



ERM Power Limited
Level 9, 225 St Georges Terrace
Perth WA 6000
ABN 28 122 259 223

+61 8 6318 6400
ermpower.com.au

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Ms Sara O'Connor
Assistant Director Market Regulations
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
Perth WA 6000

Dear Ms O'Connor

Report to the Minister for Energy on the Effectiveness of the Wholesale Electricity Market 2017/18

ERM Power (ERM) welcomes the opportunity to provide comment on the Economic Regulation Authority's (ERA's) Discussion Paper: Report to the Minister for Energy on the Effectiveness of the Wholesale Electricity Market 2017/18 (Paper). ERM provides the below commentary in order to assist the ERA in the development and thinking in relation to its review of the effectiveness of the WEM.

About ERM Power

ERM Power Limited (ERM) is a listed Australian energy company (EPW) operating electricity sales, generation and energy solutions businesses. The company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load¹. A growing range of energy solutions products and services, including lighting and energy efficiency software and data analytics, are being delivered to the company's existing and new customer base. The Company operates 662 megawatts of low emission, gas-fired power stations in Western Australia and Queensland.

General Comments

While the Paper focuses on several important areas of interest, ERM believes that for the market to continue to be effective, it is prudent to remember that a market is only effective if there is wholesale price transparency, liquidity and sufficient supplier competition – in the STEM, balancing and the forward markets. The WEM is not there in terms of the three elements mentioned for various reasons, one of which is there is one dominant generator/retailer in the market. The WEM cannot truly be an effective market without meaningful competition. The ERA has sought comment on how best to improve competition without structural changes. ERM can only reiterate that the measures introduced by the regulator at the time to keep Synergy in check are necessary to ensure the viability of the WEM while Synergy continues to have market power.

An effective market in the traditional sense has effective wholesale and retail components. The market must be further improved with the implementation of the recommendations made by the ERA to the Minister on the EGRC regulations and improvements to the Standard Products regime. Given the size of Synergy, it's important to maintain appropriate segregation of Synergy's Wholesale and Retail businesses. In doing so, it's important that the two businesses do not collude and equally, that Synergy's actions mirror the commercial pressures of a competitive market, as any behavioural differences will flow through to the spot market resulting



in adverse effects on retail competition. These measures would provide some degree of transparency and stability for a retailer with respect to access to appropriately priced wholesale electricity products to enable a functioning WEM.

Pricing in the WEM

The ERA has described the changing market environment that has for several years been developing with the uptake of rooftop solar PVs resulting in a more dynamic environment. AEMO has regularly indicated to the market that it is progressively getting harder to ensure that the WEM is secure and reliable without newer tools. This too has had impact on market generators. One of the key aspects in any wholesale market is the pricing of electricity into the market. In the WEM, the ERA has an expectation that market generators are to bid into the market based on short run marginal cost (SRMC) principles, noting the Rules allow offering at higher than SRMC when such behaviour does not relate to market power.

It is an opportune time to revisit the question as to whether the SRMC pricing principles and dual price cap regimes are still fit for purpose. While there needs to be some boundaries in place in terms of pricing due to the structural issues in the WEM, the ERA has noted there are emerging issues that needs to be dealt with for which there are no easy solutions. For example, the ERA has noted that there are deep troughs in the middle of the day and that the peaks are getting peakier, due primarily to the impact of the penetration of rooftop solar PV systems. As a result, there are less periods in the day for generators to recover its cost of operation. This then raises the question that if one is bidding in at SRMC, given the shorter operating periods, is it possible for generators to recover its cost. While the SRMC pricing regime was put in place to keep the bidding behaviour of market participants in check, strictly sticking to SRMC pricing may not be enough to recover the cost of being dispatched.

Further to this, is it time to explore the issue of just having one market price cap. While gas prices may not be at historic high levels, there could conceivably in the future be a time where a generator is limited to recover its costs over a shorter period while gas prices are high. The combination of a lower number of intervals to recover cost with an increase in gas prices could result in non-liquid units having to breach the non-liquid price cap, while being unable to bid higher due to the limitation of the non-liquid cap. Given the maturity of market participants and the changing circumstances in the WEM, is it time to change to a single market price cap?

A practical example of where the current Rules may not achieve the Objectives in the Rules is with regard to large scale batteries. With a 'peakier' market, and falling battery capital costs, a large scale battery achieving a combination of a capacity price and returns from the energy and ancillary services markets, may be the most economically efficient reliable technology to reduce the long term cost production of electricity supplied to customers. The Rules currently have a capacity price referencing a gas turbine, obligations for fuel supply for peak periods (14 hours per day), energy price caps related to fossil fuels, and energy market obligations related to SRMC.

Market Fees

The ERA has noted that market fees have increased over the last 10 years of operations in the WEM with the forward projections showing a continual increase in fees. While systems and processes need to be improved and new systems implemented to keep up with the changes in the market, the question must be asked as to whether market participants are paying disproportionately for the privilege of being a registered Market Participant. With the increasing penetration of rooftop solar PVs and the spill of electricity into the market by non-registered market participants, there appears to be increasing inequity whereby registered Market Participants are paying for systems and process to maintain a secure and stable system that is continually being disrupted and made more volatile by the non-registered entities. In its deliberations, the ERA could



investigate and make recommendations on other possible market fee recovery mechanisms that ensure more equity amongst all users of the system and that the fees are recovered from all users. This could then lead to not only a more equitable outcome but result in the lowering of market fees for consumers.

Please don't hesitate to contact me should you wish to discuss any aspect of the above submission.

Yours sincerely



Wendy Ng
Commercial Manager WA