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Attention: Mr Justin Ward
Senior Policy Officer
Department for Energy and Mining
By Email: dem.consultation@sa.gov.au

02 April 2025

Dear Sir,

## Retailer Energy Productivity Scheme (2026 – 2030) Issues Paper

AGL Energy (AGL) welcomes the opportunity to provide feedback to the Department for Energy and Mining (DEM) in response to the consultation questions posed in the Retailer Energy Productivity Scheme (2026 – 2030) Issues Paper (the Paper).

AGL is committed to providing our customers simple, fair and accessible essential services as they decarbonise and electrify the way they live, work and move. Proudly Australian for more than 185 years, AGL supplies around 4.3 million energy and telecommunications customer services. AGL is a market leader in the development of innovative products and services that enable consumers to make informed decisions on how and when to use their consumer energy resources (CER) assets to optimise their energy load profile and better manage their energy costs.

As the largest energy retailer in South Australia[1], AGL remains supportive of the important role that the Retailer Energy Productivity Scheme (REPS) plays in optimising the energy usage of South Australian energy consumers. However, the energy transition requires that government and policy makers consider the ongoing role and design of REPS to ensure the appropriate balancing of key principles such as: appropriate and sufficient suite of activities to meet program objectives, increased and open participation, equity, integrity and trust, low administrative costs, efficiency, and flexibility. Many of these themes are considered in the consultation questions posed in the Paper and as such, AGL urges careful consideration of stakeholder feedback to ensure the optimal program design to support REPS in its next 5-year phase leading up to the strategic review in 2029.

### Summary of AGL's Position

AGL's high-level position on the issues raised in the Issues Paper can be summarised as follows:

- The proposed growth rate of the **annual energy productivity targets** should be **reduced.** In the absence of analysis to demonstrate sufficient supply of low-cost activities there is significant risk of rapid and sustained cost increase as has been experienced in Victoria.
- The scheme is currently too reliant on **just three activities** to **deliver ninety percent** of the volume – this creates significant risk for the scheme and should be addressed through new activity creation and appropriate transition factors or multipliers to stimulate interest.
- We encourage more **flexibility** in the scheme rather than overly prescriptive targets and subtargets.

[1] Australian Energy Regulator (2025), Retail energy market performance update for Quarter 2, 2024–25.

- The number of retailers and customer types captured by the scheme should be as **broad** as possible.
- There are **lessons to be learned** from other state energy efficiency schemes.

AGL's detailed responses to the consultation questions in the Paper are set out within Appendix A attached herewith.

As always, AGL remains committed to working collaboratively and constructively with DEM in relation to this proposal and welcomes any further opportunities for ongoing consultation and/or solution co-design.

If you have any questions in relation to this submission, please contact Liam Jones on 0499 710 092.

Yours sincerely,

Liam Jones

Liam Jones
Senior Manager Policy and Market Regulation

# Appendix A – AGL's Responses to Consultation Questions

## Part 1: Application of Scheme

### Obligation Thresholds

1. *Are the current obligations thresholds appropriate for REPS2 (2026-2030)?*

   No - AGL recommends the obligation thresholds for both residential customers and energy purchase quantities should be revised for REPS2 as follows:

   a. **Residential customer number threshold**: the current value of 5,000 customers for electricity and gas respectively should be lowered to 2,000 customers. This will improve competitive fairness across energy retailers operating in the South Australian market and maximise the application of the principle that the beneficiary pays. The intent of this threshold was to protect new market entrants and smaller retailers; however, we note that according to the Australian Energy Regulator's (AER) most recent retail performance reporting data[2], retailers with between 2,000 and 5,000 residential electricity customers are largely established and experienced market participants. Furthermore, a 2,000-customer threshold has some regulatory precedent – for example, the Consumer Data Right framework uses the same value for its trial product exemption framework[3].

   b. **Energy purchase threshold**: these values should be varied to reflect shifts in energy consumption habits of South Australian consumers. Refer to AGL's responses to Questions 2 and 3 below.

2. *Should the electricity purchase quantity threshold increase?*

   No - AGL notes that the current electricity purchase quantity threshold is equivalent to the AER and SAPN benchmarks cited in the Paper[4] (approx. 6% below SAPN's reported figure). As such, AGL supports maintaining the threshold at the current level of 4,000 kWh per annum per average residential electricity customer.

3. *Should the gas purchase quantity threshold decrease?*

   Yes - AGL is supportive of lowering the gas threshold to 16,000 megajoules (MJ) per annum per average residential gas customer on the basis that the existing gas purchase quantity threshold is, on the evidence presented, almost 40% higher than current average gas consumption[5].

### Designated Energy Purchases

4. *Are there electricity or gas purchases that should be excluded for determining the REPS2 obligation threshold? Why?*

   No – AGL recommends there should not be any electricity and gas purchase exclusions in REPS2. AGL believes there is ongoing potential benefit for large customers to be part of REPS2 as will be discussed further in response to Question 5 below.

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[2] Australian Energy Regulator (2025), Retail energy market performance update for Quarter 2, 2024–25.
[3] See for example: r. 30 of the *Competition and Consumer (Consumer Data Right) Amendment (2024 Measures No. 1) Rules 2024*.
[4] Department for Energy and Mining (DEM) (2025), *Retailer Energy Productivity Scheme (2026-2030) Issues Paper*, page 7.
[5] Department for Energy and Mining (DEM) (2025), *Retailer Energy Productivity Scheme (2026-2030) Issues Paper*, page 7.

5. *Should any customer segments be removed from REPS2?*

No – AGL believes there are ongoing potential benefits in undertaking REPS activities for all customer cohorts – the wider the available pool of customers, the greater the opportunities for retailers to deliver energy productivity activities and deliver on the benefits of REPS for all South Australians. As such, AGL recommends that REPS2 should continue to include residential, small business and large business customers. AGL would also welcome further consideration as to appropriate mechanisms to incentivise and increase uptake of REPS for large customers as discussed further in response to Question 23 below.

## Part 2: Energy Productivity Targets

### Annual Energy Productivity Targets

6. *How should REPS2 annual energy productivity targets be set?*

AGL does <u>not</u> agree with the proposed approach for REPS2 annual energy product target setting. AGL highlights the following general concerns and considerations:

a. The proposed targets appear to have been formulated using an arbitrary straight-line increase.

b. Scheme targets that carry significant consumer, commercial and policy implications should be premised upon rigorous modelling and analysis to ensure that they are both realistic and achievable. Key factors to consider include:

    i. the effectiveness of targets, subtargets and activities in REPS1,

    ii. ongoing consumer sentiment, interest and demand for REPS activities,

    iii. modelling of the likelihood of current REPS activities meeting the proposed targets,

    iv. market saturation of REPS activities,

    v. supply chain resourcing, competition and constraints,

    vi. cost implications for retailers and consumers, and

    vii. current and emerging policy and economic settings.

c. AGL points to the experience of other schemes such as the Victoria Energy Upgrades (VEU) program which has in recent times, experienced a rapid and sustained increase in the costs of Victorian Energy Efficiency Certificates (VEECs) driven largely by under-supply and creation issues following the removal and saturation of mainstay activities under the program resulting in the spot price of VEECs more than doubling from 2022 to 2025[6]. Ultimately these costs are borne by energy consumers - analysis undertaken by Newgrange Consulting for the Australian Energy Council indicates that the bill impacts of the VEU compared to REPS is almost triple for electricity ($/MWh) and two and a half times for gas ($/GJ). This highlights the critical need to effectively manage creation activities and curtail scheme costs.

d. The ongoing role of REPS in contributing to South Australia's energy and climate ambitions.

e. Given the high degree of specificity in the REPS targets, any other policy changes will as a corollary, have corresponding implications on the overall targets (for example, excluded customer cohorts, subtargets and transition factors). Thus, it is almost necessary to settle all other prerequisite policy considerations before considering the overall targets.

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[6] Northmore Gordon (2025), VEEC prices have soared – Will they stay high?.

Noting the above general concerns and considerations, AGL has sought to undertake its own analysis in response to Questions 8 and 9 below.

7. *Should REPS2 continue to cover all electricity customers?*

Yes - consistent with AGL's position in response to Questions 4 and 5 above, AGL recommends that REPS2 should continue to apply to all electricity customers in the South Australian market.

8. *If the customer coverage should continue, should the REPS2 annual energy productivity targets be higher or lower than under REPS1?*

AGL notes that little evidence or analysis has been put forward by DEM to suggest there is sufficient capacity or unmet demand to meet the proposed 10% year-on-year target increase. As such, AGL is not supportive of the proposed targets. We recommend that any decision to increase REPS2 targets should be deferred until appropriate analysis of the factors outlined in response to Question 6 above has been completed.

A 60% phased increase in REPS targets from a 2025 baseline represents a substantial risk to customers and retailers in South Australia. AGL is particularly concerned by the scheme's over-reliance on just three activities - commercial lighting, reverse cycle A/C and water heaters – to make up almost 90% of the total deemed energy savings for each of 2021 (86%)[7], 2022[8] (93%) and 2023 (88%) respectively[9].

This reliance on just three activities to underpin the majority of the total annual productivity targets for the scheme presents a major risk to the program – if for example any of those activities reach saturation point or are removed/restricted for other policy reasons (as is being considered in the NSW Energy Saving Scheme[10] and has already occurred in the Victorian Energy Upgrades program[11]), then the overall ability of retailers to meet REPS targets and the viability of the REPS program would be significantly at risk. AGL has consulted with two major accredited service providers, both of which highlighted concerns about market saturation of commercial lighting within the REPS2 timespan.

Notwithstanding our primary recommendation to suspend a decision on REPS2 targets until further analysis is completed, AGL's secondary and non-preferred alternate position would be to recommend a more pragmatic target, recognising that more needs to be done to support South Australia's energy and climate ambitions. AGL reluctantly recommends an increase of 4% year-on-year as outlined in the table below. However, this is premised on the assumption that there are no materially adverse changes to current activity creation - we also recommend that DEM undertake further market analysis to confirm the viability of those activities for the REPS2 period. Furthermore, we highly recommend that DEM must expedite the introduction of new activities to supplement (or replace) the existing suite of activities as well as consider the appropriateness of activity productivity factors.

| Year | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|
| **AGL's Proposed Annual Energy Productivity Target** | **3,900,000** | **4,050,000** | **4,200,000** | **4,350,000** | **4,500,000** |

[7] ESCOSA (2022), Retailer Energy Productivity Scheme - Annual Report 2021.
[8] ESCOSA (2023), Retailer Energy Productivity Scheme - Annual Report 2022.
[9] ESCOSA (2024), Retailer Energy Productivity Scheme - Annual Report 2023.
[10] NSW Department of Climate Change, Energy, the Environment and Water (2025), Energy Savings Scheme Rule and Regulation Change 2025.
[11] Engage Victoria (2020), Victorian Energy Upgrades – Lighting.

*9. Should the REPS2 annual energy productivity targets increase each year over the period?*

AGL reiterates its recommendation that further analysis needs to be undertaken by DEM to understand the implications of its proposed target increases. In the alternative, AGL would be supportive of REPS2 annual energy productivity targets that increase by only 4% year-on-year as outlined in our response to Question 8 above.

**Subtargets**

*10. Should the priority group primary subtargets increase for REPS2?*

AGL is supportive of the critical need to assist low-income and vulnerable households to lower their energy costs and manage cost-of-living pressures through REPS. However, AGL argues that the appropriate way in which to do this is through increased and sustained incentives such as transition factors and multipliers (see response to Question 20 below) rather than through subtargets or quotas. As such, AGL recommends that priority group primary subtargets should <u>not</u> increase for REPS2 for the following reasons:

a. **Identification**: while some of the definition parameters of priority group households will be known to retailers, there are also those which are difficult to ascertain including information about the residential tenancy agreement and concession/health care card status where that information is not registered with the retailer (for several reasons – see below).

b. **Engagement**: there are inherent vulnerability-related barriers to engaging with consumers in this cohort. It has been AGL's experience that these customers are less inclined to engage with retailers compared to other customer cohorts. This results in the need to undertake more intensive and tailored recruitment activities, resulting in higher costs.

c. **Cost of living pressures**: considering the ongoing cost-of-living pressures experienced across the community, AGL remains concerned at the financial capacity of priority group households to afford and prioritise activities under the REPS, especially those requiring more substantial customer investment and outlay such as retrofits.

d. **Premise suitability**: AGL notes the high prevalence of renters in this cohort, which naturally limits the scope and extent of activities that can be authorised and carried out.

Incentives may alleviate some of the above issues providing the necessary basis to invest further effort and resources into engaging and/or subsidising activities for priority group households.

*11. Should the priority group targets represent a fixed share of the annual energy productivity targets for REPS2? What is a reasonable proportion?*

AGL recommends that priority group targets continue to remain <u>fixed</u> for REPS2. For the reasons outlined above in response to Question 10, there are inherent challenges in servicing this cohort of customer. These challenges would be exacerbated by increasing the targets and/or by making them proportional to the respective overall annual energy productivity targets. Instead, AGL recommends that the priority group targets remain at the REPS1 levels, being 500,00 GJ per annum. While this would represent a decrease in the proportional contribution to the annual targets, AGL argues this is entirely appropriate given ongoing cost of living pressures.

*12. Should the household subtargets continue for REPS2?*

AGL notes that there is an inherent deemed energy saving 'intensity' for commercial activities relative to those for households. In circumstances where the market should be able to determine the most efficient and least-cost options for delivering the overall scheme targets, the use of a household subtargets has a contrary effect of reducing efficiency. To illustrate this point, AGL notes that in 2023, "household activities accounted for 56 percent of all activities by number, but only 15 percent of all deemed energy savings"[12]. In contrast, commercial activities accounted for 63 percent of deemed energy savings and 9 percent of the total number of activities.

In circumstances where REPS is seeking to increase targets and deemed energy savings, it is appropriate that retailers are not curtailed and hampered by their ability to deliver the required activities. As such, AGL believes there is potential to remove or relax this subtarget. This would allow additional flexibility to meet REPS2 targets aligned to the actual demand.

*13. Should any other types of primary subtargets be considered?*

No - AGL does <u>not</u> recommend the introduction of any further subtargets for REPS2. AGL's justification for this position is as follows:

a. **Prescription**: AGL believes there is already sufficient (and perhaps too much) prescription within REPS. It is important to retain sufficient flexibility for retailers to be able to meet the targets of the scheme and deliver meaningful energy productivity benefits.

b. **Complexity**: each additional primary (or secondary) subtarget will contribute further complexity and operational challenges to the scheme through the identification, engagement and/or delivery of activities for specific cohorts of consumers, especially as these groups are often heterogeneous.

c. **Cost:** a by-product of the additional cost and complexity will be increased costs to deliver the same activities by virtue of the bespoke, differentiated acquisition campaigns required from retailers and their representatives. These costs will ultimately be borne by South Australian consumers.

d. **Market-led**: AGL believes that consumer demand should drive the prioritisation and allocation of activities allowing the market to identify the lowest cost and most efficient outcomes.

*14. Should there be any secondary subtargets?*

No – AGL does <u>not</u> recommend the introduction of any secondary subtargets for REPS2. AGL refers to and repeats its response to Question 13 above.

### Apportioning Targets to Retailers

*15. Are the current normalisation factors appropriate for REPS2*

No – AGL believes there have been material shifts in the relative purchase cost of electricity and gas since the initial normalisation factors were set in 2020. As such, AGL believes it is appropriate to revise the normalisation

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[12] ESCOSA (2024), Retailer Energy Productivity Scheme - Annual Report 2023.

factor. Based on our analysis of wholesale market data for South Australia published by the AER[13], we believe the gas normalisation factor should be revised to between 0.5 and 0.6.

*16. Are there other factors that should be considered?*

No – AGL does not have any further considerations to recommend.

## Part 3: Carryover of Energy Credits

*17. What is a reasonable maximum energy credit for carryover during REPS2?*

AGL believes that carryover of energy credits is an integral feature of REPS and that maximum carryover credit percentages should be set as high as reasonably possible to ensure flexibility. AGL recommends the maximum carryover energy credit be increased to 25 percent. This will avoid the situation where customers are unable to have activities completed due to timing issues and will also allow for targeted or intensive activities such as for example a retailer's customer support package or the launch of new product or service.

*18. Should maximum energy credits be limited to a particular energy productivity target?*

No – AGL does not recommend limiting the maximum energy credits to any specific energy productivity target as this would undermine the benefits of carryover, being the additional flexibility afforded to retailers.

*19. Should the maximum energy credits decline as the scheme reaches its expiry date*

No – AGL does not believe it is necessary to taper or phase the maximum energy credits throughout the REPS2 timespan. Noting that carryover credits can be considered towards a retailer's target in any subsequent year, if AGL's recommended maximum carryover target were adopted (see response to Question 17 above), this would ensure that no greater than an entire year of activities could be cumulatively carried forward by a retailer (assuming the maximum carryover occurred in years one to four). An alternative approach to phasing might be to limit the duration of time that a credit can be carried over (i.e. setting an expiry date), which could nominally be set to 3-4 years.

## Part 4: Other Matters

### Energy Productivity Activities

*20. Should transition factors (or multipliers) be retained for priority group households?*

Yes – AGL believes it is integral that transition factors are retained for priority group households in REPS2 for the following reasons:

a. **Persistence**: the issues considered in the 2023 and 2024 consultations on transition factors have not abated and warrant ongoing incentives.

b. **Impact**: the activities subject to transition factors or multipliers will have meaningful energy productivity impacts for priority group households who often need support to reduce or better manage their energy costs.

[13] Australian Energy Regulator (2025), Wholesale markets quarterly - Q4 2024. AGL has compared the average quarterly electricity prices for South Australia (adjusted to GJ) with average monthly (adjusted to quarterly) gas prices for Adelaide for the period 2019 to 2024.

c. **Cost**: these cohorts of customers are often price sensitive and may not be able to afford the often-significant up-front financial outlay for these activities, nor can they access traditional finance options. As such, there is a need for financial support through increased incentives under REPS.

d. **Equity**: aligns to the principle that nobody should be left behind on the energy transition – will seek to ensure that low socio-economic groups can access the benefits of energy efficiency and electrification.

*21. Should transition factors (or multipliers) reduce over the period of REPS2?*

No – AGL does <u>not</u> believe that transition factors should reduce over the period of REPS2. Phasing or reducing of transition factors would only be appropriate where there were transitional or implementation considerations that warranted early incentives.

However, as outlined in response to Question 20 above, there are pervasive and ongoing needs to support certain activities and cohorts of customers, for which the transition factor mechanism is an appropriate and effective response. Economic inflationary impacts are still being felt by consumers and these conditions may continue for some time into the future. Furthermore, energy costs and demand for workforce to roll out the electrification and energy productivity solutions we need are expected to continue to increase in the near-term, meaning cost of delivering activities to achieve the REPS targets are most likely to increase, rather than decrease. Transition factors are a measure that enable greater incentives to be passed onto customers to counter these broader challenges and economic effects.

*22. Are there activities to which transition factors should no longer apply, even for priority group households?*

No – AGL does <u>not</u> believe there are any specific activities which should be exempt from transition factors.

*23. Are there activities for which new multipliers should be considered?*

Yes – AGL recommends that consideration be given to the use of multipliers to stimulate and incentivise increased utilisation of REPS for large customers. As is noted in the Paper, there are broader energy system benefits in South Australia to be achieved through improved energy productivity for large customers[14]. Noting the developing nature of the large customer REPS market, the use of multipliers would help increase interest and uptake. In parallel however, AGL urges for administrative flexibility in submission of large customer activities with longer grace periods beyond the calendar year of the project completion to accommodate the more complex evidence collection and audit requirements (see additional AGL feedback below).

## Additional AGL Feedback and Recommendations

a. **Extension to submission timeframe**: AGL recommends changes to the requirement that GJs must be submitted in the same year that they are created and instead allowing an additional grace period into the following calendar year. This will ensure that activities can occur throughout the full duration of the calendar year, noting the strong consumer demand for activities in the latter stages of the year such as air conditioning upgrades.

[14] Department for Energy and Mining (DEM) (2025), *Retailer Energy Productivity Scheme (2026-2030) Issues Paper*, page 8.