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Re: REES Review – Issues Paper

Dear Craig

Thank you for the opportunity to provide comment on the Retailer Energy Efficiency Scheme (REES) Issues Paper.

The Energy Efficiency Council (EEC) is the peak national body for energy efficiency, and has engaged extensively with South Australian Government on the REES over multiple years. The EEC's responses to the detailed questions set out in the Issues Paper are set out in the attached paper. However, there are a number of high-level issues that we wish to raise first.

The REES has been highly effective at reducing energy bills for household and business in South Australia. However, we believe that the REES would deliver significantly greater benefits if a number of fundamental issues were addressed:

- The REES has much lower ambition than energy efficiency schemes in other states - the Victorian Energy Upgrades Program aims to deliver more than twice the energy savings per capita as the REES. The REES target should be significantly raised.
- In order to ensure that the target is met cost-effectively, the REES should adopt a wide range of methodologies used in other states, including Project Based Assessment, and should support energy efficiency upgrades for all stationary energy users, including residential, commercial and industrial consumers.
- The REES has been run with far less engagement with industry and other stakeholders than the energy efficiency schemes in other states, partly due to the small number of staff tasked with administering the scheme. The EEC strongly recommends that the South Australian Department of Energy and Mining and Essential Services Commission of South Australia (ESCOSA) assign additional staff to manage the REES, potentially funded through a small surcharge on certificates. ESCOSA should also be given more discretion to set the rules of the scheme in consultation with a committee that includes representatives of the energy efficiency industry, retailers and consumers.
- The South Australian Government should engage with other states and territories to improve the harmonisation of various administrative aspects of the REES. A national organisation like the Clean Energy Regulator could potentially conduct registration of products and certificate providers for all schemes.
- The REES has much less flexibility and is less cost-effective than the energy efficiency schemes in NSW and Victoria because the REES doesn't include an open market for energy efficiency certificates. The South Australian Government should consider making the scheme trading-based. If the South Australian Government is concerned about the additional administration costs from trading-based scheme, it could consult on adding a small administrative levy on certificates to cover higher costs for government administration.

- The REES has a number of administrative burdens that increase the cost of the scheme, including the requirement for lighting retrofits to meet guidelines that are intended for best-practice new developments (the design guideline for lighting intensity in buildings (AS/NZS 1680) and energy intensity in the Building Code of Australia). The EEC recommends that the South Australian Government hold a forum to explore options to reduce administrative burden while maintaining quality.
- The REES should have an explicit focus of attempting to drive market transformation for particular products and services, which will enable the scheme to deliver benefits long after it has supported particular products and services (e.g. lighting upgrades).

The EEC strongly supports the REES and looks forward to continuing our positive relationship with the South Australian Government. If you would like any further input please contact me directly via email at rob.murray-leach@eec.org.au or via telephone on 0414 065 556.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Rob Murray-Leach', is positioned above the typed name.

Rob Murray-Leach
Head of Policy
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energy efficiency
COUNCIL

Submission to the REES Review – Issues Paper

A) Scheme Objectives

Question - If the scheme continues should the objectives be revised? If so, what changes should be made?

The original objectives of the REES when it commenced in 2009 were to:

- Improve energy efficiency and reduce greenhouse gas emissions within the residential sector.
- Assist households prepare for likely energy price increases resulting from carbon emissions trading.
- Reduce total energy costs for households, particularly low-income households.

Following the REES review in 2014, the objectives were amended to:

- Reduce household and business energy use, with a focus on low-income households. This will provide associated energy costs and greenhouse gas emission benefits.

The EEC recommends that the objectives are slightly amended to:

- Reduce and adjust household and business energy use in order to deliver reductions in energy costs and greenhouse gas emissions while maintaining or improving health and comfort.

These amendments should be sufficient to:

- Enable energy management that can lower both individual customers' bills and the total cost of the electricity system; and
- Value improvements energy management that deliver both reductions in energy costs but also substantial improvements in health and comfort, such as insulation.

The low-income household is dealt with later in this submission – while the EEC believes that the scheme should support activities in low-income households, we believe other mechanisms will be required to fully support this sector.

Question - Should REES continue to ensure that activities delivered are additional to 'business as usual'?

The REES should continue to ensure that activities delivered are additional to business as usual (BAU). However, the focus should be on developing methodologies that are overall additional to BAU, rather than ensuring every single upgrade is additional to BAU. For example, a method that provides an incentive for insulation retrofits will likely drive many retrofits that wouldn't have happened otherwise, some that are not additional, and expand the market in a way that results in some additional retrofits occurring without support from the REES ('free drivers'). Overall, these activities will be additional to BAU, and placing too much emphasis on certificate creators having to demonstrate that each site is additional to BAU will significantly increase the cost of the activity and reduce the overall benefit-cost ratio of the scheme.

It's also worth noting that activities that would be BAU in some sectors (e.g. insulation in wealthy households) might not be BAU in other sectors (e.g. insulation in priority households).

B) Commercial or Residential

Question - Should the REES focus on energy use in the residential sector, or the commercial sector, or both?

The REES should encourage energy management activities in all stationary energy use sectors, including residential, commercial, agricultural, manufacturing and mining, in order to deliver more benefits and lower the cost of the scheme.

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

The expansion of the REES to commercial activities has delivered significant benefits despite restrictions that impede the uptake of retrofits. The REES requires lighting retrofits to meet requirements that are intended for best-practice new developments (the design guideline for lighting intensity in buildings (AS/NZS 1680) and energy intensity in the Building Code of Australia) that add to the cost of retrofits. Despite this, the REES has still delivered significant benefits through energy efficiency upgrades at commercial sites. With additional methodologies and streamlined compliance requirements, the REES could deliver significantly greater benefits to the commercial sector.

Question - Should additional commercial activities be included? If so, which activities?

Additional commercial activities should be included in the REES. The EEC recommends that the REES adopt methodologies used in the energy efficiency schemes in NSW, Victoria and ACT, including the Project Based Assessment and NABERS methodologies.

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

The EEC does not object to a residential sub-target, but notes that:

- A sub-target will inevitably increase the cost of the REES. The government will need to decide if targeting the benefits REES at a particular sector is worth a reduction in the benefit-cost ratio of the scheme.
- The more sub-targets in the REES, the higher the cost, so having sub-targets for both households and low-income households may be excessive.
- Any target for households should be set much lower than the government's ideal target. Energy efficiency schemes are often most effective when they focus on one or two retrofit activities over a period of time and then, once that activity is saturated, move on to a new activity. As a result, the ideal focus of the REES in a particular year might be commercial chiller units, and then shift to residential draught-proofing the next year. Constraining the scheme to drive activities in a particular mix of sectors every year will significantly increase the cost. Therefore, if the government wants, for example, 30 per cent of activities to take place in the residential sector, it should either set a target much lower than that (e.g. 20 per cent) or set the target over a long period of time (e.g. 5 years).

Question - Should REES retain rules to focus commercial activities on small business, such as the restriction on energy savings from each lighting upgrade?

The REES should remove its current focus on small businesses to focus on all businesses, and should remove the restriction on energy savings per site. This requirement has significantly reduced the effectiveness of the REES, even in relatively small sites. If the South Australian Government wants to retain a restriction on energy savings per site, the restriction should only apply to specific technologies (e.g. lighting) and at the very minimum doubled to 1,800 GJ per site.

C) Lighting Activities

Questions

- Have lighting upgrades become business as usual?
- If REES continues as an energy efficiency scheme, should lighting upgrades remain an eligible activity?
- If lighting upgrades remain, should they be restricted to certain sectors or regions where LED upgrades are less likely to be business as usual?

Some types of lighting upgrade in some sectors have become, or are approaching, BAU. The incentive for lighting upgrades that are approaching BAU should be reduced over time. Some types of lighting upgrade are not yet anywhere near BAU - for example, relatively few households will replace low-voltage halogens with a more efficient system without continued incentives from energy efficiency schemes.

Therefore, the level of incentive for various lighting upgrades should be determined on a case-by-case basis that considers technology, sector and region.

The EEC continues to have concerns with the way that the NSW lighting calculator has been applied in South Australia. We note that NSW currently provides significantly more incentives for lighting upgrades in small businesses than South Australia.

D) Priority Households

Questions:

- If the scheme continues, should it retain a focus on assisting low-income households?
- Are priority group households sufficiently clearly defined and easily located?
- Should there be specific targets or incentives to encourage activities in remote or regional areas? How might this affect costs?
- Have the changes to the definition of priority group adequately covered those households most in need of assistance from the REES?
- What is the best way to increase the opportunities for low-income households to benefit from 'deeper' retrofit activities through REES?
- Is there a more effective way to define the customers who are most likely to benefit from receiving REES activities and audits?

The EEC believes that there is a strong case for improving the energy efficiency of housing and appliances used by vulnerable households in order to reduce their energy bills and reduce the health impacts of excess cold, heat and damp. Currently, around 3,000 Australians each year die during periods of hot and cold weather – this figure is strongly influenced by the poor quality of our housing stock.

However, the EEC's view is that the REES needs to be combined with other policies to drive significant improvements in the quality of life of vulnerable households. This is due to two reasons:

- There is a range of barriers to upgrading low-income households that the REES cannot address on its own, such as the landlord-tenant split and lack of access to capital. Other policies are required to address these barriers, such as zero-interest loans and minimum energy efficiency standards for rental homes. If these policies are introduced they will not only improve directly improve energy efficiency, but would increase the uptake of the REES in low-income homes.
- The REES is rapidly approaching saturation for measures that it can, on its own, deliver to low-income homes, such a free lighting upgrades. As we hit saturation point retailers will increasingly need to fund measures that deliver a much lower benefit-cost ratio.

The EEC therefore recommends two actions:

- The South Australia Government develop a suite of policies to address the energy efficiency of vulnerable homes, including stronger minimum health and energy efficiency standards for rental properties; and
- The REES be reformed to allow electricity retailers to make a contribution to a fund to support energy efficiency upgrades in low-income households instead of meeting part or all of their targets for low-income households.

We proposed that this fund would be allocated to projects by a panel that includes representatives of welfare organisations (e.g. the South Australian Council of Social Service (SACOSS), the energy efficiency sector (Energy Efficiency Council), electricity retailers and the South Australian Government. The fund could be spent on a range of measures, such as energy efficiency upgrades for especially vulnerable households, upgrades to public housing and support programs run by (SACOSS). This approach would allow far more flexibility and targeting and, we believe, deliver far better results for low-income households.

E) Energy audits

Questions:

- How should energy efficiency outcomes from energy audits be verified?
- Are the current qualifications requirements for energy auditors appropriate, and are auditors adequately trained to deal with priority group households?

The EEC's view is that Energy Audits for vulnerable homes is reaching saturation. Retailers should be allowed to meet their targets for Energy Audits by being allowed to deliver them to non-priority customers.

The EEC also believes that certificates should be able to be generated by delivering assessments using the Victorian Energy Efficiency Scorecard tool. This will provide a modest incentive for the uptake of the Scorecard in advance of it becoming mandatory.

F) Expanding to Demand Management

Questions:

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

There are significant benefits to not just reducing total energy demand, but also managing when energy is used. A suite of mechanisms will need to be used to shape when energy is used, including:

- Payment for reducing demand at times when it delivers benefits to the electricity systems, including the introduction of a wholesale demand response mechanism (currently being considered by the Australian Energy Market Commission); and
- Mandates on South Australian Power Networks to manage demand in order to reduce expenditure on the electricity network.

The REES should not be relied on as the primary mechanism for managing when energy is used, but could play a vital role in particular aspects of reducing peak demand and shaping the demand-curve, including:

- Incentivizing the uptake of demand-response enabled air conditioning; and
- Providing greater incentives for energy savings that will occur during periods of peak demand (e.g. residential air conditioning) than during off-peak periods (e.g. office lighting).

The EEC believes that there is absolutely a case for considering how the REES could support shaping the demand-curve. As this is a complicated issue, we recommend that the South Australian Government conduct a stand-alone review into how the REES could be expanded to demand management.

G) Funding

Questions:

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

The EEC strongly recommends that the scheme continue to be funded under the current model. The REES not only delivers benefits to participants, it also benefits non-participants through lower network and wholesale costs. The current funding model is used in over 40 schemes around the world, and there is no valid case for changing the model.

H) Deeper Retrofits

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 out at the same house?
- 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?

While it makes sense to offer multiplier to encourage the installation of multiple energy saving measures at one site, the EEC opposes changes to the REES that would prevent the rollout of single-measure upgrades.

Evidence from the US 'weatherization' programs suggests that the most efficient way to upgrade a house is a small bundle of measures, as companies can specialize in rolling out two to five measures quite efficiently. In contrast, comprehensive household retrofits are much more expensive due to the need for multiple experts to visit a house and have a much lower benefit-cost ratio. Evidence from Australia suggests that the roll out of single-measures can have a very high benefit-cost ratio, although it is possible that multi-measure roll-outs might have more attractive benefit-cost ratios over the long-term.

Therefore, the EEC recommends that the South Australian Government consider an incentive to encourage the roll-out of two or more activities at a house, but does not require a minimum number of activities per site.

- 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?

The EEC recommends that retailers be allowed to generate certificates from undertaking assessments using the Victorian Residential Energy Scorecard, but should not mandate a target for the number of scorecard assessments that are done.