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Craig Walker

Senior Policy Officer
Energy and Technical Regulation
Department for Energy and Mining

Submitted via email: craig.walker2@sa.gov.au

3 April 2020

Dear Craig

Re Statues Amendment (Electricity and Gas) (Energy Productivity) Bill 2020

AGL Energy (**AGL**) welcomes the opportunity to comment on the Statues Amendment (Electricity and Gas) (Energy Productivity) Bill 2020 (the **Bill**).

We understand that the purpose of the Bill is to provide flexibility to the Government to modify the Retailer Energy Efficiency Scheme (**REES**) scheme in line with the *Review into the South Australian REES, Review Report* finalised in December 2019 (**Review Report**). In particular, the Review Report recommends that the scheme objective be amended to reference 'energy productivity' (cf 'energy efficiency') and to include incentives for demand response.

We note that the proposed changes to the Bill are deliberately open-ended. However, we recommend a cautious approach to these amendments which recognises the core differences between energy efficiency and demand response activities, and carefully considers whether shifting to a 'productivity' objective may actually confuse scheme design and implementation.

Energy efficiency vs demand response

Energy efficiency and demand management both have important, but differing roles to play for households, businesses and the broader energy system. The former drives overall savings in energy use, whereas the latter is about time-shifting energy use to realise broader system benefits (such as managing wholesale peaks and troughs, or congestion in the network) without necessarily reducing use in absolute terms. In light of these quite different objectives, attempting to design a single scheme that can measure and reward these contrasting outcomes is likely to be challenging.

It should also be recognised that there are a number of existing avenues through which households and businesses can be rewarded for demand response outcomes. These include retailer demand response programs and cost-reflective (time-varying) network tariffs. In addition, the Australian Energy Market Commission is currently consulting on the development of a wholesale demand response mechanism and, eventually, a more fulsome 'two-sided market'. Should the South Australian Government determine to pursue a separate scheme to encourage and reward demand response, it will be important to consider how this can complement (rather than duplicate) existing avenues for rewarding these outcomes.

Productivity in a demand response, residential context



Energy productivity is an objective regularly applied in a business context. It considers the amount of economic output that is derived from each unit of energy consumed. However, the concept of 'productivity' is not well-suited to demand management activities which shift rather than reduce energy used per unit of output. Before proceeding with this change to scheme objectives, it is important to consider how the concept would or could be applied in practice (e.g. to the measurement of 'productivity shortfalls').

It is also unclear how the concept of 'productivity' would be applied and measured in a residential context. In general, the objective here is to maintain household comfort levels while reducing the amount of energy used overall. However, for Priority Group Households which potentially have been experiencing a degree of discomfort in order to manage the affordability of their energy spend (referred to as 'under-consuming'), energy efficiency activities may validly enable increased comfort levels without resulting in any reduction in energy consumption overall. Again, before proceeding with this change it is important that these practical considerations are understood and have been worked through.

If you have any questions in relation to this submission, please contact me on 0476 836 577 or at ehewson@agl.com.au.

Your sincerely,

A handwritten signature in blue ink, appearing to read 'Eleanor McCracken-Hewson', positioned above a vertical line that separates the signature from the typed name below.

Eleanor McCracken-Hewson

Senior Manager Policy & Strategy