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Mr Craig Walker
Senior Policy Officer
Energy and Technical Regulation
Level 8, 11 Waymouth Street,
ADELAIDE SA 5000

By email: DEM.REES@sa.gov.au

Dear Mr Walker,

Proposed Retailer Energy Productivity Scheme Regulatory Framework and Activities

(PUBLIC VERSION)

EnergyAustralia welcomes the opportunity to provide a submission to the Department's Consultation paper on the Regulatory Framework and Activities for the Retail Energy Productivity Scheme (REPS).

EnergyAustralia is one of Australia's largest energy companies with approximately 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion-dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

In general, EnergyAustralia agrees with the new objectives and overall direction of the proposed REPS which reflects a shift in focus on energy savings to energy productivity. This is important to ensure that the scheme remains relevant to the challenges that apply to the South Australian energy market.

However, we also emphasise that this overall change in direction is the most significant change to the Retailer Energy Efficiency Scheme (REES) since the scheme was introduced in its first form in 2009. The proposed REPS, which would supersede REES, is aimed at incentivising more Demand Management/Demand Response activities. However, at this time, Demand Response activities are still developing in trials and pilots. The commercial market (heavily supported by Government funding) is still in a test and learn phase to determine commercial viability, particularly in the area of automated Demand Response.

Current Activity Providers that deliver REES eligible activities do not have experience in Demand Management, and customer appetite and uptake show mixed results. We ask that the REPS adopt a "phased hybrid" approach over 18 months to allow the industry to gradually transition from pre-existing REES activities to new Demand Management activities. Importantly, the "phased hybrid" approach must be supported by a "phased" design of the REPS credits.

- Continued REES activities should be given an equivalent value to its current GJ value for at least the initial 12 months (calendar year 2021), to ensure that Energy Retailers can meet their targets for 2021. New Demand Management activities should be given a higher value relative to the continued REES activities to incentivise Retailers and Activity Providers to move to them. This approach will provide Activity Providers, Retailers and customers time to transition to new Demand Management activities, in a context where the COVID-19 pandemic may affect the ability of businesses to implement change and dampen customer interest and uptake.

- In the following 12-18 months' time period (H1 2022), the values of these continued REES activities could be reduced to increase the incentive to move to new Demand Management activities. However, we recommend the formal application of a pre-defined review gate to ensure that this transition is made only where there is evidence of enough uptake of Demand Management activities by industry and customers.

We would like to highlight the challenges of implementing changes of the scale proposed amid the practical constraints of COVID19. The volume of work that the Department would have to complete to support the REPS' commencement at the start of 2021 would be material. This includes finalising Activity Specifications and credit values by 1 September this year to provide Energy Retailers and Activity Providers at least 4 months' notice (in line with the 4 months' advanced notice timeframes set out in the Consultation paper, which we consider should be longer).

Even if the Department released a consultation paper on the Activity Specifications at the start of August, this would allow for only 1 month to consult on and make the Activity Specifications in time for 1 September. Finalising the Activity Specifications after 1 September will shorten the time that industry has to prepare for the new scheme.

Developing a replacement code for the REES Code for the new scheme is also a significant piece of work which will need to be consulted on and completed before 1 January 2021.

In view of the above, we urge the Department to consider deferring the commencement of the REPS, in addition to enabling a gradual transition over 18 months. It is critical that the transition between schemes be smoothed to avoid the supply side shocks we have experienced in other states as accredited energy efficiency activities were removed before a replacement method was commercialised and available at scale.

Our submission below discusses the "phased hybrid" approach in more detail, and other issues canvassed in the Consultation Paper.

If you have any questions or would like to discuss our submission, please contact me on 03 8628 1548 or Selena.liu@energyaustralia.com.au.

Regards,

Selena Liu
Industry Regulation Lead

1. Obligation threshold

The proposed approach to setting the obligation thresholds based on customer numbers and electricity or gas purchases is appropriate. We also agree with not excluding large designated purchases from the purchase calculation as we anticipate that Large Commercial and Industrial Customers (C&I Customers) will play a significant role in the future of the REPS. It follows that the calculation of the obligation threshold should reflect purchases for large customers.

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2. REPS targets

4 months' notice period for changes to sub-targets

The Department proposes that sub-targets can be set by the Minister within the annual Energy Productivity Target (EPT). These sub-targets may be changed, introduced or abolished, with 4 months' notice provided to Retailers before 1 January (when the change will be effective). The Consultation Paper also discusses giving the Minister the ability to impose an activity target to require delivery of a specific or group of eligible activity, again with 4 months' notice.

We understand from our Activity Providers that 4 months' notice is an inadequate period to allow for Activity Providers to make material adjustments to their pipeline in terms of in-field workforce, inventory, training lags, and marketing. These concerns would equally apply where Retailers are self-providing activities. In the alternative, we propose that a materiality threshold can be used to determine the required notice period. Where the sub-target is adjusted by more than 5% or an activity is introduced or abolished, a longer notice period of 8 months should be required.

Household sub-target

We are further considering the implications of a residential or Household sub-target. Our initial feedback is that the first Household target should be based on historical data showing the percentage of activities performed at Households, with a conservative margin factored in to lower the Household target to ensure it is achievable (given the uncertainty around activity credit values).

The REPS should also ensure that enough eligible activities for residential premises are available to support the Household target. To this end, we support a conservative approach which does not remove any eligible activities under the REES for the first 18 months, as noted in our cover letter.

In relation to the Priority Group target, we commend the Department's decision to expand the definition of Priority Group in response to clear industry feedback.

3. Apportioning targets

The Household and Priority Group sub-targets will be apportioned for individual retailers based on the retailer's number of residential customers. The fact that a retailer sells energy to a low number of residential customers does not mean they should have a lower liability for the Household and Priority Group sub-targets. They still have the same ability to manage compliance risk and deliver activities to meet those sub-targets. We support an alternative apportionment based on total energy purchased for all customers (in line with how the overarching EPT is calculated).

4. Calculating REPS credits

In this section we expand on our comments in the cover letter regarding a "phased hybrid" approach to transition from REES to REPS.

We support a "hybrid" approach to eligible activities under the new REPS, that allows REES activities to continue under the new scheme for at least 18 months, along with the introduction of new activities focussed on Demand Management. Importantly, the "hybrid" approach must be supported in the "phased" design of the REPS credits.

- All REES activities should be continued for the REPS (or at least consulted on later this year so that industry can propose improvements to increase customer uptake).

- Continued REES activities should be given an equivalent value to its current GJ value for at least the initial 12 months (calendar year 2021), to ensure that Energy Retailers can meet their targets for 2021. New Demand Management activities should be given a higher value relative to the continued REES activities to incentivise Retailers and Activity Providers to move to them. This approach will provide Activity Providers, Retailers and customers time to transition to new Demand Management activities, in a context where the COVID-19 pandemic may affect the ability of businesses to implement change and dampen customer interest and uptake.

- In the following 12-18 months' time period (H1 2022), the values of these continued REES activities could be reduced to increase the incentive to move to new Demand Management activities. However, we recommend the formal application of a pre-defined review gate to ensure that this transition is made only where there is evidence of enough uptake of Demand Management activities by industry and customers.

The above "phased hybrid" approach will support a gradual transition from current REES activities to more Demand Management activities, allowing for industry to adjust and for customer interest in Demand Management to also build and increase.

From our own participation in the Demand Response market, we see a gradual transition is necessary as Demand Response is still in a development phase and as customer literacy and participation improve.

In South Australia, there is also the added barrier of low levels of smart meter penetration of 16% for small business *and* residential customers (as at December 2019).[1] Smart

[1] https://www.aemc.gov.au/sites/default/files/documents/2020_retail_energy_competition_review_-_final_report.pdf , p 229.

meters play an important role in Demand Management solutions in measuring baseline and improved cases.

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5. Normalisation factors

The proposed electricity normalisation factors apply across five time of use categories: Off Peak, Low Demand, High Demand, Maximum Demand and Other, appear to be a reasonable starting point in defining energy productivity for the REPS.

The Department identifies hourly time periods for Off Peak, Low Demand, and High Demand. These time periods are appropriate for incentivising permanent demand shifting e.g. moving load from High Demand to Off Peak, or from Off Peak to Low Demand in general usage patterns. These permanent shifts in demand can be distinguished from more reactive Demand Management which responds to high wholesale electricity price events and system security issues.

We expect that this reactive Demand Management would be reflected in the Maximum Demand category. This Maximum Demand category may only be triggered a few times per year, and it should be based on real time high wholesale electricity price events or actual extreme demand on the electricity grid which could result in load shedding. The Department should define the triggers of Maximum Demand so that industry receives accurate signals to adjust demand in a way that achieves efficient outcomes for wholesale electricity prices, network investment, and system security. The Department should consult on the triggers and clarify how these periods will be notified to industry.

6. Determining and maintaining activities and methods

Calculation methods based on deemed energy credits vs verification of actual benefits

Appendix 1 of the Consultation Paper outlines Proposed protocol for maintaining calculation methods, eligible activities and specifications. We ask the Department to add to Appendix 1 illustrative examples of Calculation methods using deemed normalised energy credits, and methods based on empirical measurement of actual delivered productivity benefits.

For the second, the Department should make clear when sampling and average data will be used, rather than actual data (if at all).

Below we outline other considerations regarding calculation of REPS credits:

- During the first 18 months of the REPS, only activities with deemed normalised energy credits will be feasible. The Department should calculate these deemed values in their Activity Specifications.
- Any Demand Management activity based on actual data measuring the baseline will not likely be feasible in the first 12 months. This is a more complex level of Demand Management activity which Activity Providers and most retailers are not currently providing, and where Retailers are providing those activities, it will need to be approved for the REPS.

Eligible activities by application

The Consultation paper proposes that REPS will allow the Minister, on their own initiative or by application, to determine one or more activities for the REPS. Energy Retailers and Distribution network service providers are leading the commercial Demand Response market. We seek clarity on how new Demand Response activities developed by Energy Retailers may be applied and qualify for the REPS.

We fully support the REPS being open to individual applications of new Demand Response activities by retailers and other providers. To facilitate these applications the scheme's requirements would need to flexible. For instance, the scheme would need to be open to different calculation methods, including different baselining approaches. The Department should consider explicitly recognising commercially developed methodologies in Appendix 1.

If the scheme is intended to cover individual applications, the regulatory framework will need to provide details about the application process, its effect, and who can use the approved activity (presumably only the retailer that has submitted the application).

Demand Response and Credit value under the REPS

The assets required for Demand Response (such as solar PV, battery systems or other Demand Response Enabled Device (DREDs) are high cost to residential customers and often have high installation costs, involving an electrician's attendance at the premises.

Demand Management systems and capability also involve high capital investment and material ongoing cost. In EnergyAustralia's experience, the commercial viability and profitability of Demand Response programs depends on whether there is sufficient value available to be shared between a provider and the customer, where the value comes from the avoided cost of electricity that would otherwise have been purchased in the wholesale market.

In view of these high costs, REPS will only have a meaningful effect in incentivising the uptake of assets or Demand Management activities, where it can provide enough credit value under the REPS. This will mean that the REPS will need to evolve to activities with higher credits performed at a lower number of premises, compared to the REES.

7. REPS credit transfers and carryovers

EnergyAustralia agrees with the credit carryover being unrestricted from year to year.

The Department proposes to restrict the credit carryover from 2020 to 2021, to 20 per cent and that the carried-over credits will be converted to 2021 credit values. It is also proposed that any carry over will contribute to the retailers' overarching EPT but not any sub-targets. We urge the Department to indicate the 2021 credit values for pre-existing REES activities as soon as practicable. Without the certainty of these credit values, the ability to carry over credits into 2021 will have limited utility for retailers. We also ask that the carryover be permitted to apply to the sub-targets, as it is unclear whether Priority Group and Households will take up new Demand Management focussed activities.

8. REPS credit program

The purpose behind the REPS credit program appears to be to provide flexibility in the REPS to allow the scheme to adopt temporary programs nominated by the SA Government. This would enable the SA Government to use the REPS program to outsource the delivery of energy related initiatives.

We are not strongly opposed to this purpose but note that it could undermine the regulatory certainty of the scheme and create temporary over supply of activities. For example, if the Minister were to nominate a credit program and a retailer were to successfully bid for it, the amount of credits under the program would "displace" other activities performed for the REPS, where Activity Providers cannot reduce their pipeline of activities in time. Again, the 4 months' notice of the credit program is insufficient to make adjustments. It will be important that producers of REPS are not subject to boom-bust conditions and instead are able to mature as a stable and growing industry and employer.

9. Costing and delivery of activities

EnergyAustralia encourages the Department to re-consider the purpose of reporting on costing and delivery of activities. It is unclear whether the costs provided by different retailers will be comparable given the different volumes of activities bought by retailers would be a valid reason for price differentiation. It is also unclear how this information will be used by the Department.

In our view, the Activity Provider market is competitive, and retailers go to market to seek new providers as required. This is often completed within the guidelines of company wide procurement practices with limited scope to depart from those processes. EnergyAustralia is fully committed to minimising operational and regulatory costs for the benefit of customers.

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10. Shortfall penalties

We request that the Department substantiate the increase of the GJ element of the penalty from $17.40 to $21.45. It is difficult to assess the basis for this increase and its appropriateness, particularly when the contracted value of a GJ under the REPS is unknown and very difficult to estimate (the GJ penalty rate would need to be above the contracted rate). Given these uncertainties, it may be appropriate for the scheme to retain flexibility and allow the Minister to set the penalty rate at a later time.