1 November 2019

Department for Energy and Mining
Government of South Australia

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

Dear Sir/Madam,

REES Review – Directions Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Review into the South Australian Retailer Energy Efficiency Scheme (REES) Directions Paper.

Origin has been a major liable party under the REES since the scheme commenced. We believe it still has a useful role to play in encouraging energy efficiency activities but that this should be balanced against the additional cost it imposes on customers.

However, we are concerned that the significant changes proposed to the scheme design may make the scheme far more complex to implement and raise costs. We believe that suggestions to expand the scheme objective to also include demand response should be avoided. The Government can pursue these other aims with more appropriate policy settings. We therefore suggest that the scheme objective be kept simple and continue to focus on energy efficiency and low-income households.

Origin highly recommends stakeholder engagement and a feedback process to work together to keep the scheme up to date and to respond to market changes within South Australia. This should include retailers, approved providers, ESCOSA, the department, industry consultants and relevant peak bodies.

We also have some concerns about the potential supply of energy efficiency activities during the final year (2020) of the current phase. We suggest that some of the proposed changes suggested in this directions paper be brought forward by a year to encourage supply. This would include the recommendations to remove the 900 GJ cap and allowing second visits to commercial premises. Further comment on these transitional issues is contained in an Attachment to this submission.

Our key points are as follows:

- ***Scheme objectives*** – should be kept simple to reduce costs for customers. The scheme should not expand into demand response.

- ***Scheme targets*** – no mention is made of what level of targets the new scheme will involve. This is a key feature that requires significant consultation.

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- ***Complexity*** – new activities in the scheme will require new, and higher levels of technical skills for design and installation. Approved providers will also need to shift to a stronger sales approach with the introduction of co-payments. It is unclear how all these changes will interact, affect demand and our capacity to meet several new types of targets. Multiple targets will also introduce increased delivery complexity (residential, regional and priority group etc).

- ***Co-payments*** – we are concerned that the shift from free services to partial payments, is a major shift in the minds of many consumers. This has the potential to significantly reduce demand for scheme activities.

- ***Incentive-based approach*** – we continue to support an incentive-based approach such as the use of multipliers to promote activities in key areas such as regions, residential and low-income groups.

- ***Transition to the new scheme*** - the current scheme is becoming saturated in the activities that are viable, with one more year to go. The introduction of co-payments in 2021 risks making this even more difficult. At the same time, the new activities are introducing a lot of complexity into the scheme, requiring new and higher skill levels. This will take some time to prepare for, meaning our capacity to deliver may be squeezed during 2021 as the scheme transitions. It is uncertain if new activities are viable in the SA market and if there is a willing and skilled supply base to achieve them.

- ***Supply in 2020*** – as noted above, we have concerns about the potential supply of energy efficiency activities during the final year (2020) of the current phase. We suggest that some of the proposed changes suggested in this directions paper be brought forward by a year to encourage supply. This would include the recommendations to remove the 900 GJ cap and allowing second visits to commercial premises. We also suggest that changes to National Construction Code (NCC) rules relating to commercial lighting be applied to new construction only, in alignment with the Victorian scheme.

- ***Timeline*** - no mention is made in the paper of critical steps needed for implementation; particularly when ESCOSA will update the REES code and issue bulletins. These are required for contracting to begin.

More detailed answers to the specific consultation questions are contained in the following ***Attachment A***. More information on specific transitional issues is contained in ***Attachment B***.

If you wish to discuss any aspect of this submission further, please contact Matthew Kaspura at matthew.kaspura@originenergy.com.au or on 02 9503 5178.

Yours sincerely,

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Proposed Direction	**Response**
The 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.	Origin is broadly supportive of the scheme continuing. As part of the transition we wish to highlight the potential tight supply of energy efficiency activities in 2020. We believe that some of the recommended changes in this directions paper be brought forward to apply in 2020. This would include: o lifting the 900 GJ cap on commercial installations; and o allowing second visits to commercial premises We also suggest that changes to the National Construction Code (NCC) regarding commercial lighting be applied to new construction only, in alignment with the Victorian scheme. Further, potential targets for the post 2021 period should be thoroughly analysed. At this stage no information on potential targets has been provided and we encourage the Government to undertake consultation on target levels as soon as possible. We broadly agree with the proposed target re-sets and review. However, it is important that the scheme is equipped to respond to external changes, as they occur, due to the reliance within REES on other state schemes and regulations. Uncertainty as to how the REES will respond to external changes makes planning difficult. The directions paper indicates that restricting the carryover credits is designed to assist business planning by retailers. However, it is expected that limiting the carryover credits will require Origin to tightly manage its credits so as not to incur costs on credits that will not be recognised by the new scheme. This carries a risk of a boom-bust market developing where approved providers do not have any work towards the end of the current scheme. We suggest a 30% carryover limit is more appropriate and will allow for a smoother transition and ensure the viability of approved providers.

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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.'*	Origin supports the current objective of the REES which focuses on energy efficiency and low-income households. We do not support the changes to the scheme objective and remain concerned that introducing multiple objectives will undermine the implementation and cost effectiveness of the scheme. As stated in our May submission we believe the scheme should maintain its focus on energy efficiency. Other state policies should be used to pursue additional objectives, such as demand response. There is a well-established value proposition within the current scheme, of implementing simple energy efficiency measures that produce demonstrable benefits at the household level. Using less electricity, and saving money as a result, is easily understood by most consumers. Energy productivity is a more difficult value proposition to explain and sell to consumers. The benefits of higher energy productivity do not flow directly to households and may not result in less electricity consumption.
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.	Origin supports providing incentives for regional activities but does not support a mandated target as the best way to achieve this. Current activity data suggests that uptake of energy efficiency activities in regional areas remains strong. In our May submission we supported an incentive structure to promote continued uptake of energy efficiency activities in regional areas and we continue to support this as the best approach. This reflects the additional resources required in regional areas due to the density of housing and travel required by approved providers.
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. 3.4.2 The scheme will have an energy productivity target, expressed using a gigajoules (GJ) metric.	Whilst we support policies to promote demand response, we do not believe this scheme is best placed to achieve such aims. Demand response requires a different approach to quantifying benefits than the well established calculation for energy efficiency activities. It is suggested that it is more appropriate for demand response to have its own focussed policy to accommodate these substantial differences.

Increased Competition and Scheme Efficiency 3.5.1 The updated scheme will promote greater competition between third party activity providers. 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.	We strongly disagree with the proposal for an annual open tender. As the compliance obligation sits with retailers, it is incumbent on retailers to ensure that approved providers satisfy the compliance requirements - correct and safe installation, customer care and warranty. This on-boarding may take many months and is not possible in some cases. This administrative requirement grows with increasing numbers of contractors. This is in contrast with Victoria and NSW where the compliance requirement sits with the provider. Regarding interstate alignment, we broadly support this. However, the markets are different sizes, and at different points in supply and demand, so applying interstate elements to the REES needs to be flexible and applied appropriately. Adequate industry consultation should be undertaken to ensure that there are no distortive impacts.
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. 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.	We agree with both of these recommendations. As noted above, we also suggest that these changes be brought forward to the 2020 scheme year to alleviate concerns around tight supply.
Deeper Commercial and Industrial Retrofits 3.7.1 The updated scheme will incentivise upgrades in larger businesses by introducing new commercial and industrial activities, such as upgrades of fans, pumps and motors. 3.7.2 The updated scheme will incentivise upgrades in larger businesses by introducing new methods such as the NABERS Baseline Method, Power Factor Correction Method, and Project Impact Assessment Method. 3.7.3 The updated scheme will require customer co-payments for all commercial and industrial activities.	We have no objection to new activities being included in the scheme but these activities must be financially viable. Developing the technical skills required to undertake these activities within contractors, retailers and the Government will involve considerable time and resources. Origin is also concerned with the level of resourcing within ESCOSA and the Department to provide technical and timely interpretation considering the increased complexity of activities. It is unclear if the market will bear co-payments. We believe further analysis should be undertaken to ensure that co-payments allow for sufficient demand for approved providers to invest in the technical skills required for the new activity. In addition, the co-payment arrangements should be reviewed yearly to respond to any market distortions.

Residential Target 3.8.1 The updated scheme will introduce a residential target, alongside the priority group target.	We do not agree with a separate mandatory residential target. The introduction of this target together with the other additional targets proposed in the scheme will substantially increase the administrative complexity of the scheme and reduce flexibility. In addition, the introduction of residential co-payments will dampen demand. In our May submission we supported an incentive structure to promote continued uptake of energy efficiency activities in residential premises and we continue to support this as the best approach.
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.	Origin supports the scheme's continued focus on priority group households and the expansion to rental households. However, the current priority group market is saturated (within lighting) and there needs to be viable alternative activities. Lighting is the main activity in all schemes due to its ability to reduce electricity consumption at low cost. Other residential activities will cost more - in order to make them viable the credit from an activity (GJ) needs to be structured in line with making the activity viable.
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.	We strongly disagree with the proposal for co-payments for the residential sector. Our approved providers are already facing difficulties in the priority group where the activity is free. Thus, the introduction of a co-payment would dampen demand further. Deeper retrofits have merit, however the logistics of organising multiple trades have the potential to produce a negative customer experience. The incentives for deeper retrofits need to be high enough to offset these additional challenges. As stated above, demand response should be pursued by a separate state government policy. Financing adds further complexity to the scheme. We suggest that any financing be provided from outside the REES scheme itself.
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.	We agree that a mandatory target for energy audits is no longer required. However, we believe there is merit in retaining energy audits as a voluntary measure with an incentive created by a set GJ amount for energy audits conducted. Energy audits have historically provided access to residential households and enabled further activities to be carried out.

Attachment B – Transitional issues

Summary

We understand the department is currently focused on designing the next phase of the REES but we wish to draw your attention to some important transitional issues. In particular, there are broadly held concerns about the supply of activities to meet the target for the final year of the current scheme. Action is required to enable retailers to secure the required supply and make sure the scheme ends with a successful year.

Commercial lighting currently makes up about 75% of REES activity. The increase in total yearly targets has necessitated using this market. However, there are increasing limitations placed on this market. This includes updated rules from other jurisdictions that feed into the REES. The updated NSW Energy Saving Scheme calculator and IPD reduction will result in reduced certificate generation but more importantly less eligible commercial upgrades for customers that want to take advantage of this activity.

Origin suggests a number of improvements that could help to increase supply of activities in 2020. Note that we believe these are the easiest ways to make sure the scheme is completed successfully without over-intervention. We are open to other ideas that fit within the objective of the scheme.

Our suggestions include:

- ***Bring forward the recommendations to remove the 900 GJ cap for commercial activities and allow second visits for commercial customers a year earlier to 2020;***
- ***Define a regional postcode for commercial activities to allow higher abatement in regional areas***
- ***Apply the National Construction Code changes to the Illumination Power Density (IPD) rules to new construction only in alignment with the Victorian scheme.***

Origin would be pleased to discuss these issues further with the Department.

Background to commercial lighting activities

- By mandating compliance to design standards in a retrofit market, the REES will not help businesses save on energy use and costs. AS/NZ 1680 and NCC are both design standards.
- Retrofitting is a specific, small subset of upgrading an existing building. The building may never have been created in compliance with the current NCC. Lighting may never have been designed to current Australian standards. There is thus a direct conflict in requiring tenants/owners to spend monies on upgrading to comply with standards versus the REES aim to reduce the customers usage (and energy cost) within reasonable bounds of the current lighting design. The program was not designed for the first purpose. The simplified adoption of standards and lack of clarity necessitates that we reject upgrades due to these factors. No exemption process exists to retrofit these properties

Current market dynamics

- In 2015 the ability to source activity through commercial activities commenced. Yearly targets have increased by 41% in 2015-16 and a further 35% from 2016-17. They have stayed at a constant level for the last 3 years.

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- On average we receive about 20 GJ for a household. There are other activities producing small amounts of GJ but without commercial activities retailers would need to carry out activity in 115,000 houses per year. Given the current 5-10% return rate on leads, this is impossible even if that many untapped houses existed in South Australia, which they do not.
- Commercial premises average around 300 GJ per site. At 75% of total activity (the proportion is about this level for the last 3 years) retailers need to enter about 6,000 premises to carry out the activity required to make up the total target. Approximately 18,000 (as of end 2018) commercial premises have already had activity carried out. There are about 51,000 businesses in SA. Only 3,000 of these have more than 20 employees[1].
- Some of these businesses have their own programs to increase energy efficiency, some will just not want the service, others will not use space types that are suitable for retrofits. It thus makes sense to be able to carry out as much activity in those businesses left as possible.
- Retailers need to be able to continue to carry out commercial activity to meet our overall annual targets. By continually making changes that reduce the amount of activity we can perform in one premises and the amount of GJ we can earn from one premises, the difficulty in serving the customer is increasing.
- Given we are approaching the last year of the current program, we do not think it necessary to restrict the market down by allowing the flow on IPD changes from the updated NCC that will reduce a market that the rule wasn't intended to address.

[1] https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8165.0June%202014%20to%20June%202018?OpenDocument – 816502, June 2018 sheet – referenced sum of data – "operating at end of financial year"