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Friday, 21 December 2018

Dr Kerry Schott
Chair
Energy Security Board

Dear Dr Schott

RE: Compliance - Procurer of Last Resort Cost Recovery

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Energy Security Board's Compliance and Procurer of Last Resort consultation paper relating to the Retailer Reliability Obligation.

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. The Company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland.

www.ermpower.com.au

General Comments

In our submission on the draft legislative amendments that would establish the Retailer Reliability Obligation, ERM Power provided our view of how cost recovery for the Procurer of Last Resort (PoLR) mechanism should operate. This consultation paper largely covers these same issues. In this submission we wish to comment on two related issues: how to determine a non-compliance entity's shortfall and how the costs of any shortfall should be calculated.

We recommend that in the event of non-compliance, any shortfall should be determined in a way that is readily understandable term for the market e.g. in terms of \$/MWh. Firstly, rather than the options presented in this consultation paper, which involve determining average or maximum levels of compliance (or non-compliance), we contend that it would be relatively simple for any shortfall to be converted into a MWh equivalent. For example, a 12 MW shortfall for one 5-minute trading interval would equal 1 MWh. Or, if a liable entity was 10 MW short of their requirement for a two-hour period, there would be a 20 MWh shortfall.

Once the AER has established the total shortfall in MWh, PoLR costs recover could then be levied on a per megawatt hour basis using a level of \$/MWh at the level of the PoLR costs or at a level set relative to the market price cap (currently \$14,500/MWh) or the per MWh costs of the Reliability and Emergency Reserve Trader mechanism. This would continue to incentivise liable entities to avoid exposure to the spot price and instead enter into contractual arrangements. This approach would also place a transparent price on the cost of reliability,

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



therefore providing a price signal for the banking of new capacity, such as battery storage, demand response or other technologies.

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

Yours sincerely,

[signed]

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