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Energy Markets and Programs Division  
GPO Box 1264  
Adelaide SA 5001

## **REES REVIEW – DIRECTIONS PAPER**

Thank you for the opportunity to respond to the *REES Review – Directions Paper* (the Paper) by the Department for Manufacturing, Innovation, Trade, Resources and Energy's (DMITRE).

ERM Power Retail (trading as ERM Business Energy) is the fourth largest electricity retailer in the National Electricity Market by load, retailing exclusively to business customers. We specialise in the large market segment, and will soon also begin servicing the small to medium enterprise (SME) market in SA.

Our business focus means that we are not currently liable under the Residential Energy Efficiency Scheme (REES), however we understand that we may become an obliged retailer under the REES should it be expanded to capture business customers. Our response is therefore primarily in the context of such an expansion.

Our views are informed by our experience under the NSW Energy Savings Scheme and the Victorian Energy Efficiency Target scheme, where we are currently liable.

### **Expansion to the business sector**

We support the expansion of REES to the business sector on the condition that the scheme is moved to a tradable certificate-based mechanism. We do not believe that the scheme objective can be efficiently met in the business sector under the current framework.

The REES requires obliged retailers to ensure energy efficiency activities and audits are undertaken to meet annual targets. Service providers are generally contracted to perform these on behalf of obliged retailers, however the retailers remain ultimately responsible for service providers' actions. As a result of the resources and risks associated with this arrangement, contracts only exist between a limited number of counterparties, constraining competitive forces.

Under a tradable certificate-based REES, obliged retailers could enter into arrangements with any service provider through direct negotiations, brokers, certificate aggregators and intermediaries. This would improve market liquidity, and allow obliged retailers to access supply at least cost. These savings could then be passed onto SA consumers.

Tradeable certificate-based schemes are less resource-intensive for obliged retailers, as existing trading teams can readily acquire additional certificate types. Conversely, the current REES arrangements are highly resource-intensive, requiring strict ongoing contract management, and regular data analysis.

Energy efficiency activities for business premises are generally more complex than those available to households, as they have a greater need to be tailored to individual circumstances. It is therefore likely that expansion to the business section under current arrangements would amplify the problems currently experienced under REES.

It is therefore our preference that the REES be transitioned to a tradable certificate-based scheme in conjunction with any expansion to the business sector. We would encourage DMITRE to leverage the considerable experience of other jurisdictions to establish the systems and processes enable this transition to be achieved at lowest cost.

Alternatively, we support DMITRE's suggestion that business activities could be sourced from other jurisdictional energy savings schemes. Inter-jurisdictional linking is discussed further below.

We consider it reasonable that the definition of obliged retailer be amended under an expanded scheme.

### **Revising the REES objective**

DMITRE proposes restating the scheme objective as 'to reduce energy use, with a particular focus on low-income households'. We support the refinement of the scheme objective, however believe it is important that REES activities continue to be measured in tonnes CO<sub>2</sub>-e, rather than in units of energy. This would ensure consistency with other jurisdictional schemes, and simplify any future linkages or transition to a future national scheme.

### **The priority-group targets and the business sector**

ERM Power Retail recognises the low-income focus of the REES, and agrees that there is a risk of this being diluted through the expansion to the business sector. If despite this, it is decided that the expansion should occur, there are a number of incompatibilities that will need to be carefully addressed. DMITRE should be aware, for example, that as the proportion of activities undertaken in business premises increase, the proportion of priority-group activities will decrease. This may make the 35% priority group activity target difficult to achieve.

The Paper canvasses amendment of the definition of priority-group customers to capture other consumers experiencing financial stress. While we consider it unlikely that business consumers would be captured by a new definition, if this was to occur it would be inconsistent with the low-income consumer focus. We therefore recommend that business customers are explicitly excluded from the definition of priority-group customers.

DMITRE rightly raises concerns regarding the equitable recovery of costs from obliged retailer's customers. Equitable cost recovery is achieved by ensuring a retailer's liability is reflective of their customer base to the greatest extent possible. Retailers, such as ERM Power Retail, who do not service the residential sector, should therefore not be required to achieve priority-group targets, including audit targets.

### **Inter-jurisdictional linking**

We support the proposal for DMITRE to work with other jurisdictions on specific opportunities for harmonising or linking energy efficiency schemes. There are a number of positive features of the NSW Energy Savings Scheme and the Victorian Energy Efficiency Target scheme which we believe could be incorporated into the REES with the aim of reducing the cost of compliance and the impost on SA consumers.

In addition to the cost savings of the REES moving to a tradable certificate-based scheme as outlined above, there would be material benefit in linking certificate markets across jurisdictions, so that certificates acquired from activities undertaken in one jurisdiction could be used to acquit liability in another. By increasing the size of the market, competition and liquidity would be strengthened, placing downward pressure on certificate prices and reducing the impost to consumers across participating jurisdictions.

We also support the legislative provision for the REES to transition towards a national energy savings initiative.



We would welcome further opportunities to engage with DMITRE regarding the expansion of REES to the business sector. Please feel free to contact me on 03 9214 9347, or [jpolson@empower.com.au](mailto:jpolson@empower.com.au) to discuss further.

Kind regards,

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