



REES

## Retailer Energy Efficiency Scheme Regulatory Framework – Information sheet



The purpose of this information sheet is to provide an overview of the South Australian Retailer Energy Efficiency Scheme (**REES**)

REES is a South Australian Government energy efficiency scheme that provides incentives for South Australian households and businesses to save energy. It does this through establishing energy efficiency and audit targets to be met by electricity and gas retailers.

This information sheet provides:

- ▶ a description of the Essential Services Commission's regulatory role in administering REES, and
- ▶ an overview of REES, including the structure of the scheme.

### Role of the Commission in administering REES

The Commission administers REES within the parameters defined by the Government's policy framework and in accordance with Parts 4 of the Electricity (General) Regulations 2012 and the Gas Regulations 2012, and the provisions of the Essential Services Commission Act 2002.

The Commission's functions under the REES include:

- ▶ allocation of individual annual retail targets,
- ▶ establishing and implementing a targeted compliance program, and
- ▶ determining annual target achievement, and reporting to the South Australian Minister for Energy and Mining annually in relation to the operation of REES, and from time to time in relation to any other matter with respect to REES.

### An overview of the Retailer Energy Efficiency Scheme

REES requires energy retailers that exceed prescribed thresholds be set annual targets for the delivery of energy efficiency activities to households and/or businesses.

In addition, retailers with larger residential customer bases are set targets to deliver a prescribed amount of the energy efficiency activities to priority group households; and to provide energy audits to priority group households.

The Government's stated objective of REES is to reduce household and business energy use, with a focus on low-income households (implemented through priority group targets).

REES commenced on 1 January 2009 as the Residential Energy Efficiency Scheme and is set to operate until 31 December 2020.

### Structure of the Retailer Energy Efficiency Scheme

Under REES, the South Australian Minister for Energy and Mining (**Minister**) sets the overall policy framework and fixes annual Energy Efficiency and Energy Audit Targets. The Commission then apportions those targets among obliged retailers with the methodology specified in the Regulations.

### Who are the obliged energy retailers

The Minister has set the methodology by which the Commission determines which retailers have REES obligations in any year. A retailer will be obliged under REES if, in the preceding financial year, it exceeds one of the following thresholds:

- ▶ **Primary threshold** – retailed electricity to 5,000 or more South Australian residential customers, or retailed gas to 5,000 or more South Australian residential customers.

- ▶ **Secondary threshold** – its total electricity purchases less designated electricity purchases were greater than 27,000 megawatt hours (MWh), or its total gas purchases less designated gas purchases were greater than 100,000 Gigajoules (GJ).<sup>1</sup>

Retailers that meet the primary threshold are referred to as primary obliged retailers and are set an Energy Efficiency Target, a Priority Group Energy Efficiency Target and an Energy Audit Target.

Retailers that do not meet the primary threshold but meet the secondary threshold (electricity and/or gas) are referred to as secondary obliged retailers and are only set an Energy Efficiency Target.

### How are energy savings determined and delivered

The value of each energy efficiency activity is 'deemed', in terms of energy savings, in the sense that the full value of future estimated energy saving is credited at the time the activity is delivered. Accordingly, the scheme's annual energy savings outcome does not mean that energy savings at that level were actually achieved within that year.

Retailers can elect to provide the energy efficiency activities and/or energy audits themselves or to engage the services of third-party providers to provide the activities on their behalf. However, REES obligations ultimately rest with retailers, not with their contractors.

Overall, retailers have significant discretion as to how they achieve targets. Retailers are responsible for determining how and when energy efficiency activities and energy audits are offered to customers, in order to achieve REES targets. Retailers also determine whether activities are provided free of charge to the recipient, whether recipients are asked to make a co-payment or if another incentive is offered to take up the activity.

### Priority group households

Consistent with the Government's stated policy objective of assisting low-income consumers, REES requires that all energy audits and a specified amount of energy savings from energy efficiency activities (in any year) must be provided to priority group households.

The Regulations define priority group households; the category generally covers those households in which a person with a recognised concession card resides. The Minister and the Commission both also have the power to determine additional categories of priority group customers.

The Commission determined those participating in an energy retailer's customer hardship program as an additional class of priority group customer from 2009.

In July 2016, the Minister expanded the priority group to include residential customers who receive a referral from a registered member of the South Australian Financial Counsellors Association.<sup>2</sup>

### Energy audits

The Minister establishes the minimum specification for the conduct of energy audits.<sup>3</sup> Only those audits which meet the specification in full can be counted towards an Energy Audit Target.

Energy audits may only be provided to priority group households. They are aimed at assessing current energy use practices, comparing these to energy efficient practices and identifying practical ways to enhance energy efficiency.

Obliged retailers are required to conduct energy audits inside the home of the householder. Energy audits conducted in a regional or remote postcode as defined by the Minister can be taken to have a value of one and a half credits towards the retailer's audit target up to a maximum of 30 percent of the total target.

<sup>1</sup> Designated electricity (or gas) purchases are defined by the Regulations as 'purchases of 1,000 MWh or more of electricity (or 3,600 GJ of gas) for on-selling and subsequent use in South Australia through an individual contract for sale'.

<sup>2</sup> Refer: <http://www.safca.org.au/>

<sup>3</sup> South Australian Government Gazette, 25 October 2018, available at [https://governmentgazette.sa.gov.au/sites/default/files/public/documents/gazette/2018/October/2018\\_063.pdf](https://governmentgazette.sa.gov.au/sites/default/files/public/documents/gazette/2018/October/2018_063.pdf) applied for REES Stage Four requirements.

## Energy efficiency activities

Energy efficiency activities may be provided to any South Australian household and some energy efficiency activities are also available to be delivered in commercial premises. An individual energy efficiency activity may only be delivered once per premises unless otherwise permitted in the activity's minimum specification.

As is the case with energy audits, an energy efficiency activity may only count towards the satisfaction of an Energy Efficiency Target if the particular activity meets the minimum specification for that energy efficiency activity.

Retailers are responsible for determining how and when energy efficiency activities and energy audits are offered to customers, in order to achieve REES targets. The cost of uptake of an activity is the largest barrier to the delivery of some approved activities. Generally, retailers choose to undertake activities that achieve a high energy saving per activity/unit in relation to the cost (to the retailer and contractors).

The Minister has the function of maintaining, reviewing and amending the list of eligible energy efficiency activities (including energy savings values and minimum specifications<sup>4</sup>) for the purposes of REES.

## Energy credits

Retailers have the ability to bank any excess achievement in relation to individual targets for a year and apply that credit to REES targets in subsequent years.

Energy credit means the following (if the relevant differences are positive):

- ▶ **Energy audits** – the difference (expressed as a number of energy audits) between the number of energy audits reported by a retailer in a year and the Energy Audit Target that applies to the retailer for that year.

- ▶ **Energy efficiency activities** – the difference (expressed in GJ) between the actual GJ reported by a retailer in a year through the conduct of energy efficiency activities and the Energy Efficiency Target that applies to the retailer for that year.
- ▶ **Energy efficiency activities for priority group households** – the difference (expressed in GJ) between the actual GJ reported by a retailer in a year through the conduct of energy efficiency activities for priority group households and a Priority Group Energy Efficiency Target that applies to the retailer for that year.

Energy credits are accrued on an annual basis following the Commission's annual determination of an individual retailer's target achievement.

## Administration of REES

The Commission takes a risk-based approach towards REES compliance. This balances the need for a strong culture of compliance against the associated costs for regulated entities.

It relies on obliged retailers having robust compliance systems and processes in place (based on the Australian Standard on Compliance Programs, AS 3806-2006).

Retailers' compliance systems and processes should allow them to adequately identify and appropriately respond to their obligations and report any breaches to the Commission at the earliest opportunity.

The Commission's REES compliance regime consists of:

- ▶ requiring retailers to develop annual compliance plans
- ▶ assessing whether retailers meet their REES annual targets
- ▶ conducting, or requiring retailers to conduct, compliance audits in response to identified areas of risk
- ▶ compliance reporting, and
- ▶ administering the penalty regime.

<sup>4</sup> Further information in relation to the list of approved REES activities and detailed specifications and deemed energy savings factors (expressed in units of GJ) for each activity

can be found on the Commission's website at: <http://www.escosa.sa.gov.au/residential-energy-efficiency-scheme-rees/rees-energy-efficiency-activities.aspx>

## Compliance plans

Retailers are required to submit to the Commission a compliance plan at the beginning of each REES year (due by 31 March).

The Commission reviews these plans to assess the extent to which retailers have put into place mitigation and management strategies aimed at ensuring that they are able to meet their REES obligations and manage various risks.

The REES Code sets out the minimum requirements of a compliance plan. Retailers are also required to advise the Commission of any material changes to the information provided in their compliance plans (such as a change in the activities it intends to undertake) within 20 business days of such a change occurring.

## Annual target compliance

The Commission assesses whether retailers have met their REES annual targets for energy efficiency activities and energy audits.

In assessing retailers' REES annual achievements, the Commission undertakes compliance assessments of all energy efficiency activities and energy audits against the requirements of the REES Code.

## Other compliance work

In addition to the automated compliance testing built into the REES-R system<sup>5</sup>, the Commission also undertake further compliance testing across all reported data; including data reasonableness checks and desktop data audits.

Desktop audits generally focus on areas identified as having a higher risk of non-compliance or where requirements under REES are new or varied from previous years.

Retailers are required to provide an evidence pack to support the activities being audited by the Commission. The Commission then assesses whether the evidence supports the activity reported, and meets the requirements of the minimum specification for the audited activity.

Where the evidence provided is insufficient or does not meet minimum requirements, the frequency and/or extent of those desktop audits increases until a satisfactory level of compliance is consistently demonstrated.

Any data submitted by retailers that is found to be non-compliant with the REES Code or applicable activity specification will be rejected.

The Commission also separately monitors retailers' compliance with the REES Code by undertaking projects such as (but not limited to):

- ▶ 'Mystery shopping' telephone calls to ensure that call centre staff are providing customers with basic information about REES.
- ▶ Undertaking targeted audits on obliged retailers' compliance systems from time to time to ensure compliance with the REES Code provisions.
- ▶ Follow-up calls to customers to ensure that energy efficiency activities/energy audits have been implemented according to the relevant specification in response to complaints received.
- ▶ Data reasonableness checks and desktop data audits focusing on areas identified as having a higher risk of non-compliance.

## Further Information

The complete time series performance data for REES can be found at:

<https://www.escosa.sa.gov.au/industry/rees/regulatory-reporting>

The Essential Services Commission is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, visit [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au).

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<sup>5</sup> The REES-R provides real time information on the compliance of data and retailer progress towards annual targets