



**Government
of South Australia**

Department for Manufacturing,
Innovation, Trade,
Resources and Energy

Review of the South Australian Residential Energy Efficiency Scheme (REES) **Issues Paper** October 2012

Energy Markets and Programs Division

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**DELIVERING
RESULTS**

MESSAGE FROM THE MINISTER



The South Australian Government is very aware of the challenges facing families today in dealing with the cost of living, including essential services. The Government offers support in various forms to help people manage their energy costs, including assistance to reduce the amount of energy they use without compromising their lifestyle. Among these is the Residential Energy Efficiency Scheme (REES), which commenced on 1 January 2009.

This scheme obliges all the State's larger energy retailers to achieve certain residential energy efficiency targets each year, with a strong focus on assisting lower income households. Since the REES commenced, over 165,000 households have received energy efficiency activities or participated in a home energy audit, resulting in over \$107 million in net benefits.

Nearly forty percent of participating households were in the 'priority' category: that is, people eligible for various government concessions or classified as 'hardship' customers. To date the REES has delivered on all of its targets and is helping SA households to manage rising energy costs.

The REES was originally established to operate for six years, until 31 December 2014, with a review prior to that date to assess the operation of the REES and to consider the Scheme's future. I have asked the Department for Manufacturing, Innovation, Trade, Resources and Energy to undertake this review and report back to me by mid-2013.

That Review begins with this Issues Paper, and I invite all interested parties to contribute their views about their experience with the REES and to participate in determining its future.



Hon Tom Koutsantonis MP
Minister for Mineral Resources and Energy

REQUEST FOR SUBMISSIONS

The Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) invites written submissions from interested parties in relation to the Review into the South Australian Residential Energy Efficiency Scheme (REES).

Written submissions should be provided by 4 pm, **12 November 2012**. Submission of an electronic copy is preferred.

Responses to this Issues Paper should be marked "REES Review – Issues Paper" and emailed to DMITRE.REESReview@sa.gov.au

Please note that you can also contribute your thoughts and views via the DMITRE website, www.dmitre.sa.gov.au/reesreview

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 DMITRE.REESReview@sa.gov.au or by calling (08) 8226 5532

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This paper aims to set out key issues associated with the Residential Energy Efficiency Scheme, for comment and discussion. Many of these issues have been raised with DMITRE by various parties involved in aspects of the scheme, and it should be noted that the views expressed and options raised do not represent the final position of the South Australian government.

The questions in this paper are meant only to stimulate ideas and discussion. Submitters should not feel restricted by these questions and are encouraged to raise additional issues that they believe need to be addressed.

DMITRE 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.

FOREWORD.....	2
REQUEST FOR SUBMISSION.....	3

TABLE OF CONTENTS

1	Background	5
2	The scheme.....	5
3	Scope of the review	6
4	Conduct of the Review	7
4.1	Independent Evaluation	7
4.2	Field Research.....	8
4.3	Final Report	8
5	Scheme Objectives.....	8
6	The Regulations	10
6.1	The Application of Regulations	10
6.2	Interpretation	11
6.3	Greenhouse Gas Reduction Targets.....	11
6.4	Percentage of Target Delivered to Priority Group Households	12
6.5	Energy Audit Targets	12
6.6	Administration.....	13
6.7	Notification and adjustment of targets	13
6.8	Energy audits.....	13
6.9	Energy Efficiency Activities	14
6.10	Energy Efficiency Activities for Priority Group Households.....	16
6.11	Determination of Energy Efficiency Activities	17
6.12	Retailers' Arrangements	17
6.13	Compliance and Reporting - the REES Code	18
6.14	Energy efficiency shortfalls	19
7	Consumer Protection.....	19
8	A National Energy Savings Initiative	20
9	National Consistency.....	21
10	Complementarity to a Carbon Price	22
11	Funding	22
12	Communications and public awareness.....	23
13	Timeframes	24
	Further References	25

1 Background

The purpose of this Issues Paper is to seek the views of stakeholders on the operation and the future of the Residential Energy Efficiency Scheme (REES).

The REES was designed to assist South Australian families, particularly low income families, reduce their energy bills, cut their greenhouse emissions, and help them prepare for price increases arising from carbon emissions trading.

The REES commenced on 1 January 2009. The first stage (2009, 2010 and 2011) has been completed and the scheme has now entered the second stage (2012, 2013 and 2014). Continuation beyond 2014 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 report on the results of the Review must be submitted to the Minister before 31 December 2013. The Minister must table the report in Parliament.

The Energy Markets and Programs Division (EMPD) of the Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) advises the Minister on policy matters concerning the REES and established and maintains the policy framework. The EMPD is undertaking this Review.

The Essential Services Commission of South Australia (ESCOSA) administers the REES within the parameters defined by the policy framework and in accordance with the Electricity and Gas Regulations. ESCOSA established and maintains the REES Code, which provides detailed guidance to retailers in discharging their regulatory obligations.

2 The Scheme

The REES is mandatory for all licensed retailers of electricity and gas in South Australia who supply more than 5 000 residential customers. The scheme is available to all residential households whether owner/occupier or rental (private or public).

The REES requires retailers to achieve two annual targets:

- A set amount of greenhouse emission savings by implementing energy efficiency measures in households (of which a set proportion, currently 35%, must be implemented in priority group households).
- A set number of home energy audits to priority group households.

Priority group households are defined as those in which a resident holds an eligible government-issued concession card or those that have been classified as experiencing energy hardship.

The Minister sets the overall targets to be achieved by the REES and these are apportioned to each obliged retailer by the REES administrator, ESCOSA.

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 target. 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.

Annual greenhouse gas reduction targets commenced at 155 000 tonnes in 2009, increasing to 410 000 tonnes in 2014. Thirty-five per cent of the reduction targets must come from activities provided to priority households. Targets for home energy audits to priority households commenced at 3 000 audits in 2009, increasing to 5 000 audits per year in 2010 and 2011, and 5 667 audits per year in 2012, 2013 and 2014.

ESCOSA, as the REES administrator, reports annually to the Minister on the performance of energy retailers towards achieving their REES targets. ESCOSA's reports on Stage 1, the first three years of the scheme, 2009-2011, show that all targets were met. More than 165 000 households benefitted from the REES in Stage 1 of the scheme.

The Regulations relating to the REES currently operate until the end of 2014, with a review of their operation required by the end of 2013, to consider whether the scheme should continue.

3 Scope of the Review

The scope and content of the Review is specified in the REES Regulations and has also been informed by a number of preliminary discussions with key stakeholders during July 2012. High level matters to be considered in the Review will include:

- An assessment, on a regulation-by-regulation basis, Part 4 of the Electricity (General) Regulations 2012 and Part 4 of the Gas Regulations 2012.
- A review of the objectives of the scheme and the effectiveness and efficiency of the scheme design in meeting them.
- Consideration of whether the scheme should be continued.

- Consideration of how the scheme could transition if a National Energy Savings Initiative is established.

The Review will also:

- Estimate the total cost of the scheme and the benefits for residential customers and for low income customers.
- Benchmark the cost efficiency of the scheme against other comparable retailer obligation schemes, particularly administrative costs as a proportion of total cost.
- Consider whether the actual outcomes of the scheme reflect the assumed outcomes, which are based on deeming values and assumptions of behaviour change.
- Consider whether the scope of the scheme should be extended beyond the household sector.
- Determine whether the scheme should be better harmonised with similar retailer obligation schemes in other jurisdictions.
- Consider whether ESCOSA has adequate powers and resources to ensure effective assessment of the progress towards scheme objectives.
- Consider whether the REES Code effectively and clearly guides retailers in discharging their obligations.

4 Conduct of the Review

In addition to considering feedback from this Issues Paper and other stakeholder consultation, DMITRE will commission an independent evaluation (see Section 4.1) and a householder survey (see Section 4.2).

The Review will also take account of observations and findings from ESCOSA's 2011 Annual Report on the performance of the REES and its cost-benefit analysis of Stage 1, and the analysis of REES commissioned by the Commonwealth's Department of Climate Change and Energy Efficiency and Department of Resources, Energy and Tourism as part of the investigation into a proposed national Energy Savings Initiative.

4.1 Independent Evaluation

DMITRE will commission an independent evaluation of the REES, the scope of which will be finalised based on feedback from the Issues Paper. It is likely to comprise the following elements:

- Cost-benefit analysis of the scheme to date.
- Cost efficiency of the scheme benchmarked against other comparable schemes - particularly administrative cost (for all parties) as a proportion of the total cost.
- Assessment of the impact that any scheme deficiencies, as identified by stakeholders, have had on the efficiency and effectiveness of the scheme.
- Comment on the appropriateness of targets (type and quantum) as measures of success in meeting the objectives.
- Cost effectiveness of the scheme in terms of meeting the objectives compared with alternative options.

- Consideration of alternative ways of meeting the REES objectives and comparison of these with the REES.
- Assessment of the merits of extending the period, scope and coverage of the scheme, options for improving cost effectiveness, alternative funding options and models.

Questions

- Are there additional matters that the independent review should consider?

4.2 Householder Survey

DMITRE will work with REES energy retailers and service providers to assess the effectiveness of delivered energy audits and energy efficiency activities. This is proposed to be done by:

- Arranging follow-up contact with households that received energy audits and/or energy efficiency activities.
- For homes that received an energy audit, assess the extent to which recommendations were implemented and sustained (and the reasons for these decisions), and the outcomes experienced by the household.
- For homes that received energy efficiency activities, information will be gathered on the experience the householders have with these (including whether they are still in use) and the outcomes that the household has seen, including any change to energy consumption.
- Satisfaction of the recipient with their experience of the REES, including its delivery.

Questions

- Are there any other matters that should be considered as part of the householder survey?

4.3 Final Report

DMITRE will prepare a consultation Draft Report by mid-2013 with recommendations for the future of the scheme. Following consultation with stakeholders, the Review will be finalised and submitted to the Minister for the Government's consideration and for tabling in Parliament.

The Review process will be completed by 30 June 2013 to allow for any necessary regulatory changes ahead of possible scheme continuation from 1 January 2015.

5 Scheme Objectives

The objectives of the REES are 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.

The REES was developed to assist South Australians, particularly those on low incomes, to reduce their energy bills and cut greenhouse gas emissions, and to prepare households for the energy price increases expected to arise from a national emissions trading scheme.

Prior to the REES (from 2003 to 2006), the Government funded the 'Energy Efficiency Program for Low Income Households', which delivered 16 000 audits and retrofits (e.g. compact fluorescent lamps, draught-proofing and water efficient showerheads) to low income households. This program was developed in response to rising electricity prices following the introduction of full retail contestability in South Australia. The low income focus of this program was maintained and incorporated into the REES through the priority group households.

The present REES model was intended to be consistent and to align, where possible and appropriate, with the Victorian Energy Efficiency Target (VEET) energy saving scheme. This was to assist in minimising cost impacts on retailers who would be obliged under both the REES and the VEET; and would allow retailers and energy efficiency businesses and service providers to operate more efficiently across both states. The REES was designed with flexibility to adapt and take account of emerging developments, such as any future integration of the schemes whether across jurisdictions or nationally.

There are ongoing parallel policies/actions at a national level that will impact and shape the REES.

The Commonwealth Government is currently investigating a national Energy Savings Initiative. This analysis will examine policy options to deliver objectives including:

- The status quo (continuation of existing and planned state-based retailer obligation schemes).
- Possible harmonisation of state based schemes.
- Different design options for a national scheme.
- A combination of other non-market-based policy options such as standards, regulation and information programs.

On 13 April 2012, the Council of Australian Governments (COAG) agreed to the rationalisation of carbon reduction and energy efficiency schemes. The COAG work aims to streamline climate change measures to ensure that they are complementary to the carbon price. The REES is one of the energy saving schemes to be considered in this process. In light of this, the objectives of the REES will also be reviewed to ensure continued relevance in an environment of rising energy prices and a carbon pricing regime.

Carbon pricing commenced on 1 July 2012, and is intended to be Australia's primary response to the need to reduce greenhouse gas emissions. While the carbon price is imposed directly on the biggest of the country's polluters, the cost will be passed through to people who use the energy i.e. households and

businesses. The Commonwealth Government has instituted a system of means-tested household compensation to counteract the retail price increases caused by the carbon tax. The Home Energy Saver Scheme was also initiated by the Commonwealth Government in 2012 to specifically assist low income households with energy efficiency and other measures to improve energy affordability in the changing carbon pricing environment.

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. For example, 20 per cent of the capacity of the electricity distribution network is used for only 23 hours per year. To date, the REES has focused on energy efficiency without specifically targeting peak demand.

Questions

- Should the objectives of the REES be revised?
- If so, what changes should be made?

6 The Regulations

The Review is required to consider the operation of Part 4 of the Electricity (General) Regulations 2012 and Part 4 of the Gas Regulations 2012, which govern the REES.

The issues and questions in this section have been grouped according to the headings of the major provisions of the Regulations.

6.1 The Application of Regulations

Any electricity and gas entity holding a licence authorising the retailing of electricity or gas in South Australia and meeting the threshold number of residential customers within South Australia is subject to the REES. The current threshold number of residential customers for the REES is 5 000.

Establishing a threshold based on customer numbers avoids disproportionate cost burdens on small retailers and new market entrants, and limits compliance complexity arising from higher churn rates for less established market participants.

The REES is restricted to residential customers. Similar schemes in other states, such as the VEET and the NSW Energy Saving Scheme (ESS), include small and medium sized business customers. Expansion of the coverage of the REES would provide greater scope for energy efficiency and greenhouse gas emission reduction, but may also increase the administrative complexity of the REES.

Questions

- Is the extent of the current application appropriate?
- Should the 5 000 residential customer threshold be maintained, or should a threshold based on energy sales be considered?

- Should the REES be expanded to allow small and/or medium business customers to participate?
- Would such an expansion require different application criteria?

6.2 Interpretation

This Regulation defines the terms used in the Regulations governing the REES. Effective operation of the Regulations requires that all terms be clearly understood by the entities covered by the REES and that ambiguity is minimised.

Questions

- Are the definitions sufficiently clear?
- Are any terms used in the Regulations not adequately defined?
- Are the priority group households sufficiently clearly identified and easily located?
- Does the definition of priority group adequately cover those households most in need of assistance from the REES?
- Is there a more effective way to define the customers who are most likely to benefit from receiving REES activities and audits?
- Does the definition of priority group households affect the administrative cost of the REES?
- Are the formulae for fixing the greenhouse gas reduction target and audit targets complete, appropriate and equitable?

6.3 Greenhouse Gas Reduction Targets

The Minister is responsible for setting the annual greenhouse gas reduction targets, expressed as tonnes of carbon dioxide equivalent, before the start of the commencement period.

At the time the REES was developed, no carbon pricing mechanism applied in Australia, but from 1 July 2012, carbon pricing is the primary means to reduce greenhouse gas emissions.

Currently, the Minister sets State-wide targets and the scheme does not specify where the activities and audits must take place. There has been some concern expressed that regional customers are under-represented among REES beneficiaries. ESCOSA's Annual Report 2011 shows a concentration of work in and near Adelaide, with little undertaken in regional and remote areas.

Questions

- Is the greenhouse gas reduction target an adequate measure to indicate progress towards all the scheme objectives?
- Is there merit in an alternative unit of measurement, such as avoided energy consumption?
- If greenhouse gas reduction targets are retained, is the methodology for setting them appropriate?
- Is the triennial setting of targets appropriate?

- Should there be specific targets or incentives to encourage activities and audits in remote or regional areas, and how might this affect costs?
- Does the setting of targets achieve an appropriate balance between process-driven and outcome-based compliance?

6.4 Percentage of Target Delivered to Priority Group Households

The Minister determines the percentage of annual greenhouse gas reduction targets that is to be achieved through the provision of energy efficiency activities to priority group households.

This percentage of activities that must be delivered to priority group (i.e. concession card holding and hardship program) households is currently set at 35%, although the percentage of residential electricity customers on concessions and/or hardship programs is around 28%.

Some stakeholders have suggested it would improve the administration of the scheme if the priority group target was a separate, 'stand-alone' target rather than a percentage of the general target, or even that they be the subject of a separate scheme.

Questions

- Is the allocation of activities to priority group households an efficient and effective method of targeting greatest need and/or greatest potential for energy efficiency improvement?
- Should there be a separate target for the priority group? If so, should the ability to create credits by exceeding this target be included?
- Is the percentage of activities allocated to priority group households appropriate?

6.5 Energy Audit Targets

Energy audit targets are set only for the priority group households. The target is expressed as a number. This was 3 000 in 2009, rising to 5 000 each year in 2010 and 2011, and 5 667 each year for 2012, 2013 and 2014.

While the majority of customers who enter hardship programs are concession card holders, some retailers are reporting that up to 40% of their hardship program participants are not concession customers. This suggests that many vulnerable customers, who are at risk of hardship but do not yet meet the criteria for being classified as a hardship customer, could benefit from energy audits under REES, but are ineligible under the existing rules.

Recent evidence suggests that there is growing interest in home energy auditing as a means to identifying potential energy savings. Some members of the public have indicated that there are long waiting lists for energy audits, and that in some cases, they have been unable to register their interest in receiving one.

Questions

- Do the audit targets adequately evaluate the performance of the REES against its objectives?
- Do the eligibility criteria for energy audits appropriately target the assistance to those who would benefit most from the audit?
- Is the framing of the energy audit target in terms of numbers undertaken appropriate in the context of the REES objectives?
- Should the energy audit target refer to quality standards or measuring tangible outcomes for recipients?
- What level should the energy audit target be set at?
- Is the current mechanism effective in identifying and registering households eligible for and desirous of receiving energy audits?
- Does the setting of targets achieve an appropriate balance between process-driven and outcome-based compliance?
- Is the triennial setting of targets appropriate?

6.6 Administration

ESCOSA administers the scheme within the parameters defined by the Government's policy framework and in accordance with the Regulations. ESCOSA's functions include monitoring retailer compliance and reporting to the Minister on the operation of the scheme. In order to carry out its functions ESCOSA has established internal systems, processes and controls, and the REES Code.

Questions

- Has the administration of the scheme been efficient, effective and equitable?
- Does ESCOSA have adequate powers and resources to ensure effective assessment of the progress towards REES objectives?

6.7 Notification and Adjustment of Targets

ESCOSA has the responsibility of informing REES energy retailers about the annual energy audit target, greenhouse gas reduction target and priority group greenhouse gas reduction target. It may adjust targets to take into account previous shortfalls and/or changes in market share.

Excess activities and audits in one year may be 'banked' by retailers for credit against their target in a subsequent year.

Questions

- Have the provisions for adjusting targets and applying credits operated effectively?

6.8 Energy Audits

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 and consistent. 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 for low income households, energy audit recommendations that require expenditure are unlikely to be implemented, and that the value of the audit would be enhanced if it was accompanied by the provision of energy efficient replacement products.

There is currently no requirement for evaluation of energy audit outcomes, so little data is available about whether householders find them useful in improving their energy use and energy cost management.

Questions

- Does the energy audit specification provide adequate guidance and assurance of quality and consistency between suppliers?
- Has the recording and management of energy audit activities been effective and efficient?
- Do retailers have sufficient access to data to manage their obligations?
- Does the compliance process ensure that energy audits deliver high quality, practical and relevant advice to recipients in order to achieve the objectives of the REES?
- Are there opportunities to improve the on-site auditing of households through a more uniform and standard audit format?
- Are the current qualifications requirements for energy auditors appropriate, and are auditors adequately trained to deal with priority group households, including culturally and linguistically diverse customers, low-consumption customers and customers in energy poverty?
- What would be the cost implications of a more comprehensive audit specification or training requirement?
- How should outcomes, in the form of effective energy efficiency improvements, as a result of energy audits, be verified?
- Is the 10% tolerance for energy audit shortfalls appropriate?

6.9 Energy Efficiency Activities

The Regulations specify the approved energy efficiency activities that retailers can use to meet their greenhouse gas reduction targets and how to manage any greenhouse gas reduction shortfalls.

Energy efficiency activities are drawn from a list of pre-approved measures. Implementation of these measures is deemed to contribute a given quantity of greenhouse gas emission savings towards a retailer's target. Each measure is also the subject of a minimum specification requirement for implementation. The REES specification lists these approved measures and is published by Notice in the Government Gazette.

ESCOSA is responsible for maintaining the list, including deeming values and minimum specifications. ESCOSA is also responsible for the assessment and inclusion of additional measures proposed by obliged retailers, their service providers or product suppliers.

The ESCOSA REES Annual Report into the administration for stage 1 (2009-2011) noted that of the nine approved energy efficiency activities, lighting was the major activity undertaken at 76.4 per cent of the 207 887 activities undertaken, followed by ceiling insulation at 28.8 per cent. The report also notes that when the Commonwealth Government insulation program ended, this activity also tailed off as a REES activity.

Some stakeholders have suggested lighting and standby power controllers will soon saturate the market and that there will be a need to incentivise other energy efficiency activities.

It has been suggested that from a customer perspective, energy efficiency benefits would be more significant if an integrated approach was taken to improving home energy efficiency rather than the delivery of just one or two activities.

Since activities are recorded against an address, change of ownership may mean that a subsequent occupant of a house that has already received REES activities may be ineligible for such activities. Where the activity is of the nature of a fixture, then the energy efficiency improvement may be sustained through change of occupancy. However, standby power controllers, for example, may be removed by a departing occupant. Under the current anti-duplication arrangements, the new occupant may be ineligible for these activities.

Questions

- Has the recording and management of energy efficiency activities been timely, effective and efficient?
- Do retailers have sufficient access to data to manage their obligations?
- Is the tolerance band appropriate?
- Is the method of managing shortfalls and credits practical and effective?
- What incentives could be provided to reduce the concentration on only a few activities on the approved list?
- Is there a place in an energy efficiency scheme for technology that facilitates and enables energy management, understanding and behaviour change rather than directly reducing energy use, for example in-home displays or energy management controllers? If so, how should it be credited?

- 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?
- By providing REES energy efficiency activities at the same time as an audits, is the outcome for the householder enhanced? Is this a cost effective delivery format?
- Is the linking of activities to an address rather than an account holder effective in the context of meeting REES objectives?
- Should there be an ‘Accredited Person’ approach as per the VEET, to bring more activities into play?

6.10 Energy Efficiency Activities for Priority Group Households

Retailers are required to achieve a proportion of their energy efficiency targets by delivering measures to priority group households. This recognises that energy costs may disproportionately affect such households, and ensures that they can participate in the REES and share in its benefits.

The priority group target is set by the Minister and published by Notice in the Government Gazette. In determining the size of the target, factors such as the number of priority group households within South Australia and how the target will impact on the cost of the scheme are considered.

A priority group household is identified as a household where one or more members receive a means-tested Commonwealth Government concession, such as a Health Care Card (including a Low Income Health Care Card), Pensioner Concession Card, TPI Gold Repatriation Health Card, War Widows Gold Repatriation Health Card or Gold Repatriation Health Card (EDA). Also included in the definition are recipients of the South Australian Government Energy Concession and those that fall within a class of persons experiencing hardship as determined or approved by the ESCOSA for the purposes of the REES Regulations.

The implications of maintaining the 35 per cent figure, and for defining priority group households in terms of concession cards held or participation in a hardship program, were discussed in Section 6.4.

Stakeholders have indicated that priority group households may be unlikely to access all REES activities, particularly those that require them to incur a cost. Inability to take up non-free activities is a barrier to expansion in these households. There may be opportunities for incentives to engage with priority group households to adopt more of the REES activities.

Questions

- Have the recording and management of energy efficiency activities for priority group households been timely, effective and efficient?
- Has the verification process to identify priority group households operated effectively?

- Do retailers have sufficient access to data to manage their obligations?
- Do retailers have appropriate referral mechanisms to ensure that customers who qualify for hardship status are immediately offered access to benefits from the REES?
- Is the tolerance band appropriate?
- Is the method of managing shortfalls and credits practical and effective?
- Is the 35 per cent target for priority group households manageable? Would it be more effective to have a separate target or program specifically for priority group households?
- Is there a need to integrate REES with other assistance programs, such as No-Interest Loans, or the Home Energy Saver Scheme, to encourage priority group households to engage more in REES activities and implement audit recommendations?
- Is there potential for community welfare organisations to refer their eligible clients for prioritisation in receiving REES activities and audits?

6.11 Determination of Energy Efficiency Activities

The Regulations provide for ESCOSA to set, maintain and review the list of energy efficiency activities. The Regulations also provide for ESCOSA to set minimum energy efficiency specifications with which the activity must be performed, and to set out the 'deeming value' for the activity. The deeming value is the amount of lifetime greenhouse gas emissions savings which can be attributed to an activity's implementation in a household.

Questions have been raised about whether the deemed values for greenhouse gas reduction are accurate and reliable when applied to appliances as they are used in practice by the customer, i.e. whether all installed items continue to be used as assumed in the deeming calculations.

Questions

- Is the methodology for determining deeming values in South Australia robust, relevant and effective?
- How should energy efficiency improvements, as a result of installation of approved products, be verified?
- Does the determination process encourage innovation in commercialising energy efficiency activities?
- Has the determination process operated effectively and practically?
- Are the timeframes for the determination of new activities adequate?
- Are there barriers to seeking determination of a new energy efficiency activity?

6.12 Retailers' Arrangements

The Regulations provide for a REES energy retailer to either transfer its credits to another retailer or to enter into an arrangement to undertake REES activities on behalf of another retailer. There has been very little 'trading' as part of the scheme to date.

Retailers are able to meet their targets by delivering approved measures to any South Australian household, not just their own customers. They may also choose to deliver any mix of approved efficiency measures irrespective of which energy type(s) they supply to households.

Retailers can also form partnerships with energy efficient product suppliers, community and housing organisations, and others who can assist in supplying and delivering the measures. Partnerships with welfare agencies and social housing providers were initially envisaged to be an important element in delivering the scheme to priority group households. In reality, the option to engage welfare agencies and social housing providers has not evolved to any significant level.

It is understood that some retailers have sought to transfer their REES liabilities to their contractors through indemnity clauses, and accepting responsibility for making good on potential REES shortfalls appears to present an unacceptable risk for many not-for-profit groups.

Energy retailers enter into confidential commercial contracts with their chosen service providers. They are also required to share certain commercial information with ESCOSA. Some retailers question whether there are sufficient safeguards in place to protect commercially sensitive contract information.

Questions

- Are trading provisions sufficiently open, transparent and effective?
- Would a more formal trading model (as used in NSW and Victoria) provide any benefits over the existing REES model?
- Has there been adequate management and quality control by retailers of contractors who undertake energy audits and energy efficiency activities on their behalf?
- Are there any confidentiality issues that are of concern to stakeholders, and if so, what could be done to rectify such concerns?
- Should the community sector be more involved with referrals to REES and/or delivery of REES? If so, what mechanisms could be facilitated for increased partnerships that are beneficial to all parties?

6.13 Compliance and Reporting - the REES Code

The REES Code's compliance arrangements determine whether energy retailer obligations are being met in relation to the annual targets. Retailers are required to submit compliance plans for discharging their REES obligations. ESCOSA monitors the performance of retailers in meeting their targets and compliance is assessed annually.

Retailers and service providers have raised issues with the annual reporting arrangement. They note that reporting on activities annually can lead to difficulties in addressing non-conformances or duplicate data. Problems can arise if the residential address has been serviced already, but the previous activity has not been reported, or if the service provider has reported twice on the same address

(even if occupancy has changed) or if the activity does not conform to the REES specifications.

A process for more frequent reporting would address this but might also increase the administrative costs of the REES.

ESCOSA, as REES administrator, deals through the energy retailers for REES activities and not directly with the service providers. Some service providers have suggested the REES would be more efficient if they were able to deal directly with ESCOSA.

Questions

- Does the Code effectively and clearly guide obliged retailers in discharging their obligations?
- If not, where are clarifications needed?
- Have the compliance and reporting provisions operated effectively? How could they be improved?
- Do the compliance and reporting provisions provide reliable information, sufficient to assess the performance of the REES against its objectives?
- Does the risk of disallowance encourage over-servicing and excess costs?
- Is there a more effective and timely way to ensure REES activities are reported and recorded by ESCOSA to minimise disallowance of activities?
- Are the arrangements to transfer credits and contract the delivery of energy audits and efficiency activities effective and efficient?

6.14 Energy Efficiency Shortfalls

The REES obligations comprise a licence condition on the retailer, and existing general penalty provisions under section 91A of the *Electricity Act 1996* and section 94B of the *Gas Act 1997* apply. The Regulations specify that the retailer must achieve compliance with the targets set and also provide penalties for any of the shortfalls in the REES activities allocated to the REES energy retailer.

Questions

- Has the treatment of shortfalls been efficient and consistent with the objectives of the REES?
- Are the penalties for shortfalls appropriate and do they provide adequate incentive for compliance?

7 Consumer Protection

The REES Code and REES Bulletin 6 list some standard customer protection requirements, such as identification requirements of persons delivering energy audits and energy efficiency activities in households.

Stakeholders have noted that knowledge about the REES in the general community is not widespread, and that as a consequence 'cold callers' can raise suspicion and concern from householders.

There is no standardised identification or government certification for these employees, and householders regularly raise concerns with government agencies about the *bona fides* of employees of third party providers who contact them through doorknocking.

Other issues causing complaints can include failure of service providers to attend a house at an agreed time or service providers inaccurately claiming that they are providing service on behalf of 'the government'.

It has been reported that householders wanting to participate in the REES often receive little help from retailers' call centres, with some customers complaining that their retailer's customer service staff appeared unaware of the REES and unable to advise how the customer could participate.

Recently DMITRE's Energy Advisory Service has received complaints that householders wishing to participate in REES are unable to do so, and that waiting lists for REES activities and audits are unacceptably long. This may damage public confidence in the REES, and more importantly, suggests a significant unmet demand for energy efficiency assistance among South Australian households.

At present, there are very few providers of energy auditing and energy management services at the residential level other than those contracted to retailers to deliver REES services.

Questions

- Should the Code's customer protection quality control standards be improved and if so, how?
- Should the identification of REES service providers who visit homes be made more standardised and/or should service providers' employees carry government certification?
- Should service providers provide householders with a standard factsheet about the REES, which provides contact details if the householder has follow up questions or concerns?
- How can access to the REES be improved for householders who wish to participate (e.g. better call centre responses, directory of third party service providers, on-line registration of interest through retailer websites)?
- If demand for REES services is exceeding supply, how should access to the services be rationed in the absence of a commercial response to the demand?
- Is there a role for Government outside the REES environment to facilitate the growth of an energy efficiency services industry for the residential sector?

8 A National Energy Savings Initiative

Under the Clean Energy Futures Plan, and in response to a recommendation of the Prime Minister's Task Group on Energy Efficiency, the Commonwealth Government is investigating the merits of a national Energy Savings Initiative (NESI).

In the initial round of consultations, stakeholders have raised concerns about the differences and level of duplication in residential energy saving schemes between states and potentially the NESI.

The Commonwealth Government led NESI would only be implemented if jurisdictions with existing retailer obligation schemes, such as the REES, agree to replace their state based schemes with the Commonwealth Government scheme.

The NESI is still at a very early development stage and there is no certainty that it will proceed. Stakeholders are invited to comment on what aspect of the current REES should be preserved under any future national scheme, such as the low-income component or requirement to offer home energy auditing.

Some jurisdictions do not currently have legislated energy efficiency schemes. Should a national scheme commence, there may be a risk that obliged parties with national, rather than State-based targets, would focus on the easiest options in such states, to the detriment of South Australian households and service providers where the lower cost or more easily implemented activities have reached saturation.

Questions

- How could the REES transition if a national scheme is established? What would be an appropriate timeframe for transition to minimise the costs of change?
- What REES elements should be included under a national scheme?
- Should State-based targets continue under a national scheme to ensure the continued delivery of energy efficiency benefits to South Australians?

9 National Consistency

The REES administrators are in regular contact with administrators of the VEET and the ESS to improve alignment of the schemes. Improved harmonisation of elements of the schemes enables retailers and service providers to operate more efficiently across states.

Some REES energy retailers and service providers have indicated that more could be done in this area. Retailers in particular have indicated that the REES imposes a higher administrative burden than other energy saving schemes interstate.

One suggestion is that the REES should permit certificates to be traded. However, the VEET and ESS incur higher central administration costs than the REES because of the certificate verification and trading arrangements.

Questions

- Should the REES allow for tradable certificates?
- Should the REES be expanded to include non-residential sectors?
- Are there other elements of interstate schemes that it would be beneficial to incorporate in the REES?

10 Complementarity to a Carbon Price

On 13 April 2012, COAG agreed to the rationalisation of carbon reduction and energy efficiency schemes in the context of the operation of a carbon price after 1 July 2012.

The COAG work aims to streamline climate change measures to ensure that they are complementary to the carbon price and do not seek to duplicate its effect. The REES is one of the energy saving schemes to be considered in this review. ESCOSA's cost-benefit analysis of Stage 1 of the REES found that the REES could not be justified on the basis of carbon emissions abatement alone.

The intent of the carbon price is to encourage people and businesses to choose low carbon alternatives, by increasing the relative price of higher emission goods and services. For energy consumers, the carbon price is expected to drive more energy efficient behaviour.

However, in order to address concerns about cost of living rises, the Commonwealth introduced a means-tested compensation system to offset the impact of the carbon price on household energy prices. This has had the effect of diminishing or neutralising the carbon price signal for most residential customers.

Questions

- Does the introduction of a carbon price remove the need for a greenhouse gas reduction objective in the REES?
- Is the REES complementary to the carbon price in that it will achieve greater reduction of emissions than could be achieved through a carbon price alone?

11 Funding

ESCOSA's 2009-2011 Annual Report into the administration of stage 1 of the REES notes that the REES is currently funded through a cross subsidy from all retail electricity and gas customers. ESCOSA expressed concern that this cross subsidy may be inconsistent with the principle of having energy retail prices that reflect the efficient costs of energy supply. ESCOSA's suggested that if the REES continues, it should be funded directly by government.

The scheme design considered different funding models, and the current approach of requiring retailers to pay for the scheme and pass through the costs to their customers was preferred.

Most international energy efficiency schemes are at least partially funded through energy tariffs, sometimes as a specifically identified surcharge (e.g. China's 'city utility surcharge', or California's 'public goods charge', which enable the surcharge to be applied in a way that targets high consumption users), but often just through allowing an unidentified pass-through in retail tariffs (Europe, UK, Canada, Korea). In some systems, there is partial subsidisation from governments, or emissions trading schemes, or co-funding of some energy efficiency measures by

householders themselves, although the latter may be a barrier to participation by low income customers.

ESCOSA has estimated that the annual cost is about \$14 per residential customer, this is approximately equivalent to the savings that could be achieved by replacing one incandescent light globe with an energy saving alternative.

Questions

- If the scheme continues beyond 2014, how should it be funded?

12 Communications and Public Awareness

Stakeholders have noted that there is widespread lack of awareness in the community about the REES, which can make it difficult for service providers to engage with householders. No significant resources have been invested in publicising the scheme and, in general, householders have been recruited for participation in the REES through direct marketing by service providers.

Anecdotal evidence suggests that there is low awareness of the REES even among retailers' own call centre staff.

It is worth noting the REES targets provide for a limited number of activities to be undertaken, so greater awareness may lead to a demand for service that exceeds the established targets. There is some indication that this may currently be occurring as a result of reference to the REES in the media and through communication from Members of Parliament to their constituents.

Questions

- Is there a need to increase public awareness of the REES, and how could this be done?
- Who is best placed to undertake communications about the REES?
- How can communications about the REES be improved?
- Is there a risk of demand for REES activities and audits exceeding the capacity of service providers or the willingness of retailers to supply?

13 Timeframe

Comments are invited on the matters raised in this Issues Paper or on any other matter connected with the REES and the effectiveness of its operation. Submissions should be sent to DMITRE.REESReview@sa.gov.au by 4 pm, **12 November 2012**.

Timeframe - Scheme Review

Milestone	Date
Scoping and establishment of the Review	
Draft high-level scope and consult with selected stakeholders	early July 2012
Issues paper	
Released for consultation	08 October 2012
Submissions close	12 November 2012
Review submissions	late November 2012
Independent evaluation	
Develop terms of reference for independent evaluation	October 2012
Tender for independent evaluation released	late October 2012
Commencement of work	late November 2012
Independent review draft report	late February 2013
Independent review final report	late March 2013
Field work	
Field work commissioned	November 2012
Field work completed and report provided	December 2012
Review report	
Draft Review report prepared	mid April 2013
Consultation with stakeholders on Review recommendations	end of May 2013
Finalise review and cabinet submission on recommendations	end of June 2013
Cabinet considerations of recommendations	end of July 2013
Post review work (if needed)	
Regulatory changes	to end of 2014
Targets for 2015 and beyond	by mid 2014

Further References

REES Code

<http://www.escosa.sa.gov.au/library/111130-REESCode04.pdf>

REES bulletin on customer protection

<http://www.escosa.sa.gov.au/library/120709-REESBulletin-6-ConsumerProtections.pdf>

The *Competition and Consumer Act 2010*

<http://www.accc.gov.au/content/index.phtml/itemId/815215>

Proposed National Energy Efficiency Scheme

<http://www.climatechange.gov.au/government/initiatives/energy-savings-initiative.aspx>

COAG commitment to rationalise carbon reduction and energy efficiency schemes

http://www.coag.gov.au/coag_meeting_outcomes/2012-04-13/docs/COAGCommunique13April2012.doc

The VEET – the Victorian retailer obligation scheme

<https://www.veet.vic.gov.au/Public/Public.aspx?id=Home>

The NSW Energy Saving Scheme

<http://www.greenhousegas.nsw.gov.au/ESS/ess.asp>

Information about the REES

<http://www.escosa.sa.gov.au/residential-energy-efficiency-scheme-rees.aspx>

REES Annual Report

http://www.escosa.sa.gov.au/library/120629-REESAnnualReport_2009-2011.pdf

Progress Report: National Energy Savings Initiative

<http://www.ret.gov.au/energy/efficiency/savings/nesi-progress/Pages/index.aspx>

International Energy Agency - Regulatory Assistance Project (2012) Best Practices in Designing and Implementing Energy Efficiency Obligation Schemes

<http://www.raonline.org/document/download/id/5003>