

TREASURY EXECUTIVE MINUTE

Minute No
10/2764
26 October 2010

Deputy Prime Minister and Treasurer

TASK GROUP REPORT ON ENERGY EFFICIENCY [s 22]


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the Task Group's terms of reference it notes that 'while the illustrative analysis results need to be treated with great caution, they do provide a strong case for further detailed consultation, analysis and comprehensive modelling of a national energy savings initiative.'

- We believe that with alternative assumption it is possible that modelling will show that an ESI will result in higher electricity prices and a very small amount of abatement.
 - A letter to Minister Combet requesting a sensitivity analysis of the ESI is attached.
- Given the concerns that we have with the modelling, we recommend that further sensitivity analysis of the costs and benefits of the ESI is required prior to the Government response to the Report being finalised.

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ADDITIONAL INFORMATION

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Modelling of the Energy Savings Initiative

- Indicative modelling presented in the Report predicts a significant net economic benefit if an ESI is introduced. This is largely due to a reduction in wholesale and retail electricity prices compared to a case with no ESI.
 - However, we do not have confidence in the modelling results. We are concerned that the predicted net economic benefit is largely the result of favourable assumptions regarding opportunities for low cost energy efficiency improvements. These assumptions are not clearly explained and the modelling results are likely to be highly sensitive to the assumptions.
- The significant net economic benefits presented in the modelling imply the existence of large negative cost energy efficiency options and very significant market failures throughout the economy. We consider this to be very unlikely.
- Experience suggests that energy efficiency schemes have resulted in the pass-through of *increased costs* associated with complying with the respective state-based ESI equivalent schemes — contradicting the indicative modelling contained in the Report.
 - For example, the NSW regulator has allowed for an electricity price increase of \$0.70 per MWh in 2010-11, \$1.10 per MWh in 2011-12 and \$1.40 per MWh in 2012-13 to take account of complying with the ESI-like scheme. This equates to a price increase of between \$5 and \$10 per year for the average household.
 - In South Australia the regulator notes that cost pass throughs associated with the state-based energy efficiency scheme have contributed approximately \$13.50 to a typical residential electricity bill in 2009-10.
 - : The total financial impact of an ESI for the average household will ultimately depend on its ambition and design.

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- The Report recommends that ‘while the illustrative analysis results need to be treated with great caution, they do provide a strong case for further detailed consultation, analysis and comprehensive modelling of a national energy savings initiative.’

Further sensitivity analysis of the Energy Savings Initiative

- The modelling of the ESI, conducted by McLennan, Magasanik and Associates (MMA), assumed a 100 per cent take-up rate for cost-effective energy efficiency opportunities. Sensitivity analysis would relax this assumption, testing scenarios with a less than complete take-up.

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- Placing a price on carbon is the most significant economic reform that the Government can undertake to achieve improvements in energy efficiency.
 - The introduction of a carbon price provides increased private incentives for households and businesses to invest in energy saving devices and to make behavioural changes to reduce their electricity bills.

Costs

- A number of the recommendations in the report would have a significant cost to the budget. At time of consideration the foundation recommendations had the following indicative costs:
 - \$30 million for the Energy Savings Initiative;
 - \$75 million for the Innovation, data and analysis; and
 - \$250 million for the Strategy to build a culture of energy efficiency.
- It was originally intended that the measures recommended by the Task Group would be funded as part of the Renewable Energy Future Fund (REFF). However, funding under the REFF is fully allocated, meaning a significant impact on the budget if offsets are not found.

BACKGROUND ON TASK GROUP REPORT

The Prime Minister's Task Group on Energy Efficiency (Task Group) was tasked with reporting to the Minister for Climate Change, Water and Energy Efficiency and the Minister for Resources and Energy on options for introducing mechanisms to deliver a step-change improvement in Australia's energy efficiency by 2020 and place Australia at the forefront of OECD energy efficiency improvement.

The Task Group makes five key recommendations with the aim of achieving the above goals:

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Dear Minister

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Yours sincerely

WAYNE SWAN