

New function: Wholesale electricity market monitoring – August 2017

The Australian Energy Regulator (AER) is developing a new approach to wholesale electricity market monitoring. We will be publishing reports and providing advice to the COAG Energy Council on longer-term market performance, including the effectiveness of competition and any barriers to competition and the efficient operation of the National Electricity Market (NEM). We are seeking feedback on our approach to this new role until mid-October.

The new function

Following amendments to the National Electricity Law (NEL) in December 2016, we are required to undertake the first comprehensive long-term assessment of the performance of the wholesale electricity markets to determine whether competition is sufficiently strong to protect consumer interests in the face of rising wholesale prices and the rapidly changing mix of generation.

This expanded role enables us to probe more deeply into the way wholesale markets are operating to enhance market transparency and identify if there are impediments to competition or efficiency.

It complements our existing monitoring of the wholesale markets, which largely have a shorter-term focus on compliance issues and high price events.

We will draw on this work to advise the COAG Energy Council, other stakeholders and market bodies on wholesale market issues.

We have expanded responsibilities to look at the long-term performance of the electricity wholesale market to identify the effectiveness of competition and any barriers to delivery of good outcomes for consumers regardless of the mix of generation.

Background

In 2010, the Major Energy Users Inc. (MEU) submitted the "Potential Generator Market Power in the NEM" rule change proposal to the AEMC. The MEU considered that during periods of high demand, some large generators have the ability and incentive to exercise market power to increase prices. The MEU proposal would have imposed restrictions on

dominant generators, capping the prices they could charge for their electricity at peak times.

The AEMC ultimately did not create the MEU's proposed rule, as it did not consider that there was sufficient evidence of the exercise of market power. However, the AEMC did recognise that there was potential for substantial market power to exist and be exercised in the future. The COAG Energy Council subsequently amended the NEL to introduce an ongoing market monitoring and reporting role for the AER.

Reporting requirements

We will provide a report looking specifically into the impact of the Hazelwood power station closure in Victoria on wholesale market competition to the COAG Energy Council in March 2018.

From December 2018, we will report on the overall market, identifying any issues every two years.

Issues we will examine in detail include:

- whether there are active competitors in the market, and if those competitors hold a reasonably sustainable position in the market (or whether there is merely the threat or competition in the market)
- whether prices are determined on a long-term basis by underlying costs, rather than the existence of market power, even though a competitor may hold a substantial degree of market power from time to time
- whether barriers to entry are sufficiently low so that a substantial degree of market power may

be held by a competitor only on a temporary basis

- whether there is independent rivalry in all dimensions of the price, product or service offered in the market.

We will publish reports and provide advice to the COAG Energy Council on the performance of the wholesale electricity market every two years from December 2018.

Our approach

We are seeking stakeholder input into the development of a practical, robust and systematic approach to assessing wholesale market performance.

A discussion paper will be released outlining the options under consideration, which include:

- how to define key concepts such as effective competition and efficiency
- the relevant products and geographic markets that should be considered
- how to best assess market performance
- how information should be gathered, used and presented.

Stakeholder input is being sought to ensure our approach to assessing wholesale market performance is practical, robust and systematic.

Next steps

Consultation commenced with the release of the discussion paper on 31 August 2017. We will be holding a public forum in Melbourne on 6 October, before submissions close on 13 October.

We propose to release the draft approach later this year after taking this feedback on board, with further opportunities for feedback prior to finalising the approach.

There are extensive opportunities to contribute to the approach throughout September.

How to get involved

We invite stakeholders to register their interest in receiving updates on this project via wholesaleperformance@aer.gov.au preferably by close of business 8 September 2017.

Participants who register before this date will be consulted on the content and format of our upcoming stakeholder forum. Further details of the forum will be published on our website and emailed to stakeholders who register.

Image 1: New AER role in context of overall NEM wholesale market governance (interim pending finalisation of Energy Security Board responsibilities)

