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Via email: SBEI@treasury.gov.au

Joint submission on the Small Business Energy Incentive Exposure Draft

Our organisations welcome the Government's announcement of the Small Business Energy Incentive as a means to improve energy performance and reduce emissions from small businesses. Small businesses currently face rapidly escalating energy costs, and improved energy performance through energy efficiency and electrification are the best ways to help businesses tackle rising energy bills and drive down emissions.

The purpose of this submission is to urge the Government to extend the timeframe for the Incentive to apply until at least 30 June 2025. Without an extended timeline, the Incentive risks failing to achieve its objectives.

The Small Business Energy Incentive is intended to encourage small businesses to implement energy upgrades in their operations. In some instances, this may be a straightforward replacement of a piece of inefficient equipment with a more efficient piece. However, in many cases, improving energy efficiency will require significant planning, design, reorganisation, evaluation and training to integrate a new or different piece of equipment into their business. For small business owners, this process takes precious time when they are already under pressure from economic conditions, rising costs of doing business and ongoing worker shortages.

As currently proposed, the Incentive would commence on 1 July 2023 and expire on 30 June 2024. However, the legislation underpinning the Incentive is unlikely to be passed by Parliament until August or September 2023 at the earliest, meaning that businesses and their advisors will not have certainty about eligibility – and what they can use the Incentive to invest in – until well into the single financial year to which it is proposed to apply.

This will not leave enough time for businesses to access the advice needed to plan, design, finance, install and commission energy upgrades. It is likely that under these circumstances, the Incentive would not encourage additional high efficiency energy upgrades. Instead it might end up subsidising investment activity which was already planned or likely to happen anyway, or minor upgrades that will have limited impact. With little time available for small business to respond, the Incentive might greatly undershoot its Budget provision.

We strongly recommend that the Incentive's end date be extended to 30 June 2025 to provide enough time for businesses to take advantage of the Incentive. There are currently significant pressures on

supply chains and skilled labour, meaning that businesses wishing to undertake upgrades may find themselves unable to source equipment or the expertise to implement change. This may increase the Budget impact, but will do much more good for energy users and emissions than the existing timeline.

Many businesses lack internal energy expertise and will need to access advice to make the most of this Incentive. The advice that small businesses rate most highly is that provided by peak bodies and engineering consulting experts. We note that there is currently no clear or consolidated approach to offer such advice, and we recommend complementing the Incentive with a new program to provide advice and guidance on smart and efficient energy upgrades for small businesses.

We would also note that poorly selected or implemented upgrades could lead to unwanted consequences. For example, where electrification from gas takes place, there is a clear need for electric appliances to be as smart and efficient as possible to ensure that businesses reap the full benefits of the upgrade, and any growth of peak demand on the electricity grid is minimised.

In the immediate term, the eligibility criteria within the exposure draft legislation are appropriate given the timeframe. But complementary guidance should highlight smart efficient examples of eligible expenditure to help businesses make choices that drive down both their energy bills and demands on the wider energy system.

It is also urgent to develop a longer term strategy, involving incentives, capacity-building and product standards or regulation where appropriate, that provides a durable basis for business investment in high-quality electrification and energy efficiency upgrades.

For any questions in relation to this submission, please contact Ai Group's adviser Tennant Reed (0418 337 930, tennant.reed@aigroup.com.au).

Yours sincerely,

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