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Ms Sarea Coates
Energy Security Board
By email: info@esb.org.au

Dear Ms Coates

RE: Energy Security Board Data Strategy, consultation paper

ERM Power Retail Pty Ltd (ERM Power) welcomes the opportunity to respond to the Energy Security Board's (ESB) consultation paper on the proposed data strategy for the National Electricity Market.

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 load¹. 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 supports the development of an innovative energy market where customers are empowered, and energy regulatory frameworks keep pace with intelligent digital efforts fostering the energy transition. We consider that the National Electricity Market (NEM), in general, has had a strong pedigree of transparency and openness. With increased data volumes and new market services, ERM Power supports improvements to the energy frameworks to ensure more efficient and effective data management in line with strong data privacy protections.

ERM Power supports the objectives of the proposed Data Strategy and measures to support effective data management in the NEM. We see that there are real benefits in improving how data is managed across the NEM for all market participants.

We acknowledge the significant amount of effort involved in the development of the Data Strategy. However, we consider that as a first step the Energy Security Board (ESB) should focus on progressing Pillar 2 (Framework) as a priority before work commences on recommendations under Pillar 1 (retail transparency, LV/DER visibility, understanding consumers). It is essential to get the legal and regulatory frameworks right first, guided by clear principles as set out in the Data Strategy, before progressing any of the recommendations proposed. This will mitigate the risk of any new requirements, which come at a cost, being superfluous shortly after being introduced. It will also ensure that future market reforms (i.e. Consumer Data Right (CDR) and a two-sided market) are supported by a workable regulatory setting with regards to data management. We consider that current processes, such as the ACCC ongoing Retail Electricity Price Inquiry, provides sufficient price and competition monitoring in the short-term to give confidence to policy makers that customers are protected.

¹ Based on ERM Power analysis of latest published information.



ERM Power also considers that for the Data Strategy to be successful, any requirement for data (current or new) should be critically assessed to ensure it supports the market needs. Data requirements will largely be driven by the services that the market needs to deliver. Policy makers' desires to increase transparency in data streams needs to be carefully balanced against the costs and time associated with the delivery and risks of revealing commercial-in-confidence data, eroding a business's competitive advantage and, strong privacy and data security protections. We caution the ESB against going down a path of access to data for data's sake, which at times the proposed recommendations appear to do. The Data Strategy shouldn't conflate data transparency with data monitoring measures, there may not be additional market benefits from market participants providing more granular levels of data. For example, LV/DER data may be more efficient to do at an aggregate level rather than the individual site level as proposed.

It is also unclear what the outcome is that the ESB is solving through Pillar 1. Is it an investment need? Will technology be needed by market participants to support Pillar 1? What do these recommendations look like for market participants who have to bear the costs? For example, while we support streamlining price reporting it is uncertain how this would be developed prior to Pillar 2 (Frameworks) and Pillar 3 (Capability). Further it is unclear what this means for C&I customers given the link to Recommendation 1 (requiring small customer retail plans to be identified against meters).

In view of this, it is difficult to comment on individual recommendations and we question whether the Data Strategy is the right vehicle to drive some of these. For example, recommendations around LV/DER would be better placed through the ESB's DER Roadmap and Workplan and smart gas meters may be a better solution than requiring more complete reporting of gas meter data in settlement systems. We urge the ESB to give due consideration to its own objective "*making sure that data managed has clear purpose and is actively used for positive impact and benefits*" and to ensure that any data can be practicably obtained and correctly interpreted.

With regard to Pillar 1, our comments below are in response to our experience as an energy retailer for the large customer segment. ERM Power reiterates that the ESB's Data Strategy should focus on the governance arrangements and frameworks to underpin better data management in the first instance. Following this, and further work on CDR and DER, recommendations under Pillar 1 can be reassessed for necessity supported by a proper cost/benefit analysis.

Retail transparency

Tracking commercial and industrial prices

The proposal for the Australian Energy Regulator (AER) to "*develop a framework for ongoing monitoring and review of contract arrangements for large energy users, split by sectors or classes of consumers, to track prices, trends in contract cycles, liquidity, and additional terms and services, such as reliability requirements and demand response arrangements*", in our view is a too simplistic approach. It lacks the recognition that the large energy user sector is vastly different in design from residential. A large energy user's approach to energy procurement is often through the engagement of brokers or through tender processes to assess service and prices from potential retailers, who respond formally to tender invitations. A standardised reporting template is impracticable with high risks that incorrect conclusions will be drawn from the information and with no real benefits for the market.

Our C&I customers already have considerable visibility of their energy costs to enable them to effectively manage these costs. Our customers' energy bills are very detailed, with every component of the cost stack as a line item. This unbundled approach is inconsistent with the presentation of tariff information to mass market customers which tend to bundle network and energy costs. This materially boosts transparency and comparability of the truly contestable components (i.e. energy and environmental schemes) of a bill and allows our C&I customers to determine if they are getting a fair value.

However, the retailer's energy price is only one component of a large energy user's energy costs. A retailer will offer an energy price which is tailored to a large energy users individual needs (i.e. consumption shape) and which



may be dynamic in nature. For example, ERM Power provides C&I customers with the opportunity to manage the risks of their energy costs through our market-leading online platform – STEP Online – that allows customers to fix the price for parcels of electricity over a chosen period. This provides greater flexibility for customers to manage timing risks. Unlike a standard C&I contract, pricing isn't fixed when the customer signs. The product has become incredibly popular and represents almost half of our contracted C&I load.

In addition, a large energy user's energy costs will also have a metering agreement and potentially a cost associated with consultancy/broker value-added services. These customers are contracted via sophisticated negotiation processes and in our experience, most large energy users will appoint a consultancy/broker service even if they are themselves negotiating with the energy retailer. A retailer will only have visibility of the energy costs and not broker related costs.

As such, even if retailers are obliged to report on C&I prices this is not a full indication of what a large energy user is paying and won't give an appropriate indication of market pricing. We strongly encourage the ESB to discuss the usefulness of this measure with large energy users and brokers before further work is undertaken to develop it. Given our experience, we also would welcome discussion with the ESB on a more suitable and practicable approach.

Contract market monitoring

Contract market liquidity is central to the smooth functioning of both retail and wholesale markets. Entering into financial contracts helps to bring more certainty to revenues and costs for generators and retailers respectively. A deep and liquid contract market supports retail competition and therefore contributes to improved customer outcomes.

ERM Power is a strong supporter of deep, liquid and transparent financial markets. These features are critical to support competition and deliver efficient prices. Exchange-traded markets are well understood, yet we acknowledge that over-the-counter (OTC) markets can at times appear to be opaque to many observers.

Much of the information about OTC and ASX-traded products can already be found in the wider market. Several services such as wholesale brokers publish observations of forward OTC and ASX electricity market curves to subscribers. Small market participants and even regulators are able to subscribe to these services in order to gain insights into the OTC and ASX markets.

ERM Power understands the desire to enhance the level of transparency in OTC electricity markets. ERM Power considers that aggregated data, equivalent to that reported in the AFMA survey but reported on a quarterly basis to the AER, is sufficient to provide the kind of data that would be useful to the market and regulators about the OTC market. We have concerns with the potential for detailed information being shared with other parties given the risk that certain trades could be back-solved to determine the parties involved and this would reveal confidential commercial data. It will be critical to define purposes for which protected data sharing is clearly authorised and/or constrained.

Furthermore, bespoke trades can be complicated and nuanced and therefore do not necessarily provide the kind of replicable data that is useful to determine what the underlying trends in the market are. This is why, we have recommended that the legal and regulatory frameworks for data management are developed in the first instance before work is progressed on specific measures.

Retail margins

ERM Power considers that it is not necessary to require retailers to report on retail margins. The ACCC's September 2020 Price Inquiry reported that retail costs and retail margins in 2018–19, comprised 11 and 4 per cent respectively of the average residential annual bill NEM-wide,² indicating a relatively low margin industry given the

² <https://www.accc.gov.au/system/files/Inquiry%20into%20the%20National%20Electricity%20Market%20-%20September%202020%20report.pdf>



volatility and risk in a retail energy business. For the C&I segment retail costs and margins are substantially lower due to the way electricity is contracted. EBIDTA information is also readily available for listed companies. ERM Power considers that the focus on retailer margins is not a true assessment of whether customers are benefiting from all that the energy market delivers. Customer drivers such as service, innovation and access to new technology will be a more appropriate measure of customer value proposition rather than just retailer margins.

Commercial consumer data

ERM Power supports measures to improve analysis of commercial consumer data. We noticed that reporting on energy demand during COVID-19 was not reflective of what we were observing from our own analytics. While surge in customer usage was reported – this would have likely been due to an increase in residential demand. We observed a decrease in large energy usage and used this data to better optimise our customer tariffs if it was more appropriate for that customer.

We recognise that energy data isn't always straight forward for companies not operating in the industry. This is why we offer our customers energy assessments. Our assessments involve installing 'data loggers' to measure all of these individual loads and we do an energy balance of the site. The information gathered from an energy assessment can be highly beneficial to customers and can improve their productivity. The data we see allows us to understand how energy is used over the weekend or when equipment is not needed. Often, having that information can drive behaviour changes. In turn, customers become more conscious of what they actually use, which can have a positive impact on the way things run.

Visibility of low voltage (LV) networks and distributed energy resources (DER)

ERM Power supports the development and implementation of DER and recognises the potential challenges it brings to the energy system. There are already numerous ongoing processes to address the technical and interoperability requirements. We do urge restraint against heavy-handed technical requirements that will add unnecessary cost and complexity to projects. This will inhibit the uptake of DER among commercial energy users, to the detriment of energy productivity and the cost-effective management of local network areas.

Our overarching comment with regards to the proposed recommendations related to LV and DER is whether the level of data granularity proposed is needed and whether the same benefits can be provided at an aggregated level at a lesser cost for the market. For example, it is more effective to put in hardware to fluctuate voltage at a substation level than at an individual site level. If it is identified that data is needed at a site level, this data would need to be deidentified which creates extra work to register devices. This is a technical capability question and we consider the Data Strategy is not the right instrument to progress these matters. We consider the ESB's DER Roadmap and Workplan and the AEMC's review into metering are better placed. These should have a regard to wider principles on data policy and consideration of more adaptive approaches. As such, the priority for the Data Strategy should be to ensure that the right regulatory frameworks are in place to better manage data that new technologies bring to the NEM.

Please contact Carmel Forbes at carmel.forbes@shell.com or 07 3364 2404 if you would like to discuss this further.

Yours sincerely,

[signed]

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