Conservation Council of South Australia Inc

Submission on the Residential Energy Efficiency Scheme

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Introduction

The Conservation Council of South Australia (CCSA) is South Australia's peak non-government community environment organisation. Formed in 1971, it is an umbrella group for around 55 of the state's diverse environment groups, who collectively represent some 60,000 individuals.

CCSA is pleased to make a submission on **Residential Energy Efficiency Scheme** and welcomes this initiative of the South Australian Government.

Preamble:

CCSA support the State Government's proposed introduction of a REES as a cost effective and innovative approach to simultaneously address both climate change mitigation and adaptation. Provision of energy efficiency measures such as insulation, draught proofing, more efficient lighting and retiring older less efficient appliances and providing energy audits, achieves multiple goals and is an initiative that we wholeheartedly support.

Specific responses to questions posed by the consultation paper are listed below.

6: Thresholds

On the question of thresholds, CCSA does not have a firm opinion, but would consider the principle that the scheme should be as broadly based as possible to ensure a level playing field, and that it does not create any perverse incentives to game the system, by for instance, companies creating smaller offshoot companies specifically to take advantage of being able to offer cheaper power (as they don't have to load a REES component onto their bills)

This could unwittingly act as an incentive NOT to sign up with a participating retailer.

CCSA believe that the Government should require all retailers to participate in the interests of a level playing field.

We do not consider the regulatory or fiscal burden associated with the scheme is so significant to act as any disincentive to any prospective entrants into the market. In short, if you are sufficiently large enough to enter the market as an energy retailer, you are sufficiently large enough to participate in the scheme, given the already established benefits to the environment and economy by doing so.

8.3 Approval of other energy efficiency measures.

CCSA consider that this scheme should be based on principles of environmental benefit, effectiveness of achieving stated goals and equity. We believe given Australia's position on achieving GHG reductions it is imperative that the country adopts in effect a war footing towards this issue.

As such, the concept of corporate gain should be subsumed to that of the national and international good.

We do not believe that any incentive for innovation should preclude widespread adoption of any particular mechanism.

If indeed the initiative is assessed by ESCOSA as suitable for addition to the list of pre-approved measures, thus demonstrating its suitability as a practical means of achieving energy savings, then it should be made as widely available to all retailers.

Having said that, in recognition of the need to actually provide some incentives for innovation, and to compensate retailers for research and development costs associated with such, it would be appropriate to give further consideration to other mechanisms to acknowledge and appropriately compensate and reward the investment in creating such intellectual property.

Whatever the specific form such incentives should take, they should not impinge upon the widespread adoption of such measures, if indeed they fit the criteria and are therefore worthy of inclusion in the list of pre-approved measures.

9. Priority Group

CCSA believe it is not necessary to 're-invent the wheel" in terms of ascertaining what households constitute low-income households (LIH) and thus worthy of priority assistance.

We support the concept that existing and readily available methods of identifying target households be used.

This may include as discussed by the consultation paper, the use of eligibility criteria such as State or Commonwealth concession cardholders, (including carer pensioners – a group who were not mentioned in the discussion paper).

Here the pre-eminent principle should be that of making the advantages of the scheme available to as wide an audience as possible. CCSA acknowledges that often low-income households face a double whammy of having to spend a far higher proportion of their disposable income on energy costs that wealthier households. This in turn, can have serious consequences of household budgets, and can contribute to financial and physical stress, ill health and other negative consequences, for the household and its members.

The fact that many LIH are in the rental market, means the issue of split incentives is also crucial to be addressed. The paradox is that for LIH to benefit, the subsidy must be directed at middle to high income investors that own the rental properties.

CCSA would be keen to see the rollout of the scheme across socio-economic boundaries. It will therefore be important to ensure amongst other factors, that there is no stigma attached to the scheme, if it is perceived to be aimed solely at LIH. Middle to high income households are likely to spend a large amount in absolute terms of their household budget on energy, and are perhaps in a better position to take advantage of some of the more capital intensive options – eg purchase of a replacement fridge that may require a more substantial investment from the householder up front.

10. Energy Services

The proposed minimum specification for energy audits appears to be appropriate – although it should be monitored by ESCOSA in conjunction with stakeholders to ensure it remains relevant.

The question of whether retailers should be required to deliver a proportion of energy audits to "vulnerable LIH" is a vexed one.

It is acknowledged that one of the most important factors in the success of this scheme will be to have buy-in from the community concerned. Compact fluorescent lighting (CFLs) will be ineffective if they are not installed in the first place, or are removed and on sold.

Similarly, careful analysis of the efficacy of the provision of reasonably expensive whitegoods as an appropriate method of assisting LIHs should be undertaken to minimise the possibility of these resources being misused against the spirit of the scheme (for instance being on sold for a windfall profit).

Again, as a guiding principle, the desire to rollout the scheme as widely and as quickly as possible, whilst maintaining its effectiveness, should be the primary consideration. CCSA would like to see the scheme be available to as many LIHs and others that did want to participate. If however, retailers were forced to comply with a minimum proportion of audits to be done within a specific community (who for example may not necessarily be sufficiently engaged with the process) there is a danger the scheme may not achieve the goals it has set itself. If that were to undermine the viability of the scheme in the longer term, that would be counterproductive and would be an unwanted outcome of a regulation intended to have a positive effect.

In light of the US experience (where a major retailer/generator PG&E profited through providing energy efficient CFLs to residents instead of building further generation capacity) it may well be that such a scheme is revenue neutral, or may even be revenue positive, when the decline in requirements for peak power are taken into account.

if substantial reductions in energy consumption do occur (as is the aim) then it is quite possible that purchase of peak power at premium prices and or extra generation capacity may not be required – thus potentially saving generators and electricity retailers considerable amounts of generating capacity and dollars.

Any financial benefit accruing to retailers as a consequence of the success of such a scheme should be correspondingly passed back to consumers.

11. Commencement Staging and Duration

We applaud the rapid rollout and implementation of the REES scheme and the provision for a staged rollout to allow for finetuning and further modification of the system should it be required in light of changing developments in the state or national energy markets, or in light of the success or otherwise of the scheme..

We believe a formalised Customer / Stakeholder reference group could be established and should contain representatives from the environment and conservation movements as a matter of course.

13. Retailer targets

CCSA believe the basis for allocation of energy efficiency and energy services targets is appropriate although in our opinion the estimates provided for energy services targets (audits) are very conservative. 5000 audits per year works out to only 13 a day. Based on each audit taking around 1.5 hours – or 2 if you include travelling time (making the assumption that audits could be grouped by suburb at least) implies only three auditors doing four audits per day each, which seems a very unambitious target.

We believe further analysis and modelling is required to come up with a more ambitious targets – Ultimately CCSA believe we should set a target of 100% of SA households to participate in the scheme, through a combination of carrots and sticks; financial incentives and punitive measures to encourage compliance.

The requirements to become an auditor are not particularly onerous – two-day courses have been offered through DTEI in the past for instance, and allow the auditors to achieve competency in the field. A "barefoot auditors" program could conceivable achieve multiple goals of assisting LIHs and others to save energy, reduce energy bills, boost household budgets, reduce carbon emissions, encourage alternative and innovative approaches to energy efficiency, including alternative /renewable energy provision and associated technologies. These incentives would certainly give industry an incentive to continue to develop products and services that benefit the consumer and the environment.

CCS supports the incorporation of Green Energy sales into the residential sector being offset against the retailers' targets to ensure that the REES does in fact complement retailers efforts to promote green energy.

15. Compliance and reporting

With regard to the type and level of information that retailers should be required to submit in an Implementation Plan CCSA consider the information outlined in this section would be adequate. We support the suggestion that it be signed off on by the energy retailers Board of Directors (or equivalent).

CCSA do not consider this requirement should prove to be overly onerous in terms of any impost on retailers as a necessary compliance cost.

If desired, there could be a requirement that the REES Customer /Stakeholder Reference group re-examine the requirements at a certain stage, or on a regular basis to ensure that the requirements for IPs are reasonable, effective and up to date.

On the question of whether retailers should be able to "bank" unlimited credits and if so should the credits have a set life; and whether the REES could allow a 10% shortfall to give retailers flexibility in meeting targets?

Based on the principles of maximising the ease of compliance, flexibility and incentives for retailers to comply and co-operate with the REES scheme in good faith, CCSA would support measures to enhance the competitiveness, practicality and efficiency of the scheme, such as allowing for the "banking" of credits.

Consistency with, and potential compatibility with, interstate schemes such as the VEET is to be preferred and would reduce the opportunity for any gaming of the system.

CCSA certainly believe a "make good provision" is an essential part of any compliance regime. The integrity of the targets must be the overriding consideration in this respect.

The level of any penalty is an important consideration to ensure a reasonable incentive to comply for participants. It is appropriate that the penalty be structured on a sliding scale with lower penalties for smaller shortfalls.

Scheme Administration

CCSA recommends a Customer/ Stakeholder Reference group be established to include especially representatives from the Environment /Conservation and community sectors. At a minimum, ESCOSA's CAC should be tasked with reviewing the performance of the REES in terms of the suitability and efficacy of the scheme, pre-approved measures (it should not be too onerous a process to ensure innovation is not stifled)

The REES scheme should be subject to a regular review, to ensure it evolves in response to energy and greenhouse policy at both a state and federal level.

Consistency and compatibility potentially with other schemes is important and if the scheme is successful, facilitation of a national approach should be warranted.

Changes in the design or operation of the REES scheme to be made in consultation with stakeholders is to be commended.

Conclusion:

CCSA commends the government on this initiative to develop and introduce the REES. To ensure its effectiveness it is critical that a range of information be widely distributed and appropriately marketed and resourced.

The integration of the scheme with existing government awareness campaigns such as the "black balloons" is supported to raise consumer awareness about the opportunities the REES scheme offers to save money and save energy whilst improving householder comfort.