



ERM Power Retail Pty Ltd
Level 3, 90 Collins Street
Melbourne VIC 3000
ABN 87 126 175 460

13 23 76
ermpower.com.au

Wednesday, 30 October 2019

Ms Tina Maiese
Department of Energy and Mining
By email: tine.maiese@sa.gov.au

Dear Ms Maiese

RE: REES Review – Department of Energy and Mining REES Directions Paper, October 2019

ERM Power Retail Pty Ltd (ERM Power) welcomes the opportunity to respond to the Department for Energy and Mining Directions Paper (the paper) on the South Australian Retailer Energy Efficiency Scheme (REES).

About ERM Power Retail

ERM Power Retail Pty Ltd, which trades as ERM Power, is a subsidiary of ERM Power Limited, an Australian energy company operating electricity sales, generation and energy solutions businesses. Since launching in 2007, ERM Power has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load¹, with operations in every state and the Australian Capital Territory. ERM Power has increasing success in the small business market. www.ermpower.com.au

General Comments

ERM Power has previously highlighted the inefficiencies of the REES and believe now is an opportune time for the Government to reformulate the approach and redesign the scheme. We believe the scheme would greatly improve with an overhaul to a certificate-based design, whereby there is a certificate market with an accreditation regime for energy activity providers, who may create certificates based on the energy efficiency work they undertake. Similar energy efficiency certificate schemes exist in other jurisdictions and prove less costly for retailers to comply, through the acquisition and surrender of certificates.

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 SA and has been a barrier to new entrant competitors. Introducing an accreditation regime for activity providers will promote competition and allow a more effective approach to compliance for the regulator. 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 the Essential Services Commission of South Australia (ESCOSA), allowing activities to be provided safely, at lowest cost.

We wish to provide comments on specific proposals in the Paper:

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



1. The scheme will remain as a 'direct obligation' model, rather than a tradeable certificate model

We do not support the direct obligation model and suggest that a certificate model would be preferable. It is our view 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.

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. Further, a move to a certificate scheme would increase the accuracy of liability calculation and ensure 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 actually sold, similar to other jurisdictional schemes. This is the most efficient and accurate form of liability weighting.

2. Targets continue to be set on a three-yearly basis

We support this approach. Retailers rely on the notification of REES targets both to allow them to procure activities, and to determine the approach to cost recovery. It is important that once notified, retailers can act on those targets without risk of future alteration. Any additional risk increases the costs of ensuring compliance, which are ultimately borne by customers.

3. Increased Competition and Scheme Efficiency

The Paper canvases alternative approaches to improving competition to third party service providers, such as requiring retailers to conduct an annual open tender, or to report on opportunities that they have given new providers to compete for the delivery of energy savings. These proposals, though providing more transparency, would be inferior to an accreditation scheme as they effectively place Government intervention and oversight on commercial procurement as well as increasing retailers' reporting obligations. This will only layer further costs to retailers and ultimately consumers. By far the simplest and cheapest approach would be for an accreditation regime. Providers are already familiar with accreditation schemes in other jurisdictions and ESCOSA could leverage from these existing accreditation regimes in the approval process.

The REES scheme currently inefficiently places compliance obligations on retailers for activities that often do not form part of the core business of retailing energy. A retailer must establish and closely manage detailed compliance processes and controls of a third party, and activity delivery against targets. This is managed through the compliance plan, which is often a duplication of the service provider's compliance plan. The activity service provider is likely to provide the same information to multiple retailers. These retailers reproduce the material for consideration and approval by ESCOSA. ESCOSA essentially must review the same content for a particular service provider, reduplicated for various retailers. Costs of managing compliance and third-party supplier risk are in addition to the cost of procuring sufficient activities to discharge scheme liabilities.

If the scheme moved to activity service provider accreditation regime, the efficiency benefits to the industry (and ultimately consumers) would be significant. 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.



Importantly an accreditation process would be the simplest and most effective way of broadening competition in efficiency activity provision. A greater range and quantum of activities could be provided and accessed by customers through an accreditation regime where service providers are accredited activity providers and create tradeable certificates for activity delivery.

If activity creation was managed through an accreditation process, the duplication currently tainting the scheme would be removed as service providers would only need to provide evidence in a single instance to substantiate their accreditation to the regulator. Retailers could then engage third party providers to supply activities (ideally certificates) with confidence of the accredited provider's validity and compliance. We cannot see any obstacles in moving to an accreditation scheme as we have described.

4. The updated scheme will incentivise upgrades in larger businesses by not including a 900 GJ limit for commercial lighting upgrades.

We support this approach.

5. The updated scheme will incentivise upgrades in larger businesses by introducing new methods such as the NABERS Baseline Method, Power Factor Correction Method, and Project Impact Assessment Method.

We support the drive for deeper retrofits and the introduction of other energy saving methodologies over time that will facilitate a broader range of commercial energy efficiency projects. The adoption of new methods consistent with other schemes, such as the Project Impact Assessment Method will be a positive step for encouraging providers to leverage their expertise for greater service provision. We suggest harmonising to other existing schemes to the greatest extent possible when determining the approach for new activities, as this will enable providers to harness their experience and deliver efficiency opportunities.

6. Current exemption to the scheme for large customer sites

ERM Power has aimed to manage its obligations as efficiently as possible to minimise costs to its customers. The exclusion of large contracted customers (typically those customers who consume 1000Mwh or more through an individual contract) from the scheme has been welcomed and the need for this exemption has been well understood by policy makers in South Australia. We support the continuation of the exemption to large sites contracts, so the REES does not interfere with large customers' retail contracting decisions. Any future removal of this exemption would limit obliged retailers' ability to recover the costs of complying with the REES from contracted customers and will compromise retail competition in this segment.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

Libby Hawker
Senior Manager Regulatory Affairs
03 9214 9324 - lhawker@ermpower.com.au