Government of South Australia
Department for Energy and Mining
11 Waymouth Street
Adelaide SA 5000

Submitted by email to tina.maiese@sa.gov.au

1 November 2019

Dear Ms Maiese,

Re: Review into the South Australian Retailer Energy Efficiency Scheme – Directions Paper

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the South Australian Department for Energy and Mining ('Department') on its *Retailer Energy Efficiency Scheme – Directions Paper* ('Directions Paper').

The Energy Council is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

The AEC considers that the Retailer Energy Efficiency Scheme ('REES') has been successful in improving customer understanding about energy usage and encouraging the take up of energy efficient appliances. Expanding the types of retrofits available and removing the 900 GJ cap will facilitate further take up, particularly among large commercial customers.

With that being said, the AEC is concerned about some of the proposals outlined in the Directions Paper. The proposed inclusion of demand response in the REES risks overcomplicating the scheme and moving it away from its original objective: to reduce energy consumption. There are also more efficient ways to target Priority Groups, especially as the market reaches saturation point.

Promoting national harmonisation

As noted in previous submissions, the AEC does not see value in South Australia choosing to run an activity-based scheme over the certificate-trading based scheme that other jurisdictions use. Having different regulations only increases the regulatory burden on retailers, minimising their overall efficiency, while not providing any commensurate benefit to customers in return.

The AEC therefore welcomes the Government's commitment to engaging with other jurisdictions regarding alignment and believes this should be a priority. We do note though that this should involve South Australia looking to align itself with other states rather than the other way around.

Servicing Priority Groups

While the AEC supports the original policy intent of the REES to ensure the scheme benefits Priority Groups, market saturation of these groups appears close to occurring. This makes it more costly for providers to seek out priority participants as well as making the scheme less efficient. The Directions Paper has opted against a multiplier approach to incentivise providers because it 'risks the integrity of the calculation methods used to estimate the energy credits under the scheme'.

We urge the Department to reconsider this decision, especially for regional customers if the proposed 15% is mandated. It will be difficult for providers to maintain a 15% target on a year-by-year basis without incurring significant compliance costs. A logical incentive to ensure the 15% target is met would be for energy efficiency activities in regional areas to be worth more. Such an approach could possibly be phased in at a later date upon evidence from providers that unserved regional customers has reached a certain threshold.

Servicing residential and commercial customers

The AEC welcomes the proposed direction to remove the 900 GJ cap on commercial lighting upgrades. Alongside the expanded retrofits that the scheme proposes to cover, removing this limit will greatly encourage commercial customers, particularly large businesses, to participate. Given that these businesses generally use more energy and have a larger carbon footprint, encouraging their participation is consistent with the revised objective to reduce greenhouse gas emissions.

We note that there may be merit in bringing forward these proposed changes, along with allowing second visits, by one year. This would help ease the concern among providers that the supply of energy efficient activities next year will be tight, as the first phase approaches its end.

While the AEC accepts the reasoning behind introducing a residential target, this target should only be set after consultation with providers.

Expansion of REES objectives to include demand management

The AEC does not support widening the REES' objective to capture energy demand management and energy demand response. Facilitating demand services risks diverting the focus away from those living in low-income, rental or regional and remote households, which are unlikely to be the prime beneficiaries of demand services. It also overcomplicates what should be a simple scheme that helps residential and business users reduce their energy consumption. The AEC would prefer this remains the primary objective of the REES, particularly with the inclusion of rental households as a priority group (a group unable to participate in demand response).

More broadly, it appears an inopportune time for a sub-national scheme to begin services relating to energy demand management and response. The AEMC has recently announced its intention to implement demand response across the NEM from July 2022. Creating a parallel sub-national scheme that is not in harmony with the proposed AEMC model risks upsetting the success of both schemes.

Any questions about this submission should be addressed to Rhys Thomas, by email to Rhys.Thomas@energy.council.com.au or by telephone on (03) 9205 3111.

Yours sincerely,

Ben Barnes
Director, Retail Policy
Australian Energy Council