



15th May 2017

Kate Reid
Senior Advisor
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Reid

RE: Review of regulatory arrangements for embedded networks

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) on its review of regulatory arrangements for embedded networks.

About ERM Power

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load¹, with operations in every state and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. ERM Power also sells electricity in several markets in the United States. The Company operates 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland. www.ermpower.com.au

General comments

This review is a welcomed opportunity to consider the regulatory arrangements supporting the long term interests of customers within embedded networks. This market segment represents a broad range of customers. The fragmented regulatory arrangements mean the services available to these customers vary greatly. Some embedded network customers benefit from specialist businesses offering new technology-enabled solutions, others don't have the basic right of retail choice.

In principle, customers within an embedded network should not be disadvantaged compared to equivalent customers connected to the National Energy Market (NEM). Additionally, greater consistency in regulatory arrangements for both NEM and embedded network customers would support more businesses to service both markets, offering greater choice to meet customers' needs.

Retail market competition in the NEM is well-established, and is a useful model for embedded network policy to strive towards. However, the NEM customer protection regime has been debated for some time, and is not the clear solution for embedded network customers. Therefore, the regulatory challenge for embedded networks is to create an environment to ensure all embedded network customers can access the benefits of retail competition, with an appropriate level of customer protection, while continuing to support the innovation already present in this segment.

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

Supporting retail competition

In jurisdictions other than Queensland and Tasmania, customers located within an embedded network have the right to choose their energy retailer. However, there are factors that limit both the availability of, and access to, market retail contracts. While these issues have previously been considered under the 2016 embedded networks rule consultation, they were largely outside the defined scope (or the AEMC's remit) and therefore left unresolved.

- *Application of the NERR* - The AEMC identified a number of issues in Table B.1 of its Consultation Paper. These issues raise commercial and compliance risks that can undermine the feasibility of a retailer seeking to service embedded network customers.
- *High cost to serve* – Customers within embedded networks can be more costly to serve than their NEM counterparts. While the new embedded network manager role is expected to address some operational issues, remaining factors include:
 - Uncertain metering quality
 - Greater site complexity
 - Risks associated with inability to physically disconnect
 - Greater need for manual processes
- *Comparability of offers* – In order to compare rates from an exempt seller and an authorised retailer, the network and retail components must be unbundled. There is currently no requirement on exempt sellers to provide pricing information in this form, even where requested by the customer.

ERM Power encourages the AEMC to explore these issues fully under this review and ensure recommendations are actionable.

Regulatory framework and customer protections

The sale of energy, as an essential service, has been deemed to justify sector-specific regulation. This principle has been tested in recent years, as regulators and policy makers considered new business models and energy-related products and services now available to customers. Technology is accelerating the diversity of solutions, and the regulatory regime is no longer capable of describing many common energy supply arrangements for NEM customers.

This justifies a broader review of the two-tiered regulatory framework, requiring either retail authorisation or exemption. ERM Power supports a broader review of NEM customer protections, to consider what level of sector-specific regulation is justified for customers today and in the future. The results of this work should then inform an assessment for embedded network customers.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

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