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To	PublicSubmissions@erawa.com.au
Subject	EGRC regulatory Scheme: 2023 Effectiveness review
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Good Afternoon

Thank you for the opportunity to comment on the Discussion Paper on the EGRC Regulatory Scheme 2023 Effectiveness Review. Perth Energy is pleased to provide some general comments on the importance of Synergy energy purchase contracts to our operations plus responses to your specific discussion questions.

Perth Energy has been a strong supporter of the ERGC scheme. Our own investment in power generation has been limited to a modest sized peaking plant. As a consequence, we rely heavily on being able to secure electricity contracts from the Government owned generator to facilitate our electricity retail operations. We had significant contracts with Verve Energy and continue to rely on power purchases from Synergy.

We note, however, that Synergy's role is likely to change substantially over the next few years as it focuses more on supply to residential and small use customers. The Government has announced that Synergy's coal fired power stations will be closed between now and 2030. It is also expected that Synergy's purchase of electricity from private generators through power purchase agreements will reduce through this period.

Sufficient new renewable generation, firmed by battery electric storage systems, should allow Synergy to meet the maximum demand (MW) requirements of its current customers but its energy production (MWh) capability will be substantially reduced. This will significantly reduce Synergy's ability to offer energy contracts to other retailers and, most likely, will reduce its ability to indulge in anti-competitive behaviour.

Response to specific questions

1. *What alternatives to Synergy's wholesale electricity contracts (customised and standard products) exist, and are the prices - and other terms and conditions - comparable to Synergy's wholesale electricity contracts?*

The alternatives to Synergy's contracts are very limited because other potential providers are, like Synergy, vertically integrated. This means that they are competitors in the retail market so have no incentive to sell wholesale to other retailers. In general, too, these other entities have established their own portfolios of contracts, self-generation and spot purchases meaning they have limited un-committed energy for sale.

2. *Do stakeholders see the continuing need for Synergy's standard products? Please explain your reasoning and provide any evidence in support of your feedback.*

Given the very limited contracts available from other generators, Synergy's standard products are of great value. They are the only contracts that smaller retailers can be assured of securing which makes them essential for the ongoing survival of smaller retailers. If access to these contracts is restricted, by limitations in Synergy's supply capability, it will adversely affect the ability of new, smaller retailers to enter the market thereby limiting any extra competition.

Standard products also have the secondary value of providing a continuing indication of the terms and conditions that Synergy may be prepared to offer for customised contracts. This allows smaller retailers some protection as they seek to negotiate with the dominant retail market entity.

One downside of Synergy's standard products setting market prices, however, is that there is no competition for supply of contracts from other market participants at below this price. When seeking offers from others, the prices are usually pitched just below the standard product price rather than being based on the market participant's actual costs.

3. *How would the ERA's proposal for limiting the scope of provision of standard products affect your business?*

The Discussion Paper proposes that Perth Energy would still be able to access standard products for the foreseeable future. Given our limited generation capacity, compared to our retail book, this continuing access is very important.

Synergy's ability to raise prices for standard products is limited by the parallel obligation to purchase electricity at a linked price. We consider this to be a useful price mitigation mechanism and that even if larger market participants are not allowed to buy standard product contracts from Synergy, they should still have the right to sell.

4. *How can a threshold be established to restrict certain market participants from accessing Synergy's standard products (for example, entities with a low ratio of generation capacity to load or vice versa)?*

The closure of Synergy's coal fired plant will restrict the quantities of standard products that it may be able to offer into the market. At the same time, however, the reduced level of competition in the spot market, especially during periods of low renewable generation output, will increase the risks for retailers who have limited generation of their own. For this reason, it is important that, as far as is possible, standard products be available to all who require them.

Perth Energy suggests two mechanisms that could be considered to ensure that these contracts are available to entities that really need them. One approach would be to limit the contract quantity that can be acquired by any entity to a nominated proportion of the total available. A second approach would be for contracts to be offered initially to smaller market participants with the remainder being offered after, say, two weeks, to all remaining market participants.

5. *What costs and benefits do stakeholders see in keeping the EGRC scheme's ringfencing obligations on Synergy?*

The discussion paper highlights the substantial quantities of energy that Synergy sells under contract to other market participants. Without effective ring fencing there would be a real opportunity for Synergy to misuse its market power to push up prices on these contracts and increase its own prices. Perth Energy sees ringfencing as being very important to prevent any such behaviour.

There is also an organisational benefit in that it encourages each entity to optimise its position within its own market. In other words, the wholesale business unit is incentivised to optimise its activities in respect to its activities related to both Synergy's retail business and third-party retail businesses.

6. *What benefits might arise from the current requirement for restricting the flow of 'generation restricted' wholesale information from Synergy's wholesale business to its generation business?*

Perth Energy would see this restriction in information sharing as part of a ring-fencing arrangement to ensure that the two parts of the business have only the information that they need to appropriately manage that part of the business without extraneous competitor information.

While a case could be made to remove the ringfencing between the wholesale and generation business units, this would open up the possibility of information leakage to retail business unit.

7. *Do stakeholders use Synergy's segmented financial reports to detect anticompetitive behaviour or for other reasons? What challenges do stakeholders face when assessing the disclosed information?*

No

8. *What benefits do stakeholders receive from Synergy maintaining the transfer pricing mechanism (applicable to both foundation and new customers)?*

Looking from the outside, it is very hard to estimate the economic benefit of having the transfer price mechanism. In theory, however, it could be assumed that if the price is set appropriately that Synergy's Generation Business Unit will be incentivised to operate efficiently, providing a benefit to both market customers and the Government as owner.

9. *How would the removal of transfer pricing arrangements affect market participants?*

This is not clear to us.

10. Would option one or option two be more likely to improve the effectiveness of the EGRC Scheme? Why?

From the information presented in the Discussion Paper it appears that the cost of increasing the strength of the disclosure mechanism is not justified. Perth Energy notes the recent major rise in market and market oversight fees and is not in favour of adding more overhead costs unless real price reductions can be implemented.

Should you have any questions please do not hesitate to contact me at p.peake@perthenergy.com.au or on 0437 209 972. This submission may be made public.

Kind regards

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I am based in the Perth Office and work Tuesday, Wednesday and Thursday