



Notice

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Wholesale Electricity Market Report 2020

Publication of report

Each year, the Economic Regulation Authority reviews how effectively the Wholesale Electricity Market (WEM) is meeting the market objectives. The findings from the review are provided in a report for the Minister for Energy, with recommendations for improvement.

The WEM objectives can be summarised as promoting safe and reliable electricity supply, encouraging competition among generators and retailers, avoiding discrimination against any energy options and technologies, minimising long-term costs to consumers, and managing electricity demand. Over the review period of July 2018 to December 2019, the ERA has found that the WEM is meeting some, but not all, of these objectives.

There have been substantial changes in the WEM over the past decade. The entry of household scale renewable energy technologies and its effect on electricity demand has been the most significant change. Western Australia's electricity market is also changing in response to large-scale renewable energy projects. Utility scale renewables, such as wind and solar farms, increased their share of generation in the WEM from 9.5 per cent in 2018 to 13 per cent in 2019.

While renewable energy helps to reduce the supply cost of electricity, the variability of this generation presents challenges to the stability of the system. Very low levels of demand on the network pose challenges to managing system security. With fewer thermal plants generating, those plants are less able to provide system security services than they did in the past.

New technologies, such as batteries and electric vehicles, could smooth the increasingly variable demand, and also supply support services to the WEM.

To date, the WEM has met the objective of providing a safe and reliable electricity supply. However, risks to system security are emerging because of the changing nature of the WEM. The State Government's reform program is implementing measures in response to these expected security and reliability challenges.

The ERA finds that the WEM is failing to meet its market objective of encouraging competition, and so is not minimising the long-term cost of electricity for consumers. The wholesale market remains uncompetitive and demand cannot be met without generation output from the three largest balancing market participants – Synergy, Alinta Energy and Summit Southern Cross Power. Opportunities for new generators to enter the market and improve competition may be limited given declining demand and surplus generation capacity.

The State Government's reform program has just over two years to run. The ERA considers that these reforms are likely to improve the WEM's ability to meet its market objectives, but it is too early to fully understand all the implications of these changes.

The reform program is broad and is being executed over a short time frame, so not every issue that emerges through the process can or will be addressed. Ideally, the electricity market should have the capability to self-correct and adapt to incremental changes in conditions and refine and improve market operations, although this may not completely remove the need for periodic major policy reviews of the market architecture.

The Wholesale Electricity Market Report 2020 is available on the ERA's [website](#).

Further information

General enquiries

Sara O'Connor
Ph: 08 6557 7935 | Mob: 0414 452 305
info@erawa.com.au

Media enquiries

Natalie Warnock
Ph: 08 6557 7933 | Mob: 0428 859 826
media@erawa.com.au