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Department for Energy and Mining
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By email: tina.maiese@sa.gov.au

RE: REES Review – Issues Paper April 2019

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Department for Energy and Mining's consultation on the future of the Retailer Energy Efficiency Scheme (REES) after 2020.

About ERM Power

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load¹. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. The Company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland. www.ermpower.com.au

General comments

As innovative energy solutions provider that also retails in the South Australian market, ERM Power recognises the importance of energy efficiency, to allow consumers to take control of energy costs. Although we support the concept of the REES scheme, we have raised concerns previously about the scheme's design and have suggested that an overhaul would be warranted to greatly improve the current inefficiencies and compliance costs that exist. In our latest submission to the Review of Retailer Energy Efficiency Scheme Code, May 2017 to the Essential Services Commission of South Australia (ESCOSA), we proposed a redesign of REES whereby the scheme operated a REES certificate market with an accreditation regime of energy activity providers, who may create certificates based on the energy efficiency work they undertake. This would move REES to be similar to other jurisdictional schemes and prove less costly for compliance for retailers, through acquisition and surrender of certificates. We thought it beneficial to also bring these suggestions to the Department's attention in this review as we strive to help shape REES in its new strategic direction beyond 2020.

REES Design

In our submission to the Review of the REES Code May 2017, we highlighted the need for a reconsideration of the approach and design of the scheme whereby REES would be supported by a certificate market accompanied with an accreditation regime of energy activity providers. In such a design, accredited energy activity providers would create certificates based on the energy efficiency work they undertake. This proposed approach would bring on cost savings and increase scheme efficiencies to retailers, energy activity providers and ultimately the consumers in the following ways:

Removes duplication and increases accountabilities of activity suppliers. An activity supplier accreditation regime under a certificate scheme model would remove the highly inefficient compliance processes that currently exist and provide a clearer delineation of responsibilities between parties.

¹ Based on ERM Power analysis of latest published financial information.



Currently, the compliance and operational burden placed on retailers to manage third party service providers' compliance risk and delivery is inefficient and costly. There is currently duplication of compliance plans between activity providers and retailers who must detail the compliance processes and controls of their appointed third party. A central accreditation of each service provider would address the duplication that currently occur where a number of retailers performing their own compliance checks for the same service provider. This approach would remove the retailers' costly risk management of contracted third-party installers and streamline the compliance monitoring to be centralised and managed by ESCOSA, allowing activities to be provided safely, at lowest cost.

Broadening competition in efficiency activity provision. A greater range and quantum of activities could be accessed by customers and provided through an accreditation regime where accredited service providers undertake approved activities and create tradeable certificates for activity delivery.

ERM Power considers that the non-certificate based design of the REES is the primary reason for the low level of participation compared to other schemes. Our experience with certificate-based energy efficiency schemes both in Victorian and New South Wales has informed our position that certificate-based schemes encourage far broader participation of retailers and third-party service providers.

Currently, the compliance and operational burden of managing third party service providers results in retailers less likely to engage multiple service providers nor switch providers. This has caused a limited number of providers offering these services in South Australia and has been a barrier to new entrant competitors.

Price transparency through certificate trading drives efficient costs. Compliance delivered through the surrender of certificates, created from efficiency activities is a far superior approach to delivering activities at an efficient cost. A certificate market provides clear guidance to the value of activities, improves information asymmetry, drives price discovery and will more likely lead to efficient pricing. Currently this is set bilaterally between a small number of third-party suppliers and retailers. The value of services is not transparent. Ultimately it is consumers that are burdened with a lack of efficient pricing when the costs of the scheme are passed through.

Accuracy in target setting and determining obliged retailer load. A move to a certificate scheme would increase the accuracy of liability calculation and ensures the customer pass through of the scheme's cost is fairly determined by energy consumed, rather than derived from the static depiction of the retailers' customer base 12 months before. Liability can be established post compliance year for certificate surrender determined from energy sold, similar to other jurisdictional schemes. This is the most efficient and accurate form of liability weighting.

REES Liability Calculation under Current Scheme

Currently, an exempt load is calculated from identifying the sum of sales (MWh) to each South Australia electricity customer in the 12 months to the end of the previous financial year, where each individually contracted customer consumes 1,000 MWh or more during this period. As a result, customers who change retailers during this period, or customers who have multi contracts covering various sites (but ultimately the same customer) are penalised through this calculation approach. This has led to increased complexity and costs to retailers. We strongly suggest the review of REES regulations to enable the efficient identification of business customers as REES exempt if their commercial activities warrant the exclusion. This will provide certainty to these customers that their exemption will not be impacted by changes to their commercial retail contracts.

Conclusion

We believe now is an opportune time for the Department and ESCOSA to work together to reformulate the approach and redesign the scheme and move the scheme to accreditation and certificate scheme as soon as possible. It is our view that this move can be quickly realised if the accreditation held by providers in other schemes, such as the NSW Energy Savings Scheme or VEET accreditation was deemed acceptable for application and operation in South Australia under REES. These schemes have robust compliance processes for service provider accreditation, certificate creation methodologies, as well as a certificate registry.



Please contact Elaine Lee (02 3020 5567) if you would like to discuss this submission further.

Yours sincerely,

[signed]

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