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Energy Markets and Programs Division
Department for Manufacturing, Innovation,
Trade, Resources and Energy
L8/11 Waymouth Street
Adelaide South Australia 5000

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

Review into the South Australian REES

Alinta Energy welcomes the opportunity to comment on the Department for Manufacturing, Innovation, Trade, Resources and Energy's (**DMITRE**) review of the South Australian Residential Energy Efficiency Scheme (**REES**).

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), with retail energy customers in Western Australia, South Australia and Victoria and a commitment to growth across the National Electricity Market. In South Australia specifically, Alinta Energy owns and operates the 240MW Playford B Power Station, and the 2 x 272MW Northern Power Station 1 and 2 in Port Augusta. Alinta Energy holds a retail licence in South Australia and is actively growing its retail base, recently launching a substantial marketing campaign aimed to increase Alinta Energy's customer base by providing a market leading retail offer to consumers.

EXECUTIVE SUMMARY

Alinta Energy is of the view the REES has been successful in meeting its original policy objective of assisting customers achieve greenhouse gas reductions and lowering their consumption. However, the costs to customers of extending the scheme beyond the original end date of 31 December 2014, are not out-weighed by the benefits going forward.

In addition, Alinta Energy is of the view there may be reasons to shorten the scheme's duration or otherwise provide those retailers who will first incur obligations in 2013 under the scheme with an exemption given the high up-front costs to comply with the scheme and the limited duration of the scheme.

Alinta Energy's view that the benefits of continuing the scheme are not out-weighed by the costs, is in part driven by the introduction and expansion of many 'green schemes' since the REES began in 2009. This includes the introduction of a carbon price and changes to the Renewable Energy Target. These schemes not only have incentivised investment in renewable generation, but along with the REES and similar schemes, have raised awareness about energy efficiency measures. Given these schemes are addressing the REES policy objectives of lowering greenhouse gas emissions and consumption, to maintain the scheme will result in little marginal benefit while placing onerous obligations and high costs on to the industry which administers the scheme. These costs are ultimately passed on to consumers through increased energy costs.

These concerns are examined in more detail below.

1. GREEN SCHEMES

The carbon price was introduced earlier this year and aims to increase investment and raise awareness of renewable energy measures. In addition to the carbon price the Greenpower program was established in 2008 and promotes clean energy with minimal additional cost to consumers. It has raised between \$80M and \$88M p.a. consistently and purchased between 20-25% of the Large Generation Certificates (previously Renewable Energy Certificates) in Australia.¹

Further, the Small-scale Renewable Energy Scheme (SRES) and Large-scale Renewable Energy Target (LRET) administered by the Federal Government has significantly contributed to investment in renewable generation technologies including solar power.

Given the above policies which have received significant attention from the public, coupled with the political and media attention on increasing energy prices and the cost of living generally in recent months, consumers are now far more aware of their energy consumption and have sought to undertake energy efficiency activities in the absence of the REES. There has also been a demonstrated decrease in energy consumption over the last 12 months which in part can be attributed to the actions undertaken by consumers to reduce their consumption.

2. COST AND THE ADMINISTRATIVE BURDEN

Each state has various energy efficiency schemes in place, which places a high administrative and compliance burden on retailers. Each of the jurisdictional schemes vary in application, compliance and administration.

¹ Data taken from the GreenPower websites, <http://www.greenpower.gov.au/About-Us/What-Is-GreenPower/> at 7/11/2012.

The REES scheme is particularly burdensome as it is not a tradable scheme, and therefore requires retailers to either engage in non-core activities or to enter into third party contractual arrangements for the provision of non-core activities. The scheme also has restrictions on “eligible customers” to whom energy efficiency audits can be undertaken creating a further compliance burden. As a result the scheme has significant practical challenges for retailers. In addition, many of the low cost energy efficiency options aimed at reducing consumers’ consumption have been exhausted and remaining options are relatively more expensive.

These challenges add to the cost of the scheme. As previously stated the cost of compliance with REES is passed on to consumers. Given the existence of other energy efficiency schemes including the carbon price, not extending the REES may result in consumer benefit through lower prices.

3. NEW PARTICIPANTS

Alinta Energy will first incur obligations under the REES in 2013, as the activities required to comply with REES are not core activities of the Alinta Energy business it will necessitate entering into third party contractual arrangements for the provision of services. This will be at a significant cost to the business and ultimately consumers.

Should DMITRE recommend the REES scheme cease in 2013 or 2014, it is Alinta Energy’s recommendation that those retailers incurring obligations from 2013 should be granted exemptions from performing their obligations under the REES (either in full or in part). This is based on the significant up-front costs that will be incurred in implementing arrangements to meet such obligations that will only be required for a short period and the limited effectiveness of those activities/obligations in achieving the policy objective of the REES.

If you wish to discuss any aspect of this submission in more detail please contact Shaun Ruddy, Manager National Retail Regulation on (02) 9372 2653.

Yours sincerely



Michelle Shepherd
General Manager Regulatory and Government Affairs

