulation in the ESI represents a major opportunity to continue, and increase, its effectiveness due to the high benefits and relatively short payback times.

To achieve adequate safety standards and minimise real and perceived risks a range of measures would be necessary including accreditation and training for installers, audits of installed insulation, installer and manufacturer warranties, and minimum product standards.

A comprehensive approach to home energy efficiency is important. A significant success of the ESI has been to support the creation of energy services businesses who are able to provide customers with comprehensive energy audits of their homes, identifying the most effective mix of activities to achieve energy efficiency outcomes. Insulation needs to be part of this comprehensive approach facilitated by the ESI, to achieve maximum energy efficiency outcomes.

Conclusion

The ESI is a positive story on energy efficiency. It is a well regulated market based scheme which has proved extremely effective in meeting its targets, is complementary to national emissions reduction schemes, and can increase in effectiveness as other activities, particularly ceiling insulation, are included.

Stability in energy policy is important in maintaining certainty for businesses, particularly for the growing energy efficiency industry. Continuation of the ESI would counter ongoing



energy policy uncertainty at the state and national level. ESI's continuation is particularly important in the light of the discontinuation of other energy efficiency programs in Victoria.

The ESI is an important part of Victoria's energy efficiency strategy and should be continued and expanded beyond 2014.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Charlie Davie".

Charlie Davie
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