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REES Review - Issues Paper
Energy Markets and Programs Division
GPO Box 1264
Adelaide SA 5001

REVIEW OF THE SOUTH AUSTRALIAN RESIDENTIAL ENERGY EFFICIENCY SCHEME - ISSUES PAPER

Origin Energy (Origin) welcomes this opportunity to respond to the issues paper released by the Department for Manufacturing, Innovation, Trade, Resources and Energy (the Department) as part of the review of the South Australian Residential Energy Efficiency Scheme (REES).

As a retailer with a significant number of residential gas and electricity customers in South Australia, Origin has been involved in the REES since its inception.

While Origin supports energy efficiency initiatives for all consumers of electricity and natural gas, we maintain the view that market based mechanisms implemented on a nationally consistent basis are the most efficient way of capturing the benefits of energy efficiency. At present, Origin is required to comply with a number of energy efficiency schemes in different jurisdictions, which results in higher administrative, compliance and regulatory burdens than would be the case under market-driven, nationally consistent energy efficiency targets. Furthermore, the lack of trading in the REES reduces flexibility for retailers and opportunities to innovate in responding to targets. Finally, Origin believes that with a national carbon pricing mechanism now in place, the continuation of state-specific regulation results in some duplication and additional costs for industry participants and consumers alike. In our view, significant weight should be put upon this issue as part of the review.

We note that there are numerous reviews that include the role of energy efficiency in the energy supply chain underway at present. While we acknowledge that the review of the REES is being undertaken in response to a request by the Minister for Mineral Resources and Energy, we would urge the Department to incorporate in its review developments at the national level (for example, the Australian Energy Market Commission's *Power of Choice* review, the Federal Energy White Paper and the Productivity Commission review of network costs).

We recommend that the REES transition to a national scheme at the earliest opportunity; extending jurisdiction-specific regulation beyond 2014 will result in the continuation of inefficient arrangements and associated costs for energy retailers and consumers alike.

We respond to specific matters raised in the issues paper below.

Section 4.1. Independent evaluation

Are there additional matters that the independent review should consider?

Origin supports the elements listed on page 7 and 8 as setting out the scope of an independent evaluation of the REES scheme. We would add that the benefits of transitioning the REES to a nationally consistent framework should also be an objective of the evaluation.

Section 4.2. Householder survey

Are there any other matters that should be considered as part of the householder survey?

Origin believes it may be of value to gather householder views on alternative energy efficiency measures. For example, if greater visibility of energy consumption were available via home area networks supported by an advanced meter, would this be considered more or less valuable to the customer? Such questions would be useful to gauge customer views on alternatives to activities and audits, and the value placed by consumers upon them.

Section 5. Scheme objectives

- Should the objectives of the REES be revised?
- If so, what changes should be made?

If the REES is to continue, its objectives should be extended to ensure that the marginal cost of energy efficiency activities and audits undertaken does not exceed any benefits (for example, the avoided cost of energy). The cost-benefit analysis that will be undertaken as part of the independent evaluation will be a valuable exercise to review the cost of energy activity undertaken to date. Given that the cost of energy efficiency activities increases as lower cost opportunities are exhausted (e.g. the installation of compact fluorescent light bulbs versus home insulation), Origin believes it is important that the full spectrum of costs and benefits are understood by policy makers, industry and consumers.

Section 6.1. The application of regulations

- Is the extent of the current application appropriate?
- Should the 5,000 residential customer threshold be maintained, or should a threshold based on energy sales be considered?
- Should the REES be expanded to allow small and/or medium business customers to participate?
- Would such an expansion require different application criteria?

Origin does not support the extension of the REES to cover small to medium enterprises (SMEs). SMEs have an economic signal provided by the carbon price and other measures to undertake energy efficiency activities if reducing energy costs is a priority for their business. Given the price signals available to SMEs at present, Origin believes that the increased compliance burden associated with extending the REES beyond residential customers would result in costs that would exceed any benefit associated with such increased coverage.

However, Origin would highlight that opportunities for new energy efficiency activities under the REES model in the residential sector are reducing rather than increasing, so if the scheme is to continue (something we do not support) then extending the scheme to SMEs may be the only way to allow for retailers to meet targets after 2014.

Origin does not consider thresholds are necessary and that they distort competition in the market. Almost all licensed electricity and gas retailers participating in the eastern states are substantial entities and arbitrary thresholds (based on either customer numbers or energy volume) are of questionable value.

Section 6.2. Interpretation

- Are the definitions sufficiently clear?
- Are any terms used in the Regulations not adequately defined?
- Are the priority group households sufficiently clearly identified and easily located?
- Does the definition of priority group adequately cover those households most in need of assistance from the REES?
- Is there a more effective way to define the customers who are most likely to benefit from receiving REES activities and audits?
- Does the definition of priority group households affect the administrative cost of the REES?
- Are the formulae for fixing the greenhouse gas reduction target and audit targets complete, appropriate and equitable?

Origin would reiterate that while the current terms and definitions are fit for purpose with respect to the REES, a nationally consistent approach would avoid duplication and the administrative burden associated with the current jurisdiction-specific schemes.

Section 6.3. Greenhouse gas reduction targets

- Is the greenhouse gas reduction target an adequate measure to indicate progress towards all the scheme objectives?
- Is there merit in an alternative unit of measurement, such as avoided energy consumption?
- If greenhouse gas reduction targets are retained, is the methodology for setting them appropriate?
- Is the triennial setting of targets appropriate?
- Should there be specific targets or incentives to encourage activities and audits in remote or regional areas, and how might this affect costs?
- Does the setting of targets achieve an appropriate balance between process-driven and outcome-based compliance?

Alternative measurement approaches (such as avoided energy consumption) are difficult to measure on a reliable basis and would be a significant change to current processes that may result in new unforeseen costs of scheme administration.

Origin supports the triennial setting of targets as this provides an accurate indication of a retailer's commitments under the REES and assists with planning and prioritisation of work to meet their individual target.

We do not believe that there should be specific targets for remote and regional areas as this will substantially increase the cost of the scheme in absence of a direct subsidy from Government.

Section 6.4: Percentage of target delivered to priority group households

- Is the allocation of activities to priority group households an efficient and effective method of targeting greatest need and/or greatest potential for energy efficiency improvement?
- Should there be a separate target for the priority group? If so, should the ability to create credits by exceeding this target be included?
- Is the percentage of activities allocated to priority group households appropriate?

The allocation of activities to priority group households may dilute the ability of the REES to assist those in the greatest need, as the priority group category contains a diverse range of household types and circumstances. In terms of potential for improvements in energy efficiency, some priority group households have relatively low annual consumption. The marginal cost of energy efficiency activities for smaller customers increases significantly, diminishing the achievement of the REES objectives.

Origin does not support substantive changes to the REES given the scheme may be replaced or absorbed into a harmonised national scheme in the medium term.

Origin notes the inconsistency between the percentage of activities allocated to the priority group and the number of residential electricity customers on concessions and/or hardship programs. To the extent possible, these should align. As such, the percentage of activities should be adjusted to around 30%.

Section 6.5. Energy Audit Targets

- Do the audit targets adequately evaluate the performance of the REES against its objectives?
- Do the eligibility criteria for energy audits appropriately target the assistance to those who would benefit most from an audit?
- Is the framing of the energy audit target in terms of numbers undertaken appropriate in the context of the REES objectives?
- Should the energy audit target refer to quality standards or measuring tangible outcomes for recipients?
- What level should the energy audit target be set at?
- Is the current mechanism effective in identifying and registering households eligible for and desirous of receiving energy audits?
- Does the setting of targets achieve an appropriate balance between process-driven and outcome-based compliance?
- Is the triennial setting of targets appropriate?

Origin understands the policy objectives behind setting targets for energy audits for priority group households. We would note however that there are potentially more cost effective, sustainable and longer-lasting alternatives enabled by technology solutions that could deliver against some of the REES objectives at a fraction of the cost. For example, in Victoria we offer Origin Smart to eligible customers. Origin Smart is an internet portal that allows customers to track their energy use and cost and set goals to save energy. There is no obligation on Origin to offer such solutions, but they are a substantially more efficient approach for customers to capture the benefits of energy efficiency on an ongoing basis.

Such innovation is constrained by available technologies in South Australia, but we would contend that Origin Smart is an example of market-led solutions that limit the need for regulation to drive energy efficiency.

As for greenhouse gas reduction targets, Origin supports the triennial setting of audit targets.

Section 6.6. Administration

- Has the administration of the scheme been efficient, effective and equitable?
- Does ESCOSA have adequate powers and resources to ensure effective assessment of the progress toward the REES objectives?

The administration of the scheme has been very efficient and effective in Origin's experience. The staff administering the scheme have worked collaboratively with Origin staff and this has greatly facilitated Origin's compliance with the scheme.

Section 6.7. Notification and adjustment of targets

- Have the provisions for adjusting targets and applying credits operated effectively?

Origin has found adjustment of targets and the application of credits to have operated effectively and has found the scheme to be administered in a collaborative manner (in line with our response to the previous question).

Section 6.8. Energy audits

- Does the energy audit specification provide adequate guidance and assurance of quality and consistency between suppliers?
- Has the recording and management of energy audit activities been effective and efficient?
- Do retailers have sufficient access to data to manage their obligations?
- Does the compliance process ensure that energy audits deliver high quality, practical and relevant advice to recipients in order to achieve the objectives of the REES?
- Are there opportunities to improve the on-site auditing of households through a more uniform and standard audit format?
- Are the current qualifications requirements for energy auditors appropriate, and are auditors adequately trained to deal with priority group households, including culturally and linguistically diverse customers, low-consumption customers and customers in energy poverty?
- What would be the cost implications of a more comprehensive audit specification or training requirement?
- How should outcomes, in the form of effective energy efficiency improvements as a result of energy audits, be verified?
- Is the 10% tolerance for energy audit shortfalls appropriate?

Origin understands that the review seeks to investigate the effectiveness of the current audit process, however we would caution against wholesale changes to the existing approach until the evaluation of the existing costs and benefits of the REES are determined. Substantially increasing

the scope and cost of energy audits ahead of the evaluation would be premature. Origin considers that increasing the training requirements and a substantive expansion of detail of audits under the REES will significantly increase scheme costs.

Origin believes the 10% tolerance for energy audit shortfalls remains appropriate.

Section 6.9. Energy efficiency activities

- Has the recording and management of energy efficiency activities been timely, effective and efficient?
- Do retailers have sufficient access to data to manage their obligations?
- Is the tolerance band appropriate?
- Is the method of managing shortfalls and credits practical and effective?
- What incentives could be provided to reduce the concentration on only a few activities on the approved list?
- Is there a place in an energy efficiency scheme for technology that facilitates and enables energy management, understanding and behaviour change rather than directly reducing energy use, for example in-home displays or energy management controllers? If so, how should it be credited?
- To reduce scheme costs and encourage a 'whole-of-house' integrated approach to energy efficiency, should there be a 'bonus' added to the deemed value when multiple activities are carried out at the same house?
- By providing REES energy efficiency activities at the same time as an audit, is the outcome for the householder enhanced? Is this a cost effective delivery format?
- Is the linking of activities to an address rather than an account holder effective in the context of meeting REES objectives?
- Should there be an 'Accredited Person' approach as per the VEET, to bring more activities into play?

The recording and management of energy efficiency activities has been effective in our view.

The concentration on a limited number of activities is a direct result of obliged stakeholders (retailers) attempting to minimise their compliance cost under the REES. As such, the limited number of activities undertaken should be seen as a positive since they are the cost-minimising set of activities allowed under the REES, limiting the scheme cost while realising objectives.

Origin believes that in-home displays and energy management controllers can play an important role in facilitating demand response. However we note that the lack of smart meters in the South Australia market currently limits the scope for the deployment of these subsidiary technologies.

Section 6.10. Energy Efficiency Activities for Priority Group Households

- Have the recording and management of energy efficiency activities for priority group households been timely, effective and efficient?
- Has the verification process to identify priority group households operated effectively?
- Do retailers have sufficient access to data to manage their obligations?
- Do retailers have appropriate referral mechanisms to ensure that customers who qualify for hardship status are immediately offered access to benefits from the REES?
- Is the tolerance band appropriate?
- Is the method of managing shortfalls and credits practical and effective?

- Is the 35 per cent target for priority group households manageable? Would it be more effective have a separate target or program specifically for priority group households?
- Is there a need to integrate REES with other assistance programs, such as No Interest Loans, or the Home Energy Saver Scheme, to encourage priority group households to engage more in REES activities and implement audit recommendations?
- Is there potential for community welfare organisations to refer their eligible clients for the prioritisation in receiving REES activities and audits?

Our responses to Section 6.10 largely align with those provided to Section 6.9, to the relevant extent.

We do not support a separate programme for priority group households. We would caution against any changes to REES that would complicate its administration, particularly if these targeted a small number of customers, since the administrative costs associated with such changes would be likely to eclipse any benefits.

Section 6.11. Determination of Energy Efficiency Activities

- Is the methodology for determining deeming values in South Australia robust, relevant and effective?
- How should energy efficiency improvements, as a result of installation of approved products, be verified?
- Does the determination process encourage innovation in commercialising energy efficiency activities?
- Has the determination process operated effectively and practically?
- Are the timeframes for the determination of new activities adequate?
- Are there barriers to seeking determination of a new energy efficiency activity?

In assessing the relevance and effectiveness of the deeming values Origin would highlight that the approach to reducing emissions under a program like REES will necessarily remain artificial at some level, since carrying out an audit or installing a piece of technology is no guarantee that a household will remain energy efficient. This is a shortcoming in REES which does not apply to a market-based price mechanism such as the national carbon emissions scheme. When carbon is factored into the price of all goods and services this provides an on-going incentive for households to reduce the carbon embodied in the goods and services they consume in ways that maximise their utility.

Section 6.12. Retailers' Arrangements

- Are trading provisions sufficiently open, transparent and effective?
- Would a more formal trading model (as used in NSW and Victoria) provide any benefits over the existing REES model?
- Has there been adequate management and quality control by retailers of contractors who undertake energy audits and energy efficiency activities on their behalf?
- Are there any confidentiality issues that are of concern to stakeholders, and if so, what could be done to rectify such concerns?
- Should the community sector be more involved with referrals to REES and/or delivery of REES? If so, what mechanisms could be facilitated for increased partnership that are beneficial to all parties?
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While Origin does not support the continuation of REES, if the scheme is to continue then a trading mechanism similar to that in NSW and Victoria would contribute meaningfully to flexibility.

Section 6.13. Compliance and Reporting - the REES code

- Does the Code effectively and clearly guide obliged retailers in discharging their obligations?
- If not, where are clarifications needed?
- Have the compliance and reporting provisions operated effectively? How could they be improved?
- Do the compliance and reporting provisions provide reliable information, sufficient to assess the performance of the REES against its objectives?
- Does the risk of disallowance encourage over-servicing and excess costs?
- Is there a more effective and timely way to ensure REES activities are reported and recorded by ESCOSA to minimise disallowance of activities?
- Are the arrangements to transfer credits and contract the delivery of energy audits and efficiency activities effective and efficient?

We have not experienced any problems in respect of compliance and reporting under the scheme.

Section 6.14. Energy Efficiency Shortfalls

- Has the treatment of shortfalls been efficient and consistent with the objectives of the REES?
- Are the penalties for shortfalls appropriate and do they provide adequate incentive for compliance?

The penalties are considerable and this appears to have been an effective way to ensure the scheme's requirements are met.

Section 7. Consumer Protection

- Should the Code's customer protection quality control standards be improved and if so, how?
- Should the identification of REES service providers who visit homes be made more standardised and/or should service providers' employees carry government certification?
- Should service providers provide householders with a standard factsheet about the REES, which provides contact details if the householder has follow up questions or concerns?
- How can access to the REES be improved for householders who wish to participate (e.g. better call centre responses, directory of third party service providers, on-line registration, on-line registration of interest through retailer websites)?
- If demand for REES services is exceeding supply, how should access to the services be rationed in the absence of a commercial response to the demand?
- Is there a role for Government outside the REES environment to facilitate the growth of an energy efficiency services industry for the residential sector?

Origin is not aware of systemic issues associated with REES service providers or with customers who contact Origin looking for information about REES. However, we would support REES service providers carrying a factsheet that made clear that the scheme is driven by Government energy efficiency and emission reduction objectives. This is likely to lead to improved levels of trust and acceptance and thereby to facilitate REES activities being carried out across a broader customer base.

Section 8. A National Energy Savings Initiative

- How could the REES transition if a national scheme is established? What would be an appropriate timeframe for transition to minimise the costs of change?
- What REES elements should be included under a national scheme?
- Should State-based targets continue under a national scheme to ensure the continued delivery of energy efficiency benefits to South Australians?

We question the value of a scheme such as REES at a national level. The national market-based scheme designed to address carbon emissions is more likely to drive a meaningful and sustained response to the problem of carbon emissions, in our view. It is in the nature of schemes such as REES that the pool of meaningful activities that can be undertaken diminishes over the life of the scheme so the cost of new measures increases, meaning the net benefit continues to diminish.

In our view the most important energy efficiency measures that will be undertaken over the coming decade will be demand-side responses enabled by smart meter and smart grid technology. Origin strongly supports policy that will allow access to smart meter technology and associated in-home displays and home energy management systems and we believe that through an effective rollout the cost of this technology can be considered reasonable in light of the potential benefits to be derived.

We would also highlight that an extensive range of building and product standards at national level encourage greater energy efficiency in building and energy-related products.

Section 9. National consistency

- Should the REES allow for tradeable certificates?
- Should the REES be expanded to include non-residential sectors?
- Are there other elements of interstate schemes that it would be beneficial to incorporate in the REES?

As outlined previously, if the REES scheme is to continue, we would support tradeable certificates since this would increase flexibility.

We do not support extending the scheme to SMEs in principle, although we note that if the scheme is to continue from 2014 then there is a risk there will be inadequate opportunities to meet new targets from the residential sector alone. In this context extending the scheme may be a practical necessity.

Section 10. Complementarity to a Carbon Price

- Does the introduction of a carbon price remove the need for a greenhouse gas reduction objective in the REES?
- Is the REES complementary to the carbon price in that it will achieve greater reduction of emissions than could be achieved through a carbon price alone?

As outlined early in our response, we believe that the REES should be discontinued given that a national carbon price has now been adopted. While in the current introductory phase of the national carbon emissions scheme households will be shielded to some extent from the impact of the carbon price through compensation and other exclusions, we do not anticipate this to remain the case as the scheme matures. Over the medium term the scheme will provide a simple market-based mechanism that allows customers to reduce the carbon embodied in their goods and services in a manner that effectively maximises their utility.

The benefits of the national carbon price were in part predicated on the retirement of competing measures at the jurisdictional level, allowing for emission reductions to occur across the economy where they are least costly, not just in selected jurisdictions.

Discontinuing state-based schemes is important not only because it allows for a windfall gain arising from reduced costs associated with the administration of these schemes, but more importantly because it allows national policy-makers to determine the level of emission reduction that can be reasonably sustained in the Australian economy as a whole – without these decisions implying differential impacts in different jurisdictions. The alternative is that national policy-makers must increase targets for emission reduction only so far as these can be sustained in the jurisdiction with the largest number of additional and competing measures.

In this way, we believe that achieving reductions that are complementary to the national emissions reduction scheme should not be an objective of jurisdictional policy-makers, since ultimately this will serve only to weaken the effect and legitimacy of the national scheme.

Section 11. Funding

- If the scheme continues beyond 2014, how should it be funded?

If the scheme is to continue beyond 2014 we would support a continuation of the current funding model. In addition, we note that any alteration to the scheme will entail administrative costs and we would seek recovery of these in our regulated retail tariffs.

Section 12. Communications and Public awareness

- Is there a need to increase public awareness of the REES, and how could this be done?
- Who is best placed to undertake communications about the REES?
- How can communications about the REES be improved?
- Is there a risk of demand for REES activities and audits exceeding the capacity of service providers or the willingness of retailers to supply?

We do not believe there is a need to increase public awareness of the REES program, which we consider to be in its mature and final stage. If the scheme is to continue, as outlined in response to Section 7, above, we would support REES service agents providing a factsheet that made clear that the requirement for retailers to bring about REES activities is driven by State Government emission reduction objectives.

We believe that to the extent there is demand for energy efficiency measures in the absence of the REES scheme this can and should be met by the private suppliers of these goods and services, and the further development of this market will be facilitated by the national carbon emissions reduction scheme over the medium term.

If you have any questions regarding this submission please contact David Calder on 03 8665 7712 or myself on 02 9503 5674.

Yours sincerely



Keith Robertson
Manager Retail Regulatory Policy
Energy Risk Management