



2 May 2012

Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs
Economic Regulation Authority
PO BOX 8469
Perth Business Centre
PERTH WA 6849
By email to: publicsubmissions@erawa.com.au

ERM Power is pleased to provide a response to the Economic Regulation Authority (ERA) Draft Report on the Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs or 4 April 2012 (Draft Report).

ERM Power Ltd is an active participant in Western Australia's Wholesale Electricity Market (WEM) as well as in the National Electricity Market (NEM). In WA, ERM activities include:

- operator of NewGen Kwinana 320MW combined cycle gas turbine power station;
- part owner and operator of NewGen Neerabup 330MW open cycle gas turbine power station; and
- new entrant electricity retailer to commercial and industrial customers through ERM Sales.

ERM has a substantial presence in both the WEM and NEM and is deeply involved in the operation of both markets. ERM frequently provides retail products to customers with operations in multiples states and has extensive experience of market mechanisms and outcomes across Australia.

ERM agrees with the ERA that a competitive market for large business customers is preferable to regulated tariffs. As a recent retail entrant to the WEM and therefore one of the retailers seeking to provide effective competition to these customers, the assessment by the ERA that existing tariffs for contestable customers are not a barrier to competition is in error and is not supported by information in the Draft Report.

The ERA believes that tariffs for contestable customers are at cost reflective levels and that the low customer churn rates (WA rates are four to five times less than markets with full retail contestability) are the result of immature competition. A more reasonable explanation is that these tariffs are indeed below cost reflective prices and therefore are a real barrier to competition. This also suggests that the estimation of cost reflective prices in the Draft Report may need to be reviewed. Based on ERM's experience of the current WA wholesale market, it is our very firm view that the cost reflective prices reported in the Draft Report are not compatible with the price of wholesale product available in the market particularly for supply to S1 and T1 tariff customers. Tariffs S1 and T1 are therefore well below cost reflective prices. It is also our strong view that customer churn is low simply because retailers cannot profitably compete with the regulated tariff and hence have no incentive to compete.

There is no evidence in the Draft Report to support delaying the introduction of full retail contestability in the WEM. The ERA suggests the wholesale electricity market needs to mature further with improvements in the number and size of competing retailers as Synergy still retain around 50% of the contestable market. The Draft Report states that Synergy had 90% of this market in 2006 and 66% in 2009 and now 48%. This reduction in market dominance is direct evidence of the robust and effective competition at work in the WEM which would be even greater if tariffs were removed. It does not support the conclusion that the contestable market must be given a chance to evolve over the next few years under the same regime of regulated tariffs for large businesses.

ERM strongly supports the phasing out of regulated tariffs for contestable customers as the market is already competitive and customers will benefit from an open market.

ERM supports the recommendation of the ERA that the subsidy to Horizon Power be provided via a CSO rather than the TEC as this should not be borne by SWIS distribution customers.

Yours sincerely,



Tony Petersen
WA Director
ERM Power Pty Ltd