



# Notice

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## **Wholesale Electricity Market Report to the Minister for Energy 2016/17**

### **REPORT PUBLISHED**

Each year, the Economic Regulation Authority reports to the Minister for Energy on the effectiveness of the wholesale electricity market in meeting the wholesale market objectives.

These objectives include providing secure and reliable electricity supplies, encouraging competition, and minimising the long-term cost of electricity to customers.

In 2016/17 some of the objectives were met.

The wholesale electricity market has delivered secure and reliable electricity supplies and costly excess generation capacity has been removed from the market.

The market has only partly met the objectives of encouraging competition and containing long-term electricity costs. There is limited competition in the wholesale electricity market and wholesale energy prices increased over the review period and were more volatile. This is despite low spot prices for gas, an important input to electricity generation. A lack of price competition resulting from Synergy's dominance in the wholesale market may be driving up wholesale electricity prices.

The recent State Government commitment to move to constrained network access and reform wholesale market operations may address some of these problems. Removing barriers to new generators entering the wholesale market will improve competition.

However, meeting the market objectives will become increasingly difficult in the future unless the market adapts to changes taking place in the sector. These include technological changes, the retirement of old coal plants and increasing amounts of renewable generation connecting to the grid. Timely reform of the wholesale electricity market together with network regulation and retail market is needed to avoid the supply interruptions and high electricity prices experienced by customers in the Eastern States.

The ERA recommends five measures to improve the operation of the market.

#### **1. Tighten market power mitigation measures for Synergy to encourage competition.**

In the absence of pro-competitive structural change to the Synergy business, tightening some of the regulations that restrict Synergy's market power will assist in improving competition and placing downward pressure on wholesale electricity prices. Improving retailer access to competitively priced wholesale supplies is a necessary prerequisite to extending retail competition.

2. **Expedite capacity market reform to reduce uncertainty so new private sector generation capacity can be installed.**

Until the method for pricing future capacity is determined, the private sector may be reluctant to invest in current and future generation. If this leads to undersupply of capacity, the reliability of electricity supplies will be compromised.

3. **Achieve consistency across technical standards.**

The standards guiding the security and reliability of electricity supplies are specified in several different industry rules and codes and are updated and maintained by different organisations. Inconsistency in the technical standards guiding system operation and network planning can affect the reliability of electricity supplies to some customers. Establishing an independent reliability advisory committee with responsibility for reviewing and maintaining power system reliability and security standards will avoid conflicts of interest and ensure consistency across technical standards.

4. **Change the market rules and technical rules to integrate increasing levels of intermittent generation and maintain reliable electricity supplies.**

Residential rooftop solar PV systems are supplying electricity equivalent to the output of the two largest coal-fired generators, and the number is increasing each year. This is increasing electricity market costs as gas-fired generators remain needed to manage peaks in demand but are operating at lower utilisation. The rate of increase in PV systems has in the past been underestimated. This led to overestimation of the amount of generation capacity needed, imposing unnecessary costs on the electricity system. The use of other technologies, such as battery storage, is also increasing at the household and network level but is not covered in current market and technical rules. Wholesale market legislation, rules and regulations need to be reviewed to adapt to changing technology and customer behaviour, and to minimise risks to system costs and reliability.

5. **Increase the pace of wholesale electricity market reform.**

The ERA supports the substantive market reforms under way, such as the move to constrained network access, but notes the very slow pace at which reform is occurring, including a very substantial delay with the change in government. Market reform has to be timely to keep pace with the changing electricity sector, and the market design must be flexible and adaptive to manage increasing levels of complexity. Market evolution needs to be more actively driven and supported by government, especially now that the Independent Market Operator no longer leads market development.

The 2016/17 Report is available on the ERA's [website](#).

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