



22 December 2014

Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth WA 6000

Submission By Email to: publicsubmissions@erawa.com.au

RE: Discussion Paper 2014 Annual Report to the Minister on the Effectiveness of the EGRC Regulatory Scheme

ERM Power Limited (ERM) welcomes the opportunity to respond to the Discussion Paper 2014 Annual Report to the Minister on the Effectiveness of the EGRC Regulatory Scheme.

About ERM Power

ERM Power is a dynamic Australian energy company with interests in electricity sales and generation, and gas production and exploration. Trading as ERM Business Energy and founded in 1980, we have grown to become the fourth largest electricity retailer in the National Electricity Market by load, with operations in every state. We initially focused on larger businesses but now offer our industry leading services to small businesses. We have equity interests in 497 megawatts of low emission gas-fired peaking power stations in Western Australia and Queensland, sell conventional gas and condensate from onshore discoveries in Western Australia, and have gas exploration operations in Western Australia and New South Wales.

As the only Retailer licensed in all states and territories in Australia, ERM has a thorough understanding of efficient electricity retail pricing methodologies and effective wholesale markets. ERM's Retail business has grown to be the fourth largest retailer nationally in under eight years, relying on quality service, efficient operations and "at market" pricing to achieve customer sales in excess of 15TWh per annum.

EGRC Regulations and Segregation and Transfer Pricing Guidelines

ERM does not have sufficient visibility and has insufficient information to comment on the effectiveness of the implementation of the obligations required by the EGRC Regulations and Segregation and Transfer Pricing Guidelines in relation to:

- Segregation and ring-fencing
- How the requirements have been implemented by Synergy
- Whether Synergy unduly preferences its own retail and generation arms over third party retailers and generators and

- Providing the private sector with access to electricity on non-discriminatory terms

ERM is aware that the Wholesale Business Unit of Synergy has implemented a number of processes and procedures in relation to the provision of pricing for electricity products (including for Standard Products) but there is a distinct lack of information for ERM to comment on this aspect of the EGRC Scheme.

Standard Products Arrangement (SPA)

ERM has operated in the WEM Retail environment for four years and its experiences in the WEM are markedly different to that of its experiences in the other States of Australia. ERM is of the view that the Standard Products Arrangements that were introduced as a result of the merger of Synergy and Verve Energy are not performing the function that it was intended to.

The Public Utilities Office made it clear in a presentation it had made to ERM personnel in early 2014 that the SPA was intended to be a “price discovery mechanism for competitively priced wholesale electricity” providing “transparency and predictability”. To date this has not occurred.

ERMs’ view is that Standard Products set the wholesale benchmark that electricity retailers use to price retail customers. Without Standard Products it is difficult to price retail customers and to only access electricity prices via the spot market presents significant risks for retailers.

Anecdotally it appears that the Standard Products price-board is not used as the basis for pricing retail customers and therefore it can only be concluded that the intentions of the SPA have failed.

Given the failure of the SPA, it can only be surmised that either the SPA price book is too expensive or some other mechanism for price transparency is required. If the SPA price book is to be retained as the mechanism to provide transparency of wholesale electricity prices, then all parties should reasonably be expected to be pricing against SPA prices as the forward curve. Otherwise, a new mechanism has to be introduced that could provide some forward price signals that could be used by all Market Participants in a non-discriminatory way.

If the ERA would like to discuss the content of this submission further, please contact Wendy Ng on 08 6318 6416 or email wng@ermpower.com.au

Yours sincerely,

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ERM Business Energy