PO Box 4136
East Richmond VIC 3121
T 131 806
F 1300 661 086
W redenergy.com.au

PO Box 4136
East Richmond VIC 3121
T 1300 115 866
F 1300 136 891
W lumoenergy.com.au

1 November 2019

Ms Tina Maiese
Senior Policy Officer
Department for Energy and Mining
11 Waymouth Street
Adelaide SA 5000

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

Dear Ms Maiese,

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

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 directions paper into the South Australian Retailer Energy Efficiency Scheme (the directions paper).

Red and Lumo continue to believe the Retailer Energy Efficiency Scheme (REES) should not continue in its current format. Red and Lumo remain concerned 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 a reduced cost. We have responded to material matters raised in the directions paper along with our views on opportunities to reduce these additional costs.

Carry over Credits

Red and Lumo do not support the proposed reduction of the use carry over credits from 2020 to 10%. The stated goal of REES is for "South Australian households to reduce energy consumption and thereby lower their energy costs and associated greenhouse gas emissions."[1] To this end, REES seeks to ensure maximum number of households to receive the benefit from the scheme by reducing their energy usage and greenhouse gas emissions. The decision to reduce the use of carry over credits merely punishes retailers who have been overly successful in delivering to their customer base and creatives an incentive for retailers to only carry out activities for the minimum number of consumers mandated.

[1] Department for Energy and Mining, Review into the South Australian Retailer Energy Efficiency Scheme, Directions Paper, October 2019, p3

While the Department has argued "retailers carried over significant credits from the previous scheme because they had exceeded the 2014 target by around 45%,"[2] this argument misrepresents the success retailers have been able to achieve in meeting the REES objectives. As the Department noted "REES is designed with the intention that all energy efficiency achieved is in addition to what would have otherwise occurred under other Commonwealth or State Government policies and programs."[3] The removal of this carry over credit only punishes retailers for successfully implementing the program and only discourages retailers from delivering for customers who may desperately need this support, for fear of exceeding the carry over credit limit.

Furthermore, retailers may contract with a range of providers to support their REES obligations, the choice of how many services are delivered will often be decided on the most cost effective option that meets mandated standards. This may mean that retailers may enter into contracts that are most cost effective that may exceed yearly targets knowing that the outcome will ensure the best value while still delivering for their customers. The removal of carry over credits will therefore mean retailers are unable to source the most cost effective option at any time for fear of exceeding the target and losing the associated benefit the following year. This creates an inefficiency as retailers may not be able to source the best value option if it risks exceeding the mandated carry over limits, which in turn will increase costs.

Priority Groups

Red and Lumo agree that the target of the REES should remain low income households who are most at risk from high energy costs. However, we also agree that the "current approach was approaching saturation for certain activities."[4] This potential saturation poses a major issue as it will likely increase costs as retailers search out potential consumers which will become increasingly difficult as the program continues.

These costs will only increase for retailers (and consumers) if the proposed 15% target for regional consumers is mandated. While Red and Lumo accept the need to support regional customers who may have not been adequately supported in the past under REES, there is a lack of acknowledgment from the Department of the heavy financial burden that will impact retailers from the regional target. Retailers often face difficulties in sourcing appropriately qualified technicians to carry out the work programs under REES (especially in regional areas).

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[2] Ibid, p9
[3] Ibid, p5
[4] Ibid, p15

We believe that these costs will only further be exacerbated should the Department move ahead with its decision to not incorporate a multiplier approach to incentivise retailers.

To address this, Red and Lumo believe that the Department should incorporate an adequate multiplier approach as part of the program. We believe that this multiplier could be incorporated to support customers in regional areas allowing for an acknowledgement of the increased costs of servicing these customers while providing an appropriate incentive to retailers to target regional consumers.

Alignment with other state programs

Red and Lumo welcome and strongly encourage the Department to "consider increased alignment of scheme activity rules with interstate schemes, where appropriate and ensuring continued high quality outcomes for consumers."[5] Red and Lumo believe that state based derogations continue to increase costs for retailers and consumers. As was highlighted in the Retail Electricity Pricing Inquiry completed by the Australian Competition and Consumer Commission (ACCC), different state based environmental schemes in particular continue to increase costs unnecessarily on retailers and consumers. We support the recommendations from the ACCC that "each NECF jurisdiction should review its derogations from the NECF and unwind any derogations that are not based on jurisdiction-specific characteristics or needs that cannot be met by NECF-wide rules."[6]

We believe that if the Department decides to continue REES, it should be fully augmented to align to other state based schemes. We would strongly support the SA Government adopting the existing scheme in the Australian Capital Territory (ACT) as the most efficient scheme currently under operation. Failing to adopt an identical model to the ACT we believe that at a minimum the SA Government should move away from an activity based scheme to the adoption of a certificate based scheme aligned with what is currently in operation in other jurisdictions.

Scheme End Date

Red and Lumo understand that the SA Government is committed to continuing the scheme past 2020. However, we continue to believe that the Government must clearly articulate a definitive timeframe for the end of the scheme. Currently, energy retailers face a high level of uncertainty in the market with extensive changes to both State and Federal regulations. This uncertainty creates further costs on retail businesses, which in turn impacts the prices consumers pay.

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[5] Ibid, p4
[6] REPI p228

We believe that the SA Government should confirm either a date or a customer target *(for example gigajoules (GJ) of energy savings)* that when reached, the scheme would be finished without further review. This would allow retailers to properly plan for the future and factor in potential operational costs. The removal of this ongoing uncertainty (which has been shown to dramatically impact retailers costs) would not only improve outcomes for retailers, allowing proper forward planning for businesses, but would also benefit consumers who would see a reduction in their energy bills through both in the short term removal of uncertainty and the long term removal of the REES costs. Any reductions in uncertainty will always improve outcomes for retailers and therefore 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

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