Application for Individual Retail Exemption

Demand Manager Commercial Solar PPA

15 November 2013

I. BACKGROUND TO DEMAND MANAGER

Demand Manager is a leading provider of financial services to the growing clean energy sector. The business aims to assist clean energy product and service providers to increase sales of their products by sourcing financial assistance from various avenues such as:

- State-based energy efficiency schemes (ESS, VEET);
- The Australian Government's Renewable Energy Target;
- Asset finance products; and
- Other Government grant-based programs.

The business has been successful in obtaining over $36 million in financial assistance for clean energy upgrades including solar power, LED lighting, compressed air upgrades and HVAC improvements.

The business has been in operation since 2005 and has rigorous auditing and Quality Assurance regimes to meet the highest levels of compliance.

Demand Manager is seeking to introduce a new solar-power product whereby energy consumers enter into a "Solar PPA" to buy the output from a solar power system which has been installed at their site. The product is only intended for the commercial sector at this stage.

II. General Details

Demand Manager's relevant details are listed in Table 1, below.

Legal Company Name	**Demand Manager Pty Ltd**
ACN/ABN	114 850 729 / 64 114 850 729
Registered Office Address	Suite 7.01, 66 King Street Sydney NSW 2000
Postal Address	PO Box 815 Bondi Junction NSW 1355
Website	www.demandmanager.com.au
Phone Number	1800 RING DM (02 9279 4704)
Fax Number	02 8076 7460
Email Contact	info@demandmanager.com.au
Nominated Contact and Title	Jeff Bye, Director 0419 297 119

A. REASONS FOR SEEKING AN INDIVIDUAL EXEMPTION

Demand Manager already offers solar power product suppliers assistance with financing solar power installations through the provision of services to create STC or LGC incentives and through the provision of asset lease finance. Demand Manager's customers are typically retailers and installers of solar power installations looking to deliver quality solar power systems in the commercial and residential markets. Demand Manager does not become directly involved in the sale of solar power equipment to end energy users.

As an extension of this financial service product offering, Demand Manager proposes to establish a division which offers end users the ability to pay for the solar system based on the volume of kWh of solar electricity they consume on site.

The key attributes of this product would include:

- Available to commercial customers only (i.e. no residential consumers);
- Customers sign up to a Solar PPA for a fixed period, with the equipment reverting to their ownership at the end of the period;
- The Solar PPA to provide a fixed rate for solar electricity consumed on site;
- The Solar PPA to be drafted taking into account industry best practice and exemption conditions should approval be granted;
- Demand Manager to fund the installation and all maintenance costs; and
- Customer to continue sourcing electricity via the grid from their nominated electricity retailer (Demand Manager will not seek to become their electricity retailer for non-solar generated electricity.

Such a "Solar PPA" model is new to the Australian energy market and does not fit within any existing exemption categories contained within the Australian Energy Regulator's *Exempt Selling Guideline.* As such, Demand Manager makes this application seeking an exemption for the class of product which could be implemented at numerous sites throughout Australia.

B. Address of the Site

Demand Manager is seeking approval for applying the Solar PPA model at multiple sites throughout Australia. It is noted the jurisdiction of the AER does not yet apply in all states. Should Demand Manager seek to use a Solar PPA model in states not currently under the jurisdiction of the AER, then necessary approvals will be sought from the relevant State electricity licensing body.

C. Primary Activity of Demand Manager

Demand Manager is primarily concerned with financing clean energy upgrades, whether they are renewable energy or energy efficiency. The Solar PPA model is an extension of this model providing customers the choice to finance their solar power installation through an ongoing, per kWh charge.

Demand Manager, or its business partners, will be responsible for the following activities:

- Sizing and designing an appropriate solar power system;
- Negotiating the Solar PPA with each commercial customer, particularly with regards to the kWh rate and the term of the agreement;
- Arranging for the installation of the system and any metering requirements;
- Checking the quality of the solar power system installation;
- Managing any ongoing or emergency maintenance of the system;
- Insuring the solar power system; and
- Meter reading and billing arrangements.

Customers will remain responsible for maintaining the relationship with their existing electricity retailer for the non-solar component.

D. The Form of Energy

The Solar PPAs intended by Demand Manager would result in the sale of solar-power generated energy to the end user.

The Solar PPA would not supply 100% of the site's electricity needs and customers would continue to source a proportion of their electricity needs from a traditional grid-based electricity retailer.

Demand Manager is not expecting to use the Solar PPA model in any off-grid applications.

E. Date of Commencement

Subject to approval of this exemption request, Demand Manager expects to start offering this Solar PPA product from January 1, 2014 onwards.

F. Mailing Address of the Site

Not applicable.

G. Previous Experience as an Energy Retailer

Demand Manager has extensive experience in the installation and financing of clean energy technologies across Australia, however no direct experience retailing electricity.

The founder of Demand Manager, Mr Jeff Bye, does have experience working within the NSW electricity sector including periods with the transmission operator, TransGrid, and within the NSW Department of Water and Energy.

H. Current Authorisations / Exemptions

Nil.

I. Arrangements in the Event of Failure to Supply

Once the solar panels have been installed on the customer's roof, responsibility for maintaining the system becomes the responsibility of Demand Manager. Should the solar power system stop working, then the customer will not be billed for any kWh consumption and 100% of the customer's electricity needs would be served by their primary grid-based electricity retailer.

III – Particulars Relating to the Scope of the Proposed Operations

J. Customers

Demand Manager intends to sell this product to commercial customers only – i.e. not residential customers. The customers are not known at this stage, they will be identified through sales and marketing activities once an exemption has been granted.

K. Other Services

Demand Manager will continue to offer other services related to the financing of clean energy upgrades. This could include the creation of any certificate-based financial incentive for solar power (such as STCs), and the provision of other financing options for solar power systems (such as asset finance).

Integral to the operation of the Solar PPA, Demand Manager will assume responsibility for operation and maintenance of the solar power system installation. This will be the case for the duration of the Solar PPA. At the end of the Solar PPA, it is envisaged that the equipment and all maintenance and operational matters will become the responsibility of the end user.

L. Total Number of Dwellings/Premises at the Site

This application does not refer to a particular site, but instead multiple sites which are yet to be identified. Through a targeted sales and marketing activity in regions and industries which represent attractive investment opportunities, Demand Manager will make offers to building owners to install solar panel systems using the Solar PPA model.

All customers under this model will be of a commercial nature – i.e. they must have an ABN in order to enter into the Solar PPA.

Initially the activities of Demand Manager will be restricted to the NSW, South Australia, ACT and Western Australian markets. Other states may follow subject to demand and electricity licensing regulatory matters.

M. Sale of Electricity

The power generated by the solar power system will be sold directly to the building occupant. All performance risks and financing costs of the solar power system will rest directly with Demand Manager rather than the occupant/owner of the premises.

A utility grade electricity meter, connected via the 3G network, will provide online data for the performance of the system which will be used in the billing process. The billing cycle will be determined on a case by case basis, based on actual power generation/consumption (in arrears).

Such billing will continue for the contract term as agreed upfront.

N. Purchase of Electricity

Demand Manager will not purchase any electricity in this arrangement. The solar electricity will be generated free by the solar panels. The customer will continue to have an existing "traditional" retailer filling any power shortfall and/or providing power during times of solar panel non-performance for whatever reason (maintenance, failure, climatic conditions etc).

O. Estimated Aggregate Amount of Energy Likely to be Sold and Average Expected Consumption

Redacted for commercial reasons.

P. Customers

Demand Manager aims to have this product available for a wide array of end-users. The investment model is predicated on reducing installation costs and having higher Solar PPA tariffs, hence this model will not be suitable/offered to all commercial customers.

It is expected that private and public, small and large consumers will benefit from this approach and the scalable nature of solar power will allow the model to reach a high percentage of the commercial end-market.

Q. Metering of Premises

A meter will be connected between the solar power inverter and the solar power system's AC connection point within the building. This meter will record the electricity that is sent from the solar power system to the end user. The meter will be of a utility grade and will have remote data connectivity.

Depending on the end user and the commercial agreement reached, Demand Manager may offer a guarantee on the kWh consumed on site versus that exported to the grid by netting off any exported electricity recorded by the customer's traditional grid retailer.

R. Types of Meters

Demand Manager will use a remotely read interval meter, which complies with the relevant utility based Standards for recording electricity. The production record can also be directly compared with the solar inverter. All the real-time data from meter and possibly the inverter will be made available to the customer via an online information portal.

S. Accuracy of Meters

The type of electricity meter and frequency of calibration of the meter for each site will be pre-agreed in the Solar PPA model, but generally the meter will conform to Australian Standards AS62053.21 and the National Measurement Institute's *NMI M 6-1 Electricity Meters* publication.

T. Frequency of Reading the Meter

Demand Manager will monitor the meters constantly through the online data system to ensure maximum production of the solar systems. Billing will be conducted on a monthly or quarterly basis depending on the contractual agreement with the end-user.

U. Charges

There will be no other charges except for the agreed $/kWh Solar PPA fee applicable for connecting and consuming the solar electricity.

Charges may be applicable for users terminating a Solar PPA early, for instance in the event of selling a property before the end of the term. These charges and conditions will be clearly explained to all users and negotiated on a case by case basis.

V. Billing Customers

Demand Manager will bill customers based on the agreed Solar PPA rate and the agreed billing cycle for power actually produced and consumed on site.

W. Dispute Resolution

There is a dispute resolution clause in the customer agreement which provides that:

- The customer may raise a complaint with Demand Manager, and Demand Manager will respond to the dispute within a set timeframe, setting out the reasons for its decision in relation to the dispute; and
- If the customer is not happy with the outcome of the dispute, then it may refer the complaint to the relevant fair trading office or ombudsman in its state or territory or pursue the matter in the civil courts.

Demand Manager will implemented a Customer Call Centre to to respond to customer queries over telephone and email, with a structured hierarchy to ensure any complaints are escalated promptly, and issues are resolved within 48 hours if practicable.

There are also provisions in the agreement which provide for any dispute in relation to a statutory warranty relating to any Building Work.

X. Energy Rebate

The system installed on the property remains the property of Demand Manager for the duration of the Solar PPA (varies between 5 and 15 years).

Any financial incentive or rebate that is accessible for the installation (such as STCs or LGCs) will be the subject of commercial negotiation between the end customer and Demand Manager. It is envisaged in the majority of cases the upfront incentive will be used to reduce the capital costs and hence ongoing g Solar PPA charges.

Any income derived from sales of exported electricity will be paid directly to the end customer via their traditional retailer. There may be agreement between Demand Manager and the end

customer to guarantee any losses that may result from a difference between the Solar PPA rate and any solar net feed-in-tariff rate paid for exported electricity.

Y. Energy Efficiency/Renewable Energy Options

The service provided by Demand Manager aims to increase the uptake of renewable energy. Customers may benefit from other Demand Manager products and services which reward renewable energy and/or energy efficiency.

Z. Additional Information for Assessment

An individual exemption is more appropriate than a retailer authorisation with respect to Demand Manager's operations for the following reasons:

- The 'power purchase' model is a novel way of retailing energy which is new to the Australian market. It does not fit with the Retail Energy Legislation or the categories of exemption. The grant of an individual exemption with agreed conditions will enable the power purchase model to develop, at the same time it is assessed to determine its place in the market, and whether an authorisation is required, or new type of authorisation category should be implemented.

- While Demand Manager has been operating in the clean energy industry for over 8 years, the company is effectively a 'start up' in the retail energy market. The requirements of an authorisation are onerous and at this stage of its operations, Demand Manager does not have the resources to meet these requirements.

- Demand Manager will only be targeting the commercial market with this product, thus a higher level of sophistication amongst the end users is inherent.

- This product has been developed firstly as a new and innovative means of financing solar panel installations. The fact the model entails retailing electricity is a by-product of the risk-free financing model offered by a solar PPA.

- The end user will continue to obtain the majority of their electricity from a traditional, grid-based retailer with all the protections offered under that contract. The purpose of the retail energy customer framework is to regulate the energy market and protect energy consumers as electricity is more and more considered an essential service. Under the power purchase model, customers are required to have an electricity supply agreement in place with a third-party authorised retailer thus they will always have access to electricity supply. The customer's interests are already protected by their agreement with their retailer. Furthermore, the PPA will be drafted with the retail energy legislation in mind.

IV – Additional Project Specific Information Relevant to Demand Manager's Application

Q. Implications for other Areas of Law/Consumer Protections

Demand Manager does not intend to offer this product into the residential consumer market at this stage. Hence there are no impacts under consumer protection laws.

For the commercial users of this product, the relevant laws will be largely covered by commercial law through the actual signed Solar PPA contract. The Solar PPA will be drafted taking into account the following protections:

- Legislative guarantees in relation to the building work and the performance of the building work;
- Dispute resolution;
- Cooling off rights and notice periods;
- Notices prior to the commencement of the works and site access.

Q. Implications for other Agencies

Demand Manager does not see any major implications for other agencies considering the commercial-only nature of the product.

Q. Termination of the Agreement

The Solar PPA will outline the termination of the contract. The customer will be able to:

- Terminate the agreement without penalty within 10 business days; or
- Terminate for a material breach of the agreement by Demand Manager.

If the customer sells or disposes of the property prior to contract end, there will be transfer provisions set out under the agreement. These include:

a. The customer can transfer the Agreement and the billing payments to the purchaser, subject to the purchaser signing a transfer agreement to assume the customer's rights and payment obligations under the Agreement; or

b. The customer can buy out the system at an agreed rate, ending the PPA.

The 'buy out' value of the system will depend on the year it is sold. Customers will be provided with a value statement upon entering the agreement, which sets out the value of the system each year, for the full term of the agreement. At the end of the Solar PPA term, ownership of the solar system automatically transfers to the customer.

Q. Guarantee of the Solar System and Building Works

The installation of the solar PV system will be in accordance with any building and electrical safety standards that may be in place from time to time from various regulatory bodies.

Since the Solar PPA will be based on actual kWh of solar electricity produced, it will be in Demand Manager's interests to ensure the solar system is working and properly maintained. If the system does not produce any power, the customer will have no costs.

Q. Who will arrange the connection of the solar panels to the network through the retailer/distributor (the customer or you)?

Demand Manager, or its agents and subcontractors will be responsible for seeking approval to connect to the electricity grid and completing any additional works required to electrically connect to the grid (i.e. new electricity meters).

Q. Who is responsible for maintenance and repair of the solar system once it is installed?

For the duration of the Solar PPA, Demand Manager will be responsible for the maintenance and repair of the solar power system. Demand Manager may enter into arrangements with subcontractors to undertake these works.

Once the Solar PPA term has concluded and the system reverts to the full ownership of the customer, operational and maintenance issues will become their responsibility. No further warranty of performance will be offered after conclusion of the Solar PPA period.

Q. Under what circumstances can the customer contract be terminated?

The Solar PPA could be terminated under the termination clauses of the contract in the following situations:

- Should Demand Manager fail to fulfil our obligations and there is a serious breach of the contract, the customer can terminate the contract and Demand Manager will remove any equipment installed.
- Should the customer sell or dispose of the facility hosting the solar power system, then the customer has the option to pay the contract out at a pre-agreed annually diminishing rate agreed upfront.
- The customer also has the option to novate the agreement to a new owner to avoid the need to fund a termination payment.

Q. What happens to the solar panels at the end of the contract? Who owns them?

At the end of the agreed Solar PPA term, the entire solar system will revert to the ownership of the customer. The customer will also assume all operational and maintenance responsibilities at this stage.

Q. What will happen with any green energy certificates or rebates that are generated by the solar system?

Any green energy certificate rights created as a result of the installation of the solar panel installation will generally be assigned to Demand Manager to allow for a reduction in the ongoing Solar PPA rate. In some cases, the value may remain with the end user, however the Solar PPA rate will be higher to compensate for the higher installation cost.

Q. What are the likely consequences for your customers if your business falls into financial difficulties (for example, are the customer's solar panels likely to be removed)?

Should Demand Manager fall into financial difficulties, it is envisaged the installations and contracts will remain in place with little change for the end user. The ongoing revenue stream from the solar installations will represent an attractive income stream for any administrator and could be sold off to other investors.

The value of second hand solar power system equipment is generally much lower than new equipment and the cost to remove systems may outweigh the value of the equipment, negating any chance of the solar panels being removed from the customer's address.