



9th June 2017

Ms Chantelle Hobart
Regulatory Officer
Essential Services Commission of South Australia

By email

Dear Ms Hobart

RE: Review of the Retailer Energy Efficiency Scheme Code, May 2017

ERM Business Energy welcomes the opportunity to respond to the Essential Services Commission of South Australia's (ESCOSA) review of the Retailer Energy Efficiency Scheme (REES) Code (the Code). As a business energy specialist and an obliged retailer under the Code, we are well placed to comment on the workability of the current Code and potential efficiency improvements that could be made to the scheme.

About ERM Business Energy

ERM Power Retail Pty Ltd, which trades as ERM Business Energy, is a subsidiary of ERM Power Limited, an Australian energy company operating electricity sales, generation and energy solutions businesses. Since launching in 2007, ERM Business Energy 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 Business Energy has increasing success in the small business market. www.ermpower.com.au

General Comments

We have previously highlighted the inefficiencies of this scheme and believe now is an opportune time for the Department of State Development and ESCOSA to work together to reformulate the approach and redesign the scheme. Beyond REES Code changes, we believe the scheme would greatly improve with an overhaul to the design, whereby there is a REES certificate market with an accreditation regime of 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.

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. We urge ESCOSA to work with the Department of State Development and move REES to a certificate based scheme at this time, particularly when ESCOSA is

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

likely to be developing a certificate framework for the proposed Energy Security Target and could leverage off this work.

The following comments seek to answer questions raised in the Issues Paper:

What improvements could be made to the annual compliance plan process?

The annual compliance plan, submitted by March 31st every year, provides assurance as to the capacities, systems and processes of contractors, audit plans, training, records and compliance systems to enable an obliged retailer to fulfil Code obligations. The compliance plan's documents and sub-documents are often repetitive with the inclusion of the same detail that has not changed year on year. We suggest that efficiencies may be realised by ESCOSA and obliged retailers if the annual plan highlighted only changes from the previous year. This would significantly remove rework and review by ESCOSA, with obliged retailers only submitting variations to the compliance plan from the previous year.

Are the quarterly assessments of achievement provided to obliged retailers beneficial?

Yes, we support the current approach of quarterly assessments of achievement as a useful update.

Does the current REES Code present any issues or challenges to obliged retailers in complying with their obligations?

The REES scheme 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 ESCOSA managed activity creation 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. If the regime moved to activity service provider accreditation within a certificate scheme, the efficiency benefits to the industry (and ultimately consumers) would be significant, such as:

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 activities providers and create tradeable certificates for activity delivery. 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.

Allowing price transparency through certificate trading to drive 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 not transparent. Ultimately it is consumers that are burdened with a lack of efficient pricing when the costs of the scheme are passed through.

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.

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 actually sold, similar to other jurisdictional schemes. This is the most efficient and accurate form of liability weighting.

Are there any other matters, or emerging REES related issues, that the Commission should consider or take into account?

We also have concerns surrounding the calculation to exclude large customers. We seek a competitively neutral approach, so the REES does not interfere with customers' retail contracting decisions. Currently, exempt load is calculated from identifying the sum of sales (MWh) to each South Australian electricity customer in the 12 months to 30 June of the previous financial year where each of those customers consumes 1,000 MWh or more through an individual contract for sale with the energy retailer during that period. Large customers who change retailers part way through the financial year and customers under a multi-contract arrangement (but same consumer) are penalised through this calculation arrangement. This may dissuade customers from switching retailers.

Further, for more intricate contractual structures, the current calculation methodology adds a layer of complexity and compliance costs to retailers. We urge the ESCOSA and the Department to look to changes in the regulations to enable the identification of business customers as exempt from REES should their commercial activities warrant the exclusion, perhaps similar to other jurisdictional schemes with prior year notification. This will provide certainty to these customers that their exemption will not be impacted by changes to their retail contract.

We urge ESCOSA to promote and encourage the South Australian Government to a move to a certificate based scheme as soon as possible. Now would be an opportune time for a scheme redesign. ESCOSA will be considering the development of a registry and a new certificate scheme under the proposed Energy Security Target scheme in the near term. ESCOSA and the Department should look to opportunities for a change to the REES design with a move to a tradeable certificate scheme, providing competition and efficiency benefits and reduce the cost burden on South Australian customers.

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

Yours sincerely,

Libby Hawker

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