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LIGHT THE WAY

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Craig Walker
Senior Policy Officer
Energy and Technical Regulation
Department for Energy and Mining
By email: DEM.REES@sa.gov.au

Dear Mr Walker,

Consultation paper on Retailer Energy Productivity Scheme (REPS) Activities, credits, and targets

EnergyAustralia welcomes the opportunity to respond to the Department's consultation paper on the REPS activities, credits, and targets (Activity Consultation paper). We thank the Department for its availability in discussing the proposals in the paper with individual retailers like EnergyAustralia and through industry workshops.

EnergyAustralia is one of Australia's largest energy companies with approximately 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion-dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

Our submission below responds to the specific detail of the Activity Consultation Paper. Our key comments in summary are:

- The Activity Consultation Paper sets out important target and activity details of the new REPS. The Department is consulting on this detail at a very late stage considering the new scheme is scheduled to start in January 2021. Although some Retail Energy Efficiency Scheme (REES) activities are continuing into the REPS, which provides for a means to transition to the new activities, the Department should still recognise that no new activities will be available from January 2021. Accordingly, the current REES activity specifications and GJ credit values should apply under the REPS until at least 30 June 2021.

- As an additional transitional measure, EnergyAustralia supports a "ramped" approach to setting the Energy Productivity Targets for 2021-2025 to allow for a lower Energy Productivity Target in earlier years and a higher target in later years.

- We disagree with the introduction of a Household Target and a 50% deeper retrofit target for Priority Group Households. If the Department seeks to incentivise the delivery of these activities, it should do so via higher GJ credit values. Adopting a sub-target approach will increase the cost of the REPS for energy retailers.

- EnergyAustralia is concerned about the cost effectiveness of the new REPS. We strongly urge the Department to reconsider the GJ credit values for Residential Lighting activities (to increase them) and remove the $33 co-payment.

- We fully support introducing the proposed new demand management activities under the REPS but consider that these activities should have a higher GJ credit value to incentivise greater customer and energy retailer uptake.

If you have any questions in relation to this submission, please contact me (Selena.liu@energyaustralia.com.au or 03 8628 1548)

Regards,

Selena Liu
Regulatory Affairs Lead

Submission

1. Targets and other thresholds

Overall Energy Productivity Target

The Department is seeking views on the targets that will be set under the REPS. EnergyAustralia considers that the REPS targets for 2021-2025 should be set at similar levels to the REES targets for 2018-2020. Maintaining target levels consistent with the REES reflects the highest Benefit Cost ratio, compared to other options with higher and lower target levels (as outlined in the Department's Activity Consultation Paper). We also submit that maintaining the most consistent approach in the first 5 years of the new scheme will also allow the Minister and the Department to test the new REPS framework and activity specifications in a more certain context.

Sub-targets

The Department invites views on the minimum proportions of the Energy Productivity Target that should be delivered through the Household Energy Productivity Target (Household Target) and the Priority Group Household Target (PG Target). We maintain that the most optimal way to incentivise delivery of REPS activities these targets and to avoid any "crowding out" by commercial activities, is to raise the GJ credit value for Household activities so that they are higher relative to commercial activities (rather than to compel these activities via a sub-target). This would provide the signal that these activities are higher value under the scheme.

Further, we are concerned with the reduction of GJ credit value for key household activities (Residential Lighting) at the same time as mandating a new specific Household Target. This essentially introduces a mandatory target and then limits the ability of energy retailers to meet it. Residential Lighting credit values are discussed in more detail in the next section.

While we do not support a Household Target, if the Department were to include one:

- the target should be set in line with the percentage of activities delivered to households across the most recent three year period. This approach would ensure that the target is achievable.
- Priority Group activities should count towards the Household Target. This reflects that Priority Group and non-Priority Group households are in the same market, and that increasing Priority Group activities has an effect of increasing non-Priority Group residential activities (as noted by ESCOSA).[1]

With regards to a PG target, while we do not support one, continuing the current 20% target would be reasonable. However, we strongly disagree with a 50% deeper retrofit activity sub-target for the PG Target. The Department's consultant, Common Capital, has not recommended introducing a sub-target to increase deeper retrofit activities. Common Capital stated that:

> "Low-income household programs require no-interest loans *and higher rates of subsidies for higher-cost upgrades, as this cohort is less able to afford co-contributions*."[2]

Consistent with Common Capital's view, the better way to incentivise these deeper retrofit activities for Priority Group households would be to increase the GJ credit value, rather than introduce another sub-target. This would also have the second effect of making the activities more affordable to PG customers which have low affordability.

The Activities Consultation Paper states that only rental properties with rents of $500 per week or less will be considered Priority Group households. While we acknowledge the Department's intent to exclude high income households from REPS, this is an impractical requirement in practice. Customers are likely to find this information sensitive and collecting and storing evidence of this criterion e.g. rental agreements, would add cost to the scheme.

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[1] https://www.escosa.sa.gov.au/ArticleDocuments/214/20200703-REES-PerformanceReport-2019.pdf.aspx?Embed=Y), p 10
[2] https://www.energymining.sa.gov.au/__data/assets/pdf_file/0004/345496/REES_Independent_Evaluation_Final_Report.pdf p 73

Additionally, the number of customers with rent over $500 a week is unlikely to be a significant number of households (and so maintaining this exclusion is not necessary). According to the Australian Bureau of Statistics, for the period 2017-2018 only 30% of SA premises are rental properties and on average renters paid $268 per week which includes government housing (so the amount of renters paying more than $500 would be relatively low)).[3]

2. Transition period

EnergyAustralia is supportive of the new objectives and overall direction of the REPS which reflects a shift in focus from energy savings to energy productivity. However, we repeat our concerns in our earlier submission, that at this time load shifting activities are still developing in trials and pilots and customer appetite for these products and services is unclear.

Ensuring the new load shifting activities are compliant with the REPS will require lead time to prepare. This lead time is required to develop internal business cases and to become an approved Virtual Power Plant (VPP) and Demand Response Aggregator (DR Aggregator). The Department should recognise that the new activities will not be available as of 1 January 2020 by extending the current REES activity specifications and GJ credit values until at least 30 June 2021.

In addition to the delayed effective start, we support adopting a "ramped" approach to setting Energy Productivity Targets – to reflect a lower target in earlier years given the significant changes to the scheme and uncertainties in the mix of activities used to meet retailer Energy Productivity Targets. Lower targets in earlier years can be offset by higher targets in subsequent years. This ramping should be accompanied with an unlimited ability for retailers to carry over activity credits between 2021 and subsequent years in the 2021-2025 period, to ensure a consistent workload for activity providers from year to year.

3. Continuing REES activities – GJ credit values

Cost effectiveness of continuing REES activities

The Department has determined the activity GJ credit values by comparing normalised energy use after an activity (improved case) compared to use without that activity applied (base case). This normalisation process focusses on the cost of energy and (in the case of electricity) also accounts for time of use. The Department's determination does not consider both:

- the costs of providing the activity and whether the GJ credit value is adequate to incentivise that activity, compared to total activity costs which could include advertising, installation, and product cost.
- The customer's capacity or propensity to pay.

These considerations are important in understanding the commercial viability and profitability of the activity and customer uptake. They also inform the overall cost of the scheme. If higher costs are not paid by the receiving customer, they will likely be borne by payments by the retailer and therefore the retailer's general customer base. It is very unclear whether the REPS will be cost effective.

Material reductions in the GJ credit value for continuing REES activities where the associated costs have not changed – will raise the cost of those activities. This impact could be offset by other new cost effective activities, but the new activities appear to be higher cost in general.

The Department notes that previous investigations have estimated direct annual costs to typical residential customers of approximately $12 - $14.

[3] https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/latest-release

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We make comments around the cost effectiveness and customer propensity to pay for specific activities below.

Residential Lighting

L1, L2 and L3 Residential Lighting activities will have significantly reduced value under the REPS compared to the REES. For L1 and L2 activities the values have roughly halved.

This is despite efficient household lighting making a significant contribution to energy savings at peak demand times. Common Capital recognised this in their independent evaluation:

> *"efficient household lighting*, alongside efficient heating and cooling, *is widely accepted as one of the best energy efficiency activities at targeting energy savings during times of summer and winter evening peak demand."*[4]

We understand from the Department's stakeholder session on 1 October 2020 that the reduction in Residential Lighting value is due to an assumption that LED lighting is already at most premises and so the baseline has increased (leading to a smaller gap between the base case and improved case). While this may be the case for new premises, we question whether this assumption holds for existing premises and Priority Group households.

We also note that there is a consistent view across Activity Providers and energy retailers that the significant reduction in GJ credit values for Residential Lighting activities will mean it is no longer viable.

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The halved GJ credit value means that Activity Providers will need to deliver double the amount of activities to maintain the same current GJ value (and payment), where their underlying costs (advertising, product, installation, and door knockers) are likely to be the same. This will lower the profitability of Residential Lighting activities, to the point where it may not be viable. Alternatively, Activity providers will have to charge the receiving customers more or charge the retailer higher payments, but it is more likely that Activity Providers will pursue other activities instead.

Customer's propensity to pay for Residential Lighting activities is also likely to be limited or negligible. For this same reason, the mandatory co-payment by customers of $33 for non-PG households will also affect customer uptake. The $33 co-payment is not viable because residential customers are unlikely to pay $33 for lighting activities when they cost as little as $4.90 for a standard LED light[5] and $6.90 for a LED down light[6], and where they can install LED lights themselves.

The uncertain viability of Residential Lighting is concerning to energy retailers as Residential Lighting presents about 43.7% of household activities in GJ credit terms across all retailers (for the period 2018-2019, according to ESCOSA data.[7] We understand from Activity Providers that for retrofit activities this percentage could be even higher at over 70%.

Activity Providers discontinuing Residential Lighting activities (due to profitability concerns) could place significant pressure on retailers to meet any Household Target and PG Target in a cost effective way. Even if Residential Lighting were to continue, the removal of the most cost effective activity, will lead to a higher cost REPS compared to the current scheme.

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[4] https://www.energymining.sa.gov.au/__data/assets/pdf_file/0004/345496/REES_Independent_Evaluation_Final_Report.pdf p 97

[5] https://www.bunnings.com.au/osram-5w-470lm-warm-white-led-fancy-round-bc-light-globe_p0122177

[6] https://www.bunnings.com.au/osram-led-mr16-6-5w-12v-60d-520lm-ww-downlight-light-globe_p0179473

[7] REES time series data, available here: https://www.escosa.sa.gov.au/industry/rees/regulatory-reporting

We also note that Activity Providers are at risk of asset stranding where they have purchased lighting stock which is not used. Further, Activity Providers have also raised that the specified minimum initial efficacy for High Efficiency LEDs, does not exist today in the market. We ask that the Department revisit this specification.

In view of the above, we strongly urge the Department to reconsider the GJ credit values for Residential Lighting activities (to increase them), and to remove the $33 co-payment.

Commercial lighting

EnergyAustralia agrees with the proposed commercial lighting GJ credit values and the increase via the 1.207 productivity Factor. However, we submit that the Department should consider removing the 1,800 GJ maximum cap that applies to commercial lighting activities, so that an Activity Provider can replace all the lights at a business premises, rather than only replacing the number of lights to the cap. From a policy perspective, removing the cap would be consistent with the Department's broader position as stated on the obligation threshold:

> "Unlike the previous REES, it is proposed that *the REPS will not include a specific focus on smaller businesses*, which was the rationale under REES to permit netting out of large loads."[8]

As the Department is aware, larger businesses play a particularly important role in load shifting and would provide a significant contribution to the objectives of the REPS.

We also note concerns around the linkage of the REPS commercial lighting calculations of GJ credit value to the NSW ESS Commercial Lighting calculations. Commercial lighting has been included in the NSW scheme for a longer period compared to its inclusion in REES. While it may be appropriate to phase out commercial lighting in NSW as it increasingly becomes BAU, it will not be appropriate to pass through these changes in SA. The ESS Commercial lighting activity values are set to decrease by approximately 50% on 1 July 2022. Not only is this not appropriate for the SA market, it could introduce challenges for retailers in meeting the Energy Productivity Target.

Deeper retrofit activities

As noted in Section 1, Targets and other thresholds, we do not support the application of a 50% sub-target for deeper retrofit activities for the PG Target, and consider that deeper retrofit activities can be incentivised via higher GJ credit values, which can be raised specifically for Priority Group households.

Deeper retrofit activities are an example of where the customer's capacity to pay for an activity is low. According to the SA Government low income thresholds for concessions, a single person's *fortnightly* threshold income would be $671.70 and a single person with children's would be $718.[9] This would suggest a very limited ability for PG households to afford the majority of the deeper retrofit activities.

While we welcome the proposed increases to GJ credit values, they do not materially offset the cost of these activities. Activity providers have indicated that:

- BS3B – Glazing Retrofit costs about $300-$600 per square meter but the GJ penalty credit value per square meter is around $8.99-$18.23.
- For the two air conditioner activities (HC2A and HC2B), the gap between the retail cost of an air conditioner and the GJ credit value is around $2,000.

For Building sealing activities (fireplace and chimney) and ceiling insulation, the proposed values are potentially economically viable for newly built premises, but the addressable market in SA is limited. In addition, with regards to ceiling insulation, the GJ credit values for retrofit ceiling insulations are not sufficiently high to incentivise these activities due to the significant effort required for retrofit work. We suggest that the Department should align the GJ credit values for retrofit ceiling insulation

[8] REPS Framework Consultation Paper, p 7
[9] https://www.sa.gov.au/topics/care-and-support/concessions-and-grants/concessions/concession-finder/low-income-earners

and new premises (i.e. Install Top Up Insulation in a Ceiling Space and Install Insulation in an Uninsulated Ceiling Space).

4. New activities

Activity TOU1 – Switch a household from uncontrolled tariff to Time of Use (ToU) pricing

EnergyAustralia welcomes the Switching to ToU tariff activity. However, we note that the addressable market is small and limited to customers that are prepared to make this switch and buy a new meter. In South Australia, there has been low smart meter penetration to date at 16% for small business and residential customers (as at December 2019) suggesting low customer appetite to make this switch.[10] [Confidential:

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To extend the limited addressable market, we would suggest changing the eligibility criteria to allow small business customers to qualify for the Switching to ToU activity. Small business customers are better placed to spend the time in managing their energy use in a way that is optimised under a TOU tariff, compared to residential customers.

EnergyAustralia also notes that the GJ credit value for Switching to ToU tariff activity is relatively low. [Confidential:

]. Again, we welcome the activity, but this GJ credit value is likely to be insufficient to incentivise a retailer to develop a business case and implement an initiative based on the REPS Switching to ToU activity. The proposed GJ credit value would also provide limited offset to the costs of a new smart meter ($400-$500) and have limited effect as an incentive payment provided to the customer (particularly after the implementation costs are deducted).

In response to the Department's other questions (not answered in the above):

- Once a customer has switched to a network ToU tariff, they stay on that network tariff and cannot switch back to a flat tariff. This is a restriction by the distributors on the network tariff. This highlights that it is possible that a customer has switched to a network ToU tariff but has then chosen to revert to a flat tariff with the retailer (the network and retailer tariff types are unaligned). The Department should clarify whether this scenario would still be eligible for the Switching to ToU tariff activity.
- We generally agree with the view that cross elasticity for electricity for SA residential customers is low but cannot comment on the specific figure.
- Given the GJ credit values are relatively low for the Switching to ToU tariff activity, any double counting effect would be minimal if the Department were to allow premises to also participate in other load shifting activities under the REPS which yield more energy productivity e.g. connecting a battery to the VPP.

Activity WH3 – Switching water heater to SAPN controlled load

The Department should review the activity specification to make it clear whether both a tariff change, and changes to the water heater activation times, are required to be eligible under this REPS activity (if this is the intent). The drafting is currently ambiguous. We would also like to clarify if retailers can obtain a credit for changing the activation timing of existing meter installs.

The Minimum installation requirements specify that the electricity retailer tariff must fully pass through the SAPN OPCL (solar sponge) tariff. It is not clear why the tariff needs to be passed through to the customer when the load is controlled (i.e. no customer action needs to be incentivised once the meter configuration is changed), and when considering that the objective of addressing the excess solar are being met. We ask the Department to reconsider this requirement.

[10] https://www.aemc.gov.au/sites/default/files/documents/2020_retail_energy_competition_review_-_final_report.pdf, p 229.

[Confidential:

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Activity VPP1 – Connect battery to VPP

EnergyAustralia fully supports the addition of the VPP activity to the eligible activities for REPS. Including this activity in the REPS could potentially provide some incentive towards uptake by both providers and customers.

Again, our issue is whether the proposed GJ credit values are sufficiently high to incentivise uptake. From a retailer/provider perspective, this GJ credit value could be used to fund the cost of a business case and implementation. Establishing the activity for the purposes of the REPS would also come with its own costs, namely compliance reporting cost (if ESCOSA were to require evidence of contracts entered into and product and installation requirements).

The other key consideration is customer appetite and the size of the addressable market for residential and small business customers for VPP participation.

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Further comments on the drafting of the specifications are:

- Generally, the underlying assumptions made around the operation of the VPP to determine the GJ credit values, are commercially and technically feasible.
- We note that different VPPs will have different usage profiling, but the Usage Profile set out in the Assumptions is technically feasible subject to the agreement of the customer. The Department may wish to reach out to ARENA for VPP reporting to understand the different usage profiles.

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- The assumption around connecting to a VPP being deemed for 10 years – is plausible, particularly where VPPs are bundled with the sale of the battery/solar PV system asset. EnergyAustralia's Solar Plan plus plan (which includes the sale of the asset and a VPP construct) has a contract term of 7 years with the customer, see https://experienceon.com.au/solar-plus-plan

In relation to activity eligibility requirements, the requirement relating to counting an activity twice for contract renewals provided the first contract term was three years or longer, appears reasonable. EnergyAustralia's other VPP product which allows the customer to bring their own battery system has a contract term of three years.[11]

Demand response enabled devices and DR Aggregators

The eligibility requirements for the DR Aggregator activities appear reasonable and the Underlying Assumptions are technically feasible.

Other activities on application

As raised previously, the Consultation paper proposes that REPS will allow the Minister, on their own initiative *or by application*, to determine one or more activities for the REPS. We seek clarity on how new Demand Response activities developed by Energy Retailers may apply to qualify under the REPS. We fully support the REPS being open to individual applications of new Demand Response activities by retailers and other providers.

[11] https://www.energyaustralia.com.au/vpp