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## Submission on the AER on Wholesale Electricity Market Performance Monitoring

The Energy Users Association of Australia (EUAA) is the peak national body representing major Australian electricity and gas users. Our membership covers a broad cross-section of the Australian economy including significant retail, mining, manufacturing, materials and food processing industries.

In summary, the EUAA strongly supports the overall AER Draft Statement of approach being:

“...our intention is to take a very broad approach in the long term and not exclude any options”<sup>1</sup>

We also support the specific approach outlined in the Draft 2018 focus and agree with the AER’s comment:

“Analysing the effectiveness of competition and the efficiency of the market is a complex task. Our assessment will need to be informed by a range of qualitative and quantitative analyses.”<sup>2</sup>

The key is flexibility around the issues the AER is able to examine to arrive at its conclusions and recommendations such as products considered, definition of markets, determining time periods, impact of different generation technologies and the role of Government policy. The electricity market is very dynamic and any constraints on the AER’s scope of work risk an incomplete report in December 2018.

In particular, we support the AER in the following areas:

- We support the proposed criteria to be used to determine which measures, tools or information the AER will prioritise<sup>3</sup>
- Having a wide focus on all electricity markets - not just the spot market but also derivatives and FCAS with an initial focus on those products that have the greatest impact
- Examining markets on a region by region basis where network constraints exist and having flexibility in how they define “the market”
- Examining the impact of generator retirement and consolidation of generator market power
- Examining longer term participant conduct including withholding behaviour
- Considering external factors such as fuel availability, government policy and intervention, different generation technologies and demand response
- Considering the impact of barriers to entry and vertical integration on market concentration
- Undertaking a careful analysis of the relationship between “underlying” costs and prices in an energy only market
- Deciding to request confidential information if you identify an issue that requires further examination

<sup>1</sup> “Update and consultation paper” December 2017 p.5

<sup>2</sup> “Draft Statement of approach” December 2017 p.2

<sup>3</sup> *ibid*

- Consider the potential for rule changes to address market concerns it identifies

Finally, we would appreciate more detailed advice from the AER on how it will calculate LCOE in its 2018 report which it will then compare with the weighted average annual average spot electricity prices to provide an indication of the level of effective competition.

We expect that this calculation – given it is designed to measure “underlying costs” in a competitive market - will bring a variety of values for the same technology depending on the “market” which the AER has correctly defined as being regional such as:

- different fuel costs
- different capital cost components – the LCOE should not be the cost of new generation capacity of a particular but reflective of the actual age of the technology in different regions e.g. the capital component of the LCOE for Liddell would be lower than that for Kogan Creek

As always, the EUAA would welcome further discussion and consultation on this matter.



Andrew Richards

CEO

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