



**Government
of South Australia**

Department for Manufacturing,
Innovation, Trade,
Resources and Energy

Review of the South Australian Residential Energy Efficiency Scheme (REES) **Directions Paper July 2013**

Department for Manufacturing, Innovation, Trade, Resources and Energy
Energy Markets and Programs Division

This Directions Paper proposes future arrangements for a South Australian energy saving scheme from 1 January 2015.

This Paper sets out key findings from the review of the South Australian Residential Energy Efficiency Scheme and proposals for the scheme's future. Options raised in this Paper do not represent the final position of the South Australian Government.

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**DELIVERING
RESULTS**

FOREWORD

In October 2012, the Premier, Hon Jay Weatherill MP and Hon Tom Koutsantonis MP, Minister for Mineral Resources and Energy, launched the review of the South Australian Residential Energy Efficiency Scheme (REES) and released the "Review of the South Australian Residential Energy Efficiency Scheme (REES) - Issues Paper".

The Review has evaluated:

- the objectives of the scheme
- the effectiveness and efficiency of the scheme in meeting the scheme objectives
- whether the scheme should continue after December 2014
- the operation of the regulations governing the scheme
- how the scheme might transition to a national scheme if such an initiative is established.

The Review has been informed by consultations with key participants as well as submissions from various stakeholders in response to an Issues Paper and Independent Evaluation of the scheme undertaken over November 2012 to May 2013.

This Directions Paper provides the basis for additional consultations prior to developing advice for the South Australian Government for an energy saving scheme from 1 January 2015.

WRITTEN SUBMISSIONS

The Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) invites written submissions from interested parties in relation to the Review into the South Australian Residential Energy Efficiency Scheme (REES).

Written submissions should be provided by 4 pm, 9 August 2013 and should be marked 'REES Review – Directions Paper'.

Submissions via email are preferred to DMITRE.REESReview@sa.gov.au, or can be posted to:

Energy Markets and Programs Division
GPO Box 1264, Adelaide SA 5001

An electronic version of this document is available at www.sa.gov.au/energy/rees

If you would like to arrange a meeting to discuss this Directions Paper, please email DMITRE.REESReview@sa.gov.au or call (08) 8226 5532.

This Paper sets out key findings from the review of the REES and proposals for the scheme's future. Options raised in this Paper do not represent the final position of the South Australian Government.

DMITRE is an agency for the purposes of Freedom of Information laws. While we will not publish your submission on our website if you do not want this, we may be required by law to release your submission to a third party. Should such a request be made, you will be contacted prior to any decision to release the material.

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Executive Summary

The Residential Energy Efficiency Scheme (REES) provides incentives for South Australian households to reduce energy consumption and thereby lower their energy costs and associated greenhouse gas emissions.

On 8 October 2012, the Premier, Hon Jay Weatherill MP and Hon Tom Koutsantonis MP, Minister for Mineral Resources and Energy, launched the review of the REES and released the 'Review of the REES - Issues Paper'.

The directions outlined in this Paper are based on:

- submissions in response to the Issues Paper
- an Independent Evaluation of the scheme by Pitt and Sherry, including stakeholder interviews and a survey of households who had participated in the REES
- ESCOSA's annual reports of the scheme, including the findings of a cost-benefit analysis of the REES in the 2011 report
- stakeholder feedback on operation of the scheme

The cost-benefit analysis undertaken by ESCOSA and the Independent Evaluation demonstrated that the scheme delivers significant net benefits to South Australians. The Independent Evaluation also found that opportunities exist for the scheme to be continued and expanded.

The following major directions are proposed for the REES post 2014:

- Continue the scheme

It is proposed that the scheme be continued until 2020 or until such time as a national or a harmonised scheme is established.

- Re-focus the objectives of the scheme

It is proposed that the objective of the scheme be simplified to 'reducing energy use, with a particular focus on low-income households'. This new objective would see the retention of the priority group target and also a possible expansion of priority group membership eligibility.

- Consider expansion to small and medium enterprises

Further stakeholder views are sought on the possible expansion of the scheme into the commercial sector.

- Improve the quality of energy audits

It is proposed to retain a target for audits in low-income households. Several proposals are put forward to improve the quality of the audits without unduly increasing the cost of the scheme.

- Pursue greater harmonisation with other schemes

It is proposed to pursue opportunities for greater harmonisation with interstate and national jurisdictions.

- Improve participation in regional areas

It is proposed to work with stakeholders to facilitate greater uptake in regional South Australia. If needed, consideration will be given to introducing a 'bonus' or 'multiplier' system.

- Increase flexibility in activity approval processes

It is proposed to remove obstacles to ESCOSA approving a greater number of activities available under the scheme, including those currently operating in interstate schemes.

- Improve timeliness of activity reporting

To minimise duplications in retailer reports, some administrative changes are proposed to the reporting rules.

- Change the metric of the scheme to energy reduction

With the change to the scheme objective, it is proposed that the measurement metric also be changed to an energy measure.

- Improve the quality assurance for service providers

It is proposed that an industry-based quality assurance program would benefit scheme outcomes and help to build the professionalism of the energy services sector.

These proposed directions are aimed at reducing administrative cost, creating more alignment and harmonisation for industry, and improved and delivering more effective outcomes for South Australian energy users.

Following completion of consultation on this Paper a final review report will be presented to the Minister, including recommendations on future directions.

1 Overview of the REES

The Residential Energy Efficiency Scheme (REES) commenced in 2009 under the *Electricity Act 1996* and *Gas Act 1997*. Its operation is governed by Part 4 of the *Electricity (General) Regulations 2012* and Part 4 of the *Gas Regulations 2012*.

The REES is mandatory for all retailers of electricity and gas in South Australia who supply more than 5000 residential customers¹. The scheme is available to all residential households whether owner/occupier or private or public rental.

Obligated energy retailers are required to meet annual greenhouse gas reduction targets, which commenced at 155,000 tonnes in 2009 increasing to 410,000 tonnes in 2014. Thirty five per cent of the reduction targets must come from activities provided to low-income households. Obligated retailers also need to provide home energy audits to low-income households - 3000 audits in 2009, 5000 audits in 2010 and 2011 and 5,667 audits in 2012, 2013 and 2014.

The regulations relating to the REES currently only operate until the end of 2014, the conclusion of a six year implementation period, with a review required by the end of 2013, to consider whether the scheme should continue.

Regulation 36 of the *Electricity (General) Regulations 2012* and Regulation 30 of the *Gas Regulations 2012* require the Minister responsible for the administration of the regulations to commission a review of the REES. The report on the results of the review must be submitted to the Minister before 31 December 2013, and the Minister must table the report in Parliament.

The Energy Markets and Programs Division of the Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) advises the Minister on policy matters concerning the REES.

The Essential Services Commission of South Australia (ESCOSA) administers the REES in accordance with the Regulations. Within the parameters defined by the policy framework set by the government, ESCOSA established and maintains the REES Code, which provides detailed guidance to retailers in discharging their regulatory obligations.

¹ For 2013, obligated energy retailers are AGL SA, Powerdirect, Origin Energy, Simply Energy, Energy Australia, Lumo Energy, Alinta Energy - refer <http://www.escosa.sa.gov.au/residential-energy-efficiency-scheme-rees/rees-obliged-Retailers.aspx>

2 The Review Key Findings

This Section summarises the major findings from each stage of the REES Review.

2.1 Stakeholders' Views

Submissions to the Issues Paper and interviews with key stakeholders during the Independent Evaluation revealed a diversity of views about the scheme. Some of the more consistent themes are discussed below².

Energy Retailers - While some retailers saw the REES as an opportunity to promote their energy efficiency services, others considered the scheme an unwelcome and unnecessary impost on their business. Some retailers considered that carbon pricing and growing energy consciousness were the most significant drivers of energy efficiency and questioned the value of additional government interventions such as the REES. Retailers also saw merit in the REES moving toward an approach that permitted compliance via purchase of tradeable certificates. The retailers generally praised ESCOSA's administration of the scheme, finding that the scheme was easy to navigate from an administrative and compliance perspective.

Energy Efficiency Service Providers - Among this group, there was a high satisfaction level with the design and effectiveness of the scheme. Some members expressed concerns about the potential for 'saturation' of the market for low-cost, high energy-saving activities. This group saw merit in expanding the scheme to the commercial sector and extending the target.

Welfare Groups and Community Groups - These groups were strongly supportive of maintaining a 'priority group' target to assist low-income households. They did, however, point out that many financially struggling households currently fell outside the REES definition of 'priority group' and that this definition should be re-examined. These groups also saw significant value in the 'inter-personal' aspect of REES services delivery and suggested that measures could be taken to improve the interaction between service providers and householders.

Householders - As part of the Independent Evaluation a telephone survey was carried out, with the following responses recorded:

- Non-priority group participants (activities only) – 270 responses
- Priority group participants (activities and audits) – 269 responses.

² Much of this material is sourced from Pitt and Sherry's REES Evaluation Report, May 2013 - www.sa.gov.au/energy/rees

The survey was of a sufficient size to provide a confidence level of ninety per cent or more. In general, the survey found a high degree of satisfaction with both the energy efficiency activities and audit services provided. Over ninety per cent of respondents reported that they were either happy or very happy with the quality of the energy efficiency activities and audit services they had received. The survey provided strong evidence that the REES had been successful in accelerating the take up of the appliances provided through the scheme and had also positively affected attitudes to energy saving and savings potential.

2.2 ESCOSA's Findings

ESCOSA's report of the REES over 2009-2011 has shown that for the first three years of the scheme 165,000 South Australian households benefitted from the scheme. ESCOSA estimated that (excluding the energy audits component) the scheme delivered net benefits of \$107 million at a benefit to cost ratio of 4.7:1³.

In its 2012 Annual Report, released in June 2013, ESCOSA advised that, overall, retailers surpassed their targets.

Since the scheme started in 2009, the REES has created incentives for:

- the replacement of 59,602 inefficient showerheads with efficient showerheads
- the installation/upgrade of 2,866 low emission water heaters
- the replacement of 1,478,679 incandescent lamps with energy efficient lamps
- the installation of 98,155 standby power controllers to automatically reduce the standby energy consumption of residential audio visual and information technology equipment
- the installation of 82 draught proofing devices for doors, windows, chimneys of open fireplaces, or exhaust fans
- the early retirement of 12 secondary refrigerators or freezers
- the installation of ceiling insulation into 9,199 uninsulated homes
- the installation of energy efficient ductwork in 53 reverse cycle air conditioners

2.3 Independent Evaluation

The Independent Evaluation found that the REES has been an effective policy tool. The Evaluation found the benefits to cost ratio of the scheme over Stage 1 (2009-2011) to be 3.5:1 (comparable to ESCOSA's findings discussed in Section 2.2). In summary the Independent Evaluation found that over its first stage the REES has met its stated objectives.

³ <http://www.escosa.sa.gov.au/residential-energy-efficiency-scheme-rees/rees-annual-reports.aspx>

REES objectives	Evaluation Findings
Improve energy efficiency and reduce greenhouse gas emissions within the residential sector	645Kt CO ₂ -e saved and 4.1PJ of energy saved
Assist households prepare for likely energy price increases resulting from carbon emissions trading	Energy cost savings of \$100 million
Reduce total energy costs for households, particularly low-income households	\$3.50 of private benefit for every \$1.00 of expenditure

The Evaluation also found that the pool of low cost savings is far from exhausted and that significant, highly cost-effective opportunities remain in both the residential and commercial sectors.

That said, the Independent Evaluation and other elements of the Review have highlighted opportunities to improve the effectiveness of the scheme. The key recommendations from the Independent Evaluation are listed below, followed by a DMITRE response.

Greenhouse gas emission factors

- That the value for deeming purposes of the greenhouse gas intensity of electricity supply in South Australia be no higher than the current value for Scope 2 and 3 electricity emissions in South Australia from the latest National Greenhouse Accounts Factors Workbook.
- That the greenhouse/electricity conversion factor for future time periods be based on best-available estimates of the expected future value of that variable, and updated as necessary based on new information.
- That the South Australian Government consider converting (or expressing) REES targets in energy metrics (such as GJ), rather than greenhouse metrics (such as tonnes of CO₂-e).

DMITRE Response

The variance is noted between ESCOSA's calculations and those in the Independent Evaluation, due mainly to changes to emissions factors over time. This has not had a bearing on the economic benefits of the scheme. If the scheme targets are converted to energy metrics (as proposed in Section 3.2 of this Paper), the issue of changing emission intensity values would not arise.

Expansion to the commercial sector

- That coverage of the commercial sector, or small and medium-enterprises, as eligible entities under the REES is considered for the post-2014 period, along with approaches that target the key efficiency barriers facing these business entities.

DMITRE Response

The option of expanding the scheme to the commercial sector is canvassed in Section 3.4 of this Paper.

Energy audits

- That retailers be required to retain the written reports of audits conducted on their behalf by service providers, and that ESCOSA audit a random sample of these reports on an annual basis.
- That a further survey of audit recipients be conducted prior to the completion of REES Phase 2, to inform decision-making with respect to the inclusion of audits in any extension of REES post-2014.

DMITRE Response

DMITRE will present this recommendation to ESCOSA for its consideration. ESCOSA is best placed to determine the level, timing and method of compliance checking required to ensure auditors are meeting the specification.

The survey undertaken as part of the Independent Evaluation was rigorous and extensive, and has informed the proposed directions regarding quality assurance of audits in Section 3.5 of this Paper. DMITRE will discuss with ESCOSA the merits of ESCOSA using provisions in the REES Code to initiate additional surveying.

Referrals

- That the South Australian Government formalises a process to facilitate referrals by social welfare agencies of households from a wider priority group, including the 'working poor' and those at risk of energy hardship, regardless of whether those households are concession card holders or currently participating in retailer customer hardship programs.

DMITRE Response

This Paper proposes that ESCOSA re-examine the definition of priority group membership (See Section 3.3). This could include those people assessed by social welfare groups as experiencing hardship.

In addition to the above key recommendations, the Independent Evaluation also presented nine supplementary suggestions as a means to 'support the efficiency aims and cost effectiveness' of the scheme. These are listed below, along with the relevant section of the Directions Paper dealing with the topic, or the proposed response by DMITRE.

Independent Evaluation Recommendation	DMITRE Response
i. bi-annual collection and publication of average cost per tonne information on abatement generated under REES and reflected in energy retailer expenditures.	Section 3.2 and 3.10 of this Paper canvas re-casting the scheme objective and metric to energy use rather than greenhouse.
ii. web-posting of a 'minimum terms' or standard' service agreement by ESCOSA, that could be used by newly obligated retailers as a basis for their service provider obligations.	Measures to improve quality assurance of service providers are discussed in section 3.11 of this Paper. In addition, DMITRE will present this proposal to ESCOSA for its consideration.
iii. expansion of the 'priority group' (in consultation with welfare groups and in the light 'further analysis of the REES participant dataset) to make a higher proportion of low-income and disadvantaged households eligible for assistance under REES.	Expansion of the priority group definition is discussed in Section 3.3 of this Paper.
iv. formal development of priority group member referral services operated by charity and welfare agencies - that would provide flexibility for prioritisation of applications for assistance (with a 20% weighting applied to the appliance deeming rates for families and group homes within the top echelon).	A referral process by community and welfare groups is canvassed in Section 3.3 of this Paper
v. development of a 'real time' and web enabled register of REES applicants and serviced homes to enable a more efficient roll out of REES, and avoid duplication of effort and services.	Measures to reduce the possibility of duplicate reporting is discussed in Section 3.9 of this Paper.

Independent Evaluation Recommendation	<i>DMITRE Response</i>
vi. for annual reporting purposes, REES abatement targets and compliance outcomes be calculated with reference to the current National Greenhouse Accounts factors.	Section 3.10 of this Paper proposes changing the metric of the scheme to energy reduction.
vii. the share of activities (and abatement) that must be focused on priority group 'households (with the definition of this group suitably expanded to accommodate high need households identified by welfare agencies) be revised upward from 35 per cent to 50 per cent (this group not only presents significant opportunity for efficiency improvement, but is also likely to offer greater 'additionality' of savings induced under the program and therefore greater cost effectiveness overall).	Section 3.3 of this Paper recommends expanding the priority group eligibility. It is proposed to address this proposal before considering an increase in the priority group target, to ensure such an increase would not unduly increase the costs of the scheme.
viii. the 50 per cent priority group target should also be applied to the household audit requirement under the scheme (so that non-priority group households can also benefit). 12 month follow up on a sample of these households (via phone or email) should also be implemented as a check on the value and outcomes of the advice delivered to consumers.	Sections 3.2 and 3.3 of this Paper recommend maintaining an objective and target focussed on low-income households, and also a possible expansion of the priority group definition. Expansion of the audit requirement into the non-priority group would dilute the impact of the audits in the priority group.
ix. case studies of successful audit and energy efficiency improvements advanced under REES be used to expand the 'demonstration' impact of the scheme and to motivate higher levels of interest in energy saving opportunities and autonomous improvement across the community.	DMITRE has energy efficiency case studies on its website. Consideration will be given to including REES-specific stories. DMITRE will invite obliged energy retailers and their service providers to present REES case studies.

3 Proposed Directions

3.1 The Future of the Scheme

Proposed Directions:

3.1.1 Continue a South Australian energy efficiency scheme beyond 2014

3.1.2 From 1 January 2015, set the scheme for three yearly target re-sets and reviews each six years

3.1.3 Allow carryovers beyond 2014

A threshold question for the REES Review is whether the scheme should continue beyond its current end date of 31 December 2014. The Independent Evaluation has demonstrated that the scheme has successfully met its objectives to date and that significant cost-effective opportunities remain to be exploited.

It is proposed therefore that a scheme continue beyond 2014.

In order to assist retailers' business planning, it is proposed that, as is currently the case, targets are set on a three yearly basis, and retailers have the ability to carry over credits and limited borrowing from one stage of the scheme to another.

3.2 The Scheme Objective

Proposed Direction:

3.2.2 Recast the scheme objective as 'to reduce energy use, with a particular focus on low-income households'.

Best practice energy savings programs have simple, clear and focused policy objectives⁴. The REES was developed to assist South Australians, particularly those on low incomes, to reduce their energy bills and cut greenhouse gas emissions, and to prepare households for the energy price increases expected to arise from a national emissions trading scheme.

Some stakeholders proposed that the objectives of the scheme should be simplified to focus solely on energy savings, especially for low-income households. Others would like the scheme to retain its greenhouse gas emissions reduction focus as well. Some also suggested that the peaky nature of South Australia's electricity demand was a primary driver of network costs and electricity prices and therefore reducing peak demand should be an explicit objective of the REES.

Energy saving schemes such as the REES seek to address market barriers to energy efficiency. These barriers occur when energy users do not undertake energy saving initiatives on their own or are not capable due to a range of factors⁵. The Independent Evaluation noted that market barriers persist in the residential sector, particularly among low-income households. These are discussed further in Section 3.3, and provide a strong economic basis to continue the scheme and to retain a priority group target.

The Independent Evaluation noted that measuring progress towards greenhouse targets, as is currently the case, is problematic for the REES because greenhouse intensity varies annually as a function of the changing fuel mix used for power generation, and because of interstate energy trade patterns. This can mean that more energy savings will be required, at greater cost, for any given level of greenhouse gas savings targeted.

Re-focusing the scheme's objective to energy reduction would continue to deliver greenhouse gas reduction benefits to the community when measured against business as usual. Energy saving activities, such as

⁴ International Energy Agency Demand Side Management Programme Regulatory Assistance Project, June 2012: *Best Practices in Designing and Implementing Energy Efficiency Obligation Schemes*.

⁵ These may include:

- market failure due to information failure or split incentives (e.g with tenant occupied dwellings, the interests of the occupant may not align with the landlord)
- cultural and behavioural barriers, which lead to energy efficiency measures taking lower priority than other factors
- other barriers such as capital constraints or individual perceptions of risk and uncertainty factors

those delivered by the REES can play an important role in lowering the cost of reducing greenhouse gas emissions.

While peak energy demand is an important concern to South Australia, the Independent Evaluation found that the case for inclusion in the future South Australian energy saving scheme was not strong. The Independent Evaluation notes that it is difficult to identify any cost savings from reduced peak demand that would be passed onto consumers, particularly in times of falling peak demand.

Also, including a peak demand target would introduce a suite of peak reducing activities which could serve to 'displace other energy saving activities that would unequivocally reduce energy costs for householders, including low income householders'.

3.3 Priority Group Targets

Proposed Directions:

- 3.3.1 Retain a priority group target**
- 3.3.2 Retain the current definition of 'priority group'**
- 3.3.3 Work with ESCOSA to include in the REES priority group households that currently do not fall within this criteria, though are facing energy-related financial stress.**
- 3.3.4 Work with community and welfare groups, and retailers to establish referral processes to refer households directly to retailer or service providers for assistance under the scheme.**

Under the existing scheme, thirty five per cent of activities must be delivered to priority group households (i.e. low-income households). Some stakeholders have suggested it would reduce the administrative burden of the scheme if the priority group target was removed and/or if it were to become a separate or 'stand-alone' target. Other stakeholders, particularly those from community and welfare groups were strongly in favour of retaining the priority group target, or even raising it.

The Independent Evaluation notes that there are strong arguments for targeting low-income households. These households:

- spend a greater proportion of their disposable income on fuel in general and therefore find it harder to absorb energy price rises
- tend to be less efficient to begin with, with older, less efficient appliances, such as hot water systems, refrigerators and insulation
- tend to lack access to financing, reducing their ability to implement longer term measures which require up front capital expenditure
- lack information regarding possible energy efficiency measures

The telephone survey undertaken as part of the Independent Evaluation revealed that priority group households were the most enthusiastic about REES, and were the most receptive group for assistance in this area.

Under the *Electricity (General) Regulations 2012* and the *Gas Regulations 2012*, a priority group household means residential premises in which a person resides who:

- is the holder of a current pensioner concession card issued by the Commonwealth Government; or

- is the holder of a current TPI Gold Repatriation Health Card issued by the Commonwealth Government; or
- is the holder of a current War Widows Gold Repatriation Health Card issued by the Commonwealth Government; or
- is the holder of a current Gold Repatriation Health Card (EDA) issued by the Commonwealth Government; or
- is the holder of a current Health Care Card (including a Low Income Health Care Card) issued by the Commonwealth Government; or
- is a recipient of the South Australian Government Energy Concession; or
- falls within a class of persons who are experiencing hardship determined or approved by the Commission (*ESCOSA*) for the purposes of these regulations.

The regulations provide flexibility for ESCOSA to periodically consider who should fall within the priority group. For example, ESCOSA has determined that customers who are on retailers' hardship programs are included in the priority group. This flexibility enables the scheme to respond to changing circumstances.

During consultation, some stakeholders have called for ESCOSA to re-examine membership of the priority group. Welfare groups and service providers, in particular, have noted that eligibility for a concession card is an inadequate means of identifying households most at risk of energy poverty or social stress. For example, retirees with modest energy consumption habits may not experience energy cost hardship. On the other hand, the working poor – often larger families with one or two modest incomes – are potentially at much greater risk.

Some stakeholders have recommended that the scheme should allow for community and welfare groups to identify households eligible for assistance under the scheme, and to refer those households directly to retailers or service providers. Such referral services would reduce the search cost that some consider the scheme imposes in determining priority group households.

3.4 Expanding the Scheme

Proposed Directions:

3.4.1 Either:

Retain the residential only focus of the REES

Or

Expand the scheme to allow energy retailers to meet their targets by delivering energy activities to small and medium-size businesses, with the intention of targeting the scheme to businesses facing the greatest barriers to adopting cost-effective energy efficiency activities.

3.4.2 **If the scheme expands to the commercial sector, amend the obligation threshold from 5000 residential customers to a minimum level of energy sales.**

The REES currently only allows energy efficiency activities to be delivered to households. The Victorian Energy Efficiency Target (VEET) and the NSW Energy Saving Scheme (ESS) allow activities to be delivered to businesses.

The barriers to energy efficiency in the small business environment are similar to those in the residential sector:

- lack of knowledge/information
- high search costs for relevant advice
- lack of capital to invest in structural changes
- split incentives in rented premises

The Independent Evaluation modelled what would have happened if the REES had been open to the following commercial building types; offices, retail, education, health and hotels. It identified significant cost effective energy efficiency opportunities in the commercial building sector.

It found that expanding the scheme to commercial buildings would introduce economies of scale, provide greater scope for innovation, and enable higher energy saving targets. Whilst this would increase overall scheme compliance costs, it would also increase the base of customers that retailers would be able to recover costs from. It would also move the scheme framework toward greater harmony with interstate schemes.

In consultations, current REES obliged retailers were generally open to increasing coverage beyond the residential sector.

Other stakeholders cautioned that an expansion to the commercial sector might unfairly disadvantage the residential sector. If the commercial sector offered a lower cost means of meeting targets, then fewer activities may be delivered to the residential sector. If the scheme were to expand to the commercial sector, to meet the proposed objective to assist low-income households it may be necessary to either maintain a separate residential sector target or place greater emphasis on the priority group target.

A further consideration for an expansion to the commercial sector would be that the obligation threshold for retailers would require re-examination. The threshold currently stands at 5000 residential customers, but this may not be appropriate to capture those retailers who deal primarily with commercial customers. Some stakeholders have suggested removing the threshold entirely, however it is considered that a threshold serves to prevent the scheme placing an undue burden on small retailers entering the market.

A preferred approach may be to specify a minimum level of energy sales as the threshold to become an obliged retailer.

Additional feedback is invited from stakeholders regarding the possible expansion to the commercial sector. In particular:

- How best to ensure, with such an expansion, that the low-income household focus of the scheme is maintained.
- The views of energy retailers on how they would seek to recover the additional cost of complying with an expanded scheme.
- How to best avoid any such additional costs falling disproportionately on residential customers.

3.5 Energy Audits

Proposed Directions:

- 3.5.1 Retain a separate target for the delivery of energy audits to low-income households.**
- 3.5.2 Discuss with energy retailers, service providers and welfare/community groups ways in which energy audits can be better targeted to those low-income households that would best benefit from them.**
- 3.5.3 Revise the minimum specification for an energy audit to provide clearer guidance on what constitutes an acceptable energy audit, including consideration of the use of a standard template.**
- 3.5.4 Review the need for a follow up call in the minimum specification for an energy audit to provide clearer guidance of its purpose.**
- 3.5.5 Clarify, in the minimum specification for an energy audit that, post 2014, all those conducting REES audits will need to have nationally accredited training.**
- 3.5.6 Transfer administration of the minimum specification from the Minister for Mineral Resources and Energy to ESCOSA.**

As part of the REES Review, a telephone survey⁶ was undertaken to, amongst other matters, establish whether stakeholder concerns about the efficacy of REES energy audits were well founded. In summary, the survey found a majority of households that received REES audits were satisfied with the quality of the audit services provided, and that over seventy per cent had adopted at least some of the suggested energy saving actions.

This indicates that the residential audits are an important and effective element to the scheme and should be retained.

During consultation, stakeholders indicated that the audit specification could be made more comprehensive to improve the quality and effectiveness of the audits.

⁶ See Section 2.1 of this Paper.

Suggestions to improve the audit include:

- Longer consultation after an audit.
- Multiple visits to enhance behavioural change aspects.
- A consistent audit template.
- Higher training standards requirements for auditors.

It has also been suggested that responsibility for determining the specification content should transfer from the Minister to ESCOSA, given that ESCOSA is the relevant body for verifying compliance with the specification.

In forming the proposed directions above, a balance has been found between the improvements sought by stakeholders and the need to avoid excessive costs to obliged retailers in meeting their audit targets.

3.6 Harmonisation with other Schemes

Proposed Directions:

- 3.6.1 Maintain engagement with the Commonwealth on its investigations into a national energy savings initiative**
- 3.6.2 Convene discussions with jurisdictions that have existing retailer obligation schemes on specific opportunities for harmonising, including consistency in approved energy saving activities.**
- 3.6.3 Should the South Australian scheme expand to cover the commercial sector, convene discussions with NSW and Victoria over the scope for their existing accreditation, certificate creation and compliance frameworks to be leveraged to cover activities implemented in South Australia. This is with the intention that such activities could be used by energy retailers to contribute towards their South Australian targets.**
- 3.6.4 Enable, in the regulations, a mechanism for transition to a national scheme.**

The Commonwealth Government is investigating the merits of a National Energy Savings Initiative (NESI). The South Australian Government has indicated its willingness to consider a proposal for such a scheme should this be presented to the Council of Australian Governments. At this stage the Commonwealth has not indicated if and when this would occur.

It is proposed that SA should maintain its engagement with the national process and also commence discussions with other jurisdictions on opportunities to harmonise existing schemes.

Harmonisation could enable South Australia to:

- adopt, with any necessary translation to South Australia, activities approved in interstate schemes
- accept, in South Australia, service providers accredited in other jurisdictions

A further step would be to explore ways in which compliance with South Australian obligations could be achieved by obliged energy retailers purchasing certificates created through interstate certificate registries. This approach could be used for all activities or only for activities delivered to businesses, if the scheme expands this way.

To ensure benefits to South Australia from this approach, there would be a need to ensure that such certificates related to energy savings delivered locally. Given there is an activity market for the delivery of residential energy efficiency activities through the REES, it is considered that this approach would be most beneficial should the South Australian scheme expand into the commercial sector. Further, it is considered this approach would be more cost effective than South Australia seeking to establish its own certificate registry.

The use of interstate registries would require collaboration with those jurisdictions and may be conditional on their support. Given the possible use of such registries is currently a proposal, such formal engagement with other jurisdictions has not yet occurred.

The South Australian scheme could be designed to permit the Minister to transition the scheme into a national scheme. This change could be modelled on the NSW Energy Saving Scheme, which has legislative provision for its scheme to continue to 2020 *or until there is an equivalent national energy efficiency scheme*.

As part of the REES Review, stakeholders have been generally supportive of a transition to a national or harmonised scheme, while also pointing out some difficulties that would need to be addressed, such as the risk of a greater share of activities occurring in jurisdictions without existing schemes. Retailers in particular have noted that a national scheme would provide economies of scale and reduced administrative costs.

Welfare and community groups on the other hand have concerns that the REES focus on priority group households should not be lost in a transition to a national or a harmonised scheme.

A transition to a national scheme could be a lengthy process. A state-based scheme with ongoing harmonisation with interstate schemes may be the preferred option for several years to come.

3.7 Regional and Remote Participation

Proposed Directions:

- 3.7.1 Work with energy retailers and service providers to increase regional participation.**
- 3.7.2 Consider the use of a multiplier, if needed, to increase participation in regional areas.**

The scheme does not specify where in South Australia the activities and audits must take place. Through its annual reports on the REES, ESCOSA has shown a concentration of REES work in and near metropolitan Adelaide, with typically low penetration in regional areas.

Stakeholder feedback indicated some support for developing specific targets for regional households or for offering extra credits for activities in regional and remote areas. Other stakeholders have also indicated that more needs to be done to solve the imbalance of implementation in these areas.

The Independent Evaluation considered that with increased uptake in metropolitan areas, focus will eventually shift to the regions to address low participation rates.

Service providers have indicated to DMITRE that the additional costs of servicing regional areas are the greatest obstacle. They did indicate that where a significant amount of business has been generated in a regional area it has proven viable for them to service this demand.

While, in the interim, a separate target is not proposed for regional areas, in the future the use of a multiplier to encourage regional activity could be considered should the current approach not be effective. One drawback of the use of multipliers is that they can dilute the amount of energy saving delivered by the scheme.

3.8 Approval of Activities

Proposed Directions:

- 3.8.1 Amend the REES Protocol to increase flexibility in the approval process for energy efficiency activities.**
- 3.8.2 Require ESCOSA to consider all activities approved by interstate schemes, with preference given to accepting them unless there is a strong case not to.**

ESCOSA is responsible for maintaining, reviewing and amending the list of approved activities under the scheme. In performing this function, ESCOSA refers to general principles and constraints included in the REES Protocol.

These general principles could be less restrictive so as to allow retailers more flexibility in their selection of the activities they wish to roll out. In particular, the REES Protocol includes criteria which may be read to preclude behaviour change activities that save energy through energy conservation rather than energy efficiency.

Some stakeholders feel that judgements on the cost effectiveness of a given activity should be left to the retailers delivering the activity, or to the householder, rather than the regulator.

The current requirement that an activity should not predominantly rely on human behaviour could be re-examined as it may preclude innovative behaviour change strategies and technologies, such as in-home displays, which have been adopted by other schemes.

3.9 Reporting Activities

Proposed Directions:

- 3.9.1 Change the date on which an activity occurs, for the purposes of complying with a REES obligation, to be the date that the activity is reported to ESCOSA.**
- 3.9.2 Establish a cut-off date for pre-2015 activities to be reported, to enable transition to 3.9.1.**
- 3.9.3 Establish a requirement on retailers to make-good non-complying activities.**
- 3.9.4 Clarify that some activities (such as standby power controllers) are associated with the householder and not the dwelling.**

Submissions from retailers and service providers have raised issues relating to duplicative reporting that are only uncovered at a late stage in the reporting period, leading to the risk of creating an unintended shortfall against their targets and increasing costs of complying with the scheme.

In late 2012 ESCOSA introduced an expanded verification database that has substantially reduced the situations where a service provider would undertake a duplicative activity. Still, the nature of the scheme's current design, where activities can be reported many months after they were created, can be an ongoing cause of duplicate problems.

A more efficient method for checking compliance against activities is to change the timing of an activity to the time it is reported to ESCOSA, rather than the time it occurred. This would encourage prompt reporting as a means of minimising the risk of activity duplication. To complement this change, ESCOSA could be allowed to impose a 'make good' requirement on retailers for non-complying activities, rather than simply disallow them, as is currently the case.

Such a change would inevitably create some transitional issues between those activities undertaken under the current reporting rules and the new rules. This could be managed by establishing a cut-off date for pre-2015 activities of, say, March 2015.

Another administrative aspect concerns the treatment of activities, such as stand-by power controllers, that would typically be removed by householders when they leave the premises. A mechanism could be provided to associate the activity with a householder, rather than a dwelling, to allow for such movement.

3.10 Measurement

Proposed Direction:

3.10.1 Change the metric of the scheme to energy reduction.

3.10.2 Develop appropriate conversion factor(s) for any carryover greenhouse gas reduction credits

The REES targets are currently expressed in terms of greenhouse abatement. The Independent Evaluation has noted this approach may be problematic given the backdrop of significant structural change in the energy sector. The greenhouse intensity of electricity is variable, and is expected to decline over time, which may lead to a need to continually increase the energy savings required (and hence the associated cost) under the scheme to meet a given greenhouse gas target.

As a consequence, the Independent Evaluation recommended that the scheme targets after 2014 should be expressed as energy metrics, such as gigajoules (GJ) or megawatt-hours (MWh) of energy saving, rather than the greenhouse gas reduction metric.

Expressing the targets as energy savings would entail consequential changes to the administration of the scheme, specifically:

- The deeming values for activities will also be expressed in term of energy.
- There will need to be provision to allow retailers to carry over greenhouse abatement credits from the second stage as 'energy' credits into the third stage. An appropriate conversion factor or factors will be needed to enable the carryover of greenhouse abatement credits as energy credits. ESCOSA, as scheme administrator, would be well placed to do this.

3.11 Quality Assurance of Service Providers

Proposed Direction:

3.11.1 Work with energy retailers, energy service providers and ESCOSA to establish a voluntary code of practice that governs the conduct of REES activity service providers.

The general view of retailers and service providers under the REES has been favourable in terms of ESCOSA's administration of the scheme. ESCOSA is seen as adaptive, responsive and willing to undertake consultation, address issues and make amendments for the effective operation of the scheme as required.

Service providers have expressed an interest in improving service standards within their industry. One recent example of an industry led quality assurance program is 'Energy Assured', which provides a code of practice and register to improve the service standards in the sale of energy products. The program covers recruitment, training, accreditation and ongoing monitoring of agents.

A similar scheme could be beneficial to ensure consumer confidence that the providers of activities under REES are operating to best practice principles.

4 Next steps

Following completion of consultation on this Directions Paper, a final review report will be presented to the Minister for Mineral Resources and Energy, including recommendations on future directions. The following table shows progress of the review and indicative times for the next steps.

Milestone	Date	Status
Scoping and establishment of the Review		
Selected consultation with stakeholders	early July 2012	Completed
Issues Paper		
Released for consultation	08 October 2012	Completed
Submissions close	12 November 2012	Completed
Independent Evaluation		
Tender for Independent Evaluation released	October 2012	Completed
Commencement of work	November 2012	Completed
Independent Evaluation final report	May 2013	Completed
Field work		
Field work commissioned and completed	March-April 2013	Completed
Release Directions Paper & Independent Evaluation Report		
Consultation with stakeholders on Review recommendations	23 July to 9 August 2013	In Progress
Government considerations of recommendations	August-Sept 2013	
Legislative Requirement		
As per Part 4, Regulation 36(1) and Part 4 Regulation 30(1) of the <i>Electricity (General) Regulations 2012</i> and <i>Gas Regulations 2012</i> "The Minister must cause a review of the operation of this Part to be conducted and a report on the results of the review to be submitted to the Minister before 31 December 2013."	Before 31 December 2013	
Post review work		
Regulatory changes	by mid to 3 rd quarter of 2014	
Targets for 2015 and beyond	by mid to 3 rd quarter of 2014	