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Re: EEC Submission to the Consultation Paper on the proposed Retailer Energy Productivity Scheme Regulatory Framework and Activities

Dear Craig

Thank you for the opportunity to provide comment on the *Retailer Energy Productivity Scheme (REPS) Regulatory Framework and Activities Consultation Paper* (hereafter referred to as the Consultation Paper). The Energy Efficiency Council's (EEC) responses to the detailed questions set out in the Issues Paper are set out in the attached paper. However, there are a number of high-level issues that we wish to raise first.

The Retailer Energy Efficiency Scheme (REES) has been highly effective at reducing energy bills for household and business in South Australia. The EEC strongly supports both continuing the REES and adjusting it incentivize reducing energy demand during periods of peak demand, as this will further increase benefits to consumers.

However, we strongly urge the South Australian Government to put a gradual transition process in place from the REES to the REPS. The proposed transition to a radically different system for crediting activities on 1 January 2021, combined with limited carryover of REES credits to the REPS, has already resulted in significant slowdown in energy saving activities and associated job losses and, without action, would result in energy saving activities in South Australia largely halting between September 2020 and, at the earliest, late 2021, with some retailers potentially opting to pay the penalty price in 2021.

If energy saving activities halt in South Australia for a period of 6 to 18 months it would result in major job losses at a time that the South Australian economy can least afford it, along with reduced savings being delivered to households. This is an outcome the Government of South Australia clearly wants to avoid.

However, these issues should be relatively easy to address by putting in place two transition phases. The most urgent issue is the transition from REES 2020 to REPS 2021, which affects energy saving activities and jobs in 2020. The EEC strongly recommends that:

- Retailers should be able to carryover REES credits (and priority group credits) from 2020 to meet up to 40 per cent of their REPS 2021 target;
- REES credits should be transferrable for REPS credits without recalculation; and
- The Government of South Australia should urgently set the REPS target for 2021 to provide clarity to retailers in order to drive activity in 2020. The targets for 2021 and to 2025 should be raised to both account for carryover activities from 2020 and bring REPS in line with the much higher per capita targets for the energy saving schemes in New South Wales and Victoria.

The second transition period is the transition after the introduction of REPS from current methodologies to a time-varying methodology. Put simply, while the EEC is strongly supportive of time-varying incentives for energy savings, there is not enough time for governments to develop the detailed methodologies and for retailers and the energy efficiency industry to adjust to new methodologies by 1 January 2021.

The EEC recommends that REPS credits should be generated under existing REES methodologies until at least 1 January 2022, plus until 6 months after ESCOSA publishes its relevant bulletin that gives the industry clarity about the credits that they would get from various methodologies, whichever comes later.

However, the EEC recognizes the importance of bringing in time-varying incentives as soon as practicable. Therefore, we recommend that additional methodologies should be able to generate credits as soon as they are developed. These methodologies should be gradually ramped up over time, as providing very large multipliers for peak savings in the first year runs the risk of large numbers of credits being generated by immature methodologies that do not deliver the savings that are expected. For example, the government currently proposes that savings at times of maximum demand should be worth 28 credits, and it may be more sensible to have a more modest multiplier in the first year.

The EEC strongly supports the REES and looks forward to continuing our positive relationship with the South Australian Government. If you would like any further input please contact me directly via email at rob.murray-leach@eec.org.au or via telephone on 0414 065 556.

Yours sincerely,

Rob Murray-Leach
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energy efficiency
COUNCIL

Submission to the consultation paper on the proposed Retailer Energy Productivity Scheme Regulatory Framework and Activities

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Thresholds

Question 1. Are these proposed thresholds appropriate for the REPS?

The Energy Efficiency Council (EEC) does not have a strong position on the precise thresholds used to determe if a retailer should have REPS obligations. However, the proposed thresholds seem reasonable, specifically:

- its residential customer numbers exceed 5,000 residential electricity customers or 5,000 residential gas customers
- its electricity purchases, in the preceding financial year, exceed 20,000 MWh or more of electricity for on-selling to South Australian customers
- its gas purchases, in the preceding financial year, exceed 133,000 GJ or more of gas for on-selling to South Australian customers.

Question 2. Are there alternative approaches to setting thresholds that should be considered for the REPS?

No comment

Are there designated purchases which should be excluded for determining obligation thresholds? Why?

No comment

Targets

Question 4. Are the proposed means of setting targets appropriate?

The EEC supports the proposal that the Minister would set annual Energy Productivity Targets in five year periods, noting that we strongly urge governments to set the targets at least a year in advance to provide retailers and energy management companies time to prepare, set up their systems and order appropriate volumes of stock. We also recommend that sub-targets should be set with at least a years notice.

The EEC is comfortable that each retailer would be set an Energy Productivity Target to achieve a given quantity of REPS credits (normalized GJs), as this is the standard approach for target setting.

However, some EEC members are concerned about the proposal in Section 7 of the Consultation Paper - that retailers' 'household target' and 'priority group target' would be based on the number of household customers that they have. While we can see the rationale for this approach, the proposal for sub-targets to be based on the number of residential customers could distort both the REPS and the incentives for retailers to obtain different classes of customer. The EEC encourages the South Australian Government to consult with a broad range of retailers on this proposal.

Question 5. Are there alternative approaches to target setting that should be considered?

No comment at this time.

Question 6. Are the sub-targets appropriate or should others be considered?

The EEC is concerned about the number of sub-targets that are proposed, as this will increase the cost and complexity of the REPS. The Consultation Paper proposed three sub-targets: a household target; a priority group target; and an 'Implied target' that 15 per cent of activities should be delivered in regional or remote areas.

If the South Australian Government wishes to set these sub-targets it will need to develop a range of viable methodologies that can be undertaken in each of these categories to meet the targets, especially for priority group households.

Question 7. Is inclusion of rental properties as a priority group the best way to incentivise delivery of activities to this group or should a separate sub-target be considered?

The EEC supports rental properties being included in the priority group target but strongly opposes a separate sub-target for rental properties.

The REPS drives uptake of energy productivity measures by:

- Providing an incentive for experts to engage with households to address information and motivation barriers to energy efficiency upgrades; and
- Lowering the cost of energy productivity measures by effectively providing an upfront incentive that incorporates some of the long-term benefits of energy productivity (e.g. lower electricity system costs).

This means that the REPS could drive the uptake of some energy productivity measures in rental homes, but it will not be able to address the most significant barrier to upgrades to rental properties - the landlord-tenant split. This split means that not only do landlords have a very poor incentive for improving the energy efficiency of their properties, but also that tenants are forbidden from making any significant improvements to the property without permission from the landlord, which typically entails significant transaction costs.

Extensive global and local experience shows that, on their own, incentives are generally highly ineffective at encouraging landlords to install energy efficiency measures. For example, very few landlords took up the offer of completely free insulation under the Federal Government’s Home Insulation Program.

Therefore, the EEC strongly recommends that the South Australian Government introduce strong minimum standards for rental properties to ensure that they are fit for habitation. If these standards are introduced, landlords would be able to access the REPS to assist them meeting the standards. Without these standards, the REPS will only drive very limited energy productivity retrofits in rental homes.

Normalisation factors

Question 8. Are the proposed REPS normalisation factors appropriate?

In theory, the proposal to adjust the reward for electricity savings based on their time (Table 2 in the consultation paper) would encourage energy productivity improvements during periods of peak energy demand, or when demand exceeds supply. This will be especially important as the level of generation from intermittent sources of generation changes, especially solar PV.

However, the EEC is extremely concerned about both the:

- Complexity of the proposed time-varying Normalisation Factors; and
- The transitional arrangements for the shift to time-varying incentives for energy savings.

Put simply, neither energy retailers nor the broader energy savings industry will be in a position to shift to system proposed on pages 11-13 of the consultation paper on 1 January 2021. In order to deliver savings under the new system, energy retailers and other energy service providers will need:

- Sufficient notice to develop, test and order new energy saving technologies and implement processes to deliver new energy productivity processes; and
- A clear understanding of what they need to do to comply with the new system and be certain of obtaining a certain amount of credits per activity. This will require the Government of South Australia to develop a clear set of energy productivity activities that provide clarity around the number of credits that would be generated by activities where measuring energy savings would be uneconomic (e.g. installation of more efficient air conditioners in homes). It will also require enough time for energy service providers to test a variety of energy saving measures and obtain credits from the regulator before they roll them out more broadly.

As a consequence, if the system of Normalisation Factors set out on pages 11-13 of the consultation paper comes into force on 1 January 2021, energy saving activities in South Australia will largely halt between September 2020 and, at the earliest, late 2021. There is also a significant risk that some retailers will opt to pay the penalty rather than meet their targets in 2021.

In other words, on the timeline proposed for the shift to the Normalisation factors in the Consultation Paper, the energy efficiency industry would collapse in South Australia for likely a period of over 6 months, resulting in major job losses at a time that the South Australian economy can least afford them.

Therefore, the EEC recommends that REPS credits should be generated under existing REES methodologies until whichever of these dates come later:

- 1 January 2022
- 6 months after ESCOSA publishes its relevant bulletin that gives the industry clarity about the credits that they would get from various methodologies.

However, the EEC recognizes the importance of bringing in time-varying incentives as soon as practicable. Therefore, we recommend that additional methodologies should be able to generate credits as soon as they are developed. These methodologies should be gradually ramped up over time, as providing very large multipliers for peak savings in the first year runs the risk of large numbers of credits being generated by immature methodologies that do not deliver the savings that are expected. For example, the government currently proposes that savings at times of maximum demand should be worth 28 credits, and it may be more sensible for them to be worth a more modest value, such as 10 credits, in the first year.

The EEC seeks to work with the South Australian Government to develop appropriate transition arrangements.

Question 9. Does the low demand normalisation factor provide enough incentive to move energy consumption away from other periods (including off-peak) to the low demand period?

No comment at this time

Question 10. Are there other alternative factors that should be considered?

No comment at this time

REPS credit carryovers and credit program

The EEC strongly opposes the proposals in section 10 of the Consultation Paper to:

- Limit the carryover of credits from the 2020 REES to 20 per cent of the REPS 2021 target; and
- Recalculate credits secured under the 2020 REES to potentially different values under the 2021 REPS.

If this occurs, energy saving activity will likely halt between September 2020 and, at the earliest, the first quarter of 2021. This would result in significant job losses.

The EEC strongly recommends that:

- Retailers should be able to carryover REES credits (and priority group credits) from 2020 to meet up to 40 per cent of their REPS 2021 target;
- Credits under the REES should be counted as full credits under the REPS without any recalculation; and
- The REPS target for 2021 should be set as soon as possible to give retailers confidence about continuing to invest in energy efficiency.

Question 11. Is the flexibility to conduct such a program appropriate?

The EEC believes that a REPS credit program could have benefits but, if poorly managed, to undermine energy efficiency companies' confidence in demand for REPS credits in any particular year.

Therefore, if a REPS credit program is introduced it should:

- Be capped at a certain proportion of the annual target (e.g. 5 per cent)
- Be introduced with at least 6 months' notice; and
- Be overseen by a panel that includes at least one representative from the energy efficiency industry.

Question 12. Are any improvements to the proposed process necessary?

No comment at this time.

Determining and maintaining activities and methods

Question 12. Is the proposed Ministerial Protocol appropriate for the purpose in guiding the selection of energy saving activities and calculation methods for the REES?

No comment at this time.

Costing and delivery of activities

The EEC strongly opposes the proposal for retailers to submit costs and offer information to ESCOSA as duplicative and unnecessary. The entire purpose of a market-based scheme is that market forces drive businesses to deliver energy savings as cost-effectively as possible.

Question 13. Is annually the appropriate timeframe for cost and offer reporting?

No, as the entire proposal for reporting is unnecessary and costly.

Question 14. Are any other obligations necessary to incentivise competitive cost and activity delivery?

No.

Question 15. Is there a case for any activity targets from the commencement of the REPS?

No comment at this time

Eligible activities and methods

The EEC strongly recommends that the South Australian government develop converted methodologies as soon as practicable to give the industry time to adjust. Some EEC members also recommended that smart meters be considered for inclusion in REPS.

Question 16. Which of these activities and methods do you think will be implemented through the REPS, and which will not? Please provide reasons.

No comment at this time.

Question 17. Is there a strong case for retaining any of the current REES activities that are currently not planned for inclusion in REPS? If so, please provide detail reasons.

The onus of justification for removing REES activities should be reversed. The South Australian Government should consult with industry on methodologies and set out the case for why they believe that some REES activities should not be included in REPS.

Question 18. Which of the proposed new REPS activities are best suited to a deemed REPS credit, and which should be developed as a measurement and verification method? What basis would be used to calculate deemed benefits?

No comment at this time.

Question 19. Are there any other load shifting/demand response activities that have sufficient data to develop deemed REPS credit methods? What basis would be used to calculate deemed benefits?

No comment at this time.

Shortfall penalties

Question 20. Are these penalties adequate to ensure compliance? Why?

The EEC believes that the penalties should be sufficient if the costs of generating credits under the REPS are similar to the costs of generating credits under the REES.