



Economic Regulation Authority

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Media Statement

19 April 2010

Scrutiny of electricity market

A report assessing the market that supplies electricity to 840,000 customers in the interconnected network in the south west of the State was released by the Economic Regulation Authority today.

The 2009 Annual Wholesale Electricity Market Report studied whether the electricity market was designed well enough to supply low cost and reliable electricity to residential and commercial customers between Geraldton, Perth, Albany and Kalgoorlie.

Authority Chair, Lyndon Rowe said the electricity market had largely achieved what it had been designed to accomplish when it was established, with independent generators now accounting for approximately 40 per cent of the market and ongoing arrangements in place to ensure supply will meet demand. Less successful had been the development of retail competition.

“Notwithstanding the positive progress to date, the market, like all energy markets, will need to continually evolve. A key aspect of the orderly functioning of the market is the process through which market development matters are considered and implemented,” Mr Rowe said.

“A current concern for the Authority is that there are mixed messages coming from policy makers about their commitment to the objectives of the wholesale electricity market – to create a competitive market so as to promote the economically efficient, safe and reliable production of electricity,” Mr Rowe said.

Mr Rowe said the lack of clear, coordinated and consistent policies to take the market forward was a challenge. “With multiple reviews and processes now under way, there is a potential for confusion among stakeholders about policy on key issues,” he said.

“Because of the perceived lack of a coordinated, transparent and consultative policy approach, market confidence in the development of the wholesale electricity market has the potential to be undermined, putting timely private sector investment at risk,” Mr Rowe said. “There needs to be a coordinated strategy put in place for the market’s future development consistent with the objectives.”

In its report, the Authority also identifies systemic concerns which affect the effectiveness and stability of the market. One such concern is that the market will only work if the price

signals in the market accurately reflect the costs involved across all levels of the supply chain including generation, transmission, distribution and retail. For example, generation will be efficient if the costs facing different generators are fully reflective of not just their own direct costs but also the costs they impose on the system more generally.

Similarly, the absence of cost reflective electricity tariffs is sending the wrong signal to consumers, preventing other retailers from entering the market and having an impact on the viability of Verve Energy.

Another concern is the intermittent energy output generated by wind farms and other renewable generators and how they affect the stability of the system.

The uncertainty created by climate change policies and their consequent effects on investment in new capacity is also of concern.

The Authority must provide the WA Minister for Energy, Peter Collier, with a report on the market's effectiveness at least once a year. A public version of the report is available on the Authority's [website](#).

ENDS

LYNDON ROWE
CHAIRMAN

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