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Mr Steve Edwell
Chair
Economic Regulation Authority
Level 4, Albert Facey House
PERTH WA 6000

Dear Mr Edwell

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

I am writing to you regarding the work being progressed by Energy Policy WA (EPWA) on the design and implementation of the long-term Market Power Mitigation Strategy.

As you are aware, the Energy Transformation Taskforce (Taskforce) released an information paper on improvements to the Market Power Mitigation mechanism in May 2021. On the basis of stakeholder feedback on its earlier consultation paper, the Taskforce confirmed certain elements of its proposed market power mitigation framework, while recommending some unconfirmed elements of the design undergo further analysis and consultation by EPWA.

On 1 August 2022, EPWA released a Consultation Paper which presents an analysis of options for each of the unconfirmed elements and assesses them against the guiding principles previously endorsed by the Taskforce. The paper then outlines a high-level proposed design for the market power mitigation measures to be implemented in the new Wholesale Electricity Market (WEM) and invited feedback.

EPWA has placed an emphasis on meaningful stakeholder engagement throughout the development of this project. This has included a number of one-to-one meetings with stakeholders, as well as two formal sessions of the Transformation Design and Operation Working Group. EPWA has also consulted directly with the Economic Regulation Authority (ERA) throughout the process, to ensure the practical implications of the framework and the ERA's role have been adequately considered.

This approach will continue with the development and release of the draft Amending WEM Rules and accompanying information paper, currently scheduled for publication in mid-late October 2022.

EPWA received a total of eight stakeholder submissions on the consultation paper which are publicly available on EPWA's website. The submissions provided a number of comments and suggestions which EPWA will consider and seek to address, as appropriate, within the Information Paper and the draft Amending WEM Rules.

ERA WEM Effectiveness Review

I note that the ERA also recently released a discussion paper, on 29 July 2022, on its triennial review of the effectiveness of the Wholesale Electricity Market. This particular review was highlighted by the ERA as being forward-looking rather than retrospective, to reflect the ongoing fast pace of the energy transition.

Given the close timing of the papers, a number of stakeholders referred to and quoted directly from the ERA's discussion paper in their submissions on the Market Power Mitigation Strategy. Specifically, they raised points related to the ERA's findings on revenue adequacy which are primarily outlined in section 4 of the paper.

While the submissions should be read in their entirety, some of the key points raised by stakeholders include the following:

- Given the ERA's finding that there is unlikely to be revenue adequacy in the WEM to sustain efficient investment, certain types of renewable facilities should be able to recover their efficient costs and a reasonable return on investment, or their long run marginal costs;
- Questions on whether the proposed offer construction obligation is appropriate or whether a mechanism should be introduced to allow generators to recover their missing money, given the ERA's findings that the current arrangements would not provide adequate revenue to justify investment in new storage and intermittent generation;
- An Essential System Services (ESS) price cap which excludes enablement losses may not provide appropriate price signals, as the ERA highlights the greater risk may be that revenue from providing ESS will be too low to sustain investment.

This has a number of potential implications as we work to finalise the Market Power Mitigation Strategy, including on the development and interpretation of the ERA's Offer Construction Guideline, which under the proposed Market Power Mitigation Strategy will be used to guide the construction of offers and will provide examples of compliant and non-compliant conduct.

Response to stakeholders

A number of stakeholders also requested that the ERA's findings be considered in conjunction with both the design of the Market Power Mitigation Strategy and the outcomes of the Reserve Capacity Mechanism (RCM) Review. EPWA therefore anticipates that similar issues will be raised in response to the consultation paper on Stage One of the RCM Review, which closes on 27 September 2022.

In order to consider and respond to these submissions in good faith, clarification is required with stakeholders around the ERA's discussion paper, its revenue adequacy findings and the potential solutions that have been identified.

It would be much appreciated if the ERA could assist with these clarifications to ensure the ongoing effectiveness of the concurrent review processes.

EPWA looks forward to your response and to continuing to work closely with the ERA throughout this next stage of the Market Power Mitigation Strategy design.

Please feel free to contact Dora Guzeleva, Director Wholesale Markets on 08 6551 4606 or via email at dora.guzeleva@dmirs.wa.gov.au if you would like further information or to discuss this matter further.

Yours sincerely



Jai Thomas
A/COORDINATOR OF ENERGY

12 September 2022