

8 September 2014

Mr John Denlay  
Energy Markets and Programs Division  
GPO Box 1264  
Adelaide SA 5001

By email: DSD.REESReview@sa.gov.au

Dear Mr Denlay

### RE: REES Consultation Paper August 2014

Thank you for the opportunity to respond to the REES Consultation Paper August 2014 (the Paper).

Simply Energy is a leading energy retailer with customers across the National Electricity Market, including in South Australia.

Simply Energy has had a residential customer base above the current REES threshold for some years, and continues to obtain REES activities and audits to meet the annual targets.

We consider that the Paper proposes a significant transformation from the current Residential Energy Efficiency Scheme to the future Retailer Energy efficiency Scheme. The transformation not only envisages the inclusion of business-related energy efficiency activities but also a comprehensive overhaul of the value and unit of measurement of each REES energy-saving activity.

We have identified three key issues due to the scope of the proposed reforms, and we describe our positions on key issues, which include a proposed transition plan.

#### Key issues

We consider that the following are key issues that should be addressed:

- The need for a transition plan for this major reform
- Future target setting needs to take account of the changed value of activities
- How activities that take place before 1 January 2015 are credited against future target.

#### Transition plan

The proposed transformation of the REES scheme is a major reform that cannot be implemented without a clear plan for the transition from the current scheme, and sufficient time for retailers and their activity providers to adjust to the new scheme requirements.

Simply Energy does not consider that a straightforward implementation of the new requirements on 1 January 2015 is realistic. This is because there is insufficient time (less than 3 months) to develop, finalise, and implement a plan that addresses the impacts of the new requirements and enables the industry to adjust to them by 1 January 2015.

We propose instead a transition plan that sees 2015 as a transitional year and the new requirements applying in full on 1 January 2016. This simplifies the issues to address because industry has more time to adjust to the new requirements. More details of the proposed transition plan are set out below.

## Target setting

The Paper sets out the proposed new values for REES activities, including a proposed change in the units of measurement from tonnes CO<sub>2</sub>-e to gigajoules (GJ). The change to a GJ measure is understandable given the scheme's objective of saving energy.

The measures are different in future, and so are the values of the activities. Given this, future targets need to consider the likely sources of activities, if the costs of the scheme (which are recovered from customers in general via their energy bills) are to remain within reasonable bounds. This may mean that historical targets (when translated into GJ equivalents) are not directly comparable with the future targets (denominated in GJ).

For example, the 2014 activity target is 410,000 tonnes CO<sub>2</sub>-e. This is approximately equivalent to 230,000 SPC AV C2As.

Under the proposed new requirements, 230,000 SPC AVs are valued at approximately 400,000 GJ of saving (assuming 1.75 GJ savings per SPC, averaging 2.0 for the main television and 1.5 for other devices).

Therefore, to maintain the scheme at a similar cost to 2014 would require a total target for 2015 of 400,000 GJ, if all activities are expected to be SPCs.

This is very different to the GJ equivalent to the 2014 activity target of 410,000 tonnes CO<sub>2</sub>-e, which is over 2 million GJ (assuming an emissions factor of 0.6 tonnes CO<sub>2</sub>-e per megawatt-hour (MWh)).

## Crediting activities against future targets

The current targets and activity values are denominated in tonnes CO<sub>2</sub>-e, whereas the future targets and activity values will be denominated in GJ.

The greenhouse gas intensity of using different fuels can be applied to the energy saving from an activity to determine the tonnes CO<sub>2</sub>-e saved (and vice versa).

For example, an SPC AV C2A REES activity is currently valued at 1.8 tonnes CO<sub>2</sub>-e saving. At approximately 0.6 tonnes CO<sub>2</sub>-e per MWh this is equivalent to saving 3 MWh of electricity. GJ and MWh are both measures of energy, and the conversion factor between them is fixed at approximately 3.6 GJ per MWh. Therefore this activity currently obtains a saving equivalent to approximately 11 GJ. However, after the proposed reforms this activity is valued at 2.0 GJ or 1.75 GJ.

The significant change between the current value of activities and the value of activities under the proposed new requirements means that it is not straightforward to credit current activities against future targets. How these activities will be credited needs to be addressed in the transition plan.

## Simply Energy's positions on the issues

Simply Energy's positions on the following issues are provided below:

- Transition plan
- Future target setting
- Including retailers based on energy delivery.

## Transition plan

Simply Energy proposes a transition plan with the following features:

- 2015 year target is 410,000 tonnes CO<sub>2</sub>-e, the same as 2014
- Activities will be applied to the 2015 target using the 2014 activity values (in tonnes CO<sub>2</sub>-e)
- 2016 will be the first year with a target set in GJ
- Activities will be applied to the 2016 target using the new activity values (in GJ), irrespective of when the activities were undertaken.

The benefits of this transition plan include the following:

- It provides sufficient time for the industry to adjust to the new requirements
- It provides further time to assess the impact of the new requirements on future targets and set them at levels that keep the costs of the scheme within reasonable bounds
- It simplifies the application of activities to targets, as conversion factors are not required.

## Target setting

To maintain the scheme at a reasonable cost to end consumers in general the targets must be set at levels that require no more than a credible number of activities to be undertaken.

A reasonable starting point for determining the first year's target under the new requirements is the GJ value under the new requirements for the activities undertaken to meet the most recent scheme target. This can then be adjusted to reflect the additional scope for activities from businesses and the likely increase in cost per activity due to the increasing exhaustion of the cost-effective 'free to the household' activities, such as CFLs and SPCs.

Given the uncertainty created by the proposed wide-ranging reform, we recommend that targets are set at a conservative level in the first years, retaining the potential to increase the targets in later years. This is consistent with the approach used to set the current targets, which increase from 255,000 in 2012 to 410,000 in 2014.

Priority group targets are currently 35% of the total target. We do not support sub-targets, as they increase the search costs for households where activities can take place.

Nevertheless, we note the scheme objective includes a focus on low income households, and that a priority group target is therefore likely to be included in future. With this in mind, we consider that the priority group target should be a significantly lower percentage than the current 35%, reflecting that the 'free to the household' activities are increasingly exhausted, and that in future activities will be more frequently generated from businesses and households that are able to partially fund activities themselves.

Simply Energy recommends that the overall target is set based on an expected mix of activities, and that a consistent priority group target is determined, based on a percentage (such as 35%) of the activities that can credibly be undertaken by priority group households.

Our general view is that under the REES scheme the main benefit to priority group households should be audits (and devices to support audit findings), rather than devices alone.

## Including retailers based on energy delivery

The Paper proposes that the scheme is expanded to include energy savings activities at business premises.

Given this change, it is appropriate that the scope of the scheme is expanded to include retailers that predominantly service business customers. As customer numbers are no indication of the size of the retailing activity in this case, introducing a threshold based on energy delivered is appropriate. We consider that a threshold equivalent to the energy consumption of 5,000 residential customers (the current threshold) would be suitable.

Please don't hesitate to contact James Barton, Regulatory Policy Manager, if you wish to discuss this submission further.

Yours sincerely

Dianne Shields  
Senior Regulatory Manager