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Sent via email: publicsubmissions@erawa.com.au

Dear Ms Bhatia

ENERGY OFFER PRICE CEILING 2024: DRAFT DETERMINATION

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the resources sector in WA. CME is funded by member companies responsible for 86 per cent of the state's mineral workforce employment.¹

In 2022-23, the WA resources sector accounted for 47 per cent of WA's economic activity,² 91 per cent of goods exports,³ 47 per cent of investment⁴ and 11 per cent of employment (direct).⁵ The sector also contributed 33 per cent of the WA Government's general revenue, enabling the provision of public goods and services such as doctors and nurses, teachers and police.⁶

CME appreciates the opportunity to provide this submission on the estimated new level of the Energy Offer Price Ceiling and on the Economic Regulatory Authority's (ERA's) approach and analysis. Under the revised Wholesale Electricity Market (WEM) Rules, the ERA must determine a single Energy Offer Price Ceiling, rather than two separate price ceilings for gas and diesel generation as in the previous WEM. This estimated new Energy Offer Price Ceiling would represent a significant increase over the current energy price ceiling increasing from \$738/MWh to \$1500/MWh. As part of this submission, CME would like to raise industry concerns on rising electricity prices as part of our stakeholder feedback.

Background

A net zero future represents a significant transition for the WA resources sector. CME members are already transitioning their current and future operations to achieve net zero emission targets by 2050 or earlier, meeting both voluntary corporate commitments, as well as obligations imposed by federal and state government regulation. We acknowledge the WA Government's work to date regarding the transition of the state's main electricity grids: the South West Interconnected System (SWIS) and the North West Interconnected System (NWIS), and wish to highlight the importance of this work continuing to progress at pace.

CME's position on the future energy system is that it must supply low emission, reliable and globally cost-competitive energy. This is critical for the decarbonisation of the resources sector. Therefore, we reiterate key recommendations from our 2024-25 State Pre-Budget Submission⁷ including that the WA Government release a draft master transmission plan for the SWIS by no later than mid 2024, in collaboration with industry, regulators and other key stakeholders. We have also flagged the need for appropriate resourcing to support the detailed planning and construction of transmission infrastructure to support industry decarbonisation.

The WA Government must act with urgency given the short timeframes for industry to make investment decisions on new electricity-generating and consuming projects which involve long planning and construction timeframes. The Australian Energy Market Operator's (AEMO's) 2023 Electricity Statement of Opportunities⁸

¹ Government of Western Australia, [2022-23 Economic indicators resources data](#), full-time equivalents onsite under State legislation, DEMIRS, 10 November 2023.

² As measured by gross value add (GVA). Australian Bureau of Statistics, [5220 Australian National Accounts: State Accounts](#), Table 6.

³ Department of Energy, Mines, Industry Regulation and Safety (DEMIRS), [2022-23 Economic Indicators Resource Data File](#), 9 January 2024. Australian Bureau of Statistics, [5302 Balance of Payments and International Investment Position](#), Table 21.

⁴ Includes Gross Fixed Capital Formation plus minerals and petroleum exploration. Australian Bureau of Statistics, [5220 Australian National Accounts: State Accounts](#), Table 25. Australian Bureau of Statistics, [8412 Mineral and Petroleum Exploration](#), Table 4.

⁵ Australian Bureau of Statistics, [6291 Labour Force, Australia, Detailed](#), Table 5.

⁶ Includes Commonwealth grants from North West Shelf royalties, iron ore lease rentals, payroll taxes, transfer duties and other payments to government agencies. Government of Western Australia, [2022-23 Annual report on State finances](#), Department of Treasury, 28 September 2023, table 2.1.

⁷ [CME 2024-25 WA State Pre Budget Submission](#)

⁸ Australian Energy Market Operator (AEMO), [2023 Wholesale Electricity Market \(WEM\) Electricity Statement of Opportunities \(ESOO\)](#)

(ESOO) confirms this need for urgency, highlighting the need for 'significant and sustained investment in additional capacity, a fast-tracking of the pipeline of generation, storage and demand-side projects, and investment in transmission infrastructure.

Efficient and non-duplicative approvals processes for energy infrastructure projects will be vital to ensure a timely transition. With this in mind, it is important that WA's electricity market legislation does not conflict with planned Commonwealth Net Zero Plans or duplicate the Federal Government's Climate Change legislation and proposed Nature Positive reforms. Electricity Market Regulations should also be aligned with state government policies and programmes such as WA's proposed Climate Policy.

Recent electricity price developments and concerns

With regards to cost-competitive energy, CME would like to raise industry's concerns over the current trajectory of electricity costs in the WEM, noting strong increases in delivered electricity prices and proposed increases in the AEMO's market fees. AEMO's January 2024 Quarterly Energy Dynamics Q4 2023 report⁹ outlined that the overall cost of Real-Time Market¹⁰ energy costs increased by 34 per cent relative to Q4 2022. This was driven by an overall increase of \$14.60 in average Energy price and an increase in ESS costs of \$11.93. ESS costs represented 4 per cent of the total cost of energy in Q4 2022 but rose to 15 per cent of total costs in Q4 2023.

As the ERA notes in its draft determination, the proposed increase in the maximum Energy Offer Price Ceiling in the WEM from the current alternative maximum price of \$738/MWh to \$1,500/MWh would represent a significant increase over the current ceiling. Given the marked increase in the number of trading intervals where prices reached the maximum STEM price and alternative maximum STEM price,¹¹ a higher Energy Offer Price Ceiling is likely to result in higher electricity costs by roughly doubling the price of electricity during these occurrences. In addition, the ERA is proposing changes to the methodology for determining benchmark reserve capacity prices (BRCP) that are expected to increase reserve capacity prices,¹² which would also be expected to increase the overall cost of electricity to consumers.

CME acknowledges the tension between ensuring the maximum Energy Offer Price Ceiling in the WEM limits offer price mark-ups and provides a safety net for consumers, while providing a price sufficient to allow high-cost generators to viably supply electricity during periods of high demand and/or low supply. CME agrees with the ERA that "the use of minimum dispatchable loading level may not reflect the intent of the [WEM] rules to mitigate the exercise of market power associated with the inclusion of price markups", particularly if such a loading level would result in plant instability. CME's members operate in competitive global markets and reliable, low emissions electricity at globally competitive prices is critical to both the ongoing sustainability of existing operations and the development of sustainable, competitive new industries. In particular, low emission, reliable and cost-competitive electricity is a critical enabler to capture the opportunities presented by the global energy transition in WA, including value adding in critical and battery minerals, green hydrogen and manufacturing industries, and creates opportunities to further reduce emissions through future process electrification.

Once again, we appreciate and thank the ERA for the opportunity to provide input into the estimated new level of the Energy Offer Price Ceiling, and on the ERA's approach and analysis.

For further information regarding this letter, please contact Aaron Walker, Manager - Industry Competitiveness and Economics, on [REDACTED]

[REDACTED]

Adrienne LaBombard

Director of Policy and Advocacy

⁹ Australian Energy Market Operator (AEMO), ['Quarterly Energy Dynamics Q4 2023'](#), p.71

¹⁰ Energy and Essential System Services (ESS) excluding Frequency Co-optimised Essential System Services (FCESS) Uplift

¹¹ Please see Figure 1 (page 2) of Economic Regulation Authority (ERA), [Energy Offer Price Ceiling 2024: Draft determination](#), 8 April 2024.

¹² Economic Regulation Authority (ERA), [Review of the Benchmark Reserve Capacity Price WEM Procedure](#), 5 April 2024.