Government of South Australia
Department for Energy and Mining

# REVIEW INTO THE SOUTH AUSTRALIAN RETAILER ENERGY EFFICIENCY SCHEME

REVIEW REPORT DECEMBER 2019

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# Executive Summary

The Retailer 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 Regulations).

The Regulations relating to the REES (the Scheme) currently only operate until the end of 2020, the conclusion of a six-year implementation period, with a REES Review (the Review) required by the end of 2019 to consider whether the scheme should continue.

A threshold consideration in the Review is whether the scheme should continue beyond 2020. The Review Report recommends that South Australia continue to have a REES to 31 December 2030 or until a national scheme that is acceptable to South Australia is in place.

This Review Report recommends that the REES to apply from 1 January 2021 have the following key features:

- A ten-year continuation with two five-yearly target resets and a review to be conducted in 2029.
- Retailers will be obligated to deliver the scheme.
- Set the scheme objective to 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'.*
- Have an energy productivity target expressed using a gigajoules (GJ) metric.
- Include a residential target.
- Include a priority group target, comprising the current Scheme priority group as well as rental households.
- Include a regional obligation on retailers, in circumstances where activities delivered in regional areas fall below 15 per cent of the overall target, in the year following the shortfall.
- Incentives for demand response activities as well as energy savings in the commercial and residential sectors.
- Require customer co-payments for all commercial and industrial activities and residential activities except for priority group households.
- Transparency measures to promote greater competition

This Review Report does not recommend that residential audits and the obligation on retailers to meet annual energy audit targets feature in the REES to apply from 1 January 2021.

This Review Report recommends that for a smooth future transition, REES restrict credit carryovers from the current scheme to 20 per cent of the 2020 target. The credit carryover restriction is proposed to apply in 2021 only and carried-over credits will be converted to reflect the credit values applying from 2021.

The Regulations and rules associated with the current Scheme will need to be amended to allow the scheme to continue and to bring into place the recommended improvements in this Review Report.

The Review Report recommends the following features to be part of the implementation framework:

- No 900 GJ limit for commercial lighting upgrades.
- 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.
- Introduction of new commercial and industrial activities, such as upgrades of fans, pumps and motors.
- Introduction of new methods such as the NABERS Baseline Method, Power Factor Correction Method, and Project Impact Assessment Method.

In developing the implementation framework, consideration should also be given to:

- Alignment of scheme activity rules with interstate schemes, where appropriate and ensuring continued high quality outcomes for consumers.
- Opportunities to overcome the landlord/tenant split incentive problem.
- Options to assist customers with financing for deeper retrofits.
- Other mechanisms to incentivise deeper retrofits in priority group households.

***Recommended Next Steps – Post Review Work***

If the South Australian Government agrees to continuation of the scheme from 2021, the following next steps are proposed to be undertaken by the Department for Energy and Mining (DEM) during 2020.

- *Metrics, activity specifications, thresholds and credit calculation methodologies* - developed for targeted stakeholder consultation by mid-2020.
- *Regulatory Changes* – developed for the Government's consideration by mid-2020.
- *Targets for 2021-2025* – developed for the Government's consideration by Q3 2020.

***Other Matters Raise During Consultation***

Several stakeholders used the Review consultation to raise some shorter-term issues with the scheme, seeking resolution prior to the completion of the current scheme in 2020.

These matters will be assessed by DEM outside the Review process.

# 1 Background

Under the REES, energy retailers that exceed prescribed customer number and sales thresholds are set annual targets for the delivery of energy efficiency activities to households and/or businesses. In addition, retailers with larger residential customer bases are set targets to deliver a prescribed amount of the energy efficiency activities to priority group households and to provide energy audits to priority group ‘vulnerable’ households.

The Minister for Energy and Mining (The Minister) sets the overall targets to be achieved by the REES and these are apportioned to each obliged retailer by the REES administrator. Energy retailers can meet their targets by delivering measures from a pre-approved list of energy efficiency activities, each of which is deemed to contribute a given quantity towards their targets. The REES is designed with the intention that all energy efficiency achieved is in addition to what would have otherwise occurred under a ‘base case’ scenario.

Each energy retailer participating in the REES decides on what mix of pre-approved energy efficiency activities it will undertake to meet its energy efficiency targets.

The Regulations only provide for energy efficiency targets to 2020 and 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 2019, and the Minister must table the report in Parliament.

The Department for Energy and Mining (DEM) 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.

# 2 The REES Review

Pursuant to regulation 36 of the Electricity (General) Regulations 2012 and regulation 30 of the Gas Regulations 2012, a Review of the relevant Part must be undertaken:

*1) The Minister must cause a Review of the operation of this Part (scheme) to be conducted and a report on the results of the Review to be submitted to the Minister before 31 December 2019.*

*2) The Review must consider whether the scheme should continue and any other matter the Minister considers should be considered in the Review.*

*3) The Minister must, within 12 sitting days after receiving the report, cause copies of the report to be laid before both Houses of Parliament.*

The Review was undertaken by DEM. Key elements of the Review process were as follows:

- On 30 April 2019, DEM released the 'Review into the REES - Issues Paper. 19 written submissions were received in response to the Issues Paper.
- In November 2018, Common Capital was engaged to undertake an independent evaluation of the scheme (the Independent Evaluation). Common Capital's report was released in May 2019, including:
    - a benefit-cost analysis of the scheme;
    - an assessment of the extent to which the scheme had met its objectives;
    - consideration of whether the scheme should continue; and if so,
    - recommendations on how the scheme could be improved.
- On 10 October 2019, DEM released the 'Review into the REES - Directions Paper' with key findings from the Review of the REES to date, including proposals for the scheme's future. There were 19 written submissions received in response to the Directions Paper.
- Throughout the course of the review, DEM has met with several key stakeholders in the scheme.

The Issues Paper, Directions Paper, Independent Evaluation and the written submissions are available at: http://www.energymining.sa.gov.au/energy_and_technical_regulation/energy_efficiency/retailer_energy_efficiency_scheme/2019_review_of_the_retailer_energy_efficiency_scheme.

# 3 The Independent Evaluation

The Independent Evaluation, conducted by Common Capital, found that the scheme has been an effective policy tool.

The evaluation found that the REES has successfully delivered against the evaluation criteria as follows:

- effective – at delivering its objectives.
- efficient – by delivering a net economic benefit while meeting these objectives.
- equitable – by delivering benefits to households and low-income households across the state.
- administratively simple – by keeping costs in line with similar scheme costs.

The cost-benefit analysis of the scheme's performance found the scheme:

- delivered 180,000 energy efficiency upgrades to households, businesses and low-income households over 2015 to 2017;
- delivered positive net economic benefits of $156 million to South Australia;
- supported 8.5 million gigajoules of energy savings for South Australian households and businesses;
- is on track to deliver over $1 billion in energy bill savings to South Australian households and businesses over the life of implemented energy efficiency activities from 2015 to 2020, including:
  - $328 million in energy bill savings for households, of which $155 million in energy bill savings were for priority low-income households; and
  - $720 million in energy bill savings for businesses.
- reduced greenhouse gas emissions by 450,000 tonnes of $CO_{2\text{-}e}$ due to activities from 2015 to 2017, and is on track to reduce emissions by over 1 million tonnes of $CO_{2\text{-}e}$ from activities implemented from 2015 to 2020; and
- performs well compared to similar Australian schemes in relation to administrative costs as a proportion of total scheme costs and average energy bill reductions.

The Independent Evaluation also highlighted opportunities to improve the scheme post-2020.

# 4 Consultation

This Review Report has been informed by public consultations in 2019, including the release for public comment of the REES Issues Paper in April and the REES Direction Paper in October.

Stakeholder views raised in submissions to the Issues Paper have been described in the Directions Paper.

Several stakeholders used the Review consultation to raise some shorter-term issues with the scheme, seeking resolution prior to the completion of the current scheme in 2020. These will be considered outside of the Review process.

The following key issues were raised in the submissions to the Directions Paper, with full submissions available online:

| Stakeholder | Major Comments |
|---|---|
| Energy and Water Ombudsman SA | <u>Supports:</u><br>• the continuation of a targeted and efficient scheme<br>• deeper retrofits for priority group households |
| SA Council of Social Service | <u>Supports:</u><br>• a focus on priority group households<br>• a residential target in addition to a priority group target<br>• a focus on energy productivity<br>• demand response functionality<br><u>Not supportive of:</u><br>• removal of energy audits<br>• six-year review period (propose two-year review) |
| Energy Australia | <u>Supports:</u><br>• the inclusion of rental households in the priority group<br>• the removal of 900 GJ limit for commercial lighting upgrades and allowing second visits<br>• the removal of energy audits<br><u>Concerns with:</u><br>• the introduction of demand response activities<br>• the adoption of new calculation methodologies<br>• 10% carryover from the current scheme (propose 25%)<br>• minimum regional obligations<br>• introduction of a residential target<br><u>Not supportive of:</u><br>• the proposed measures regarding increased competition<br>• co-payments for residential, non-priority group households |
| Origin Energy | <u>Supports:</u><br>• continuation of the scheme<br>• continuation of a priority group focus<br>• the inclusion of rental households in the priority group |

<table>
<tr><td></td><td>
<ul>
<li>the removal of 900 GJ limit for commercial lighting upgrades and allowing second visits</li>
<li>retaining energy audits as a voluntary measure</li>
<li>scheme harmonisation</li>
</ul>
<u>Concerns with:</u>
<ul>
<li>the introduction of demand response activities and productivity objective</li>
<li>resourcing for ESCOSA to administer new commercial activities</li>
</ul>
<u>Not supportive of:</u>
<ul>
<li>introduction of a regional target</li>
<li>separate mandatory residential target</li>
<li>the proposed measures regarding increased competition</li>
<li>co-payments for residential households</li>
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</td></tr>
<tr><td>AGL</td><td>
<u>Supports:</u>
<ul>
<li>scheme harmonisation</li>
<li>the removal of 900 GJ limit for commercial lighting upgrades and allowing second visits</li>
<li>new commercial activities</li>
<li>the inclusion of rental households</li>
</ul>
<u>Concerns with:</u>
<ul>
<li>insufficient time between the setting of new scheme criteria and commencement</li>
<li>the introduction of demand response activities</li>
<li>10% carryover from the current scheme (propose 20%)</li>
<li>inclusion of new third party contractor competition requirements</li>
</ul>
<u>Not supportive of:</u>
<ul>
<li>separate residential and priority group targets</li>
<li>mandatory co-payments</li>
</ul>
</td></tr>
<tr><td>ERM Power</td><td>
<u>Supports:</u>
<ul>
<li>three-yearly targets</li>
<li>the removal of 900 GJ limit for commercial lighting upgrades and allowing second visits</li>
<li>deeper retrofits</li>
<li>new energy saving methodologies</li>
</ul>
<u>Not supportive of:</u>
<ul>
<li>direct obligation scheme</li>
<li>the proposed measures regarding increased competition (would prefer an accreditation scheme).</li>
</ul>
</td></tr>
<tr><td>Australian Energy Council</td><td>
<u>Supports:</u>
<ul>
<li>scheme harmonisation</li>
<li>the removal of 900 GJ limit for commercial lighting upgrades and allowing second visits</li>
<li>removal of energy audits</li>
</ul>
<u>Not supportive of:</u>
<ul>
<li>the introduction of demand response activities.</li>
<li>introduction of a regional target</li>
</ul>
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| | |
|---|---|
| Energy Efficiency Council | Supports:<br>• gradual transition to any new scheme<br>• inclusion of rental households<br>• the removal of 900 GJ limit for commercial lighting upgrades and allowing second visits<br>Concerns with:<br>• scheme length (it should run for a further 10 years, not six)<br>Not supportive of:<br>• 10% carryover from the current scheme (propose 30%)<br>• the proposed measures regarding increased competition<br>• co-payment for residential activities<br>• minimum regional obligations without multipliers |
| Business SA | Supports:<br>• targeting regional areas<br>• decision not to include business audits<br>Concerns with:<br>• ongoing benefits of the scheme<br>• activities in large businesses crowding out SMEs<br>• lack of gas efficiency activities<br>• co-payments (would prefer a more targeted approach) |
| Red Energy and Lumo Energy | Supports:<br>• scheme harmonisation<br>• targeting priority group (preferably through multipliers)<br>Concerns with:<br>• lack of a firm end date for the scheme<br>Not supportive of:<br>• 10% carryover from the current scheme<br>• introduction of a regional target |
| Meridian Energy Australia and Powershop Australia | Supports:<br>• scheme harmonisation<br>• the removal of 900 GJ limit for commercial lighting upgrades and allowing second visits<br>• 10% carryover from the current scheme<br>• the removal of energy audits<br>Not supportive of:<br>• minimum regional obligations<br>• a productivity target<br>• the proposed measures regarding increased competition |
| The Saver Group | Not supportive of the removal of energy audits |
| MAC Energy Efficiency Group | Supports:<br>• the priority group target<br>• the introduction of demand response activities<br>• the removal of 900 GJ limit for commercial lighting upgrades. and allowing second visits<br>• the removal of energy audits<br>• the introduction of new commercial and industrial activities |

| | |
|---|---|
| | Concerns with:<br>• co-payment for residential activities<br>• 10% carryover from the current scheme (propose 25%-30%)<br>• scheme should run for a further 10 years, not six<br>• ESCOSA resourcing the administration of new commercial activities and productivity activities<br>Not supportive of:<br>• the proposed measures regarding increased competition |
| Uniting Care Wesley Bowden & South Australian Financial Counsellors Association | Supports:<br>• the proposed objective, with the addition of 'and wellbeing' to the end<br>• deeper energy retrofits to priority group households – with suggested specific deeper retrofit targets<br>• inclusion of rental households<br>Concerns with:<br>• removal of audits without replacement by a targeted audit and offering program delivered by community groups |
| Ecovantage | Supports:<br>• the introduction of demand response activities<br>• the removal of 900 GJ limit for commercial lighting upgrades and allowing second visits<br>• inclusion of rental households<br>Concerns with:<br>• scheme length (should run for a further 10 years, not six)<br>Not supportive of:<br>• 10% carryover from the current scheme (propose 30%)<br>• the proposed measures regarding increased competition<br>• co-payments for residential, non-priority group households<br>• the removal of energy audits |
| Your Energy Saving Solutions | Supports:<br>• the introduction of demand response activities<br>• the removal of 900 GJ limit for commercial lighting upgrades and allowing second visits<br>• the introduction of new commercial and industrial activities<br>• the inclusion of rental households<br>• the adoption of new calculation methodology<br>Not supportive of:<br>• the proposed measures regarding increased competition<br>• co-payments for residential households |
| Demand Manager | Supports:<br>• the objective (with suggested addition of the words 'affordable and cost effective')<br>• 10% carryover from the current scheme<br>• the removal of 900 GJ limit for commercial lighting upgrades and allowing second visits<br>• introduction of a minimum regional obligation<br>• inclusion of rental households |

| | |
|---|---|
| | • deeper retrofits<br>Concerns with:<br>• scheme length (should run for a further 10 years, not six)<br>Not supportive of:<br>• removing energy audits<br>• co-payments for non-priority residential group households |
| Wattly | Supports:<br>• the priority group target<br>• the introduction of demand response activities<br>• the introduction of new commercial methods and activities<br>• the removal of 900 GJ limit for commercial lighting upgrades<br>• co-payment requirements for residential, non-priority group households and commercial premises<br>• increased competition<br>Concerns with:<br>• 10% carryover from the current scheme (propose 20%)<br>• Scheme length (should run for a further 10 years, not six)<br>Not supportive of:<br>• direct obligation scheme |
| Energy Savings Industry Association | Supports:<br>• co-payments for residential, non-priority group households where the cost can be split between landlord, tenant and others<br>• deeper retrofits<br>• inclusion of a residential target<br>• the removal of 900 GJ limit for commercial lighting upgrades. and allowing second visits (seeks this for 2020)<br>• inclusion of rental households as priority<br>Concerns with:<br>• REES targets (should be larger)<br>• minimum regional obligations<br>• methodologies for setting savings baselines<br>• scheme length (should run for a further 10 years, not six)<br>• harmonisation measures without adequate industry consultation<br>Not supportive of:<br>• energy productivity objective (prefers energy saving)<br>• 10% carryover from the current scheme (propose 25- 30%)<br>• removing energy audits |

# 5 Findings and Recommendations

The following section sets out the findings and recommendations of the REES Review, building on the proposed recommendations laid out in the Directions Paper. Most follow on from the proposals in the Directions Paper. Amendments or additions to the Directions Paper proposals reflect issues raised by stakeholders through the consultation process and policy development work over the course of the Review.

## 5.1 Future of the Scheme

**It is recommended that the South Australian Government:**

**a) Continue to have a retailer energy efficiency scheme beyond 31 December 2020.**
**b) Commence the new REES on 1 January 2021, for a ten-year continuation with two five-yearly target resets and a review to be conducted in 2029.**
**c) Restrict credit carryovers from the current scheme to 20 per cent of the 2020 target. The credit carryover restriction is proposed to apply in 2021 only, and carried-over credits will be converted to reflect the credit values applying from 2021.**

The Independent Evaluation concluded that the scheme was efficient, effective, equitable and administratively simple in delivery of its objectives, and has delivered significant energy bill savings for households and businesses.

The Independent Evaluation and other elements of the Review also found that significant cost-effective technical opportunities remain to be exploited should the scheme continue beyond 2020.

Most stakeholders supported continuation of the REES beyond 2020. Many also suggested establishing the scheme for longer than the proposed six-year framework that was proposed in the Directions Paper. These stakeholders reasoned that establishing the scheme for a longer period would provide additional business certainty and increased scheme stability, and would also align the South Australian scheme with interstate obligation schemes. DEM considers there are merits in these views. Based on this stakeholder feedback, the findings in the Independent Evaluation and other elements of the Review, DEM recommends establishing the scheme until the end of 2030, with targets to be set for two five-yearly periods.

The Directions Paper proposed a restriction of credit carryovers of 10 per cent from 2020 to 2021. The aim of this was to increase the likelihood that new activities and methods would be delivered under the new scheme, rather than retailers relying on ‘banked’ credits from the previous scheme. Several stakeholders suggested increasing this limit, on the basis that the proposed 10 per cent limit may drive a 'boom-bust' cycle, where activities may not be available for customers in late 2020, and third party providers' staff may need to be let go, because 2020 targets are met early. DEM notes that this view runs counter to other stakeholders' views that delivery of the 2020 target will be challenging, given tight supply of upgrade opportunities for 2020.

Although the feedback on this issue is mixed, DEM sees merit in mitigating risks of scheme disruptions at the end of 2020 and recommends that the restriction on carry overs be set at 20 per cent. However, to discourage unnecessary carry overs, any 'banked' credits should be applied to the 2021 targets using the new credit calculation methods applicable in 2021, rather than 2020.

### 5.2 The Scheme Objective

**It is recommended that the South Australian Government:**

a) **Set the scheme objective to 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'.***

The Review considered whether the current objective remained valid or whether emerging challenges in the energy market justify a revision to the scheme objective.

The original objectives of the REES when it commenced in 2009 were to:

- Improve energy efficiency and reduce greenhouse gas emissions within the residential sector.
- Assist households to prepare for likely energy price increases resulting from carbon emissions trading.
- Reduce total energy costs for households, particularly low income households.

Following the REES review in 2014, the objectives were amended to:

- Reduce household and business energy use, with a focus on low-income households. This will provide associated energy costs and greenhouse gas emission benefits.

The Review notes that South Australia's load profile and supply mix has changed with the high uptake of distributed energy resources and large scale renewable energy. Analysis has identified that significant customer and system benefits can be achieved in South Australia through optimisation of energy use.

Recognising therefore that smart capability in appliances will be an important part of the future energy landscape in South Australia, the Independent Evaluation identified opportunities for the scheme to target energy savings at peak times, and to facilitate the demand response market by incentivising activities based on their demand response capabilities.

A change to the scheme's objective was proposed, to reflect these changing network and energy market challenges and opportunities.

Stakeholders generally supported the proposed objective, although some concerns were raised that the 'value proposition' for the scheme was less clear under a 'productivity' objective as it was under the current energy efficiency objective.

Others suggested including the words 'cost effective' or 'affordable', or adding the term 'wellbeing' to the end of the objective. DEM notes that productivity by definition includes these elements as it relates to getting more value from the energy we consume.

### 5.3 Regional and Remote Participation

**It is recommended that the South Australian Government:**

a) **Include a regional obligation on retailers, in circumstances where activities delivered in regional areas fall below 15 per cent of the overall target, in the year following the shortfall.**

The Independent Evaluation found that the scheme has successfully delivered activities to regional and remote South Australia, despite the absence of a specific regional delivery target.

To prevent any drop-off in regional activities under the new scheme, the Review proposed that, should the activities delivered to regional areas fall below 15 per cent of the overall target in any given year, specific regional obligations will apply for retailers in the year following the shortfall.

Several stakeholders were not in favour of the proposed regional obligation, framing it as another 'defacto' target to achieve, which could lead to greater administration and compliance costs. These stakeholders proposed credit multipliers for regional activities as a preferred solution. Credit multipliers can, however, reduce achievement of scheme goals and objectives.

Ensuring delivery of activities in regional areas remains an ongoing priority for the Government. As the target only applies in the circumstance that retailers fail to deliver sufficient regional activities in a given year, DEM considers the approach to be a reasonable pathway to ensure a minimum level of scheme offerings are provided in regional areas.

### 5.4 Energy Productivity

**It is recommended that the South Australian Government:**

a) **Avoid future network costs and put downward pressure on wholesale electricity prices by incentivising demand response activities as well as energy savings in the commercial and residential sectors.**
b) **Have an energy productivity target, expressed using a gigajoules (GJ) metric.**

The Review canvassed opportunities for the scheme to have a stronger focus on assisting the transition to a smarter and less expensive power system, whilst ensuring lower bills for households and businesses.

This could be achieved through incentivising rollout of technologies which reduce electricity use at times of peak demand, or which allow shifting of energy demand to times of higher supply and lower prices.

The Review proposed introduction of an energy productivity target, but the intention to retain a normalised gigajoules (GJ) metric.

Views from stakeholders were mixed on the issue of expanding to incentivise broader productivity outcomes. Some welcomed the opportunities presented by demand response for new scheme offerings and consumer cost savings. Others were concerned the expansion to demand response diluted the core energy efficiency objective of the scheme.

Several noted the Review documents lacked detail on the types of technologies and the calculation methods that would underpin the change, and that further consultation would be needed to ensure these could be introduced to the scheme cost effectively.

Noting these concerns, DEM will undertake further stakeholder consultation during 2020 as the new demand response activity specifications and credit calculation methodologies are developed.

### 5.5 Increased Competition and Scheme Efficiency

**It is recommended that the South Australian Government:**

a) **Promote greater competition between third party activity providers and greater transparency in retailers' scheme costs.**
b) **Consider alignment of scheme activity rules with interstate schemes, where appropriate and ensuring continued high quality outcomes for consumers.**

A competitive market for delivery of scheme activities will help to ensure a cost-effective scheme, and will reward the most efficient third party contractors and retailers. Increased transparency of prices being offered by contractors to retailers for delivery of scheme activities will improve the opportunities for an open competitive framework.

In order to promote greater competition and greater transparency within the scheme, the Review canvassed several proposals to increase opportunities for new third party providers to enter the scheme to deliver energy productivity activities for retailers. Options proposed included:

- requiring retailers to conduct an annual, open tender if using third parties to deliver energy saving activities;
- requiring retailers to report to ESCOSA annually on opportunities that they had given to new providers to compete for the delivery of energy savings;
- requiring retailers to seek prices for at least 50 per cent of eligible activities and report to ESCOSA annually on what those prices were;
- requiring reporting on the cost for delivering energy savings, and the number of providers engaged over the reporting period;
- allowing third-party providers to register with ESCOSA on a supplier register; and
- amend ESCOSA's annual reporting requirements to reflect any increased reporting by retailers.

Many retailers and third party contractors did not support these proposed measures to increase competition and transparency. The main concerns raised were that administrative costs would rise, as retailers remained responsible for ensuring quality standards were met by a broader range of contractors. Other responses noted that as the REES obligation falls on the retailers, methods of procurement of contractors should not be prescribed. Others argued that the retailers are in a competitive market and they are already incentivised to find the best third-party arrangements for their customers.

While noting concerns from some stakeholders, DEM remains of the view that scheme rules can be improved to incentivise a broader and deeper range of energy upgrade activities and activity providers, and to promote greater competition and transparency in the scheme. DEM recommends that options should be further analysed during the implementation phase and should expressly consider scheme costs impacts.

Most stakeholders agreed that increased national consistency in scheme activity rules would be beneficial. DEM will continue to work with other jurisdictions in the coming months to advance opportunities to co-ordinate activity rules.

DEM also notes the intention of the NSW Energy Saving Scheme to transition to become the Energy Security Safeguard, with a new focus on demand response technologies. This will provide opportunities to collaborate in development and implementation of new demand response rules for both schemes.

### 5.6 Commercial and Industrial Activity Eligibility

**It is recommended that the South Australian Government:**

- **a) Not include a 900 GJ limit for commercial lighting upgrades.**
- **b) 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.**

The Review proposed changes to the commercial lighting rules in response to feedback from stakeholders and the findings from the Independent Evaluation.

These proposed changes were widely supported by stakeholders, although one stakeholder raised a concern that the changes will incentivise activities for larger energy users, and risk ‘crowding out’ lighting upgrades in smaller businesses.

DEM notes the Independent Evaluation has found lighting opportunities in the small business sector under the current rules were approaching saturation, and the proposed change permitting second visits would assist smaller business that had already received an upgrade under the scheme.

### 5.7 Deeper Commercial and Industrial Retrofits

**It is recommended that the South Australian Government:**

a) **Incentivise upgrades in larger businesses by introducing new commercial and industrial activities, such as upgrades of fans, pumps and motors.**
b) **Incentivise upgrades in larger businesses by introducing new methods such as the NABERS Baseline Method, Power Factor Correction Method, and Project Impact Assessment Method.**
c) **Require customer co-payments for all commercial and industrial activities.**

The Review notes that commercial energy retrofits in REES have typically focused on a single product upgrade such as lighting. The Review has canvassed measures to move toward deeper retrofits, involving multiple system upgrades, leading to an overall improvement in building performance.

Stakeholders were generally supportive of including new activities such as upgrades of commercial fans, pumps and motors. Most stakeholders also agreed that adding new methods would improve the range of upgrade opportunities and incentivise activities in larger businesses, providing energy system cost benefits for all South Australians.

Some stakeholders noted that the inclusion of these new activities and methods may be resource intensive as contractors would need to undertake training to develop the technical skills to deliver the activities. Others raised concerns that ESCOSA may not have sufficient resources to adequately administer the activities. Some stakeholders were also concerned that the co-payment requirement for all commercial and industrial activities may restrict customer recruitment.

DEM recommends these measures be implemented as proposed in the Directions Paper, due to the cost savings they will provide for customers and the broader benefits for the energy system. However, development of the proposed changes will involve close consultation with ESCOSA and stakeholders.

### 5.8 Residential Target

**It is recommended that the South Australian Government:**

a) **Include a residential target.**

The proposed expansion of commercial activities to include cost effective energy upgrade opportunities beyond the small and medium enterprise (SME) sector presents a risk that commercial activities will ‘crowd out’ residential activities. To prevent this, the Independent Evaluation has recommended setting a residential target for retailers.

Community groups generally supported this proposal. Some other stakeholders had concerns that introducing a residential target in addition to the priority group target would add complexity and potential cost to the scheme. DEM considers the benefits for residential customers of a mandated residential target outweighs any additional administrative burden risks, and recommends the new scheme include a residential target.

### 5.9 Priority Group Target

**It is recommended that the South Australian Government:**

**a) Include a priority group target.**
**b) Include rental households within the definition of ‘priority group’.**
**c) Review the updated scheme rules for other opportunities to overcome the landlord/tenant split incentive problem.**

Since commencing in 2009, REES has incorporated low income ‘priority group’ household targets.

For the purposes of the REES, a ‘priority group’ household is defined as a household in which a person holds one or more of various health or concession cards. The priority group definition also includes:

- customers who are participating in retailers’ hardship programs;
- customers who receive a referral from a registered financial counsellor; and
- customers who are participating in a retailer’s ‘Payment Plan’.

The Independent Evaluation found the priority group target is appropriate to successfully meet the objective to deliver energy bill savings to households that typically spend a greater proportion of their disposable income on energy costs than other households.

The Review found the scope of the priority group was generally appropriate, however renters were noted as a group with reduced ability to implement activities and reduce their energy bills. The Review proposed expansion of the priority group to include renters, noting that renters are more likely than home owners to face energy bill stress and are also less likely than owner-occupiers to have basic energy efficiency measures such as insulation. There is also little incentive for landlords to invest in energy efficiency upgrades as the benefits largely favour the tenant.

Most stakeholders were supportive of maintaining a focus on low-income households. The inclusion of renters to the priority group was also welcomed by most stakeholders.

DEM does note, however, that the split incentive problem is a complex problem and further work during scheme implementation to identify opportunities to mitigate the issue.

### 5.10 Deeper Residential Retrofits

**It is recommended that the South Australian Government:**

- **a) Require co-payment for all residential activities, except for priority group households.**
- **b) Incentivise residential activities that reduce peak demand or increase demand response capability.**
- **c) Consider options to assist customers with financing for deeper retrofits.**
- **d) Consider other mechanisms to incentivise deeper retrofits in priority group households.**

Most residential activity in the scheme to date has comprised low-cost, low-energy savings upgrades, such as lights, showerheads, and standby power controllers. The Review proposed measures aiming to shift the focus toward higher-energy savings upgrades, including heating and cooling upgrades, insulation upgrades and demand response incentives.

Some stakeholders expressed concerns that introducing a residential co-payment requirement for all residential activities would present challenges to recruitment of households and delivery of targets, and may not, of itself, achieve the objective of delivering deeper retrofits in this sector. DEM notes that, in setting the level of minimum proposed residential co-payment requirements, the impacts on recruitment of households will be considered.

Similarly, the objective of incentivising deeper retrofits for priority group households was generally supported, although some retailers and third party providers indicated this would likely raise the complexity and cost of the scheme, and recommended a 'weighting' approach should be applied to achieve the objective of deeper retrofits.

One stakeholder questioned why the co-payment requirements would not apply to rental households, and asked whether it was equitable to provide landlords with the opportunity for free upgrades, when owner-occupiers would need to co-contribute to receive an upgrade.

Some community groups argued that to achieve deeper retrofits, specific targets should be set for activity types such as window glazing, insulation, draft proofing, appliance upgrades, heating and cooling upgrades or water heater upgrades.

DEM recommends that the merits of potential additional measures to achievement of deeper retrofits in priority group households be examined during the implementation phase.

Stakeholders generally agreed with incentivising residential activities that reduce peak demand or increase demand response capability, however they voiced some concerns that further details would need to be provided on how such incentives work in practice.

Stakeholders agreed with the recommendation that financing for deeper retrofits and co-payments could be facilitated via a low interest loan from peer-to-peer lending platforms or a community no-interest loan scheme.

### 5.11 Energy Audits

**It is recommended that the South Australian Government:**

a) **Remove the residential audit requirement and the obligation on retailers to meet annual energy audit targets.**

REES currently specifies a minimum number of energy audits to be undertaken by each retailer. The minimum specification for an energy audit is included under the REES Code, which establishes requirements on energy retailers as a part of their retail licence. This Code also includes the competencies that a person needs to have to conduct an energy audit under the REES.

The Independent Evaluation did not support continuation of an audit target, nor did it support replacing the current audit requirement with a more detailed rating or assessment of homes, appliances and behaviour.

During the Review, most stakeholders agreed with the findings of the Independent Evaluation. Some submissions proposed retaining audits as a voluntary tool to assist with deeper, targeted residential upgrades, and possibly providing savings credits for each audit.

Others considered residential energy auditing is better delivered by community organisations, through the Government's energy advisory services, or 'on-request' through retailers' hardship programs, rather than via REES targets.

DEM recommends removal of the audit targets as proposed in the Directions Paper, although some household assessment process may be considered as part of the priority group deeper retrofit proposals discussed in Section 5.10.