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South Australian Retailer  
Energy Efficiency Scheme (REES)

REES Review - Issues Paper  
Department for Energy and Mining

Prepared by Demand Manager Pty Ltd

## Executive Summary

Demand Manager welcomes the opportunity to provide a submission on the future development of the South Australian Retailer Energy Efficiency Scheme (REES).

From a high-level perspective, we strongly support the ongoing delivery of the REES due to the net economic and environmental benefits delivered by the Scheme.

We believe, however, that several targeted, structural changes to the scheme could help deliver the Scheme's objectives at lower cost to electricity consumers:

- A transition of the scheme towards an openly traded certificate scheme (akin to the NSW or Victorian energy efficiency schemes) would lead to better transparency, higher competition and lower cost to electricity consumers.
- A higher level of involvement of the South Australian Government in identifying and helping deliver energy efficiency activities for the Priority Group would result in better outcomes for this subset of consumers. Access to relevant customer data is often problematic and can lead to inefficiencies in delivering outcomes to this group of customers.
- Judging by the current level of un-serviced customers (particularly in regional locations), we consider the energy efficiency targets have historically been under-set and higher targets could be accommodated in any future extension of the Scheme.

## A) Scheme Objectives

### Consultation Questions

If the scheme continues should the objectives be revised?

Yes.

If so, what changes should be made?

Demand Manager would recommend making the following changes to the Scheme in the interests of delivering the core objective of delivering energy savings at lowest cost:

- The REES should be restructured to become a tradable certificate scheme akin to similar schemes in NSW and Victoria. At present, the direct contract arrangement between electricity retailers and third party contractors leads to poor outcomes in terms of transparency, price discovery and competition. A simple like-for-like comparison of NSW ESC and Victorian VEEC prices (circa \$20 per MWh) and SA REES contracts (circa \$12 per GJ – the equivalent of \$40+/MWh) would suggest that the overall cost of the REES to electricity consumers could be substantially lowered.
- Greater involvement of the SA Government in identifying and delivering the Priority Group activities. Due to legitimate privacy concerns and an ever-decreasing pool of untapped customers, it is difficult for energy savings service providers to identify eligible Priority Group customers. Greater involvement of the SA Government in advertising, educating, identifying and potentially delivering through bulk procurement could alleviate these barriers and deliver cheaper cost abatement.

As the SA electricity system evolves, Demand Manager also believes that additional benefits could be delivered through the Scheme including peak demand reductions. Targeting Power Factor Correction (PFC) equipment for instance, could deliver significant peak demand reductions and minor energy savings.

Should REES continue to ensure that activities delivered are additional to business as usual

Yes, it is important for the fundamental premise of the scheme to be encouraging action which would not otherwise have occurred. In Demand Manager's experience however, it should be noted that energy savings is never high on anyone's agenda and the psychological impact of financial rewards is a big driver in this space.

## **B) Commercial or Residential**

### Consultation Questions

Should the REES focus on the energy use in the residential sector, or the commercial sector, or both.

Demand Manager supports the REES having a wide-ranging scope to maximise the delivery of opportunities to make energy savings across the SA electricity network.

Has the expansion of REES to allow commercial activities been a success?

Demand Manager considers the extension of the Scheme to the commercial activities to be a logical and successful step for the REES. Demand Manager would recommend further extending into the commercial sector by lifting the current 900GJ cap on commercial lighting installations to allow larger businesses to participate and thus lower the cost of the Scheme to consumers.

Should additional activities be included? If so, which activities?

Demand Manager would welcome the extension of the Scheme for larger businesses by extending the current 900GJ maximum for commercial lighting installations. Extending the reach of the Scheme to larger businesses will help deliver the energy savings objectives of the Scheme whilst lowering the overall cost to electricity consumers.

We would also welcome the inclusion of Power Factor Correction activities for commercial customers if the rebate could be a significant incentive for action. PFC technology can deliver attractive peak demand savings for the electricity network and assist businesses reduce electricity costs. The NSW scheme currently permits energy savings to be claimed from PFC installations, however the incentive on offer is not sufficient to drive action from consumers. Extending the scope of the REES Scheme to incentivise peak (kVA) demand reduction could provide a mechanism to promote this technology and other peak demand initiatives.

Should there be a residential sector target to prevent commercial activities 'crowding out' residential activities?

We would support having specific residential targets to ensure the scheme continues to deliver benefits for commercial and residential customers alike.

Should RESS retain rules to focus commercial activities on small business, such as restriction on energy savings from each upgrade?

Demand Manager would support lifting the current 900GJ cap on business energy savings to a level of 3,000GJ to enable medium-sized businesses to participate in the Scheme and lower the overall cost of the Scheme to electricity consumers.

Demand Manager also recommends the Scheme adopt regional factors for non-metropolitan areas in the state for commercial lighting activities. Adopting the regional

factor (as per NSW Rules) would lead to higher uptake in regional areas (currently under-serviced) and lower Scheme costs for electricity consumers.

### **C) Lighting Activities**

#### Consultation Questions

Having lighting upgrades become as usual?

No. In Demand Manager's experience, energy efficiency is never core business and the financial incentive available for commercial lighting activities is a significant driver for change. The fact that commercial lighting upgrades are currently booming in the small business market but almost non-existent in the medium and large scale sectors is evidence of the need for a financial incentive to drive lighting upgrades.

If REES continues as an energy efficiency scheme, should lighting upgrades remain an eligible activity?

Yes. In our opinion, lighting upgrades provide an excellent base for the REES Scheme since it is a) easily replicable, b) there is a wide spread need, c) the technology is comparatively cheap, and d) the technology delivers additional benefits in terms of maintenance costs for businesses.

If lighting upgrades remain, should they be restricted to certain sectors or regions where LED upgrades are less likely to be business as usual.

Demand Manager does not support restricting lighting upgrades to certain sectors or regions. In our experience, energy efficiency is never core business in any sector, and the financial incentives on offer provide the main driver for action. The REES Scheme also needs to balance the need for energy savings with the cost to consumers, and restricting access to lighting upgrades would make it more difficult to balance these somewhat competing needs.

### **D) Priority Group Households**

#### Consultation Questions

If a scheme continues, should it remain a focus on assisting low income households?

Yes. Ensuring that low-income households benefit from energy savings is an important equity component of the Scheme that should remain.

Are priority group households sufficiently clearly defined and easily located?

The identification and location of Priority Group consumers is one of the most difficult aspects of the Scheme from an energy savings service provider perspective. Due to legitimate privacy concerns, we must rely on a variety of activities to successfully locate such consumers – at a relatively high price. In addition, a lack of information sharing means the

most common industry method is door-knocking which has been proven in other jurisdictions to not deliver optimal outcomes.

Demand Manager would recommend a higher level of involvement of the SA Government to assist in the identification and delivery of priority group activities, perhaps through bulk procurement approaches.

Should there be specific targets or incentives to encourage activities in remote or regional areas? How might this affect costs?

Yes there should. Demand Manager currently finds regional communities are poorly serviced by the Scheme. We often receive phone calls from regional businesses and households enquiring about how to participate and how difficult it is to gain the interest of energy savings service providers.

One method to tackle this issue would be to correctly allocate regional factors for commercial lighting upgrades to incentivise lighting companies to service regional small businesses.

Have the changes to the definition of priority group adequately covered those households most in need of assistance from the REES?

Yes, the definition has covered a wide range of household types, but the problem of identifying them to start with still remains. The issue is not necessarily who, but where.

What is the best way to increase the opportunities for low income households to benefit from 'deeper' retrofit activities through REES?

For the S.A. Government to take a more pro-active role in this this portion of the Scheme. This may involve direct marketing from the Government or consideration of bulk procurement schemes which ease the barriers around identification and engagement.

Is there a more effective way to define the customers who are most likely to benefit from receiving REES activities and audits?

In our opinion, the current market-based approach to Priority Group customers is inefficient and encourages fraudulent behavior. It is our experience that customers in this sub-group are not often provided with the right advice or products to suit their needs.

To enhance this aspect of the REES, the S.A. Government should give consideration to taking a more proactive role for Priority Group customers, such as direct marketing, engagement and perhaps bulk procurement options.

## **E) Energy Audits**

### Consultation Question

How should energy efficiency outcomes from energy audits be verified?

Demand Manager believes that a stronger compliance program which involves physical site inspections of energy efficiency installations is an urgent reform of the current Scheme. It is our recent experience, for instance, that around 20% of Priority Group activities have not been delivered in accordance with the Scheme objectives, leading to sub-optimal outcomes at best and fraud at worst.

Are the current qualifications requirements for energy auditors appropriate, and are auditors adequately trained to deal with priority group households?

Yes, the current qualifications are appropriate but dealing with the Priority Group households is often challenging due to a number of reasons including language barriers, tenancy turnover, distrust of the Scheme and confusion as to the roles and responsibilities of Scheme participants.

## **F) Expanding to Demand Management**

### Consultation Questions

Should REES primarily focus on reducing energy use or managing energy demand?

As peak demand constraints on the SA grid continue to grow, then the REES should adapt to help mitigate these problems. Including a peak demand (kVA) component to the calculation of benefit from the Scheme could see a greater focus on technologies – such as Power Factor Correction – that could assist in this regard. Demand Manager would support the extension of the Scheme to include peak demand incentivisation.

Is there a place in an energy efficiency scheme for technology that enables energy management rather than directly reducing energy use? If so, what activities should be included, and how should they be credited?

Demand Manager would not support the extension of the Scheme to technologies that do not directly reduce energy consumption. We believe the firm link of the Scheme to G.J.' savings is an important distinction that underpins its success.

## **G) Funding**

### Consultation Questions

If the scheme continues beyond 2020, how should it be funded?

Funding should continue on the present basis.

## **H) Deeper Retrofits**

### Consultation Questions

To reduce scheme costs and encourage a 'whole of house' integrated approach to energy efficiency, should there be a 'bonus' added to the deemed value when multiple activities are carried at the same house?

Yes.

Should REES require a minimum number of activities or a minimum amount of energy savings to be delivered at each home or business? How would this be done?

Demand Manager is open to this question as it depends on future offerings including possibly demand response air conditioning, load controlled pool pumps etc. and requires more modeling.

Should the Victorian Residential Energy Scorecard, or similar, be introduced to RESS to measure deemed savings from whole of house upgrades? How would this be done?

Demand Manager does not support this suggestion.

Regards,

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