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REES Consultation Paper August 2014

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Department of State Development's (DSD) Retailer Energy Efficiency Scheme (REES) Consultation Paper.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 34 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

The Association recognises the rationale for expanding the REES scheme to include small and medium business enterprises. Ideally, this should increase market opportunities and assist with ensuring targets are met from the lowest-cost source regardless of which sector they occur in. Unfortunately the DSD has failed to identify an adequate range of activities to underpin such an expansion. Coupled with the inflexible nature of the REES scheme, the esaa believes the DSD's proposal is unworkable in its current form and will ultimately lead to higher costs for consumers.

As noted in the Association's response to the earlier Directions Paper, there is a range of barriers to energy efficiency that may distort consumer behaviour.¹ Given cost-reflective pricing is the only price-based barrier to energy efficiency, there is limited merit in trying to address the remaining barriers to energy efficiency through a white certificate scheme. This issue is further compounded by the recent ability of consumers to avoid the majority of the costs associated with the scheme by buying or leasing rooftop solar photovoltaic (PV). While this is of course not the primary motivation of such consumers, it is an inevitable outcome that policies such as the REES – which treat grid-supplied electricity as a tax base – tilt consumer decision-making towards distributed generation. The result is that the total system costs for electricity supply are higher than they should be. The Association therefore maintains the view that the South Australian Government should sunset the REES scheme at the conclusion of its six-year implementation period on 31 December 2014.

¹ Energy Supply Association of Australia, "Submission to South Australian DMITRE Review of the Residential Energy Efficiency Scheme", 8 August 2013.

To the extent the REES scheme is retained, it is important to ensure targets are met from the lowest-cost source regardless of which sector they occur in. On this basis there is, in principle, merit in expanding the scheme to include small and medium business enterprises. But this is not borne out by the current proposal to incorporate these consumers.

The DSD's proposed framework appears to misalign the customers that are captured by the scheme liability and the activities they may undertake to benefit from the scheme. In particular, the DSD's proposed customer threshold of 30GWh also means the majority of large energy consuming businesses would be included in the scheme, but the primary contributors to their energy load cannot be addressed with the limited list of eligible activities proposed. Coupled with the absence of any certificate trading provisions, such an approach will restrict the most cost-effective energy efficiency measures for participants and constrain the ability of retail businesses with a higher proportion of large energy consumers from meeting their liability.

With a view to alleviating cost pressures for consumers, it is important to ensure the REES scheme provides the flexibility for businesses to undertake energy efficiency improvements that are likely to deliver the greatest cost savings for their individual business. As discussed below, for this to be achieved in the context of the current proposal, further consideration must be given to: defining a business customer; energy saving opportunities for businesses; and the potential for activity trading in an expanded REES.

Business customers must be carefully defined

The consultation paper proposes that a customer has the same meaning as in the *Electricity Act 1996* for the purposes of determining inclusion in the REES. Consistent with this, a customer is generally defined by its connection point to the transmission or distribution network. While this definition is generally appropriate for describing small customers, it may not provide a suitable definition for larger business customers that span multiple sites.

For multi-site businesses, energy matters may be managed centrally. Under these circumstances there is one retail contract that encompasses all of the businesses' sites and those responsible for whole-of-business contract management may have energy knowledge and expertise that is not present at the individual site level. They may also be better placed to weigh the costs and benefits of an energy efficiency activity given they have greater visibility of the site's electricity bills.

It is important the definition of a customer is aligned to the relevant decision-makers in a business. As such, the Association considers it would be more appropriate to define a customer with reference to a retail electricity contract. This would allow for the aggregation of business sites under one retail electricity contract where appropriate.

As part of the proposal to expand the scheme to include small and medium business enterprises, the consultation paper proposes to exclude customers consuming 30GWh or more of electricity per annum. It is noted the aggregation of energy consumption on a contract by contract basis (as described above) may lead to higher energy consumption values than a customer connections approach. But regardless,

the proposed threshold appears to go beyond small and medium businesses and is likely to implicate larger consumers.

While the Association does not necessarily oppose the concept of including large consumers in the REES, there are some fundamental issues with mandating such arrangements. As discussed in further detail below, the esaa does not believe the proposed list of eligible activities could efficiently support energy savings at many of these customers' sites. Expansion of obliged retailers' liabilities to include sales to large customers without also providing reasonable options for large customers to benefit from the scheme would be an inequitable and inefficient outcome.

Energy saving opportunities for businesses are limited

As REES provides a consumer-funded subsidy for efficiency improvements, it is important the framework does not restrict the most cost-effective energy efficiency measures for participants. With this in mind, it is clear the proposed list of activities provides few opportunities for business customers captured by the 30GWh threshold to benefit from the REES. Relevant activities are outlined below.

- 7.22 High efficiency appliances
- 7.23 Remove and destroy an unwanted household refrigerator or freezer
- 7.25 Aggregate Metered Baseline methodology
- 7.26 Commercial lighting

Of the above, commercial lighting is the only activity that is likely to offer material benefits for business customers, with potential applications across all industries. High efficiency appliances and the removal/destruction of unwanted household refrigerators/freezers will have limited application since the product requirements restrict many commercial applications and therefore the greatest potential savings. Further, while the metered baseline approach will provide the flexibility to capture the energy savings associated with a range of other activities that are not suitable for default savings factors, this option is expected to offer only limited benefits to individual customers.

The energy consumption of many businesses, particularly large consumers, is often specific to that particular business. Energy savings associated with improving the efficiency of particular activities is therefore difficult to determine on a deemed basis and methodologies would need to be developed that can allow a business to calculate or measure energy savings on a project basis. If the REES is expanded to include customers consuming 30GWh or more of electricity per annum, the Association would recommend incorporating a project assessment approach (similar to that applied in the NSW Energy Savings Scheme) to ensure that large customers have a reasonable opportunity to benefit from the scheme.

Activity trading could potentially reduce scheme costs for consumers

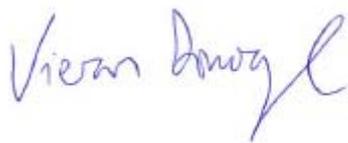
There are significant competition and efficiency gains that can be achieved by allowing liable retailers to procure activities through a traded market. Key benefits of this approach include:

- participation of a broader range of service providers, the benefits of which are a greater range and quantum of activities being offered and customers that may be accessed;
- greater price transparency to provide competitive pressure and drive efficient costs; and
- clearer delineation of responsibilities between parties to reduce duplication and increases accountability.

As scheme targets increase and the REES is expanded to include a broader customer base, it will become increasingly more important that activities can be procured at competitive prices and delivered efficiently. It is understood legislative changes would be required to enable certificate trading and that such changes will inevitably take time. But the magnitude of the scheme expansion proposed by the DSD is likely to be inefficient and costly without provisions for certificate trading.

Any questions about our submission should be addressed to Shaun Cole, by email to shaun.cole@esaa.com.au or by telephone on (03) 9205 3106.

Yours sincerely



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