

3 May 2010

Secretariat to the Task Group on Energy Efficiency  
Department of Climate Change and Energy Efficiency  
Canberra

Dear Task Group,

The EEO program has resulted in a great deal of information on the opportunities that exist within more than 220 organisations. Over 60 PJ of energy savings opportunities have been identified. The EEO program can be considered a success, yet the savings identified constitute only 1.0% of Australian energy end use<sup>1</sup>.

The *Terms of Reference* of the Task Group include the identification of “options for delivering a step change improvement in Australia’s energy efficiency by 2020”.<sup>2</sup> In our opinion, the EEO program has been successful in addressing the information gap regarding energy efficiency within participating organisations, however, even if all identified opportunities were implemented this would hardly achieve the ‘step change’ that the Task Group is seeking.

The impact of compliance-based programs such as EEO is limited. Companies generally meet their obligations but may not be motivated to go very far beyond compliance. The opportunities and barriers are well-studied and well-known.

We suggest that significant additional opportunities exist within the EEO companies including opportunities that have not yet been identified, and that further opportunities exist within the next tier of companies that sit below the threshold for EEO participation. These opportunities would be revealed if business leaders were to go beyond compliance by making energy efficiency a high priority.

Of the many known barriers to energy efficiency improvements which were identified in the issues paper, we believe the key barrier is access to capital. The companies that control these opportunities are not necessarily lacking in capital resources, however the available capital is often allocated to other projects. The problem is not so much the absolute availability of capital, but the competing priorities for capital expenditure that exist within each organisation.

We do not suggest that the government should necessarily make capital freely available for energy efficiency projects. Grants and loan guarantees should be

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<sup>1</sup> Louise Vickery, Australian Government, Department of Resources, Energy and Tourism. *Maintaining the Momentum*, EEO Workshop, May 2009.

<sup>2</sup> Prime Minister's Task Group on Energy Efficiency Issues Paper.



allocated to projects which carry a high degree of risk, thus helping overcome the investment barrier that exists for innovations which require further research and development before widespread uptake can occur.

For the majority of efficiency projects, the upgrades do not require further R&D – they involve technologies and changes which are relatively well proven and ready for deployment. Amory Lovins of the Rocky Mountain Institute often states that “efficiency is arguably the highest return/lowest risk investment in the whole economy.” Further, in his work in over 29 industrial sectors, which includes a large amount of work in Australia, Lovins has found that large-scale energy efficiency projects which achieve substantial energy savings provide better returns than small-scale projects. “So we get expanding, not diminishing, returns on investments in advanced energy efficiency.”<sup>3</sup>

For many companies, capital is allocated to growth projects before efficiency projects. Energy efficiency may be recognised as a high-return/low-risk investment, hurdle rates and other investment triggers may be exceeded, however efficiency projects are still deferred because growth projects which expand operations and increase throughput are seen to be more profitable and more progressive. For some organisations, energy is only a few percent of the cost of doing business. There are bigger issues demanding attention and energy efficiency ends up at the bottom of the priority list.

One way to overcome this challenge is to create a centrally-managed investment fund which is dedicated to energy efficiency projects. If we accept Lovins’ statement that “saving energy is among the highest-return investments anywhere”<sup>4</sup>, then this investment fund should be a sustainable and profitable enterprise. The investment fund could be a public/private partnership which aggregates funding from government funds and private financiers, and sets out a structured framework to evaluate investment opportunities and share the returns with the companies hosting the changes. Previous work in efficiency investment finance, and measurement and verification, such as the Energy Efficiency Council Best Practice Guides<sup>5</sup>, can be referenced to define the terms under which this fund would operate.

This fund should be a sound investment.

We suggest that the PM’s Task Group could recommend this as a possible solution requiring further development, and could further incentivise companies to undertake energy efficiency projects through tax savings and other financial benefits. The government could allow companies to depreciate energy efficient equipment on an accelerated schedule, and pile on other incentives so that energy efficiency investments are seen as a tax sanctuary.

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<sup>3</sup> Beyond Zero Emissions radio interview with Amory Lovins. Feb 26, 2009. Available at <http://beyondzeroemissions.org/node/37>

<sup>4</sup> Hirschland, Oppenheim and Webb. *Using energy more efficiently: An interview with the Rocky Mountain Institute’s Amory Lovins*, the McKinsey Quarterly, 2008.

<sup>5</sup> Energy Efficiency Council, [www.eec.org.au](http://www.eec.org.au).



HAC has a significant experience with the opportunities, issues and barriers surrounding energy efficiency in Australia. We would be pleased to expand on these ideas, and to assist in the design and implementation of effective solutions.

If a step change in energy efficiency is the goal, then energy efficiency needs to become an easy decision and a high priority for business. We believe a step change can occur if the government creates an array of resources and incentives which, in the words of Thomas Friedman<sup>6</sup>, make energy efficiency a “no-brainer good deal” for businesses leaders.

Regards,

Jamie Ally  
Director

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<sup>6</sup> Friedman, Thomas. *Hot, Flat, and Crowded*, Farrar, Straus and Giroux New York: 2008.