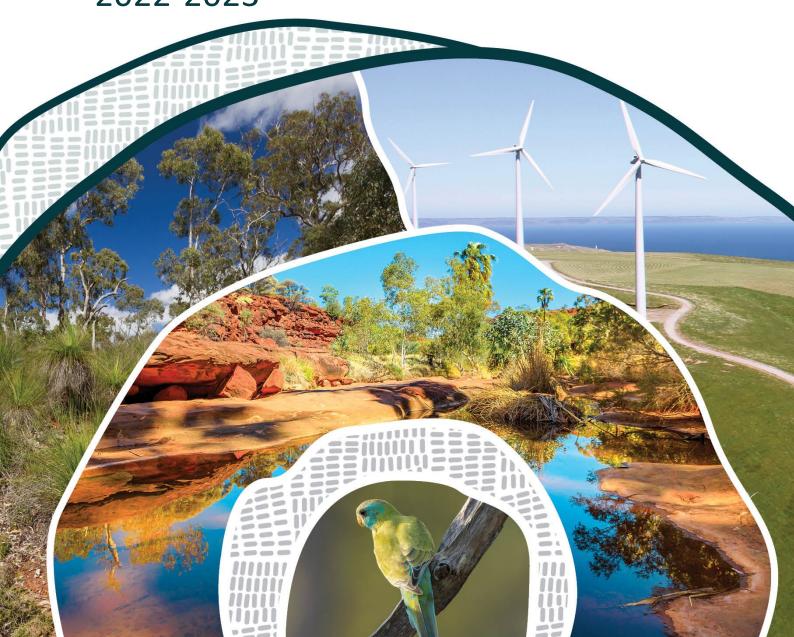


# COST RECOVERY IMPLEMENTATION STATEMENT

Greenhouse and Energy Minimum Standards 2022-2023



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#### **Acknowledgement of Country**

We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past and present.

#### Cost Recovery Implementation Statement

#### Greenhouse and Energy Minimum Standards 2022-2023

Charging for regulatory activity involves government entities charging individuals or organisations in the non-government sector some or all of the minimum efficient costs of a specific government activity. The Cost Recovery Policy along with the Australian Government Charging Framework (the Charging Framework) sets out the policy under which government entities design, implement and review charging for regulatory activities. The CRIS is the public document to ensure the transparency and accountability for the level of the charging and to demonstrate that the purpose for charging, as decided by Government, is being achieved.

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#### 1 INTRODUCTION

#### 1.1 Purpose

This Cost Recovery Implementation Statement (CRIS) provides information on how the Department of Climate Change, Energy, the Environment and Water (DCCEEW) implements cost recovery charging for the Greenhouse and Energy Minimum Standards program (GEMS program). It reports actual financial and non-financial performance information for the GEMS program for 2018-19 to 2022-23 and contains financial and demand forecasts for three forward years. DCCEEW will maintain the CRIS until the activity or cost recovery for the activity has been discontinued.

The Greenhouse and Energy Minimum Standards Act 2012 (GEMS Act 2012) implements the commitments of the Australian Government and the Council of Australian Governments (COAG) to establish national legislation to regulate energy efficiency and energy rating labelling standards for appliances and other products. The legislation permits the Australian Government to set mandatory minimum efficiency requirements for products to drive greater energy efficiency. The Act also allows the Australian Government to set nationally consistent labelling requirements, to increase Australians' awareness of more energy efficient products, and to reduce energy consumption, energy costs and greenhouse gas emissions.

The objectives of the GEMS Act are:

- to give effect to certain obligations that Australia has under the Climate Change Convention and the Paris Agreement
- to facilitate the operation of an intergovernmental scheme involving the Commonwealth and other participating jurisdictions in relation to equipment energy efficiency, and
- to promote the development and adaptation of products that:
  - use less energy
  - produce fewer greenhouse gases, or
  - contribute to reducing the amount of energy used, or greenhouse gases produced, by other products.

Under the GEMS Act, a product that uses energy or affects the amount of energy used by another product and is in a product class covered by a GEMS determination, is known as a GEMS product. GEMS products can only be supplied or offered for sale, or used for a commercial purpose, if:

- the model of the product is registered under the GEMS Act against the relevant determination
- the product complies with the determination, and
- the supply, offer, or use complies with the determination.

The Australian Government's overarching cost recovery policy is that, where appropriate, non-government recipients of specific government activities should be charged for some of or all the costs of those activities.

Suppliers of GEMS products pay the regulatory charges contained in this CRIS. Suppliers of GEMS products include manufacturers, importers, wholesalers, and retailers. These suppliers can be based in Australia or overseas.

# 2 POLICY AND STATUTORY AUTHORITY TO CHARGE (COST RECOVER)

# 2.1 Government policy approval to charge for this regulatory activity

Policy authority for the cost recovery of the GEMS program was provided in the 2012-13 Budget, under 'National Greenhouse and Energy Minimum Standards Program – establishment'. The Budget papers stated:

"...the costs of product registration will be fully recovered, while recovery of the costs of compliance monitoring will be phased in from 2012-13, in accordance with the Australian Government Cost Recovery Guidelines."

Cost recovery is implemented under the authority for full cost recovery. There were no considerations at the time the GEMS Act was developed that required the implementation of partial cost recovery.

The GEMS regulator has implemented this decision by creating fee bands and assigning GEMS regulated products to each band. A list of all decisions made by the GEMS Regulator is at table 2.1.1.

Table 2.1.1 – List of GEMS Regulator's decisions about structures and rates of charges

Decision date	Decision
18 March 2022	Assigning 'Swimming pool pumps' to fee band 1.
10 August 2020	Removed repealed air conditioner determination.
9 August 2019	Added new determination reference for household refrigerators and commercial refrigerators. Removed repealed electric motors determination. Charge band assignments were maintained for these products.
29 March 2019	Set charge for 'Application to vary a registration to cover additional models' at \$210.
29 March 2019	Assigned air conditioners (up to 65kW) to charge band 3.
5 November 2018	Added new determination reference for electric motors.
13 December 2017	Removed repealed determinations for compact fluorescent lamps and double-capped fluorescent lamps.
5 June 2017	Added new determination references for compact fluorescent lamps and double-capped fluorescent lamps. Charge band assignments were maintained for these products.
1 November 2015	Updated determination references for updated products – clothes dryers, washing machines, dishwashers. Charge band assignments were maintained for these products.
5 March 2015	Removed repealed air conditioner determination from charge band 3. Updated determination references for updated products – incandescent lamps.
30 July 2013	Assigned computers and computer monitors to charge band 1. Assigned gas water heaters and multi-split system air conditioners to charge band 3.

Decision date	Decision
25 October 2012	Set 4 charge bands and assigned 19 products to these bands. Compact florescent lamps, extra low voltage lighting converters, double-capped fluorescent lamps, ballasts for fluorescent lamps, incandescent lamps, clothes dryers, clothes washers, dishwashers, external power supplies, set top boxes and televisions were assigned to charge band 1. Electric water heaters were assigned to charge band 2. Air conditioners, electric motors and refrigerators were assigned to charge band 3. Chiller towers, close control air conditioners, commercial refrigerators/display cabinets and distribution transformers were assigned to charge band 4.

Source: Department of Climate Change, Energy, the Environment and Water

#### 2.2 Statutory authority to charge

The Greenhouse and Energy Minimum Standards (Registration Fees) Instrument (No. 1) 2022 provides the legislative authority for the imposition of cost recovery levies. Cost recovery levies are imposed on the registration of GEMS products. Rates of charge vary according to product type.

Federal Register of Legislation - Greenhouse and Energy Minimum Standards (Registration Fees) Instrument (No. 1) 2022

The *Greenhouse and Energy Minimum Standards* (Fees for GEMS Regulator Services) Instrument 2019 provides the legislative authority for the imposition of cost recovery fees-for-service. Cost recovery fees for service are imposed on applications to vary the registration of a GEMS product. A single rate of charge applies for each application.

Federal Register of Legislation - Greenhouse and Energy Minimum Standards (Fees for GEMS Regulator Services) Instrument 2019

# 3 CHARGING (COST RECOVERY) MODEL

#### 3.1 Outputs and business processes of the activity

The GEMS regulatory model places the Australian community and regulated entities at the centre of regulatory practice. Regulatory activity is broadly categorised as:

- setting requirements for product registration
- assessing and monitoring compliance, and
- responding to non-compliance.

These regulatory activities are supported by engagement and education and evaluation.

The outputs, description of business processes and specific examples relating to the GEMS program that **are included** in the charging arrangement are described in Table 3.1.1.

Table 3.1.1 – GEMS program outputs and business processes *included* in the charging arrangement

Output	Business Process and Examples
Registration	Developing, acquiring, testing, implementing, and supporting applications and business systems.
(Business Systems Administration)	Specific examples include the maintenance of the GEMS Product Registration System, the GEMS Register and the production of GEMS Registration Certificates.
Registration (Instructional Material)	Developing, maintaining and communicating the program's instructional and guidance material, such as standard operating procedures, work instructions and public facing guidelines.  Specific examples include the development of registration forms and processes, supplier education materials and the development of compliance plans and processes.
Compliance (Surveillance)	Monitoring the activities, documentation and behaviour of regulated entities or groups to assess overall program compliance.
	Specific examples include the selection of products for testing, undertaking store visits, investigating reports of non-compliance and data analysis.
Registration (Assessments)	Assessing information to determine if it meets necessary requirements and conditions. This includes all preparatory work (such as confirming necessary requirements and conditions) and post work (such as assessment report preparation). Examples include assessments of applications licences, permits, registrations, accreditations, and exemptions.
	Specific examples include the assessment of applications for registration of GEMS products and applications to vary the registration of a GEMS product.

Source: Department of Climate Change, Energy, the Environment and Water

The GEMS program also delivers outputs that are necessary to achieve the program objectives and are funded by government. Relevant outputs, description of business processes and specific examples relating to the GEMS program that **are not included** in the charging arrangement are described in Table 3.1.2.

Table 3.1.2 – GEMS program outputs and business processes *not included* in the charging arrangement

Output	Business Process and Examples
Workforce and Business	Managing employees, business planning and reporting, procurement, financial management, information management and corporate enabling services.
Management	Specific examples include general business improvement activity and performance reporting.
Stakeholder Engagement and product development	Engaging with persons, businesses, organisations, and peak industry bodies, attending consultative committees and industry meetings, and the maintenance of public facing information.  Specific examples include the production of the GEMS Annual Report and GEMS Cost Recovery Implementation Statement, supplier education materials, the maintenance of the Energy Rating Website and the Energy Rating Calculator and working with industry to determine priorities and designing regulations for new products.

Source: Department of Climate Change, Energy, the Environment and Water

#### 3.2 Costs of the regulatory activity

The costs for administering the registration and compliance functions of the GEMS program in 2022-23 are outlined in Table 3.2.1.

Table 3.2.1 - Cost breakdown for 2022-23

Output *	Direct costs (\$m)	Indirect costs (\$m) Capital costs		
Registration	1.210 -			
Compliance	0.	843 -		
Total	2.	053 -		

Source: Department of Climate Change, Energy, the Environment and Water

The overall costs of the GEMS program include direct and indirect costs.

Direct cost attracted by the GEMS program and included its charging arrangement cover:

- The cost of employee salaries and salary on-cost, such as superannuation loadings and long service leave loadings. Employee costs are allocated to the charging arrangement based on the amount of effort directed to the GEMS program by departmental staff.
- The cost of materials and services supplied to the department in direct relation to the GEMS program. These include contracted organisations who provide assessment services, undertake in-instore compliance surveillance or undertake laboratory testing and access to relevant technical standards.

Indirect costs are also included in the charging arrangement to fund the necessary contribution to the GEMS program from the department's enabling services functions. These enabling services provide infrastructure, expertise and support GEMS program's human resource, financial management and information and communications needs.

There are no capital costs included in the charging arrangement.

The direct and indirect costs are allocated to the outputs based on the effort applied toward those outputs. Employee costs, including indirect costs, are allocated to the outputs based on surveys of staff on where they direct their time. Supplier costs are allocated to the outputs using a similar methodology to that for employee costs.

Business Systems, Policy and Instructional Material outputs and costs are relatively fixed and don't vary with the volume of products imported and the subsequent demand for assessments. Costs are allocated to these outputs are based on the necessary effort required to deliver and maintain the output.

Assessment and Surveillance outputs and costs relate to the volume of assessments received and products registered. Costs are allocated to these outputs based on the level of effort required to meet the level of industry activity and demand.

The level of effort required by and allocated to the outputs is monitored throughout the year and adjusted annually where required.

#### 3.3 Design of the regulatory charge

The types of charge applied in the charging arrangement include Cost Recovery Levies and Cost Recovery Fees-For-Service. The Australian Government Cost Recovery Guidelines contain the following definitions for these charge types:

- cost recovery levies—charges imposed when a good, service or regulation is provided to a
  group of individuals or organisations (e.g. an industry sector) rather than to a specific individual
  or organisation. A cost recovery levy is a tax and is imposed via a separate taxation Act. It differs
  from general taxation as it is 'earmarked' to fund activities provided to the group that pays the
  levy.
- **cost recovery fees**—fees charged when a good, service or regulation (in certain circumstances) is provided directly to a specific individual or organisation.

The type of cost recovery charge applied in the charging arrangement are based on the characteristics of the outputs delivered through the GEMS program. The relationship between outputs and the charge types are summarised in Table 3.3.1.

Table 3.3.1 – GEMS program outputs and business processes not included in the charging arrangement

Output	Charge Type applied for the recovery of costs
Registration (Business Systems Administration)	Levy – provided to the regulated group. Effort and activities are not conducted at the particular request, or for the particular benefit of individuals or organisations.
Registration (Policy and Instructional Material)	Levy – provided to the regulated group. Effort and activities are not conducted at the particular request, or for the particular benefit of individuals or organisations.
Registration (Assessments)	Levy (initial assessment) – provided to a specific individual or organisation at their request and for their immediate benefit.
	Fee-for-service (variations) – provided to a specific individual or organisation at their request and for their immediate benefit.
Compliance (Surveillance)	Levy – provided to the regulated group. Effort and activities are not conducted at the request, or for the particular benefit of individuals or organisations.

Source: Department of Climate Change, Energy, the Environment and Water

The methodology for the structure of the cost recovery levies established a charge band for different product types. Charge bands consider product-specific market conditions such as size of market,

technical complexity, risk and impact of non-compliance and the level of surveillance and testing required.

Rates of charge for each band are calculated through a weighted cost approach based on the comparative effort required to assess applications for different products.

The average cost is calculated by dividing the efficient cost of the relevant outputs over the expected volume of registrations.

A single rate of charge is established for fees-for-service imposed by the arrangement.

Table 3.3.2 – Outline of the relationship between charges and outputs of the activity for 2022-23

Output title	Туре	Unit cost (\$m)	Charge Rate	Actual Volume	Actual total cost (\$m)	Output title (\$m)
Registration	Levy Band 1		\$440			
and Compliance	Levy Band 2		\$540	1010		
	Levy Band 3	-	\$670	4813	2.053	2.657
	Levy Band 4		\$780			
	Fee		\$210	483		

Source: Department of Climate Change, Energy, the Environment and Water

Under current settings some assessment work, while characterisable as fee-for-service activity, is recovered through the cost recovery levies. These settings contribute to efficiencies in the billing and collection requirements of the arrangement through the combination of fee-for-service and leviable effort into the same rate of charge.

#### **4 RISK ASSESSMENT**

The Charging Risk Assessment (CRA) tool has been used to assess the risk associated with the GEMS program cost recovery. The overall risk associated with the cost recovery of GEMS is **medium**. The Department considers the risk is being managed appropriately. This is based upon the following considerations:

- There are no proposed changes to the current cost model and there will be no differing cost impacts on regulated entities.
- Revenues and the associated level of activity under this cost recovery arrangement are essentially driven by demand.
- The risks to this cost recovery arrangement are a large, unexpected increase or decrease in product registrations.
- The Department manages the risks by monitoring and reviewing both revenue and activity levels monthly. This allows the Department to identify any issues or trends in a timely manner and allow reallocation of resources as required, within the resourcing constraints of the Department.

#### 5 STAKEHOLDER ENGAGEMENT

The stakeholders for the GEMS cost recovery are those entities that are connected to the supply of regulated appliances. This can include manufacturers, importers, wholesalers, retailers and the industry bodies who represent them. The Department communicates with stakeholders about the GEMS cost recovery in person, by emails and through publishing information on the energy rating website.

Each year the GEMS Regulator publishes an annual report detailing performance over the past year. The 2022-23 Annual report for the GEMS Program is contained in the Department's Annual report. The GEMS Regulator also conducts an annual survey of regulated entities to understand their views, issues and overall satisfaction with the services offered by the GEMS Regulator.

The GEMS Regulator is continually looking to make improvements to the efficiency and effectiveness of the administration of the GEMS program. The GEMS Regulator will also monitor the ongoing effectiveness of the current charging structures and the appropriateness of the rates of charge and consult stakeholders in coming years about improvements that could be made.

# **6 FINANCIAL PERFORMANCE**

Information on the financial performance of the combined total of all outputs is presented in the following sections.

#### 6.1 Financial Estimates

Financial results for the 2022-23 budget year and financial estimates for the three forward years are presented in Table 6.1.1.

Table 6.1.1 – Financial results for the 2022-23 budget year and forward year estimates

Financial Item	2022-23	2023-24	2024-25	2025-26
	Actuals	Estimate	Estimate	Estimate
	(\$m)	(\$m)	(\$m)	(\$m)
Total expenses	2.155	2.242	2.320	2.401
Total revenue	2.657	2.657	2.657	2.657
Balance = revenue - expenses	0.502	0.415	0.337	(0.256)
Cumulative balance	(2.918)	(2.503)	(2.166)	(2.422)

Source: Department of Climate Change, Energy, the Environment and Water

#### **6.2** Financial Outcomes

Financial results for the previous financial periods are presented in Table 6.2.1.

Table 6.2.1 – Historical financial results

Financial Item	2018-19	2019-20	2020-21	2021-22
	(\$m)	(\$m)	(\$m)	(\$m)
Actuals				
Total expenses	3.881	4.116	2.977	3.750
Total revenue	2.308	2.719	3.834	3.301
Balance = revenue - expenses	(1.574)	(1.397)	0.857	(0.449)
Less Remissions, rebates and adjustments	-	-	-	-
Net balance	(1.574)	(1.397)	0.857	(0.449)
Cumulative Balance	(1.574)	(2.971)	(2.144)	(3.420)

Source: Department of Climate Change, Energy, the Environment and Water

The historical financial results for the charging arrangement demonstrate a sustained under-recovery of the GEMS program costs. While a modest surplus was recorded in 2021-22 and 2022-23, and further surpluses are expected in the forward estimates, the cumulative balance of the charging arrangement is expected to remain in deficit.

As discussed in the previous section, the ongoing effectiveness of the current charging structure, and the appropriateness of rates of charge will be considered by the GEMS Regulator.

#### 7 NON-FINANCIAL PERFORMANCE

The GEMS non-financial performance framework covers two key areas of performance: the achievement of policy objectives from the program and regulator performance in delivering services.

The impact of the program and its achievement of policy objectives was assessed through a GEMS data modelling project in 2022. The GEMS data modelling project compared information on actual energy usage to two theoretical alternative scenarios if the regulations had not been implemented.

The modelling found that between 2011-12 and 2021-22, the GEMS Act:

- Saved Australian businesses and households between \$12 to \$18 billion in energy costs;
- Saved between 45 to 67 terawatt-hours of energy, around the same amount of electricity used by all Tasmanian, Northern Territory and South Australian homes during the same period;
- Avoided the release of between 40 and 60 megatons of carbon dioxide, around the same amount of emissions produced by Australia's entire manufacturing industry in 2021.

Regulator performance in delivering services is assessed through the following criteria:

#### 1) Registration applications

Performance for registration applications is assessed through combination of measurement of time taken to deliver services and an annual stakeholder survey gathering the opinions of regulated entities. The assessment of performance in the 2022-23 budget year identified that:

- 99.5 percent of applications for registration were processed within 14 days
- Applications for registration were processed in 2.5 days on average
- 96 percent of stakeholder survey respondents were satisfied that their application for registration was processed in a timely manner, and
- 83 percent of stakeholder survey respondents were satisfied with the overall services offered by the GEMS program.

#### 2) In-store surveillance and on-line store monitoring

GEMS instore market surveillance inspections, increased following the previous year's COVID-19 restrictions, were a key monitoring focus during 2022–23. However, extreme weather events during the latter half of 2022 impacted some planned activities. From the 160 store visits during 2022–23:

- 97 percent of GEMS household products were correctly registered under the GEMS Act in 2022–23, and
- 84 percent correctly displayed an energy rating label (ERL).

Online store monitoring of retailer, supplier and third-party online shopping websites revealed that 92 percent of GEMS household products were correctly registered under GEMS.

#### 3) Check Testing

Between 1 July 2022 and 30 June 2023, the GEMS Regulator undertook stage 1 check testing of 64 models for ten GEMS products.

At the date of reporting:

- 57 models passed the relevant GEMS Determination level requirements,
- 6 models are pending testing finalisation, and
- 1 model failed Stage 1 check testing. The model registration has been cancelled, and it can no longer be offered for sale or supply in Australia.

During 2022-2023, the Check Testing Policy was significantly updated, with the inclusion of product validity criteria informing Industry bodies and suppliers of the tolerance allowance applied in check testing.

A summary of historical and estimated levels of activity for the charging arrangement is outlined in Table 7.1.

Table 7.1 – Summary of key activity volumes for the charging arrangement

Output description	Total output volume	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Registration	Actuals	5016	5371	7806	5830	4813			
(Assessments)	Estimated								
Applications for registration							5000	5000	5000
Compliance	Actuals	242	128	12*	53*	160			
(Surveillance) In-store visits	Estimated						240	240	240
Check tests	Actuals	115	74	64^	61^	64			
	Estimates						70	70	70

Note \* During 2020-21 and 2021-22, in-store inspections were impacted by extreme weather event and Covid19.

Note ^ During 2020-21 and 2021-22, check testing laboratories were impacted by Covid 19 restrictions and equipment

supply chain delays
Source: Department of Climate Change, Energy, the Environment and Water

# 8 KEY FORWARD DATES AND EVENTS

Key events scheduled to occur over the life of this Cost Recovery Implementation Statement (2022-23 to 2025-26) and listed in Table 8.1.

Table 8.1 – Key forward dates and events

Date	Event
July 2024	Publish CRIS for 2024-25 Budget Year
September 2024	Annual stakeholder satisfaction survey
December 2024	Publish operational results for 2023-24

# 9 CRIS APPROVAL AND CHANGE REGISTER

#### Table 9.1 - CRIS approval and change register

Date of change	CRIS change	Approver	Basis for change
08/04/2024	Publication	Secretary, Department of Climate Change, Energy, the Environment and Water	Publish operational results for 2022-23