

Friday 9th August 2013

Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE)
Energy Markets and Programs Division
GPO Box 1264, Adelaide SA 5001

Via email: DMITRE.REESReview@sa.gov.au

To whom it may concern,

Re: Clean Energy Council (CEC) Submission | Residential Energy Efficiency Scheme (REES) Directions Paper

The Clean Energy Council welcomes the opportunity to participate in the consultation process on the Residential Energy Efficiency Scheme (REES) Directions Paper.

The Clean Energy Council works with more than 600 solar, wind, energy efficiency, energy storage, bioenergy, hydro, cogeneration, geothermal and marine energy businesses to accelerate the transformation of Australia's energy system into one that is smarter, cleaner and more consumer-focused.

1. Continuation of REES

The CEC supports continuation of REES beyond 21 December 2014. To date, the scheme has been a success, achieving an emissions abatement of around 657,000 tonnes over the life of the materials installed. Furthermore, the REES has provided 166,819 South Australian homes with energy efficiency installations and audits, delivering roughly \$4.66 of private benefit for every \$1.00 of REES expenditure.¹ Continuation of the REES is essential to help deliver energy efficiency measures to those South Australian homes who have not yet benefited from the scheme.

The CEC supports scheme targets being set on a three yearly basis. Three yearly reviews provide the regulatory certainty for companies to support their business models, and stimulates investment and jobs in REES-associated industries such as manufacturing, retailing and service providers.

2. Scheme Objective

The CEC supports recasting the scheme's objective as 'to reduce energy use, with a particular focus on low-income households'. This is because the REES has been successful – and will likely continue to be successful - in addressing market barriers to energy efficiency.

As stated in the *Evaluation of the South Australian Energy Efficiency Scheme* (the Final Report), most households (particularly low-income households), said that they would have been unlikely to purchase energy efficiency appliances independently of participating in the REES. Furthermore, many households indicated their experience with REES had led them to pursue other energy saving activities, leading to a positive 'multiplier' effect.

This suggests the REES has been successful in addressing a nascent demand for energy efficiency measures that households may have been open to, but were restricted by information, capital and split incentive barriers. The persistence of these market barriers in the residential sector provide a strong economic basis to continue the scheme and to retain a priority group target.

The Final Report found that the case for including peak demand measures in the future REES was not strong. It should be noted that peak demand is a major factor that has driven up energy retail prices. The Australian Energy Market Commission (AEMC) estimated in 2012 that 24 per cent of retail electricity prices were derived from peak demand events that made up less than 40 hours per year.ⁱⁱ It is peak demand that drives investment in network infrastructure.

Consequently, if South Australia continues to successfully reduce overall demand for electricity but does not reduce peak electricity demand, total electricity use will go down but the cost per unit of electricity will increase, to enable network companies to recover their fixed costs.

While rising peak demand can be addressed through energy efficiency, where there are spin offs for peak savings, these are somewhat incidental to the main objective. Peak demand is better addressed by other means such as time of use tariffs and smart meters. This should be the focus of a separate set of Government policies, as has been the direction of the Government retailers in Queensland, Ergon and Energex.

3. Priority Group Targets

The CEC supports retaining a priority group target and inclusion within the target of households that currently do not fall within the current definition of 'priority group'. This inclusion recognises the existence of the 'working poor' – those households beyond the concession card thresholds but nevertheless experiencing financial hardship. ESCOSA, DMITRE, energy retailers and welfare groups should collaboratively work together to identify how to best include these households in the scheme.

4. Expanding the Scheme

The CEC supports expanding the scheme to allow energy retailers to meet their targets by delivering energy activities to small and medium-sized businesses. This would bring the REES in line with the Victorian Energy Efficiency Target (VEET) and the NSW Energy Saving Scheme (ESS).

Commercial buildings should be transitioned into the REES in a manner which promotes confidence for business, credibility in terms of deemed energy savings and one that places a high value on the integrity of the product installation. The CEC contends that all measures eligible under the residential scheme should be considered for eligibility under the expansion. These activities should be included as soon as possible to provide certainty to businesses and allow participants to plan for bundling of services to businesses which would provide for a more streamlined experience for the customer and reduce installation costs associated with repeat visits.

However, if commercial buildings are transitioned into the REES, care will have to be taken to ensure the REES market does not become dominated with a small number of commercial-scale projects, reducing the amount of activity in the residential sector. It could also create the situation where the residential sector is disproportionately subsidising the cost of rapid uptake in the commercial sector. Various mechanisms could be built into the scheme to prevent this occurring (such as additional banding), however this will need to be balanced with the extra administrative burden such mechanisms may impose on scheme participants.

5. Energy Audits

The quality and effectiveness of the audit underpins the credibility of the scheme. As such, it is important consumers continue to see high value in the energy audits provided to them.

In line with the submission made by CSR Limited, the CEC supports a policy of mandatory assessment on sale or lease of a property. Energy efficiency for home owners and building occupants is a key component of comfort. Furthermore consumers should be advised of what they can expect their energy bills to be. Similar to car buyers being informed of the expected fuel efficiency of cars, then so too should home owners and building occupants have this advice. The South Australian Government could become a leader in terms of the right to know on the acquisition of residential and commercial property.

6. Harmonisation with other Schemes

The CEC strongly supports the development of a National Energy Saver Initiative (NESI), building on the successes of state-based schemes such as the ESI. As the one of the first jurisdictions to introduce an energy efficiency trading mechanism, the CEC would encourage South Australia to pursue national adoption of its REES. A national scheme could deliver significant scales of economy and reduce the regulatory burden inherent in the present patchwork of state-based schemes.

However, developing a NESI is a lengthy process that will need COAG support. Uncertainty surrounds when or if a NESI will be agreed. It is critical the REES remains in place until such point in time that a NESI is operational. If the REES is discontinued prematurely, it would remove a key mechanism for addressing the barriers to the uptake of energy efficiency measures and stall the energy markets ability to drive energy efficiency improvements and ultimately be ready to respond to when a NESI is in place.

The CEC strongly supports the harmonisation of REES with other schemes. However the process of implementing such harmonisation should be timely and not beset with the uncertainties that have impacted the NESI process. Harmonisation should focus on the 80% of gains that can be made for 20% of the effort. Useful areas to examine would be the registries, approval mechanisms and integrity processes. It might be possible to use the NSW and possibly Victorian method approvals and the back of shop machinery which already exists in those states.

7. Regional and Remote Participation

As noted in the Final Report, regional and remote households are currently under-represented in the REES. A multiplier could encourage the uptake of activities in rural and remote areas, however once a multiplier is present, the actual energy efficiency improvements that take place become detached from the energy efficiency improvements that are credited, making it more difficult to assess whether the REES has been successful. Alternatively, REES could have an additional sub-target for rural and remote households. However this would need to be balanced with the extra administrative burden it may impose on scheme participants.

8. Approval of Activities

The REES should endeavour to be responsive to changing consumer priorities and new technologies, rather than being based around a relatively static list of energy efficiency products, and one that may not necessarily aligned with consumers' current and changing energy efficiency priorities. As a result, the CEC supports the recommendation that ESCOSA consider all activities approved by interstate schemes, with preference given to accepting them unless there is a strong case not to.

9. Reporting Activities

No comments.

10. Measurement

The CEC supports changing the metric of the scheme of energy reduction, as this better reflects the fact the REES should not be viewed solely as an abatement tool. While the scheme does deliver low-cost abatement, it does so with energy efficiency measures that are difficult to incentivise through a pure abatement scheme (such as a carbon price) due to the existence of residual market barriers.

For these reasons, it should be noted that the REES is complementary to the national carbon price mechanism. The carbon price does not address the residual market barriers addressed by the REES, such as information gaps, capital costs and split incentives; and as noted in the Final Report, has not had a significant effect at the household level. This supports COAG's Complementarity Principles which guide the assessment of emission reduction measures to complement the national carbon price mechanism.

11. Quality Assurance of Service Providers

Noting that around 90 per cent of REES participants reported a good or very good experience with the scheme, the CEC nevertheless supports any attempt to further strengthen the integrity of REES.ⁱⁱⁱ

A voluntary code of conduct to govern the conduct of REES service providers may potentially deliver increased consumer safeguards and reduced regulatory burdens for business. However, in order to be effective, a voluntary code of practice will need the support of energy retailers and energy service providers. It will need to be well designed, effectively implemented and properly enforced. As a result, it is recommended ESCOSA work closely with retailers and providers to gain their endorsement.

The CEC and its members would be happy to discuss these issues further with you as your review progresses. If you have any further questions please contact Ange Nichols via telephone on 03 9929-4109 or by email: anichols@cleanenergycouncil.org.au

Russell Marsh



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Clean Energy Council

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- ⁱ pitt&sherry, *Evaluation of the South Australian Energy Efficiency Scheme, 20 May 2013*
- ⁱⁱ Clean Energy Council, *Clean Energy Australia Report 2013*
- ⁱⁱⁱ pitt&sherry, *Evaluation of the South Australian Energy Efficiency Scheme, 20 May 2013*