



12 January 2016

Richard Owens
Senior Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

AEMC Reference: ERC0181

Dear Mr Owens

RE: MULTIPLE TRADING RELATIONSHIPS DRAFT DETERMINATION

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Commission's Multiple Trading Relationships (MTR) Draft Determination.

About ERM Power Limited

ERM Power is an Australian energy company that operates electricity generation and electricity sales businesses. Trading as ERM Business Energy and founded in 1980, we have grown to become the fourth largest electricity retailer in Australia, with operations in every state and the Australian Capital Territory. We are also licensed to sell electricity in several markets in the United States. We have equity interests in 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, both of which we operate.

ERM Power was also a representative on the Australian Energy Market Operator's (AEMO) Multiple Trading Relationships and Embedded Network Reference Group, involved in the design and issues identification which formed the basis of AEMO's rule change request.

The Draft Determination

ERM Power welcomes the Commission's draft determination to not make the draft rule proposed by AEMO. We disagree with AEMO's premise that the current regulatory requirement for one retailer per customer is a barrier to competition in new and innovative energy services to small customers. Since the MTR concept first appeared in the Power of Choice Review report, it was clear to industry that the MTR solution was developed before a regulatory or market failure had been identified. While it is disappointing that industry, AEMO and Commission resources have been invested in this proposal over the past four years, we commend the Commission's draft decision. Meanwhile, the Commission has successfully progressed more proportional solutions to industry-recognised barriers to the provision of new energy services, and we look forward to participating in the markets that will result.

Below we discuss the draft determination as the appropriate response to a net-cost proposal, and our expectations for the new products and services market in the absence of the proposed rule.

Increased competition should not be pursued at any cost

The key benefit offered by the MTR proposal is that it would improve competition in energy services. Competition is recognised as promoting the long term interests of consumers, because it can place downward pressure on prices, improve service quality and drive greater choice. However, this does not mean that measures to increase competition are justified at any cost. The majority of stakeholder submissions¹ to the Commission's Consultation Paper confirm the findings of Jacobs SKM's cost-benefit assessment of the original high level design²; specifically, that these costs would be substantial, and shared across all customers. This is in clear contrast to the benefits of proposal, which may be immaterial, and accrue only to a small subset of customers.

We strongly support the Commission's assessment that any incremental competition benefits that may be realised under the proposed rule are insufficient to warrant the significant implementation and ongoing operational costs of the proposal.

Enabling new and innovative energy services

ERM Power rejects AEMO's claim that the current single retailer per site requirement is a barrier to the provision of innovative products and services to small customers. Consultants KPMG found that the majority of the services described as MTR-dependent can be delivered under existing arrangements.³

It is true that these products and services are not commonly provided to customers in the current small customer market, however the single-retailer requirement is not the cause. In our submission to the Consultation Paper, we outlined that there is a weak value proposition for MTR-dependent products for both retailers and customers.

If we consider a broader suite of innovative energy management solutions (consistent with the objective the proposed rule change), we find that the most fundamental barrier to their provision was recently addressed by the Commission's final determination on the *Competition in metering and related services* rule.⁴ The final rule will remove monopoly responsibility for small customer metering,⁵ allowing the cost-effective provision of metering to enable a new range of services.

Advanced metering is a pre-requisite for the vast majority of energy management solutions, including generation and storage technologies, and behind-the-meter solutions. By recording and communicating more detailed information about a site's energy use, retailers and other service providers are equipped to develop products and services that are tailored to diverse customers' needs and preferences. This creates an opportunity for retailers to differentiate their offerings from that of their competitors, and expand their value proposition to customers beyond basic energy supply. Customers, in turn, are empowered to make more informed decisions about their energy use, and the products and services appropriate to their situation.

During the consultation process for the *Competition in metering and related services* rule, we have seen an increase in the number of accreditation applications for metering service provision, as well as an increase in the number of third-party energy service providers entering the market. ERM Power's affiliated business, Powermetric Metering, received metering provision and meter data provision

¹ AEMC, *Multiple Trading Relationships, Draft Rule Determination*, November 2015, p35 - 40

² Jacobs SKM, *Benefits and costs of multiple trading relationships and embedded networks*, May 2014.

³ KPMG, *New Energy Services, Report to the AEMC*, June 2015, p.4

⁴ AEMC, *Expanding competition in metering and related services, Rule Determination*, November 2015

⁵ Customers with type 5 and 6 meters, and in Victoria, any customer consuming below 160MWh per annum.

accreditation in 2014. ERM Power's retail business, ERM Business Energy, also looks forward to expanding its suite of tailored energy retail products and customer solutions offerings to the small business market as advanced meters are installed. These developments reflect the fact that the key barrier to the provision of innovative products and services to small customers has been addressed through the *Competition in metering and related services* rule change. There is no evidence that an MTR framework is also required.

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

Yours sincerely,

[signed]

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