



24 March 2015

National GreenPower Program Steering Group
GPO Box 3889
Sydney NSW 2001

RE: GreenPower Program Review Consultation Paper

ERM Business Energy welcomes the opportunity to respond to the National GreenPower Program Steering Group (NGPSG) Consultation Paper for the GreenPower Program Review (the Consultation Paper).

About ERM Business Energy

ERM Power Retail Pty Ltd, which trades as ERM Business Energy, is a subsidiary of ERM Power Limited, an ASX-listed company with interests in electricity sales, generation and metering, and gas exploration across Australia. Since launching in 2007, ERM Business Energy has grown to become the fourth largest electricity retailer by load in the Australia, and the only energy retailer company licenced to sell electricity in every state and mainland territory. ERM Business Energy is now the second largest electricity retailer to the large business market by load¹, with increasing success in the small business market.

GreenPower Program Review

In the Consultation Paper, the NGPSG details a number of options for amending the National GreenPower Program (the Program) that were previously proposed by stakeholders. Our submission discusses the two key principles that we believe should drive NGPSG decision-making in relation to those proposals, demonstrating these with reference to specific options. The Appendix provides a summary of our position on each of the options discussed in the Consultation Paper, and two alternative options proposed by ERM Power.

Please contact me on the number below if you would like to discuss this submission further.

Yours sincerely,

[signed]

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

PRINCIPLES TO GUIDE NGPSG DECISION MAKING

1. Respect consumer choice

The current aims of the Program are as follows:

- to facilitate the installation of new renewable energy generators across Australia beyond mandatory renewable requirements;
- to encourage growth in consumer demand for renewable energy;
- to provide consumer choice for, and increase confidence in, credible renewable energy products;
- to increase consumer awareness of renewable energy and greenhouse issues; and
- to decrease greenhouse gas emissions associated with electricity generation.

The Program is one of a number of mechanisms that seek to meet these, or similar objectives, as acknowledged in the Consultation Paper. This means that the success against these objectives in Australia is not necessarily dependent on the level of GreenPower sales. The overlap with the range of initiatives with similar goals complicates the task of measuring the success of the Program as an individual initiative.

We believe the uptake of GreenPower-accredited products should not be viewed as an end in itself. Instead, a more holistic approach should be adopted to understand the specific role of GreenPower-accredited products in meeting these objectives within the suite of other mechanisms that currently exist. The decline in GreenPower customers due to uptake in solar generation, for example, should not necessarily be viewed as a failing of the Program – both the purchase of GreenPower-accredited products and self-generation from a renewable source contribute towards a number of the Program's objectives. In this instance, the Program may have played a role in increasing a consumer's awareness of renewable energy issues, and provided an opportunity for the consumer to voluntarily support this cause until the decision was made to purchase a generation system. This may leave the consumer satisfied with its contribution to the objectives, and decide not to continue purchasing GreenPower. ERM Power believes that consumers should be free to support these objectives through the products or mechanisms that best meet their needs and align with their values.

Option A3: Introduce opt-out requirements for GreenPower

The Consultation Paper discusses the option to advocate for a requirement on GreenPower providers to make an initial offer of a GreenPower-accredited product to a consumer, prior to offering a non-accredited product (opt-out requirements). We do not support this option. When engaging with a potential customer, ERM Power first seeks to understand their priorities and preferences, before offering a product that we believe may meet their needs. We seek to only sell GreenPower-accredited products (or any product for that matter) to consumers who make an informed choice about the product's suitability for their circumstances. We do not believe it is appropriate to require an initial offer of a GreenPower-accredited product to a consumer where this is not aligned with their identified priorities. This would be at best frustrating for the consumer, and at worst misleading. We therefore recommend this option is not considered further.

2. Minimise the cost of GreenPower-accredited products

There are now a range of options available to consumers seeking to voluntarily contribute to renewable generation in Australia. As recognised in the Consultation Paper, GreenPower-accredited products do not only compete with non-accredited electricity products, but also with carbon-offset credits, direct investment in renewable generators, and to a lesser extent energy efficiency measures. In our experience, the cost of purchasing a GreenPower-accredited electricity product is often the determining factor for the majority of consumers when deciding how (or whether) to support this cause. Lower prices would therefore allow more consumers to participate in the Program, or to purchase a higher percentage of GreenPower. Any change to the Program resulting in a general increase in the price of GreenPower-accredited products is not likely to be in the Program's best interest.

Provider fees, compliance costs and the cost of procuring GreenPower-accredited Large-scale Generation Certificates (GP-LGCs) are key contributors to the price of GreenPower-accredited products. We do not support any of the options discussed in the Consultation Paper that could result in a material increase to these contributors. Instead, we recommend that the NGPSG take up opportunities to reduce program costs to minimise the cost barrier for the uptake of GreenPower products.

One particular opportunity is the approach to central Program marketing. The Consultation Paper suggests that "sufficient" central marketing and promotion activity would halt the decline in customer numbers and sales,² and discusses a number of options to increase central marketing activity and invest in the Program brand. However it does not present any evidence to support this concept, or provide insights into the required level of marketing that might be "sufficient" to change sales trajectories. ERM Power doubts the effectiveness of central marketing activity alone (at any realistic level) in attracting new consumers to the Program or retaining existing customers in a material way.

We also reject the Consultation Paper's suggestion that the pool of consumers who are unaware of the Program represents an untapped market of potential GreenPower customers worth targeting. The jurisdictions where Program awareness is lowest are also the jurisdictions where energy retail competition is low or non-existent. It is not surprising that Northern Territory consumers, for example, have low awareness of the Program given residential consumers do not have a choice of energy retailers. Even in competitive markets, energy retailers face enough difficulty encouraging disengaged consumers to switch from a standing offer to a market offer, despite the lure of significant cost savings. We believe that the vast majority of consumers who are supportive of the Program's objectives and sufficiently engaged in the energy market to actively choose an energy product would be aware that GreenPower-accredited products exist.

Option M2: Increase engagement with existing customers

We are particularly concerned that Program funds could be increased to fund marketing activity with questionable benefit. Using option M2 as an example, we do not believe that a membership program that provides newsletters, competitions and an app will persuade material numbers of customers to continue purchasing GreenPower-accredited products if another means of supporting renewable energy is more cost-effective. Such a membership program is likely to come at significant cost, and therefore would not help GreenPower-accredited products compete on price with other initiatives available for consumers to support.

² Institute for Sustainable Future, *GreenPower Program review: Public Consultation Paper*, February 2015, p.32

We believe that GreenPower providers are best placed to market the Program through their GreenPower-accredited products. Providers already have established marketing teams and market data to support their own activities, and have an incentive to market their products in line with consumer demand, which is likely to be the most cost-effective approach. We propose an alternative option to amend the current Program marketing approach, whereby the central marketing activity is limited to basic maintenance of the GreenPower website and approval of provider marketing materials and logo use only. This should allow a reduction in marketing budget and may therefore justify a reduction in provider fees. Customers would benefit from this option through reduced pressure on the price of GreenPower-accredited products. We urge consideration of this option through the remainder of the Program review.

APPENDIX: SUMMARY RESPONSE TO OPTIONS

Our position on each of the options discussed in the Consultation Paper is summarised below. Those options which the Consultation paper indicated have strongest stakeholder support are in bold font, as in the Consultation Paper. We have also briefly outlined proposals for two alternative options, and these are highlighted in green.

	Option	Position	Reason
Program aims			
A1	No change	Neutral	
A2	Update the aims	Conditional support	We support the first two aims, which are consistent with the original intent of the Program. However we do not support the third aim. This references a particular strategy that could be adopted to meet the first two aims, rather than being an aim itself. We would support Program aims be updated to the first two aims only.
A3	Develop completely new aims	Oppose	The suggested aims under this option would redefine the scheme to support specific renewable technologies to support, rather than allowing an open market to drive the most cost-effective outcome for accredited renewable generation. This would reduce support for existing GreenPower-accredited generators which may not be fair. It would also be expected to reduce the supply for GP-LGCs, which may lead to an increase the procurement costs.
A4	Introduce targets	Oppose	As discussed above, Program success should be measured with consideration to other mechanisms which also contribute to the scheme aims. We suggest that in this context, the use of Program-specific targets would be of limited benefit.
Governance			
G1	No change	Neutral	
G2	Steering Group expansion	Oppose	We agree with the concerns expressed discussed in the Consultation Paper relating to confidentiality.
G3	Establish a stakeholder reference group	Support	Providing a forum for the NGPSG to easily seek stakeholder input on aspects of the Program is likely to be beneficial. It would be important for the reference group to be a representative cross-section of stakeholders to ensure advice is balanced.
G4	Governance by an alternative organisation	Oppose	We believe any benefits of this option are unlikely to outweigh the costs.
Funding			
F1	No change	Oppose	There is currently no transparency as to what current funding is being used for. This means we cannot assess the appropriateness of this level of funding.

F2	Raise additional fund from providers for central marketing function	Oppose	The need for additional funding has not been justified. Increased provider fees would increase the cost of products, and could therefore contribute to the continued decline in product uptake. We do not believe that the benefits of central marketing activity would outweigh the costs.
F3	Increase funding by other means.	Oppose	The need for additional funding has not been justified. It is unclear to us what other means are available.
F4	'Real-time' fees for providers	Oppose	We agree with the concerns expressed discussed in the Consultation Paper relating to administrative difficulties. This option would only alter the fee level for those providers near the limits of a sales band.
F5	Restructure generator fees to improve equity	Neutral	Not relevant to ERM Power.
ERM 1	Reduction in provider fees	Support	Subject to a review of the effectiveness of current Program spending, the NGPSG should also consider a reduction in provider fees.
Marketing and engagement			
M1	No change	Support	There is currently no transparency around the activities currently being undertaken by the central marketing function.
M2	Increase engagement with existing customers	Oppose	We do not believe that the benefits of central marketing activity would outweigh the costs.
M3	Narrower marketing focus	Oppose	See M2. The equity of providers funding marketing only a subset of consumers should be considered. For example, ERM Power would not support any central marketing activity that specifically targeted residential consumers. As a business-only retailer, it would not be equitable to require our customers to fund such activity.
M4	Refresh and relaunch	Oppose	See M2.
M5	Rebrand and relaunch	Oppose	See M2.
M6	Pursue third party endorsement and advocacy	Oppose	We could be some benefits in third party advocacy in accessing broader consumer segments
M7	Innovative product offerings	Oppose	It is unclear whether the benefits of this option would exceed the additional administrative costs in developing and approving new products.
ERM 2	Reduce central marketing activity	Support	We propose that central marketing activity is minimised (to include only website maintenance and to facilitate logo usage approvals). Providers are best placed to promote the Program through the GreenPower products they offer.
Program rules			
R1	No change	Oppose	
R2	Relax the minimum renewable energy requirement	Neutral	

R3	Strengthen GreenPower generator eligibility requirements	Oppose	This is likely to reduce the number of generators that gain accreditation compared to the counterfactual. This would result in reduced supply of GP-LGCs, and therefore increase the cost of procurement. This cost is likely to outweigh any benefits of an increase in environmental credibility.
R4	Support small-scale generation	Oppose	We have concerns that accrediting STCs under the Program could disrupt the market for GP-LGCs. We expect there to be a price differential between GP-LGCs and GP-STCs, given the rate of supply of each certificate type will vary, and this in turn would be likely to drive a change in procurement behaviour. For example, if GP-STCs consistently trade at a lower price than GP-LGCs, providers may choose to procure a larger proportion of GP-STCs, disadvantaging large-scale GreenPower generators.
R5	Redefine new generation	Oppose	This would reduce the supply of GP-LGCs, and therefore increase the cost of procurement. We expect this would also cause problems for existing generators who invested with an expectation of continued income from the Program.
R6	Increase the minimum GreenPower content of residential products	Oppose	This would increase the cost of minimum GreenPower products. We expect the number of customers that would stop purchasing GreenPower products as a result would exceed the number of customers who would choose to purchase the higher minimum GreenPower product.
R7	Lower the threshold for large customers to use the GreenPower logo	Oppose	This might result in customers who currently purchase a 10% GreenPower product reducing their GreenPower proportion to align with the new minimum threshold.
R8	Incorporate renewable electricity from the grid into calculations of the percentage of GreenPower	Conditional support.	This option is likely to reduce the cost of GreenPower-accredited products. However, if this change was to be implemented, providers would need to be notified about 4 years in advance of the effective date. This is because hedging contracts will already have been entered into for that period that otherwise would not have been required. If insufficient notice is given, the value of these hedges may not be recognised, representing significant losses to providers.
R9	Remove block-based GreenPower products	Neutral	Not relevant to ERM Power.
R10	Review eligible generation technologies	Support	If greater generation technologies become eligible, there would be greater supply of GP-LGCs, and therefore the cost of procurement may be lower than the counterfactual.
R11	Expand the GreenPower product family	Neutral	

R12	Strengthen contractual obligations for GreenPower providers	Oppose	<p>We do not believe there is a case for a contingency fund for instances where a provider does not surrender GP-LGCs. In these cases, either the provider procures and surrenders the required certificates, or their accreditation is withdrawn. It is very likely that this would incentivise the provider to surrender the required GP-LGCs. In the unlikely event that it doesn't surrender as required, the customer would have good grounds to lodge a case with the energy ombudsman, and any compensation could be used to fund the procurement and surrender of certificates if they chose.</p> <p>The increase in provider fees required to establish the contingency fund would increase the cost of GreenPower-accredited products. Given the low likelihood of failure to surrender, we do not believe this is justified.</p>
R13	Streamlining auditing of providers	Support	<p>This measure would reduce providers' compliance costs, and therefore reduce the pressure on the price of GreenPower-accredited products. We propose that a risk-rating approach is adopted, whereby providers are only formally audited where there is ground for their operations to be considered at high risk of non-compliance.</p>
Advocacy			
A1	Confirm the additionality of GreenPower	Support	We agree that additionality is important for the credibility of the Program. However, the cost of advocacy would need to be weighed with the benefits over the expected life of the Program.
A2	Simplify the LGC surrender process	Neutral.	<p>A simplified surrender process would make an incremental improvement to the efficiency of our compliance processes. However, the cost of advocacy would need to be weighed with the benefits over the expected life of the Program.</p>
A3	Introduce opt-out requirements for GreenPower	Oppose	<p>ERM Power offers products to consumers based on their priorities and preferences. We do not believe it is reasonable to require an initial offer of a GreenPower-accredited product to a consumer where this is not aligned with their identified priorities.</p>