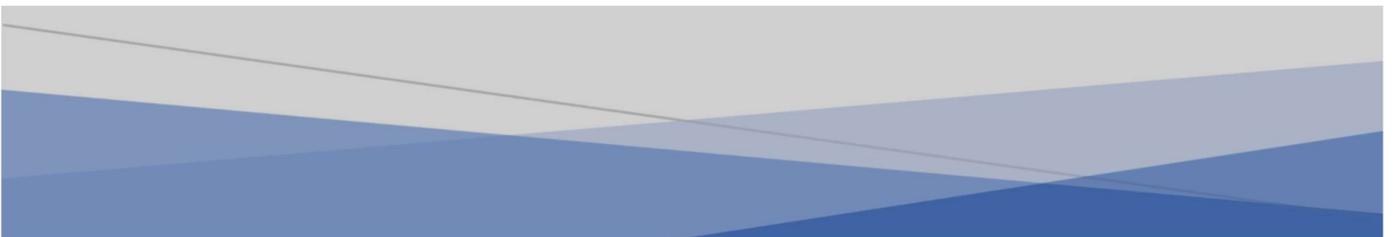




**Government of South Australia**  
Department for Energy and Mining

# REVIEW INTO THE SOUTH AUSTRALIAN RETAILER ENERGY EFFICIENCY SCHEME

REES ISSUES PAPER APRIL 2019



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REQUEST FOR SUBMISSIONS

The Department for Energy and Mining invites written submissions from interested parties in relation to the Review into the South Australian Retailer Energy Efficiency Scheme (REES).

Submissions should be provided by 5 pm, Monday 20 May 2019.

Responses to this Issues Paper should be marked "REES Review – Issues Paper" and emailed to [tina.maiese@sa.gov.au](mailto:tina.maiese@sa.gov.au).

Please note that all submissions will be posted on the website. Please advise if you wish your submission, or parts of it, to be kept confidential.

To arrange a meeting to discuss this Issues Paper, email [tina.maiese@sa.gov.au](mailto:tina.maiese@sa.gov.au) or by calling (08) 8429 3350.

This paper aims to set out key issues associated with the future of the Retailer Energy Efficiency Scheme (REES) after 2020, for comment and discussion. It should be noted that the views expressed and options raised do not represent the final position of the South Australian government.

DEM is an agency for the purposes of Freedom of Information laws. While we will not publish your submission on our website if you do not want this, we may be required by law to release your submission to a third party. Should such a request be made, you will be contacted prior to any decision to release the material.

# Contents

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- 1 Background..... 3**
- 2 The Current Scheme..... 5**
- 3 Seeking Feedback ..... 5**
  - a) Scheme Objectives ..... 6**
  - b) Commercial or Residential ..... 7**
  - c) Lighting Activities ..... 8**
  - d) Priority Group Households ..... 9**
  - e) Energy Audits ..... 11**
  - f) Expanding to Demand Management ..... 12**
  - g) Funding..... 13**
  - h) Deeper Retrofits ..... 14**
- Appendix 1 – Scheme Review – Indicative Timeframe ..... 15**
- Appendix 2 – Independent Evaluation Scope..... 16**

# 1 Background

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The purpose of this Issues Paper is to seek the views of stakeholders on the future of the Retailer Energy Efficiency Scheme (REES) after the current stage ends in 2020.

The current objective of the REES is to reduce household and business energy use, with a focus on low-income households. This will provide associated energy costs and greenhouse gas emission benefits.

The REES commenced on 1 January 2009. Three, three-yearly stages have been completed, and the scheme has now entered its fourth stage (2018, 2019 and 2020). The REES has delivered 1.8 million tonnes of greenhouse gas reductions (2009-2014) and over 10.6 million gigajoules of energy savings (2015-2018). Over 360,000 households and over 5,000 businesses have benefitted from the scheme since it commenced in 2009.

Continuation of REES beyond 2020 will be the subject of government consideration at the end of this Review.

The REES is established through:

- Part 4 of the *Electricity (General) Regulations 2012* under the *Electricity Act 1996*.
- Part 4 of the *Gas Regulations 2012* under the *Gas Act 1997*.

The penalty regime for the REES is established through:

- Section 94A of the *Electricity Act 1996*.
- Section 91A of the *Gas Act 1997*.

Section 36 of the *Electricity (General) Regulations 2012* and Section 30 of the *Gas Regulations 2012* require the Minister responsible for the administration of the Regulations to commission a review of the REES. The review must consider whether the scheme should continue after 2020.

The report on the results of the Review must be submitted to the Minister before 31 December 2019, and the Minister must table the report in Parliament within 12 days of receiving the report.

The Department for Energy and Mining (DEM) advises the Minister on policy matters concerning the REES and is undertaking the Review.

Appendix 1 provides an indicative timeframe for the review. The major milestones will include:

- An independent economic evaluation of past performance and future options (currently underway – scope provided in Appendix 2);
- An Issues Paper – to be released for stakeholder feedback (this document);
- An independent technical assessment of potential future REES activities;
- A Directions Paper – to be released for stakeholder feedback; and
- The final REES Review Paper, submitted to the Minister and tabled in Parliament.

The previous regulatory review of REES (*Review Report of the Residential Energy Efficiency Scheme*, October 2013) recommended ‘that the scheme continues to 31 December 2020 or until a national scheme that is acceptable to South Australia is in place’. The recommendation was partly based on an economic evaluation that the scheme had delivered a benefit to cost ratio of between 3.5:1 to 4.7:1. A similar economic evaluation of the current stage is currently underway (Appendix 2).

The South Australian energy market has changed significantly since the last independent evaluation of the REES in 2013. Renewable energy generation has increased to almost 50 per cent of the State’s electricity generation and is expected to increase further in coming years.

South Australia also has the ‘peakiest’ demand profile of any Australian jurisdictions, driven by high summer evening air conditioning use, and high penetration of rooftop solar panels ‘hollowing out’ the load profile during daylight hours. This peaky electricity profile significantly impacts on supply costs, requiring substantial generation capacity that is used infrequently and only for a short time.

The Government is implementing several initiatives in addition to the REES to address energy affordability, security and reliability, including the Home Battery Scheme, the Grid Scale Storage Fund, a Virtual Power Plant, the Demand Management Trials Program and the EnergyConnect interconnector between South Australia and New South Wales.

## 2 The Current Scheme

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Under the REES, energy retailers that exceed prescribed customer number and sales thresholds are set annual targets for the delivery of energy efficiency activities to households and/or businesses. In addition, retailers with larger residential customer bases are set targets to deliver a prescribed amount of the energy efficiency activities to priority group households and to provide energy audits to priority group 'vulnerable' households.

The Minister sets the overall targets to be achieved by the REES and these are apportioned to each obliged retailer by the REES administrator. REES energy savings targets for the period 2018-2020 are 6.9 million gigajoules (GJ) of energy savings and 22,101 audits.

Energy retailers can meet their targets by delivering measures from a pre-approved list of energy efficiency activities, each of which is deemed to contribute a given quantity towards their targets. The REES is designed with the intention that all energy efficiency achieved is in addition to what would have otherwise occurred under other Commonwealth or State Government policies and programs.

Each energy retailer participating in the REES decides on what mix of pre-approved energy efficiency activities it will undertake to meet its energy efficiency targets.

## 3 Seeking Feedback

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This Issues Paper is intended to engage stakeholder views on the strategic direction of REES after 2020. DEM would welcome submissions from all interested stakeholders, but particularly seeks the views of stakeholders who are:

- recipients of REES activities and consumer associations;
- electricity and gas network regulators and operators;
- electricity distribution network service providers;
- energy retailers and third party REES contractors; or
- product manufacturers and suppliers, and industry associations.

The questions in this paper are intended to stimulate ideas and discussion. Submitters should not feel restricted by these questions and are encouraged to raise additional matters that they believe need to be addressed in any future scheme.

## a) Scheme Objectives

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The original objectives of the REES when it commenced in 2009 were to:

- Improve energy efficiency and reduce greenhouse gas emissions within the residential sector.
- Assist households prepare for likely energy price increases resulting from carbon emissions trading.
- Reduce total energy costs for households, particularly low income households.

Following the REES review in 2014, the objectives were amended to:

- Reduce household and business energy use, with a focus on low-income households. This will provide associated energy costs and greenhouse gas emission benefits.

Some stakeholders have questioned whether the emerging challenges in the energy market in South Australia justify a broadening in the scheme objectives to target summer peak network demand reduction, network minimum demand management, or network reliability and security.

In keeping with the REES objectives, the scheme administrators seek to ensure that REES energy savings are additional to that which would otherwise be achieved under current and planned regulatory requirements, or which would otherwise occur through business as usual or consumer behaviour.

### a) Consultation Questions

If the scheme continues should the objectives be revised?

If so, what changes should be made?

Should REES continue to ensure that activities delivered are additional to 'business as usual'?

## b) Commercial or Residential

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In 2015 REES expanded to include a limited number of commercial activities such as lighting upgrades, high efficiency whitegoods, and refrigerated display cabinets. The previous REES review showed this expansion would likely be cost effective and would introduce economies of scale, providing greater scope for higher energy saving targets.

Lighting upgrades have been the most commonly delivered commercial activity. Energy savings from commercial activities now comprise over 75 per cent of total REES energy savings. Some stakeholders have noted that without a residential priority group target, commercial activities would comprise an even greater proportion of REES energy savings.

Currently the REES rules for commercial lighting upgrades, which is the most common commercial activity, restricts the energy savings from each eligible upgrade to 900 GJ. This serves to direct a large proportion of commercial lighting upgrades to small businesses.

### b) Consultation Questions

Should the REES focus on energy use in the residential sector, or the commercial sector, or both?

Has the expansion of REES to allow commercial activities been a success?

Should additional commercial activities be included? If so, which activities?

Should there be a residential sector target to prevent commercial activities 'crowding-out' residential activities?

Should REES retain rules to focus commercial activities on small business, such as the restriction on energy savings from each lighting upgrade?

## c) Lighting Activities

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Since REES began in 2009, various lighting activities have had a significant uptake. Since 2015, energy savings from commercial lighting have comprised the most dominant activity under the scheme. Deemed energy savings values for lighting upgrades have been reduced several times, because of the increasing penetration of LEDs and to ensure REES incentives remain additional to a 'business as usual' scenario.

Energy obligation schemes across Australia are increasingly looking at whether lighting upgrades should remain an eligible activity within the schemes.

In 2018 the COAG Energy Council agreed to phase out inefficient halogen lamps and introduce minimum standards for LED lamps in line with European Union (EU) standards. The phase out will remove remaining incandescent light bulbs and a range of halogen light bulbs from the Australian market, where an equivalent LED light bulb is available.

### c) Consultation Questions

Have lighting upgrades become business as usual?

If REES continues as an energy efficiency scheme, should lighting upgrades remain an eligible activity?

If lighting upgrades remain, should they be restricted to certain sectors or regions where LED upgrades are less likely to be business as usual?

## d) Priority Group Households

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Prior to the REES, the Government funded the 'Energy Efficiency Program for Low Income Households', which delivered energy audits and upgrades to low income households. The low income focus of this program was incorporated into the REES through the priority group household targets, recognising that low-income households typically spend a greater proportion of their disposal income on energy costs than other households.

For the purposes of the REES, a 'priority group' household is defined as residential premises in which a person holds a one or more of various health or concession cards.

Some stakeholders have indicated that inclusion of the priority group targets adds to recruitment costs of the scheme, and that this sector is approaching saturation for activities such as low flow showerheads, lighting, standby power controllers and audits. Partly in response to these concerns, the definition of 'priority group' has been expanded to include:

- customers who are participating in retailers' hardship programs;
- customers who receive a referral from a registered financial counsellor; and
- customers who are participating in a retailers' 'Payment Plan'.

In addition, from 1 January 2019, activity L1 (Install an LED General Purpose Lamp) was amended to allow the Activity to be delivered twice per premises, providing all other aspects of the specification are met. The number of individual L1 lamp replacements allowed to be delivered in any one premises was also increased from 20 to 40.

There has been some concern expressed that regional customers are under-represented among REES beneficiaries, and this could be addressed by classifying regional customers as part of the priority group. The proportion of activities delivered in regional and remote areas varies from year to year, with the latest data indicating around 15 percent of all activities were delivered in regional and remote areas. Typically, retailers will concentrate delivery of specific products in metropolitan areas and as these markets become saturated, then roll out the products in more regional areas.

REES aims to be consistent and to align with schemes in other jurisdictions where this is appropriate, to minimise cost impacts on retailers who are obliged under multiple schemes. Currently, most other jurisdictions' schemes, other than the EEIS in the ACT, do not have specific targets for low income or vulnerable households.

Some stakeholders have argued the REES should evolve away from delivery of low cost activities to priority group households toward higher cost upgrades that deliver deeper savings. This may require amendments to the REES to use the scheme to fund a stand-alone low income program.

Other stakeholders, particularly community organisations, have strongly supported maintenance or increasing of priority group targets, to assist the most vulnerable in our community.

#### d) Consultation Questions

If the scheme continues, should it retain a focus on assisting low income households?

Are priority group households sufficiently clearly defined and easily located?

Should there be specific targets or incentives to encourage activities in remote or regional areas? How might this affect costs?

Have the changes to the definition of priority group adequately covered those households most in need of assistance from the REES?

What is the best way to increase the opportunities for low income households to benefit from 'deeper' retrofit activities through REES?

Is there a more effective way to define the customers who are most likely to benefit from receiving REES activities and audits?

## e) Energy Audits

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The REES Regulations specify the number of energy audits to be undertaken by each retailer and how to manage energy audit shortfalls. The minimum specification for an energy audit is included under the REES Code, which establishes requirements on energy retailers as a part of their retail licence. This Code also includes the competencies that a person needs to have to conduct an energy audit under the REES.

The current specification can be met through a simple, walk-through audit rather than a more detailed engagement with the customer. Some stakeholders have suggested the outcomes of the audits would be improved if the specification was made more comprehensive, such as requiring use of the Victorian Residential Efficiency Scorecard.

Any additional complexity in the audit standard may increase the cost of the scheme, but more comprehensive audits with effective customer engagement may be of more value to the householder. It has also been suggested that introducing 'before' and 'after' auditing might enable a flexible 'deemed saving' methodology for REES.

To encourage delivery of audits in regional or remote postcodes, audits in these areas are taken to have a value of one and half credits toward a retailer's Energy Audit Target, up to a maximum of 30 per cent of the Target.

### e) Consultation Questions

How should energy efficiency outcomes from energy audits be verified?

Are the current qualifications requirements for energy auditors appropriate, and are auditors adequately trained to deal with priority group households?

## f) Expanding to Demand Management

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The peaky nature of South Australia's electricity demand, driven largely by residential air conditioning use in summer, has been cited as one cause of increasing electricity prices through the need to invest in rarely used infrastructure. To date, the REES has focused on energy efficiency without specifically targeting peak demand reduction activities.

Similarly, increased rooftop solar PV penetration is presenting electricity network security challenges at times of low electricity demand during spring and autumn. To date, REES has not targeted activities which might increase the security of the electricity network.

Some stakeholders have suggested that REES could be re-designed to improve network reliability and security, and/or to target measures to put downward pressure on wholesale electricity prices. Activities could be designed to reward upgrades based on their demand management capabilities. Potential activities could include demand response enabled air conditioners, load controlled pool pumps, and smart homes.

Other recent Government initiatives, such as the Demand Management Trials Program, have targeted incentives toward advancing the use of demand response and distributed energy resources to benefit customers and the grid.

### f) Consultation Questions

Should REES primarily focus on reducing energy use or managing energy demand?

Is there a place in an energy efficiency scheme for technology that enables energy management rather than directly reducing energy use? If so, what activities should be included, and how should they be credited?

## g) Funding

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When the REES was initially established, the scheme design considered different funding models. The current approach of obligating retailers to undertake the scheme and recover the costs from their customers as part of their tariffs was adopted, and the scheme rules were designed to encourage retailers to meet their targets as cost effectively as possible.

Some stakeholders have questioned the fairness of the funding model on the basis that some non-beneficiary South Australian households provide a net cross-subsidy to beneficiary households.

Most international energy efficiency schemes are at least partially funded through energy tariffs. In some schemes, there is partial subsidisation from governments, or co-funding of some energy efficiency measures by householders themselves, although the latter may be a barrier to participation by low income customers.

### g) Consultation Questions

If the scheme continues beyond 2020, how should it be funded?

## h) Deeper Retrofits

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REES specifies the approved energy efficiency activities that retailers can use to meet their targets. Energy efficiency activities are drawn from a list of pre-approved measures. Implementation of these measures is deemed to contribute a given quantity of energy savings. Each measure is also the subject of a minimum specification requirement for implementation.

Some stakeholders have suggested that, from a customer perspective, the REES would be improved if an integrated approach was taken to improving home energy efficiency rather than the delivery of just one or two activities. Others have suggested lighting will soon saturate the market and that there will be a need to incentivise other energy efficiency activities.

One mechanism to incentivise deeper residential retrofits may be to introduce a REES activity that 'deems' an energy saving for improving a residential building's energy rating, using a tool such as the Victorian Residential Energy Efficiency Scorecard, or similar.

Another solution may be to amend REES specifications to require a minimum number of activities or a minimum amount of energy savings to be delivered at each home or business.

### h) Consultation Questions

To reduce scheme costs and encourage a 'whole-of-house' integrated approach to energy efficiency, should there be a 'bonus' added to the deemed value when multiple activities are carried out at the same house?

Should REES require a minimum number of activities or a minimum amount of energy savings to be delivered at each home or business? How would this be done?

Should the Victorian Residential Energy Scorecard, or similar, be introduced to REES to measure deemed savings from whole of house upgrades? How would this be done?

## Appendix 1 Scheme Review – Indicative Timeframe

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<b>Milestone</b>	<b>Date</b>
<b>Issues paper</b>	
Released for consultation	30 April 2019
Submissions close	20 May 2019
Review submissions	Late May 2019
<b>Independent economic evaluation</b>	
Commencement of work	Mid-March 2019
Independent review draft report	Late April 2019
Independent review final report	Late May 2019
<b>Independent technical review of activities</b>	
Commencement of work	Late June 2019
Independent technical review draft report	Mid-July 2019
Independent technical review final report	Late July 2019
<b>Directions paper</b>	
Draft Directions report prepared	Early August 2019
Consultation with stakeholders on Directions Paper recommendations	Late August 2019
<b>Review Report</b>	
Finalise review report	Late October 2019
Cabinet consideration of recommendations	Late November 2019
<b>Post review work (if needed)</b>	
Regulatory changes (if relevant)	to end of 2020
Targets for 2020 and beyond (if relevant)	by Mid 2020

## Appendix 2 – Independent Evaluation Scope

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### Independent Evaluation

#### Past Performance and Future Policy Options for the REES

DEM has commissioned an independent economic evaluation of the REES, the scope of which comprises the following elements:

- Assess customer demand in South Australia and factors that influence it, including customer load profiles, trends related to matters such as technology change and housing stock, issues and impacts in relation to reliability, security and affordability;
- Review the objectives of the scheme to determine whether they remain valid;
- Review the effectiveness and efficiency of the scheme design in meeting the existing objectives;
- Consider whether the scheme should be continued and if so whether any major reform is warranted;
- Research national and international schemes that may be relevant for comparison based on the review of objectives;
- Complete a cost-benefit analysis of the REES to date – utilising, where appropriate, existing studies/reports;
- Assess whether the costs and benefits modelled in the ‘Evaluation of the SA REES, Pitt and Sherry, 2013’ have occurred;
- Benchmark the cost efficiency of the REES against other comparable schemes, in terms of administrative cost (for all parties) as a proportion of the total cost;
- Identify any significant REES deficiencies, including saturation constraints and level of REES activities in regional areas, and assess the impact that these have on the efficiency and effectiveness of the REES;
- Assess the appropriateness of the targets (type and quantum) as measures of success in meeting the REES’s objectives;
- Compare the efficiency and effectiveness of the REES scheme design with alternative scheme design options. These alternatives will include, but need not be limited to, variations in:
  - Fuel coverage;
  - Sector and facility coverage;

- Performance indicators (e.g. energy consumption, peak demand reduction, electricity network minimum demand management, contribution to electricity network reliability and security, greenhouse gas emissions, qualitative measures);
- Obligated parties;
- Performance incentives (e.g. to reflect priority group targets, or regional activities);
- Eligible energy savings, or contribution to other scheme objectives (including options to introduce energy savings for energy star improvements using the Victorian Residential Scorecard or similar);
- Measurement, verification, reporting and compliance; and
- Trading of energy savings;
- Assess the merits of varying the above alternatives in terms of improving the cost effectiveness of the scheme should it be continued after 2020;
- Assess whether the allocation of activities to priority group households is an efficient and effective method of targeting greatest need and/or greatest potential for energy efficiency improvement; and
- Assess the merits of the current funding model against alternative funding options. These should include, but need not be limited to:
  - Alternative funding sources;
  - Funding transparency;
  - Ensuring that only efficient costs are passed through to customers;
  - Propose objectives, scheme design and administrative arrangements associated with any recommended future scheme; and
  - Determine the costs, benefits and risks associated with any recommended future scheme.