



Our ref: TP/MM

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Senate Economics Committee
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Dear Sir/Madam

INQUIRY INTO THE NATIONAL MARKET DRIVEN ENERGY EFFICIENCY TARGET BILL 2007

Ergon Energy welcomes the opportunity provided by the Senate Economics Committee to comment to the Inquiry into the National Market Driven Energy Efficiency Target Bill 2007 (the Inquiry).

Background

Ergon Energy is a Queensland Government owned corporation which provides electricity services to approximately 600,000 residential and business customers across regional Queensland. The principal operating entities of Ergon Energy are Ergon Energy Corporation Limited an electricity network company and Ergon Energy Queensland an electricity retailer

Ergon Energy has one of the largest and most diverse electricity retailer authority areas in Australia, covering 97 per cent of Queensland, an area of 1.7 million square kilometres. Ergon Energy supplies power to the remotest corners of the State from Birdsville in the far South West to Thursday Island in the Torres Strait.

Ergon Energy is an active participant in the Australian environmental markets. Presently, Ergon Energy has a significant portfolio of both environmental certificates and rights that are derived from trading and entering into long term power purchase agreements with renewable and low emission energy generators. Our current generation portfolio qualifies under the existing mandated environmental schemes such as the Mandatory Renewable Energy Target (MRET) and the Queensland 13 % Gas Scheme. In addition, some of Ergon Energy's renewable and low emission generation portfolio is eligible for environmental rights that may be used to offer value-added products, to customers on a purely voluntary basis under schemes such as GreenPower.

The strong presence held by Ergon Energy across these mandated and voluntary environmental markets reflects Ergon Energy's commitment to the environment and the pursuit of mechanisms that promote emission abatement. Furthermore, Ergon Energy takes

an active role in identifying energy efficient solutions and demand side management options for our customers and the network more generally.

Position on Energy Efficiency

Ergon Energy believes the long term interests of consumers are best served by a comprehensive, national approach to climate change policy which addresses both carbon emissions and incentives for energy efficiency.

However existing climate change arrangements which aim to encourage emission abatement (e.g. the Commonwealth Mandatory Renewable Energy Target and 13 per cent Gas Scheme) and energy efficiency (e.g. Victorian Energy Efficiency Target and Residential Energy Efficiency Scheme) represent a highly disparate and fragmented approach to addressing the challenges of climate change. Furthermore there are numerous policies being pursued by both the Commonwealth and the States and Territories to encourage energy efficiency. For example, the mandatory auditing of the largest commercial and industrial users which is being pursued by both the Commonwealth and the States and Territories through the Commonwealth Energy Efficiency Options and Queensland Government's Smart Energy Savings Program. In addition the programs being initiated by the Victorian and Commonwealth Government's to roll out smart meters.

This fragmented approach imposes a premium on emissions abatement and energy efficiency well above least cost which is ultimately born by energy consumers and the wider community. Ergon Energy therefore supports the creation of a single national climate change scheme to ensure the least cost outcome.

The introduction of the national Emission Trading Scheme (ETS), which is currently being investigated by Garnaut Climate Change Review, will assist with the objectives of reducing greenhouse gas emissions by creating a clear, long-term carbon signal across all sectors of the economy (including energy). By placing a transparent and explicit price on carbon consumers will be incentivised to conserve energy and for producers to invest in cleaner energy technologies. The introduction of an explicit market-based carbon signal, complemented by an effective and efficient research and development policy, will assist with delivering an appropriate balance between the economic benefits of energy and protection of the environment.

However, it is acknowledged the ETS is unlikely to capture the full economic benefits associated with demand side strategies such as energy efficiency. Ergon Energy therefore supports a national approach to energy efficiency, provided it aligns with the same principles of the ETS and reducing emissions at the lowest cost to consumers.

The full economic and environmental benefits associated with energy efficiency will be of most value to the Australian economy when considered in a co-ordinated way with network demand management and greenhouse emission abatement. If energy efficiency is considered in isolation there is a significant risk the strategies adopted will deliver minimal benefits for consumers particularly when the associated costs of implementing and ensuring ongoing compliance are taken into account. These net costs will ultimately be borne by consumers.

Whilst a national approach is supported, Ergon Energy encourages the Committee to recommend the energy efficiency component of the Bill be deferred until after the following Commonwealth reviews have been completed:

- the Strategic Review of Climate Change Policies which will look at the current array of energy efficiency schemes;

- COAG sub-groups established to investigate energy efficiency and complementary measures;
- Ministerial Council on Energy's National Framework for Energy Efficiency; and
- completion of the Garnaut Climate Change Review.

Failure to do so, during the current state of flux on climate change issues, may result in another energy efficiency scheme which will lead to additional costs for retailers and ultimately consumers without any demonstrable increases in energy efficiency.

Demand Management & Other Energy Efficiency Programs

Energy efficiency is of most value when considered on a coordinated basis that is, in terms of network demand management and emissions reduction. Ergon Energy has implemented a number of programs designed to promote energy efficiency through education and community engagement. Recent initiatives include our "ClimateSmart Living Communities: pilot project which involves local councils, the Queensland Environmental Protection Agency and Ergon Energy. This program focuses on energy conservation starting with education in the schools.

It is Ergon Energy's view that the achievement of deep cuts to emissions through energy efficiency will require not only a price signal to end-users from a carbon constraint but also policies and incentives to encourage and institutionalise conservation measures. We feel that appropriate energy conservation policies would:

- recognise that there is a need to actively support and resource the adoption of energy conservation measures as a complementary element of an ETS;
- address potential uncertainties arising from fluctuating carbon prices for businesses with services and skills in energy efficiency. These would be aimed at preventing the experience of the MRET and GGAS initiatives where the collapse of REC (between 2005 and 2007) and NGAC prices resulted in a significant loss of skills and investment in the renewable energy and energy conservation sectors;
- ensure the harmonising of mandated energy efficiency schemes at state (e.g. VEET) and federal level ;
- ensure that energy conservation initiatives realise the synergies available from simultaneously addressing peak demand reduction and emission reduction; and,
- assist in ensuring the regulatory framework accommodates electricity distributors' pursuit of demand side initiatives in a carbon constrained policy environment.

Specific Comments on Energy Efficiency Bill

Ergon Energy is a strong proponent of the development and implementation of market based policy instruments that result in emission abatement. Ergon Energy considers that market based instruments offer greater efficiency and flexibility for both participants and regulators, compared to command style policies. However, great care needs to be exercised when determining the suitability of market based instruments for the policy context along with scheme design. This is primarily due to the challenge associated with scoping, implementing and maintaining an appropriate market based model which achieves a transparent, liquid and efficient market for tradable instruments. Along with allowing for efficient price discovery, efficient investment and risk management by market participants.

One of the key limitations of the proposed initiative is the truncated timeline for implementation. By fast tracking the implementation of this scheme it may result in a limited number of accredited energy efficiency activities and Energy Efficiency Certificates (EECs) during the initial years of the scheme. This will ultimately impact market liquidity and a retailer's ability to source EECs to meet its liability. It is therefore important that policy

decisions are made in a timely manner to deliver some degree of investment (and subsequent certificate creation) prior to or at commencement of the compliance period. This will assist in encouraging early identification of energy efficient solutions and ensuring a competitive supply of certificates at the start of the compliance period.

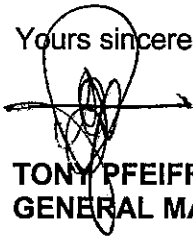
The National Market Driven Energy Efficiency Target Bill addresses only energy efficiency in the context of the electricity industry and fails to include the gas industry. With the development of the National Gas Market, the mandating of energy efficiency targets only in respect to electricity could be perceived as bias in the national energy market.

Based on retailer experience with State based scheme such as the NSW and ACT Greenhouse Gas Abatement Schemes the following factors must be taken into account:

- a clear methodology and high level of rigour for determining abatement value;
- the availability of default factors, which can be used to support new projects where the retailer chooses not to complete full engineering audits; and
- the overall administrative costs associated with developing and maintaining compliance with the scheme.

Please do not hesitate to contact me on 07 3228 7711 if you require any further information in relation to this matter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'TONY PFEIFFER', is written over a horizontal line. The signature is somewhat stylized and overlaps the line.

TONY PFEIFFER
GENERAL MANAGER - REGULATORY AFFAIRS