

16 December 2019

Economic Regulation Authority
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Response to Issues Paper: Report to the Minister for Energy on the Effectiveness of the Wholesale Electricity Market 2019

On 7 November 2019, the Economic Regulation Authority (ERA) published a paper providing its analysis of various aspects of the performance of the Wholesale Electricity Market (WEM) and its initial observations of how well the WEM is achieving its objectives, and what may be driving the resulting market outcomes.

We note the ERA has not investigated the issues being addressed as part of the Energy Transformation Strategy. This includes the operation and outcomes of capacity pricing, the Balancing Market, the Ancillary Services mechanisms, planning and dispatch processes and the Short Term Energy Market. It has instead focussed on areas that may be emerging gaps. Perth Energy considers this to be a pragmatic approach and provides the following comments.

Perth Energy considers many of the shortcomings of the WEM (and more broadly across the supply-chain) result from an insufficient pace of change in the legislative and regulatory frameworks underpinning the energy industry. We welcome and support the Energy Transformation Strategy and associated WEM reforms and consider that if delivered in full, the strategy will lead to significant improvements in the WEM. However, we agree with the ERA's concerns about the scope of the reforms in that:

1. there is no coordinating mechanism to ensure that costs are optimised across the whole system to minimise long-term costs to customers; and
2. there is no mechanism to ensure a rule change is developed and implemented to address identified market inefficiencies or emerging problems.¹

Network investment can have a direct bearing on market participant's costs, and therefore the overall end cost to electricity customers. Perth Energy would therefore support the introduction of a new mechanism, or the improvement of current controls, to ensure industry-wide impacts are considered in relation to network development.

Perth Energy is also one of the more active participants in the current Rule Change Process, and sees the value in having a transparent process for driving continuous improvement in the WEM and its governance. We would therefore strongly support any new arrangements to ensure the continued evolution of the

¹ ERA, Report to the Minister for Energy on the Effectiveness of the WEM 2019 – Issues Paper, p 21.



WEM once the current reform package has been delivered. This may be in the form of an enhanced Rule Change Process, and we would be happy to share our experience and expertise into its design.

We appreciate that the ERA has highlighted these policy and framework design issues in its paper, and we believe the ERA has an important role to play in supporting the State Government (specifically Energy Policy WA) to address them. This includes the ERA sharing its expertise and data with Energy Policy WA to help facilitate the Energy Transformation Strategy and subsequent ongoing reform.

In addition, Perth Energy considers the following should be addressed as a matter of priority:

- **Increased competition** – The persisting high market concentration in the WEM is a structural barrier to entry and effective competition, without which Western Australian electricity consumers face higher energy prices. Perth Energy highlights that market concentration is the single largest issues in the WEM and the Energy Transformation Strategy does not address it. We agree with the ERA’s view that the most effective means of addressing this market imbalance is to address Synergy’s market power.² We maintain that the structural separation of Synergy is the only solution.
- **An effective dispatch engine** – Perth Energy continues to highlight the need for a fit-for-purpose dispatch engine in the WEM. The current platform is not sufficiently sophisticated to perform the basic dispatch functions effectively. This combined with the increasing difficulty of forecasting supply and demand-side energy needs continues to result in substandard market outcomes. Examples include inefficient price signals, an inability for participants to respond in real-time, and the implementation of the Generator Interim Access solution, which is contrary to the market objectives. Perth Energy considers any means by which a fit-for-purpose dispatch engine can be implemented in the WEM should be pursued, and strongly recommends that a basic dispatch engine, for example one off the shelf, or the National Energy Market dispatch engine without any constraints applied should be implemented as soon as practicable. This would allow the WEM to be dispatched more effectively and would deliver immediate, tangible benefits to customers.
- **A clear distinction between energy and Ancillary Services** – Perth Energy supports the increase in the quantity of energy supplied and the increasing emphasis on renewables. However, the lack of visibility for the system operator of a large proportion of this by way of rooftop solar, and the inability for the system operator to accurately forecast the supply of intermittent resources significantly increases the risk of a secure supply without the necessary Ancillary Services required to stability the grid. The conflation of energy and Ancillary Services is severely hindering the market’s supply of these increasingly essential services.
- **The lack of an effective price signal for consumers** – The WEM includes the Individual Reserve Capacity Requirement, which allocates capacity costs to retailers and their customers. This mechanism has allowed those customers with the ability to avoid the periods of highest demand to reduce their cost of electricity. However, the various settings incorporated within the mechanism need to be reviewed to ensure the IRCR remains fit-for-purpose. Moreover, Perth Energy considers an effective price signal for non-contestable customers is necessary. As contestable customers increase their response to capacity price signal, Synergy’s non-contestable customers will increasingly bear these costs, and have no incentive or ability to avoid them.

² Ibid.



Should you have any questions please contact me on (08) 9420 0347 or at e.aitken@perthenergy.com.au.

Regards,



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