



Economic Regulation Authority

MARKET POWER MITIGATION IN THE WEM

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WEM Market Rule 7A.2.17

a Market Participant must not, for any Trading Interval, offer prices in its Balancing Submission in excess of the Market Participant's reasonable expectation of the short run marginal cost of generating the relevant electricity by the Balancing Facility, when such behaviour relates to market power.



Market Power Mitigation in the WEM

- Consumer and Competition Law
- Electricity Market Regulation – Why?
- US Experience
- Market Rule 7A.2.17
- Proposed Changes



Competition and Consumer Act (2010)

- s46: Misuse of Market Power
- s50: Mergers



Differences

- CCA 2010
 - Protecting competition
- Electricity Markets
 - Reduce participants using market power –
e.g. withholding



Competition and Consumer Act

- Substantial Market Power
 - Ability to price without constraint from competition



Competition and Consumer Act

- Substantial Market Power
 - Not transient
 - Potential competition/ new entrants relevant
 - Two years [AGL v ACCC]
 - LRMC



S46: Competition and Consumer Act (2010)

- Take Advantage of
 - Whether a “profit maximising firm operating in a workably competitive market could in a commercial sense profitably engage in the behaviour” [ACCC v Cement Australia Pty Ltd]
- Effects Test

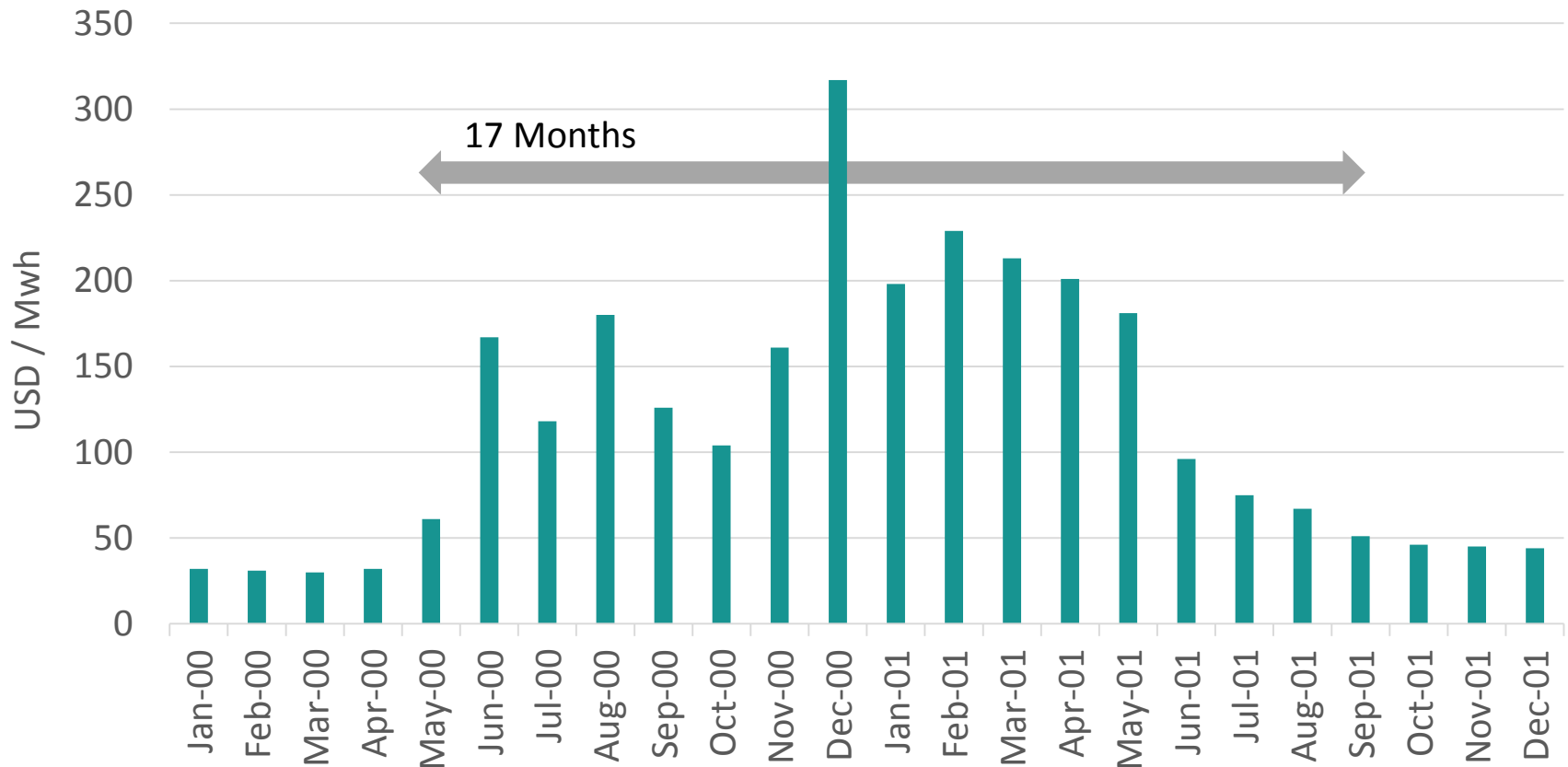


Electricity Markets

- Inelastic Demand
- Demand = Supply – always
- Short-term damage substantial
with long-term implications



California Electricity Prices





Electricity Markets

- Inelastic Demand
- Demand = Supply
- Short-term damage substantial
- Capacity markets

A collage of three circular images showing infrastructure: a power transmission tower, a bridge, and a large industrial tank.

North America

- Structural (e.g. PJM)
- Conduct and Impact (e.g. MISO, NYISO)



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A collage of three circular images showing infrastructure: a power line tower, a bridge, and a road.

Rule 7A.2.17 Interpretation

- CCA 2010
- Interpretation Act (WA)
- Market Objectives



WEM Objectives

- Economic efficiency, safe and reliable electricity production
- Encourage competition
- Avoid discrimination between technologies
- Minimise long-term cost to customers
- Encourage energy efficiency



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- Economic efficiency, safe and reliable electricity production
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- Avoid discrimination between technologies
- **Minimise long-term cost to customers**
- Encourage energy efficiency



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Market Power

- No “Substantial”
- Rule capable of being applied to any Trading Interval
- Refers to SRMC
- Rule can’t be toothless
- Other capacity markets

i.e. Short-term/transient covered

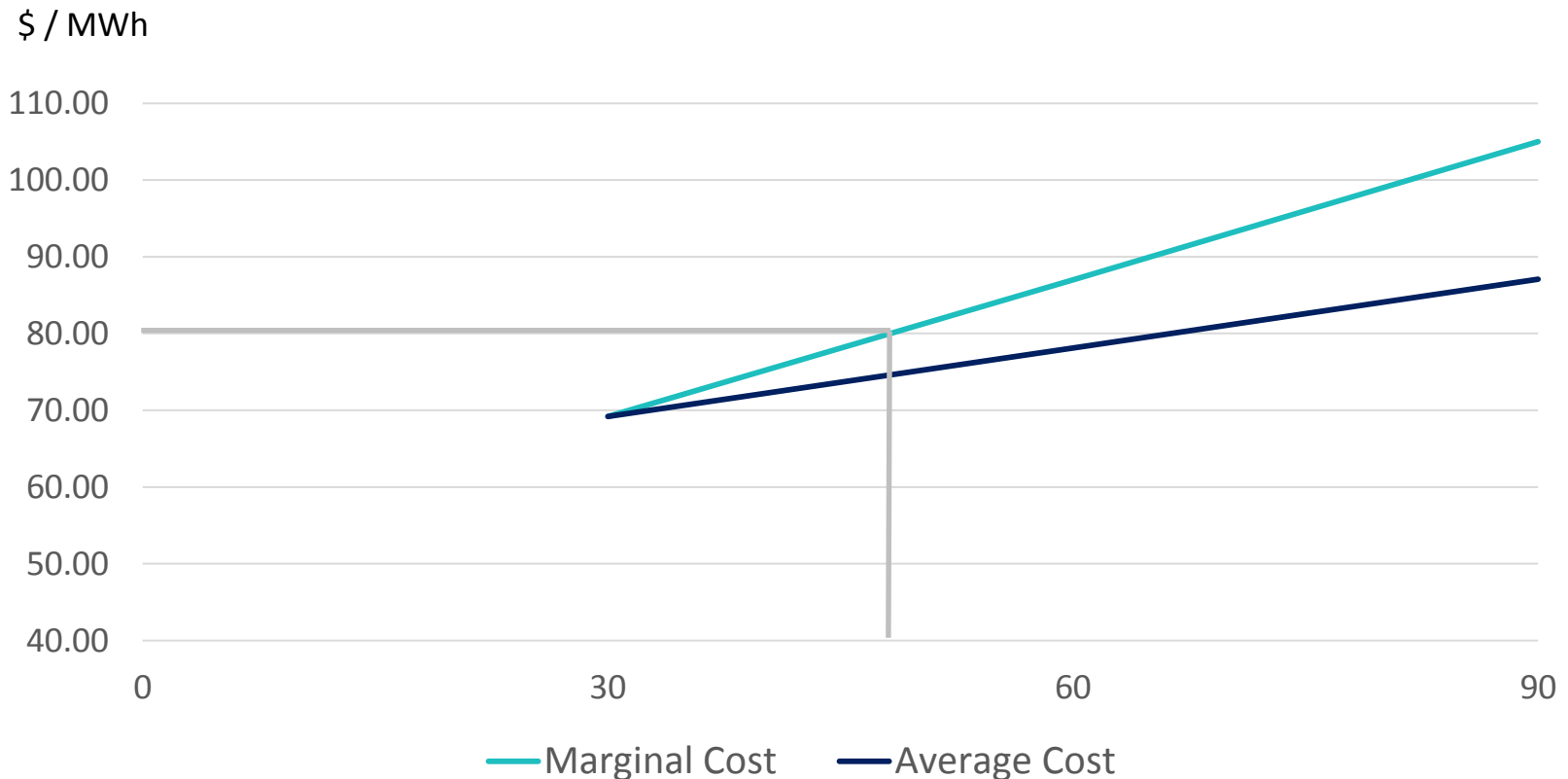


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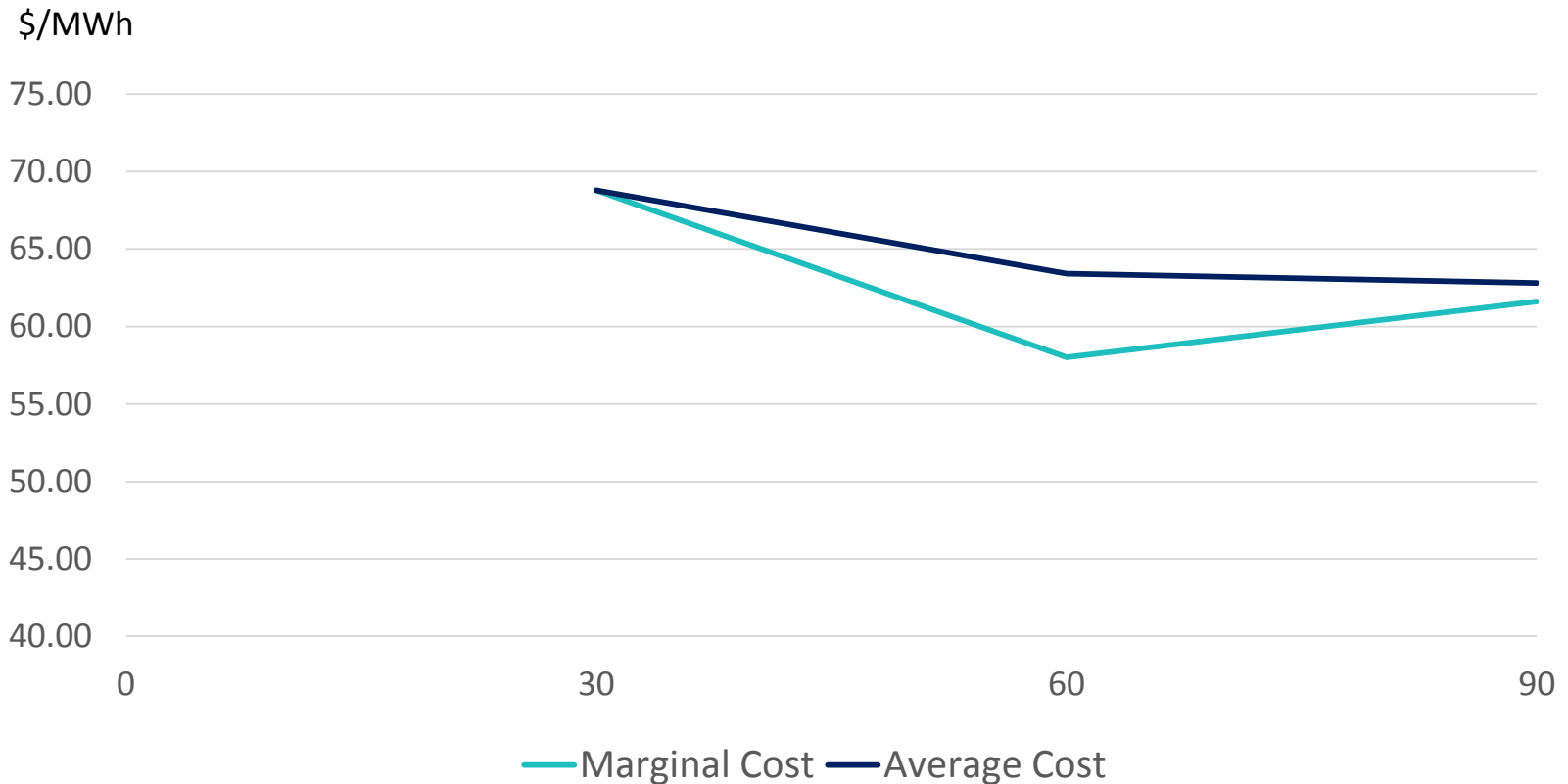


Short-run Marginal Cost: Economics Textbook





Short-run Marginal Cost: Electricity Generation





Short-run Marginal Cost

- $SRMC \sim AVC$; or
- $P > SRMC$ may not relate to
market power



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A collage of three circular images showing infrastructure: a power transmission tower, a bridge, and a road. The main title 'Capacity Market' is positioned below these images.

Capacity Market

- Proposed steep demand curve



Questions / comments?