

14 April 2017

Mr Craig Walker
REES Consultation 1 - 2017
Department of Premier and Cabinet
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Business SA
Chamber of Commerce
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Dear Mr Walker

I write in response to your request for submissions on the current review of the Retailer Energy Efficiency Scheme (REES).

Working for your business.
Working for South Australia

Executive Summary

- Rising electricity costs are having a significant impact on South Australian business, including small businesses which have already absorbed one round of price rises from the wholesale market spike with further likely on July 1.
- The Finkel Review is currently considering all options to transition the National Electricity Market (NEM) to a low carbon future which maintains reliability, affordability and any changes to the REES should reflect their advice.
- Business SA welcomed the Energy Productivity Program to provide energy efficiency support to large market customers and it important that the REES be maximised to support small businesses, including measures which can improve gas efficiency.
- All schemes like REES are paid for by energy consumers and add to electricity costs which makes it critical that any subsidies are appropriately targeted to achieve optimum cost effective outcomes across the NEM.
- The consultation paper does not include information on the total cost of the REES to all energy consumers which is an important consideration in how REES fits into the broader picture of options to improve energy efficiency amongst small consumers.

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
Executive Director, Industry and Government Engagement





Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our members are affected by this matter in the following ways:

- After labour, electricity costs are the largest concern for small business.
- Rising energy costs in South Australia over the past decade have impacted significantly on all business, including small business who often have less understanding or capacity to invest in energy efficiency measures.
- The costs of REES are socialised across the South Australian energy market and many consumers, particularly businesses, have had to absorb particularly high price rises over the past two years on the back of wholesale market movements.
- The benefits of any Government intervention in markets must outweigh the costs and be the optimum mechanism of achieving desired policy outcomes.

Key Policy Points

1. In our submission dated 9 August 2013, Business SA recommended that the REES be extended to small business, particularly given the cost of REES is socialised across all customers and at the time small businesses were paying for a scheme they had no access to. At the time we also supported a national scheme in place of separate state-based energy efficiency schemes, a position we still maintain.
2. In Business SA's [2014 Charter for a More Prosperous South Australia](#), again, while we acknowledged our support of the State Government's 2013 decision to extend REES to small business from 2015, we recommended that REES be abolished by 31 December 2017 unless an independent review can substantiate sufficient grounds upon which it should continue.

We acknowledge that the energy market has shifted substantially since 2014 and the need for all businesses, including small businesses, to adopt energy efficiency measures has become much more critical. Whether that is achieved through a state-based REES, national means, or other policy levers to achieve energy efficiency is still being worked through by the national Finkel Review which should form part of the State Government's deliberations on any future changes in this area.

3. In our submission to you dated 9 September 2014, we first raised the suggestion that REES incorporate activities to improve gas efficiency for small businesses. At that time we based this on recent gas price rises and anticipated gas price rises over future years as the Australian gas market was expected to move towards export parity. We also pointed out that for small business, gas costs were relatively much higher than electricity costs and a much higher percentage of total energy costs.

While the State Government chose not to include gas efficiency in REES at that time, Business SA reiterates that our concerns of 2014 remain current and in fact are more prominent now on the back of current wholesale market prices of up to \$18/GJ which are significantly above the expectations we had in 2014. Examples of activities REES might incorporate to improve gas efficiency include programmable thermostats to maintain temperatures during and after working hours and insulation of buildings, ovens, hot water & steam pipes.



4. From the discussion paper, it appears many activities have had no or insignificant levels of uptake. For some like building sealing activities, there may be more applicability to small business where higher usage levels could alter the economics of viability. In such cases, these activities could be maintained for small business only. The hot water heater activity could also be extended to small business. Both these recommendations support the previous independent evaluation of REES which concluded that the cost-benefit ratio for extending the scheme to small business was 16% higher than for the residential sector.
5. More broadly though, if activities are not getting traction with the retailers offering these activities to either small business or residential or both, then they should be removed from the scheme to ensure the administration costs of the scheme are minimised. For example, no appliance based activities have yet been taken up which suggests their applicability to this scheme may not be relevant. Business SA maintains our prior argument that Government funded schemes should not subsidise installation of appliances such as clothes dryers, televisions, pool pumps etc, regardless of what is offered in comparable interstate schemes.
6. There was evidence as far back as ESCOSA's 2012 Annual Report on REES that retailers were re-visiting customers who had previously benefited from the scheme which suggested that at least for the residential sector, the reach of REES was declining. Business SA also notes the independent valuation presented at the time of the 2013 REES Review alluded to saturation of some initiatives which again highlights the need to ensure the continuation of REES, particularly beyond 2020, is carefully subjected to a full cost-benefit analysis.

On this point, Business SA acknowledges that in ESCOSA's 2015 Annual Report on REES, energy savings delivered were nine percent less than 2014.

7. Business SA has had some feedback from members in the energy consulting industry that the way the scheme works in practice is too rigid and does not allow enough flexibility for the actual business consumer themselves, for example to choose their own installer or product, provided of course they are authorised.

In one example provided to us, a lighting upgrade of 6 small premises took 6 months to complete using a third-party provider contracted to a retailer. From our understanding, these instances occur as a function of retailers going to one-stop-shop contractors that complete an audit, check compliance and then implement a solution.

For a start, the State Government could consider that within the context of a holistic energy audit by a qualified professional, the lighting audit/compliance aspect of REES could be included and subsequently the customer could choose their preferred product and installer.

8. Last August, when Business SA led a collective of SA based representative organisations calling for an independent review of the energy market transition to low carbon through a vehicle independent of existing market structures and with the ability to second international expertise, our aim was to ensure that all options available would have their costs and benefits analysed without inherent bias and recommendations be made on holistic basis.

The Finkel Review established after the state-wide blackout gave consumers this forum and it has since received wide-spread support by the industry and Governments at all levels along with a broad range of stakeholders, including independent think-tanks and the like. It is now vital that all recommendations from the Finkel Review are given full consideration by each level of Government and that future energy policy decisions are made in the best long term interests of consumers, including small businesses.