



Your ref: A46489912
Our ref: D252069
Contact: Rajat Sarawat

10 October 2022

Mr Jai Thomas
A/Coordinator of Energy
Level 1, 66 St Georges Terrace
Perth, Western Australia 6000

Sent by email to jai.thomas@dmirs.wa.gov.au

Dear Mr Thomas

MARKET POWER MITIGATION STRATEGY AND THE TRIENNIAL WHOLESALE ELECTRICITY MARKET EFFECTIVENESS REPORT

I am writing in response to your request to clarify the ERA's findings related to adequacy of revenue for large-scale renewables and battery storage, and on the potential solutions the ERA has identified to address the problem. These findings were detailed in the ERA's discussion paper on its Wholesale Energy Market Review, published on 29 July 2022.¹

The discussion paper explored whether the WEM objectives can be achieved as the Western Australian economy decarbonises. The ERA's analysis was concerned with meeting the reliability target and any decarbonisation goal for the South West Interconnected System and whether investment incentives will exist in the market to meet these operational requirements at the lowest cost possible.

The ERA's modelling has found that as more renewables and storage replace thermal generation and reduce emissions across the WEM, the revenue that renewables and storage can earn from participating in the energy and essential system services markets decreases. Revenue for renewables and storage will not be sufficient to drive investments required to meet decarbonisation goals, if the market does not value the contribution these resources make to decarbonising the power system.

The ERA's analysis also identified a risk to the reliability of the SWIS arising from the market price signals not suitably incentivising investment in flexible capacity as and when required to maintain system reliability.

The discussion paper explained that the reserve capacity mechanism (RCM) may include an explicit price signal to incentivise, as required, investment in flexible capacity. The discussion paper acknowledged that the State Government's current review of the RCM is likely to address this matter and partially fill the revenue gap the ERA identified. Including a price signal for procuring flexible capacity can provide additional revenue to investments. However, further

¹ Economic Regulation Authority, 2022, *Triennial review of the effectiveness of the Wholesale Electricity Market 2022 – Discussion paper*, ([online](#)).

initiatives will be needed to reflect the contribution that resources make to meeting an emissions goal.

Several mechanisms could account for the value that resources bring to meeting decarbonisation goals. These include carbon pricing, emission trading mechanisms, emission standards, low emission technology support mechanisms and planned exit of high emitting resources. The ERA's discussion paper does not recommend a preferred measure among the range of such solutions. Further analysis is needed to identify a measure, or combination of measures, that will support the WEM in meeting decarbonisation goals. Any such measures must work coherently with the WEM design – including the design of the RCM and market power mitigation measures – to support achieving WEM objectives.

I trust that this information assists with EPWA's Market Power Mitigation Strategy and the RCM Review. Please contact Rajat Sarawat on 08 6557 7905 or via email at Rajat.Sarawat@erawa.com.au for further information.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Steve Edwell', written in a cursive style.

Steve Edwell
Chair, Economic Regulation Authority