

Energy Savings Initiative

Under the [Clean Energy Future Plan](#) the Australian Government committed to do further work to investigate the merits of a national Energy Savings Initiative (ESI). An ESI is a market-based tool for driving economy-wide improvements in energy efficiency. It would place obligations on energy retailers to find and implement energy savings in households and businesses. An ESI would help consumers to save money by encouraging the identification and take-up of energy efficient technologies.

Schemes currently operate in New South Wales, Victoria and South Australia and one is planned to commence in the Australian Capital Territory in 2012. The further work under the [Clean Energy Future Plan](#) will explore the costs and benefits of replacing existing and planned schemes with a national scheme, including whether this would reduce complexity and duplication, and allow energy consumers in states without existing schemes to benefit. ESI schemes also operate in many European countries and the United States, often alongside and complementary to a carbon price. India has introduced a white certificate trading scheme and a number of Chinese provinces are finalising the design of such schemes.

The [Clean Energy Future Plan](#) states that the further work on a national ESI will be 'the subject of detailed policy analysis, economic modelling and consultation with the community, industry and state and territory governments'. The commitment outlines a number of key policy issues that the design work will consider:

- the annual targets that would apply
- sectoral and fuel coverage issues
- energy savings activities to be considered eligible activities, and
- how a smooth transition from state-based schemes could be managed.

Further, any national scheme would need to:

- have broad coverage (that is, residential, commercial and industrial sectors), and
- create an incentive or a requirement to create certificates in both low-income households and in ways which reduce peak demand.

Subject to the findings of economic modelling and regulatory impact analysis, the Australian Government will make a final decision to adopt a national ESI. A national scheme would be conditional on the agreement of the Council of Australian Governments and the abolition of existing and planned State schemes.

The commitment within the CEF plan formed part of the Australian Government's response to the report of the Prime Minister's Task Group on Energy Efficiency. The Task Group recommended the 'introduction of a transitional national energy saving initiative to replace existing and planned state energy efficiency schemes, subject to detailed consultation on design, in the [Task Group's final report](#).

The Energy Savings Initiative Working Group and Advisory Group

In line with the commitment made in the [Clean Energy Future Plan](#), the Australian Government has established an ESI Working Group to lead the further work, comprising senior officials from the Department of Climate Change and Energy Efficiency and the Department of Resources, Energy and Tourism.

The ESI Working Group will:

- draw together the experiences and lessons learned from Australian and international energy savings schemes
- commission economic and energy market modelling, and
- undertake comprehensive consultation with state and territory governments, industry and the community.

The ESI Working Group will provide a progress report to the Australian Government in the first quarter of 2012.

The ESI Working Group's [terms of reference](#) and key dates of its [work program](#) are available. The terms of reference reflect the Working Group's focus on a thorough cost benefit analysis of a national ESI. The scope of this work includes consideration of: any employment opportunities and skills needs associated with an ESI; changes to the distribution of regulatory burden; the treatment of early movers and the clear and smooth transition of arrangements from existing schemes; whole-of-economy effects of shielding specific sectors from price impacts; and Australia's international competitiveness.

The ESI Working Group's investigations are being assisted by an [Advisory Group](#) comprising state and territory government officials and representatives of peak industry groups, energy market organisations, and environmental, union, community and welfare organisations.

Terms of reference

1. The Energy Savings Initiative Working Group ('the ESI Working Group') will prepare a report for the Minister for Climate Change and Energy Efficiency and the Minister for Resources and Energy on possible design options for a national Energy Savings Initiative (ESI, or 'white certificate scheme').
2. In preparing its report, the ESI Working Group will consider and advise upon possible design options for a national ESI that would:
 - a. be economically efficient and environmentally effective
 - b. complement the carbon pricing mechanism and the Renewable Energy Target (RET), in line with the Council of Australian Governments' Complementarity Principles (Attachment A)
 - c. be capable of delivering energy efficiency improvements at least as great as those being delivered by the New South Wales Energy Savings Scheme (ESS), the Victorian Energy Efficiency Target (VEET) and the South Australian Residential Energy Efficiency Scheme (REES)
 - d. complement wider Australian energy market development objectives, including effective retail competition; efficient network regulation; and increasing efficient demand-side participation;
 - e. be capable of supporting the deployment of a broad spectrum of technologies, and

- f. be capable of delivering energy efficiency improvements across all sectors, including the commercial, industrial and residential sectors.
3. The ESI Working Group will also consider and advise upon options for using a national ESI to create an incentive or requirement to undertake energy efficiency improvements in low income homes, and in ways that reduce peak electricity demand.
4. The ESI Working Group will also consider how a national ESI could streamline the delivery of energy efficiency improvements by replacing existing white certificate programs.
5. The ESI Working Group will consider and advise upon possible implementation arrangements for a national ESI, including arrangements for ensuring a smooth transition from existing state-based schemes.
6. In considering possible design options, the ESI Working Group may examine:
 - a. lessons learned from existing state and territory energy efficiency programs, including the ESS, the VEET and the REES
 - b. international energy efficiency programs, trends in energy efficiency policy, and recommendations of foreign and international organisations, such as the International Energy Agency
 - c. impacts and interactions between a national ESI and:
 - i. the carbon price mechanism
 - ii. the RET
 - iii. the National Electricity Market, South West Interconnected System and other relevant energy markets, and
 - iv. other regulatory obligations including, but not limited to, the National Greenhouse and Energy Reporting Scheme, the Energy Efficiency Opportunities program and the Greenhouse and Energy Minimum Standards scheme.
 - d. the co-benefits of certain energy efficiency improvements, including reductions in non-greenhouse gas air pollution, health benefits, improved energy security, reduced energy costs for households, and infrastructure savings.
7. In considering possible design options, the ESI Working Group must examine the views and ideas of experts, and key stakeholders including representatives of the energy industry, end users, states, territories, industry, environment and community groups.
8. The ESI Working Group will release one or more Issues Papers in 2011 and, before the end of March 2012, will present its report that updates the Minister for Climate Change and Energy Efficiency and the Minister for Resources and Energy on possible design options that warrant more detailed consideration.

Attachment A—Council of Australian Governments' Complementarity Principles

Complementary measures should be assessed against the following principles.

1. The measures are targeted at a market failure that is not expected to be adequately addressed by the carbon price mechanism or that impinges on its effectiveness in driving emissions reductions. 'For example, research and development failures, common use infrastructure issues, information failures and excess market power.'

Complementary measures should adhere to the principles of efficiency, effectiveness, equity and administrative simplicity and be kept under review. They may include:

- a. measures targeted at a market failure in a sector that is not covered by the carbon price mechanism
 - b. measures for where the price signals provided by the carbon price mechanism are insufficient to overcome other market failures that prevent the take-up of otherwise cost-effective abatement measures
 - c. measures targeted at sectors of the economy where price signals may not be as significant a driver of decision making (for example, land use and planning)
 - d. some measures in (a) or (b) may only need to be transitional depending on expected changes in coverage or movements in the carbon price.
2. Complementary measures should be tightly targeted to the market failure identified in the above criteria that are amenable to government intervention. Where the measures are regulatory they should meet best-practice regulatory principles, including that the benefits of any government intervention should outweigh the costs.
 3. Complementary measures may also be targeted to manage the impacts of the carbon price mechanism on particular sectors of the economy (for example to address equity or regional development concerns). Where this is the case, in line with regulatory best-practice, the non-abatement objective should be clearly identified and it should be established that the measure is the best method of attaining the objective.
 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. In determining this, consideration should be given to which level of government has responsibility as defined by the Constitution or convention/practice, the regulatory and compliance costs that will be imposed on the community, and how the delivery of the measure is best coordinated or managed across jurisdictions.