



EnergyAustralia

9 August 2013

Energy Markets and Programs Division
GPO Box 1264
Adelaide SA 5001

Sent via email: dmitre.reesreview@sa.gov.au

EnergyAustralia Pty Ltd

ABN 99 086 014 968
Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

REES Review - Directions Paper

EnergyAustralia appreciates the opportunity to provide feedback on the Review of the South Australian Residential Energy Efficiency Scheme (REES) Directions Paper (the Directions Paper).

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to over 2.7 million residential and business customers. EnergyAustralia owns and operates a multi-billion dollar portfolio of energy generation and storage facilities across Australia including coal, gas and wind assets with control of over 5,600 MW of generation in the National Electricity Market.

Executive Summary

EnergyAustralia supports energy efficiency. For us, energy efficiency is about customers having control over their energy use. We believe that when customers are empowered with the necessary information, tools, capabilities and price signals, they can best make decisions about the right level of energy consumption and energy efficiency for their needs and preferences.

Removing the barriers to optimal energy consumption/efficiency choices by energy consumers requires action by many parties including: suppliers of energy, suppliers of energy consuming goods and services, energy efficiency companies, consumer groups and of course, customers themselves.

There is also a role for a variety of government energy efficiency policies. The objective of energy efficiency policy should be to support customers making efficient trade-offs between energy consumption and other goods and services to achieve an optimal level of energy consumption for their needs and preferences. It should be about removing barriers to optimal outcomes and not necessarily targeting reduced energy consumption, although this will often be an outworking as consumers undertake energy efficiency activities and purchases.

In our view, the most appropriate uses of government regulation include: to target information barriers (such as through appliance labelling); address split incentives (such as through building standards); and to support lower income households that lack sufficient financial capability to undertake energy efficient investments (such a policy can overlap with more general social welfare policy).

One policy tool that a number of jurisdictions have used in Australia is 'white certificate' schemes. These schemes effectively prescribe a reduction in energy consumption and then levy all customers to fund energy efficient appliances and equipment to the benefit of subset of customers.

While white certificate schemes may have had an initial role in 'jump starting' the market for energy services and raising awareness about energy efficiency, EnergyAustralia does not consider they should continue to be part of the energy efficiency policy mix.

We therefore consider that white certificate schemes in all jurisdictions, including South Australia, should be phased out as soon as practicable.

Our reasoning is summarised below.

White certificate schemes are no longer required to drive energy efficiency improvements across the economy.

In our view the Residential Energy Efficiency Scheme (REES) is largely redundant in pursuit of its stated policy objectives; i) Improve energy efficiency and reduce greenhouse gas emissions within the residential sector; ii) Assist households prepare for likely energy price increases resulting from carbon emissions trading; and iii) Reduce total energy costs for households, particularly low-income households.

Advances in energy appliance technology coupled with increasing final energy prices and growing awareness of energy efficiency options, have contributed to the declining energy intensity of the Australia economy (in GDP terms). Rapid advances in energy appliance technology, and white certificate schemes to some extent, have fostered the emergence of a growing energy efficiency services sector in Australia. This sector is now vibrant, competitive and no longer requires subsidisation in the form of white certificate schemes in order to continue to provide energy efficiency solutions to consumers where it is in their interest to take measures to reduce their costs.

EnergyAustralia notes that the directions paper proposes a revision to the objective to 'reducing energy use, with a particular focus on low-income households'. This reduction of energy in and of itself does not appear to be a meaningful objective however given the linkage to low-income households which suggests a linkage to affordability EnergyAustralia argues that this may not be the most appropriate policy tool to achieve the outcome.

Competitive retail energy markets will continue to drive energy efficiency improvements in the absence of such schemes.

The retail energy market in South is extremely competitive and capable of delivering to customers the level of innovation and differentiation they demand with respect to energy efficiency. As an example, EnergyAustralia has delivered the free eWise product to our customers to provide information on energy use and customised energy efficiency tips. The commercial pressure on retailers to 'keep up' with customers demands coupled with accessible information about energy efficiency appliances is a very powerful set of incentives for ensuring that customers continue to capture the potential benefits of energy efficiency available in the future.

By virtue of their design white certificate schemes have implications for equity across the broader energy customer base.

White certificate schemes are fundamentally inequitable and disempowering to energy customers generally, notwithstanding the benefits they confer to a subset of customers. The inequity derives from the fact that all customers are forced to pay for the installation costs of energy efficiency appliances delivered to a much smaller subset of customers. This is disempowering to customers generally because they are not able to opt in/out of the scheme (assuming they are even aware of its cost imposition on their energy bills). In light of the policy objective which suggests a focus on affordability, the situation where a low income customer is essentially subsidising the energy savings of a higher income customer is a perverse outcome indeed.

White certificate scheme are compromised by 'technical' issues biased toward overstating the merit of measured outcomes.

By virtue of their design white certificate schemes suffer from efficacy problems relating to the verification of actual energy savings. The use of baselines and deeming can't fully capture the behavioural aspects of energy consumption. De-installation of energy efficiency appliances within deeming periods and the well established 'rebound' effect risk significantly overstating measured energy savings under the these schemes. The results in the benefits of the scheme being overstated in relation to the costs with the consumers who stand to benefit seeing little real reduction in their energy bills.

The technology deployment efficiency of white certificate schemes relies on policy processes being able to keep pace with advances in technology.

The fact that policy processes are relied upon to determine which energy appliances are subsidised by white certificate schemes risks creating a distortion of efficiency in terms of 'what' technology is deployed and 'when' it is deployed. Energy efficiency appliances deployed under such schemes will not reflect optimal patterns of capital replacement to the extent that scheme approval processes are inflexible or lagging relative to advances in technology.

Energy market reforms that increase cost reflectivity are the best way for policy-makers to contribute to improvements in the productivity of the NEM.

Accelerating energy market reforms to 'sharpen' cost reflectivity across the entire energy value chain improves the productivity of the NEM more generally, including end-use energy efficiency, going forward. This encompasses reforms to market system reliability and demand-side participation in the wholesale

market; cost reflective pricing of network infrastructure; and the roll out of smart meters and related communications technology to end-users. The transition to more 'flexible' energy pricing is essentially about making it easier for customers to use energy at the time and in the quantity that is most valuable to them.

Energy Australia is committed to continuing to engage with its customers with a view to affording them ever greater control over the management of their energy requirements, integral to which is energy efficiency. White certificate scheme's no longer assist with this process.

Energy Efficiency and Pricing

Retailers have long advocated for cost reflective pricing for a number of reasons and EnergyAustralia believes that it is crucial to facilitate the uptake of energy efficiency.

The REES scheme distorts the price signal overall as the costs of the scheme are spread across the entire customer base while the benefits are not distributed as equitably. The notion that customers such as low income households and renters, who are unable to take full advantage of scheme activities, should face a higher tariff (through the retailers' recovery of their certificate liability) to subsidise other consumers who are able to make considerable savings seems contrary to the proposed objective.

EnergyAustralia further notes that an energy savings scheme such as REES which does not address peak demand can lead to increasing costs to consumers. The distribution networks' regulated returns on investment dictate that higher c/kWh network tariffs are required as total demand falls. Lower total demand does not remove the requirement for network investment as this investment is largely required to ensure that networks can transmit the maximum level of instantaneous demand, i.e. the peak. A scheme which simply reduces baseload without the truly engaging customers to ensure that their behaviour complements the appliances which they install (and importantly 'when' they use them) does not maximise the potential benefits. We believe that flexible pricing is a key tool that can be used to encourage behavioural change and lead to peak demand decreases however we acknowledge that a mandated smart meter rollout is not currently South Australian Government policy.

This issue also highlights a shortcoming of the scheme in that it can, to a degree, induce complacency about energy efficiency in the minds of consumers. With the exception of in home displays, scheme activities are largely "set and forget" measures which do not require interactivity with the consumer or the need to change behaviour to maximise energy and therefore cost savings.

EnergyAustralia can provide evidence from Opower, the developer of our eWise product, on the energy savings which can be realised as a result of the deployment of technologies which influence consumer behaviour. That the market has delivered technologies such as eWise (and other retailer equivalents) is evidence that the REES scheme is no longer required to push consumers towards energy efficiency, and that is now appropriate that cost reflective pricing be introduced to drive further efficiencies through behavioural change.

Low Income Housing

The REES Scheme differs from other white certificate schemes in that it has a specific Priority Household target. EnergyAustralia recognises that reducing energy costs can have a considerable positive impact on a family's budget. In light of this target, some barriers to energy efficiency related to affordability are lowered, however some, such as an inability for renters to undertake substantial improvements to premises with the owner's approval, remain and lead to inequitable distribution of the benefits associated with energy savings.

Despite the Priority Housing Target low income households do not have equitable access to the scheme due to the fact that many low income families live in rental properties and consequently cannot make decisions to invest in capital improvements to increase the energy efficiency of the property. Without incentives for landlords to invest in energy efficiency in investment properties, renters will largely miss out on the scheme benefits but will still be required to contribute to the costs of the scheme through increased electricity prices which factor in the costs of scheme compliance and surrender obligations.

Beyond the issue of renters being unable to make capital improvements to capture energy efficiency opportunities, low income consumers in general have difficulty accessing the benefits from the scheme. Even if the consumer is able to make decision on capital improvement on their dwelling, the upfront outlay required take up REES activities beyond the 'low hanging fruit' of lighting and SPC can be considerable and out of the reach of those consumers who could benefit most.

The fact that the costs of the REES scheme are paid by all consumers through their retail tariffs mean that those customers who have limited access to the scheme end up cross subsidising consumers who are able to more fully realise the benefits as they will be able to access higher energy savings activities on a co-payment basis rather than having to take on the entire cost.

Barriers to realising energy efficiency

In a competitive retail market, supported by a vibrant efficiency appliance market, customers will have access to large quantities of energy efficiency information if they want it. EnergyAustralia contend that this information exists; that it plays a greater role in driving energy savings and is indeed the basis for competition among retailers seeking to differentiate their offering (e.g. eWise in EnergyAustralia's case). The quality of that information (from the customer's perspective) could however be limited to the extent that their energy prices reflect actual costs and therefore the true value of energy savings.

Greater visibility of the true cost of energy would provide a greater incentive to take action to reduce this cost, or at least provide consumers with the tools required to make a rational decision on investment in energy efficiency. Regardless of any other limitations on true cost reflective pricing such as appropriate metering infrastructure, the spreading of energy efficiency costs across the entire market dulls the price signal which could otherwise cause customers to act.

Cultural and behavioural change

There is little doubt the energy efficiency is closer to the forefront of the consumer mind now than it was at the commencement of the REES Scheme. In the early stages of the scheme, one of the main sources of certificate creation came from the replacement of incandescent light globes with lower wattage compact fluorescent globes (CFLs). Incandescent globes are now a rarity in Australia with a phase out commencing in 2009, however, CFLs are also becoming less common in residential premises. The decrease in the price of halogen globes, another low energy alternative to incandescent, has led to them being installed in place of many CFLs as the lighting quality is regarded to be superior. This end result is a widespread penetration of halogen globes which could have been achieved at a lower cost to the consumer if incandescent globes were simply replaced with whichever low wattage product the consumer preferred at the end of the old globe's useful life. This indicates that the market for energy efficiency products has evolved, sometimes in spite of REES.

Evidence of this also lies in the fact that retailers (and other organisations) have developed other energy efficiency products and innovations independently of REES. EnergyAustralia has developed the eWise initiative to provide detailed information and a bigger-picture view of customers' energy consumption to enable them to make informed choices and save money. The increasingly competitive energy retail market in Victoria has necessitated that retailers differentiate their otherwise homogenous product in order to maintain or grow market share. EnergyAustralia understands that a number of its competitors have developed alternative initiatives which demonstrates the market's ability to foster energy efficiency activities in the absence of a white certificate scheme

Response to Proposed Directions

The Scheme Objective

EnergyAustralia considers influencing energy use with a particular focus on low-income households to be a meritorious objective to the extent that it improves energy affordability and lowers the cost of living for South Australian consumers. The application of a broad based white certificate scheme is not the optimal policy tool for achieving this objective as it allocates costs and benefits inequitably. Although the REES scheme does have a specific priority household focus unlike a number of similar schemes in other jurisdictions, it still results in the costs associated with the scheme being smeared across all customers while the benefits may be loaded towards particular customer classes.

Although low income households can benefit from the scheme through the provision of energy efficient products, they incur the costs associated with the supply of these products to households who are not suffering from financial stress. As outlined above, despite the priority target, many low income households still face barriers to participation in the scheme meaning that the energy (and cost) saving benefits may be skewed towards those who need them least.

EnergyAustralia suggests than an approach to helping low income consumers which does not impose an additional cost burden on this group, and which targets this group to receive the maximum benefit is preferable to using REES to lower energy costs.

Priority Group Target

EnergyAustralia recognises that the priority group target is an aspect of the REES scheme which partly addresses the fundamental white certificate scheme issue of cost/benefit allocation. We agree with the comments of welfare groups and service providers that eligibility for a concession card is an inadequate means of identify at risk households and consider the examples outlined in the directions paper to be pertinent example of why this is the case,

Retailers run hardship programs for customers experiencing financial difficulties, and the programs are increasingly be accessed by customers who are not eligible for concession and hence would not be captured by a priority target as it currently stands. As it stands, almost 44 per cent of South Australia participants in EnergyAustralia's hardship programme are not concession card holders (and conversely, only around 2 per cent of EnergyAustralia's South Australian customers how are eligible for concessions identify as hardship cases). Further to any obligation, it is in the retailer's interest to run such a program to assist consumers as a way of managing bad debts. In light of this, it is often the retailer who is best placed to determine which customers require assistance.

We acknowledge that allowing retailers the opportunity to identify priority customers creates incentives for gaming and potentially lead to the lowest cost to service customers being flagged as priority group to the detriment of other customers with more legitimate claims for assistance. For this reason, we point to the work already undertaken by retailers to assist customers to reduce their energy bills. For example, EnergyAustralia provides it eWise service which enables customer to analyse their usage and provides personalised energy efficiency advice free to all hardship customers.

Once again, EnergyAustralia recognises that various consumer segments require assistance in meeting their financial obligations, but considers that REES is an inappropriate tool to achieve this end.

Expanding the Scheme

EnergyAustralia does not support the expansion of the scheme to the commercial sector on the basis that the proposed objective indicates a focus on households, particularly low income households. The use of a white certificate scheme to lower the cost of energy for business customers is inappropriate as energy is an simply another cost of doing business and must be managed as any other cost incurred by the business.

Investing in energy efficiency should be a commercial decision for each business to undertake as the expansion of the REES scheme would once again allocate the costs and benefits inappropriately. For example, a business with relatively low energy usage primarily due to showroom lighting would be able to take advantage of the scheme cheaply and easily and reduce their bills while a business with higher consumption due to specialised plant and equipment would not be able to access savings from the scheme and would instead face higher costs due to the costs of the scheme being recovered by retailer through higher tariffs.

Energy Audits

EnergyAustralia believes that information is crucial in assisting consumers reduce their energy costs and acknowledge the energy audits can be good source of information. We do not however agree that they are necessarily the most effective way to provide information or that the form of audits should be prescribed as this will ultimately stifle innovation and competition.

Australian energy retail markets are highly competitive. South Australia was named as the third "hottest" market in the world in terms of customer switching¹ and retailers are seeking to differentiate themselves in the market to attract customers. Given that the product itself is largely homogenous, retailers are moving towards value add services as their point of difference. As previously highlighted, EnergyAustralia has developed eWise to help customers manage their energy consumption. eWise provides consumers with the capability to essentially conduct their own energy audit and be delivered at a lower cost at the customer's

¹ Lewis, P, Brennan, S, Kennedy, D, Dromacque, C, et al (2012) World Energy Retail Market Rankings 2012.

convenience. If customers truly value traditional energy audits the competitive market will ensure that they are available to those customers who believe that they will benefit from their conduct. In the meantime, any moves to regulate the form and number of audits conducted will lead to consumers missing out on other benefits in the longer term as retailers are forced to conduct audits in a defined manner and have no incentive to find other ways to provide information to customers.

Harmonisation with other schemes

Although EnergyAustralia does not believe that a white certificate energy efficiency scheme is the most effective means of achieving the Government's objectives, if the scheme is to be maintained we support harmonising with other schemes to the extent that they will reduce compliance costs and bring broader benefits to consumers.

Regional and Remote Participation

Given the increased costs involved with delivering energy efficiency to regional and remote areas, EnergyAustralia supports incentives to ensure that customers in these areas have adequate access to initiatives to reduce their energy costs. As outlined in the paper however, the use of multipliers in an energy savings scheme reduces the amount of energy saving delivered and makes it even more difficult to assess the effectiveness of the scheme. In this way, efforts to assist regional and remote customers are fundamentally at odds with the scheme objectives and highlight the need for an alternative policy approach to the REES scheme.

Approval of Activities

Increasing flexibility in the activity approval process should be considered if the scheme is to be retained however any policy approach which 'picks winners' by prescribing some activities under a scheme at the expense of others can curtail innovation and potentially create inefficiencies by delaying the deployment to market of superior technologies. This situation occurred under the Victorian Energy Efficiency Target scheme where commercial lighting technologies experienced delays in reaching the market due to a lengthy product accreditation process.

EnergyAustralia advocates an approach whereby the market decides the most efficient range of products and activities. Regardless of the flexibility of the approvals regime energy efficiency appliances deployed under such schemes will not reflect optimal patterns of capital replacement to the extent that scheme approval processes are inflexible or lagging relative to advances in technology. Scheme administrators must of course satisfy themselves that an activity is worthy of inclusion in the scheme on the basis of the energy savings it can create however the market on the other hand does not require this formality as the activity will not be widely deployed if the benefits it provides do not outweigh the cost, ie, if it does not deliver energy savings there will be no take up.

Reporting Activities

EnergyAustralia supports any moves to minimise risk and compliance costs should the REES scheme be retained. We agree that the proposed directions achieve this outcome.

Measurement

EnergyAustralia views the Carbon Price as the most appropriate tool for reducing greenhouse gas emissions and supports a move away from the use of Greenhouse Gas reductions as the metric for the REES scheme. As previously outlined however, the proposed energy savings measure is problematic in that the amount of savings achieved is difficult to determine as savings are based on deemed rather than actual values. The actual level of energy savings can vary greatly depending on consumer behaviour and consequently EnergyAustralia values information and engagement over the REES scheme in terms of reducing energy. An energy reduction measure is certainly more appropriate than the current arrangements however it delivers little in terms of a rubric for affordability which is a key focus of the scheme.

Quality Assurance of Service Providers

EnergyAustralia supports the development of a voluntary code of practice for energy service providers but does not consider that this requires any link to the REES scheme. Allowing an energy service industry to operate outside the constraints imposed by REES will allow greater choice for consumers and the

development of a code of practice will provide energy users with greater confidence that they are dealing with a reputable provider.

A code of practice which covers REES providers only could hamper the entry to the market of energy service providers who undertake alternative activities which are not covered approved under REES, limiting the consumer access to new, innovative technologies.

Summary

EnergyAustralia does not believe that the REES scheme is the most appropriate policy tool for to achieve the government's objective. Further to this, we do not believe that the objective of energy reduction in and of itself is particularly meaningful. The inclusion of a focus on low income housing is a clear indication that the scheme is inextricably linked with energy affordability and we consider that retailers, consumer groups, governments and customers themselves can address this issue through alternative policies.

Should REES continue to be the Government's preferred policy tool to achieve energy savings and increased affordability, EnergyAustralia supports moves to minimise compliance and administrative costs by harmonising to the greatest extent possible with other similar schemes.

If you would like to contact me about this submission, please call me on (03) 8628 1731.

Yours sincerely



Joe Kremzer
Regulatory Manager