EnergyAustralia
LIGHT THE WAY

EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

1 November 2019

Tina Maiese
Department for Energy and Mining South Australia
Lodged via email: tina.maiese@sa.gov.au

Dear Ms Maiese,

Review into the South Australian Retailer Energy Efficiency Scheme (Public version)

EnergyAustralia welcomes the opportunity to make this submission to the South Australian Department of Energy and Mining's (DEM) Review into the SA Retailer Energy Efficiency Scheme Directions paper October 2019 (Directions paper).

EnergyAustralia (EA) is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts across eastern Australia. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation.

EnergyAustralia observes that the Directions paper retains many features of the current REES but proposes several additional, significant changes to the scheme that are highly complex to design and implement. While we recognise that the Directions paper is intended to be high level and more detail will be provided in future consultation, our comments in this submission are limited due to limited detail in the paper.

Our comments are set out in respect of each of the Proposed directions below. Overall, EnergyAustralia supports conservative changes that open the scheme to more households / businesses and that retain flexibility. Specifically, we support changes to:

- include rental households in the definition of Priority Group (PG) households
- Removal of the 900 GJ limit for commercial lighting upgrades; and

- allowing revisits to premises to conduct commercial lighting activities.

We have concerns around the more significant changes and the short notice between when the details will be finalised for the changes and implementation by start 2021. Namely, we have concerns about the:

- Introduction of demand response activities; and
- adoption of new calculation methodology from other states/territories for Commercial and Industry Retrofits e.g. NABERS.

In relation to demand response, multiple stages of consultation will likely be required to design eligible activities based on demand response appliances, and a staged approach to implementation should be considered given that the demand side participation market is still developing. Extending the REES to demand response now would be premature, administratively complex and likely increase the cost of the REES across the industry.

While conceptually simpler, we also have concerns about the practical effect of an inflexible residential and regional target. We question whether these targets will be achievable when bundled with mandated co-payment for non- PG residential households. Retailers will likely face challenges in meeting these targets, particularly if saturation issues in the residential market arise as they have for the PG segment in the past.

If you would like to discuss this submission, please contact me (03 8628 1548 or Selena.liu@energyaustralia.com.au).

Yours sincerely,

Selena Liu
Industry Regulation Lead

Proposed directions

3.1 The Future of the Scheme

The DEM has indicated that the updated scheme will commence on 1 January 2021. While this aligns with the expiry date of the current scheme, we consider there is an insufficient period from when the review is complete (and activity specifications finalised) in H2 2020 to the commencement date of 1 January 2021. This is particularly the case if the significant changes outlined in the Directions paper are adopted in their current form. We ask the DEM to reconsider the commencement date at least for the more significant changes or introduce an adequate transitional period.

The Directions paper proposes to restrict credit carryovers from the current scheme to 10% of the 2020 target. We ask that the DEM consider that this be increased to 25% to reflect that the industry will be in a transitional phase.

3.2 The Scheme Objective

The Scheme Objective reflects the concept of 'energy productivity' which includes energy efficiency, energy demand management and energy demand response. EnergyAustralia has concerns about whether the incorporation of demand management and response into the REES will be workable in the near term. We discuss these concerns in section 3.4 below.

3.3 Regional and Remote Participation

EnergyAustralia is concerned with any prescribed target for regional areas (and the reference in the Directions paper to specific regional obligations the following year if that target is not met). In general, we consider that credit multipliers or direct changes to abatement values, are the most efficient form of incentivising activities compared to other activities. When set correctly to reflect their value, multipliers will intrinsically incentivise activities in regional areas to the fullest extent. Targets on the other hand, will only incentivise activities up to the target.

The DEM notes that the application of ad-hoc credit multipliers risks the integrity of the underlying calculation that estimates the energy credits achieved under the REES. We consider that this risk can be effectively addressed and accounted for by maintaining a separate calculation that reverses the effect of the multiplier for ESCOSA's reporting purposes.

In addition, our experience with the PG target is that sub-targets (that sit within the general energy efficiency target) are difficult to set and potentially arbitrary. Previous ratios of regional to metropolitan activities might not be accurate for future years. If the DEM were to pursue a regional target, we ask the DEM to consider:

- the metropolitan/regional household ratio in SA;
- adjustment for any behavioural differences in likely take up of REES activities in each segment; and
- adjustment for any saturation issues in regional areas. In relation to saturation issues, in Energy Australia's experience, activity providers have been recently focussing on regional areas since 2018.

EnergyAustralia also seeks clarity around what "specific regional obligations will apply for retailers in the year following the shortfall". We also seek clarification on how the regional target will interact with other targets (mutually exclusive or not).

3.4 Energy Productivity

EnergyAustralia supports in principle encouraging investment in demand management and response activities. However, we are of the view that incorporating demand side participation into the REES should be considered when the REES is next reviewed (six years after the next scheme's commencement).

While the demand response/management market has developed considerably in the last three years (particularly with the joint ARENA and AEMO Demand Response Initiative[1]), the market is still in an initial, developing phase.

Currently, demand response enabled appliances are not widely sold by appliance providers to households, nor is their demand response capability broadly marketed.

Further, demand response providers or aggregators (selling demand response to customers) are still mostly operating trials in the mass market context, rather than providing proven service offers responding to strong demand. Particularly in the mass market space, demand response has mostly been behavioural and heavily supported by the joint ARENA/AEMO initiative directly funding payments to customers. It is unclear, at this stage, what form of demand response will prove most successful beyond the ARENA/AEMO industry trial, which is due to conclude end of next year. Nevertheless, EnergyAustralia is committed to exploring all avenues to bring its value to customers.

If the DEM were to bring forward demand response/management to include it in the REES from start 2021, we recommend that this should be on a trial non-mandatory basis only – as the AEMO/ARENA trial would have just concluded and focus on C&I customers where demand is likely to be stronger.

Even with this targeted approach, we note the complexities in developing an energy productivity metric. As the DEM would appreciate, this is significantly different to an energy efficiency measurement. It would be very complex to set a demand response/management metric to reflect the value to wholesale electricity and ancillary services markets, or the value of avoided network costs. This has not been done at an industry level. Moreover, there are complexities in setting the individualised value of a demand response activity, would this be based on an assumed value for an appliance over its lifetime, or an estimation of value for each demand event (baselining)? Consultation on these matters in mid-2020 would not provide for adequate time to implement any demand response/management activities by start January 2021.

3.5 Increased Competition and Scheme Efficiency

EnergyAustralia does not agree with the proposed measures listed in section 3.5 regarding annual open tenders, reporting on opportunities provided to new providers and costs/number of engaged providers, and any related reporting requirements.

EnergyAustralia considers the market for activity providers is competitive. If the market was uncompetitive, high returns would attract entry by new activity providers. This is

[1] https://arena.gov.au/17-18-annual-report/arena-showcase/demand-response-initiative/

particularly the case when non-REES providers offer similar products, and the barriers to providing similar activities under the REES would be low (and mainly to do with adapting services to the regulatory regime).

EnergyAustralia periodically conducts an open tender process in line with its commercial procurement practices. We consider that this a commercial matter that is not directly relevant to the operation of the REES and that it should not be regulated by ESCOSA via obligations regarding tenders or new reporting.

Separately, we strongly disagree with requiring retailers to offer at least 50% of eligible activities. We understand the intent is to increase the type of activities offered. Our experience with limited take up of certain activities suggests that; they may not be commercially viable, there are regulatory barriers in the form of installation requirements (e.g. electrician required); or there is limited customer interest in them.

The DEM should revisit activities with low take up or no take up by providers and consult with industry as to the reasons why those activities have not been undertaken by providers or retailers.

The DEM also refers to aligning the REES with interstate schemes. We support full alignment with either the NSW or Victoria energy efficiency schemes. There are risks with only partially aligning selected aspects from interstate schemes and combining them with aspects developed for SA. This could and has had unintended consequences. For instance, the REES adopted changes to the NSW Commercial Lighting Calculator on 1 November 2018. This effectively lowered the deemed energy saving values for commercial lighting for metropolitan and regional areas. This meant that each activity was worth less GJ in meeting the energy efficiency target, requiring more activities to be performed at extra cost. But unlike the scheme in NSW, other changes were not adopted to compensate for this reduction e.g. a higher deemed value was not set for regional areas.

3.6 Commercial and Industrial Activity Eligibility

We support the Proposed direction 3.6.1 and 3.6.2 relating to removal of the 900 GJ limit and allowing commercial lighting upgrades to be performed more than once at a premises. This would open the scheme to higher value and multiple energy efficiency savings at the one premises.

However, as noted previously, the commencement of IPD requirements for REES lighting upgrades in January 2020 will likely place the achievement of energy efficiency targets at risk in 2020. The requirements will significantly reduce the premises at which commercial lighting upgrades can be completed at.

If unchanged, the IPD requirements will continue to challenge retailers and negate any benefit to customers (and retailers) from the proposed removal of the 900GJ limit and allowing revisits. We strongly urge the DEM to revisit the IPD requirement and assess its impact on the ability of retailers to meet their energy efficiency targets. We note that the recent NSW consultation on the Energy Savings Scheme did not consider this matter.

3.7 Deeper Commercial and Industry Retrofits

Regarding Proposed direction 3.7.1, EnergyAustralia is open to consider new upgrade activities for larger businesses but would appreciate more detail to meaningfully assess these activities.

In relation to Proposed direction 3.72, the REES should only consider new methods such as BAERS Baseline Method etc, if the DEM and ESCOSA develop the expertise to independently administer/monitor compliance with those methods.

With regard to requiring customer co-payments for all commercial and industrial activities, EnergyAustralia agrees with this in principle provided that the DEM makes clear that the mandated co-payments will not apply to SME customers falling under the 160 MW per annum consumption threshold.

3.8 Residential Target

As per our comments above regarding regional targets, EnergyAustralia generally considers that multipliers or adjusting the abatement value of an activity, are the optimal ways to incentivise activities for certain customers.

Further, in relation to a residential target, we have concerns that an inflexible target operating alongside mandatory co-payments for non-PG households, will present significant challenges for retailers in meeting this target.

As per above, we also seek clarity on how the priority group, residential and regional targets will interact in so far as one activity can be counted towards more than one target. It appears that the DEM intends for there to be effectively two residential targets relating to PG and non-PG households (where mandatory co-payments will only apply to the latter).

We also note the administrative burden in tracking progress against three separate targets for retailers and ESCOSA, which will increase the operational cost of the scheme.

3.9 Priority Group Target

Our general comments in 3.8 above regarding our preference for multipliers and changes to abatement value instead of targets apply to the PG target.

The changes in January 2019 to the REES to allow revisits to residential households (so that L1 activities could be delivered twice at premises where lamps had not been previously installed under the REES), has assisted in addressing the saturation issue in the near term.

We welcome the change to include rental households within the definition of PG and other definitional changes that will increase opportunities for retailers to provide activities to more households experiencing affordability issues. As per ESCOSA's reports, rental households are under-represented in receiving the benefits of the REES, compared to owner-occupier households.[1] We also suggest that the DEM, with the assistance of ESCOSA, continue to monitor the PG saturation issue closely during 2020 to inform this current REES review and whether further changes are required. E.g. consider the proportion of PG activities achieved via application of prior year credits, rather than activities performed in 2019.

3.10 Deeper Residential Retrofits

As per our comments in section 3.8, the introduction of a residential target alongside mandated co-payment requirements for all non-PG residential activities could present

[1] https://www.escosa.sa.gov.au/ArticleDocuments/214/20190627-REES-RegulatoryPerformanceReport-2018.pdf.aspx?Embed=Y, p. 5

material challenges for retailers. This is because most activities provided to residential premises are at no cost. **[Confidential**

]

Section 3.10 of the Directions paper refers to financing options for customers to fund deeper residential retrofits. We note that options involving the payment of interest (even low interest) could place vulnerable households under more hardship. We also consider that it would be inappropriate for retailers to provide these financial options.

3.11 Energy Audits

We agree with the removal of the energy audits from the scheme.