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1 November 2019

Government of South Australia
Department for Energy and Mining

Review into the South Australian Retailer Energy Efficiency Scheme (REES)
Email: tina.maiese@sa.gov.au

Dear Ms Maiese

Review into the South Australian Retailer Energy Efficiency Scheme (REES)

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group) thanks the Department for Energy and Mining (the Department) for the opportunity to provide comments in response to the Review into the South Australian Retailer Energy Efficiency Scheme (REES) Directions Paper (the Paper).

Background on the MEA Group

MEA Group is a vertically integrated generator and retailer focused entirely on renewable generation. We opened our portfolio of generation assets with the Mt Millar Wind Farm in South Australia, followed by the Mt Mercer Wind Farm in Victoria. In early 2018 we acquired the Hume, Burrinjuck and Keepit hydroelectric power stations, further expanding our modes of generation. We have supplemented our asset portfolio by entering into a number of power purchase agreements with other renewable generators, and through this investment in new generation we have continued to support Australia's transition to renewable energy.

Powershop is an innovative retailer committed to providing lower prices for customers and which recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Over the last five years, Powershop has introduced a number of significant, innovative and customer-centric initiatives into the Victorian market, including the first mobile app that allows customers to monitor their usage, a peer-to-peer solar trading trial and a successful customer-led demand response program. Powershop has also been active in supporting community energy initiatives, including providing operational and market services for the community-owned Hepburn Wind Farm, supporting the Warburton hydro project, and funding a large range of community and social enterprise energy projects through our Your Community Energy program.

Consistent with our submission on the Issues Paper in May 2019, MEA Group broadly supports the intent of the REES and its objective of supporting low-income households. However, MEA Group does not support any change that would over complicate the REES, or that is not proven to reduce energy consumption. MEA Group supports changes that would align the REES more with other state-based schemes to achieve greater efficiencies, and that focus on priority household groups.

Expansion of the REES will consequently result in additional regulatory reporting, requiring further resources and costs to be incurred, which are ultimately borne by the customer. Subsequently any expansion should only be considered where a customer benefit is very likely or can be proven.

Please find below our responses to the questions raised in the Paper.

Future of the scheme

- 3.1.1 An updated scheme will commence on 1 January 2021.
- 3.1.2 The updated scheme will require three yearly target re-sets.
- 3.1.3 The updated scheme will be reviewed after six years.
- 3.1.4 The updated scheme will restrict credit carryovers from the current scheme to 10% of the 2020 target. The credit carryover from 2020 will be applied in 2021 only.

MEA Group supports the Department's approach in relation to the future of the scheme.

The Scheme Objective

- 3.2.1 The updated scheme objective will be 'To improve energy productivity for households, businesses and the broader energy system, with a focus on low-income households. This will reduce energy costs and greenhouse gas emissions, whilst improving human health'.

MEA Group in principle supports the scheme objective detailed above, but notes that any demand response mechanism introduced to the REES be carefully considered to avoid:

- un-intended consequences by impacting current and trial demand response innovations across the NEM;
- inclusion of demand response impacts utilising unproven, incorrect, hard to quantify and complicated baseline calculations; and
- driving up costs for retailers and ultimately customers.

Engagement is a key factor to success for a demand response program. It is worth noting that in MEA Group's experience low-income households tend to be less engaged in the market and are less likely to be able to participate in and benefit from demand response programs. MEA Group suggests the Department perform further research and a cost / benefit analysis to determine how customers not engaged in the market will benefit from demand response through the REES.

Regional and Remote Participation

- 3.3.1 The updated scheme will require that, in circumstances where activities delivered in regional areas fall below 15% of the overall target, regional obligations will apply for retailers in the year following the shortfall.

The Paper states that the *"scheme has successfully delivered activities to regional and remote South Australia, despite the absence of a specific regional delivery target"*¹ and on this basis, introducing regional obligations should the 15% overall target not be achieved for one year, will unnecessarily add a layer of uncertainty that would require risk management.

The current three-year target provides a means by which a participant can plan its activities in advance to better manage costs. Uncertainty could increase risk management costs as participants seek to mitigate the associated risks of anticipating a potentially moving target.

Energy Productivity

- 3.4.1 The updated scheme will help to avoid future network costs by incentivising demand response activities as well as energy savings in the commercial and residential sectors.

While MEA Group supports the intent of the Department to help strengthen reliability wherever possible, MEA Group believes that stretching the REES toward such objectives needs to be carefully considered and comprehensively analysed. The REES framework was originally introduced to assist customers to reduce their energy bills through promoting more energy efficiency activity. The REES should not include system reliability activities unless it can be evidenced that it will not add significant cost, can be introduced without contradicting the REES's intended objective and benefits all South Australian customers.

In addition to the cost component, expanding the REES in this manner could create a further divergence from a national scheme, directly in conflict with the intent of the Australian Competition and Consumer Commission, Retail Electricity Pricing Inquiry - Final Report (the ACCC Report) recommendation regarding unwinding state based derogations,² in order to reduce retailers cost to serve.

¹ Govt of South Australia, Department for Energy and Mining, Review into the South Australian Retailer Energy Efficiency Scheme, Page 10.

² Australian Competition and Consumer Commission, Retail Electricity Pricing Inquiry - Final Report, recommendation 27.

MEA Group supports a streamlined national regulatory framework, which includes energy efficiency (wherever possible) to remove complexity and reduce retailers cost to serve, both of which will benefit Australian customers.

3.4.2 The scheme will have an energy productivity target, expressed using a gigajoules (GJ) metric. Noting our response to 3.3.1, the Paper indicates that the scheme has been successful to date and therefore, MEA Group does not believe a productivity target is required.

Increased Competition and Scheme Efficiency

3.5.1 The updated scheme will promote greater competition between third party activity providers.

MEA Group does not support five of the six opportunities raised for consideration in the Paper as these will require further state-based reporting and tender procedures.

MEA Group only supports opportunity five; *“allowing third-party providers to register with ESCOSA on a supplier register”*.³ MEA Group believes this will enable participants to easily access and assess all third-party competitors in a central location, potentially improving the preliminary research stage of identifying a third-party.

The other five opportunities act contrary to the fifth opportunity, by increasing compliance activity and costs for retailers (thus ultimately increasing costs to customers) with little evidence if there is a net gain for the end customer.

Businesses in a competitive market are incentivised to find the best third-party arrangements for them and their customers. Adding a layer of regulatory reporting and resource cost to this process reduces this incentive and contradicts the intent of the ACCC Report recommendation.

3.5.2 The Government will consider alignment of scheme activity rules with interstate schemes, where appropriate and ensuring continued high quality outcomes for consumers.

MEA Group believes that harmonisation across various state-based derogations is a positive for participants and customers and is pleased that the South Australian Government will engage with other jurisdictions to understand the opportunities to improve coordination of activity rules.

Commercial and Industrial Activity Eligibility

3.6.1 The updated scheme will incentivise upgrades in larger businesses by not including a 900 GJ limit for commercial lighting upgrades.

MEA Group supports removing the 900 GJ cap on commercial lighting upgrades in order to reduce the downstream effects that it may otherwise have on reliability and its potential to reduce energy costs for businesses, therefore driving down the costs of goods and services for Australians. Nonetheless the main driver of the REES frameworks should be supporting priority group households, not commercial businesses.

3.6.2 The updated scheme will allow commercial lighting upgrades to be delivered more than once per premises, where it can be demonstrated the lamps being replaced had not previously been replaced for the purposes of the scheme.

MEA Group supports this direction.

Residential Target

3.8.1 The updated scheme will introduce a residential target, alongside the priority group target.

MEA Group refers to our response to 3.3.1 and 3.6.1. Introducing a residential target adds complexity to a successful scheme, and this complexity is being introduced in order to broaden the REES' focus on commercial business assistance. MEA Group supports helping both market segments however, we do not agree to this support if it dilutes the focus that should be provided to priority group households.

Incorporating commercial businesses in the scheme only adds further complexity and administrative costs to retailers. MEA Group looks forward to engaging with the Department to establish a well-balanced target, devised in close consultation with industry in order to alleviate these concerns.

³ Govt of South Australia, Department for Energy and Mining, Review into the South Australian Retailer Energy Efficiency Scheme, Page 12

Priority Group Target

- 3.9.1 The updated scheme will have a priority group target.
- 3.9.2 The updated scheme will include rental households within the definition of 'priority group'.
- 3.9.3 The updated scheme rules will be reviewed for other opportunities to overcome the landlord/tenant split incentive problem.

MEA Group supports any steps that assist vulnerable customers that are supported by consultation with stakeholders, in a comprehensive manner.

Deeper Residential Retrofits

- 3.10.1 The updated scheme will introduce co-payment requirements for all residential activities, except for priority group households.
- 3.10.2 The updated scheme rules will incentivise deeper retrofits to priority group households.
- 3.10.3 The updated scheme rules will incentivise residential activities that reduce peak demand or increase demand response capability.
- 3.10.4 The updated scheme will look at options to assist customers with financing for deeper retrofits.

While MEA Group understands the intent of the Department wanting deeper residential retrofits to mitigate the saturation of low-cost, low-energy savings upgrades, such a scheme expansion will require a far more detailed analysis and further consultation. Adding further cost to the scheme fails the objective of the REES.

Energy Audits

- 3.11.1 The updated scheme will no longer include residential audits and retailers will no longer be required to meet annual energy audit targets

MEA Group supports this direction.

If you have any queries or would like to discuss any aspect of this submission please do not hesitate to contact me.
Yours sincerely,



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