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Thursday 9th April 2020

Mr Mark Feather
General Manager, Policy and Performance
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Feather

RE: AER Determination on the Default Market Offer Price

ERM Power Retail Pty Ltd (ERM Power) welcomes the opportunity to respond to the AER's determination on the Default Market Offer Price (the DMO decision).

About ERM Power

ERM Power (ERM) is a subsidiary of Shell Energy Australia Pty Ltd (Shell Energy). ERM is one of Australia's leading commercial and industrial electricity retailers, providing large businesses with end to end energy management, from electricity retailing to integrated solutions that improve energy productivity. Market-leading customer satisfaction has fueled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load[1]. ERM also operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, supporting the industry's transition to renewables.

http://www.ermpower.com.au
https://www.shell.com.au/business-customers/shell-energy-australia.html

General Comments

ERM Power believes the setting of the DMO price needs to be well analysed and cost reflective to ensure the competitive market remains viable despite the imposition of price regulation. The DMO price should be set at a level that realistically prices risk and operational costs of retailing in the current environment, particularly given recent events of the COVID-19 pandemic and the devastating economic impact this is currently having on both customers and retailers that serve them. These economic impacts will be felt beyond the immediate crisis as recovery is predicted to be challenging and arduous. Though we understand the current economic conditions amplify the cost pressures to customers, we maintain that the AER must balance this against ensuring the ongoing viability of energy businesses and the ability for these businesses to sustain a program of relief measures to those customers that are impacted the most.

Although the full impact of the pandemic will be unknown for some time, we have identified specific costs that should be considered for the modelling as they will add burden to retailers that are navigating through a very difficult and uncertain period:

Bad debt and debt write offs

Retailers are currently working with customers to relieve the economic impacts of COVID-19. Many retailers will be burdened with the increase of operating costs of customer bad debt and write offs. This is consistent with the AER's expectations of energy businesses to:

[1] Based on ERM Power analysis of latest published information.

- Not disconnect customers in financial distress;
- Waive fees;
- Defer referrals to debt collection agencies and
- Offer payment plan assistance.

These measures will increase liquidity risk to retailers associated with customer payment deferrals and costs of debt write off.

Green Scheme Costs

We note the disruption that COVID-19 is causing to green certificate markets. For ESC and SRES, this is due to suspension of installation activity and certificate creation, likely resulting in systemic issues of supply and the potential increase in certificate prices. This will impact retailers' liability fulfilment and compounds the costs and availability of certificates relative to the high targets for business energy consumers. If regulatory relief to obliged retailers is not provided urgently for the current compliance year, it is likely COVID-19 induced green certificate scheme disruption will compound retailers' costs of fulfilment and compliance risk.

RERT and reliability measures

We understand that recent measures by the COAG Energy Council has sought to implement interim reliability measures that will see the establishment of an out of market capacity reserve and amendment to the triggering of the Retailer Reliability Obligation. These measures will be triggered by unserved energy to be no more than 0.0006% in any region. As a result, it is likely retailers will experience greater costs around Retailer Reliability Obligation compliance (more likely to be triggered). Further the capacity reserve pass through costs will need to be factored into retailer costs.

We note that recent RERT activation over summer was not accounted for under retailer costs and future adjustments should be accommodated to be reflective of costs incurred.

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

Yours sincerely,

[signed]

Libby Hawker

Senior Manager, Regulatory Affairs

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