



12 August 2011

Adrian Christian
Chief Executive Officer
Electricity Industry Expert Panel
GPO Box 123
Hobart TAS 7001

Dear Adrian,

ERM Power Submission to Issues Paper

ERM Power Retail Pty Ltd (ERM) is pleased to provide an official response to the Panel's Issues Paper in accordance with our discussions in Melbourne on Friday 22 July 2011.

We intend to confirm the key discussion points rather than directly address the specific questions in the Paper.

ERM's first hand perspectives of the Tasmanian Industry

- ERM is currently retailing throughout Australia with contracted customers in all states and territories that have a competitive electricity market. Tasmania is a notably different market to other jurisdictions, with one dominant retailer, Aurora Energy, and one dominant generator, Hydro Tasmania. ERM has not seen the structure of the Tasmanian market as a barrier to entry for retailers and generally believes the market is operating effectively.

Hydro Tasmania market power issues – the effectiveness of the spot and contract markets

- Hydro Tasmania is a proactive, flexible wholesale counterparty that provides a diverse range of risk management products to the retail market.
- Hydro Tasmania also consistently demonstrates a requirement to provide fair and equitable derivative pricing to retailers, and maintain a focus on complying with all competition related regulatory requirements.
- ERM remains confident that derivative pricing provided by Hydro Tasmania enables us to compete on a level playing field.
- ERM maintains a strict focus on risk management and carries limited exposure to spot market prices; therefore, does not currently have a strong view on Hydro Tasmania's spot bidding behaviours.

Barriers to entry in the retail sector

- For roll outs of new tranches, Aurora have customer lists and contact details as they are the local retailer, but ERM does not have similar access.
- Aurora are slow to provide the historical half hour data to the customer/ERM and on occasion it is not provided at all. Half hour data is an integral part of any pricing submission.



- Sometimes we encounter business that is priced low by Aurora and wonder if there is any advantageous legacy pricing, for example vesting contracts, provided to Aurora.
- For the largest customers ERM is at a disadvantage as Aurora does not seem to cost in a market based cost of funds for prudential requirements.
- The natural barriers of brand and name recognition are being diminished with time and success as well as growing customer understanding of the contestable market. Initially some customers did not know they had a choice of retailer.
- If generation assets of any significance were to be provided to a state owned retailer this would be a significant barrier to new retailers.

The Government's roll-out of retail contestability

- The notification to customers regarding contestability status should have been undertaken by Aurora Distribution so it was independent of the retailer. This was an advantage for Aurora Retail. For tranche 5a the notification channel has been corrected.
- There was an apparent lack of contestability information provided to customers so they understood what it meant and what they needed to do, including their choices.
- As tranche 5a access to contestability was only legislated just over 3 months ago we strongly suggest full retail contestability not be rushed. The government needs to ensure a smooth transition and ensure they get it right the first time if they elect to move forward with FRC. Daily communications with tranche 5a customers vary subject to their experience. Existing contestable customers with smaller sites have an adequate understanding; however, customers with no previous exposure to contestability are struggling.

The relative attractiveness of the various segments of the retail market

- ERM's business model is a niche retailer focussing on the large business and corporate customer segment in the NEM. We entered the Tasmanian market in 2008 and have participated in the tranche 3 and 4 roll-out. All tranches to-date have been attractive.
- We intended to participate in some of the tranche 5a business particularly for customers consuming more than 100 MWh per year in line with the intended NECF standard large customer definition and smaller sites of existing large customers; however, Tasmania intends to classify large customers being above 150 MWh per year consumption. At this stage the government is not allowing aggregation for the definition of a customer, preferring to classify on a site basis only. We have suggested an alternative in line with the NECF guidelines for aggregation i.e. same business entity large customers have the capability and capacity to look after their own interests and do not need customer protection afforded to small customers. If the proposed derogations are made to NECF, ERM Power Retail will not participate in Tranche 5a as our business model is to serve large customers only.

Observations of switching behaviour and drivers

- The key driver for customer switching is the price offer. Customers are driven by commercial outcomes; however, there are other factors which are included in the decision-making process which vary by customer. These include brand and the overall customer offering including contract terms and conditions. In addition a small numbers of customers have concerns about supply re-connection after an outage if not contracted with Aurora Retail.



- The switching behaviour of customers with the decision-maker located interstate was different in the early stages of the market compared to local decision-makers. The difference has minimised because of ERM brand recognition and our performance relative to the customer offering.
- Some customers wish to switch away from Aurora due to previous problems or actual performance against their offering.

Contracting across Basslink rather than contracting with Hydro Tasmania

- ERM has not pursued this option to-date.
- Any retailer would welcome an increase in hedging options, but we haven't seen the need given Hydro Tasmania's performance to-date.

In summary our key concern is maintenance of a level playing field so Aurora Retail do not have any advantage. We are confident of being competitive based on our business model and are happy to back ourselves to win market share under a fair market structure.

Thank you for the opportunity to provide this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mitch Anderson', is written over a light blue horizontal line.

Mitch Anderson
CEO
ERM Power Retail Pty Ltd