

ENERGETICS SUBMISSION

CARBON POLLUTION REDUCTION SCHEME - GREEN PAPER

Energetics thanks the Government for the opportunity to comment on the Carbon Pollution Reduction Scheme (CPRS) Green Paper. We have been a keen participant in policy discussions about the solutions to climate change for over 20 years. The introduction of a price on carbon pollution via the CPRS is welcome and long overdue.

Energetics is Australia's most experienced provider of energy and carbon management and advice services, with a wealth of experience providing policy and climate change program advice to state and federal governments. We also have 25 years of providing climate change solutions to Australia's ASX 200 companies. This puts us in a unique position to assist the Government with design, introduction, implementation and review of the Climate Change Action Fund. Our submission to the Green Paper will focus on providing our advice on the use of this fund.

The use of the CPRS permit auction revenue will be an extremely important tool to help Australia in its transition to becoming a low emission, energy efficient economy. If used wisely the Climate Change Action Fund may be as important for reducing energy consumption and emissions as the carbon price itself.

CARBON PRICE – OUR EXPERIENCE WITH PRICE AND ENERGY DEMAND

If the CPRS is to be successful in reducing emissions it needs to be able to have an influence on the biggest driver of emissions nationally – spiralling energy and electricity consumption.

The price on carbon driven by the CPRS will be an important signal to liable entities and investors on the economic value of shifting to low carbon technologies. However we note that a price cap on the CPRS is proposed in the Green Paper and this will mean that initially the scheme may have a limited impact on behaviour. It is our view that a low carbon price will not drive the changes in energy consumption required to see a reduction in emissions in the first few years of its operation.

With energy use growing at 2% per annum it is possible that total consumption will increase a further 10% before the CPRS starts to shift major capital decisions.

Our experience of working in energy management has shown us that energy demand and consumption is relatively inelastic to price signals. For example:

- We service many clients in the procurement of energy and we have seen a large amount of energy price volatility in the last 12 – 18 months, but this has not been a major driver for companies seeking advice on how to reduce their energy consumption;
- A recent study for NEMMCO found that a change in energy prices leads to significantly less than the equivalent change in energy demand – that is for every 1% increase in price you get only a 0.3% decrease in energy demand;
- A report for the Ministerial Council on Energy on energy efficiency initiatives found that emissions trading is likely to increase energy prices by between 10% and 30%. For the majority of Australian businesses, energy price rises of up to 30% would see the share of energy in total costs move from 6% currently to 7% or 8% — and this might occur over a 10-year time frame.

It is our view that such price signals are not likely to trigger significantly greater interest in improving energy efficiency for non-liable business entities.

While many liable entities will recognise and act on the carbon price signal, it is clear that many Australian businesses will pass carbon costs on to customers for whom energy prices are not significant or who are used to seeing and dealing with volatility in energy prices.

The price on carbon is an essential signal for changing the energy supply mix to lower emission sources, and if the price rises are large there is no doubt that a carbon price will also drive change in energy consumption. But it is difficult to predict to what extent this will occur, particularly in the early years of the scheme. However if the Government uses the CPRS, not just as a market signal but also as a way to collect revenue for running substantial, targeted and significant business climate change and energy response programs then there is a much better chance that the CPRS and the programs it funds will start to tackle Australia's energy emissions growth.

Given the scientific advice on the need for immediate emission reductions, the auction revenue can help to drive emission reductions and efficiency improvements in the interim while the carbon price signal starts to change business decisions.

CLIMATE CHANGE ACTION FUND – AN OPPORTUNITY TO DRIVE BUSINESS TRANSITION, INNOVATION AND EMISSION REDUCTIONS

Energetics believes that a large proportion of the permit auction revenue needs to be retained for the Climate Change Action Fund (CCAF) to deliver additional business emissions action and reductions. A well funded and designed CCAF can have multiple benefits for the Australian business community:

- It can fund major programs to drive changes until the carbon price rise leads to long term structural change;
- It can assist the business sector get ready for a carbon constrained economy, to develop the business culture and management practices to plan for future carbon prices and constraints;
- It can fund business energy efficiency improvement so that as the price of carbon does rise it will pose less of a financial risk to large electricity consumers.

A 20% reduction in Australia's energy consumption by 2020 would save Australian business more than \$8 billion a year. To seize this opportunity it is important that the CPRS revenue is targeted at both business as well as households.

The Green Paper does not make it clear what the breakdown will be, but does suggest that households will be a major recipient of funds. While Energetics supports household assistance from an equity perspective, we urge the government to recognise that the residential sector is a relatively small part of Australia's energy and emissions profile. More energy is used in the Australian business sector than is consumed in homes.

At least 20% of auction revenue should be retained for the Climate Change Action Fund and this fund should target the business sector as this is where the bulk of energy use and emissions are generated. To achieve a substantial reduction in growth, and ultimately substantial absolute reductions of energy use and greenhouse emissions, it is necessary to apply a range of measures. It is necessary to match regulation with incentives to facilitate implementation.

In designing the programs it is important to understand what is currently not happening inside business to combat rising energy use. Energetics has assessed over 2,000 companies and we have found that over 85% on those surveyed have no or very limited energy management systems in place – this means there are no formal processes, little

or no accountability and few people at decision making and influencing levels tasked with trying to reduce energy consumption and costs.

A VISION OF THE CLIMATE CHANGE ACTION FUND

There is a very large pool of un-tapped energy and emission savings available in the business sector. Some of these will be captured by entities with permit liabilities under the CPRS but many of these will be in enterprises that are not captured by the CPRS or in businesses that simply pass on their carbon costs without implementing changes. Some of these opportunities will be in enterprises that receive free permits or for other reasons outlined above, do not respond to a carbon price signal in ways that reduce energy use and emissions.

These opportunities could be tapped with new and additional programs and incentives funded through the CPRS permit revenue. The CPRS provides the Australian Government with the opportunity to streamline and improve the mishmash of under-funded business climate change programs currently operating in Australia.

Energetics believes the following program ideas are worthy of further exploration by Government in the design of the CCAF:

1. New carbon economy – a transition program for business

A major share of the Climate Change Action Fund needs to be reserved to support transition for businesses that do not have to buy permits, but are currently large electricity users and therefore exposed to increasing carbon prices.

The major targets for this should be all businesses that will be captured under the National Greenhouse and Energy Reporting Scheme (NGERS). Targeting companies that produce more than 50,000 tonnes of CO₂ (Scope 1 and 2 emissions) will ensure that the funds are being targeted at:

- The nation's largest energy users, which will ensure the funds have an impact on our national emissions profile; and
- The businesses with large energy footprints, who will therefore be the largest recipients of pass through carbon costs from electricity generators.

The goal of the program should be to ensure Australia's largest energy users assess, plan for and reduce carbon price risks to their business. Large energy users should also

evaluate energy conservation and efficiency projects as risk mitigation options and prioritise the implementation of these options.

It is important that the development of business programs draws on evidence from past programs run both in Australia and internationally. We believe that the existing State-based programs should be rolled into one model. State agencies and other independent bodies may be best placed to deliver the programs, but if the CCAF becomes the major source of funds then the design guidelines and mandatory components should be established by the Australian Government.

Streamlining all the current business climate change programs under a new national model would help to reduce the confusion about climate change response programs that exists at the moment. Reducing confusion will make it easier to increase the involvement of the business sector in these programs. Greater buy-in is essential if we are to ensure long lasting changes are made to business models and operations.

The business program should draw on the key program elements that are essential to success. From our experience we believe three elements are necessary:

- A clear target group with a reason to be engaged
- Requirement for a carbon management plan
- Substantial incentives to take action.

A. Identify a clear target group with a reason to be engaged

In this case we believe that all the companies captured by the NGERS are an excellent target because they are the biggest energy users and are becoming aware of their carbon footprint. Over time we recommend that the threshold for both the NGERS and this business transition program drop to 10,000 tonnes CO₂ produced by a corporation.

B. A requirement for participating businesses to have board approval of a carbon management plan

Companies wishing to access assistance under the scheme need to first develop a 3 year carbon management plan. Given this is a new area of management and enterprise planning we recommend that, like the Carbon Trust model in the UK, businesses are given support to develop this plan with the assistance of a register of approved carbon advisory services. To maintain quality and the cost of this part of the program there would be a fixed price for this carbon planning process and a recommended set of outputs. If the company wanted to explore additional elements of a carbon management plan or a longer period, they would need to fund this themselves.

To ensure commitment, the carbon management plan needs to be approved by the board before the company can qualify for further assistance.

The key components of a carbon management planning process should include:

- A projection of carbon price scenarios and flow through costs to electricity, natural gas most likely to affect the company over the planning period;
- Evaluation of emission reduction policies and measures including energy efficiency options and their cost-effectiveness and market potential across the full range of carbon price scenarios; and
- Process for implementation of emission reduction measures.

C. Substantial incentives to take action

The first two steps will ensure that the targeted companies will have measured and reported their emissions, and developed a carbon management plan. To guarantee a transition process occurs with these large energy users the CCAF should provide substantial financial incentives to help implement the identified emission reduction and efficiency improvements.

The incentives can either be in the form of part-payment grants for part of the cost or in the form of tax incentives. Grants could be made available for retrofit projects and new capital projects leading to energy savings, or assistance for implementing management, operational and staff training improvements that lead to energy savings.

The funding selection criteria will include the level of certainty of the project continuing to deliver outcomes, total savings by a project across a facility, and the relative cost effectiveness of the project in terms of \$ / GJ or tonnes CO₂-e saved).

2. New technology deployment with tax concessions

The National Renewable Energy Target addresses a policy gap in assisting the deployment of new renewable technologies. There are however a range of other efficiency and emission mitigation products that are important in the transition to a low carbon economy.

We propose a tax concession program to encourage the rapid deployment of a range of specially identified and approved products. These would include:

- Energy-saving plant and machinery;

- Low carbon dioxide emission cars; and
- Water conservation plant and machinery.

We recommend that this scheme be funded by the CCAF and build on the lessons learned from the Enhanced Capital Allowance Scheme operating in the United Kingdom. Under this scheme Enhanced Capital Allowances (ECAs) enable a business to claim 100% first-year capital allowances on their spending on qualifying plant and machinery. Businesses can write off the entire capital cost of their investment in these technologies against their taxable profits in the period during which the investment is made. This can deliver a helpful cash flow boost and a shortened payback period.

3. Conditionality for free permit recipients

The top 250 energy using companies account for over 60% of business energy use, and approximately 45% of total energy use. Many of these companies will be recipients of free permits because they are also Emissions Intensive Trade Exposed.

These companies will receive a significant asset from the free permits, which is needed to ensure that they remain competitive in international markets. There is however also a need to ensure that these large facilities are continuously improving their efficiency and emissions performance. The easiest way to do this will be to set conditions on the receipt of free permits that require a process to show there is work occurring to improve energy efficiency and emissions performance.

Given many of these companies are part of the Commonwealth Energy Efficiency Opportunities (EEO) program, the process could be linked to this program. For those free permit recipients not currently captured by EEO, joining the scheme could be made part of the free permit conditionality.

Options could include requiring participants to allocate a percentage of the value of the free permits to implementation of energy efficiency opportunities identified on that site or other sites that the company has operational control over. Free permit recipients would also need to identify other non-energy emission reduction opportunities in their annual EEO Reports. Some EEO program participants already include non-energy savings CO2 reductions in their EEO reports. The work required to be implemented by the free permit recipients would be reported and be subject to verification under normal EEO processes.

There is administrative ease in the use an existing program like EEO to ensure emissions performance improvements for free permit recipients. Many of the companies have established management systems to work with this program, so it would be a easy vehicle to implement a policy goal for free permit recipients.

There would however need to be some additional funding provided for linking the program to the CPRS regulator and the free permit process as well as more detailed auditing processes. These elements could be funded from the CCAF.

4. Funds to expand mandatory performance standards

Setting minimum energy performance standards are the most efficient and cost effective way to ensure that inefficient products are eliminated from the marketplace. They allow manufacturers to focus production on their more efficient ranges, and consumers to choose from relatively efficient products. This process also drives out the most inefficient products from the market.

There has been on-going development of minimum energy performance standards (MEPS) through cooperation with the States. However the CCAF can fund a process to accelerate the establishment of additional MEPS for business equipment and technologies, as well as the introduction of more stringent national minimum mandatory energy and water efficiency standards in the building code for new commercial buildings.

Additional funding should also be allocated from the CCAF to ensure the vigorous enforcement of the MEPS.

NEED FURTHER INFORMATION?

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