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energy efficiency
COUNCIL

9 October 2020

Re: EEC Submission to the Consultation Paper on the proposed Retailer Energy Productivity Scheme Activities, Credits and Targets

Dear Rebecca

Thank you for the opportunity to provide comment on the *Retailer Energy Productivity Scheme Activities, Credits and Targets Consultation Paper* (hereafter referred to as the Consultation Paper).

The Energy Efficiency Council's (EEC) responses to the questions in the Consultation Paper are in the attached paper. However, the EEC also wants to raise our significant concern regarding the transition from the South Australian Retailer Energy Efficiency Scheme (REES) to the Retailer Energy Productivity Scheme (REPS). The absence of both a transition plan and a period of at least 6 months between the confirmation of targets, activities and credits and the commencement of the REPS has resulted in major job losses in the energy efficiency sector that could extend to mid-2021.

The most urgent issue to address is that energy retailers currently risk significant losses if they invest in further energy management activities during 2020. The extraordinary circumstances of 2020 mean that, contrary to expectation, the REES target for 2020 has already been met. In previous years, if the REES target was met early in the year retailers could simply 'carry over' REES activities between years. This was a positive feature of the REES, as it smoothed workflow, avoiding boom-bust cycles, keeping costs down and energy efficiency providers in work.

However, the lack of carefully considered transition arrangements between REES and REPS mean that retailers face significant losses if they invest in further energy management activities in 2020, because:

- The 20 per cent carry-over limit from REES to REPS is not large enough to allow all retailers to continue engaging teams to deliver energy efficiency into homes and businesses;
- The Department of Energy and Mining (DEM) had proposed a carryover value of 20 per cent of a retailer's REPS target for 2021, but retailer's individual targets for REPS for 2021 will not be known for some time; and
- The energy savings from activities in 2020 will be calculated in accordance with REPS methodologies, which are not yet confirmed, rather than the current REES methodologies, which are known.

The EEC provided clear advice to DEM in July 2020 that these issues needed to be addressed to avoid job losses. While some action was taken, it was insufficient to resolve these issues, resulting in extraordinary job losses in the energy efficiency sector at a time that the South Australian economy can least bear them.

However, the lack of a transition plan between the REES and REPS is not the only issue. The proposed details of the REPS have not yet been finalized, including:

- The targets for individual retailers are not yet announced and may not be confirmed until late in 2020, as ESCOSA may need time to convert an overall target into individual targets for retailers; and
- The methodologies for generating credits from many energy management activities are not yet confirmed. Once they are confirmed by DEM it will take some time for ESCOSA to operationalise these methodologies.

Once the details of the REPS are confirmed it can take several months for industry to develop systems and processes and manufacturers to design, produce and ship technologies that meet the specifications set out by DEM and ESCOSA. Given that these details are unlikely to be public until late 2020, industry won't be in a position to commence some REPS activities (particularly activities new to REPS) until mid-2021 at the earliest.

As a consequence, there may be no work for many energy efficiency providers until the second half of 2021, which would have a devastating impact on the industry. In addition, the short notice period will also mean that companies will be left with equipment (e.g. luminaires) that could be used to generate credits under REES but will not be usable under REPS, potentially resulting in millions of dollars of losses.

In order to avoid these sort of industry impacts, other governments have provided at least 6 months' notice – and often over 12 months' notice – when they have implemented a major change of methodology in their energy efficiency schemes. However, it looks entirely plausible that retailers and energy efficiency companies will have potentially less than a months' notice of the details of the REPS before the scheme commences on 1 January 2021, which is an unacceptably short timeframe.

Furthermore, there is a significant risk that many methodologies will not be ready until well after 1 January 2021, because far more work is required to refine the proposed methodologies. While the proposed REPS methodologies for commercial activities appear workable, many of the proposed methodologies for residential activities under REPS appear to be practically unworkable, such as:

- The reduction in value for residential lighting upgrades, and reference to specifications for lighting that don't even exist in the market yet, will effectively eliminate lighting activities;
- The incentives for demand-response initiatives, including batteries and air conditioning, are much too low to drive uptake;
- The requirement to find information on a property's rental cost for it to be eligible to fit under the Priority Group would add significant costs and challenges to finding Priority Group households; and
- The requirement for households to contribute $33 for each individual activity would make a simple lighting upgrade and shower-head retrofit cost $66, which would be more expensive than sourcing them from a hardware store.

In summary, we are extremely concerned that much energy efficiency activity in South Australia will halt for at least 6 months, resulting in catastrophic damage to the sector. This situation is unprecedented – this is the first time that transitional issues have effectively caused a hiatus in an energy efficiency scheme with resulting large-scale job losses.

The EEC therefore calls on the DEM to take rapid action to stem further job losses in 2020 and ensure that people can start to work again as early as possible in 2021. The EEC recommends that the South Australian Government:

- Introduce an urgent transition plan for REES to REPS that includes:
    - Clarifying that retailers can carry over activities from 2020 to count towards their 2021 REPS target – the volume of credits should be up to 30 per cent of retailers 2020 REES targets;
    - Clarifying that REPS credits generated for activities undertaken in 2020 will be carried over at 2020 REES values; and
    - Clarify that retailers will be able to use 2020 REES methodologies to generate credits for activities under the REPS until at least 1 July 2021, and ideally until 1 January 2022.
- Establish a 'transition taskforce' comprising representatives from retailers, energy efficiency providers, ESCOSA, priority groups (e.g. SACOSS) and businesses. This taskforce would meet at least every 2-4 weeks and work with DEM to support getting REPS methodologies in finalized and operational ideally in the first quarter of 2021.

The EEC stands ready to collaborate with DEM to rebuild the energy efficiency industry and put in place a staged transition plan to move from the REES to the REPS. This will be essential to avoid needless job-losses in the energy efficiency sector, while maximizing benefits to households and energy-using businesses.

Any correspondence on this matter should be directed to me via email at rob.murray-leach@eec.org.au or via telephone on 0414 065 556.

Yours sincerely,

Rob Murray-Leach
Head of Policy
Energy Efficiency Council

**Submission to the consultation paper on the proposed Retailer Energy Productivity Scheme Activities Credits and Targets**

**9 October 2020**

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## Transition and job losses

The energy efficiency industry in South Australia has been devastated by job losses caused by the transition from the REES to the REPS. The Energy Efficiency Council (EEC) strongly recommends that the South Australian Government:

- Introduce an urgent transition plan that includes:
    - Clarifying that retailers can carry over activities from 2020 to count towards their 2021 REPS target – the volume of credits should be up to 30 per cent of retailers 2020 REES targets;
    - Clarifying that REPS credits generated for activities undertaken in 2020 will be calculated at the 2020 REES GJ 1:1 with REPS GJ; and
    - Clarify that retailers will be able to use 2020 REES methodologies to generate credits for activities under REPS until at least 1 July 2021, and ideally until 1 January 2022.
- Establish a 'transition taskforce' comprising representatives from retailers, energy efficiency providers, ESCOSA, priority groups (e.g. SACOSS) and businesses. This taskforce would meet at least every 2-4 weeks and work with DEM to support getting REPS methodologies in finalized and operational by 1 April 2021 so that they can come into operation on 1 July 2021.

## Targets

### Question 1. Do you think the REPS targets for 2021-2025 should be set at similar levels to the REES 2018-2020 (3.3 million GJs per year), or increased? Explain your response.

The EEC recommends that the annual targets for the REPS for 2021-2025 should be substantially higher than the targets for the REES for 2018-20 as this would maximise the benefits to South Australians. This is demonstrated by:

- Common Capital's modelling, which shows that if the target was doubled then the net public benefits would double from $153 million to $308 million, while still delivering a benefit-cost ratio of 3.3 to 1;
- The REES targets for 2018-20 are substantially lower on a per capita basis than the targets of similar schemes in NSW, Victoria and the ACT. The fact that other schemes have higher targets is not an *a priori* reason to raise the target, but the fact that energy efficiency schemes in other states have much higher per capita targets *and* deliver much higher per capita benefits than the REES should give the South Australian Government confidence that it can and should raise the REPS target.

The key to an effective REPS will be establishing appropriate methodologies that can ensure that the target can be achieved. We note that DEM is proposing to not continue a number of very cost-effective methodologies from REES, and so additional cost-effective methodologies will need to be developed.

### 2. Recognising the REPS will introduce changes from REES, should the five yearly targets be 'ramped', with lower targets in early years?

The EEC generally supports some level of ramping during major transitions in energy efficiency schemes. However, we would recommend only a modest level of ramping between 2021 and 2025, so that some of the carryover from the REES in 2020 can be absorbed by the REPS without reducing activity in the energy efficiency sector in 2021.

### 3. Noting the REPS is funded by all retail electricity and gas consumers, what is an appropriate costs per year to the average South Australian household electricity bill

The REPS will deliver higher benefits than costs - DEM's modelling suggests that the REPS will deliver between 3.3 and 3.7 times as much benefit as cost. Therefore, the higher the average cost of the REPS to the average South Australian household electricity bill, the higher the average benefits that the REPS will deliver.

This issue therefore relates to the distribution of benefits and costs associated with the REPS in any given year, rather than the overall cost of the REPS. While not every household will have energy efficiency upgrades installed in a particular year, all households will benefit from the positive impacts of the REPS on the energy system.

The EEC believes that determining the average cost of the REPS will be a political issue, and notes that the more important issue of maximising the benefit-cost ratio of the REPS will require establishing effective methodologies for generating credits.

### 4. Given the proposed REPS specifications and values, what are appropriate minimum proportions of the Energy Productivity Target that should be delivered through the Household Energy Productivity Targets and the Priority Group Household Targets?

As the EEC has advised before, sub-targets reduce the benefit-cost ratio of the REPS, and the larger that sub-targets are, the greater the cost. The decision to have sub-targets is about the distribution of benefits, and that is a political decision.

If the government decides to go ahead with sub-targets, the EEC would recommend that the household target (which should include the priority group target) should be no more than 30 per cent of the REPS target, and the priority group target alone should be no higher than 20 per cent of the REPS target. It is entirely possible that industry will over-deliver on these targets on any given year, but having the target for minimum delivery higher than we propose will significantly reduce the flexibility of the industry and therefore the cost of the REPS.

As we have seen from 2020, giving industry flexibility about where it delivers savings in any given year is extremely important.

## Specific Activities

The EEC does not have extensive comments on the full list of activities set out in the consultation paper. The EEC's members will send in detailed comments on specific activities.

As noted earlier, while the proposed details around commercial lighting upgrades are reasonable, we believe that significant work is required to get the details of many other activities right. To do this, we recommend that the South Australian Government establish a 'transition taskforce' comprising representatives from retailers, energy efficiency providers, ESCOSA, priority groups (e.g. SACOSS) and businesses. This taskforce would meet at least every 2-4 weeks and work with DEM to support getting REPS methodologies in finalized and operational by 1 April 2021 so that they can come into operation on 1 July 2021.

However, we do have some initial comments:

- Changes to requirements around the technical details of luminaires etc requires at least 6, but ideally 12 months of notice, in order to enable manufacturers to run through existing stock and develop, manufacture and ship stock that meets the new specifications;
- Residential lighting upgrades can deliver significant energy productivity benefits due to their time of usage (evening) coinciding with the period when peak demand coincides with lower output from solar PV;
- REPS should support the roll-out of in-home displays; and
- Project Impact Assessment with Measurement and Verification (PIAM&V) approaches can deliver significant benefits. To get the most out of them:
    - Projects typically span multiple years, so there needs to be clarity about the methodology and factors that will apply into the future;
    - There should be a cap on the number of credits that can be secured at any one site under PIAM&V to prevent a small number of projects dominating the REPS. For example, if the REPS annual target 2021-2025 is similar to the target for REES 2018-2020, that cap might potentially be around 20,000 GJ credits per site, although the precise cap should be clarified through consultation;
    - The proposed minimum 12-month measure period for baselining will be a major impediment to PIAM&V. We recommend that the South Australian Government adhere to the advice of the International Performance Measurement and Verification Protocol, which clearly states that the appropriate baselining period for an upgrade will vary on a case-by-case basis; and
    - A number of the requirements for installed products need to be significantly overhauled.