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Friday, 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

Your Energy Saving Solutions (YESS) is pleased to make this submission to the Department for Energy and Mining on the Retailer Energy Efficiency Scheme (REES) Directions Paper.

YESS, previously operated under the name of Priority Group Australia (PGA) up until 2014 and is one of the largest third-party providers operating in the REES program working with the majority of the energy retailers that have an obligation under the program.

Commencing work in the REES program in 2012 YESS/PGA have completed over 25,000 home energy assessments, and retrofitted over 88,000 homes with CFLs, LED lighting, Showerheads and Standby Power Controllers. Since the inception of Commercial Lighting into the REES program in 2015 YESS has retrofitted LED lighting into more than 3,200 business in South Australia. During this time PGA/YESS have supplied and installed in excess 1.7 million energy efficient products into homes and businesses across the state, creating more than 4.0 million Gjs of fully compliant REES Activities on behalf of Energy Retailers, including Alinta Energy, Origin Energy, Energy Australia, AGL and Momentum.

YESS supports the continuation of the Retailer Energy Efficiency Scheme and its objectives to reduce household and business energy use. We welcome the review as an opportunity to improve and expand the scheme into the next phase and incorporate additional untapped opportunities.

If you have any questions in relation to this submission, please contact either myself or Shelley Pollock (Shelley@yess.net.au).

Yours sincerely,

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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.

YESS supports the continuation of the REES scheme post 2020 and acknowledges that there needs to be changes to the current scheme framework if the scheme is to meet the obligations outlined in this Directions Paper. There are significant changes discussed in this paper and while we support many of these in principal we are concerned that the timeframe to complete the review, to set three and six year targets and to potentially move legislative changes through parliament will leave little or no time for the Department to evaluate any new products or services that may benefit the "new" scheme. Therefore, we would encourage a transitional period of 6 months being implemented to allow Retailers and APs to develop operational processes and compliance plans for any new activities and account for the potential rule changes on existing activities. An increase from the proposed 10% carryover to 25% and setting a lower GJ target for 2021, ramping up in 2022 and 2023 (similar to the 2015 target where significant changes were made to the scheme), would also be of benefit for this transitional period.

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'.

YESS understands the term "energy productivity" to mean that energy is used in a more efficient and effective way within the household and or business. We fully support all the Proposed Direction elements and acknowledges that these changes indicate a broader view on the activities and behavioural changes that could be subsidized through the scheme.

The proposed "deeper retrofits" may require changes to the existing deeming or calculation methodology which will need to be completed prior to the commencement of the updated scheme. As mentioned in our statement above this may be a challenge to complete in the time frame available to the Department. With this in mind, the abatement factors would still need to be sufficient to provide appropriate subsidy to the householder or business owner to ensure a broad uptake of these various activities.

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.

YESS believe that directions proposed in 3.3.1 are somewhat contradictory to those outlined in 3.5.2, the proposition to align with interstate schemes. Should alignment truly be considered, a regional multiplier

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would be applied as it is in the Victorian and New South Wales schemes. While YESS have no underlying objection to a regional target, the imposition of a multiplier will naturally drive substantial activity to regional and remote South Australia much quicker than seen in previous years.

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.

3.4.1 While YESS supports the above Proposed Direction elements in principle, we believe that Energy Retailers would have an objection to cross subsidizing privately owned LNSP's (Network Providers).

The proposed inclusion of demand response activities is welcomed and would future proof the REES program, however in reality the framework to delivery these kinds of projects or services on a large scale across the state are several years away. AEMO trials are underway nationally and there are many complex hurdles to overcome in the NEM before these types of activities could be offered to customers in SA.

3.4.2 YESS agree that the scheme continues to use the gigajoules (Gj) metric.

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.

While YESS embrace any initiative for constructive competition amongst third party providers we do not believe that the current market is lacking in opportunity for newcomers. YESS have continually worked through the tender process periodically for all retailers and feel that this should really be considered a commercial decision made by the obliged retailer in line with their internal procurement processes. YESS is a local South Australian business and we directly and indirectly employ over 100 other South Australians through our involvement in the REES program. We have established long term relationships with several Energy Retailers and participated in all their individual tender and procurement processes.

Were these proposed directions to eventuate, it is hoped that the integrity of the scheme would not be compromised in the process. At present the high safety and performance standards in REES are maintained due to operators having an established presence with offices in South Australia, and rigorous pre-screening and operational auditing of 'fit and proper' field technicians.

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REES pricing from retailers is effectively capped by the set penalty rate. The current tender process, over the past few years did not open the program for more energy efficiency activity providers, but in many cases instead drove the 'REES market rate'(price paid per GJ) down by approximately 40%, thus placing pressure on the administrative components such as training and induction, internal auditing, consumer protection safety checks and third party provider profitability.

YESS support comprehensive alignment of activity rules with interstate schemes however it should be noted that schemes in other states do not consider the unique energy climate in South Australia. Previous changes that REES has adopted from the ESS Rule were implemented because of changes to the market in NSW and have no relevance to SA, and this has seen significate decreases in the uptake of the affected activities and increased costs in providing them which is a doubly negative impact on third party providers. The abatement factor calculation/allocation may require state-specific alignment, in order to have a well-balanced spectrum of activities.

Examples of missed alignment in the past include the 2018-2019 LED commercial abatement calculation method borrowed from ESS, without acknowledging the regional postcode multiplier applied in ESS; or the 2019 residential lighting activity of VEU, where the scope of work includes replacement of mercury containing CFL's, not tied to or defined by a specific decrease in wattage. The Important task or replacing mercury containing CFL's with LED lamps should be acknowledged and brought forward into the residential activity specification for 2020.

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.

YESS supports the removal of the 900Gj cap, and the ability to offer second visits to businesses who have had to accept partial upgrades in previous years due to the cap. We believe that the existing mandatory co-payment for large energy consumers should stay in place, but strongly oppose mandatory co-payment for businesses in the SME sector who would still wish to take advantage of the REES; these consumers should only be required to pay when the abatement doesn't cover the cost of their lighting upgrade.

A major point that will need to be addressed in the continuation of commercial lighting upgrades is the update to the National Construction Code (NCC) which will take effect in May 2020. The update to section J6 of the NCC dramatically reduces the maximum allowed wattage of the lighting circuit in new builds (Illumination Power Density – IPD). The NCC is relevant only to new builds but currently the REES requires that all activities under CL1 are required to be below the maximum allowed IPD for each space upgraded. YESS strongly believe that the new Scheme should follow the VEU in relation to this IPD issue; VEU upgrades are only required to meet J6 requirements if the lighting upgrade takes place in a new build or results in significant building changes that would require adherence to the NCC, and standard retrofits do not apply. We firmly believe that this change needs to be made effective for activities conducted in 2020, as the pending update to the NCC will make CL1 activities completely unviable from May 2020.

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For high GJ yielding commercial lighting activities, the indicated directions are necessary in order to fulfil the targets, however the Commercial Lighting activity is approaching saturation point, and at the same time it brings unbalance in the list of currently approved activities. YESS propose to bring this initiative forward, to enable achievement of REES targets in 2020.

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.

YESS supports incentivising more business activities for commercial and industrial customers, however the question remains whether these activities will be sufficient to meet targets once the high GJ yielding LED lighting upgrades are saturated (estimated early in the first cycle of renewed REES). YESS recommends including the passive energy saving measures into the mix, such as retrofit double glazing and ceiling insulation i.e. for hotels, bars, restaurants and offices.

YESS also supports the recognition of other methods for abatement calculation. Provisions should be made to introduce new methods as they develop, i.e. the SCORECARD for residential sector may be used to promote deeper retrofits in similar way the NABERS Baseline Method applies to commercial sector.

The Scorecard methodology has now matured to the point where the star rating increase can be statistically modelled, and the abatement factor allocated. Further detail on this point has been addressed in 3.11.1

The introduction of these new activities would require additional training at ESCOSA to ensure their team is equipped to administer, support and audit these activities. When CL1 was added to the REES in 2015, these activities didn't commence properly until Q4 of that year as many APs and retailers were left without any sense of clarity on the activity from the regulator.

Mandatory customer co-contribution from scheme regulation point performs as a control measure, like brakes preventing the acceleration of the activity. This is only relevant with high GJ yielding activities like LED lighting retrofit. With the impending saturation of LED lighting, the only function of mandatory co-contribution may be the balancing of the portfolio of various activities, in which case the level of mandatory co-contribution would have to be set for each activity individually. YESS believe that mandatory co-contribution threshold (+ 160) should remain as defined in CL1 of REES as it currently stands to ensure that the SME customers who are already under significant financial strain do not "miss out" on REES activities that would be of great benefit to them.

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

While YESS supports and welcomes wholeheartedly a Priority Group Target, we do not believe that it is necessary to establish a "non-priority" residential target. By imposing a Priority Group Target, it is not a stretch to assume that Non-Priority work will also follow. The imposition of such firm parameters when also considering the implementation of a mandatory co-payment will present significant challenges and risks. As will be discussed in section 3.10, our vast experience has shown that there is very little appetite for residential activities which require a co-payment.

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.

The inclusion of rental households within the definition of 'Priority Group' is a welcome direction. Renters are a large demographic of people who often aren't able to access the energy-efficiency services due to the landlord/tenant split incentive, but they are often the group who need it most. Including rental properties in the Priority Group definition is paramount in achieving the Scheme's objective to focus on low-income households. We see this as a measure of very high priority in the development of REES services in residential sector.

To strengthen the impact of the scheme in the rental market, a 'Scorecard baseline method' could be used as an optional add-on – to drive for deeper retrofits, and to place a star rating on rental properties where both the landlord and the tenant agreed to pursue and to overcome the split incentive problem.

YESS strongly support the review of scheme rules for 2021 in search for other opportunities to overcome the split incentive problem.

Integrity of the calculation method is important to ensure that the reported energy savings generated by the Scheme are accurate, but when the actual energy savings result in abatements which are so low that the activities cannot be conducted for low to no cost by third party providers and provide almost no discount to consumers, the result is a lack of uptake through Scheme incentives. Incentivising these activities by implementing targets, without ensuring that the abatement of the activity is enough to incentivise people to upgrade their appliances outside of "business as usual" replacements, will result in targets not being achieved.

The REES is designed with the intention that all energy efficiency achieved is in addition to what would have otherwise occurred, but if the abatements for the activities such as appliance replacement are so low as to be insignificant, it does not incentivise consumers at all. A target for these activities without increased abatement will result in targets not being achieved, or increased costs for the retailers who will have to pay above penalty rates to third party providers for those activities before they will be taken up by householders and therefore make the activities non-viable.

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The current REES funding from retailers is effectively capped by the set penalty rate. With the high GJ yielding activities (LED lighting) saturated and potentially out of scope, the current low penalty rate is the driving force behind the lack of viability of scheme activities.

YESS envisage two scenarios from this point. In the first, as the department has suggested, the customer bears the cost in driving the viability of activities via the proposed co-contribution method. As previously stated, YESS do not feel that activities would be completed to the level required to achieve current or increased targets with this modelling.

In the second scenario, the department would look to increase the current REES penalty rate, which would ensure retailer participation and increase the current market rate thus opening up a greater range of activities to providers and the South Australian public. This would essentially raise the overall cost of the scheme. Lower targets could potentially mitigate this scenario.

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.

3.10.1 There appears to be a contradiction in the scheme objectives where on one hand in section 3.10.1 there is a recommendation to introduce a co-payment for all non-priority group residential activities, and yet in section 3.10.4 there is a recommendation to look at options to assist customers with financing retrofits. Is the suggested direction that the customers should seek finance to fund their mandatory co-payment?

Our experience over 10 years of the REES program is that very few customers are willing to pay for upgrades/retrofits. Unless the modelling of 2021 residential activities introduces abatement levels that fully cover the cost of product, installation labour and compliance administration for activities such as double glazing and ceiling insulation top-up, the co-payment requirement in the residential sector has no function.

To balance the set of activities for 2021 and beyond we propose consideration to:

- Adjust the LED lighting activity specification by capping the recognized wattage of existing lamps at 20W (the current installed fleet of CFL bulbs), thus bringing down the GJ allocation in line with other residential activities.
- Maintain the present abatement factor for downlight replacement but accept only full luminaire replacement.

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- Adjust the low flow showerhead activity specification by capping the recognized flowrate of existing claims at 9-10 L/minute, thus bringing down the GJ allocation in line with other residential activities.
- Discontinue the SPC activity.
- Increase the abatement factors for ceiling insulation top-up and double glazing retrofit activity.

YESS view the proposed removal of Energy Audits as somewhat conflicting with the proposition of Deeper Retrofits.

YESS contend that deeper retrofit opportunities could be identified and incentivized potentially by deploying 'Scorecard baseline method' or similar. The Scorecard Assessment would promote and highlight the implementation of activities that reduce peak demand or increase demand response capability.

YESS are strongly against mandatory co-payments for all activities within the non-priority residential sector and disagree that this will result in a shift in customer perceptions which would lead to the uptake of more co-payment activities.

As one of the largest third-party providers in REES, our extensive experience in the residential space has shown that co-payment activities are widely rejected by residential consumers, which was especially evident in residential downlight activities when the abatement halved in 2018. YESS have always sought to broaden the scope of offerings from our organization where there is a requirement for a co-payment from the customer. There have been several attempts over the past three years to offer ceiling insulation to customers at a minimal cost, but uptake was almost zero. These results are also reflected in the first incarnation of the NSW residential scheme where a compulsory co-contribution was required and there was almost no uptake in the program.

3.10.2: We need further clarification from the Department on these options, as we are not sure what activities are considered as "deeper retrofits". There are already a large range of products that could be offered within the scheme, but they have already been offered to customers and found to be either not viable financially (insufficient REES credits to incentivise customers) the activity had already reached saturation point (roof ceiling insulation), or customers were just not interested in that particular activity.

3.10.3: The proposed inclusion of demand response activities is welcomed and would future proof the REES program, however in reality the framework to deliver these kinds of projects or services on a large scale across the state are several years away. AEMO trials are underway nationally and there are many complex hurdles to overcome in the NEM before these types of activities could be offered to customers in SA.

3.10.4: This proposal is more directed at the Energy Retailers, however once again as a Retailer Energy Efficiency Scheme I would not have thought Energy Retailers would be financing deeper retrofits over and above the REES activities that are created from such an activity. We would need to understand better what activities the Department envisage being offered as "Deeper Retrofits"

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

YESS consider the residential audits as an effective measure to identify outdated high energy consuming appliances and to drive behaviour change in residential sector.

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Should the residential/priority group audit target be removed from the scheme, a provision should be made for Scorecard method or similar, to enable the means independent energy efficiency advice for the householders that pursue deeper retrofits.

The Scorecard methodology has now matured to the point where the star rating increase can be statistically modelled and the abatement factor allocated, i.e. a typical deep retrofit package to upgrade a home from 3 stars to 10 stars will cost $11,800, resulting a predicted saving of $2,000 per year in energy costs (which is derived from predicted annual MWh savings).[1]

Energy efficiency advice for the householders that pursue deeper retrofits, in a form or well-defined assessment/report/rating should not require any co-contribution from priority group customers. Inclusion of scorecard assessment will have an enabling function for deeper retrofits as well as quality control where a post-installation assessment is programmed in the specification of combined deeper retrofits.

[1] Scorecard Assessor Conference, Friday, October 29, 2019