

9 August 2013

Review of the South Australian Residential Energy Efficiency Scheme (REES)
Energy Markets and Programs Division
Department for Manufacturing, Innovation, Trade, Resources and Energy
GPO Box 1264
Adelaide SA 5001



Dear Sir/Madam,

REES Review – Directions Paper

Envestra is pleased to have an opportunity to provide comments to the DMITRE in relation to the “REES Review – Directions Paper”.

About Envestra

Envestra is one of the largest natural gas distribution companies in Australia owning networks in four states and the Northern Territory. Envestra currently supplies around 115PJ of natural gas per annum to more than 1.1 million customers nationally, with over 410,000 customers in South Australia alone.

Benefits of Natural Gas

Natural gas is a key fuel for the transition to a low emission economy.

Whilst natural gas is a fossil fuel, it is more greenhouse efficient than coal or oil, and indeed is only half as emission intensive as black coal and a third as intensive as brown coal. Natural gas is the cleanest burning of all fossil fuels. It is currently the cleanest commercial form of reliable and scalable base-load generation.

Natural gas provides low emission energy for a wide range of applications including home appliances, vehicles, and commercial buildings through to large industrial processes.

As well as its traditional application for hot water, cooking and space heating, natural gas is also suitable for a range of distributed generation technologies including conventional engines, fuels cells, micro-turbines, co-generation and tri-generation.

Response

Envestra has provided below responses to those proposals in the Directions Paper of direct relevance to its activities.

3.1.1 Continue a South Australian energy efficiency scheme beyond 2014

Envestra supports continuation of the REES. Pitt and Sherry demonstrate that there has been a strong economic pay-off from the REES, as well as reductions in energy use and greenhouse gas emissions. These findings all confirm that the scheme should be continued.

Envestra also recommends that the Governments of NSW (ESS), Vic (ESI) and SA (REES) hasten discussions on scheme harmonisation. Harmonisation would assist in reducing compliance costs experienced by those businesses participating across states. A reduction in costs for those businesses would ultimately benefit consumers of participating businesses.

3.2.2 Recast the scheme objective as *'to reduce energy use, with a particular focus on low-income households'*.

Envestra appreciates the importance of reduced energy use for low income households. Envestra also understands and supports the significance of priority households in the REES.

Envestra therefore is supportive of a change to the scheme's current key objective to include the reduction of energy use. However, Envestra also proposes the retention of the emissions reduction objective, giving the scheme a dual objective.

This approach would potentially satisfy the broad range of stakeholder views on the issue, as documented in the final Pitt and Sherry Report. This dual objective would also help with maintaining interstate scheme consistency, which may assist with facilitating harmonisation. The dual objective approach would additionally help the REES retain its current complementarity with national greenhouse gas reduction objectives.

A dual approach also acknowledges that although low income households make up a substantial portion of all REES scheme participants, there is a significant portion of households which fall outside of the priority segment. It is likely that despite the different demographics of that group, emissions reduction remains an important issue for them. A dual objective would also mitigate against installation of appliances that might reduce energy consumption, but under certain circumstances, increase greenhouse gas emissions eg electric heat pumps.

Envestra therefore proposes a dual objective for the REES scheme, including energy use reduction as well as retaining the original emissions reduction objective.

3.4.1 Either:

Retain the residential only focus of the REES

Or

Expand the scheme to allow energy retailers to meet their targets by delivering energy activities to small and medium-size businesses, with the intention of targeting the scheme to businesses facing the greatest barriers to adopting cost-effective energy efficiency activities.

Envestra supports the proposal to include small to medium size businesses in the REES. We consider that the small to medium size sector provides further opportunities to improve energy efficiency and to reduce energy use and greenhouse gas emissions.

3.6.3 Should the South Australian scheme expand to cover the commercial sector, convene discussions with NSW and Victoria over the scope for their existing accreditation, certificate creation and compliance frameworks to be leveraged to cover activities implemented in South Australia. This is with the intention that such activities could be used by energy retailers to contribute towards their South Australian targets.

Envestra supports the above proposal. Envestra also supports the introduction of a tradeable certificate scheme for REES. Such a step would complement the potential introduction of new activities, as already approved in other states.

This step would also create more consistency between the schemes, and bring to the REES, a market based approach, where the benefits of the scheme would increasingly be determined by market processes.

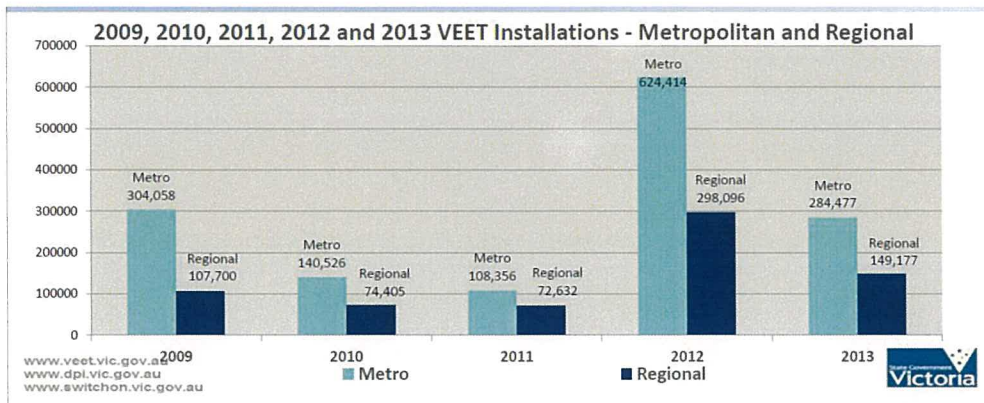
3.7.1 Work with energy retailers and service providers to increase regional participation.

Envestra actively supports the above proposal.

Although there are obviously differences between the REES and the Victorian ESI, as well as state regional demographic differences, Envestra's experience with the ESI informs our view that there are substantial opportunities for an amended REES to apply in SA's regions.



The graph below (taken from the ESC launch of the ESI Review), indicates the consistent high number of VEET installations in regional Victoria.



For this reason alone, Envestra is confident that there is significant unexplored demand for the scheme in the regions.

It is also worth noting, that many priority households exist in the regions.

3.7.2 Consider the use of a multiplier, if needed, to increase participation in regional areas.

Envestra notes the suggestion to use a multiplier in order to make the scheme more attractive for regional consumers. If a multiplier was to be used, it would be important to ensure that such an initiative would not result in market distortions and potential inequities for participants and suppliers.

3.8.2 Require ESCOSA to consider all activities approved by interstate schemes, with preference given to accepting them unless there is a strong case not to.

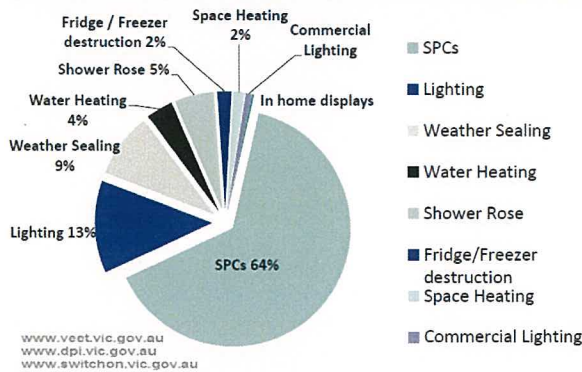
Envestra supports the above proposal and believes that the 'breadth' of the REES should be increased. Successful activities from other states should be considered for inclusion in the REES. This would facilitate harmonisation of the schemes.

For example, the slide below, taken from the ESC launch of the ESI Review, indicates the wide range of activities covered by the Victorian scheme, as well as results from each of the approved activities.



ESC Public Forum: Scheme update – VEECs by activity YTD

**ENERGY
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Activity	VEECs
SPCs	1,894,736
Lighting (21)	371,505
Weather sealing	263,795
Shower Rose	161,119
Water Heating	109,325
Fridge/Freezer destruction	58,419
Space Heating	47,261
Commercial Lighting (34)	23,761
In home displays	7,409
Pool Pumps	1698
TVs	1,030

If we consider just one of the activities highlighted e.g. water heating, we can gain an interesting perspective on natural gas' contribution to the scheme.

Water heating activities accumulated 1,726,675 Victorian Energy Efficiency Certificates (VEECs) over the scheme life to June 1, 2013 and contribute 8.8% of all VEECs. Within this group, 917,367 VEECs (or 53% of all water heating VEECs) have been achieved through electric hot water change out by gas hot water units.

Further analysis of the gas hot water activities indicate that only 27% of the associated VEECs have been generated in metropolitan areas, leaving the balance of 73% generated in regional areas.

As gas appliance and indeed gas penetration rates are significantly lower in regional areas, this result is not surprising. Replacing electric water heaters in rural areas with gas units also avoids electrical transmission system losses, adding to the efficiency of the changeover.

As such, Envestra supports the inclusion of water heating as a scheme activity.

Similarly, space heating activities have accumulated 453,604 VEECs over the scheme life to June 1, 2013 and contribute 2% of all VEECs. Within this group 435,066 VEECs (or 96% of all Space Heating VEECs) has been achieved through replacement of electric heaters with gas heaters.

The high quality performance and economic running costs of natural gas heaters and the extremely high power bills associated with running electric central heating systems has been a key driver in this category.



Knowing that a significant proportion of GHG emissions occur from heating of the home, Envestra suggests that space heating be included as a scheme activity.

3.10.1 Change the metric of the scheme to energy reduction.

As per Envestra's comments in 3.2.2, Envestra acknowledges the obvious importance of reducing energy consumption and associated costs. For that reason, Envestra believes that the scheme should include both an energy metric, as well as an emissions reduction metric. If that was to be the case, the scheme would also operate in greater harmonisation with other state schemes, as well as remaining complementary with national carbon reduction scheme objectives.

As a part of that development, dual objectives of energy reduction and emissions reduction are sensible, given the range of scheme participants that will hopefully include small to medium size businesses. This range of participants will also ideally include more residential and business customers in SA's regions. With the potential inclusion of proven activities from other states in the REES, as well as the potential addition of tradeable certificates to the scheme, Envestra sees greater benefits deriving from the REES.

In closing, Envestra would like to again state its general support for the REES changes as proposed. A focus on harmonisation with other state schemes is important, as indeed is the need for the scheme to retain its complementarity with national emission reduction objectives, particularly as the REES continues to develop.

Envestra is keen to actively participate in future consultations and encourages the REES Review team to contact either me on 08 8418 1125, or Josh Hankey of our contractor APA Group on 07 3215 6632, if you would like to discuss these matters further.

Yours Sincerely



Andrew Staniford
Group Manager - Commercial

