

Australian Institute of Energy

The WA Electricity Market: So far, so good....?

Tuesday, 24 July 2012



Richard Harris – Chairperson WAIPA



WA Independent
Power Association Inc.

'An independent voice for a competitive power industry'

www.waipa.com.au

Introduction

- Electricity Reform
- WA IPA
- Frontier Economics Report
- Observations and Conclusions



Why have an open electricity market?



WA Independent
Power Association Inc.

- Markets deliver better outcomes in terms of allocation of risk, capital efficiency and benefits to customers.
- The major 'competitive' elements of an electricity market are retail and generation.
- Generation is one area where governments believe the private sector can play a greater role, relieving budget pressures on the state.
- Retail competition keeps pressure on prices and improves services to customers.
- Open electricity markets are now the norm for delivering power to consumers and they work.



Electricity reforms – what happened?

- Disaggregation of Western Power.
 - Synergy
 - Verve Energy
 - Western Power
 - Horizon Power
- Wholesale electricity market/market rules.
- Independent Market Operator.
- Limitations/obligations on Synergy and Verve.
- Vesting contract between Synergy & Verve and a displacement mechanism.
- Objectives: greater competition and private investment in the electricity sector.

Major Achievements



- Over 2500MW of new generation and DSM capacity.
- Over \$2billion of private investment in electricity generation.
- Independent Power Producers will account for 49 per cent of certified capacity in 2013/14 compared to 11 per cent in 2005/6.
- Growth in number of market participants – generators, retailers, customers – over 50 registered.
- Mix of generation fuel types from private investment: coal, gas, liquids, wind, solar.
- Increased volume of trade in STEM since market start and average STEM prices at their lowest.

WA IPA - Who we are

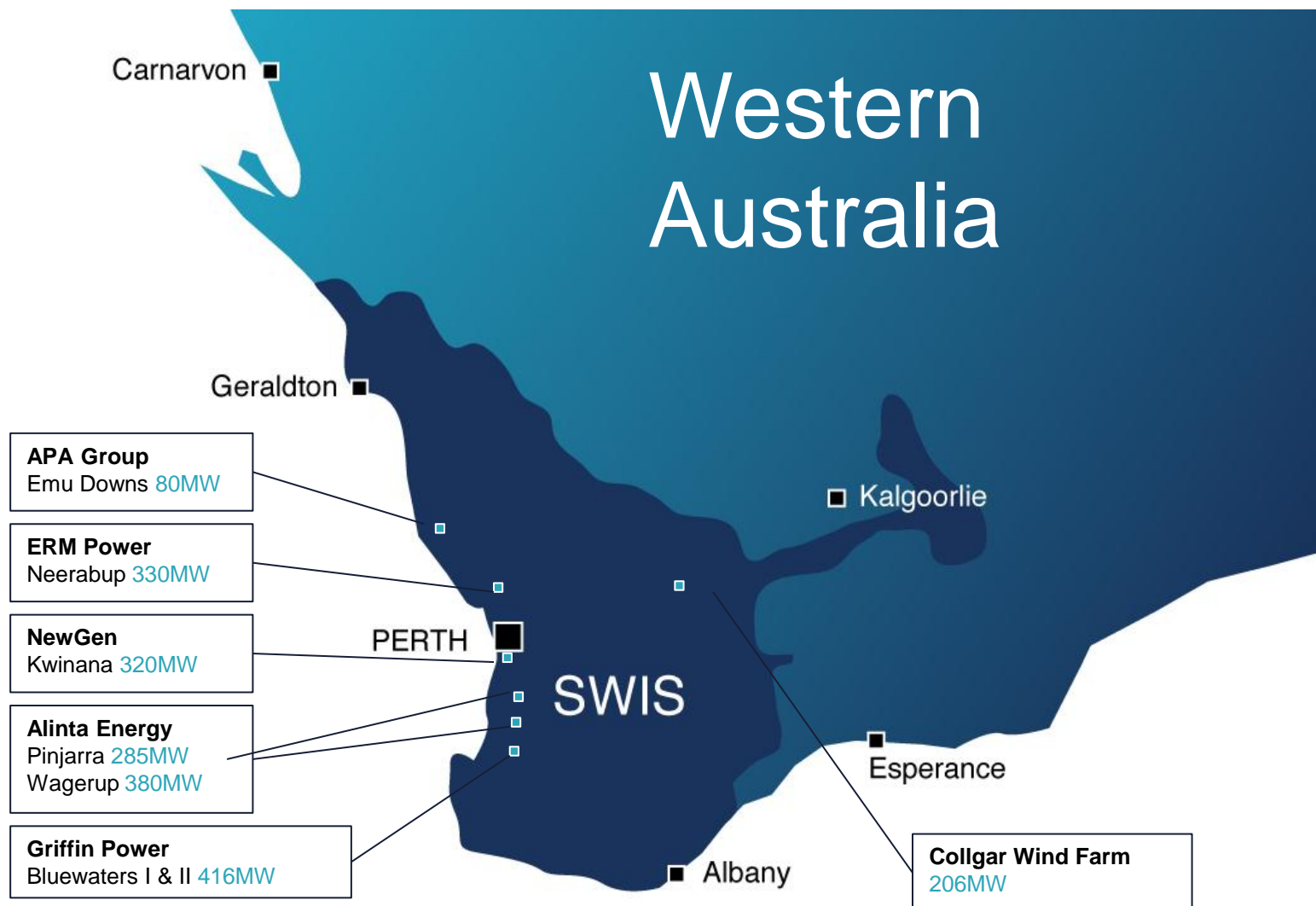


- WA Independent Power Association Inc. (WA IPA)
 - First time in WA a united voice for private sector power generators and retailers.
- Foundation members:



- Chairperson: Richard Harris

Private investment in WA



Objectives of the WA IPA

- Promote increasing investment in the WA electricity market.
- Support ongoing competition in electricity supply to provide benefits to all consumers.
- Enhance efficiency of the WA electricity market through:
 - competition;
 - better utilisation of capital; and
 - better utilisation of assets.
- Promote and represent independent power companies.



Policy issues in current market

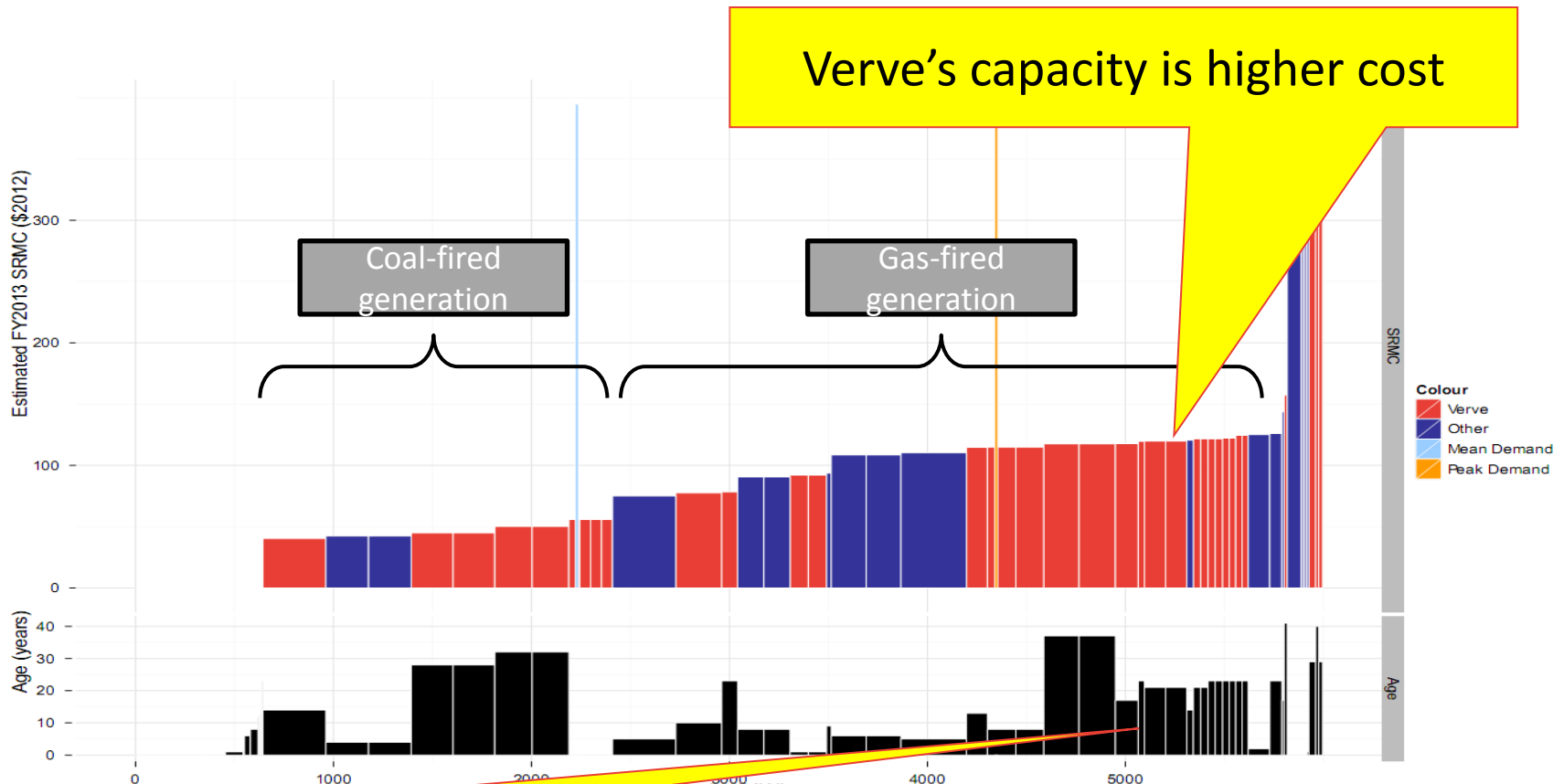


- Speculation on re-merging Verve Energy and Synergy.
- Considered analysis needed.
 - IPA commissioned Frontier Economics.
- Frontier Report delivered and made public in April 2012.

What is re-aggregation supposed to achieve?

- “Correct the inefficient utilisation of Verve’s capacity”
 - Idle capacity at time of rising prices/ fuel costs
- “Disaggregation has led to high prices”
- “Disaggregation has reduced the profitability of Verve/ Synergy”

Frontier Economics Report: Merit order for WA



Higher prices

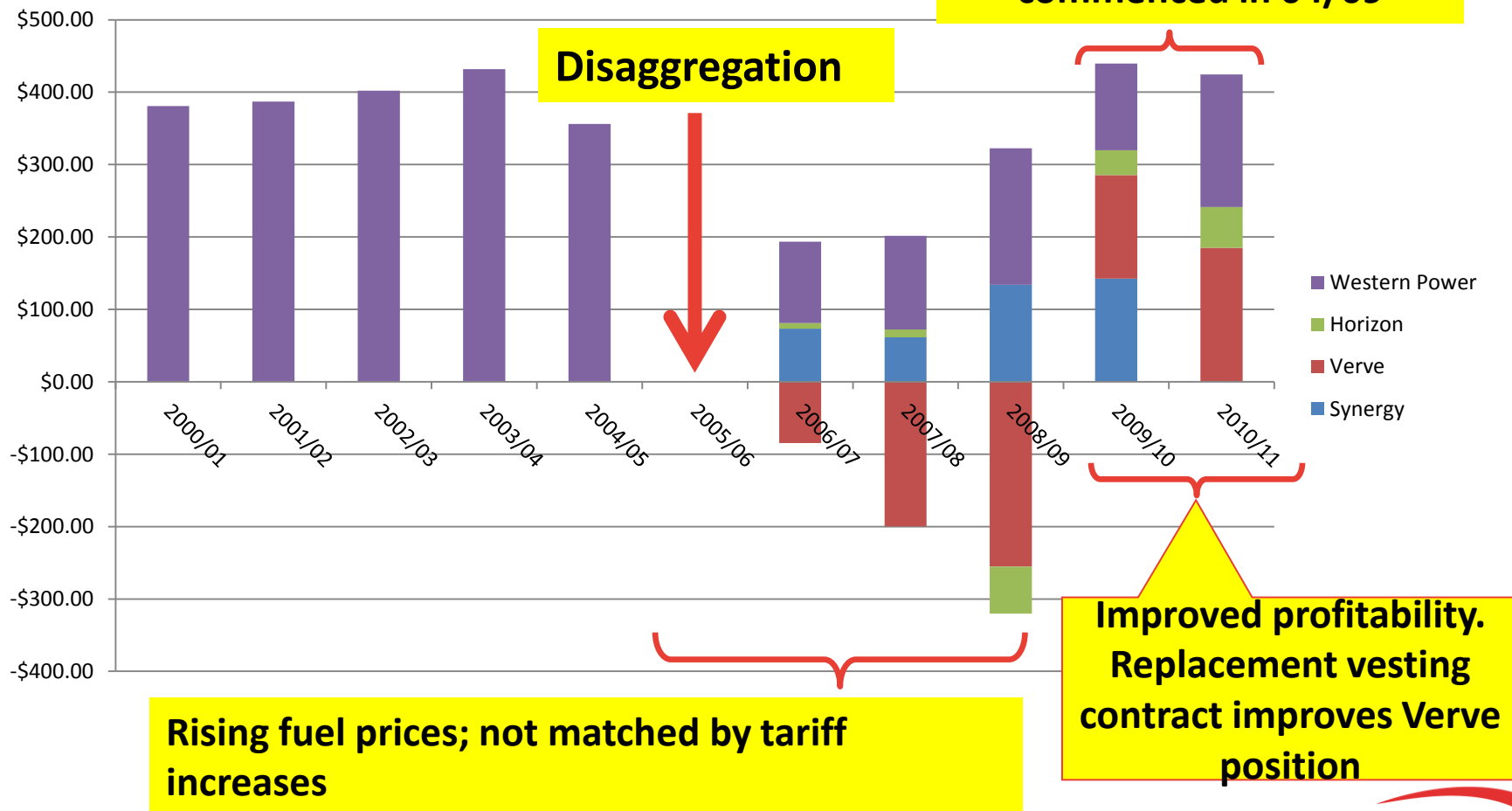
Main factors

- Increase in network tariffs
 - Total increase of 50% between 2007/08 and 2011/2012
- Rising gas prices
 - From average of \$2.50/ GJ (well-head, 2006) to forecast average for 2012/13 of \$8.23/ GJ

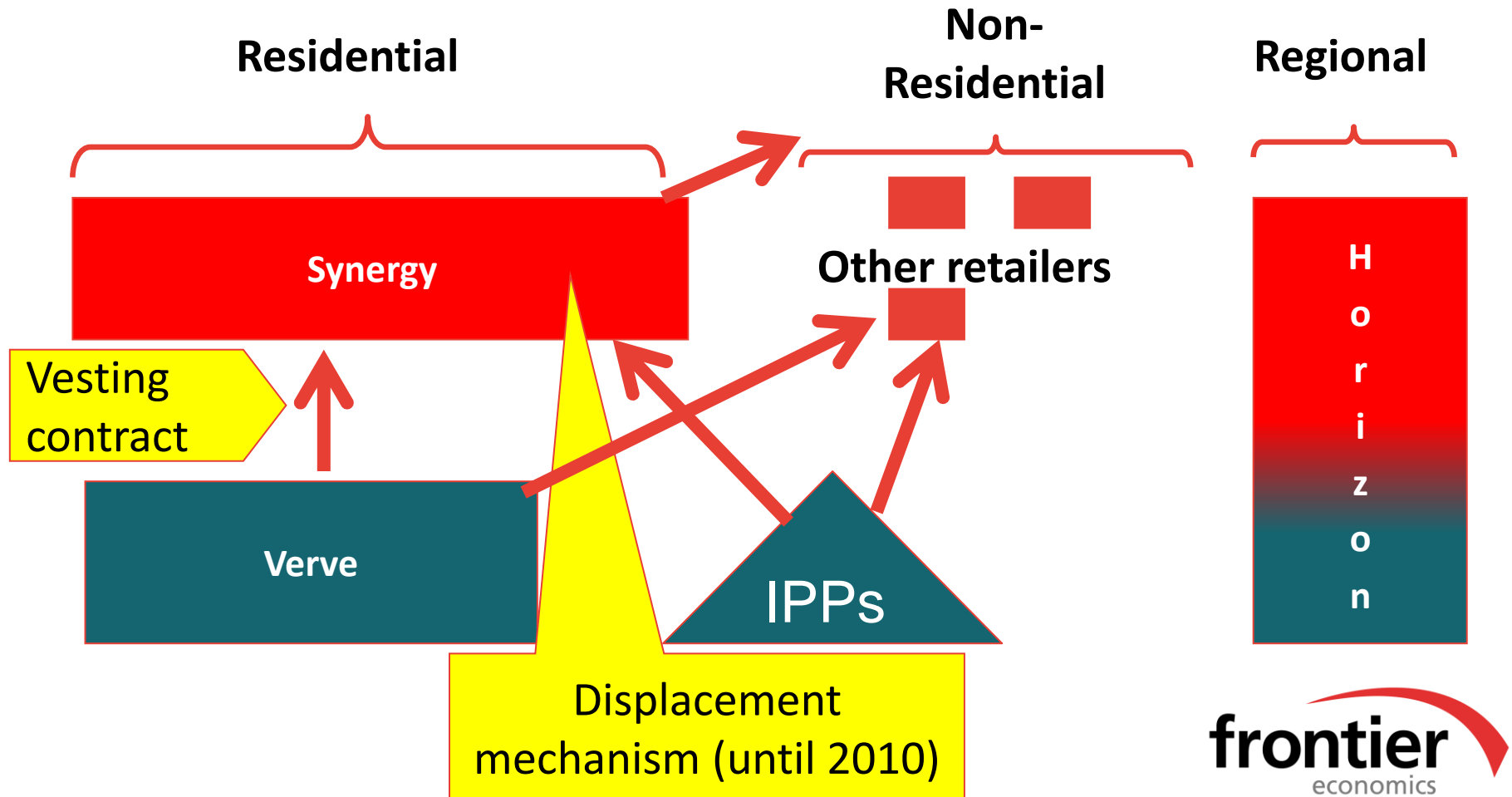
By comparison

- Projected best case operational savings from re-aggregation around \$5 per customer per year (0.4% of typical residential bill)

Frontier Economics Report: Declining profitability?



Frontier Economics Report: After disaggregation of Western Power



Frontier Economics Report: Impacts of reform



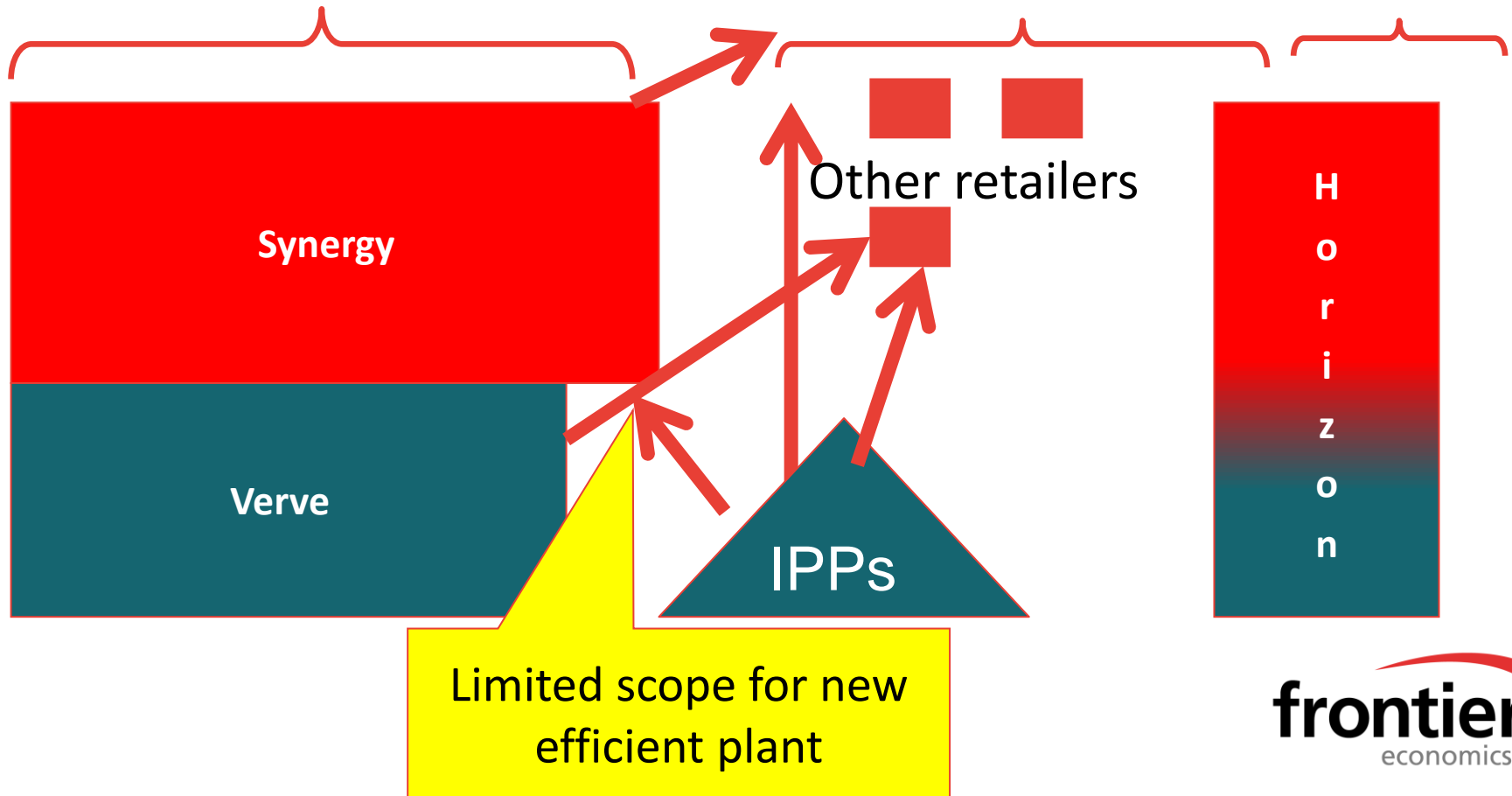
- **Progressive development of competition in wholesale**
 - Share of IPP's increased from 11% to 44% between 2005/06 and 2011/2012
 - \$2.6 billion in new capacity as at 2010
 - Role of displacement mechanism (most of the increase up to 2010)
- **Very limited competition in retail**
 - Franchise for residential customers
 - Brake on wholesale competition

Frontier Economics Report: After proposed re-aggregation

Residential

Non-residential

Regional



Likely impacts of integration

- **Adverse effects on competition**
 - Incentives for Synergy to contract with Verve even if not efficient
 - Pass on higher costs in absence of effective retail competition
 - IPPs less able to find counterparties => weaken wholesale competition
 - Contrast with NEM where vertical integration a consequence of market forces and retail competition effective
- **Conclusion**
 - Re-aggregation not relevant to issues it is meant to address
 - Multiple downsides: decrease in competition, and transfer of risk from private sector to the State

Other observations

- Market is evolving....perhaps needs direction and vision.
- Only 20,000 customers have choice of suppliers and the contestable threshold has not changed since the market began.
- Gas supplies constrained and future uncertain.
- Large part of the costs is in the networks – not subject to competition.
- Surplus of capacity – over 700MW currently.
- Carbon tax and RET have price impacts.
- There are no easy ‘quick-fix’ answers – all the issues are complex and require serious policy work by government and consultation with industry.

Conclusions



- Electricity reform in WA has come a long way since the 1990s.
- Achievements are impressive.
- Issues and difficulties exist: rising costs and impacts on consumers.
- IPA supports competition and its members are committed to seeing through their investment in WA.
- Welcome the response to date from Government to IPA's discussions.
- Look forward to contributing in policy and market forums to further evolve the market.

Thank You

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