

**To** Energy Policy WA – [energymarkets@dmirswa.gov.au](mailto:energymarkets@dmirswa.gov.au)  
**Subject** Submission on Market Power Mitigation Strategy  
**Date** 24 August 2022

Good Afternoon

Thank you for the opportunity to provide comments on the Market Power Mitigation Strategy Consultation Paper. The efficient operation of the proposed new wholesale electricity market is of considerable interest for Perth Energy as we are a significant participant in both the retail sales and generation markets.

It is of concern to us that customers' electricity prices continue to rise with sustained pressure from key parts of the supply and delivery chain. We have recently seen substantial rises in AEMO's market fees along with proposed increases in Western Power network charges. In this environment we are keen to see that wholesale electricity prices are maintained at appropriate prices with generators making fair returns but not exploiting market power.

As a generator we are keen to ensure that the regulatory burden is not excessive and allows market participants to recover their reasonable costs. With the scheduled closure of Synergy's coal fired plant, and potentially other generating plant, coupled with potential electrification of industry and transport the installation of over 1000 MW of new capacity will be required within the next few years. It is essential that appropriate investment signals are communicated to the market.

As an overall comment Perth Energy supports the approach proposed by Energy Policy WA and considers that it provides a balance between limiting the misuse of market power without being overly prescriptive and costly. Our answers to the various questions posed in the Discussion Paper are set out below.

One area that is touched on in the Consultation Paper and will need more discussion is how offers are to be made by storage systems. From a market security perspective we want these to charge up when there is excess electricity in the system, which will be when prices are low and possibly negative, and discharge when capacity is tight. If they are required to offer into the market at a low price, reflecting the cost of electricity used to charge up, will they be dispatched early and be empty when the peak is reached?

We would point out, again, however, that the main area where market power has proved to be a significant issue is price suppression in the reserve capacity market. The prices of energy and essential system services are forecast to fall as more renewables enter the market placing greater reliance on reserve capacity income to underpin new investment. We encourage EPWA to consider this matter in depth to ensure that we do not face a shortfall in private investment or inappropriate low returns for Government investment.

### **Questions posed in the Consultation Paper**

1. *Do stakeholders support the proposed approach for the Gateway Test?*

Yes. It appears to be sound approach in that it “catches” the larger market participants yet is simple to administer. We note that “passing” the gateway test does not exempt smaller players from being investigate for market power issues.

2. *If a static Concentration Ratio (CR) is to be used, are there any reasons why a 10% generation capacity market share should not be adopted?*

No. 10% seems realistic in that it catches the larger players.

3. *Do stakeholders support EPWA’s position of the form of test to apply behind binding constraints and EPWA’s proposals for the FCESS markets?*

Yes. Both of these approaches are low cost and likely to provide sound solutions.

4. *Do stakeholders agree with EPWA’s assessment of the four options considered for Offer Assessment? If not, what additional information or analysis should EPWA have regard to?*

Yes. The Guidance-Based assessment appears to be the best alternative. This provides sufficient flexibility for both the ERA and Market Participants. Providing specific price ranges would be very difficult because gas prices, which are the dominant operating cost for many players, vary significantly over time.

5. *Do Stakeholders agree with the proposed approach [in respect to pre-approval of Offer Parameters]? If not, what additional information or parameters should EPWA have regard to?*

Yes. This will allow Market Participants to receive guidance without committing the ERA to extensive background work.

6. *Do stakeholders consider the level of prescription proposed by EPWA for the Market Power test is appropriate*

Yes, as long as it is reviewed after a period of operation of the new market

7. *Do stakeholders agree with EPWA’s assessment of the options for the energy price cap?*

This is the one area that we have some concern. We would not want to see prices running up to the new, higher cap on a regular basis though, presumably, the ERA would investigate if this were to occur. A question, though, is does it provide a perverse incentive to retain some diesel-based generation in the market so that the cap is held high?

8. *Do stakeholders agree with EPWA's assessment of the options for the FCESS price cap and its initial view on options?*

Yes. The preferred option appears to give appropriate protection to electricity customers while still providing adequate revenue recovery for Market Participants.

9. *Do stakeholders agree with EPWA's initial view on the FCESS price floor?*

Yes.

Should you have any questions please do not hesitate to contact me at [p.peake@perthenergy.com.au](mailto:p.peake@perthenergy.com.au) or on 0437 209 972. This submission may be made public.

Kind regards

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