



# Notice

30 January 2017

## Wholesale Electricity Market Report to the Minister for Energy

### PUBLICATION OF REPORT FOR THE PERIOD TO JUNE 2016

The Economic Regulation Authority (ERA) has published its Wholesale Electricity Market Report to the Minister for Energy for the period ended June 2016.

The Wholesale Electricity Market Rules require the ERA to report to the Minister on the effectiveness of the Wholesale Electricity Market in meeting the Wholesale Market Objectives.

As set out in previous reports, the ERA considers weaknesses in the current market design have led to inefficiencies and higher costs for consumers. These weaknesses include excess capacity paid for by market customers, inefficient generation investment signals and inefficient energy dispatch.

The reforms proposed by the Electricity Market Review address many of these weaknesses. In particular:

- Reforming the reserve capacity mechanism would provide better investment signals for adding or retiring capacity and encouraging availability. This should reduce excess capacity in the market.
- The transfer of market operation and system management functions to AEMO will resolve the governance issues resulting from:
  - the market operator also being responsible for rule changes and compliance; and
  - the network owner also being responsible for power system management.
- The establishment of the independent rule change panel will provide greater confidence to the Market.
- Introducing full retail contestability would introduce competition and increase opportunities for new and existing retailers to enter the market or expand their business.
- Plans to enable generators to access the network on a “constrained”<sup>1</sup> basis would reduce the need for investment to expand the network, compared with the current “unconstrained” network connection approach.

The ERA considers these reforms should lead to a more efficient market design and lower costs for consumers. Implementing these reforms as soon as possible is important for the future efficiency of the market.

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<sup>1</sup> Under a constrained network access model, generators compete through the wholesale energy market for access to the network to deliver energy to consumers. An unconstrained network access model requires the network to be built and operated to ensure that generators that connect under standard access contracts have full access to the network under normal operating conditions.

However, the planned reforms do not address the lack of competition in the generation and wholesale contract market that arises from Synergy controlling around three quarters of total generation. This lack of competition also hinders the development of a competitive retail sector.

Further reform is necessary to increase competition in wholesale energy supplies to drive efficiencies and lower costs.

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

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