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24th of May 2019
Government of South Australia
Department for Energy and Mining
11 Waymouth Street
Adelaide SA 5000

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

RE: Review into the South Australian Retailer Energy Efficiency Scheme

Dear Ms Maiese,

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide feedback to the South Australian Department of Energy and Mining (the Department) on the review into the South Australian Retailer Energy Efficiency Scheme (the Review).

Red and Lumo do not believe the Retailer Energy Efficiency Scheme (REES) should continue in its current format. While Red and Lumo note the stated objective of the REES to “reduce household and business energy use, with a focus on low-income households”¹ we believe that the scheme is not operationally efficient and causes both a large financial and administrative burden on retailers which is inevitably passed through to consumers. In our view, alternatives to REES could generate greater benefits for South Australians at reduced cost.

Priority Groups

The review has raised the potential expansion of the scheme beyond the existing priority group households. We believe that at this stage the impact of the proposed expansion of the REES has not been properly assessed. We do not believe that the benefits of the potential expansion would exceed the potential wider costs for consumers in the energy market. We believe that at a minimum the Department should carry out a full impact assessment of the potential expansion of the REES to fully assess the wider implications.

Red and Lumo believe that should the scheme continue, the focus of the REES should only be on properly servicing the most financially in need consumers at the most efficient cost. We believe that expanding the priority groups under the REES does not assist with the overall objectives of the scheme. We believe that if the natural state of fulfillment of priority groups has occurred then the scheme objective has been met and this would support the ending of the scheme at the current scheduled date in 2020.

Cost of the Scheme

As was highlighted in the Australian Competition and Consumer Commission’s Retail Electricity Pricing Inquiry (REPI) “South Australia has the highest environmental costs, which are driven by higher jurisdictional specific costs borne by electricity retailers (such as the Retailer Energy Efficiency Scheme).”² Energy costs continue to be a central focus throughout the wider

¹ South Australian Department for Energy and Mining, Review into the South Australian Retailer Energy Efficiency Scheme, REES issues paper, April 2019, p3

² Australian Competition and Consumer Commission, Retail Electricity Pricing Inquiry - Final Report, June 2018, p35

community and schemes such as the REES continue to see “non-beneficiary South Australian households provide a net cross-subsidy to beneficiary households.”³

We believe that if the scheme does continue then at a minimum the Government should take the opportunity to streamline and simplify the REES scheme with the stated goal of reducing the costs of the scheme. If the Department chooses to expand the scope of the REES or continue the program for a further period then this should be removed from retailer costs and be Budget funded. No further costs should be placed on mass market customers.

Ongoing Scheme Options

Red and Lumo believe that a direct Government funded appliance replacement for low income households will likely have a larger benefit for energy usage while avoiding a negative impact on prices in South Australia. The current priority group and appliance replacement options is approaching a natural saturation point but is still placing upward pressure on prices for all South Australian consumers.

Small appliance replacements (such as lights) and energy audits can have some impact on consumers usage but it is larger energy intensive appliances (such as fridges, dryers and washing machines) that consume the majority of power and have the biggest impact on customer invoices. Low income consumers in particular are unlikely to be able to afford to replace these high cost inefficient appliances with new energy efficient options.

Therefore we believe that a government funded appliance replacement program would not only assist consumers immediately, by reducing energy usage and meeting the original objectives of the REES, but also benefit the wider community in the longer term by reducing pressures on prices. We view this as a more efficient option for promoting energy efficiency in South Australia than either maintaining or expanding the existing scheme.

Scheme Administration

While we recommend the removal of schemes such as this, we believe that at a minimum the Department should seek to harmonise the REES scheme to existing national energy efficiency schemes.

Inconsistencies between state based jurisdictions only add to the cost of operations of businesses which leads to higher costs for consumers. This was also one of the ACCC’s findings from the REPI. Should the REES continue any changes by the Department should seek to align this scheme with existing schemes in other states to reduce costs on energy retailers that are invariably flow onto consumers bills.

Scheme End Date

In light of these concerns, Red and Lumo strongly believe that the scheme should be allowed to end completely in 2020.

Should the Government choose to continue the program past its scheduled end date of 2020 we believe that the Government must implement a definitive timeframe for the end of the scheme. Currently, energy retailers face a high level of uncertainty in the market on both a Federal and State level. This uncertainty creates further costs on retail businesses which in turn impacts the prices consumers pay.

We believe that the South Australian Government should confirm either a date or a customer target (*for example gigajoules (GJ) of energy savings*) that if reached the scheme would be

³ South Australian Department for Energy and Mining, Review into the South Australian Retailer Energy Efficiency Scheme, REES issues paper, April 2019, p13

finished without further review. This would allow retailers to properly plan for the future and factor in potential operational costs. This would improve not only business outcomes but also consumer outcomes as retailers would reduce uncertainty which has been shown to increase costs for consumers.

About Red and Lumo

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, South Australia, New South Wales and Queensland, and electricity in the ACT to over 1 million customers.

Should the Department have any enquiries regarding this submission, please call Stephen White, Regulatory Manager on 0404 819 143.

Yours sincerely

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

Ramy Soussou
General Manager Regulatory Affairs & Stakeholder Relations
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd