Government of South Australia
Department for Energy and Mining

REVIEW INTO THE SOUTH AUSTRALIAN RETAILER ENERGY EFFICIENCY SCHEME

DIRECTIONS PAPER OCTOBER 2019

REES DIRECTIONS PAPER OCTOBER 2019

REQUEST FOR SUBMISSIONS

The Department for Energy and Mining invites written submissions from interested parties in relation to the Review into the South Australian Retailer Energy Efficiency Scheme (REES).

Submissions should be provided by 5 pm, Friday 1 November 2019.

Responses to this Directions Paper should be marked "REES Review – Directions Paper" and emailed to tina.maiese@sa.gov.au.

Please note that all submissions will be posted on the website. Please advise if you wish your submission, or parts of it, to be kept confidential.

To arrange a meeting to discuss this Directions Paper, email tina.maiese@sa.gov.au or by calling (08) 8429 3350.

This Paper proposes future arrangements for a South Australian Retailer Energy Productivity Scheme from 1 January 2021. The Paper sets out key findings from the review of the Retailer Energy Efficiency Scheme and proposed changes for the scheme's future. Options raised in this Paper do not represent the final position of the South Australian Government.

The Department for Energy and Mining is an agency for the purposes of Freedom of Information laws. While we will not publish your submission on our website if you do not want this, we may be required by law to release your submission to a third party. Should such a request be made, you will be contacted prior to any decision to release the material.

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Executive Summary

The Retailer Energy Efficiency Scheme (REES) provides incentives for South Australian households to reduce energy consumption and thereby lower their energy costs and associated greenhouse gas emissions.

The purpose of this Directions Paper is to set out key findings from a Review of the REES and to propose future arrangements for the scheme after the current stage ends in 2020.

The REES Review has evaluated:

- How REES has performed against its objectives;
- Whether REES should continue;
- What options exist for REES post-2020;
- The potential future objectives of the scheme;
- The potential types of households and businesses covered by the scheme;
- The potential of the scheme to incentivise demand response;
- The potential of the scheme to incentivise deeper energy retrofits; and
- The delivery of activities and audits to vulnerable customers.

The Review has included release, on 30 April 2019, of the 'Review into the South Australian Retailer Energy Efficiency Scheme – REES Issues Paper', and completion of 'Independent Evaluation – Past Performance and Future Policy Options for the REES' by Common Capital.

The Review has been informed by consultations with key scheme participants, submissions from various stakeholders in response to the Issues Paper, and the findings from the Independent Evaluation. The Independent Evaluation found that the scheme had successfully delivered against its overall objective, and there was a strong case for continuation of the scheme, in some form, post 2020.

This Directions Paper provides another opportunity for the Department for Energy and Mining to consult with stakeholders prior to developing advice for the South Australian Government. The Paper is intended to highlight some of the major proposed directions, particularly those directions that change the current scheme framework.

The Directions Paper reflects a stronger focus on driving market transformation and addressing current and emerging challenges to affordability for consumers. This would be the most substantive change to the scheme since its inception, focused on the challenges of a rapidly changing South Australian energy market.

The following major directions are proposed post 2020. The updated scheme will:

- commence on 1 January 2021;
- include three yearly target re-sets;
- be reviewed after six years;
- restrict credit carryovers from the current scheme to 10% of the 2020 target. The credit carryover from 2020 will be applied in 2021 only;
- have the objective: ‘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’;
- 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;
- help to avoid future network costs by incentivising demand response activities as well as energy savings in the commercial and residential sectors;
- have an energy productivity target, expressed using a gigajoules (GJ) metric;
- include mechanisms to promote greater competition among third party activity providers;
- consider increased alignment of scheme activity rules with interstate schemes, where appropriate and ensuring continued high quality outcomes for consumers;
- incentivise upgrades in larger businesses by removing the 900 GJ limit from commercial lighting upgrades;
- 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;
- incentivise upgrades in larger businesses by introducing new commercial and industrial activities, such as upgrades of fans, pumps and motors;
- incentivise upgrades in larger businesses by introducing new methods such as the NABERS Baseline Method, Power Factor Correction Method, and Project Impact Assessment Method;
- require customer co-payments for all commercial and industrial activities;
- introduce a residential target, alongside a priority group target;
- include rental households within the definition of ‘priority group’;
- review the updated scheme rules for other opportunities to overcome the landlord/tenant split incentive problem;
- introduce co-payment requirements for all residential activities, except for priority group households;

- incentivise deeper retrofits to priority group households;
- incentivise residential activities that reduce peak demand or increase demand response capability;
- investigate options to assist customers with financing for deeper retrofits; and
- no longer include residential energy audits and no longer require retailers to meet annual energy audit targets.

In addition to the proposed directions listed above, the SA Government would welcome suggestions of complementary measures which may assist in driving market transformation in co-ordination with the REES by helping overcome barriers to uptake of more efficient and smart power consumption and making the incentives provided by the REES more effective.

1 Overview of the Current Scheme

Under the REES, energy retailers that exceed prescribed customer number and sales thresholds are set annual targets for the delivery of energy efficiency activities to households and/or businesses. In addition, retailers with larger residential customer bases are set targets to deliver a prescribed amount of the energy efficiency activities to priority group households and to provide energy audits to priority group ‘vulnerable’ households.

The Minister sets the overall targets to be achieved by the REES and these are apportioned to each obliged retailer by the REES administrator. REES targets for the period 2018-2020 are 6.9 million gigajoules (GJ) of energy savings and 22,101 audits.

Energy retailers can meet their targets by delivering measures from a pre-approved list of energy efficiency activities, each of which is deemed to contribute a given quantity towards their targets. The REES is designed with the intention that all energy efficiency achieved is in addition to what would have otherwise occurred under other Commonwealth or State Government policies and programs.

Each energy retailer participating in the REES decides on what mix of pre-approved energy efficiency activities it will undertake to meet its energy efficiency targets.

The regulations relating to the REES currently only operate until the end of 2020, the conclusion of a six-year implementation period. The regulations require the Minister responsible for the administration of the regulations to commission a review of the REES. The report on the results of the review must be submitted to the Minister before 31 December 2019, and the Minister must table the report in Parliament.

The Energy and Technical Regulation Division of the Department for Energy and Mining advises the Minister on policy matters concerning the REES. The Essential Services Commission of South Australia (ESCOSA) administers the REES in accordance with the regulations.

2 The Review Findings

2.1 Stakeholders' Views

Submissions to the REES Review Issues Paper, April 2019 revealed a diversity of views about the scheme. Some of the more consistent themes are discussed below.

Scheme activity providers
This group generally supported continuation of the scheme with a focus on the commercial and residential sectors. There was general support for the scheme to retain a low-income objective, although some members expressed concern the scheme was approaching saturation for delivery of lighting activities to priority group households, and others suggested consideration of budget funding for activities in this sector. Increased prescription of energy audit requirements was generally not supported. There was general support to expand available activities in the commercial sector, to lift certain restrictions on lighting activities savings, and to consider inclusion of demand response activities. Use of credit multipliers to direct activities into the regions was flagged by several submissions, as well as using credit multipliers to encourage deeper residential retrofits.

Energy retailers
Generally, retailers preferred to keep the scheme's objectives simple, had reservations about the merits of expanding the scheme to incentivise demand response activities, and considered any expansion in the scheme would be better funded through the government's budget. If the scheme continues, retailers supported alignment with interstate schemes as far as possible, and maintenance and possible expansion of commercial as well as residential activities. Some retailers supported use of credit multipliers or specific funds to focus activities toward regional or priority sector targets. Retailers did not support more prescription around residential auditing, and some suggested secondary visits for residential auditing and inclusion of commercial energy auditing.

Industry and community groups
Community groups supported the retention of a low income focus in the scheme, inclusion of renters as a priority group, and mechanisms to encourage deeper retrofits in the residential sector. Some industry groups also suggested specific additional assistance for rental households, supported expansion of activities to larger businesses, and highlighted the risk of saturation facing residential audit targets. Some industry groups supported creation of a specific scheme fund, or budget funding, while others recommended continuation of the current funding arrangements. Alignment with other judications was generally supported. There was a mixed response toward more prescriptions for auditing requirements, with one respondent suggesting this might be worthwhile if auditing were linked to energy savings targets. There was general support for adoption of incentives for demand response activities, insofar as they provide energy cost savings for customers, and broader benefits.

2.2 Independent Evaluation

The Independent Evaluation found that the scheme has been an effective policy tool. The cost-benefit analysis of the scheme's performance from 2015 to 2020 found the scheme:

- delivered 180,000 energy efficiency upgrades to households, businesses and low-income households over 2015 to 2017;
- delivered positive net economic benefits of $156 million to South Australia;
- supported 8.5 million gigajoules of energy savings for South Australian households and businesses;
- is on track to deliver over $1 billion in energy bill savings to South Australian households and businesses over the life of implemented energy efficiency activities from 2015 to 2020, including:
    - $328 million in energy bill savings for households, including $155 million in energy bill savings for priority low-income households and
    - $720 million in energy bill savings for businesses.
- reduced greenhouse gas emissions by 450,000 tonnes of $CO_{2\text{-}e}$ due to activities from 2015 to 2017, and is on track to reduce emissions by over 1 million tonnes of $CO_{2\text{-}e}$ from activities implemented from 2015 to 2020; and
- performs well compared to similar Australian schemes in relation to administrative costs as a proportion of total scheme costs and average energy bill reductions.

The Independent Evaluation also highlighted opportunities to improve the scheme post-2020.

<u>Future of the Scheme</u>
The Independent Evaluation found that significant cost effective opportunities remained for the scheme in the residential and commercial sectors post-2020.

DEM Response
Section 3.1 of this Paper proposes a continuation of the scheme post 2020.

<u>Deeper energy retrofits for households</u>
The Independent Evaluation recommends that the scheme should move beyond energy audits and low-cost, low-energy-savings activities, and refocus efforts on upgrades that can deliver greater bill relief for those in need.

DEM Response
The option of removing energy audit targets is canvassed in Section 3.11 of this Paper. A co-payment requirement for residential activities, to drive deeper retrofits, is canvassed in Section 3.10.

<u>Targeting peak savings and preparing households for cost-reflective pricing</u>
The Independent Evaluation highlights opportunities for the scheme to target energy savings at peak times to reduce network costs and smart appliances that can help customers manage energy bills.

DEM Response
The options of incentivising activities that reduce energy use at peak times and activities that facilitate the demand response market are canvassed in Section 3.4 of this Paper.

Expanding commercial sector upgrades and growing sustainable business models
The Independent Evaluation highlights opportunities for extending the REES to larger businesses and facilitating deeper retrofits through introduction of new methods and activities, to place downward pressure on energy system costs for all South Australian energy customers. The Independent Evaluation also highlights opportunities to move third party providers away from single item upgrades and product giveaways.

DEM Response
The option of expanding methods and activities in the commercial and industrial sectors, and introducing co-payment requirements, are canvassed in Section 3.7.

Increasing competition
The Independent Evaluation notes that tradeable certificate obligation scheme models can potentially promote more competition and reduced scheme costs, when compared to the 'direct obligation' model. On the other hand, the tradeable certificate model is less likely to lead to retailers being directly involved in the delivery of activities through in-house programs or service offerings. Administration of direct obligation schemes is also simpler than establishment and management of product and certificate registries.

DEM Response
It is proposed that the scheme will remain as a 'direct obligation' model, rather than a tradeable certificate model. Further options around increasing competition are canvassed in Section 3.5.

3 Proposed Directions

3.1 The Future of the Scheme

A threshold question for the Review is whether the scheme should continue beyond its current end date of 31 December 2020.

The Independent Evaluation has found that the scheme was efficient, effective, equitable and administratively simple in delivery of its objectives, and has delivered significant energy bill savings for households and businesses.

The Independent Evaluation has also found that significant cost-effective technical opportunities remain to be exploited should the scheme continue beyond 2020. It is proposed therefore that a scheme continue beyond 2020.

To assist business planning by obliged retailers, it is proposed that targets continue to be set on a three-yearly basis.

When the current scheme commenced in 2015, retailers carried over significant credits from the previous scheme because they had exceeded the 2014 target by around 45%. To assist business planning by retailers in delivery of activities and methods under the new scheme commencing in 2021, and to increase the likelihood those activities and methods will be offered, it proposed that carry over credits from 2020 to 2021 will be restricted to 10% of the 2020 target.

Proposed Direction

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.

3.2 The Scheme Objective

The current objective of the REES is to reduce household and business energy use, with a focus on low-income households. This will provide associated energy costs and greenhouse gas emission benefits.

The Review has considered whether emerging challenges in the energy market justify a revision in the scheme objectives.

As the energy landscape in South Australia is rapidly changing, a continued scheme with a stronger focus on market transformation could assist in transitioning to a smarter and less expensive power system, whilst ensuring lower bills for households and businesses through improved energy productivity. Improvements to building fabric are widely recognised to have important health co-benefits.

South Australia has the peakiest demand profile of any of the Australian states. Although the growth in maximum demand has moderated in recent years, electricity networks must be built for the peakiest events. The need to supply large quantities of electricity for a very short period, largely to meet summer air conditioner requirements, leads to upward pressure on electricity prices because of the need for investments in peaking generation and electricity network infrastructure.

In recent years, demand during the middle of the day has been steadily reducing in South Australia predominantly due to an increase in the installed capacity of rooftop solar photovoltaics (PV). A decline in electricity demand beyond certain thresholds can reduce AEMO’s capacity to securely operate the system. As more renewable energy generation comes online, traditional synchronous generation sources such as gas-fired units now operate less often. This creates challenges in managing the system strength and inertia of the power system.

The rapid adoption of roof-top solar PV also presents challenges to keep electricity network voltages within statutory limits, and can lead to decreased asset life as voltage regulation devices are required to operate more frequently. The costs to manage these network challenges need to be recouped from all network users.

Recognising these challenges, the Independent Evaluation has identified opportunities for the scheme to target energy savings at peak times and to facilitate the demand response market by incentivising activities based on their demand response capabilities.

During consultation, stakeholders were also generally supportive of maintaining specific support within the scheme for low income households. This focus will remain within the scheme objective.

The proposed revised objective uses the term ‘energy productivity’ to capture energy efficiency, energy demand management and energy demand response.

Proposed Direction

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’.*

3.3 Regional and Remote Participation

The Independent Evaluation has found that the scheme has successfully delivered activities to regional and remote South Australia, despite the absence of a specific regional delivery target. During 2018, around 28% of activities were delivered to the regions. While the rate of delivery has varied from stage to stage, overall, since the scheme commenced in 2009, it has delivered an average of 14.5% of activities to regional SA, including 2.2% to remote SA. To prevent any drop-off in regional activities under the new scheme, it is proposed that, should the activities delivered to regional areas fall below 15% in any given year, specific regional obligations will apply for retailers in year following the shortfall.

Proposed Direction

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.

3.4 Energy Productivity

In addition to incentivising energy savings, it is proposed that the scheme will expand to incentivise activities that improve the reliability and security of the electricity network and facilitate the demand response market. This could include demand response enabled appliances such as air conditioners, pool pumps controllers and, potentially, electric water heaters. This expansion will ensure the scheme provides public benefits for all consumers, not just those who receive activities under the scheme.

This expansion is aligned with the findings of the Independent Evaluation. Product suppliers and third party providers also supported this change, although the views from industry associations and retailers were mixed on this question.

While this change may not align with elements of some interstate schemes, the changes are designed to move the scheme away from single item upgrades and giveaways, and towards deeper energy savings and energy system benefits for all consumers. It also directly responds to the South Australian demand profile (high peak and low minimum demand periods) and the costs associated with this profile.

The updated scheme will also continue to incentivise energy efficiency activities, and will maintain important core principles from the current scheme, including:

- Eligible activities will be delivered by suitably qualified and appropriately trained professionals;
- Products will comply with relevant safety standards;
- Calculation methods will minimise the scope for ‘free riders’ and be additional to the base case; and
- Calculation methods will be informed by credible research and a robust methodology.

This change will require revisions to the measurement of targets. It is proposed that the scheme will introduce an energy productivity metric, expressed in gigajoules (GJ). DEM will provide further information on the calculations for this metric, as well as consultation on the activity specifications and proposed credits during the post review stage (mid 2020).

Proposed Direction

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.

3.5 Increased Competition and Scheme Efficiency

In order to promote greater competition within the scheme and consequently reduce scheme costs, there should be increased opportunities for new third party providers to enter the scheme to deliver energy productivity activities to retailers.

In addition, improved national consistency in scheme activity rules would allow more providers to operate at lower cost between jurisdictions. The Government will engage with other jurisdictions to understand the opportunities to improve co-ordination of activity rules.

The Government will also explore with stakeholders opportunities to improve competition and efficiency. These could include consideration of:

- requiring retailers to conduct an annual, open tender if using third parties to deliver energy saving activities;
- requiring retailers to report to ESCOSA annually on opportunities that they had given to new providers to compete for the delivery of energy savings.
- requiring retailers to price at least 50% of eligible activities and report to ESCOSA annually;
- requiring reporting on the cost for energy savings and the number of providers engaged over the reporting period;
- allowing third-party providers to register with ESCOSA on a supplier register,
- amend ESCOSA's annual reporting requirements to reflect any increased reporting by retailers.

Proposed Direction

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.

3.6 Commercial and Industrial Activity Eligibility

As was the case in the scheme previously, there will be incentives for all commercial and industrial business types, including large businesses.

Given the predominance of commercial lighting upgrades in the scheme, this activity was subject to consideration through the Independent Evaluation, and specific stakeholder consultation through the Issues Paper.

The current scheme caps the energy savings that can be claimed for each commercial lighting upgrade to 900 GJ. This cap was introduced when the scheme expanded to include commercial upgrade activities from 2015. The cap was introduced to direct lighting upgrades mainly to the small and medium enterprise

(SME) sector, as large businesses would be less interested in upgrades if the discount applies only to a small number of the lights they wished to upgrade.

The Independent Evaluation found the existing cap had successfully directed this activity toward the SME sector, however, the opportunities within this sector may be approaching saturation.

The Independent Evaluation also found significant cost-effective energy efficiency opportunities beyond the SME sector if the limits on the claimed credits from commercial lighting were removed. If this was done, however, the Independent Evaluation also recommended setting a minimum residential target to prevent commercial lighting ‘crowding out’ residential activities (see Section 3.8 below). It also recommended introducing a co-payment requirement for all commercial and industrial activities.

Removal of the 900 GJ commercial lighting limit was widely supported by retailers, third party providers, and industry associations, who indicated this change would incentivise upgrades to larger businesses, beyond the SME sector. Removal of the 900 GJ cap would also bring the scheme into closer alignment with similar schemes interstate

Several stakeholders also pointed to opportunities to revisit businesses that had already received this a lighting upgrade but may have additional lighting that could be upgraded under a revised framework. Stakeholders noted that this option already existed in the scheme in the residential sector, where lighting upgrades can be delivered twice per premises, where it can be demonstrated the lamps being replaced had not previously been replaced for the purposes of the scheme.

Proposed Direction

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.

3.7 Deeper Commercial and Industrial Retrofits

Energy retrofits in REES have typically focused on a single product upgrade such as lighting. The next stage of the scheme will move toward a deeper retrofit, involving multiple system upgrades, leading to an overall improvement in building performance. This can mean an improvement in energy efficiency or an increased demand response capability.

The expansion of the scheme to allow commercial activities in 2015 saw a mass roll out of low-cost or no-cost lighting upgrades for businesses. While the commercial activities expansion was successful, the Independent Evaluation identified opportunities to expand support to a wider range of business upgrades, beyond commercial lighting upgrades.

Adding new activities and methods would improve the range of opportunities for businesses and incentivise activities in larger businesses, providing energy system cost benefits for all South Australians.

Feedback from retailers, third party providers and industry associations was positive regarding such an expansion, noting interstate schemes can provide a useful source of activities and methods for consideration the South Australian scheme. The NABERS baseline method, for example, can be used to calculate energy savings for improvements in the NABERS rating of a commercial building. The Power Factor Correction (PFC) method applies to activities that result in electricity savings at a site from the installation of PFC equipment. New activities such as upgrades of commercial fans, pumps and motors will also be considered to drive deeper retrofits in this sector.

Such an expansion should be accompanied by measures to encourage sustainable markets for products and services, and avoid some of the problems that arise from product giveaway models. Requiring a co-payment from scheme recipients will assist to achieve this. Both the expanded activities and methods, and the co-payment requirements have precedents in comparable schemes interstate.

To assist commercial and industrial businesses, financing for upgrades and co-payments could be facilitated however such commercial opportunities already exist, including through Energy Upgrade Agreements.

Proposed Direction

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.

3.8 Residential Target

The Independent Evaluation found that an expansion of the scheme to new commercial activities and methods may risk ‘crowding out’ household participation. This finding is consistent with the history of the scheme since introduction of commercial activities in 2015, which has seen commercial lighting upgrades become by far the predominant activity.

Feedback from stakeholders acknowledges that without residential targets, commercial activities may comprise an even greater proportion of scheme activities than is currently the case.

Proposed Direction

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

3.9 Priority Group Target

Low-income households typically spend a greater proportion of their disposable income on energy, have less efficient appliances, have less ability to finance upgrades and lack information regarding possible energy efficiency measures.

The Independent Evaluation found the priority group target is appropriate to successfully meet the objective to deliver energy bill savings to households for whom energy bills represent the highest proportion of income, compared to all other household income groups.

There was general support from retailers, third party providers and associations for maintaining a focus on low-income households, although some argued the current approach was approaching saturation for certain activities. Several also argued the objective could be met through applying a credit 'multiplier' rather than through targets. However, the application of ad-hoc credit multipliers risks the integrity of the calculation methods used to estimate the energy credits under the scheme.

The scope of the priority group was generally considered appropriate however, renters were noted as a group with reduced ability to implement activities and reduce their energy bills. Activities delivered to rental properties will therefore be permitted to count toward the priority group target. Renters are more likely than home owners to face energy bill stress and are also less likely than owner-occupiers to have basic energy efficiency measures such as insulation. There is also little incentive for landlords to invest in energy efficiency upgrades as the benefits largely favour the tenant. This is known as the split-incentive problem.

Priority group households will also be exempt from meeting any co-payment requirements under the scheme.

Proposed Direction

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.

3.10 Deeper Residential Retrofits

Most residential activity in the scheme to date has comprised low-cost, low-energy savings upgrades, such as lights, showerheads, and standby power controllers. Fewer high energy-saving, higher-cost upgrades have occurred over recent years, other than a moderate uptake of water heater upgrades.

The Independent Evaluation notes the current trends of residential activities presents a risk of future market saturation for these single products and suggests the scheme should consider measures to shift the focus toward higher-cost, higher-energy savings upgrades, including heating and cooling upgrades and insulation upgrades. One measure suggested to reform business models, marketing practices and customer perceptions includes requirement of co-payments for all residential upgrades, except potentially those delivered to priority group households. Incentivising activities that reduce peak demand or increase demand response capability will also drive deeper retrofits.

Feedback from retailers and third party providers preferred a credit ‘multiplier’ approach to achieve deeper residential activities. However, as noted in Section 3.9, the application of ad-hoc credit multipliers risks the integrity of the calculation methods used to estimate the energy credits under the scheme.

To encourage the delivery of deeper retrofits, the updated scheme may specify activities that must be used to meet the targets. Financing for deeper retrofits and co-payments could be facilitated via a low interest loan from peer-to-peer lending platforms or a community no-interest loan scheme.

Proposed Direction

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.

3.11 Energy Audits

The Independent Evaluation could not find firm evidence that the energy audits under the scheme were driving significant energy savings or bill savings for low income consumers. The Independent Evaluation did not support continuation of an audit target, nor did it support replacing the current audit requirement with a more detailed rating or assessment of homes, appliances and behaviour.

Feedback from energy retailers noted that the audit target was not a requirement in similar schemes interstate, although one retailer considered the audits a feature of the South Australian scheme worth retaining. Third party providers and industry associations noted that energy auditing under the scheme may be approaching saturation.

Proposed Direction

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

4 Next Steps

Following completion of consultation on this Directions Paper, a final review report will be presented to the Minister for Energy and Mining including recommendations on the future direction. The following table shows the progress of the review and inactive timeframes for the next steps.

Milestone	Date	Status
Initial consultations (on NSW ESS energy savings revisions)	September/October 2018	*Completed*
Issues paper		
Released for Consultation	30 April 2019	*Completed*
Submissions Close	20 May 2019	*Completed*
Independent Evaluation		
Tender Released	December 2018	*Completed*
Commencement of Work	February 2019	*Completed*
Independent Evaluation Final Report	July 2019	*Completed*
Directions Paper		
Release paper and engage stakeholders	October 2019	Open
Legislative Requirement		
As per Regulations 'The Minister must cause a review of the operation of this Part to be conducted and a report on the results of the review to be submitted to the Minister before 31 December 2019.	Before 31 December 2019	
Post Review Work		
Regulatory changes	By mid-2020	
Consultation on proposed metrics and activity specifications	Mid-2020	
Targets for 2021 and beyond	By Q3 2020	