



PUBLICATION

2011 Annual Wholesale Electricity Market Report to the Minister for Energy

ANNUAL REPORT

Today the Economic Regulation Authority (**Authority**) published the 2011 Annual Wholesale Electricity Market Report (**Report**) to the Minister for Energy (**Minister**). The Report assesses the effectiveness of the Wholesale Electricity Market (**WEM**) and provides recommended measures to increase the effectiveness of the WEM in meeting the Market Objectives.¹

Under the *Wholesale Electricity Market Rules* (**Market Rules**), the Authority must provide the Minister with a report on the effectiveness of the WEM at least annually, and publish the report after consultation with the Minister.

The Authority provided the Report to the Minister on 5 April 2012. On 10 April 2012, the Authority issued a notice advising that it anticipated publishing the public version of the Report before the end of April 2012. On 30 April 2012, the Authority issued a further notice advising that the Authority has agreed, in accordance with the *Electricity Industry Act 2004* and the Market Rules, to allow a further two week period of consultation with the Minister prior to publication of the public version of the Report.

In its Report, the Authority assessed the performance of the WEM in meeting the Market Objectives and concluded that the outcomes in the WEM, over the five and a half years since market commencement, indicate that the market functions well, to the benefit of electricity consumers. The volume of trading in the Short Term Energy Market (**STEM**) is at its highest level since market commencement and average STEM prices are at their lowest levels. The price for capacity has fluctuated over time, but has recently been reduced by one third. There has also been greater competition in the market, particularly in the generation sector.

The Authority is aware of the current work program of activities, including the introduction of competition for the provision of the balancing and load following ancillary service. The implementation of the competitive balancing and load following ancillary service market will allow Independent Power Producers to compete with Verve Energy for the provision of these services, which will set the next stage in the development of the WEM.

¹ The Market Objectives are: (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services in the South West interconnected system; (b) to encourage competition among generators and retailers in the South West interconnected system, including by facilitating efficient entry of new competitors; (c) to avoid discrimination in that market against particular energy options and technologies, including sustainable energy options and technologies such as those that make use of renewable resources or that reduce overall greenhouse gas emissions; (d) to minimise the long-term cost of electricity supplied to customers from the South West interconnected system; and (e) to encourage the taking of measures to manage the amount of electricity used and when it is used.

Notwithstanding the above, the Report highlights that there are a number of issues regarding the market's operation that require resolution, including:

- the potential merger between Verve Energy and Synergy, which would further expand structural barriers to effective competition and increase cost pressures on consumers;
- the substantial excess capacity procured under the Reserve Capacity Mechanism;
- the increasing costs to the market of Demand Side Management;
- the effectiveness of the outage planning process, and in particular, the high rates of planned outages allowed for certain generation facilities, and their associated impact on market prices;
- the impact of increasing intermittent generation as a result of climate change policies; and
- the potential for a conflict of interest under the current market governance arrangements.

The Authority considers that merging Verve Energy and Synergy would likely obstruct the attainment of the Market Objectives by discouraging future private investment, reducing competitive tension and transparency, and increasing the need for regulatory oversight. This would ultimately be to the detriment of electricity consumers.

The publicly released Report has had confidential or sensitive data aggregated or removed.

A copy of the Report is available on the Authority's [website](#).

For further information contact:

General Enquiries

Wana Yang
Assistant Director, Markets
Ph: 08 6557 7900
Fax: 08 6557 7999

Media Enquiries

Richard Taylor
Riley Mathewson Public Relations
Ph: 61 8 9381 2144
Fax: 61 8 9381 3877

LYNDON ROWE
CHAIRMAN
14 May 2012