

1st November 2019

**Wattly Submission to “REES Directions Paper October 2019”
Issued by the Department for Energy and Mining, Government of South Australia.**

Sent by email to: tina.maiese@sa.gov.au, “REES Review - Directions Paper”

Dear Tina Maiese,

Wattly appreciates the opportunity to contribute to the REES review directions paper. Wattly has been active in several other state-based programs but never under the South Australian REES. We welcome the ongoing expansion and development of the program and hope to become an active participant to help the South Australian government meet their goals under the REES program.

Please see over page our submission.

Yours sincerely,



Hamish McGovern

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**Wattly is a leader in environmental certificate creation
for the commercial and industrial sectors across Australia.**

We have unlocked more than \$70M in funding for businesses from a wide range of energy-saving activities from government programs. Wattly's consulting business, Northmore Gordon, is on hand to help large energy users minimise their energy spend. We have a large number of certificate measurement and verification professionals (program experts) and engineers covering most disciplines.

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- 3.1.1 An updated scheme will commence on 1 January 2021.
- 3.1.2 The updated scheme will require three yearly target re-sets.
- 3.1.3 The updated scheme will be reviewed after six years.
- 3.1.4 The updated scheme will restrict credit carryovers from the current scheme to 10% of the 2020 target. The credit carryover from 2020 will be applied in 2021 only.

Wattly supports long target setting periods to give maximum certainty to business. Three yearly target re-sets would be reasonable with some level of certainty regarding how much the target could change in that re-set and providing 12 months notice of the new target (prior to the commencement of the period for the new target). A longer period for the targets (eg 5 years as done in the VEU) would give business more certainty to invest under the program.

Wattly would support legislating that the REES scheme is in place to 2030 with two five-year target settings rather than six yearly reviews.

Wattly is concerned that the lack of ability to carry over credits will cause the program to have significant stop-start phases. Once the targets are met then the energy retailers will have no appetite to continue to pay for further energy savings resulting in businesses needing to shutdown operations. A stop-start industry would result in much higher cost energy savings than an industry with a more continuous flow of activity. By introducing the copayment requirements, the REES program is less likely large bursts of activity, and like to experience a more constant creation rate. Comparing the NSW ESS with the Victorian Energy Upgrades provides good visibility of the explosion in activity that can happen under free, verses the more constant level of activity under a copayment program.

- 3.2.1 The updated scheme objective will 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 updated objectives seem consistent with Wattly's understanding of the REES goals.

- 3.3.1 The updated scheme will require that, in circumstances where activities delivered in regional areas fall below 15% of the overall target, regional obligations will apply for retailers in the year following the shortfall

This direction may be difficult to administer in a fair fashion for the different retailers and is likely to result in high prices per GJ for certain regional locations. This direction does look to address some of the challenges we see in other jurisdictions where regional upgrades are left till last or not performed at all.

- 3.4.1 The updated scheme will help to avoid future network costs by incentivising demand response activities as well as energy savings in the commercial and residential sectors.
- 3.4.2 The scheme will have an energy productivity target, expressed using a gigajoules (GJ) metric.

This direction is a move away from a rewarding GJ regardless of the time of day, however, it recognizes the challenges faced by SA network and generators and is likely to help drive down the overall costs of energy in SA. Wattly supports this direction and would be interested in participating in workshops around how flexible demand response may be integrated it into the REES.

- 3.5.1 The updated scheme will promote greater competition between third party activity providers.
- 3.5.2 The Government will consider alignment of scheme activity rules with interstate schemes, where appropriate and ensuring continued high quality outcomes for consumers.

We strongly support increased competition and more open access to the REES. Wattly has been a very successful participant in other state-based EE schemes, but has not established the required relationship with a SA based retailer to enable Wattly to participate in the REES.

We support the move to a market-based certificate scheme as is operational in the other states. SA has adequate retailer competition to support such a move. Wattly would strongly recommend a co-payment model (cf NSW ESS) for the major of activities under the REES should it move to market-based certificate programs that allows third-party accredited suppliers to participate in energy saving activities. The current regime where the obligation for compliance lies squarely with the retailer creates a strong compliance culture and strong level of compliance. Wattly has researched extensively the impacts of a free activities and the extensive market distortions and compliance challenges that existing within a market-based scheme. We can provide further details upon request.

3.6.1 The updated scheme will incentivise upgrades in larger businesses by not including a 900 GJ limit for commercial lighting upgrades.

3.6.2 The updated scheme will 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.

Wattly supports the removal of the 900GJ cap for commercial lighting upgrades. It is clear that this cap results in businesses performing partial upgrades. It is also clear that the schemes (without caps) drive wholesale upgrades to existing building stock (ie complete retrofits) that would not occur under a business as usual situation. In general, complete lighting upgrades only occur at the point refurbishment or renovation of a building.

3.7.1 The updated scheme will incentivise upgrades in larger businesses by introducing new commercial and industrial activities, such as upgrades of fans, pumps and motors.

3.7.2 The updated scheme will incentivise upgrades in larger businesses by introducing new methods such as the NABERS Baseline Method, Power Factor Correction Method, and Project Impact Assessment Method.

3.7.3 The updated scheme will require customer co-payments for all commercial and industrial activities.

Wattly, and our consulting business (Northmore Gordon) have extensive experience in the Measurement and Verification and meter baseline methods under both the NSW ESS, the VEU as well as under the CFI (ERF). Examination of the Marginal Abatement Cost Curves published in the past by McKinsey and Climate Works, both show that there both the large commercial building and in especially the industrial sector have substantial potential for low cost abatement. Unlocking this abatement has been challenging as it requires substantial capital, with payback periods often beyond the companies hurdle rate and in industries often running on low margins. For this reason, the Energy Savings Schemes do offer an incentive to initiate these projects.

Wattly is a strong supporter of the introduction of these methods into the South Australian REES. Wattly would suggest that Department of Energy and Mining examines the Victorian Energy Upgrades Project Based Methodology as well as the NSW ESS PIAM&V & MBM. Both are based on International Performance Measurement and Verification Protocol (IPVMP). There are a number of challenges from a business certainty under the methods as well as a lengthy period (2-3 years) before the realization of the funds, and combined these challenges do not drive as much uptake as could be achieved with more of the funding provided closer to the time of installation. Wattly and Northmore Gordon would welcome further consultation on the introduction for M&V, Nabers, and MBM style methods into the REES.

Wattly also recommends considering the deemed methods for the replacement of fans, pumps, boilers, chillers, and motors. These methods exist under the NSW and VEU programs, but often use the MEPS as the baseline technology, when in reality the baseline equipment can be 30 to 50 years old. The deem methods

have the substantial benefit of providing both certainty of funding as well providing it shortly after the upgrade and hence directly contributing to the cost of the upgrade. Compare with the M&V methods.

Wattly supports co-payment requirements for all REES activities, except for the priority households.

3.8.1 The updated scheme will introduce a residential target, alongside the priority group target.

No comment

3.9.1 The updated scheme will have a priority group target.

3.9.2 The updated scheme will include rental households within the definition of 'priority group'.

3.9.3 The updated scheme rules will be reviewed for other opportunities to overcome the landlord/tenant split incentive problem.

Wattly supports the priority group target and the inclusion of rental households into the target.

3.10.1 The updated scheme will introduce co-payment requirements for all residential activities, except for priority group households.

3.10.2 The updated scheme rules will incentivise deeper retrofits to priority group households.

3.10.3 The updated scheme rules will incentivise residential activities that reduce peak demand or increase demand response capability.

3.10.4 The updated scheme will look at options to assist customers with financing for deeper retrofits.

Wattly supports co-payments for residential activities except for priority households. We do note that a high-level of compliance oversight is required for free activities.

3.11.1 The updated scheme will no longer include residential audits and retailers will no longer be required to meet annual energy audit targets

No comment

1 Mission, Vision and Values

1.1 Vision

2022 Year Vision



10 M Tonnes CO₂-e
of Abatement Registered
(Deemed & Verified Measured Separately)



1.2 Mission

- To combat Climate Change through CO₂e abatement

1.3 Values

- Dependable, Transparent, Innovative, Integrity, Respect. Promote Individual Responsibility
- Giving back: Annual corporate contributions to protecting the environment
- [Australian Marine Conservation Society](#), [Environment Victoria](#)

1.4 What do we do

- Unlock funding from government programs for energy savings, renewable energy, and carbon projects

1.5 How we do it

- Using Cloud & Mobile technologies, a mix of highly technical onshore, and volume based offshore
- Structure funding, Appeal to / aid businesses bottom line, reliable payment

1.6 Scope

- Next 3 Years: enabling businesses to access government incentives
- In 5 Years: Reduce Wattly's dependence on government programs