



19<sup>th</sup> May 2017

Ms Rebecca Knights  
Director Energy Policy and Projects  
Department of State Development of South Australia

via email at [DPC.ESTRegulations@sa.gov.au](mailto:DPC.ESTRegulations@sa.gov.au)

Dear Ms Knights

### **RE: Energy Security Target Scheme Stakeholder Consultation**

ERM Business Energy welcomes the opportunity to respond to the Draft Electricity (General) (Electricity Security Target) Variation Regulations 2017, (the Regulations) recently published by the Department of State Development (the Department). We are well placed to provide comment on the draft Regulations, as a prospective liable NERL retailer, currently with small and large customers in South Australia and experience with other jurisdictions' certificate and green schemes including the NSW Greenhouse Gas Reduction Scheme, and the Queensland Gas Scheme (both now closed).

### **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 load<sup>1</sup>, 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](http://www.ermpower.com.au)

### **General comments**

As a retailer seeking to provide a low cost, reliable and quality service to our customers, we have supported market-based mechanisms in preference to direct intervention. Market mechanisms are more likely to provide an efficient means of pursuing government policy objectives such as promoting investment in a stable and secure energy supply environment.

We recognise the objectives of the scheme in guarding the South Australian (SA) market against the vulnerability of the current generation mix, dominated by non-synchronous generation and reliance on the Heywood Interconnector. We support the approach to address issues surrounding the removal of dispatchable, synchronous thermal generation in the SA market due to the merit order effect of the growth of renewables. In recent times this has contributed to South Australians being exposed to high

---

<sup>1</sup> Based on ERM Power analysis of latest published financial information.

prices, a costly impact of system instability and insecurity. We are a subsidiary of a business that has advocated for measures that recognise and promote the importance of gas-fired peaking generation as critical infrastructure to provide low emitting electricity generation, system stability, security and help the transition to renewables; a transition we support. Our concerns with this scheme surround the rushed implementation and the impact of the commencement of a compliance year coinciding with a non-existent tradeable certificate market in the short term.

This submission responds to the Department's Consultation Paper's questions and makes recommendations to address the mechanical issues we see with the scheme design. We also propose a delay to its implementation, so as to ensure that NERL retailers' obligations can be met in an efficient, low cost manner and meet the South Australian Government's purported minimal cost impacts to consumers.

*Are there any changes to the draft Regulations you consider necessary to support the long term interests of South Australian electricity consumers?*

### **Customers will wear the costs from rushed development and implementation of the scheme which is occurring after the compliance year has commenced.**

The Government's rationale is that the scheme will be delivered with minimal costs impacts to consumers. This assumes a lively and active supply of certificate creators and wholesale cost reductions from more synchronous plant supplying the SA market. It is assumed that dispatchable synchronous generators will provide much needed ancillary services, resulting in downward pressure on wholesale prices and hence offset the impost cost of the scheme. We are very doubtful the full benefits in the scheme will be realised in the short term to sufficiently offset the scheme costs, when eligible generator accreditation processes are not developed, competition is limited, and there is an absence of a tradeable certificate market. It is SA customers who will ultimately be burdened with a significant impost if this scheme commences without the structures to support a competitive, deep and liquid trading market of certificates.

We are concerned that the scheme's implementation is being rushed and lacks the rigour of adequate consultation to ensure the scheme is carefully designed, bringing confidence to participants and the paying consumer. The Regulations put the commencement of the scheme at less than 5 weeks from the end of this consultation, 1<sup>st</sup> July 2017. It would be reasonable to assume that the Regulations will not be made until late June. This compressed timeframe not only puts an unrealistic expectation on the Regulator, the Essential Services Commission of South Australia (ESCOSA), to have formed accreditation processes in a couple of days, but also for retailers to amend contracts and prices to enable the cost pass through to customers as intended by the Government's policy. We are concerned that timeframes are unrealistically compressed and as a result, consumers will wear the cost impact of hurried design, lack of competition in certificate creation and absence of a tradeable market in the short term.

## Recommendation – delay the scheme commencement

We urge the Department to provide confidence to NERL retailers (and customers) that this condensed implementation and development phase will not penalise those retailers that act in good faith of complying, but have no mechanism to support the trading and procurement of certificates. We are concerned that without administration support of the scheme from day one of the compliance year in less than five weeks, liable NERL retailers will be forced to consider the cap price of certificates in estimating the costs to consumers.

We request the Department to delay the implementation until the infrastructure for the market is developed, customers can be fully informed about the impacts and retailers' systems updated to support the scheme. We suggest the scheme moves to a calendar year compliance period, starting the 1<sup>st</sup> January 2018. A move to a calendar year scheme would have benefits beyond the much needed delay to the proposed start date. All other schemes for which retailers have certificate liabilities operate on a calendar year basis. Moving away from this adds to the operational complexities of accommodating the scheme in systems and results in unnecessary compliance costs. These costs will ultimately be passed through to consumers, eroding further at the perceived benefits of the scheme.

Delaying the scheme to the 1st of January 2018, provides:

- ESCOSA time to set up an accreditation regime, providing confidence in compliance and removing the risks surrounding certificate creation;
- ESCOSA sufficient time to establish an effective and easy to use web-based registry, which facilitates the registration, transfer and surrender of the millions of certificates required to meet liabilities and keep costs of participation as low as possible;
- Confidence to retailers that they have a deep and liquid market to purchase certificates, allowing certificates to be procured and surrendered at least cost to meet obligations;
- Retailers with reasonable time to communicate to customers so that they are aware of the scheme charging and ensure retailer systems can support the scheme's compliance;
- Retailers with the ability to leverage off existing systems and processes that are currently established for calendar year certificate schemes, and
- Confidence in consultation; facilitating open and transparent discourse with participants through the development and implementation phase. Compliance can be well managed through transparency of information.

If the scheme commences on the 1<sup>st</sup> July 2017, retailers face the prospect of having a current liability in a market yet to be created from a base of a small number of generators. It is unlikely that the small number of certificate creators accredited in the first compliance year will provide the necessary market depth or liquidity and this is likely to result in upward market price pressure. Liable NERL retailers will be forced to pass through this risk premium and consider the cap price in estimating the tariff changes to consumers. For these reasons we believe it is very unlikely customers' costs will be offset by lowered wholesale costs in the short term.

*Do the proposed amendments provide the level of transparency which would support the long term interests of South Australian electricity consumers?*

## Competition and a transparent market will be critical in design

It will be important that the administration, operation and design of the scheme promotes competition, market price transparency allowing sufficient price discovery to provide the most efficient delivery.

The scheme described in the consultation paper is one that creates additional demand for inertia and fault control compatible generation, by placing a legal obligation on NERL retailers to purchase the required number of Electricity Security certificates created by these generators and surrender to the regulator, in order to meet their obligation under this scheme each year. Liable parties can purchase certificates from an accredited generator or pay up to the cap price by purchasing them from ESCOSA. The trading of certificates offers accredited generators an additional revenue stream, which offsets the risks and higher cost of provision of this type of generation, relative to generation imported through the interconnector. This arrangement creates an economic incentive for more gas-fired generation (or indeed other eligible generation such as pumped hydro or solar thermal) and will provide greater system stability offering inertia and fault current services that have been displaced in recent times by non-synchronous generation.

## Recommendations for scheme design:

We cannot stress enough the importance of ensuring participants have confidence in the establishment of a deep and liquid certificate market where value of certificates as tradeable commodity is transparent and there is sufficient competition to meet the objects of the scheme. We believe the market should support unlimited banking, intermediary trading and low transactional costs, allowing a fluid forward market. Further, a platform promoting the widening of the scheme to intermediary or broker facilitated certificate trading will provide clear guidance to the market, improve information asymmetry, drive price discovery and will more likely lead to efficient pricing. We support a mechanism of a shortfall carry over to allow retailers to manage forward procurement.

On ensuring low cost transactions, we consider that the current fees proposed on transfer should be removed to encourage competition and to lower the costs of certificate trading. We believe that the registry should warrant the verification of the certificates be imposed on the certificate creator not the buyer, and therefore once certificates are registered, buyers have full confidence in the certificate's validity and compliance. If administration fees need to be imposed, it would be reasonable for the costs surrounding validation to be placed on the creator on a per certificate basis, as generators creating certificates are receiving an economic benefit from the scheme. Importantly, surrender fees should not be imposed; retailers should not be penalised for complying with the scheme and surrendering certificates to discharge their liability.

*What verifiable information could be submitted to evidence electricity security certificate creation and acquittal?*

## Insufficient time for liability calculation and surrender obligations

We note that a NERL retailers' liable load is to be calculated from a formula, determining the liability in a financial year, measured at the node. This liability will include any electricity security certificate shortfall or excess from a previous financial year. Fulfilment of surrender activities (which assumes

sufficient time for calculation, reporting and approvals and surrender transactions) occurs no later than one month after the compliance year.

### **Recommendations for liability and surrender:**

We strongly believe that the liability calculation process must not add unnecessary costs to compliance and must provide confidence to the scheme through accuracy and simplicity. Therefore, we recommend that the liable load definition of energy consumed, under clause 44EI (5), be linked to AEMO settlement acquisition amounts of NERL retailers for the compliance year as the basis of the calculation. AEMO settlement data is used for various jurisdictional scheme liability calculations, is measured at the node and readily identifies energy consumed.

Further we argue that the surrender obligation of one month after the compliance year under 44EI (1) be extended to two months after the end of the compliance year. This would accommodate more accurate data calculation, by providing retailers a greater number of weeks of final versioning of data. If surrender obligations were to be within one month of the end of the compliance year, a large degree of estimation would be required to calculate the liability for the final months of the year, as many meters will not have been read. Relying on at least final data, available to participants at 18 business days after the end of the compliance year, provides ESCOSA with viable evidence, confidence in the accuracy of the liability calculation and reduces compliance costs to retailers associated with substantiating estimations.

ERM Business Energy believes that the *electricity security fraction* which is calculated by dividing the electricity security target (for the financial year) by the aggregate of the liable load for all NERL retailers operating in South Australia in the previous financial year, should be published as soon as possible. Any delay in the publishing of this factor adds to the uncertainty for retailers in forecasting their liabilities during that time. This uncertainty raises the cost to NERL retailers with risks priced into rates and ultimately this will be passed onto consumers. The information behind this fraction should be available to ESCOSA at the time of the final settlement of the last week of the compliance year; hence the factor should be published no later than 18 business days after the end of the compliance year.

On a closing note, we urge the Department to be more open and transparent in consultation surrounding the scheme. The industry and liable entities such as ERM Business Energy have been provided with insufficient notice of this consultation and very limited time for response. This is disappointing when the scheme will have impacts on South Australian customers.

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](mailto:lhawker@ermpower.com.au)