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Ms Tina Maiese
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Department for Energy and Mining
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Dear Ms Maiese

Business SA's submission to the REES Review Directions Paper is made subsequent to our earlier submission to the Department's Issues Paper.

Business SA, South Australia's Chamber of Commerce and Industry, was established in 1839 and has more than 3,000 members across every industry sector, from micro businesses through to listed companies. Business SA is a not-for-profit membership organisation which works on behalf of members and the broader business community in pursuit of economic prosperity for both South Australia and the nation. Funded by member subscriptions and our products and services, we are independent of any government or political party.

Business SA supports promoting energy efficiency as a mechanism to both lower direct costs for business, and to mitigate against costly network investments which consumers fund. However, we are always mindful that any direct regulatory interventions such as REES are properly targeted and consider all related energy costs, including gas. Unfortunately the Directions Paper does not incorporate any analysis of gas efficiency measures which Business SA previously advised should form part of this review, particularly given the interstate precedent for gas activities being included within comparable schemes in Victoria and New South Wales. As we have consistently stressed, issues related to energy costs impacts for South Australian businesses are not confined to electricity, and according to ESCOSA's 2018/19 Energy Retail Price Offers Comparison Report alone, average gas bills for small businesses are actually a third higher than for electricity.

In response to the material price and reliability issues in South Australia's energy market which began to arise from mid-2015 following Alinta's decision to close Northern Power Station, both State and Federal Governments have committed literally billions of dollars to sure up reliable and affordable power. Business SA recognises the need to have done this, but we remain mindful that all Government interventions come at a cost, and while much of the recent interventions to date have been Government funded, ultimately the money comes from taxpayers, many of which are Business SA members that pay payroll tax, land tax, company tax and all the other taxes, rates and levies which go towards funding Governments within Australia.

We acknowledge that the support offered through REES for small businesses since 2015 has been instrumental in delivering the significant number of LED light replacements across the South Australian business community. This has helped small businesses cope with a significant increase in electricity prices, but the ongoing need for the REES should still be considered against all other Government or energy network spending in train to achieve similar outcomes, whether that be to cost-effectively reduce demand at times of network peaks or generation shortfalls.

For one, the South Australian Government alone is currently rolling out a $100m Home Battery Scheme, a $50m Grid Scale Storage Fund and a $150m Renewable Technology Fund. This is in addition to significant investments by the previous State Government as part of its own $550m Energy Plan which involved purchasing back-up diesel generators and the Hornsdale power reserve. Electricity networks are also spending considerable amounts to sure up reliable and affordable power, with the South Australia to New South Wales Interconnector set to cost approximately $1.5 billion, and the recent AER decision to fund ElectraNet to install synchronous condensers within South Australia is another circa $180m. Furthermore, SA Power Networks are flagging new spending required to accommodate increased solar power at the distribution grid level, with $101m for a range of CAPEX to both monitor and manage the quality of supply, and another $79m expected to be needed for a contingent project related to the growing need to be able to shed distributed energy resources in the case of system security events.

Business SA makes the following more specific comments on the Directions Paper and supporting material:

1. The independent evaluation of the REES scheme describes both costs and benefits, although the forecast of benefits assumes energy reductions from an average life for activities such as installing standby power controllers or LED lighting, without providing a secondary check against actual grid demand adjusted for the likely impact of the REES scheme.

   The Directions Paper would also benefit from a comparison of REES against other Government or network investments aimed at achieving similar outcomes, be they be directly funded by taxpayers or the energy bill payer. While this task may be complex, it still should form part of the evidence base required for a policy decision.

2. The independent evaluation report advises a future 'business as usual' REES would cost $10m per annum and deliver energy bill savings of between $1.3 billion and $3 billion for households and businesses, which as a footnote clarifies is a saving achieved over a 30-year period. No business case to install solar or any other energy bill saving measure would consider 30-years of cash flows, particularly with technology changing so rapidly. Consequently, we request the Government base any future decision on REES with a limited 7-year cost-benefit analysis, particularly if considering an expansion to larger businesses. REES cannot be directly compared to long-term infrastructure investments such as an Interconnector, and any analysis to support a decision on its future needs to be appropriately constructed.

3. The REES costs South Australian electricity consumers $10m per annum and the time has now come to more seriously question the ongoing benefits of this scheme in its current form, particularly given many of the activities have reached saturation point with residential consumers. While there is an argument to extend REES for a shorter timeframe to assist small businesses, including for gas related activities, we are not convinced that Government subsidies at large need to be extended to all sized businesses.

   Mid-size businesses can still benefit from REES in part, although we are concerned that removing lighting caps entirely would result in large businesses utilising a scheme which is effectively paid for by all energy consumers. Furthermore, any Government support for larger businesses with respect to energy efficiency is likely to be more complex and require a tailored approach which is not achievable under a scheme such as REES. Such an approach is more suited to an initiative such as Business SA's previously flagged Gas Options Program for large market gas users.

4. South Australian consumers more broadly are still paying for the now closed solar feed-in-tariff schemes and while Business SA has never argued for the Government to stop paying those customers on legacy schemes, there is a need to carefully consider future Government mandated subsidies in the energy market to ensure they are properly targeted and do not overlap with other Government or energy network schemes or CAPEX initiatives.

5. Business SA supports the Government's focus on ensuring regional South Australia is adequately provided for in any future iteration of REES, particularly given its significant contribution to South Australia's export economy.

6. Rather than introduce co-payments, REES should simply be more targeted to those properties which would genuinely benefit from support, particularly those on low incomes and small businesses.

7. Business SA supports the Government's approach not to introduce business energy audits, particularly given these are already being made available under the Federal Government's BEAP program managed by the New South Wales Business Chamber. Furthermore, there is an active private sector market for energy advice for large market customers in South Australia and consequently, no need for Government mandated schemes to intervene.

8. Business SA recognises a future REES may have some demand response focus. If the Government seeks to assist small businesses and households increasingly subject to time-of-use tariffs from July 2020, it should consider new activities to provide small market consumers with real-time access to their electricity use data. This has been a missing part of national data right reforms and if moving to cost-reflective tariffs is predicated on sending a price signal to consumers to change their behaviour, what good is that signal if the data it relies on is delayed or not readily accessible in a form which can practically inform decision making?

9. Considering the significant step change in Government interventions in the energy market in recent years, any future iteration of REES should last no longer than three years.

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
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