



Notice

12 April 2019

Wholesale Electricity Market Review 2018

Publication of report

Each year, the Economic Regulation Authority reviews how effectively the Wholesale Electricity Market is meeting the market objectives. The findings from the review are provided in a report for the Minister for Energy, with recommendations for improvement. This year, the report to the Minister combines findings from the ERA's annual review and the triennial review of the Wholesale Electricity Market required under the *Electricity Industry Act 2004*.

The ERA finds that the Wholesale Electricity Market is failing to meet an important market objective. It is not minimising the long-term cost of electricity for consumers. There are three observations that lead the ERA to this conclusion:

- Wholesale electricity prices have risen by 20 per cent over the last four years despite an absence of underlying cost drivers in fuel costs or scarcity of generation capacity.
- Western Australia has the highest prices for ancillary services in Australia. These are services provided by generators to keep the supply of electricity stable and secure.
- After conducting a formal investigation of Synergy's pricing behaviour, the ERA has concluded that Synergy has been bidding wholesale electricity into the market at higher values than are permitted by the market rules. The ERA is taking [action](#) on this matter through the Electricity Review Board.

Western Australia's electricity market is changing as large-scale renewable energy, such as wind farms, joins the electricity network and an increasing number of households and small business generate their own electricity using rooftop solar panels. This is changing the profile of electricity demand and presenting challenges to the operation of the electricity system. New technologies, like batteries, offer opportunities to match increasingly variable demand and supply and to supply ancillary services.

Households and small business customers face flat tariffs that do not reflect the costs of supplying electricity at different times of the day. These customers have no incentive to manage their electricity use in a manner that will reduce electricity supply costs in the market.

The Government's reform program includes proposals for significant changes to the operation of the Wholesale Electricity Market in the future. The ERA supports these reforms but also recommends additional changes to ensure the long-term costs for consumers are minimised. These are:

1. Synergy's market power needs to be reduced to lower the cost of wholesale electricity. In the absence of structural reform, the government can reduce Synergy's market power by:
 - a. Signalling to the market that the Synergy will not itself replace ageing thermal generation plant as that plant is retired.
 - b. Making changes to the regulatory scheme that constrain Synergy's market power, as recommended by the ERA in its separate report on this matter.
2. Current market rules and technical standards are silent on, or prevent, the uptake of some new technologies. These should change to allow for large-scale batteries to be integrated into the electricity system and participate in the Wholesale Electricity Market.
3. Retail tariff reforms and/or public education programs should be pursued to provide electricity customers with the knowledge and incentives to adjust their electricity consumption in a way that will reduce costs of supply across the market. A review of regulated retail tariffs for small use electricity customers is urgently needed.

The Wholesale Electricity Market Report 2018 was tabled in Parliament on 11 April 2019 and is available on the ERA's [website](#).

Further information

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