



**EnergyAustralia**

LIGHT THE WAY

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20 May 2019

Tina Maiese  
Department for Energy and Mining South Australia  
Lodged via email: [tina.maiese@sa.gov.au](mailto:tina.maiese@sa.gov.au)

Dear Ms Maiese,

### **Review into the South Australian Retailer Energy Efficiency Scheme**

EnergyAustralia is pleased to make this submission on the Retailer Energy Efficiency Scheme (REES) review issues paper April 2019.

EnergyAustralia (EA) is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts across eastern Australia. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation.

EA has made detailed comments on each of the matters the Department is seeking feedback on in the attachment but has set out its key comments below.

EA broadly supports the continuation of the Retailer Energy Efficiency Scheme and its objectives to reduce household and business energy use in SA. However, we note that each state and territory has its own energy efficiency scheme. The REES in SA, being an activity-based scheme, is different from certificate-trading based schemes in other jurisdictions. While certain components are aligned e.g. use of the NSW IPART calculator for certain activities, we consider there would be operational efficiencies for retailers and regulators in greater and complete national harmonisation of the schemes. Any cost savings from those efficiencies would benefit customers.

In the absence of a nationally consistent energy efficiency scheme, we consider that some changes to the REES should still be made and other elements should remain the same. Specifically, the scheme should retain commercial activities and LED lighting activities as these are key components of the scheme.

We also highlight that in 2018 EA experienced significant challenges in meeting the Priority Group energy efficiency target (PGEET). We support nominating more approved energy efficiency activities for Priority Group households to avoid any 'saturation' issues in the future or lowering the target, to ensure this part of the scheme is sustainable. We are also interested in exploring other, flexible avenues to assist low income households and this is discussed in the attachment below.

In relation to the scheme's objectives and scope, we support more consultation and an opportunity to comment on the details around broadening the schemes objectives and activities to demand management.

If you have any questions in relation to this submission, please contact Selena Liu (03 8628 1548).

Yours sincerely,

Sarah Ogilvie  
Industry Regulation Leader

## **a) Scheme Objectives**

EA agrees with the current REES objective of reducing household and business energy use. However, we note that the objective specifically focusses on low income households. We consider that the REES objective is equally relevant to businesses and all households and the focus should not necessarily be on low income households.

Separately, we question whether the REES energy savings should be limited to activities that are not “business as usual” or would not typically occur in households and commercial operations. Business as usual activities also offer valuable energy savings.

We fully support more discussion about evolving and broadening the scheme to include innovative solutions that address challenges faced by the whole industry such as network demand reduction and network minimum demand management. These objectives are equally relevant today for the national electricity market and system.

These activities would deliver real benefits to customers. At a macro level, demand response promotes the reliability of the electricity system, can help to avoid load shedding and potentially avoid investment in transmission networks and generation assets (and thereby lower the average cost to supply electricity for customers). Demand management products can be tailored for smaller users such as residential households and small businesses. We discuss demand management products more in section f.

## **b) Commercial or residential**

EA considers commercial activities are an important part of the REES scheme and should continue to be an equal focus alongside residential activities.

The extension of REES activities to commercial activities has been a success. We estimate that so far in 2019 and in the 2018 calendar year, approximately 60% of EA’s overall energy efficiency target will be or was met via commercial activities. In 2016 and 2017, this was 75% and 65%, respectively. These figures indicate that there is enough demand and uptake from the business sector for these services.

Energy costs are a material expense for small businesses (often driven by high use of energy intensive products such as lighting and refrigeration). Small businesses can also experience challenges with energy affordability, with average small-to-medium business usage being around three times that of a residential household. In the Retail Electricity Pricing Inquiry, the ACCC found that many small businesses are on high-priced standing offers or no-discount market offers and high energy usage and energy costs are impacting small business profitability and their ability to complete.<sup>1</sup>

In relation to the 900GJ cap which serves to direct a large proportion of commercial lighting upgrades to small businesses, we consider this should be re-examined to determine if it effectively targets small businesses. EA’s view is that it could be increased (up to double) without extending the scheme to cover large businesses.

Alternatively, other thresholds to target small businesses could be considered. For instance, the definition of small customer under the National Energy Retail Law is based on annual consumption.

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<sup>1</sup> ACCC, Retail Electricity Pricing Inquiry—Final Report, June 2018, pg. 334

Another way to determine the small business threshold is the method set out under the NSW Home Energy Efficiency Retrofit. This threshold is also based on electricity consumption which is simpler and more directly targets identifying a small business customer compared to the REES 900 GJ activity cap.

### **c) Lighting activities**

In EA's view, lighting activities such as LED lighting are not 'business as usual' in all market segments and should remain an approved energy efficiency activity under the REES. In the absence of the REES, there would be significantly less uptake and less energy savings as a result. Our contractor's (YESS') experience in the small business market is that small businesses do not typically replace low efficiency lights with LED lights because the ballast needs to be upgraded, which adds cost and effort to the upgrade.

In addition, we note that the commercial lighting calculation is linked to the NSW Independent Pricing and Regulatory Tribunal (IPART) calculator. As the REES and NSW Energy Savings Scheme are not fully aligned, changes to the IPART calculator that flow through to REES may not be appropriate for the South Australian context.

### **d) Priority Group Households**

EA notes challenges in targeting Priority Group households. Before the change from 1 January 2019 relating to L1 Installs of LED General Purpose Lamps (which allowed revisits to households that had previously participated in REES), EA faced significantly greater challenges in targeting Priority Group households compared to previous years. The change from 1 January has slightly assisted in addressing the challenges in meeting the Priority Group household target at least in the short term. We support nominating more approved energy efficiency activities for Priority Group households to avoid any 'saturation' issues in the future or lowering the PGEET, to ensure this part of the scheme is sustainable.

Any changes to the REES in respect of Priority Group households should also consider and complement alternative avenues to assist low income households. For example, the National Energy Retail Law imposes obligations on authorised retailers in relation to customers experiencing payment difficulty and hardship, including recent changes to hardship policy requirements.

We are also interested in exploring potential new avenues to assist low income households. In this regard, retailers may not always be best placed to provide assistance to low income households directly. Instead of meeting a PGEET via the performance of activities and audits which are limited in scope, retailers could be required to pay a contribution (similar to the energy saving contribution under the ACT Energy Efficiency Improvement Scheme). This contribution could be used flexibly by the SA Government to conduct ad hoc initiatives e.g. low-income housing upgrades that target reducing energy use. These activities may benefit low income households more than completing a fixed set of REES activities.

Regarding regional and rural areas, to incentivise the performance of energy efficiency activities in Priority Group households in those areas, activities in those areas should be worth more gigajoule energy savings relative to metropolitan areas. This should be achieved via the use of a multiplier. This would also reflect that the cost of servicing activities in regional or rural areas is also usually higher compared to metropolitan areas. Retailers should not be limited as to how many PGEET activities the multiplier can be applied to, i.e. no percentage cap on the amount of regional and rural activities.

### **e) Energy audits**

EA recognises the benefits of the Victorian Residential Efficiency Scorecard as a standardised rating for households but notes that it is focussed on improvements to the house. In contrast, the current form of the REES energy efficiency audits focusses on simple behavioural changes recommending practical and low-cost ways of reducing household energy use that can be implemented immediately. EA considers this is an important part of the REES which should be retained. The energy efficiency outcomes for the current REES energy audits can be verified via a follow up phone call survey around four weeks after the audit to assess whether a customer has remembered the recommendations and has undertaken them.

### **f) Expanding to demand management**

EA considers that the REES could evolve to promote technology that enables energy management (rather than reducing total energy use). This could contribute to managing electricity supply across the electricity system during extreme peak demand periods.

Initiatives or activities that focus on making demand response a customer product could be incorporated into the REES scheme. For instance, a product that aims at achieving behavioural changes by asking customers to reduce usage at high demand times and rewards changes in behaviour. While this does require retailer investment in various applications, this is a simple option that requires no investment by customers. Both residential and small business customers could participate by simply reducing non-essential energy use.

For an EA example see: <https://energyaustraliadr.zendesk.com/hc/en-us>.

The reduction in energy use could be counted towards satisfying a new target that focusses on managing network peak demand.

Similarly, the installation of certain appliances could be assigned a value that could be used to meet the new target. These could be smart home appliances that can be controlled, such as Peaksmart air-conditioning, which reduces energy use during peak demand in response to signals. Appliances that contribute more to reducing energy use during peak demand could be assigned a greater value under the new target, compared to those that contribute less.

We emphasise that these initiatives and activities should be optional and not mandatory as requiring all retailers to do them would materially increase the costs of the REES and it is still unclear how the demand management market will develop.

### **g) Funding**

EA recovers the cost of REES from electricity and gas customers in South Australia. The Federal Government has regulated the Default Market Offer (DMO) for standing offer electricity tariffs in South Australia, effectively placing a price cap on those tariffs. We ask that the Department consider the regulated DMO price in making changes that would materially increase the costs of the REES.

#### **h) Deeper retrofits**

EA would welcome the addition of bonus deemed values where multiple activities are carried out at the same house. However, the REES should not require a minimum number of activities at a home or business – a customer should be able to obtain a low number of activities if that is their preference. The costs of providing that activity will constrain any performance of a low number of activities that is uneconomic.

#### **i) Additional matters – combine energy specific targets**

REES currently sets separate targets for electricity and gas and does not combine these targets. We propose that these targets should be combined into overall total targets as there are no clear benefits to retain them as separate targets. The same energy efficiency activities go to meeting both targets. Combining the targets would achieve operational efficiencies in administering the scheme for retailers e.g. efficiencies in how they are entered the REES-S portal.