

Economic Regulation Authority
Perth BC, PO Box 8469
PERTH WA 6849

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Wholesale Electricity Market Report to the Minister for Energy: Discussion Paper

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Economic Regulation Authority’s (“**ERA**’s”) *2016/17 Wholesale Electricity Market Report from the Minister: Discussion Paper*.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over ten million homes and businesses.

Introduction

The previous government initiated a significant reform programme (the Electricity Market Review or “**EMR**”) which suspended market development rule changes while the programme was underway. Unfortunately the Electricity Market Review didn’t progress as planned, and this means the Wholesale Electricity Market (“**WEM**”) is now in urgent need of reform to continue to improve its efficiency and competitiveness. The Energy Council welcomes Minister Wyatt’s statement at the 17th Energy in WA Conference that the government would be addressing the reform programme as a matter of urgency, and consulting with industry to ensure the best outcomes.

Discussion

Reform programme

The Energy Council is highly supportive of Minister Wyatt’s announcements regarding:

- reforming the access arrangements for the Western Power network, to make it easier and cheaper for generators to connect to Western Power’s grid, and to ensure that the framework is better able to handle advances in technology, noting that there needs to be considerable thought given to mechanisms dealing with previous investments participants have made and how capacity credits could be allocated under a constrained model;
- the development of operational improvements to the WEM; and
- undertaking a fundamental review to identify the most appropriate mechanism to price capacity, rather than moving to the auction process contemplated by the EMR.

In addition to these reforms, the Energy Council believes that there are three further issues which the ERA should consider as part of its review, as follows:

Full Retail Contestability

The Energy Council notes that, while the Western Australian Government is yet to confirm its detailed reform programme for retail contestability, it has indicated that it intends to introduce full retail contestability to Western Australia, and that it would like to achieve this by 1st July 2019¹.

¹ “Households can benefit from competition in power supply”, *West Australian*, 23rd May 2017

To embrace the full benefits of competition, it is important that the Public Utilities Office (“**PUO**”) engages with industry and progresses plans so that all segments of the market become contestable as soon as practicable, taking into account the necessary time to implement system changes.

Planning & Coordination

There is currently lack of clarity between the roles and responsibilities of the ERA, the PUO, the Rule Change Panel and the Minister for Energy, and the Energy Council is concerned that there may be duplication, or matters may not be addressed promptly and effectively, due to a lack of clarity about the delineation between the different regulatory bodies. There is also a risk that change will occur without proper consultation with industry. All these inconsistencies may lead to increased risk to industry and ultimately, increased costs to consumers.

Finkel Security Recommendations

While the Finkel Review² addressed the National Electricity Market solely, it did state, “the Western Australian and Northern Territory governments should consider adopting the Panel’s recommendations for their individual electricity systems”³. As such, it is appropriate for the ERA to identify the report’s recommendations which should be considered for Western Australia. The Energy Council considers that there are a number of system security recommendations which have merit for Western Australia, such as the:

- energy security obligations (Recommendation 2.1);
- data collection framework on distributed energy resources (2.6);
- resilience to human/environmental threats, cyber security (2.7 & 2.10);
- energy infrastructure and demand forecast accuracy (2.11); and
- workforce planning (2.12).

Other recommendations such as tighter governor response (2.2) and system restart plans (2.4) are already in place in the WEM, while some such as generator closure notification (3.2), generator reliability obligations (3.3) and strategic reserve & day-ahead market (3.4) are simply not needed in Western Australia given the current market design. Finally, while greater planning and coordination is required between the different regulatory bodies in Western Australia (as identified above), the Energy Council does not consider that there is a need for an additional regulatory body, such as the Energy Security Board.

Conclusion

In conclusion, the Energy Council believes that there are a number of areas which urgently need progressing. The mooted reform process needs to continue to ensure that the Wholesale Electricity Market is suitable for the changing generation mix, and competitive market benefits flow through to consumers. Industry looks forward to working with government to action the recommendations of the Electricity Market Review.

Any questions about this submission should be addressed to Duncan MacKinnon (Wholesale Policy Manager), by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

Kieran Donoghue

General Manager, Policy and Regulation
Australian Energy Council

² *Independent Review into the Future Security of the National Electricity Market: Blueprint for the Future*, Commonwealth of Australia 2017

³ p. 29