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Department for Energy and Mining
11 Waymouth Street
Adelaide SA 5000

By email: DEM.REES@sa.gov.au

RE: Proposed Retailer Energy Productivity Scheme (REPS) Regulatory Framework and Activities

ERM Power Retail Pty Ltd (ERM Power) welcomes the opportunity to respond to the Department of Energy and Mining's consultation paper on proposed retailer energy productivity scheme regulatory framework and activities.

About ERM Power

ERM Power (ERM) is a subsidiary of Shell Energy Australia Pty Ltd (Shell Energy). ERM is one of Australia's leading commercial and industrial electricity retailers, providing large businesses with end to end energy management, from electricity retailing to integrated solutions that improve energy productivity. Market-leading customer satisfaction has fuelled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load¹. ERM also operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, supporting the industry's transition to renewables.

<http://www.ermpower.com.au>

<https://www.shell.com.au/business-customers/shell-energy-australia.html>

General comments

ERM Power acknowledges the change in South Australia's load profile and supply mix as a result of high uptake of distributed energy resources and large-scale renewable energy, and we agree that optimisation of energy use potentially offers significant benefits for customers and the energy system. In this regard we note that the focus of REES Review Report, consistent with the original intent of the REES, has been on residential customers.

We consider that there are potential benefits to be gained, both in terms of reducing energy costs and reducing greenhouse gas emissions, by framing the REPS to be inclusive of large energy users, however this will need to be done in a manner that ensures an efficient scheme that does not impose undue burdens on participants.

We are concerned by the proposed timeframe to implement REPS and consider that market participants will not be ready to provide the sorts of complex dispatch options required to fully participate before 2022. We therefore query whether it might be more useful to commence with a simplified version of REPS focusing on shifting demand out of the maximum window and clarifying the parameters of this window.

Another important issue is to ensure appropriate resourcing and capability of the agency charged with administering REPS. We query whether ESCOSA currently has these resources and capabilities, or whether it will be able to acquire them within such a sort period and suggest that alternative agencies and arrangements be considered to ensure the new scheme is appropriately managed from the outset.

¹ Based on ERM Power analysis of latest published information.



Obligation thresholds

It is proposed that REPS will require obligated retailers to deliver energy productivity activities to earn REPS credits to meet REPS targets, and that the energy productivity activities to be delivered will be those activities or measures determined by the Minister to be an energy productivity activity. It is proposed that the Minister will have the power to exclude certain designated purchases from the calculation of the obligation threshold, and from the apportioned targets for each retailer.

Consultation questions:

- **Are these proposed thresholds appropriate for the REPS?**
- **Are there alternative approaches to setting thresholds that should be considered for the REPS?**
- **Are there designated purchases which should be excluded for determining obligation thresholds? Why?**

We note that the shift in the threshold of electricity purchases from 27,000 MWh per year under REES to 20,000 MWh per year under REPS represents a significant change, and we consider that further clarity is required regarding designated purchases, including whether purchases that were previously designated under REES will also be designated under REPS.

More broadly, we are concerned that Ministerial discretion to exclude certain designated purchases from the apportioned targets of each retailer introduces undue uncertainty into the scheme. In our view, purchases that were previously designated under REES ought to be similarly designated under REPS.

REPS targets

It is proposed that the REPS will require the Minister by notice in the Gazette to set annual energy productivity targets. The targets will be expressed as the annual amount of REPS credits that must be achieved by retailers through the carrying out of energy productivity activities. It is proposed that the format for all targets should be normalised gigajoules (GJs). All obligated retailers will then be subject to an energy productivity target (EPT) by implementing energy productivity activities. Minister to set sub-set targets, e.g. as relates to a customer class or a type of energy productivity activity.

Consultation questions:

- **Are the proposed means of setting targets appropriate?**
- **Are there alternative approaches to target setting that could be considered?**
- **Are the sub-targets appropriate or should others be considered?**
- **Is inclusion of rental properties as a priority group the best way to incentivise delivery of activities to this group or should a separate sub-target be considered?**

We are concerned that the setting of annual targets and Ministerial discretion to set sub-targets may create uncertainty such as to undermine certainty and scheme uptake. We consider that targets should be set with greater lead time, and that the setting of sub-targets will not be conducive to the objects of the scheme.

Apportioning targets and normalisation factors

Unlike the REES, it is proposed that credits awarded under REPS will no longer be of uniform value throughout the year. At times of network maximum demand, increases in energy use will yield REPS credits. It is proposed that the REPS will consider fuel type in calculating normalised REPS credits. Each fuel type will be assigned a different normalisation factor to recognise the relative purchase cost of each fuel type.



Consultation questions:

- **Are the proposed REPS normalisation factors appropriate?**
- **Does the low demand normalisation factor provide enough incentive to move energy consumption away from other periods (including off-peak) to the low demand period?**
- **Are there other alternative factors that should be considered?**

The proposed normalisation factors represent an ambitious new program, the intent of which we support. However, we query whether such a program can be effectively implemented within the timeframe proposed. We therefore suggest that it may be prudent to map out implementation phases, the first of which will focus exclusively on moving load from maximum demand periods, and clearly defining those periods. The effective implementation of this critical load shifting will enable market participants to develop dispatch technology that will maximise scheme uptake and the introduction of more granular load shifting with the introduction of a full suite of normalisation factors across various windows.

REPS credit program

It is proposed that the REPS will permit a transfer of REPS credits from one retailer to another, will permit a retailer to enter into an arrangement with another person (including another retailer) for that person to undertake energy productivity activities on its behalf, and will require that, despite any arrangement entered into by a retailer, a retailer remains liable for any offence or penalty arising from a failure to meet the REPS standard.

It is proposed that the REPS include an option for the Minister to develop and implement a program to deliver specific energy productivity activities to a targeted customer class. To exercise this option, at least 4 months prior to the commencement of the compliance year, the Minister could notify obligated retailers of the proposed program, including the proposed activities, customer class, and associated REPS credits. Retailers would have the ability to bid for REPS credits associated with the program and use these credits for the purpose of meeting their REPS targets. Successful bids would be settled before the commencement of the compliance year, with funds from successful bidders to be received no later than 31 January of the compliance year.

Consultation questions:

- **Is the flexibility to conduct such a program appropriate?**
- **Any other improvements to the proposed process necessary?**

ERM has long highlighted the inefficiencies of the REES and advocated 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 productivity work they undertake. Similar energy productivity certificate schemes exist in other jurisdictions and the harmonisation of such schemes providing for energy productivity across Australia ought to be the longer-term objective of REPS.

While we equally acknowledge the value of price certainty and suggest that at least some component (e.g. floor price) may be beneficial, transferability or tradability of credits is an important objective in our view.

Determining and maintaining activities and methods

It is proposed that REPS will allow the Minister to determine one or more activities or measures that may be undertaken by retailers to be eligible activities, and that the Minister will be able to vary or revoke an activity determination. The Minister will further have the function of maintaining, reviewing, and amending the list of calculation methods, eligible activities, and specifications for the purposes of REPS, and the Minister may add or amend calculation methods, eligible activities, and specifications at any time, provided these are consistent with the principles in the protocol.



Consultation question:

- **Is the proposed Ministerial Protocol appropriate for the purpose in guiding the selection of energy saving activities and calculation methods for the REES?**

We are concerned that affording the Minister such significant discretion to change activities may undermine certainty required to promote broad uptake in the scheme. We suggest it would be preferable to prescribe activities and calculation methods with substantial lead time and by predictable processes and methodologies.

Costing and delivery of activities

It is proposed that obligated retailer will be required to annually submit costs and offer information to ESCOSA for at least 80% of eligible activities. While it is contemplated that REPS will provide obligated retailers with flexibility around which eligible activities they deliver to meet their targets, the Minister will have the ability to specify a percentage of a retailers EPT or sub-target that must be met through the delivery of a specific eligible activity or group of eligible activities, with obligated retailers potentially receiving as little as 4 months' notice before an activity target commences.

Consultation questions:

- **Is annually the appropriate timeframe for cost and offer reporting?**
- **Are any other obligations necessary to incentivise competitive cost and activity delivery?**
- **Is there a case for any activity targets from commencement of the REPS?**

We think the proposed Ministerial discretion and notice timeframes create undue uncertainty of obligated retailers and will not afford adequate time for efficient responses. We suggest that activity targets be kept to a minimum, and that obligated retailers be afforded significantly greater notice in relation to any activity targets imposed on them.

Eligible activities and methods

Given limited technical and resource constraints limiting the number of activities for which specific methods can be developed at the scheme's commencement, it is proposed that priority be given to activities that are most likely to drive the greatest productivity gain and to be taken up at scale, where it is technically feasible to do so. It is further proposed that activity-neutral methods be developed to open the scheme to as broad a range of activities as possible, by allowing proponents to measure and demonstrate benefits according to prescribed methodologies.

Consultation questions:

- **Which of these activities and methods do you think will be implemented through the REPS, and which will not? Please provide reasons.**
- **Is there a strong case for retaining any of the current REES activities that are currently not planned for inclusion in REPS? If so, please provide detail reasons.**
- **Which of the proposed new REPS activities are best suited to a deemed REPS credit, and which should be developed as a measurement and verification method? What basis would be used to calculate deemed benefits?**
- **Are there any other load shifting/demand response activities that have sufficient data to develop deemed REPS credit method? What basis would be used to calculate deemed benefits?**

We consider that the following activities are likely to be implemented through the REPS:

- HVAC;



- Refrigeration;
- Battery storage; and
- Industrial curtailment.

For HVAC, refrigeration, and battery storage, it would be appropriate to permit installation of an optimisation device that will enable measurement and verification after a 9-month period of operation. Thereafter, credits in relation to each installation should be deemed for the next 10 years, thereby promoting uptake of these activities.

For industrial curtailment, we consider annual measurement and verification to be appropriate.

Compliance reporting

It is proposed that the REPS will require ESCOSA to develop and publish a REPS compliance code for use by retailers in meeting their obligations, and also require obligated retailers to regularly submit to ESCOSA a compliance plan for the purposes of delivery of its targets according to the REPS compliance code, as well as to regularly report to ESCOSA on its compliance with the REPS compliance code and with its targets.

Under REES, there is significant duplication between the compliance plans of third-party service providers and obligated retailers, meaning that retailers have been required to effectively manage the compliance risk of service providers, imposing significant additional cost and inefficiency. Given that the REPS will be a new scheme with new compliance obligations and regular reporting, it would be sensible for third-party service providers to be responsible for delivering compliance plans to ESCOSA.

A central accreditation of each service provider would prevent the duplication that currently occurs when more than once retailer performs compliance checks for the same service provider, as well as removing retailers' costly management of compliance risk for service providers. Centralised compliance monitoring by ESCOSA would allow activities to be provided safely, at lowest cost.

Shortfall penalties

It is proposed that the REPS will offer some flexibility in the annual compliance requirements, including permitting retailers to under-achieve on a target by up to 10% without penalty, provided the shortfall is carried over and delivered the following year. A retailer that under-achieves on their target up to 10% will have their target for the next year adjusted by ESCOSA to account for such shortfalls.

Consultation question:

- **Are these penalties sufficient to ensure compliance? Why?**

We consider it important that there be an appropriate balance struck between providing retailers some flexibility to meet their target while ensuring appropriate energy productivity activities are incentivised each year. In our view, permitting retailers to under-achieve on a target by up to 10% does strike that appropriate balance.



If you would like to discuss this submission further, please contact Sarah Paparo on 0421 230 198 or spaparo@ermpower.com.au.

Yours sincerely,

[signed]

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