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Ms Tina Maiese
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Working for your business.
Working for South Australia

Dear Ms Maiese

I write in response to your request for submissions to the State Government's review of the South Australian Retailer Energy Efficiency Scheme (REES).

Executive Summary

- Business SA originally advocated for the extension of the REES to small business and we have been pleased to see significant adoption since 2015, particularly in the form of commercial LED lighting upgrades where there is still substantial latent demand.
- While Business SA acknowledges an updated cost/benefit analysis of REES is still to be finalised, and needs to be carefully weighed against other Government market interventions, feedback from members indicates genuine demand for this scheme to continue, even if that requires reconfiguring to better accommodate changing needs, particularly in relation to demand management.
- High gas costs continue to prevail for local businesses and Business SA recommends the State Government follow interstate precedent to include gas efficiency measures within an updated REES, particularly if it is aiming to be a genuine 'energy' efficiency scheme.
- The relatively lower adoption of REES in regional South Australia should be addressed as part of the Review and may require more targeted promoting through local organisations such as Chambers of Commerce to provide confidence in what REES can actually offer.

Should you require any further information or have questions, please contact
Andrew McKenna, Senior Policy Adviser, on (08) 8300 0009 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
Executive Director, Industry and Government Engagement

Australian Chamber of Commerce and Industry Member

SOUTH AUSTRALIA

Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, with a history dating back to 1839, Business SA is the peak business membership organisation in the State. Our 3,000 members are affected by this matter in the following ways:

- In a state where small businesses face the highest electricity bills in Australia, it is critical that improving energy efficiency forms a key plank of any Government strategy to reduce costs
- Since the REES was extended to small business in 2015, it has received significant take-up which has primarily been in the form of LED lighting upgrades
- Energy includes 'gas' and rising gas costs over the past five years have also had a substantial impact on SMEs but as yet this not really been addressed through REES

Business SA has commented on relevant topics raised in the Review's discussion paper:

1. Scheme Objectives

Business SA agrees that the changing energy landscape should be cause for review of the REES objectives. This should run parallel with changes occurring in the market, for example SA Power Networks' (SAPN) proposed shift to cost-reflective time-of-use (ToU) tariffs for small market customers from 1 July 2020. Should this be accepted by the Australian Energy Regulator (AER), it may then be valid for REES to include activities which can assist small consumers to reduce demand during peak times. However, it would seem SAPN's issues related to minimum demand management in the solar trough are unlikely to be solved through activities introduced under REES.

Business SA would also caution against REES being used to achieve objectives related to network reliability or system security, particularly as significant money is already being expended by transmission networks and the Australian Energy Market Operator (AEMO) to address such issues. AEMO's market directions, ElectraNet's synchronous condensers and the proposed interconnector to NSW are also significant costs/investments which are ultimately paid for by electricity consumers and we are mindful that Governments interference in the market should be strictly limited and targeted to achieve optimal benefit.

2. Commercial or Residential

There is no doubt that the extension of the REES to small business in 2015 has been very successful and we acknowledge that energy savings from commercial activities now comprise 77 per cent of total scheme savings, with essentially all savings arising through commercial lighting upgrades[1].

While there is an argument that the REES subsidies should flow to where the market will achieve the most savings from energy efficiencies, Business SA is also mindful that residential air-conditioning is still the major driver of the summertime peak demand in South Australia.

[1] ESCOSA, 2017 REES Annual Report, p 1

Notwithstanding, there is nothing directly available or adopted under REES which acts to improve the efficiency of residential or commercial air-conditioning, except replacement of entire units for residential properties which would appear to have a very low payback and is not being adopted by retailers. This is an area which should be a focus for the current Review in so far as whether any HVAC control upgrades could be a lower cost means to achieve traction with peak demand issues.

Ultimately the scheme should support both residential and small business consumers to improve energy efficiency, but it should also be designed to account for the differing impacts each consumer class has more generally on the entire grid.

3. Specific Activities

While commercial LED lighting upgrades have certainly increased substantially under REES, it is not necessarily business as usual. Business as usual is still replacing individual lights and Business SA would support REES continuing to offer commercial lighting as an activity, although we accept it could be more limited to allow for other activities which are becoming more relevant for small business, including peak demand management and gas efficiency.

For several years Business SA has been raising the need for the State Government to consider addressing gas efficiency measures for activities under REES. Whether that is programmable thermostats to maintain temperatures for relative demand, or other forms of relatively low-cost activities, in some way REES needs to address the need for small businesses to mitigate against all energy costs, and not just electricity costs.

In New South Wales, their equivalent Energy Savers Scheme (ESS) supports activities related to business gas efficiency, for example upgrading hot water and steam systems. The VEET scheme in Victoria also supports gas efficiency through multiple activities and South Australia should consider following suit.

In relation to overall costs of REES, Business SA would suggest that many of the available activities for residential consumers could be limited, for example standby power controllers which were recently revoked in Victoria, with a stronger focus on targeting limited funding towards higher payoff activities.

4. Energy Audits

Business SA is mindful that the Federal Government recently announced a new scheme to fund energy advice for small businesses, including in relation to efficiency, and at this stage we would not support duplication of Government intervention at a state level through REES. Energy auditing for small businesses is also a much more complex area, dependent on industry, and we would not see it as being conducive for inclusion in a market wide scheme such as REES.

5. Expanding to Demand Management

In answering the Review's question, '*Should REES primarily focus on reducing energy use or managing energy demand*?", Business SA suggests the State Government primarily consider what is driving electricity costs. At a network level, SAPN's rule of thumb is that energy demand drives about half their costs with energy use the remainder. While it is not as simple to just extrapolate that logic out to the wholesale market, it is worth thinking about the fact that peaks in the wholesale market typically occur at times of highest demand – so essentially, focusing on energy use at times of highest demand is on balance going to have a higher impact on total energy costs for small consumers than just focussing on energy efficiency.

Consequently, any future REES should have at least have an equivalent focus on demand management relative to energy efficiency. However, the measurement of REES' success in reducing energy costs related to peak demand may require alternative forms of measurement for it would not be a straight forward measure of energy savings.

6. Regional Impact

It is disappointing to know that the REES gets relatively less traction in regional areas, particularly when those same businesses face at least equivalent, if not higher, electricity costs.

While it is not necessarily simple to improve take-up in regional areas, the general scepticism in regions about Government programs may necessitate a more targeted push – for example via local Chambers of Commerce.

7. Funding

Business SA is always cognisant that any Government policy intervention in the market always comes at a cost which must be weighed against both existing energy prices, and the likelihood that the scheme will achieve outcomes the market would not achieve in its absence.

Without seeing the updated cost/benefit analysis which we expect will be distributed in due course, it is difficult to make an informed comment on the entire value proposition for REES, but what is clear is that small businesses have responded quite convincingly since their inclusion in 2015 and Business SA would be hesitant to recommend REES be removed when it is still achieving strong penetration within the commercial sector.

Feedback provided to Business SA also suggests that many small businesses are still not aware of lighting upgrades available through REES and while there is often prominent advertising from some retailers, this may be perceived as coming with 'a catch' which is something the Review may want to consider in so far as what other avenues there are to promote REES.

Having REES continue to be funded through energy tariffs will assist with transparency and keep pressure on the State Government to ensure REES has least impact on energy costs.

8. National Harmonisation

Business SA requests the State Government consider whether its objectives through REES could be better achieved through a nationally harmonised scheme. Recognising that South Australia alone cannot effect this change, it would seem a review of the future of REES should at least weigh up the costs of benefits of seeking interstate support for a nationally harmonised scheme against retaining a state-based scheme. This is particularly relevant when many of the activities are already based on interstate precedent.

Business SA's general position is that where possible in a national energy market we should be trying to achieve consistency across jurisdictions, which largely occurs with COAG controlled regulators, but energy efficiency schemes seem not to have been a focus of national coordination.

Business SA acknowledges that the equivalent NSW version of REES, its Energy Savers Scheme, makes the following statement on its website in relation to its future: '*set to run to 2025 or until there is an equivalent national scheme'.* This implies other states are open to a national scheme and there is no reason why this cannot be led by South Australia.