

MEDIA RELEASE

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Power industry congratulates new Energy Minister

WA private energy power companies have congratulated Energy Minister Ben Wyatt's bold decision to close Synergy's oldest and most inefficient power stations.

The Minister has gone even further than the previous Government's commitment to close power plants with a total capacity to produce 380 MW of power in 2018 – boosting that figure to 436 MW of generation capacity.

Richard Harris, Chairman of the Western Australian Independent Power Association said the reform would make way for investment in new, cleaner and more efficient power stations in WA.

"This really is a game changer for the electricity market in WA. This decision by Energy Minister Wyatt, and the earlier decision by his predecessor Mike Nahan, to close old, expensive and dirty plant is one that needed to occur.

"In particular, Muja AB had to go. This old coal fired power station should never have been brought back from retirement. Spending money on its refurbishment was a waste and just delayed the development of cleaner and more efficient power stations in WA.

"Congratulations to Minister Wyatt and the McGowan Government.

There are two key policy questions that must be asked following the announcement today. They are both vital to achieving a more competitive and efficient power sector in WA. These are:

- It is unclear from the Ministers' announcement whether Synergy will give up the network access rights currently held by the plants that are being retired. This is essential to allow space in the network for new power plants to have the right to feed into the Western Power distribution network. WA IPA calls on the Minister to make this vital commitment also.
- The Minister's announcement states *"Synergy's generation cap to reduce to 2,275MW in total, excluding renewable plant."* The WA IPA calls on the Minister to maintain the Barnett's Government's decision to block Synergy's plans to set up a privately-funded, government-backed renewable energy fund. Such a fund would lock-in Synergy's long-held market dominance in WA and crowd out investment in competitive private renewable energy generation projects.

The WA IPA has been advocating on three priority reforms which are ready to be implemented immediately. This welcome closure of old Synergy plant was one of them. The IPA encourages the Minister to also press ahead with the other two.

"Our other two immediate priority reforms would also have enduring benefits for the electricity users in WA and create jobs," Mr Harris said

"We urge the Minister to follow his bold action today with two further immediate reforms. Firstly, open more of the electricity market for competition so a greater number of customers can choose who supplies their power. Currently less than 2 per cent of customers have this choice.

And secondly, ensure Synergy must sell wholesale electricity to other retailers at competitive prices.

“The policy work for the two reforms has already been undertaken by the Public Utilities Office and there is widespread industry support for them.”

More detail on the IPA’s other two immediate priority reforms

1. Retail electricity

The WA IPA calls on the Energy Minister to lower the threshold of contestability for the supply of electricity to give an extra 23,000 small businesses the opportunity to choose their electricity retailer and thus drive down their electricity bills. Currently only the 16,000 largest users of electricity in the SWIS can choose their electricity supplier with all other customers are forced to buy power from Synergy.

This reform can be actioned very quickly (and without incurring any major costs) by lowering the threshold of contestability to customers using at least 20 megawatt hours per annum, down from the current 50 megawatt hours per annum.

The competition created by this reform would immediately deliver savings in energy costs to the newly contestable small and medium business customers in the SWIS. Previous experience and modelling indicates that competition would lower prices for this new group by approximately 20 per cent. Lower costs would help boost the WA economy and businesses which are struggling in a challenging economic environment. This reform would directly benefit the WA jobs market.

Ultimately, residential customers should also be given choice in their supplier. This would similarly deliver competition and lower power prices to this final group of customers. Competition has benefited residential gas customers and it will also benefit electricity customers if this reform is implemented. The WA IPA encourages the Minister to keep working towards this goal as quickly as possible.

2. Wholesale electricity

To enable retailers to sell lower cost power to consumers it is vital to ensure there is competition at the generation and wholesale level. Synergy’s dominance in the wholesale electricity market must be reduced to enable competitively priced wholesale energy to be made available to all electricity retailers.

Synergy dominates the WA power generation and wholesale electricity market, much like Telstra did before it was forced to compete. Reducing Synergy’s market dominance can be achieved by compelling the utility to:

- bid each power station separately into the market as other generators are required to do. Currently Synergy aggregates all facilities together into a single bid. This masks the performance and cost of each facility and makes the true cost of power opaque; and
- sell wholesale electricity to competing retailers at competitive market rates. The mechanisms put in place by the Barnett Government to force Synergy to sell wholesale electricity to other retailers at competitive prices have failed.

Synergy’s wholesale electricity is expensive partly because the special protection afforded to it by the market rules allows it to run outdated and inefficient power stations, but that doesn’t completely explain the high prices offered to competitor retailers. There can be no effective retail competition if the dominant wholesaler is also a retailer, and dictates wholesale prices to a level which prevents other retailers from competing.

Other essential reforms

Reform to make it easier for new generators to feed power into Western Power’s network is vital to make it attractive for investors to new power plants. Currently gaining access to the

network is very costly and can take many years, if successful at all. There are several planned projects which are currently held up at this point. It is a fundamental necessity that the regulatory framework in WA support the connection of projects to the network.

A longer-term but extremely important reform is to either shrink Synergy via the introduction of competition or continue with the previous Carpenter Labor Government's plans to make its government owned utilities compete. Labor's 2006 energy reforms mandated that Synergy and the former Verve compete in the electricity market as of 2016. The Barnett Government instead merged Synergy and Verve creating a massive "gentailer" with dominant market power in both retail and wholesale markets. This "800 pound gorilla" is crushing private competitors. Without private competition, lower prices and innovation will come much more slowly, if at all.

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