



Submission by
Alternative Technology Association

On the

South Australian Residential Energy Efficiency Scheme

Consultation Paper

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By e-mail to: dtei.enquiries@saugov.sa.gov.au

For further information or enquiries contact:

Brad Shone
Energy Policy Manager
ATA – Alternative Technology Association
(03) 9631 5406
E-mail: Brad.Shone@ata.org.au

ATA's submission to the *South Australian Residential Energy Efficiency Scheme* Discussion Paper of February 2008

The Alternative Technology Association (ATA) welcomes the opportunity to provide comment on the *South Australian Residential Energy Efficiency Scheme Discussion Paper* (the Discussion Paper), as prepared by the Department for Transport, Energy and Infrastructure.

ATA is a not-for-profit organisation established in 1980 to promote the uptake of sustainable technologies in order to protect our environment. The organisation provides service to over 4000 members, who are actively promoting sustainability in their own homes by using good building design and implementing water conservation and renewable energy technologies. ATA advocates in both the government and industry arena for ease of access and continual improvement of these technologies, as well as the production and promotion of information and products needed to change the way we live.

ATA welcomes the initiative of the South Australian Government in joining Victoria and New South Wales in implementing a mandated target for energy efficiency. Energy efficiency targets and white certificate schemes have achieved high levels of success internationally, most notably in the UK and Italy, and the South Australian Government should be commended in taking action in this essential area in the absence of federal leadership.

It is widely accepted that energy efficiency measures have an enormous potential to reduce energy consumption leading to a reduction in emissions of greenhouse gases from electricity generation, and the Residential Energy Efficiency Scheme (the Scheme) is an excellent initiative providing a mechanism for achieving this goal.

Comments on Scheme Design

6. Thresholds

In order for the Residential Energy Efficiency Scheme (the Scheme) to have the broadest reach and diversity of active participants, ATA believes that the involvement of all retailers needs to be encouraged. However, this needs to be balanced against disproportionately burdening smaller participants and thus creating barriers to market entry. As such ATA supports the involvement of all licensed retailers in the Scheme above a defined threshold.

ATA encourages the South Australian Government to set the threshold based on a per customer basis, as this provides a clearly defined and easily identifiable level, as well as offering consistency with other jurisdictions. We believe the threshold should be set at 5,000 customers, in order to provide consistency with the Victorian Energy Efficiency Target scheme, in the acknowledgement that many retailers will be operating in both jurisdictions.

8. Energy Efficiency Measures

It is important that a full range energy efficiency measures be included as eligible activities in the REES to ensure the least-cost and most efficient implementation of the scheme. Provided the additionality test is met and the measure isn't required through other forms of regulation, and that the measure complies with strict verification criteria, ATA believes there should be no limitations on the energy efficiency activity eligible for the creation of certificates.

However, ATA believes that eligibility must be limited to energy efficiency measures, with additional greenhouse gas reduction activities such as renewable energy micro-generation, be catered for through alternate measures. Whilst such initiatives have an important role to play in reducing South Australia's emissions of greenhouse gas from energy, these are best assisted through mechanisms tailored to their specific needs.

'Beyond compliance' should be seen as an essential criteria for the scheme and measures exceeding minimum standards and regulatory requirements should be encouraged though eligibility for the scheme. However, mere compliance with regulatory obligations should be strictly prohibited.

Financial additionality, on the other hand, should be ignored in the development of the scheme, as it would potentially exclude a wide range of beneficial measures, the type of which the scheme is trying to encourage. The exclusion of these low-cost efficiency measures would lead to significant compliance of REES, greatly reducing the efficiency of the Scheme.

At present, in the absence of an incentive scheme, many energy efficiency initiatives can easily be justified by an economically rational decision-making process. However, large sections of the population fail to undertake these measures, either through ignorance, inertia or perceived financial barriers. The South Australian REES offers the added incentive required to ensure that these low-cost and effective measures be taken.

However, ATA believes that in order to ensure a workable and efficient scheme, eligible activities should include a combination of pre-approval and energy-auditing or engineering, whichever is most appropriate for the relevant eligible activity. In the case of pre-approval, the benefits of measures should be allocated upfront ('deemed') for the saving achieved by the energy efficiency measure over a specified deeming period.

Whilst it is acknowledged that, in allowing for upfront deeming of certificates, there is a small distortion in actual emissions savings through the concentration of lifetime savings into one year, the absence of upfront allocation would exclude many long-term efficiency measures from the scheme until many years after installation. This would preclude many important energy efficiency measures from benefiting from the scheme, and as such is undesirable. As such, ATA accepts the need for a level of deeming, as proposed by the South Australian Government.

ATA acknowledges the view presented in the Discussion Paper that it would be 'prohibitively expensive' to require energy auditing for all energy efficiency activities. However, we believe that it is essential that, in order to maintain the integrity of the Scheme, that energy efficiency measures are as accountable and verifiable as possible.

One of the best ways to ensure this is to directly engage the energy services sector in delivering energy efficiency initiatives in homes. The success and credibility of the scheme depends in a large part on the verifiable implementation of energy efficiency measures. The New South Wales Greenhouse Gas Abatement Scheme (GGAS) suffered from credibility concerns stemming from free giveaways of compact fluorescent lamps and low-flow shower heads, due to uncertainty about the actual installation of these devices.

Where giveaways may not lead to actual installation of the energy efficiency device, the involvement of the energy services sector in the implementation of measures will ensure measures are undertaken with a greater degree of certainty. As such, ATA believes that there needs to be a strong engagement of the energy services sector in the implementation of this scheme beyond that required by the energy services target, particularly where the energy savings are likely to be large or difficult to pre-determine.

9. Priority groups

ATA welcomes the initiative of the South Australian Government to target the REES at low income households as a priority group. International examples, such as the UK's Energy Efficiency Commitment (EEC), have displayed success with the adoption of a portfolio approach targeting priority groups, and as such we support a similar approach in South Australia.

10. Energy Services

ATA welcomes the inclusion of an *energy services target* to complement an *energy efficiency target* for the Scheme. Energy auditing offers a verified, quantified assessment of energy demand for a

household, enabling better targeted energy efficiency measures. By comparison, electricity retailers in Victoria are presently required to offer energy audits as part of a well-constructed hardship program designed to identify the areas of greatest needs for vulnerable and disadvantaged consumers, retrofit homes to improve performance and educate consumers to ensure that cycles of high energy bills are broken.

Additionally, international examples have shown that energy efficiency targets and energy auditing requirements can lead to the establishment of a strong energy services sector, with over 160 Energy Service Companies (ESCOs) registered in Italy within six months of implementation of that nations white certificates scheme¹. The South Australian REES has the potential to give rise to a booming energy services sector which will flow on to benefit both activities within and beyond the Scheme.

ATA believes that the minimum specifications for an energy audit are largely appropriate and acceptable. We accept the need to ensure that energy auditors are suitably qualified for the role, and support the provision of ESCOSA-approved training courses for up-skilling people for the task or conducting energy audits. However, in addition, we feel there needs to be an acknowledgement of individuals already working in the field who may have the necessary skills and experience to undertake such audits without additional training.

ATA would recommend the ability to recognise prior leaning of such individuals, either through the availability of a simple accreditation process for each accredited course or some other simple means to verify the skills of those already working in the field. Any new and innovative programme of this kind requires the ability to capture the skills and knowledge of those already working in the field, and ATA believe it is essential that these skills be harnessed and enhanced for the benefit of the efficiency of the Scheme.

12. Stage Targets

ATA strongly believes that the effectiveness of any energy efficiency target scheme relies on the establishment of clear and achievable targets. In establishing a scheme target consideration needs to be given to the overall goal of the scheme, which is to achieve a net reduction in greenhouse gas emissions via reduced energy consumption.

In 2005, South Australian domestic and commercial buildings were responsible for 7.6 million tonnes of CO₂-e². Given residential building represent greater than half of these emissions³, the proposed target of between 140,000 and 320,000 tonnes of CO₂-e per annum in the first three years would represent a reduction of roughly between 3% and 8%. ATA strongly believes that the South Australian Government should be reaching for a far more ambitious target than this, particularly in the latter stages of the scheme. By comparison, the Victorian Energy Efficiency Target is aiming for a 10% reduction by 2010.

ATA believes that four-year phasing of targets provides an adequate level of certainty and flexibility in the scheme in order for it to achieve its primary goal. Targets could be set for each subsequent four year period at the beginning of that phase, in line with an ambitious overall long-term emissions reduction goal.

ATA encourages the use of a profile approach to setting annual targets in order to facilitate the orderly and sustainable development of an energy services sector in South Australia. By providing certainty through annual target, within longer term goals and scheme duration, energy services companies have the ability to develop and grow in an orderly and manageable manner.

Whilst ATA accepts that a fixed level of reduction based on forecast energy consumption provides greater certainty in the short term, it is heavily dependent on the accuracy of consumption forecasts in terms of its ability to achieve the primary goal of the scheme.

¹ Autorità per l'energia elettrica e il gas 2005, *One hundred sixty-two firms accredited as energy service companies*, Autorità per l'energia elettrica e il gas, http://www.autorita.energia.it/inglese/press/eng_index.htm [Accessed 11/05/2007]

² South Australian Government *Tackling Climate Change - Greenhouse and Climate Change* website: http://www.climatechange.sa.gov.au/greenhouse/saemissions_3_1.htm [Accessed on 02/04/08]

³ South Australian Government (2007) *Tackling Climate Change*, Page 41

As evidenced by the federal Mandatory Renewable Energy Target scheme, setting of fixed targets based on projected consumption levels is fraught with danger. By transforming an 'additional 2% renewable energy' target into a fixed quantity based on projections, greater than expected electricity consumption has led to an overall percentage of renewable energy far below the intended 12.5% level. Indeed, at the scheme's end it is quite likely that the renewable energy component of Australia's electricity generation mix will be below what it was at the scheme's inception.

Annual targets could be provided with 'gateways' acting as potential range for future targets, allowing for annual adjustments and updates as progress towards the target is assessed. A similar approach has been proposed for an emission trading cap by the National Emission Trading Taskforce⁴. Although gateways do not provide exact future targets, they do provide a range of potential future commitments, creating a degree of certainty for the sector, and the flexibility to adjust to the changing dynamics of energy consumption.

13. Retailer Targets

ATA strongly supports the use of greenhouse gas emissions based targets for individual retailers. The promotion of GreenPower by retailers should be rewarded and ATA support the subtraction of GreenPower sales from the total energy sales of a retailer in determining their commitment under the Scheme as a sensible and innovative way of rewarding complementary activities by retailers.

However, ATA cautions the South Australian Government to ensure that only sales to customers on 100% GreenPower plans be subtracted. For sales to customers on less than 100% schemes, all subtractions should be proportional to the percentage of accredited GreenPower the customer is purchasing.

15. Compliance and Reporting

ATA strongly believes that borrowing of credits be prohibited from the Scheme, as it opens the door for gaming of the system by relevant entities, distorts the market for certificates and could potentially lead to non-compliance and underperformance of the scheme itself. The potential of relevant entities avoiding their obligation prior to reaching insolvency, leaving no avenue for making good on their obligations and the avoidance of paying their shortfall penalty.

ATA believes that banking of certificates should be allowed under REES in order to provide flexibility to the relevant entities to meet their obligation, and in order to encourage early action on energy efficiency. However banking should be limited to a maximum of five years in order to support the integrity of the scheme.

Compliance with REES is essential for its effectiveness and integrity, and hence should be encouraged in the strongest possible way. ATA strongly believes that stringent penalties should exist for any shortfall, coupled with a make-good provision requiring non-compliant relevant entities to provide certificates to the level on non-compliance in the following year.

A financial penalty for shortfall without any requirement to make up excess emissions provides no mechanism for failure to meet the desired emissions target. Limited financial penalties to non-compliant parties do nothing to ameliorate the damage caused by excess emissions and the cumulative impacts of GHG emissions, and threaten the integrity of the scheme.

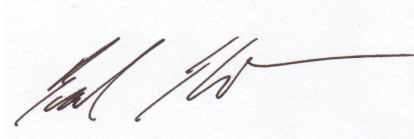
ATA would encourage a shortfall penalty in the order of \$40 per tonne of CO₂-e to ensure compliance, and in light of transitioning to integration with other schemes. Whilst it is acknowledged that this places a high cost cap on the scheme, it is essential that REES doesn't undercut the effective operation of any future emissions trading scheme through the provision of a low-cost get-out-of-jail option.

⁴ National Emissions Trading Taskforce, 2006. *Possible Design for a National Greenhouse Gas Emissions Trading Scheme*. Chapter 3: Scheme Cap.

Further Contact

ATA commends the South Australian Government on the implementation of this innovative energy efficiency target scheme, and would welcome the opportunity to discuss any aspect of this submission further. Please direct any questions or further correspondence to Brad Shone, Energy Policy Manager, on (03) 9631 5406 or by email at Brad.Shone@ata.org.au

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Brad Shone', is written over a light grey rectangular background.

Brad Shone
Energy Policy Manager
ATA – Alternative Technology Association