



Rob Hansen
Research Director
Environment and Resources Committee
Parliament House
BRISBANE QLD 4000

Email: erc@parliament.qld.gov.au

14 August 2009

RE INQUIRY INTO ENERGY EFFICIENCY IMPROVEMENTS

Dear Rob,

AGL welcomes the opportunity to provide comment to the Environment and Resources Committee of the Queensland Parliament in relation to the inquiry into Energy Efficiency Improvements. AGL commends the Queensland Government's leadership in advancing energy efficiency through various initiatives such as the Climate Smart and Smart Energy Homes Programs and for undertaking this inquiry. Energy Efficiency measures complement the proposed Carbon Pollution Reduction Scheme (CPRS).

AGL is an active participant in the energy efficiency market, delivering initiatives to our valued customers and the wider community throughout Australia.

AGL supports the development of a National Energy Efficiency Target to build on the leadership shown by New South Wales, Victoria and South Australia in implementing State-based mandatory compliance measures. However in the absence of a national scheme, AGL continues to call for consistency across all state based schemes and initiatives.

Should you have any questions or comments on the submission attached, please contact either Maria Androutsopoulos, Manager Policy and Commercial Innovation on (03) 8633 6581 or at mandroutsopoulos@agl.com.au or myself on (02) 9921 2516 or at tanelson@agl.com.au.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Tim Nelson', is written over a light grey, stylized background graphic that resembles a leaf or a flame.

Tim Nelson
Head of Carbon and Sustainability

- > Being selected as a member of the Dow Jones Sustainability Index 2006/07
- > Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit
- > Being selected as a constituent of the FTSE4Good Index Series

AGL SUBMISSION TO THE ENVIRONMENT AND RESOURCES COMMITTEE OF THE QUEENSLAND PARLIAMENT IN RELATION TO THE INQUIRY INTO ENERGY EFFICIENCY IMPROVEMENTS

1. Introduction

AGL Energy (AGL) is Australia's leading energy company. We operate across the supply chain and have investments in energy retailing, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction. AGL is an active participant in the energy efficiency market, delivering initiatives to our valued customers and the wider community throughout Australia via our Sustainability Services Team and the AGL Assist network. This experience and the diversity of our portfolio have allowed AGL to develop a detailed understanding of energy efficiency.

AGL is Australia's largest retailer of gas and electricity with over 3 million customers in New South Wales, Victoria, South Australia and Queensland. AGL has significant investments in upstream energy markets. We own and operate 645 MW of hydroelectric power generation assets, the 95 MW and 71 MW Hallett wind farms, the Torrens Island gas-fired power station (1280 MW), the Somerton gas-fired peaking power station (150 MW) and a number of landfill gas, biogas and biomass generation facilities. AGL also has a 32.5% equity investment in the Loy Yang A power station. We are currently constructing new hydro and wind assets and developing one of Australia's largest pipelines of renewable projects.

Set out below are AGL's comments on the issues raised in Paper No 1. This information should be treated as confidential.

2. Integration with Other State Based Initiatives

AGL supports the development of a National Strategy for Energy Efficiency and more specifically a National Energy Efficiency Target to build on the leadership shown by Victoria, South Australia and New South Wales in implementing State-based measures. However, in the absence of a national scheme, AGL continues to call for consistency across all state based initiatives. A nationally consistent approach to energy efficiency is required to ensure transactional costs associated with the delivery of energy efficiency are minimised.

3. Questions raised in Paper No 1

3.1 What have been the economic and environmental costs and benefits of energy efficiency initiatives in Queensland?

Energy efficiency costs and benefits have been studied extensively for many years. The potential of energy efficiency is best summarised by the Climate Institute policy options paper dated October 2008.

Statistics show that residential energy use has fallen in Queensland, indicating that Queensland Initiatives in this area have been successful. AGL customers have indicated that the impact of initiatives such as the Smart Energy Homes initiative could have been far greater if they had been better publicised and explained by the Government. In this context, AGL believes that overcoming information barriers is a key way in which greater benefits can be delivered.

AGL believes it is important to distinguish between energy efficiency and energy conservation. Energy efficiency relates to ensuring that allocative (pricing) efficiency is achieved. In other words, energy use occurs where the marginal social benefit exceeds the marginal social cost. Energy conservation relates to initiatives designed to reduce energy consumption even where there is a net social benefit. AGL strongly supports energy efficiency but does not support initiatives designed to reduce consumption of energy where there is a net social benefit.

Table 1 outlines some examples of the annual energy savings that can be achieved by households through relatively simply energy saving opportunities.

Table 1: Household Energy Efficiency Opportunities¹	
Energy Saving Opportunity	Annual Energy Saving
Reduction in standby power (selection of appliances)	\$82
Conversion of electric off peak storage water to gas storage (when replaced)	\$312
Conversion of electric reverse cycle heating to gas heating	\$22
Conversion of portable oil filled column heater with natural gas	\$144

It is clear that many activities are cost effective in their own right today such as a reduction in standby power consumption. However, the fact that they are not occurring indicates that it is not pricing which is preventing an efficient use of energy. It is other non-price barriers such as split incentives and information asymmetry.

3.2 What role do Government initiatives including the proposed Carbon Reduction Scheme, play in encouraging energy efficiency?

Government initiatives play an important role in encouraging the uptake of energy efficiency. While the Carbon Reduction Scheme (CPRS) will internalise the costs of greenhouse gas emissions, it will not overcome the information barriers currently preventing an efficient level of energy consumption (as outlined above).

Government Initiatives should largely centre on education and funding for the deployment of energy efficiency. Clear consistent messages are required about how to improve energy efficiency to overcome non-pricing barriers. In Australia we are now beyond the "Why Energy Efficiency is important?" and Government education must centre on "How we can be more efficient?".

The Queensland Government should seek to streamline existing policies and initiatives. Focus should be on education and ensuring that initiatives are not so complicated that they prohibit uptake. Currently there are so many energy efficiency messages and requirements for residential, commercial and industrial customers that it is simply too confusing.

Queensland Government Policies should target well defined non-pricing market failures that are unlikely to be addressed by the CPRS and which are likely to be overcome by additional government intervention. These measures should be complementary to the CPRS by unlocking socially cost effective carbon pollution reduction opportunities across all sectors.

3.3 What barriers and impediments to energy efficiency enhancements exist in Queensland and What policies should be considered to overcome these barriers and impediments?

The barriers and impediments to energy efficiency have been discussed at large by many and AGL would direct the Committee to studies conducted by MMA 2008a, Allen Consulting Group 2008, Allen Consulting Group 2004. There is no need to examine these other than to reinforce that the barriers and impediments listed in Issues Paper No1 are all relevant for Queensland. In addition however, AGL highlights price regulation as a key barrier to the uptake of broader energy efficiency in the home.

¹ Source: Sustainability Victoria

As result of the way in which the price of energy has been regulated, small consumers and retailers have had few incentives to improve energy efficiency. For energy retailers price regulation provides little incentive to offer innovative energy efficiency services to their customers as price regulation prevents retailers from recovering all costs associated with such initiatives. Furthermore, energy tariffs are not cost reflective, thereby inhibiting customer motivations to invest in energy efficiency. In order for energy efficiency policies to be effective, the regulation of retail energy prices should be abolished.

In looking at cost-effective measures to improve energy efficiency there is no single policy solution to addressing barriers and improving energy efficiency. A national multi-component policy approach, with both targeted and complementary government policy action is required to realise the full economic potential of energy efficiency. The most successful approach will involve a suite of interrelated policy measures, including building regulations and appliance standards, education campaigns and fiscal incentives via market mechanisms. A market based Scheme will allow business to respond by finding the most efficient, least cost pathway to deploy energy efficiency initiatives.

The provision of information represents one of the main sources of market failure for improving energy efficiency. In order to ensure the diffusion of accurate and consistent energy efficiency information the Australian Government should have primary responsibility for the collection and distribution of data on energy efficiency. State governments such as the Queensland Government should then tailor and distribute the consistent information for their jurisdiction.