



Australian Government

Department of Industry

Encouraging Energy Efficiency Activity in Australian Industry: Removal of unnecessary regulation

Regulation Impact Statement

Executive Summary

Reason for action: Since 2006, the Energy Efficiency Opportunities (EEO) legislation and its implementing program, the Energy Efficiency Opportunities Program, have required large energy using businesses to assess their energy use and identify cost-effective energy savings opportunities. This program addresses information barriers and organisational impediments to the identification and implementation of cost-saving energy efficiency opportunities.

Rising energy prices and the improvement of internal energy management processes have reduced the need for the EEO legislation. Repealing the legislation would reduce the compliance costs of the 464 participating businesses by over \$17 million per year.

Desired Objective: The government is committed to the repeal of unnecessary regulation of Australian industry, where that regulation duplicates other regulated or market driven activity. This includes the reduction or removal of legislation where businesses or market forces have developed over time to achieve the same or better outcomes than the existing legislation, and the use of alternate voluntary measures to achieve similar outcomes.

Options Considered: The Department of Industry has analysed the costs and benefits of a range of options to reduce the regulatory burden on businesses. These range from retaining a business as usual EEO Program, a streamlined program based on the EEO and an option for complete deregulation with program material being available should businesses wish to access it.

Assessing Options: The options were assessed against a number of criteria, with the benefit of improved energy productivity for Australian industry, the community and the Australian economy as a key consideration. Measures were also assessed for their complementarity with the government's direct action approach to emissions savings. All options were also assessed for their regulatory impact on business. This assessment is summarised on page 15.

Preferred Option: The Government has decided on its preferred option – the repeal of the Energy Efficiency Opportunities legislation – in order to remove compliance burden on businesses with program material being available should businesses wish to access it.

Evidence from survey and evaluations show that a number of businesses that have developed appropriate energy management practices that deliver the same outcomes as the legislation. Repealing the legislation removes the duplication of efforts and cost that could be better focussed on other areas of the business to promote greater overall productivity. Removing the compliance burden that the legislation imposes will have significant benefit to Australian businesses.

Consultation: The assessment of options has been informed by extensive stakeholder discussions over the life of the EEO Program including in relation to the program review. Additional feedback has been provided through the Energy White Paper and Emission Reduction Fund consultation processes.

Implementation: Repeal of the EEO legislation would be undertaken immediately to ensure the minimum elapsed time between the decision to cease the compliance with the requirement to no longer legally comply with the legislation, due to its repeal. The materials that support the delivery of the program would continue to be available to participants via the program website for a period of time, should stakeholders wish to access them.

1. Introduction

While the benefits of energy efficiency are well recognised, its role in driving productivity improvements is often overshadowed by the more traditional focus on labour and capital productivity. However, rising energy prices have seen energy efficiency emerge as an increasingly important enabler of economic growth.

The 2013 Full Cycle Evaluation (FCE) of the Energy Efficiency Opportunities (EEO) Program undertaken by ACIL Tasman supports the finding that information asymmetries and split incentives within and across firms create barriers to the identification and implementation of energy saving opportunities. The report also showed that corporations found government regulation to have been beneficial in providing a structure and framework for companies to embed energy management systems, through which information and data were used for energy efficiency.

However, respondents to a stakeholder consultation for the FCE indicated that reporting and complying with a multitude of overlapping regulations, both State and national, took too much time and inhibited energy efficiency activity, and implementation of opportunities specifically. This was more evident where market forces were the key driver of energy efficiency activity in businesses. The majority of respondents also noted that EEO, should end immediately as it had improved their internal process to drive energy efficiency and the cessation of the program would reduce compliance costs.

The FCE also noted that the additional impact of the EEO Program would decrease significantly with only 25 percent of the energy efficiency improvements across industry attributable to the EEO Program in the second cycle compared to 40 percent in the first cycle.

The Energy Efficiency Opportunities Program has been successful in its objectives to raise awareness of and embed energy efficiency practices in Australian industry since 2006. Through its application businesses have built up a bank of energy efficiency projects which can be considered based on current energy prices and specific circumstances. With energy prices driving companies to use energy more efficiently and the increased capacity to respond embedded in industry, the government considers this program, underpinned by the EEO legislative framework, to be no longer required.

1.1 Legislation Requirements

The EEO legislation places a regulatory requirement on businesses to assess their energy use, identify potential energy savings opportunities and report publicly on the results of these assessments. The business investment decision on the opportunities identified remains at the discretion of the business.

Corporations that use more than 0.5 PJ in a financial year are required to participate. Energy transmission and distribution businesses are excluded from mandatory participation.

Practical requirements of EEO on Australian corporations

Register to participate

- All corporate groups whose total energy use exceeds 0.5 PJ per year must register with the EEO Program
- Registration is required within 9 months of the end of the first financial year when corporate energy use is above the 0.5 PJ threshold (the trigger year)
- Corporations only need to register once (corporations can seek deregistration if their circumstances change)

Assessment Plan

<p>Practical requirements of EEO on Australian corporations</p> <ul style="list-style-type: none"> Registered corporations must submit a compliant Assessment Plan within 18 months of the end of the trigger year The Assessment Plan details how corporations will comply with the requirements of the EEO Assessment Framework
<p>Undertake assessments and evaluate opportunities</p> <ul style="list-style-type: none"> In the 1st 5-year cycle, at least 80 per cent of the corporation's total energy use must be assessed the Participating corporations are required to identify and evaluate energy saving opportunities There is no obligation to implement any identified opportunities
<p>Public Reports</p> <ul style="list-style-type: none"> Must be presented to and signed by the Board by 31 December each year and published on the corporation's website A standard template is available, but corporations are able to report in their own format as long as they provide all the information specified in the Regulations (most corporations use the template)
<p>Government reports</p> <ul style="list-style-type: none"> Similar to the public report, but with more commercial information (costs, net financial benefits, energy savings by fuel type, etc.) Two are required over the 5-year EEO cycle, within 6 months of the end of the second and fifth years of the EEO cycle
<p>Verification</p> <ul style="list-style-type: none"> Corporations may be subject to a desktop or full verification of their compliance with their agreed Assessment Plan and the veracity of the data provided to Government.

EEO corporations are required to accurately measure their energy use to ensure a compliant EEO assessment, however this is an existing requirement for corporations due to the National Greenhouse Energy Reporting Scheme (NGERS). Depending on the type of business, some EEO corporations will use NGERS data to feed into their EEO reporting and some will do separate reporting for NGERS and EEO. This depends on the type of business, with the oil and gas sector and sites with self-generation more likely to do separate reporting and the manufacturing sector more likely to use NGERS for EEO purposes.

2. What is the problem?

The EEO Program and legislation are no longer needed. The program has successfully embedded energy management practices in many of the companies it covered. Rising energy prices have also driven companies to consider or implement actions to reduce energy use. As a result, the rationale or justification for the program is no longer the same as when it commenced. Further, the Government has made a strong commitment to removing the red-tape burden on businesses.

2.1 EEO Program Evolution

The EEO Program was announced in 2004, contributing to the Australian Government's 2004 Energy White Paper. It would require legislation to give effect to the policy objective of increasing energy efficiency in Australia's largest energy users. The White Paper's long-term objective was stated as:

... a secure and environmentally sustainable energy supply to support economic growth.

The White Paper also stated that improving Australia's energy efficiency performance was a high priority for government as energy efficiency had improved at less than half the rate of other countries and improved energy efficiency had the potential to increase economic welfare. It referred to the following impediments preventing the optimal uptake of energy efficiency in Australia:

- Price signals and market arrangements that do not fully value the benefits from energy efficiency, either as a mechanism for addressing greenhouse emissions or reducing energy demand in response to higher prices
- Arrangements where energy users do not control their own costs, and have little incentive to manage energy use effectively
- A lack of information about energy efficiency opportunities and cultural barriers within corporations, resulting in decision makers being unaware of potential commercial opportunities

Targeted industry consultation was held following the white paper's release with many companies recognising the potential for new energy efficiency opportunities, particularly when it could be linked to other changes in the business, such as capital upgrades and improvements to operational processes.

In 2005, the Productivity Commission inquiry into the private cost-effectiveness of improving energy efficiency found that:

The most important barriers to the adoption of privately cost-effective energy efficiency improvements appear to be a failure in the provision of information; ... and the different incentives facing those who take decisions about installing energy-efficient products and those who might benefit from using them ... Some government intervention to address these problems is appropriate.

The Productivity Commission also had strong in-principle reservations about EEO in that the program's targeting of high energy users, as opposed to inefficient energy users, was counter-intuitive and counter evidentiary on the basis that energy intensive businesses already have a strong incentive to use energy efficiently.

At the time of the development of the EEO legislation there was no national regulation relating to driving energy efficiency improvements. Some state-based mechanisms were in place but these were largely voluntary and were not designed to work in harmony with each other. Some states had no regulation that impacted commercial or industrial businesses.

The EEO legislation and implementing program were therefore developed to address the information failure barrier, based on experience from voluntary energy efficiency programs (Energy Efficiency Best Practice, Greenhouse Challenge Plus). It was intended to address the gap between best practice and actual energy efficiency practices, increasing the uptake of privately cost-effective energy efficiency opportunities that would otherwise be overlooked. The regulation impact statement that informed the EEO legislation identified that the previous voluntary scheme, Energy Efficiency Best Practice, found that information failures and organisational barriers were inhibiting the identification and implementation of energy efficiency in Australian industry¹.

The design of the program was intended to improve access within corporations to information on cost-effective energy efficiency practices and to move energy efficiency investment up the priority list for consideration by company management. Section 3(1) of the EEO Act states that the object of the EEO Program is:

¹ Energy Efficiency Opportunities Program Regulation Impact Statement - August 2005

... to improve the identification and evaluation of energy efficiency opportunities by large energy using businesses and, as a result, to encourage implementation of cost-effective energy efficiency opportunities.

Participation in the EEO Program is mandatory for large energy using corporations that use more than 0.5 petajoules (PJ) of energy per year which account for approximately 60% of Australia's energy use.

Key Dates:

- Legislation and Program enacted in 2006
- First tranche of registered companies completed first assessment cycle on 30 June 2011
- Legislation extended to cover electricity generators from 1 July 2010.
- Legislation extended to a second cycle in the context of the 2010 Clean Energy Futures Package
- Legislation expanded to transmission and distribution networks and new development (greenfield) projects in the context of the 2010 Clean Energy Futures Package
- Extension of time granted till 2013 for expansion projects to conduct real world trials
- Regulatory Impact Statement showed expansion to networks was not cost-effective. Government agreed that other measures, such as changes to the market rules, could deliver efficiency outcomes. Expansion cancelled July 2013
- Inclusion of new development and expansion projects from 1 July 2013
- In December 2013, funding for the EEO Program terminated from 2013/14, with the announcement that the program would not continue in its current form. The legislation remained in force.
- Consultation on the EEO Program occurs as part of the Energy White Paper consultation process

2.2 Program Outcomes

The EEO Program's effectiveness has been measured by two independent reviews, the 2010 EEO Program Mid-cycle review report (Environmental Research Management Australia Pty Ltd)and the 2013 Full Cycle Evaluation (ACIL Tasman). Corporation self-assessments also provide significant insight into the changes within corporations since 2005.

Effectiveness of the program was defined in the Full Cycle Evaluation as:-

- Contributing to improved energy management
- Reduction of relevant barriers to energy efficiency
- Participating corporations have an increased level of uptake of cost-effective energy efficiency options beyond the level of energy savings that would have occurred in the absence of the EEO Program

The Energy Efficiency Opportunities Program has produced positive results for Australian industry.

- Between 2006 and 2011, large energy users participating in the program adopted energy savings of over five per cent, representing almost one and a half per cent of Australia's total energy use, and delivering net additional financial savings of over \$323.2 million per year in the first cycle².

In the program's full cycle evaluation it was estimated that the EEO Program was responsible for approximately 40 percent of the energy efficiency improvements in the Australian industrial sector over the first cycle of the program. The total net financial benefits were \$808 million per year of which 40 percent is \$323.2 million.

² Energy Efficiency Opportunities Program, *The First Five Years: 2006–11 – Overview*, Department of Industry

The full cycle evaluation's additionality analysis of the impact of the EEO Program on the identification of energy efficiency opportunities was derived from a review of studies conducted by BREE, George Wilkenfeld and Associates with others for the National Framework on Energy Efficiency (Wilkenfeld), The report estimated the additionality was in the order of 40%, however, it also notes that estimation of additionality is challenging due to:

- Inability to conduct the preferred time series approach to analysis (due to the short timeframe);
- recently emerged background trends (increasing awareness of energy productivity, rising energy costs) that made confident attribution of energy savings to the EEO Program difficult.

Energy efficiency understanding, focus and management have improved in most target corporations since the EEO Program commenced. There was an increase in the use of all eleven energy management approaches surveyed as standard practice between 2005 – before the EEO Program started – and 2012^[2]. Four practices including energy efficiency in plans, staff engagement and data availability and use were reported to be standard practice by more than fifty per cent of respondents. Less than ten per cent of respondents reported that these were not practiced. Six of the remaining seven approaches were reported to be standard practice by at least a third of respondents. This indicates that capability has significantly improved in corporations.

There was also a reduction in nearly all barriers to the uptake of cost-effective energy efficiency opportunities between 2005 and 2012. Barriers, relating to information, skills and organisational practices, all specifically targeted by the EEO Program, were reported to be significantly reduced. However, capital and non-capital barriers to implementation have not declined as much over the period and in some cases have increased.

Over the first five year cycle, which ended in 2010-11, corporations reported through public and government reports that they had identified a possible \$1.2billion of energy savings opportunities. An independent assessment of the impacts of the EEO Program conducted as part of the full cycle evaluation^[3] found that 40 per cent of these identified opportunities could be attributed directly to the EEO Program and therefore were *additional* to what would have otherwise been achieved in the absence of the program.

Corporations have reported that energy efficiency opportunities and savings have resulted from equipment upgrade, system optimisation and process improvements. The significant opportunities information provided by corporation in their annual reports to the public provide further details of these opportunities and can be located on the [EEO Program's website](#).

The program focused on breaking down information barriers and effecting behaviour change within business. To overcome these failures the program focused on six key elements: leadership, people, data and analysis, evaluation, decision making and communication. An increase in energy prices can place additional focus on reducing energy use, which can motivate leadership to become more interested in energy productivity, which over time can drive the other key elements. However, increases in energy prices do not necessarily mean a business has the appropriate people, with skills and experience relevant to improving energy productivity, or the ability to collect good quality data required to immediately identify energy productivity improvements.

The improvements made in energy productivity management processes by many EEO companies over the last 5 year cycle demonstrate that corporations do take time to develop effective systems and processes to appropriately manage energy costs. Many companies have improved these processes through EEO because of energy price cost concerns. It is likely that corporations will continue to develop energy management

^[2] Energy Efficiency Opportunities Program Review: End of First Full Five Year Cycle Evaluation, ACIL Tasman, 2013

processes of their volition; however, there is some risk that some corporations may not have the ability to respond quickly to a sharp rise in energy costs, such as a rise in gas prices which may occur due to overseas demand.

The EEO legislation addressed perceived market failures by requiring participating corporations to conduct assessments of their operations. The manner of this assessment was guided by a framework, which ensured that the key elements of consideration were addressed. The outcome of these assessments – for each corporation – was a list of opportunities to improve energy efficiency within the business. Each opportunity had an energy saving amount, cost, and payback period associated with it. The final decision on whether to implement an opportunity resided at all times with the corporation.

There is no data available on the link between energy productivity and energy cost; however informal departmental consultation during the administration on the EEO Program with transient industries such as the mining industry has demonstrated that when energy prices are low and resource prices are high, energy costs are not considered, because the profits from greater export volumes far exceed the increased energy costs. When energy prices are high and the resource price is low the focus changes to minimising all operating costs, including energy costs. The threshold between energy and resource price ratio which drives improvements in energy productivity could be calculated, however it varies for each industry and has not been included in this analysis.

2.3 Changes in the economic environment

Since the commencement of the EEO Program in 2006, drivers of energy efficiency activities within large energy using businesses have changed. These changes are due to external factors, such as: rising energy costs and market conditions; corporations' own initiatives; and the legislated requirement to comply with the EEO Program.

Additionally, there are a range of State and Territory, as well as federal, legislative programs that focus on achieving similar outcomes. This is inconsistent with the government's focus on removing unnecessary compliance measures, to allow companies to get on with their business rather than focussing on red tape. The legislation has not kept pace with the drivers of energy productivity activity.

The Government considers that improving energy productivity in Australian industry is important. . The Hon Ian Macfarlane MP, Minister for Industry, has noted that "Energy efficiency measures, in particular, can contribute to our priorities in achieving productivity improvements. Extracting better value out of the energy we produce and use can play a key part in driving the future growth of the economy, as well contribute significantly to abatement."³ If businesses use their energy more effectively we will see a more competitive and productive market that benefits all Australians.

With this changing context, the EEO Program may not be the most appropriate vehicle in which to promote industrial energy efficiency. It is also important to define the appropriate role of government in this space. The Government will continue to cooperatively explore options for improving energy productivity through the current Energy White Paper process.

2.4 Context of the Problem – removal of unnecessary regulation

The significant regulatory burden for EEO Program participants is the problem that this proposed legislation repeal will alleviate.

³ Speech to the Energy Users Association of Australia, October 2013

Unnecessary regulatory burden hampers companies identifying the full extent of possible efficiencies and the benefits from implementing energy savings measures.

Rising energy prices drive increased energy efficiency activity in businesses. This lessens the need for government intervention through regulation such as the EEO Program. Stakeholders have highlighted rising energy prices as a significant driver for increased energy efficiency activity in businesses in EEO workshops, RIS consultation for amendments to EEO regulations, and in consultations on the development of the Energy White Paper. Obtaining data for individual EEO participants and other large businesses is particularly difficult due to the confidential nature of most energy contracts, and cannot be made public if obtained in confidence. The aforementioned feedback is, however, supported by the International Energy Agency's 'Energy Prices and Taxes – Quarterly Statistics – First Quarter 2013' publication, which states that real energy prices for industry in Australia have increased by almost 34 per cent from 2005 to 4th quarter 2012.

The EEO legislation has improved the energy management practices of large Australian energy using businesses in the past eight years. The impact of the EEO Program is expected to decrease significantly over time with 25 percent of the energy efficiency improvements across industry attributable to the EEO Program in the second five year cycle compared to 40 percent in the first five year cycle.

Removal of the EEO legislation will:

- Remove unnecessary regulatory burden on Australian industry;
- Enable Australian industry to better allocate time and resources to core functions rather than compliance tasks;
- Reduce regulatory duplication in Australia's states and territories; and
- Increase Australian industry's competitiveness.

This recognises the improvement of corporations' internal management of energy and energy efficiency as a cost savings activity.

If energy prices were to decrease in the future, a significant proportion of businesses have developed improved capacity to address energy management as part of the overall productivity of the business. This would negate the need for the EEO legislation to be re-introduced in its existing form. Information failures or asymmetries are affected by a range of factors other than changing energy prices. Therefore supporting information would still be made available for those businesses that wished to access it.

Should businesses be seeking information on how to improve the productivity of their energy use, EEO Program material will continue to be available along with other sources of information.

2.5 Other Commonwealth Regulation

2.5.1 Impact of Australian Government energy efficiency programs

The Australian Government has developed a number of programs over time to address a range of market failures related to energy efficiency (a summary of each program is below). EEO was established to unlock energy efficiency savings but also creates reporting and assessment costs for industry. The decision to implement energy efficiency savings is not mandated but left up to the businesses. Opportunities identified through participation in the program typically involve system optimisation, operational changes, system configuration improvements, process changes and equipment upgrades.

NGERS also requires corporations to report energy information while efforts have been made to ensure corporations are not required to provide duplicate reports to government, this does happen, particularly in sectors such as oil and gas and the sugar industry and could be considered duplication of effort for the corporation. The EEO Program sources its energy data primarily from NGERs. NGERs does not require energy efficiency assessments.

MEPS provides minimum energy performance for some pieces of industrial equipment such as some motors, fans, air compressors, refrigeration equipment and packaged boilers, however it does not impact on bespoke design which is very common in large industrial facilities. MEPS only has an impact where either a new facility is being built or where a piece of equipment breaks down and requires a new replacement. Equipment in industrial sites can typically last 10-30 years before replacement is required. Additionally, MEPS has no impact on whole of system efficiencies, operational efficiencies, process and configuration changes or optimisation activities. These types of activities can result in the largest, most cost-effective opportunities in industrial sites and can be implemented at any time through the facility's life, often without any shutdown period. Participation in EEO has helped unlock these types of opportunities through site specific assessments which consider data relevant to the site and people who have specific experience with the site.

As MEPS is a minimum energy performance standard, it inherently sets equipment standards at the minimum efficiency permissible. EEO however focusses on optimising the energy performance of company business practices. This approach seeks to deliver optimal rather than minimum efficiencies.

The Commercial Building Disclosure (CBD) program references the (National Australian Built Environment Rating System (NABERS), creating a market mechanism based on energy efficiency information. Since buildings operate as a system and that system is rated as a whole, NABERS gives owners an incentive to investigate opportunities which may come from optimisation, behaviour changes, control strategies and in some cases equipment upgrades. NABERS provides a method for assessing the energy consumption of the site and has specific data requirements. NABERS also has a requirement for accredited assessors to be appropriately trained.

Although NABERS and the CBD program do not require an assessment which is as detailed as that required under the EEO Program, the intent of many of the EEO Program's Key Requirements are met by NABERS, such as leadership, people (to some extent), data (to some extent), decision making and communication. There is some overlap between CBD and the EEO Program requirements. Many EEO participants, particularly in the Commercial sector will need to meet both EEO and NABERS and we would consider that there is duplication across these programs.

2.5.2 The Energy Efficiency Opportunities Program

The Energy Efficiency Opportunities (EEO) Program, established in 2006, was designed to address identified information barriers and encourage the uptake of cost-effective opportunities. The key objectives include:

- addressing information failures within business that impede prudent and objective decision making on the business response to cost-effective energy efficiency opportunities;
- building industrial capability and capacity to identify, assess and implement energy efficiency opportunities, to improve energy productivity and to deliver associated cost savings; and
- facilitating systematic behavioural change in organisations, such that the assessments of energy use and identification of energy efficiency opportunities become a part of standard business practices and continuous improvement processes are embedded.

A significant number of opportunities to improve energy efficiency have been identified and adopted by Australian industry, with many corporations now reporting key elements of the EEO Program as standard practice. As at 30 June 2011, EEO Program participants reported that they had identified opportunities that could result in annual energy savings of 164.2 PJ. Of these, 88.8 PJ were adopted, which equates to 54 per cent of the opportunities identified.

2.5.3 National Greenhouse and Energy Reporting Scheme (NGERS)

NGERS is the national mechanism for businesses to report greenhouse gas emissions, energy production, energy consumption and other information specified under NGERS legislation. The main objective of NGERS is to compile and maintain a national inventory of this data.

Participants in the EEO Program can agree for their NGERS data to be used to meet some EEO requirements.

2.5.4 Minimum Energy Performance Standards (MEPS)

MEPS specify the minimum level of energy performance that appliances, lighting and electrical equipment must meet or exceed before they can be offered for sale or used for commercial purposes. The MEPS Program, while providing useful indications for evaluating some productivity improvements, does not cover all equipment (particularly bespoke items used in large industry) and it does not cover business processes.

2.5.5 National Australian Built Environment Rating System (NABERS)

NABERS is a national performance-based rating system for commercial buildings. A star system is used to rate a building on the basis of its measured operational impacts on the environment when compared with similar buildings.

2.5.6 Commercial Building Disclosure (CBD)

CBD is a national program designed to improve the energy efficiency of Australia's large office buildings. Most sellers or lessors of office space of 2,000 square metres or more are required to obtain and disclose a current Building Energy Efficiency Certificate (BEEC) under the Building Energy Efficiency Disclosure Act 2010. The NABERS system is used to develop BEECs hence requiring energy assessments to be undertaken. CBD could be considered when developing possible exemption guidelines based on involvement in other government programs.

2.6 Existing state based programs

2.6.1 Energy Savings Scheme (ESS) – New South Wales (NSW)

The ESS aims to reduce electricity consumption in NSW by creating financial incentives to invest in energy savings activities. When businesses invest in reducing their energy use, the voluntary scheme participants, who are, or work with an Accredited Certificate Provider, create energy savings certificates. Electricity retailers, who are mandatory scheme participants, then buy the energy savings certificates to meet their own legislated targets.

The scheme creates a market mechanism for energy savings activities, and similar to the Emissions Reduction Fund, it unlocks opportunities which have a financial barrier. However, the scheme is unlikely to unlock opportunities which have information, technology and behavioural barriers. Additionally, the scheme only deals with electricity, not gas.

2.6.2 The Victorian Energy Efficiency Target (VEET) Scheme – Victoria

The purpose of the VEET scheme is to reduce greenhouse gas emissions, encourage the efficient use of electricity and gas, and to encourage investment, employment and technology development in industries that supply goods and services which reduce the use of electricity and gas by energy consumers.

The scheme operates by placing a liability on large energy retailers in Victoria to surrender a specified number of energy efficiency certificates every year. Energy retailers with a liability under the scheme are known as Relevant Entities. Relevant Entities are able to create certificates directly, or purchase certificates in a competitive market, or both.

Accredited entities, known as Accredited Persons create VEECs when they help energy consumers make selected energy efficiency improvements to their homes, business premises or other non-residential premises. Revenue generated through the sale of VEECs enables Accredited Persons to offer energy consumers special benefits that may reduce the cost of undertaking these energy efficiency improvements.

The scheme is predominately targeted at small business and residential and provides a commercial market for energy efficiency. Again the scheme does not target the same businesses as EEO and does not seek to unlock opportunities which have information, technology and behavioural barriers.

2.6.3 EcoBiz – Queensland

EcoBiz is a voluntary program which aims to unlock similar barriers to EEO and provide a star rating system for companies which can reduce their energy, water or waste use. EcoBiz provides participants with information on how to save energy through webinars and information sessions. Participants are required to work with industry experts provided by ecoBiz to develop a plan to assess the business' energy, water or waste use. If the business saves 10 per cent in energy, water or waste they become a 1-Star business under the program, if the business saves 10 per cent in two categories they become a 2-Star business and a 3-Star business for saving 10 per cent or more in all categories. The average participant has reduced their energy use by 20 per cent through this program. The program is aimed at smaller businesses such as schools, shopping centres and restaurants. Companies involved in this program do not meet the energy use threshold for EEO, however EEO companies could voluntary participate with the ecoBiz program.

2.6.4 EcoBiz NT – Northern Territory

EcoBiz NT operates in the same way as the Queensland version however grants of up to \$20,000 are available to help with the implementation of energy efficiency improvements. Again this program is aimed at small to medium-sized businesses, not covered by EEO.

2.6.5 Residential Energy Efficiency Scheme (REES) – South Australia

Similar to the VEET and ESS the REES puts obligations on energy retailers to meet targets, reducing the cost of residential consumers implementing opportunities to reduce their energy use. The scheme does not cover industry.

2.6.6 Perth Solar City Program – Western Australia

This program offers discounts on solar hot water and photovoltaic systems, and pays for energy efficiency consultancy services for residential consumers. This program does not impact on commercial or industrial users.

2.6.7 Regulation across Government

There are a number of energy efficiency programs, at all jurisdictional levels. At present there is little regulated overlap between Commonwealth programs and those of the states and territories. There is overlap in regulated actions between EEO and NGERs and EEO and NABERS. While the overlap would not impact on all of the current EEO Program participants they do impact many sectors.

3. Why is government action needed?

The objective of repealing the EEO legislation is to reduce the regulatory burden on large Australian industry. Repealing the Energy Efficiency Opportunities Act 2006 will save Australian businesses at least \$17 million per year.

Companies are increasingly better equipped to manage their energy use and therefore take decisions in this regard that best suit their needs. For example, companies covered by the program have largely embedded energy management practices into their business models and information developed under the program will continue to be available for companies to use should they wish to do so. As a result, the Government considers that imposing regulation through the EEO legislation is no longer required to drive improved energy efficiency across industry.

The current Energy White Paper process is exploring options and recommendations for improving energy efficiency and productivity. The Emissions Reduction Fund will help businesses and industry to take direct action to reduce emissions and improve their energy efficiency.

3.1 Reducing regulatory burden on industry

At the end of the first program cycle program participants reported compliance costs of over \$6 million per year. At 31 March 2014, 464 corporations were required to participate in the EEO Program, with additional registrations relating to new development projects. The adjusted compliance cost including new development participants is approximately \$17 million per year.

4. What policy options are we considering?

Three options have been analysed to understand the point at which the least amount of regulatory burden is required to continue facilitating the positive benefits achievable by industry in reducing energy costs. This includes reviewing a total deregulation option, which has no compliance cost to industry but may also significantly reduce the potential for additional benefits.

The various options explored use **Option One: The Status Quo – Continuation of the EEO legislation** as the basis for defining the costs to businesses and the deregulation required for implementation. The preferred option, **Option Two – Deregulation**, is characterised by total repeal of the legislation with existing EEO Program material remaining available to companies who wish to make use of it. **Option Three – The Energy Productivity Program** involves streamlining the existing regulations to drive activity with inbuilt capacity-building mechanisms to support energy savings activities.

4.1 Option One: The Status Quo - Continuation of the EEO Legislation

This option is the current status quo of continuing the EEO legislation and program as they currently stand. Although allocated funding ceases as of 30 June 2014, the supporting legislation remains in place and would continue to be administered by the department. Under this option the current 314 participants would still be required to comply with all aspects of the EEO legislation and program. An additional 150 corporations would be required to register and comply with all aspects of the program due to the extension to cover new developments and expansion projects. This would result in an overall increase in compliance costs and the number of businesses affected, as shown in the summary of costs.

Under this scenario, businesses that have developed sophisticated energy management systems that meet the intent of the program would be required to undertake these additional compliance activities with little to no additional benefit. Changing economic factors such as rising energy prices will also continue to drive energy efficiency activity, therefore making regulation unnecessary.

4.2 Option Two - Deregulation

This scenario involves the repeal of the EEO Act and as a result the termination of the EEO Program.

However, the materials that support the delivery of the program would continue to be available to participants and other companies via the program website for a period of time, should stakeholders wish to access them. Over time, these materials would become out-of-date and would be removed.

Data and information reported by participants over the last seven years of the program's operation would be consolidated and compiled and a final report on the outcomes of the program would be undertaken. This data would then be available to the government as a reference point for energy efficiency activity in large energy using businesses. This could help the government model the number and value of projects that could be considered under the Emissions Reduction Fund (ERF).

4.3 Option Three - The Energy Productivity Program (EPP)

The EPP proposal is a remodelled version of the EEO legislation and program, and would require large energy using companies to assess their energy consumption to help find potential savings in energy costs across their business. In line with the Government's deregulation agenda, compliance and reporting costs for individual businesses would be reduced by a third (compared to costs under EEO), and the number of affected corporations would fall from 464 to around 210 as compared to the EEO Program.

In conforming to the broader deregulation agenda, the EPP would reduce the compliance burden on industry through streamlining the compliance requirements, raising the participation threshold from one half (under EEO) to two petajoules of energy used per year and introducing an industry-informed graduation scheme. This approach enables those companies that have achieved the EPP objectives to be 'graduated' from the program, thereby removing any further compliance obligations. It enables the program to focus on those businesses still developing improved energy management systems.

The EPP would replace the EEO Program and reduce compliance costs to an estimated \$13 million per annum to industry, while delivering similar benefits.

However, while it would appear to make good business sense for companies to continue to implement energy savings practices, it is not necessary that this be driven by the government. With the EEO legislation and its supporting program having successfully embedded energy management practices in many of the

companies it covered, companies are able to take ongoing decisions that best meet their business needs. There is no longer need a government program to require them to take specific actions.

5. What is the likely net benefit?

5.1 Australian Industry

Large energy using corporations represent approximately 60 per cent of Australia's total energy use, year on year. The economic environment has changed significantly since the EEO legislation commenced in 2006, due to rising energy prices, high labour costs and the strong Australian dollar affecting global competitiveness. These economic impacts have driven a strong focus on energy costs as part of overall business profitability.

However, the EEO legislation is no longer needed. The legislation has successfully embedded energy management practices in many of the companies it covered. Rising energy prices have also driven companies to consider or implement actions to reduce energy use. As a result, the rationale or justification for the program is no longer the same as when it commenced. Further, the Government has made a strong commitment to removing the red-tape burden on businesses.

The benefit to industry from Option 2, involving the termination of the program, is the removal of all compliance costs associated with the legislation. While companies will benefit from continuing to implement effective energy management approaches, they have improved capability to do so as a result of the program, and can continue to undertake such activities if they consider it meets their business needs.

There is a risk that there will be a reduction in energy efficiency if the legislation is repealed, although corporations may choose to invest the resources that may have been spent on EEO to other areas of the business which could provide a greater overall net benefit.

5.1.1 Consumers

The repeal of the EEO Act and termination of the Program will remove any direct cost impacts associated with the Program. More broadly, it is difficult to ascertain precise impacts given the very wide range of direct and indirect consumers of products produced by EEO participants. Moreover, the mix of compliance cost vs. benefits of complying will be different for every participant, and decisions regarding changes in benefit/cost will also vary from business to business.

However, any costs that are not incurred by businesses are then also not passed on, creating a benefit to consumers.

5.1.2 Government

The government would incur no costs following the repeal of the EEO Act and termination of the Program. Repeal of the legislation would facilitate savings in departmental resources from administering the EEO Program.

5.1.3 Community (social and environmental)

Removal of unnecessary regulation allows businesses to devote resources to core business functions and activities, allowing them to do business rather than focussing on demonstrating compliance. Freeing these resources can lead to greater productivity and competitiveness, economically benefitting the community as a whole.

Energy efficiency activity in businesses may decrease with the removal of the regulatory driver and it can be expected that emissions abatement would also reduce proportionately. This does not preclude actions being taken as a result of other Australian Government policies such as the Emissions Reduction Fund, which is expected to drive energy savings and emissions abatement.

As the EEO is an industrial energy efficiency measure there has been limited feedback from environmental groups, see sections 6.1 and 6.2 below.

5.2 Who is affected by the preferred solution?

5.2.1 Australian Industry

Large energy using companies in Australian industry will be the only sector significantly affected by the preferred solution. The preferred option – measured against the status quo – will affect industry in the following ways:

- Industry would save over \$17.7 million a year through the repeal of the legislation; and
- Businesses would be able to assess and improve their energy use in such a fashion that suits them – accessing voluntarily measures that meet their needs.

5.3 How will each option affect existing regulation and the regulating authority

5.3.1 Business as usual (EEO legislation remains)

The status quo or business as usual case would see all EEO legislation remaining in place. There would be no change to the current processes or administration of the program.

5.3.2 Preferred Option - Deregulation

Under the Deregulation option, the Act and Regulations governing the EEO program would be repealed in their entirety, resulting in the termination of the program. Evaluation of the EEO Program shows that the program has largely achieved its objective with a number of corporations embedding energy management practices that drive energy efficiency in response to the legislation into standard business processes.

Removing the compliance burden that the legislation imposes will have significant benefit to Australian businesses of over \$17 million in savings per year.

Possible voluntary measures to support the identification and implementation of industrial energy savings opportunities could be considered in response to the Energy White Paper outcomes.

5.3.3 Energy Productivity Program

Under the EPP option, the EEO legislation would be amended to govern the administration of the new program. The resulting legislation would be streamlined, less prescriptive and more relevant to current business conditions, resulting in a simpler Act and Regulations and thus a reduction in administrative complexity. The cost to the government of administering the program would be significantly less than the current EEO program and the allocation of designated funding would be offset by savings from within the portfolio.

While it appears there is a case for companies to continue to implement energy savings practices, it is not necessary that this be driven by the government. With the EEO Program having successfully embedded energy management practices in many of the companies it covered, companies are able to take ongoing

decisions that best meet their business needs, and no longer need a government program to require them to take specific actions.

5.4 Option Costing

The options are measured in financial terms against the status quo, that is, the continued administration of the EEO Program. Options have been costed using the Commonwealth Regulatory Burden Measurement framework. The benefits of each option are stated in qualitative terms.

Costings have been developed from participant feedback through evaluation surveys and data reported to the government as part of the EEO Program compliance requirements. The EEO costings also include the addition of costs as per the New Developments and Major Expansions Regulation Impact Statement 2013.

EEO Program participants did report significant costs incurred during the assessment processes required to comply with the program⁴. The majority of these costs were directly attributed to the metering of energy consumption within a business. Metering of energy use, and the equipment needed to do this task effectively, is also a requirement of the National Greenhouse Energy Reporting Scheme, which all EEO participants must comply with. These costs would have been incurred in the absence of the EEO Program and will continue to be incurred with the repeal of the legislation and therefore are not included as costs from EEO compliance.

Costs of compliance obligations of EEO on participating corporations

COMPLIANCE ACTIVITY	OVERALL COSTS FOR ACTIVITY	COST ASSUMPTIONS
Registration	\$268,328.00	Includes costs associated with the clerical tasks of preparing and submitting documentation for EEO registrations
Understanding the legislation for compliance	\$7,547,379.36	Includes costs associated with the review of the distillation of the legislation into business processes and ensuring appropriate individuals are notified of requirements
Preparation and submission of an Assessment Plan	\$6,499,171.35	Includes middle management costs associated with the preparation and submission of the an EEO Assessment Plan
Conducting assessments and evaluating opportunities	\$14,928,916.48	Includes costs associated with staff across the organisation collecting data, conducting energy assessments, energy mass balances and energy material flows as well as evaluating energy efficiency opportunities
Making a report available to the public including obtaining Board notation of public report	\$9,090,551.70	Includes costs of preparation and submission of EEO public report by staff and managers as well as board sign off.
Preparing and submitting a report to the government	\$6,065,051.20	Includes costs of preparation and submission of EEO government report by staff and managers.
Undertaking requirements for a desktop verification	\$1,079,532.00	Includes costs of preparing and undertaking a desktop verification by staff and management

⁴ Energy Efficiency Opportunities Program, *The First Five Years: 2006–11* – Overview, Department of Industry

COMPLIANCE ACTIVITY	OVERALL COSTS FOR ACTIVITY	COST ASSUMPTIONS
Conducting a full verification	\$3,072,150.00	Includes costs of preparation and conducting a full verification by staff and management.
Deregistration	\$211,488.00	Includes costs of preparing a deregistration, providing supporting documentation, document discovery and investigation.
Record keeping	\$7,853,107.20	Includes costs associated with the clerical tasks of creating, updating and maintaining appropriate records of compliance with the legislation and program requirements and submitting documentation for EEO
Registration	\$119,637.00	Includes costs associated with the clerical tasks of preparing and submitting documentation for NDE registrations
Understanding the legislation for compliance	\$3,365,074.00	Includes costs associated with the review of the distillation of the legislation into business processes and ensuring appropriate individuals are notified of requirements
Preparation and submission of an Assessment Plan	\$7,700,000.00	This includes all costs associated with integrating procedures into the design program ensuring energy costs are considered throughout the design. This includes time from engineers and project managers. This was based on industry trials and featured in the original new developments and expansions RIS.
Conducting assessments and evaluating opportunities	\$16,804,704.00	This is based on industry trials, consultation and expert advice. These costs were in the New Developments and Expansions projects RIS, however these costs change depending on the size of the projects and the level at which energy efficiency assessments are already conducted in the design. The original RIS gave a range of scenarios, large projects with good processes, small projects with good processes, small projects with poor processes, etc. In this case the average size project is taken and the average level of process based on industry trials.
Making a report available to the public including obtaining Board notation of public report	\$7,000,000.00	Includes costs of preparation and submission of NDE public report by staff and managers as well as board sign off. The costs were based on costs reported to the department during the first 5 year cycle and adjusted to reflect the number of reports and the information required in NDE reports. This data is stated in the NDE RIS
Preparing and submitting a report to the government	N/A see above	Includes costs of preparation and submission of EEO and NDE government report by staff and managers.

COMPLIANCE ACTIVITY	OVERALL COSTS FOR ACTIVITY	COST ASSUMPTIONS
Undertaking requirements for a desktop verification	\$481,320.00	Includes costs of preparing and undertaking a desktop verification by staff and management
Conducting a full verification	\$1,369,748.00	Includes costs of preparation and conducting a full verification by staff and management.
Deregistration	\$94,294.00	Includes costs of preparing a reregistration, providing supporting documentation, document discovery and investigation.
Reclassification	\$110,000.00	This includes the cost of reviewing internal processes against the new developments framework and submitting those processes to the department for review. The costs are based on trial reclassifications and have been reported to the department by corporations which have been through the process. It is assumed that 10 corporations would apply and receive reclassification based on industry consultation. Success with reclassification means all other costs are avoided.
Record keeping	\$3,501,385.00	Includes costs associated with the clerical tasks of creating, updating and maintaining appropriate records of compliance with the legislation and program requirements and submitting documentation for NDE

Summary Assessments of Costs (Cost per business)

	OPTION ONE - BUSINESS AS USUAL (EEO)	OPTION TWO - DEREGULATION VOLUNTARY CAPACITY BUILDING	OPTION THREE – ENERGY PRODUCTIVITY PROGRAM
Start up cost	\$117,253.62	\$0.00	\$66,689.27
Average ongoing compliance cost per year	\$65,066.27	\$0.00	\$13,211.13
Total Cost per Cycle	\$442,584.97	\$0.00	\$132,744.92
Average Annual Cost	\$88,516.99	\$0.00	\$26,548.98
Annual Saving from the Status Quo	\$0.00	\$88,516.99	\$61,198.01

Total cost for all businesses

	OPTION ONE - BUSINESS AS USUAL (EEO)	OPTION TWO - DEREGULATION VOLUNTARY CAPACITY BUILDING	OPTION THREE – ENERGY PRODUCTIVITY PROGRAM
Start up cost	\$22,916,573.35	\$0.00	\$10,003,390.50
Average ongoing compliance cost per year	\$13,159,667.19	\$0.00	\$1,981,669.20
Total Cost per Cycle	\$88,714,909.30	\$0.00	\$19,911,736.50
Average Annual Cost	\$17,742,982.22	\$0.00	\$3,982,347.30
Annual Saving from the Status Quo	\$0.00	\$17,742,982.22	\$13,082,357.56

5.4 Benefits

The net benefit analysis reviewed costs and benefits of each of the policy options. Costs related to the compliance aspects

- Will policy intervention improve the situation significantly or will the cost of intervention outweigh the advantages? And
- Is the recommended policy option the one that will deliver the best net outcome?

A key issue in analysing the net impact centres on quantifying the benefits to the primary sector impacted by the regulation – Australian businesses.

5.5.1 Business as usual (EEO legislation remains)

Benefits to industry are likely to decrease over time. . The Full Cycle Evaluation (FCE) Report completed for the Department of Industry by ACIL Tasman states that the first five years of the program achieved, on average, a total saving to industry of approximately \$808 million per year, with \$320 million directly attributable to the program. The report estimated that if the program continued into the second cycle, only 25% of the total improvement in energy efficiency across industry would be attributable to the EEO Program. However, compliance costs would remain at the current levels with regulation delivering less benefit for the cost as market forces and improved internal processes drive energy efficiency activities.

5.5.2 Preferred Option – Option Two – Deregulation

Repeal of the legislation will save industry over \$17 million per year in compliance costs.

As highlighted by stakeholder responses below in the survey for the EEO full cycle review, the legislation is not considered to be the primary driver of energy efficiency activity within industry.

Will the EEO Program continue to provide benefit to your corporation?

RESPONSE	PERCENTAGE OF RESPONSES
No – stop it now	61
Yes – over the next 2 years	10
Yes – over the next 5 years	14
Yes – for more than 5 years	15

Note: 84 respondents answered this question

Source: ACIL Tasman survey of EEO Program participants (responses to question 21).

The reasons that stakeholders provided for determining that the program should be ended can be grouped into four broad categories:

- 38% development / improvement of internal processes to drive energy efficiency
- 36% reduce regulatory compliance costs
- 15% impact of the carbon price
- 11% other reasons

For those businesses that have developed appropriate energy management practices, the legislation is a duplication of efforts and cost that could be better focussed on other areas of the business to promote greater overall productivity.

Removing the compliance burden that the legislation imposes will have significant benefit to Australian businesses.

Any business that may wish to voluntarily access information resources from the program can continue to do so.

5.5.3 Option Three – The Energy Productivity Program

While the Energy Productivity Program will promote industrial energy efficiency activities in a more streamlined manner than the EEO Program, resulting in similar outcomes, businesses would still incur compliance costs that could otherwise be used to implement actions already identified under previous schemes or in response to changing market conditions.

Further, many businesses have embedded energy management practices as a result of their participation in the EEO program. As a result, the need for the EPP is reduced as many businesses have the capability to take decisions in relation to energy productivity that best meet their business needs. It would be assumed that the decreasing rate of additionality that would apply to the EEO Program could also apply to the EPP option, making the costs of the regulation impact on those businesses that no longer require a regulatory driver to assist in the identification and implementation of energy efficiencies.

6. Who did we consult?

Consideration has been given to recent consultation conducted by the Energy White Paper Taskforce (Department of Industry), the Emissions Reductions Fund White Paper (Department of the Environment) and the formal consultation held mid 2013 for the Full Cycle Evaluation of the EEO Program (undertaken by an independent consultant) and the EEO 2010 Mid Cycle Review.

Stakeholder feedback for all these reviews was received from industry, key industry associations and environmental groups.

6.1 The 2014 Energy White Paper Process

The issues paper for the Energy White Paper (EWP) was released on 17 December 2013, with the consultation period closing on 7 February 2014.

- Targeted consultation sessions were also held by the Taskforce in major capital cities (Brisbane, Sydney, Melbourne and Perth) in early January 2014 and an expert reference panel was formed made up of large industry stakeholders.
- Stakeholders were requested to comment on the current suite of energy efficiency measures, ways these could be enhanced to provide greater energy efficiency or possible new measures that would enhance energy productivity. A total of 258 submissions were received by 7 February 2014 with 35 submissions commenting on the EEO Program.
- Major themes identified in the submissions commenting on the EEO Program included:
 - Companies are already motivated to pursue energy efficiency through rising energy prices.
 - The EEO Program is too prescriptive and imposes unnecessary regulatory burden.
 - Policy initiatives should seek to simplify and reduce the regulatory burden

Thirteen stakeholders publicly stated they are in favour of repealing the EEO Program in the recent Energy White Paper submissions. These included a number of industry associations and large energy users including the Australian Food and Grocery Council, Australian Paper, Business Council of Australia, Cement Industry Federation, Energetics, Energy Users Association of Australia, Santos, Shell Australia, Willmar Sugar, Ergon Energy, Original Energy and ABB.

The reasons stated for repealing the program include (but are not limited to): -

- Energy costs already motivate companies to pursue energy efficiency
- EEO Program has served its purpose
- EEO Program imposes unnecessary reporting burden on industry
- Need to eliminate federal/state duplication

Eight stakeholders publicly stated they are in favour of retaining the EEO Program in the recent Energy White Paper submissions. These were predominantly from environmental and other stakeholders including the Australian Conservation Foundation, ClimateWorks Australia, EMC Engineering Australia Pty Ltd, Energy Efficiency Council, Sustainable Energy Now, Sustainable Engineering Society, Engineers Australia, The Australian Network of Environmental Defender's Office and The Climate Institute.

The reasons stated for retaining the program include (but are not limited to): -

- EEO is a highly effective program as evidenced by reported savings by corporations
- EEO has demonstrated success in increasing efficiency and innovation and should be continued
- EEO Act is critically important to Australia energy policy given 300 participating corporations are responsible for over half of Australia's energy use.

A further 14 respondents wanted the program to be modified to reduce regulatory burden and provide a graduation strategy for corporations already meeting the intent of the program.

6.2 The Emissions Reduction Fund White Paper

The Emissions Reduction Fund White Paper was released on 24 April 2014 following a broad consultation period on the Energy Green Paper.

- The green paper outlined design options for the Emissions Reduction Fund and was released on 20 December 2013 with the consultation period closing on 21 February 2014.
- An emissions reduction fund expert reference group was formed to provide high level advice on the design of the Emissions Reduction Fund. The Expert Reference Group consisted of leading industry and academic experts, appointed for their sectoral expertise.

- Broadly, stakeholder feedback indicated that repeal of the legislation would be appropriate, given the impacts of the ERF in driving energy efficiency in Australian industry.

6.3 The Energy Efficiency Opportunities Full Cycle Review

The independent review of the EEO Program undertaken in mid-2013 (the Full Cycle Evaluation) found that energy efficiency understanding, focus and management had improved in most corporations since the EEO Program commenced.

- The review found that energy price increases were the most influencing factor in the search for energy efficiency with 61% of respondents stating that the EEO Program would not benefit their corporation in the second cycle.
- The review estimated that the additional impact of the EEO Program over the second cycle would decrease significantly, with only 25% of the total improvement in energy efficiency across industry attributable to the EEO Program.

Extensive stakeholder consultation was conducted as part of the full cycle evaluation, through an open survey and interviews with a number of corporations. As shown in the below table from the full cycle evaluation report, the majority of respondents to the survey indicated that the EEO Program had had a level of impact in terms of addressing information failures that inhibit the identification and implementation of energy efficiency opportunities.

Survey responses to questions regarding access to information

SURVEY QUESTION	TRUE	SOMEWHAT TRUE	NOT TRUE
EEO has improved the overall quality of information about our energy use	30%	30%	40%
The EEO assessment process has helped us to identify where energy is used within and across business activities	26%	33%	41%
The EEO assessment process has helped us identify areas where energy efficiency can be improved in a cost-effective way	27%	38%	36%
The EEO assessment process has improved information on energy use and losses	21%	38%	41%
The EEO assessment process has helped us identify specific projects to improve energy efficiency or reduce energy use	30%	37%	33%

However, when stakeholders were asked to provide views on whether the EEO Program should continue, the majority felt that it should be ended immediately, as there had been significant improvement in internal capability of energy management and the identification of energy efficiency opportunities.

6.4 The Energy Efficiency Opportunities Mid-Cycle Review

The EEO Mid-cycle review report conducted in 2010 concluded that “the EEO Program framework has brought greater discipline, rigour and structure to their processes and systems.” It also noted that corporations reported having to invest more effort in improving data collection and analysis procedures than was envisaged at the time the ARS was prepared.

Stakeholders who have consistently opposed the EEO Program include the Australian Industry Greenhouse Network, the Australian Petroleum Production & Exploration Association, the Business Council of Australia, Chevron and Santos. The industry associations’ key reason for opposing the program is the administrative reporting burden the program imposes on industry.

The large energy using corporations argue that they already have imbedded energy management processes that meet the intent of the program. Overall, the consultation processes that have occurred indicate broad industry stakeholder support for repealing the EEO Program to reduce the regulatory burden on industry, acknowledging that other programs and market forces are driving similar energy efficiency outcomes.

7. What is the best option?

With energy prices driving activity and the increased capacity to respond embedded in industry, the government considers the EEO Program to be an unnecessary government intervention.

The selection of deregulation as the most appropriate option was based on the measure fulfilling the set objectives:

- Removing unnecessary regulatory burden on Australian industry;
- Enabling Australian industry to better allocate time and resources to core functions rather than compliance tasks;
- Reducing regulatory duplication in Australia's states and territories; and
- Increasing Australian industry's competitiveness.

While the energy market and energy costs have changed considerably since the program's inception in 2006, the Government understands that there are still significant gains to be made in industrial energy efficiency and productivity. The EEO Program has successfully embedded energy management practices in many of the companies it covered. As a result, these businesses have increased capability to consider and implement energy management practices that best meet their ongoing business needs. It is also considered that deregulation of schemes such as the EEO Program in favour of market forces is a more effective mechanism for achieving improved energy efficiency across industry.

8. How will we implement and evaluate our chosen option?

The repeal of the *Energy Efficiency Opportunities Act 2006* and accompanying Regulations has no transitional or consequential impact and could be effective as of 29 June 2014. This would align with the cessation of funding to administer the program on 30 June 2014.

Upon public announcement of the decision to repeal the Act and the Regulations, companies will be advised and informed that upon repeal there will be no further requirements. The Department will consult with industry to consolidate relevant material from the program and make it available to companies for use as they consider appropriate.

Option Two – Preferred Option – Deregulation

Average Annual Compliance Costs (from Business as usual)

Costs (\$m)	Business	Community Organisations	Individuals	Total Cost
Total by Sector	-\$17,742,982.22	\$0	\$0	-\$17,742,982.22
Cost offset (\$m)	Business	Community Organisations	Individuals	Total by Source
Agency	\$0	\$0	\$0	\$0
Within portfolio	\$0	\$0	\$0	\$0
Outside portfolio	\$0	\$0	\$0	\$0
Total by Sector	\$0	\$0	\$0	\$0

Proposal is cost neutral? yes no

Proposal is deregulatory yes no

Balance of cost offsets \$0