



17 October 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's (the Commission) Draft Report for its review of regulatory arrangements for embedded networks (the Draft Report).

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

ERM Power welcomes this discussion on residual issues following the *Embedded Networks* rule change in 2016. In particular, ERM Power supports embedded networks' inclusion in the National Electricity Rules (NER) and the National Energy Retail Rules (NERR), as well as in the Market Settlements and Transfer System (MSATS). These changes have the potential to reduce regulatory risks and improve operational efficiencies for parties servicing embedded networks.

While we generally support the Commission's recommendations, ERM Power has serious concerns about the recommendations relating to standing offers and the obligation to supply. We also seek clarity and provide feedback on the proposed arrangements for bundled billing.

Standing offers and the obligation to supply

The standing offer is a basic right for distributed energy consumers that is currently unavailable to embedded network customers. While we understand the AEMC's desire to extend the relevant regulatory arrangements to rectify this, the proposed requirement for the designated retailer to provide a standing offer for embedded network customers is not a suitable solution.

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

Our primary concern is that the proposed obligation may increase the risk of a compliance breach due to supplying an unintended customer class. Consider the scenario where a retailer supplies a business customer at a parent connection point, where the child connection points are residential premises, such as an apartment building or retirement village. That retailer would be the designated retailer for those residential customers, and under the Commission's proposal, would be required to make an offer to them.

This is a significant risk for retailers like ERM Power, which have chosen not to service a certain customer class. As our business does not supply residential customers, we are not in a position to service these customers in accordance with the National Energy Consumer Framework (nor are we currently required to). The Commission's recommendation would increase the likelihood of us breaching obligations relating to residential customers.

A further concern is where a retailer simply makes a commercial decision not to service embedded network customers as a market segment. Embedded network customers have a unique set of operational needs and risks that, like any market segment, must be assessed before determining whether it is a commercial market for a particular retail business. ERM Power strongly believes this commercial choice must be preserved. The Commission's recommendation places this choice at risk, not only for parent site retailers as described above, but also where a brownfield embedded network conversion occurs.

ERM Power therefore strongly opposes the recommendation to place an obligation to supply on the designated retailer for the embedded network. We suggest the local retailer for the connected distribution network is well-equipped to take on this responsibility, from both a compliance and commercial perspective.

Bundled billing

We support the general intent to improve transparency of network pricing for embedded network customers, which would facilitate greater access to retail competition. To this end, the Commission has recommended allowing retailers to pay the exempt network service provider a network tariff equal to what the LNSP would have charged if the customer were directly connected to that LNSP's network. The Draft Report states that this would allow the exempt network service provider to invoice the retailer for these charges, so that the retailer would provide a bundled bill to the customer.

It is unclear to ERM Power whether the Commission proposes to mandate bundled billing for embedded network customers, or simply ensure this is an option available to retailers. While we understand some customers' preference for bundled billing, this currently requires inefficient manual processes. These would be very costly to undertake for the broader embedded network market.

Should the Commission oblige retailers to provide bundled bills to embedded network customers, it would be necessary to extend market systems and procedures to facilitate invoicing from exempt network service providers, consistent with current distribution network settlement processes.

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

Yours sincerely,

[signed]

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