



20 May 2019

Department for Energy and Mining  
Government of South Australia

Submitted by email: [tina.maiese@sa.gov.au](mailto:tina.maiese@sa.gov.au)

Dear Sir/Madam,

### **REES Review – Issues Paper**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Review into the South Australian Retailer Energy Efficiency Scheme (REES) Issues Paper.

Origin has been a major liable party under the REES since the scheme commenced. We believe it still has a useful role to play in encouraging energy efficiency activities but that this should be balanced against the additional cost it imposes on customers. We therefore suggest a range of possible improvements such as changes to the scheme targets and eligible activities. This will help keep the scheme relevant as the market evolves.

Our key points are as follows:

- Scheme objectives – remain relevant but we believe the targets should evolve with a new incentive structure created for Priority Groups (PGs). The scheme should not expand into demand management.
- Commercial or residential – both commercial and residential activities should be promoted by the scheme, with the emphasis placed on achieving the most cost effective energy efficiency improvements. We suggest separate targets for both commercial and residential activities are considered.
- Lighting Activities – should continue to be included as they provide cost effective activities, particularly in the commercial sector.
- Priority Group Households – a new incentive structure should be incorporated into the scheme. Instead of a specific target for PGs we suggest that activities in PG households be incentivised by providing a multiplier to certificates created.
- Energy Audits – as with PGs, we suggest that the sub-target for energy audits be removed and they be incentivised through a multiplier. We also suggest that the same household be allowed to receive a second audit, once about 2-3 years has expired.

- Expanding to Demand Management – we do not support the scheme expanding into demand management activities. If the Government desires to promote demand management initiatives, this should be achieved separately.
- Funding – if the Government desires to expand the scope of the REES in some way then this should be Budget funded. No further costs should be placed on mass market customers.
- Deeper Retrofits – whilst deeper retrofits have some merit, we do not believe they are practical under the operation of the scheme.
- Other issues
  - Scheme costs – we suggest that overall scheme costs are regularly monitored and assessed against the scheme objectives. If market saturation occurs in certain parts of the scheme then this should lead to more timely changes to avoid unnecessary costs to consumers.
  - Related changes and consultation – the REES is highly dependent on the framework of other state schemes. However, these schemes are tradeable and apply to much larger markets, so are not always as relevant to South Australia. We suggest a consultative process be followed when such related changes are proposed to be made to the REES.

More detailed answers to the specific consultation questions are contained in the following attachment.

If you wish to discuss any aspect of this submission further, please contact Matthew Kaspura at [matthew.kaspura@originenergy.com.au](mailto:matthew.kaspura@originenergy.com.au) or on 02 9503 5178.

Yours sincerely,



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<b>Issue</b>	<b>Question</b>	<b>Response</b>
Scheme Objectives	<p>If the scheme continues should the objectives be revised?</p> <p>If so, what changes should be made?</p>	<p>Fundamentally the scheme objective is sound but the targets need to be adjusted. The scheme has been running for a decade now and there has been limited recognition of:</p> <ul style="list-style-type: none"> <li>○ the number of times the same household can realistically be expected to be visited for energy efficiency purposes.</li> <li>○ The cost of activities, as low cost activities are used up</li> </ul> <p>Regarding the specific targets for Priority Group (PG) households and energy audits – these have already hit market saturation point and the targets are unsustainable.</p> <p>The commercial sector has not yet hit saturation and it is important that commercial activities are retained to keep the costs of the scheme reasonable.</p>
	Should REES continue to ensure that activities delivered are additional to 'business as usual'?	REES needs to focus on activities that are compliant and follow activity specifications. If this occurs, BAU isn't a concern.
Commercial or Residential	Should the REES focus on energy use in the residential sector, or the commercial sector, or both?	Both Commercial and Residential. The main objective of the scheme is to improve energy efficiency, and this should be done in a cost effective manner with a broad range of activities included.
	Has the expansion of REES to allow commercial activities been a success?	<p>Commercial activities have been successful but have some impact on the market for residential activities.</p> <p>Commercial activities allow for higher certificate creation per job resulting in less customers required. This allows for lower costs of scheme compliance.</p> <p>However, some contractors have left the residential market to focus on the commercial sector creating a lack of options for residential households and especially PG activity creation.</p>

		The current limitations on commercial sites limit benefit to commercial customers and increased scheme compliance costs. Many customers have the potential to save more than 900 GJ. These customer miss opportunities where we should be going back to carry out the rest of the possible energy efficiency activities in the business.
	Should additional commercial activities be included? If so, which activities?	Yes, some suggestions include: <ul style="list-style-type: none"> <li>• Heating, ventilation and air conditioning (HVAC)</li> <li>• Level 2 and Level 3 audits for business</li> <li>• Light controllers separate to lighting upgrades</li> <li>• In house displays</li> </ul>
	Should there be a residential sector target to prevent commercial activities 'crowding-out' residential activities?	We suggest there needs to be both a residential and commercial target, not a separate PG target. PG households should receive a multiplier instead of being a separate target. This still allows PG households to be targeted but not at the expense of other residential households. This also ensures there are contractors available to service the residential sector.
	Should REES retain rules to focus commercial activities on small business, such as the restriction on energy savings from each lighting upgrade?	Limitations in this area should be reduced. There are already multiple rules in place – a 900 GJ cap plus \$1.40 per GJ for large energy users. Both are not required. The GJ cap should be lifted so that a broader range of commercial businesses can be eligible.  Another option is to amend the 900 GJ cap to be 900 GJ per lighting type as opposed to a blanket 900 GJ cap. This would stop the current barrier to whole of site upgrades.  Along with the change to the cap, second visits to Commercial sites upgraded between 2015 and 2020 should be permitted to allow for businesses that were limited and did not receive full upgrades under the scheme.
Lighting Activities	Have lighting upgrades become business as usual?	No, as South Australia still has access to relatively inefficient lighting options such as incandescent globes.
	If REES continues as an energy efficiency scheme, should lighting upgrades remain an eligible activity?	Yes, until the market determines that it is no longer a viable activity. This is the main activity currently carried out in REES. Removing it would make targets completely unattainable.

	<p>If lighting upgrades remain, should they be restricted to certain sectors or regions where LED upgrades are less likely to be business as usual?</p>	<p>No. If the site hasn't already been upgraded then it should be eligible for REES.</p> <p>In 2018, NSW updated their abatement calculations to create a difference between metro and regional areas with lighting in metro areas deemed to have a shorter lifespan before replacement. This meant that regional areas created higher levels of abatement. The SA scheme had to adopt these updates as the same certificate calculator is used. The SA scheme decided to use metro factors for all businesses regardless of location. This has resulted in regional businesses receiving on average 25% less certificates per site and a higher focus on metro delivery due to lower costs. We believe there needs to be a difference to incentivise activity in regional areas and take into account the higher cost to serve and support these customers.</p>
Priority Group Households	<p>If the scheme continues, should it retain a focus on assisting low income households?</p>	<p>If the Government desires for low income households to remain as a focus of the scheme we propose a new incentive structure to promote activities in PG households. Instead of a mandated target this would involve activities and audits in PG households receiving a multiplier.</p> <p>The majority of PG households have already been visited for the purposes of the REES scheme. It is therefore difficult to identify new PG households with viable activities and this increases the cost of compliance. In this sense, the REES has successfully done its job in this area and the scheme should evolve.</p> <p>An alternative to a multiplier could be to allow a low cost contribution per GJ that would be payable instead of an activity or penalty. This could be banked by the Government and used as a source of funds to directly benefit PG households to improve energy efficiency. The rate of the contribution should be set well below the current penalty rate.</p>
	<p>Are priority group households sufficiently clearly defined and easily located?</p>	<p>PG households are clearly defined but not easily located.</p> <p>There is a sensitive nature to customer contact when discussing customer hardship status or retailer payment plans. This occurs when a customer identifies as PG eligible but does not have a valid concession card (hardship and payment plan).</p>
	<p>Should there be specific targets or incentives to encourage</p>	<p>We support a multiplier being attached to remote or regional areas but not a separate mandated target. The cost to serve these customers is typically</p>

	activities in remote or regional areas? How might this affect costs?	high – it generally involves less economies of scale, greater travel costs and greater warranty costs.
	Have the changes to the definition of priority group adequately covered those households most in need of assistance from the REES?	We support energy efficient activities in all SA households. Therefore, we propose an incentive structure with a multiplier attached to PG households. This will still promote activity in PG households but will not prevent activity from occurring in other residential households.
	What is the best way to increase the opportunities for low income households to benefit from 'deeper' retrofit activities through REES?	<p>To increase opportunities PG activities could receive more certificates. This would reduce the cost to the customer making it more likely they will go ahead with activities. For example, buying an energy efficient fridge might cost \$800 with REES covering about \$80 of that. This is insufficient for many customers to proceed.</p> <p>To truly benefit low income households, the certificates created from an activity need to offset the cost to PG customers to have the service or upgrade completed. The upfront cost of completing non-essential upgrades is a barrier to low income households and the choice is made to not complete the upgrade or spend the extra money on high efficiency upgrades. The best way to help to offset these costs is to create a higher level of certificates for these upgrades when compared to non-PG households.</p>
	Is there a more effective way to define the customers who are most likely to benefit from receiving REES activities and audits?	There is a current gap in the REES scheme for residential customers who want to access energy efficiency activities but do not qualify under PG. They can miss out as residential non-PG activities do not offer as much benefit to contractors as commercial certificates do. Therefore, we suggest an incentive structure without a separate mandated target for PG households.
Energy Audits	How should energy efficiency outcomes from energy audits be verified?	<p>The scheme should allow second audits to be completed in a premises every 2-3 years, with a comparison made to the results of the first audit.</p> <p>Audits should also be allowed for commercial premises.</p> <p>We further suggest that audits be quantified as part of the overall GJ target, with a multiplier applied to audits performed in PG households.</p>

	Are the current qualifications requirements for energy auditors appropriate, and are auditors adequately trained to deal with priority group households?	Yes, but there is a lack of RTOs offering the course.
Expanding to Demand Management	Should REES primarily focus on reducing energy use or managing energy demand?	The REES should remain focused on reducing energy use.
	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?	No. Different policy is required to focus on Demand Management. The objectives of the REES should be kept simple.
Funding	If the scheme continues beyond 2020, how should it be funded?	If the Government desires to expand the scope of the REES in some way then this should be Budget funded. No further costs should be placed on mass market customers.
Deeper Retrofits	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 out at the same house?	In an ideal world this would make sense, but this is unlikely to work in the scheme for practical reasons. South Australia does not have the scale to pursue this approach (beyond the basic activities). It would require companies that have a broad range of skills to offer multiple activities. However, the customer base for this to be cost effective does not exist.  This has been trialled in NSW unsuccessfully in the past. One of the takeaways from the trial was that customers were intimidated by having numerous activities being carried out at the same time.
	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?	No. This creates a potential barrier to customers that want to participate in the Scheme.

	Should the Victorian Residential Energy Scorecard, or similar, be introduced to REES to measure deemed savings from whole of house upgrades? How would this be done?	Yes, we would support this but there needs to be more incentive to carry this out to make it viable.
Other issues	Scheme targets	Yearly targets should be reduced – households requiring approved activities are coming increasingly more difficult to find as the market hits saturation point. Further, those households that can be accessed are seeing the average certificate number fall – from about 30 GJ in 2017 to about 20 GJ in 2018.
	Scheme activities	Could be expanded to broader range of energy efficient appliances including TV's, washing machines, other dryers (not just condenser dryers) as well as activities to improve the energy efficiency of the building envelope. Effective implementation to make this worthwhile would need consideration.
	Scheme administration	ESCOSA needs to be granted the discretion to make timely changes in the best interests of electricity customers e.g. if certain activities do not require an electrician to perform them then ESCOSA should have the ability to approve this.