

Chapter 1

National Market Driven Energy Efficiency Target Bill 2007 [2008]

and

Renewable Energy Legislation Amendment (Renewable Power Percentage) Bill 2008

References

1.1 These separate but related bills, the National Market Driven Energy Efficiency Target Bill 2007 [2008] and the Renewable Energy Legislation Amendment (Renewable Power Percentage) Bill 2008, were considered concurrently by the committee. The benefit of this procedure was noted from the evidence that debate continues on the extent to which an emissions trading scheme might be affected by mandated energy efficiency targets.

1.2 The National Market Driven Energy Efficiency Target Bill 2007 [2008] is a private senator's bill, introduced by Senator Lyn Allison (AD-Vic) which was referred to the Economics Committee on 16 August 2007 for report by 22 October 2007. The committee sought and received an extension of time from the Senate on 17 September 2007 to report by the end of the 41st parliament. Further consideration of the bill ceased with the calling of the election on 14 October 2007.

1.3 The bill was restored to the Notice Paper on 14 February 2008 and re-referred to the Economics Committee, with the recommendation that the committee look specifically at the provisions of the bill relating to the definition of energy efficiency activities, monitoring and verification of energy efficiency savings, and the energy efficiency improvement potential for the benefit of the economy through productivity benefits, including effects on GDP, inflation, employment and technology innovation. The committee has conducted a more limited inquiry at a time when the government's own anticipated legislation is demanding the full attention of most experts in this field.

1.4 The Renewable Energy Legislation Amendment (Renewable Power Percentage) Bill 2008 was referred to the Senate Standing Committee on Economics on 12 March 2008 for report by 30 May 2008. This bill was also introduced by Senator Allison. The bill proposes to amend the Renewable Energy (Electricity) Regulations 2001 for the purpose of extending, from 2008, the interim targets of the Mandatory Renewable Energy Target (MRET).

Conduct of the inquiry and submissions

1.5 The committee advertised the inquiry on its website and in *The Australian* commencing on 26 March 2008, calling for submissions by Friday, 18 April 2008. The committee also directly contacted a number of relevant organisations and individuals to notify them of the inquiry, to invite submissions and appearances before the committee.

1.6 Seventeen submissions for the National Market Driven Energy Efficiency Target Bill 2007 [2008] were received as listed at Appendix 1, and 11 submissions for the Renewable Energy Legislation Amendment (Renewable Power Percentage) Bill 2008, as listed at Appendix 2. These appear on the committee's website.

1.7 The committee conducted a public hearing in Melbourne on 12 May 2008 to hear evidence in relation to both bills. Witnesses who appeared before the committee are listed at Appendix 3.

Acknowledgement

1.8 The committee thanks those who assisted with the inquiries.

Background

Position of the committee on climate change policy

1.9 Energy efficiency and renewable energy need to be considered in the context of broader climate change policy. The committee recognises that governments face difficult problems in developing policies which address the challenge of stabilising or reversing the effects of climate change, of which there is irrefutable scientific evidence. Its adverse effects are incremental rather than dramatic, although some effects are already being felt in some locations and among those pursuing particular livelihoods. Governments – of whatever political complexion – have to overcome the short-term political difficulties of introducing hard measures affecting business and employment, while at the same time convincing scientists, and the scientifically literate community, that they are serious about confronting the potentially catastrophic effects of climate change. Ultimately, the long-term goal of reducing greenhouse gas emissions must attract support from both energy consumers and suppliers.

1.10 The committee comes to this inquiry with a common appreciation of the likely problems to be faced in addressing climate change, but with no fixed views on particular strategies for dealing with it. It agrees broadly, for instance with the general view expressed to it that a variety of measures will be needed. It agrees that a market-driven approach is likely to achieve more effective emissions control in the long run. It also agrees that energy efficiency measures can operate in parallel to any carbon trading scheme. The contestable elements include what mix of measures will work best; what timeframes should operate; and how much regulation there needs to be to supplement any market-driven strategy. The committee considers that these

questions should be subject to much more deliberation and debate when the detail of emissions trading is announced later this year.

1.11 The value of this inquiry has been to open the committee's eyes to some dimensions to the climate change abatement debate. It is inevitable that energy cost increases will have significant implications for future economic planning. Changes in the energy market will affect foreign trade, food supplies, electricity supply and the structure of industry. Such effects could drive the economic management agenda of governments – Commonwealth and state – for decades, and will be reflected in the future work of this committee.

1.12 It is necessary to make some reference to the climate change policy debate so far, and provide a context for discussion of the bills under consideration in the light of current government action.

Government policy so far

1.13 Climate change is an issue which has only recently impressed itself on public consciousness. In the minds of many, the threats posed are hypothetical, and the measures to be taken are too technical to be bothered with. Debate and discussion is little heard beyond a relatively small coterie of informed participants. The Coalition made an early start in addressing the challenges of climate change, setting up the Australian Greenhouse Office in 1997. Early interest was not sustained however, and the states and territories decided to take up the issue themselves.

1.14 The National Emissions Trading Taskforce (NETT) was established in January 2004 by state and territory governments responding to a perceived absence of national leadership on greenhouse policy. NETT's purpose was to develop a multi-jurisdictional emissions trading scheme driven by state and territory governments. Significant design work was undertaken for a national emissions trading scheme and NETT consulted widely with stakeholders around the country.¹ NETT's work was pushed aside when the Commonwealth government decided to act on the issue.

1.15 Commonwealth policy development was not revived until the appointment by Prime Minister John Howard of a Task Group on Emissions Trading in December 2006. The tone of the issues paper released by the task force, in early 2007, was criticised for being less than whole-hearted about the urgency of tackling climate change.² Business interests, however, generally approved of its recommendations describing them as 'sensible', whereas they had been critical of Stern, and later of

1 National Emissions Trading Taskforce web site, http://www.emissionstrading.net.au/key_documents/nett_terms_of_reference_july_2007, accessed 22 May 2008.

2 See for instance, Ian Dunlop, *Toward a realistic climate change policy*, Centre for Policy Development, 12 April 2007, at : <http://cpd.org.au/article/towards-realistic-climate-change-policy>.

Garnaut in his review, released in February 2008.³ Industry presumably understands the dimensions of the problems posed by climate change in the long-term, but has an immediate concern for its 'bottom line' in the short-term.

1.16 In the meantime debate was stimulated at home and abroad by a host of organisations and academics with considerable political effect.

Garnaut review

1.17 The Labor government won office in November 2007 and commissioned an independent review on climate change by Professor Ross Garnaut, who provided an interim report in February 2008 and is scheduled to produce a final report by 30 September 2008. The report will inform the government's consideration of the planned medium term emissions trajectory to be announced by the end of 2008.⁴ Emissions targets will also be informed by economic modelling being undertaken by Treasury.⁵

1.18 Garnaut is expected to provide strategies and underpinning design detail on a system for emissions trading (an ETS) to commence in 2010. As noted in the 13 May 2008 Budget statement, the government's policy is built on three priorities: reducing Australia's greenhouse gas emissions; adapting to unavoidable climate change, and helping to shape a global solution.⁶ What is eventually proposed is likely to deal with the three policies set out in the policy document *Labor's 2020 target for a renewable energy future*. These are:

- establishing market-based incentives to reduce greenhouse gases through an emissions trading scheme;
- demand side management measures (ie. energy efficiency), assisting households to contribute to reducing carbon emissions; and
- supply-side measures including support for zero emission and low emission technologies through a national clean coal initiative and a strong renewable energy target.

1.19 The aim is to reduce greenhouse gas emissions by 60 per cent by 2050.

1.20 Professor Garnaut has argued that an ETS will not achieve the lowest cost reduction in emissions unless it is 'supported by measures to correct market failures or

3 For instance, Warwick McKibbin, *Australian Financial Review*, 28 March 2008, p. 83.

4 Senator the Hon Penny Wong, Minister for Climate Change and Water, Speech to the Australian Industry Group Luncheon, 6 February 2008, '*Climate Change: A Responsibility Agenda*', p. 10.

5 Matthew Warren, 'Time to price carbon', *Weekend Australian*, 29 March 2008, p. 1.

6 Budget statement on Climate Change, the economy and the environment by Senator the Hon Penny Wong, Minister for Climate Change and Water and The Hon Peter Garrett MP, Minister for the Environment, Heritage and the Arts, 13 May 2008, p. 11.

weaknesses in areas such as innovation, research and development, energy efficiency and new network infrastructure. 'Those measures would include government programs, regulatory action and financial support for investment'.⁷ The review will develop a set of principles to assist its assessment of whether existing programs are complementary to an emissions trading scheme.

Energy Efficiency

1.21 The government has acknowledged the potential for energy efficiency, recognising that emissions trading alone will not provide the reductions in energy use required and therefore acknowledges energy efficiency as a complementary measure to an emissions trading program. Australian Bureau of Agricultural and Resource Economics research predicts that energy efficiency measures could contribute up to 55 per cent of emission reduction targets by 2050.⁸

1.22 The 13 May 2008 budget statement notes:

The Australian government is committed to bringing energy and water efficiency into the mainstream, providing Australians with cost-effective solutions to reduce their environmental footprint. The government's policies are intended to help households, businesses and the energy services industry move beyond current barriers like high up-front costs and poor information, increasing access to the whole-of-life benefits of energy and water efficiency improvements.⁹

1.23 The Department of Climate Change advised the committee of a number of energy efficiency measures through direct financial incentives, to strengthen energy efficiency regulations and provide information to help households use less energy. The key measures include:

- \$10 000 low interest loans to assist households to install solar, water and energy efficient products;
- rebates for energy-efficiency insulation for 300 000 rental homes;
- \$8 000 rebates for rooftop solar photovoltaic panels;
- \$1 000 rebates for solar hot water systems;
- improved energy and water efficiency standards for new homes and appliances; and

7 Duncan McGregor, 'Road map for the future is unclear', *Weekend Australian*, 29 March 2008, p. 2.

8 Ibid.

9 Budget statement on Climate Change, the economy and the environment by Senator the Hon Penny Wong, Minister for Climate Change and Water and Hon Peter Garrett MP, Minister for the Environment, Heritage and the Arts, 13 May 2008, p. 121.

- making every school a 'solar school' within eight years.¹⁰

1.24 The Department also noted that the COAG Energy Efficiency Sub-Group is looking to accelerate energy efficiency measures to ensure a nationally consistent approach to climate change.¹¹

Renewable Energy

1.25 Renewable energy is another plank in the government's climate change strategy. The policy document *Labor's 2020 target for a renewable energy future* states that the government will:

- ensure that by 2020, at least 20 per cent of Australia's electricity supply – or approximately 60,000 GWh – is generated from renewable sources, equivalent to the electricity used in 7.5 million homes;
- significantly increase the Mandatory Renewable Energy Target (MRET) to 45,000 GWh by 2020 to ensure that with existing renewable capacity, a 20 per cent target is reached;
- work cooperatively with state and territory governments to create a single national renewable energy scheme;
- phase out the renewable energy target from 2020 as emissions trading matures and prices become sufficient to ensure a mandatory renewable energy target is no longer required;
- establish a \$500 million national clean coal initiative to invest in advanced coal technologies to secure jobs and coal exports;
- establish complementary household energy efficiency measures to reduce energy use and keep overall energy bills as low as possible; and
- use Commonwealth revenue from emissions trading to assist low income households in the event of price increases flowing from measures to cut greenhouse gas emissions.¹²

Committee view

1.26 In this chapter the committee considered the wider climate change policy context. The committee notes that an emissions trading scheme will be the centrepiece of the government's climate change policy and that energy efficiency and renewable energy are being considered as complementary measures. The provisions and detail of

10 Department of Climate Change, Submission 11, p.1.

11 Department of Climate Change, Submission 11, p.1.

12 *Labor's 2020 target for a renewable energy future*, Election 2007 Policy Document, Kevin Rudd MP Federal Labor Leader, Peter Garrett MP Shadow Minister for Climate Change, Environment and Heritage and Senator Chris Evans, Shadow Minister for National development, Resources and Energy, October 2007, p. 10.

the energy efficiency bill and the issues raised during the committee's consideration of the bill are considered in detail in chapter two. The provisions and detail of the renewable energy bill and the issues raised during the committee's consideration of the bill will be discussed in chapter three.

1.27 The committee commends the intent of these bills, and has welcomed the opportunity its scrutiny has afforded to keep itself abreast of technical issues in emissions policy. It does not support, however, the passage of these bills in view of the fact that provisions contained in them are likely to be addressed in the far more comprehensive legislation which is due to be introduced later in 2008-09.

