

# REVIEW OF THE RETAILER ENERGY EFFICIENCY SCHEME GUIDELINE

*Draft Decision*

July 2015



## REQUEST FOR SUBMISSIONS

The Essential Services Commission of SA (**the Commission**) invites written submissions from members of the community on this paper. Written comments should be provided by 21 August 2015.

It is the Commission's policy to make all submissions publicly available via its website ([www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)), except where a submission either wholly or partly contains confidential or commercially sensitive information provided on a confidential basis and appropriate prior notice has been given.

The Commission may also exercise its discretion not to publish any submission based on length or content (for example containing material that is defamatory, offensive or in breach of any law).

Responses to this paper should be directed to:

### **Review of the REES Guideline – Draft Decision**

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The Essential Services Commission of South Australia is an independent statutory authority with functions in a range of essential services including water, sewerage, electricity, gas, rail and maritime services, and also has a general advisory function on economic matters. For more information, please visit [www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)

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## GLOSSARY OF TERMS

<b>AEMO</b>	Australian Energy Market Operator
<b>Commission</b>	Essential Services Commission, established under the <i>Essential Services Commission Act 2002</i>
<b>Designated Electricity Purchase</b>	Purchase of 1,000 MWh or more of electricity for on-selling and subsequent use in South Australia through an individual contract for sale
<b>Designated Energy Purchase</b>	Either a Designated Electricity Purchase or Designated Gas Purchase
<b>Designated Gas Purchase</b>	Purchase of 3,600 GJ or more of gas for on-selling and subsequent use in South Australia through an individual contract for sale
<b>DLF</b>	Distribution Loss Factor
<b>EET</b>	Energy Efficiency Target
<b>ESC Act</b>	<i>Essential Services Commission Act 2002</i>
<b>GJ</b>	Gigajoules
<b>Guideline</b>	<i>REES Guideline - Statistical Information - Energy Industry Guideline No. 6.</i>
<b>Minister</b>	The Minister for Mineral Resources and Energy, responsible for the administration of the <i>Electricity Act 1996</i> and/or the <i>Gas Act 1997</i>
<b>MIRN</b>	Meter Installation Reference Number
<b>MWh</b>	Megawatt hours
<b>NMI</b>	National Meter Identifier
<b>REES</b>	Retailer Energy Efficiency Scheme
<b>Regulations</b>	<i>The Electricity (General) Regulations 2012</i> and the <i>Gas Regulations 2012</i>
<b>Scheme</b>	Refer to REES

## EXECUTIVE SUMMARY

The Essential Services Commission of South Australia (**Commission**) is established under the *Essential Services Commission Act 2002 (ESC Act)* as a regulator of certain essential services in South Australia, with the primary objective of protecting the long-term interests of South Australian consumers with respect to the price, quality and reliability of those essential services.

One of the Commission's functions within both the electricity and gas industries is to administer the Retailer Energy Efficiency Scheme (**REES**). That scheme was established by the Government of South Australia and commenced on 1 January 2009. REES requires energy retailers which meet specified thresholds of customer numbers and energy sales to provide energy audits and energy efficiency activities to South Australian households and businesses in accordance with annual Ministerial targets.

The Minister for Mineral Resources and Energy (**Minister**) has set the REES obligation thresholds, targets and methodology to apportion REES annual targets to obliged retailers to apply for the years 2015 to 2017. The Commission is responsible for determining which energy retailers are REES obliged retailers, and for apportioning the Minister's targets to those retailers.

In December 2014, the Commission issued *REES Guideline - Statistical Information - Energy Industry Guideline No. 6 (Guideline)* setting out the data that retailers must report so that the Commission can apportion REES targets.

The process of apportioning the REES 2015 targets and feedback from retailers highlighted the need for further clarification and reconsideration of some aspects of the Guideline.

This Draft Decision discusses designated electricity and gas purchases. These are energy purchases made by a retailer for the purposes of supplying energy to large customers (those consuming more than 1,000 MWh or 3,600 GJ of energy in a year<sup>1</sup>). These amounts, grossed up by distribution losses, can be netted off a retailer's total electricity and gas purchases in apportioning the annual Energy Efficiency Target. The Guideline requires retailers to report customer sales data to these large customers as a proxy for designated electricity and gas purchases.

This Draft Decision paper sets out proposed changes to the Guideline. Submissions are sought from stakeholders on proposed changes which would:

- ▲ require customer sales to be based on consumption for the period 1 July to 30 June, rather than sales for bills issued in that period
- ▲ allow retailers to gross up customer sales by the relevant Distribution Loss Factors (**DLF**) applying to the sites supplied

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<sup>1</sup> As set by the Minister in the South Australian Gazette (published on 11 December 2014).

- ▲ require the following additional information to be provided by retailers in their Statistical Information Annual Return:
  - consumption for each site where multiple sites have been aggregated under a single customer contract
  - the DLF applied to each National Meter Identifier (**NMI**)
  - total consumption in the year for each NMI grossed up by the DLF
  - total electricity and gas purchases
- ▲ provide examples of the types of records that retailers must maintain as evidence of their designated energy purchases
- ▲ require retailers to have a documented process in place regarding producing designated energy purchases data
- ▲ clarify that the Commission has the authority and power to administer REES and deal with issues within the bounds of the legal framework.

# 1. INTRODUCTION

## 1.1 Purpose of this Draft Decision

The Commission is seeking comment on draft changes to the Retailer Energy Efficiency Scheme (REES) Guideline.

The proposed changes are to clarify the Guideline to ensure that data provided by retailers on a consistent basis.

## 1.2 The Commission's role in REES

The Essential Services Commission of South Australia is established under the *Essential Services Commission Act 2002* as a regulator of certain essential services in South Australia, with the primary objective of protecting the long-term interests of South Australian consumers with respect to the price, quality and reliability of those essential services.

One of the Commission's functions within both the electricity and gas industries is to administer the REES. That scheme was established by the Government of South Australia and commenced on 1 January 2009. REES requires energy retailers which meet specified thresholds of customer numbers and energy sales to provide energy audits and energy efficiency activities to South Australian households and businesses in accordance with annual Ministerial targets.

REES is given statutory effect through Parts 4 of the *Electricity (General) Regulations 2012* and *Gas Regulations 2012 (Regulations)*. These establish the Commission as the administrator of REES and provide that REES will run until 31 December 2020.

The Minister has set REES obligation thresholds and overall targets, and the methodology to apportion those targets to obliged retailers for the years 2015 to 2017. The Commission is responsible for determining which energy retailers are REES obliged retailers and for apportioning the Minister's targets amongst those retailers.

## 1.3 Determining obliged retailers and apportioning of REES targets

The Minister has set the methodology by which the Commission determines which retailers have REES obligations in any year. A retailer will be obliged under REES if, in the preceding financial year:

- ▲ it retailed electricity to 5,000 or more South Australian residential customers, or retailed gas to 5,000 or more South Australian residential customers; or
- ▲ its total electricity purchases less designated electricity purchases were greater than 27,000 megawatt hours (MWh), or its total gas purchases less designated gas purchases were greater than 100,000 gigajoules (GJ).

Designated electricity purchases are electricity purchases made by a retailer for the purposes of supplying electricity to customers that consume more than 1,000 MWh of electricity in a year. Designated gas purchases are gas purchases made by a retailer for the purposes of supplying gas to customers that consume more than 3,600 GJ of gas in a year. For simplicity, this Draft Decision refers to the 1,000 MWh and 3,600 GJ levels as “large customer thresholds”.

The Minister has also set the methodology to be used by the Commission to apportion REES annual targets to obliged retailers. The annual Energy Audit Target and Priority Group Energy Efficiency Target are apportioned only to retailers with 5,000 or more South Australian residential electricity customers or 5,000 or more South Australian residential gas customers. The apportionment is based on a retailer’s share of total electricity and gas residential customers of obliged retailers.

The annual Energy Efficiency Target is apportioned to retailers according to their proportion of total energy (electricity and gas combined) purchases less designated energy purchases. The apportionment methodology is detailed in Annexure A.

To determine obliged retailers and apportion REES targets, the Commission requires retailers to provide the following statistical information:

- ▲ their number of South Australian residential customers at the end of the preceding financial year
- ▲ their total designated electricity (grossed up by distribution losses) and gas purchases in the preceding financial year.

The Australian Energy Market Operator (**AEMO**) provides total retailer electricity and gas purchases to the Commission.

The Guideline requires retailers to report customer sales to large customers data as a proxy for designated electricity and gas purchases.

In December 2014, the Commission issued a Guideline establishing these statistical information requirements.

The process of apportioning the REES 2015 targets highlighted the need for further clarification of some aspects of the Guideline. The Commission has also received a request to consider allowing designated energy purchases to be included where a customer’s annualised energy purchases exceed the large customer threshold.

The following section sets out the Commission’s proposed changes to the Guideline and the rationale for those proposed changes.

## 2. PROPOSED AMENDMENTS

The proposed amendments to the Guideline relate mainly to the reporting of designated energy purchases (where customer sales is used as a proxy). The proposed changes:

- ▲ require customer sales to be based on consumption for the period 1 July to 30 June, rather than sales for bills issued in that period
- ▲ allow retailers to gross-up customer sales by applying the relevant DLF to the site supplied
- ▲ require the following additional information to be provided by retailers in their Statistical Information Annual Return:
  - consumption, as billed, relating to each customer site aggregated under an individual customer contract
  - the DLF applied to each NMI
  - total consumption in the year for each NMI grossed up by the DLF
  - total electricity and gas purchases.
- ▲ provide examples of the types of records that retailers must maintain as evidence of their designated energy purchases
- ▲ require retailers to have a documented process in place regarding producing designated energy purchases data
- ▲ clarify that the Commission has the authority and power to administer REES and deal with issues within the bounds of the legal framework.

The proposed changes to the Guideline are detailed below.

The Commission has also received a proposal to allow a retailer's sales to a customer to be included as designated energy purchases where a customer's annualised energy purchases exceed the large customer threshold (1,000 MWh or 3,600 GJ). For the reasons explained below, the Commission considers that the legal framework does not support such a change being made.

### 2.1 *Billed period*

Clauses 2.2.4(iii) and 2.2.5(iii) of the Guideline state that electricity or gas customer sales are "actual billed sales" in the 12 months to 30 June of the previous financial year. Larger customers are usually billed monthly for their energy consumption, with bills issued in the month after consumption occurs.

In determining a retailer's REES obligation, these designated electricity and gas purchases are subtracted from the retailer's gross electricity and gas purchases (as provided by AEMO) relating to the same period.

To ensure that designated energy purchases and gross energy purchases relate to the same period, customer sales should be those that relate to consumption for the period 1 July to 30 June, rather than sales for bills issued in that period.

**Draft Decision:**

The Commission proposes to change Clauses 2.2.4(iii) and 2.2.5(iii) of the Guideline to reflect that customer electricity and gas sales are the actual consumption by that customer, rather than sales for bills issued in that period.

## 2.2 Distribution Loss Factor (DLF)

The Distribution Loss Factor (**DLF**) describes the average electrical energy losses for electricity distributed to an end-user's connection point through a distribution network from the relevant transmission network connection point or virtual transmission node, during the financial year in which they apply.<sup>2</sup>

For the 2013-14 reporting year, the Commission requested that retailers gross-up customer sales by the appropriate DLF for the site supplied. This ensured that designated energy purchases and gross energy purchases (as reported by AEMO) were reported on a consistent basis. The Guideline does not currently reflect this.

The DLFs that should be applied are published each year by AEMO.<sup>3</sup>

**Draft Decision:**

The Commission proposes to amend Clause 2.2.4 to allow retailers to gross up customer sales by the appropriate DLFs (as published by AEMO) applying to the sites supplied.

## 2.3 Statistical Information Annual Return

Annexure A of the Guideline contains the proforma that retailers must complete and submit to the Commission to enable it to determine retailers' annual REES obligations. Pursuant to Annexure A, retailers must provide the following information (for electricity and gas separately):

- ▲ total number of residential customers as at 30 June
- ▲ total customer sales above the large customer thresholds for the financial year, and
- ▲ sales to each customer that consumed above the large customer thresholds.

<sup>2</sup> Australian Energy Market Operator, *Distribution Loss Factors for the 2014/15 Financial Year*, 2014, p. 3, available at <http://www.aemo.com.au/Electricity/Market-Operations/Loss-Factors-and-Regional-Boundaries/Distribution-Loss-Factors-for-the-2014-2015-Financial-Year>.

<sup>3</sup> Australian Energy Market Operator, pp. 18-19.

In January 2015, retailer's provided completed Annexure A data for the 2013-14 year. The Commission found that the sales to large customers data was too aggregated to allow the Commission to undertake detailed analysis. The Commission had to request more granular data (including consumption by site and DLF applied to each NMI) from retailers during the audit.

Provision of additional data in Annexure 1 would allow the Commission to undertake upfront analysis that should minimise the need for auditing. The following additional data, relating to designated energy purchases, is proposed to be collected:

- ▲ consumption for each site where multiple sites had been aggregated under a single customer contract
- ▲ the DLF applied to each NMI, and
- ▲ total consumption in the year for each NMI grossed up by the DLF.

It is also proposed that retailers report their total electricity and gas purchases to the Commission. This would serve two purposes: the Commission could investigate any material differences from AEMO data (e.g., due to market settlement issues); and, it might potentially highlight to retailers discrepancies between their total energy purchases and their designated energy purchases.

Subsequent audits by the Commission may require retailers to provide other information, such as customer invoices that verify consumption amounts and contracts that support the aggregation of sales to multiple customer sites (refer section 2.4 below).

**Draft Decision:**

The Commission proposes that Annexure A of the Guideline be expanded to require the following additional information:

- ▲ energy consumption relating to all sites aggregated under a single customer contract
- ▲ the DLF applied to each NMI
- ▲ total energy consumption in the year for each NMI grossed up by the DLF, and
- ▲ total electricity and gas purchases.

## *2.4 Verifiable information and documentation of processes*

Clause 1.4 of the Guideline states that retailers must maintain records and reporting arrangements which enable information provided to the Commission to be verified.

In February and March 2015, the Commission undertook audits of the 2013-14 designated energy purchases data provided by all relevant retailers. This highlighted that:

- ▲ clearer guidance was required on the evidence requirements to verify designated energy purchases data, and
- ▲ retailers should document the processes utilised to collect and verify Designated Energy Purchases data so that it can be collected and verified on a consistent basis each year.

Retailers must be able to provide, on request, customer invoices verifying consumption amounts claimed as Designated Energy Purchases. Also, retailers must be able to provide, on request, individual contracts for sale verifying which customer sites are covered by each contract. Appropriate evidence would be a schedule from the contract that lists all the NMIs (for electricity) and Meter Installation Reference Numbers (**MIRN**) (for gas) covered by the contract. It is not sufficient evidence that sites are consolidated by the retailer as a single customer in their billing or customer management system.

**Draft Decision:**

The Commission proposes to move current Clause 1.4 to section 2 of the Guideline. The amended clause will contain examples of the types of records that retailers must be able to provide on request. The Clause will also include a requirement for retailers to have a documented process in place regarding producing Designated Energy Purchases data.

## 2.5 REES administration

The Regulations give the Commission the functions and power to administer REES and ensure that retailers comply with the relevant requirements of the Regulations. The ESC Act provides the Commission with the authority to make a guideline to help in the performance of its functions.

Information collected under this Guideline will only be used for the purposes of determining a retailer's obligations under REES. Retailers should identify any confidential information at the time of submission. The Commission will not disclose any information collected under this Guideline to any other party unless agreed by the retailer.

**Draft Decision:**

The Commission proposes to include a statement in Clause 1.1 of the Guideline to confirm the authorities under which the Commission administers REES and the powers and functions given to the Commission.

The Commission proposes to amend the Clause 1.3 of the Guideline to reflect that retailers must identify confidential information submitted to the Commission. This information will not be publically released unless agreed by the Commission and the retailer.

## 2.6 Annualising customer energy purchases

Clauses 2.2.4 (iii) and 2.2.5 (iii) of the Guideline currently require that, in reporting total sales of electricity or gas to a customer of 1000 MWh or 3600 GJ or more during a previous financial year, only actual billed amounts to a customer can be included. Further, where a contract for sale with a new customer is executed during the previous financial year, only actual billed energy sales by that retailer in the financial year are relevant, not expected annualised sales.

This means that if a customer switches retailer during a financial year, the Commission will only consider the part of the year for which each retailer has contracted with the customer. The effect of this approach is that if sales to a customer over a financial year exceed 1,000 MWh or 3,600 GJ but that customer switches retailers during the financial year, the Commission cannot include any of the sales as Designated Energy Purchases if that customer purchases less than 1,000 MWh or 3,600 GJ of energy from each of the relevant retailers.

The Commission has received a submission from ERM Power (**ERM**), requesting that it review clauses 2.2.4 (iii) and 2.2.5 (iii) of the Guideline to allow a retailer's sales to a customer to be included as Designated Energy Purchases where a customer's annualised energy purchases exceed the large customer threshold (1,000 MWh or 3,600 GJ). ERM submits that the current approach may result in some customers deciding not to switch retailers due to the potential for the new retailer to allocate a REES cost to such customers, even though they may be unable to benefit from the scheme.

While it is for a retailer to choose how it recovers REES costs, the Commission acknowledges that the current apportionment methodology may prevent certain energy sales from being counted as Designated Energy Purchases if a customer switches retailer part way through a financial year. For example, if a customer consumes 1,500 MWh of electricity in a 12 month period, but switches to a new retailer in January, sales to that customer will be less than 1,000 MWh from either one or both retailers.

The submission proposes that, where a customer's annualised energy purchases exceed the threshold amounts, any retailer's sales to that customer should be included as Designated Energy Purchases. In these circumstances, retailers should be able to:

- ▲ calculate the average daily consumption of the customer based on actual billed consumption data and multiply this amount by the number of days the customer was contracted to the retailer in the previous financial year, and
- ▲ report this amount to the Commission as a Designated Energy Purchase.

The Commission has considered the proposal against the legal framework of the REES as set out in the Electricity and Gas Regulations and the relevant Gazette notice published by the Minister. For the reasons below, it has concluded that the framework does not support the determination of Designated Energy Purchases as proposed.

Regulation 22(1)(b) of the Electricity (General) Regulations 2012 provides that the REES applies in a calendar year to a regulated entity if, during the preceding year, the regulated

entity purchased a quantity of electricity for the purposes of retailing to customers within South Australia, excluding Designated Electricity Purchases, equal to or greater than the threshold set for the purposes of the paragraph. Regulation 22(4) provides that a “designated electricity purchase” means a purchase of electricity of a kind determined by the Minister by notice in the Gazette.<sup>4</sup>

On 11 December 2014, the Minister published a notice which determined that, for the purposes of the Electricity Regulations and the Gas Regulations 2012:

- ▲ designated electricity purchases are purchases of 1,000MWh or more of electricity for on-selling and subsequent use in South Australia through an individual contract for sale, and
- ▲ designated gas purchases are purchases of 3,600 GJ or more of gas for on-selling and subsequent use in South Australia through an individual contract for sale.

Having regard to the text of the Regulations and the Gazette notice, particularly the reference to the electricity or gas purchased by “a regulated entity” during the preceding financial year, and the wording in the Gazette notice, which links purchases to those made through an “individual contract for sale”, the framework is not flexible enough to allow the purchases of any retailer, through a number of different contracts for sale, to be combined such that once the 1,000MWh or 3,600 GJ threshold is reached, the relevant retailers can each claim a proportion of the purchases as Designated Energy Purchases.

**Draft Decision:**

No changes to clauses 2.2.4 (iii) and 2.2.5 (iii) of the Guideline in the way proposed will be made. The Commission confirms that energy purchases of less than 1,000 MWh of electricity or 3,600 GJ of gas are precluded from being counted as Designated Energy Purchases, nor can energy purchases made under different contracts for sale be aggregated and shared as Designated Energy Purchases between different retailers.

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<sup>4</sup> Regulations 16(1)(b) and 16(4) of the Gas Regulations 2012 are essentially identical to the Electricity Regulations in this regard.

## 3. NEXT STEPS

After taking into consideration feedback received on this Draft Decision, and other relevant advice, the Commission will release its Final Decision on its website in early September 2015, detailing any amendments to the Guideline.

For information on how to make a submission to this Draft Decision, please refer to the inside front cover of this report.

### 3.1 *Reporting deadline*

The Guideline requires that retailers submit their Statistical Information Annual Return by 31 August. As the revised Guideline will only be released in early September, the Commission will allow retailers until **2 October 2015** to submit their 2014-15 statistical information return.

The Guideline also states that the Commission will generally give retailers not less than 45 days prior notice of the commencement of any significant revisions of this Guideline. Although the above timeframe does not provide this length of prior notice, the Commission notified retailers on 9 June 2015 that a process to amend this Guideline had commenced.

The current version of the Energy Industry Guideline No. 6 (EG6/1) can be found at:  
<http://www.escosa.sa.gov.au/residential-energy-efficiency-scheme-rees/rees-guideline.aspx>.

# ANNEXURE A– MINISTER’S ENERGY EFFICIENCY TARGET APPORTIONMENT METHODOLOGY

## Apportioning the annual energy efficiency target to gas retailers

The annual energy efficiency target (EET) for a calendar year for a relevant gas retailer is to be calculated using the following formula:

$$A \times (B \times N_g) \div ((C \times N_e) + (D \times N_g))$$

Where:

*A* is the annual energy efficiency target for the calendar year set under regulation 18(1) of the *Gas Regulations 2012*. This value is expressed in gigajoules of energy.

*B* is the relevant gas retailer’s gas purchases for retailing to customers within South Australia, for the preceding financial year, excluding designated gas purchases. This value is expressed in gigajoules of energy purchased.

*C* is the sum of the electricity purchases made by each relevant electricity retailer for retailing to customers within South Australia, for the preceding financial year, excluding designated electricity purchases. This value is expressed in gigajoules of energy purchased.

*D* is the sum of the gas purchases made by each relevant gas retailer for retailing to customers within South Australia, for the preceding financial year, excluding designated gas purchases. This value is expressed in gigajoules of energy purchased.

*N<sub>e</sub>* is the REES electricity normalisation factor and has a value of 1.00.

*N<sub>g</sub>* is the REES gas normalisation factor and has a value of 0.369.

*Relevant gas retailer* has the same meaning as in regulation 17 of the *Gas Regulations 2012*.

*Designated gas purchases* has the same meaning as in regulation 16(4) of the *Gas Regulations 2012*.

*Relevant electricity retailer* has the same meaning as in regulation 23 of the *Electricity (General) Regulations 2012*.

*Designated electricity purchases* has the same meaning as in regulation 22(4) of the *Electricity (General) Regulations 2012*.

## Apportioning the annual energy efficiency target to electricity retailers

The annual energy efficiency target (EET) for a calendar year for a relevant electricity retailer is to be calculated using the following formula:

$$A \times (B \times N_e) \div ((C \times N_e) + (D \times N_g))$$

Where:

*A* is the annual energy efficiency target for the calendar year set under regulation 24(1) of the *Electricity (General) Regulations 2012*. This value is expressed in gigajoules of energy.

*B* is the relevant electricity retailer's electricity purchases for retailing to customers within South Australia, for the preceding financial year, excluding designated electricity purchases. This value is expressed in gigajoules of energy purchased.

*C* is the sum of the electricity purchases made by each relevant electricity retailer for retailing to customers within South Australia, for the preceding financial year, excluding designated electricity purchases. This value is expressed in gigajoules of energy purchased.

*D* is the sum of the gas purchases made by each relevant gas retailer for retailing to customers within South Australia, for the preceding financial year, excluding designated gas purchases. This value is expressed in gigajoules of energy purchased.

*N<sub>e</sub>* is the REES electricity normalisation factor and has a value of 1.00.

*N<sub>g</sub>* is the REES gas normalisation factor and has a value of 0.369.

*Relevant gas retailer* has the same meaning as in regulation 17 of the *Gas Regulations 2012*.

*Designated gas purchases* has the same meaning as in regulation 16(4) of the *Gas Regulations 2012*.

*Relevant electricity retailer* has the same meaning as in regulation 23 of the *Electricity (General) Regulations 2012*.

*Designated electricity purchases* has the same meaning as in regulation 22(4) of the *Electricity (General) Regulations 2012*.



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