

2017/18 Wholesale Electricity Market Effectiveness Review

Presentation to Market Advisory
Committee

February 2019



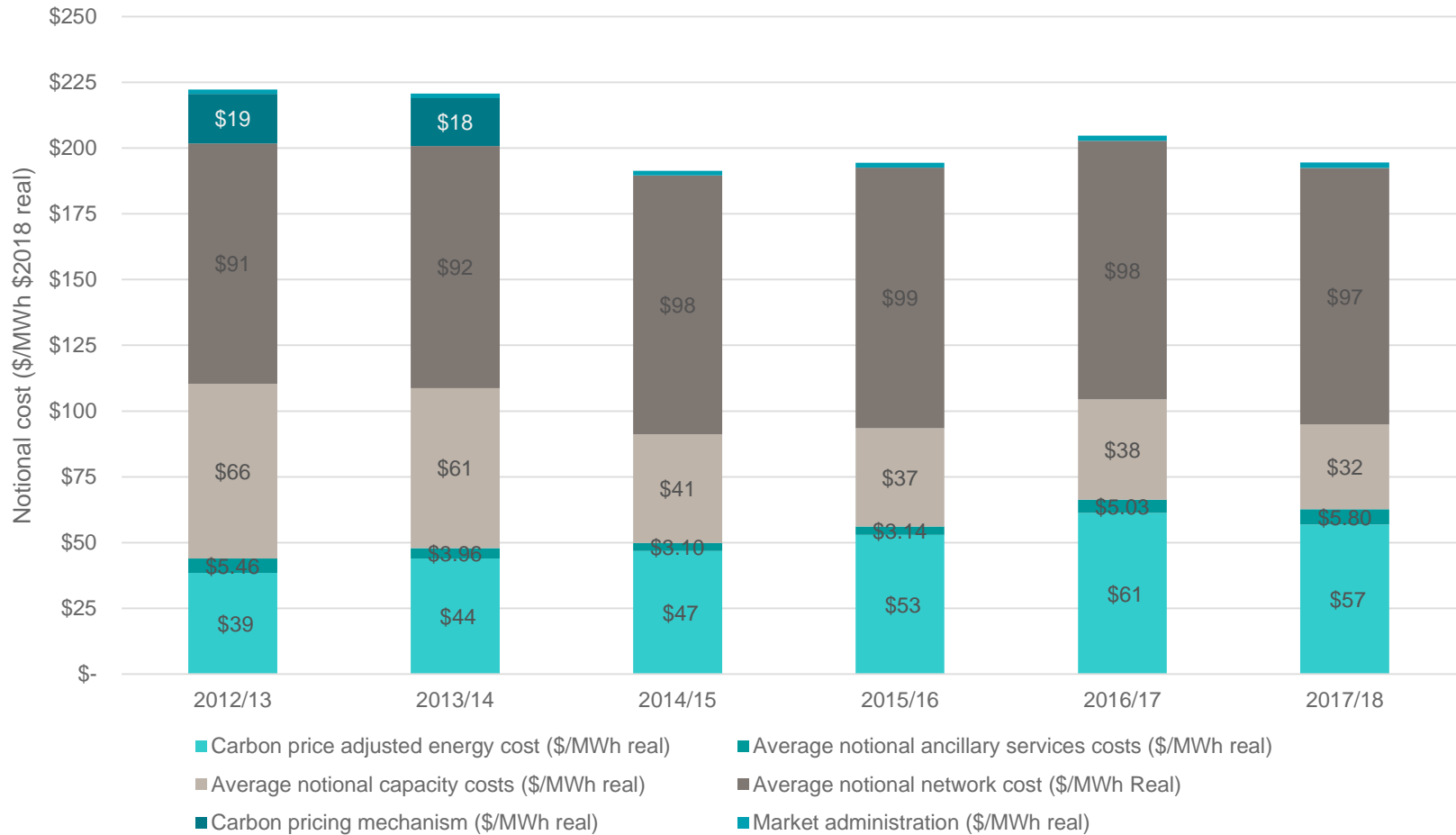
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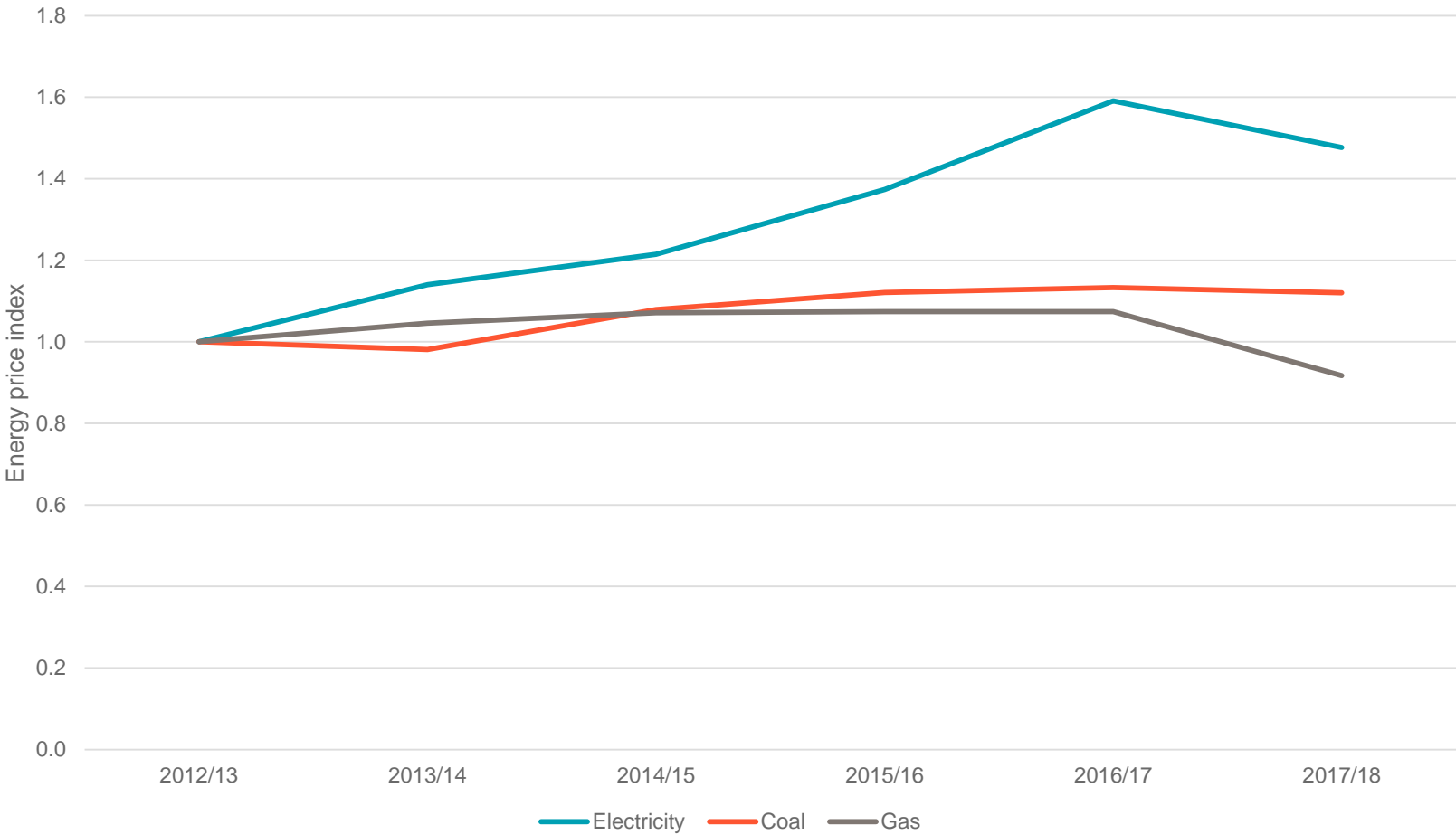
The high level picture

- Things should be good
 - Excess capacity
 - Lowest gas prices in real terms in five years and only modest price increases in coal
 - Low demand, mild summers and solar taking some of the load
- But what we see
 - High balancing prices
 - Highest ancillary services costs per unit output in the country
 - Efficiency gains on the administrative side countered by increases in market based costs
 - Limited competition and substantial market dominance
- Limited net gain to consumers over the last few years

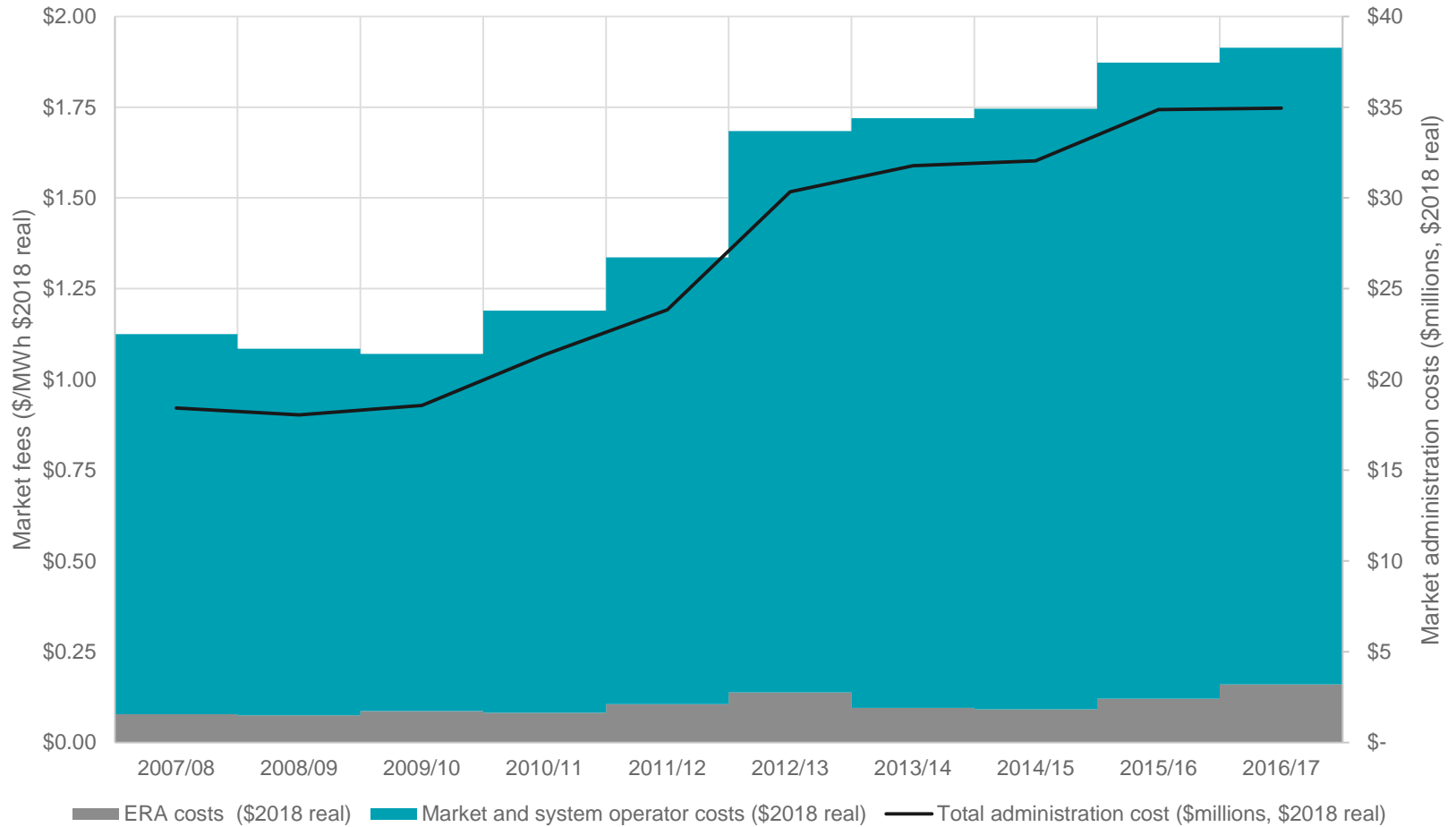
The high level picture



Fuel prices



Market costs



Changes to come

- Solar is expected to change the load profile
- This is expected to alter how generators run but up to 2017/18:
 - Coal generators had to move more but output remains comparable with previous years
 - Couldn't substantiate suggestions solar is responsible for increases to marginal pricing
- Batteries could improve many pressure points in the system and put downward pressure on network, balancing and ancillary service prices
- Whether these advantages materialise will depend on the adoption model and whether the substantial first mover advantage is deployed to improve or maintain competition.

Conclusions

- Lack of competition in the wholesale electricity market fails to provide pressure that would penalise inefficiency
- Barriers to entry are not inconsequential and do not appear to be reducing
- Opportunities will emerge but there is conjecture as to when
- Plenty of policy uncertainty at state and national level, coupled with market dominance, flat growth and inadequate opportunity signals appears to place private investment on the back foot.

Questions – Market pricing

- What do you consider to be the most important factors driving the price increases and what evidence supports the view?
- Are market generators changing bids to recover start-up costs over shorter run times?
- Do market mechanisms apply sufficient competitive discipline on generators and what would improve discipline?
- Are market administration and development expenditure delivering the anticipated benefits and if not why aren't they?

Questions - New opportunities

- Are new technology trials sufficiently open to participation from non-government entities?
- Are the planning systems performing as they should at identifying opportunities? If not how could they be improved?
- How important is state and national policy uncertainty to the investment environment?
- How do changes in distributed generation influence your investment decisions?
- When do you anticipate the investment environment improving and what will drive the improvement?

Thank you

Questions



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