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Mr Lyndon Rowe
Chairman
Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs
Economic Regulation Authority
PO Box 8469
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PERTH WA 6849

Dear Lyndon

Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs: Draft Report

Thankyou for the opportunity to comment on the Authority's draft report on the Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs.

Western Power supports the objective of reducing the costs to electricity customers over the long term and welcomes recommendations and initiatives that assist in achieving this objective.

In its report, the Authority has outlined the importance of moving to cost reflective tariffs and the removal of the Tariff Equalisation Contribution (TEC) scheme. Western Power agrees with the Authority that this will assist in addressing the rising costs of electricity.

To reduce the costs to customers over the long term, Western Power is investigating options to constrain the growth of peak demand. As peak demand increases, Western Power must increase the investment in the network to ensure the provision of electricity at peak times. Peak usage only occurs for a short period of time. However, the costs of building capacity to meet peak usage are borne by all customers all the time under current pricing arrangements. If growth in peak demand can be slowed through reducing or shifting usage, this will result in a significant downward pressure on the cost of electricity.

Western Power's aim is to improve the efficient utilisation of our existing network and reduce the need for additional investment to meet growing peak demand. This can be assisted through¹:

¹ We also recognise the importance of demand side participation initiatives more broadly but have focussed on the more relevant options in this submission.

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- ensuring electricity prices recover the full costs of the provision of electricity so that customers can consider the value of discretionary use compared to the cost of discretionary use;
- ensuring electricity prices reflect the variation in costs depending on the time of use so that customers can shift the time of use where there is flexibility to do so in response to a higher price at those times;
- ensuring electricity customers are provided with timely and accurate information about their usage and cost of use to empower them to make informed decisions about their electricity use based on the financial impact.

Western Power will continue to review its tariff design to improve the cost reflectivity of tariffs. However, if Synergy is unable to reflect the more efficient tariff design in their bundled retail tariffs, Synergy will bear the additional costs of peak usage rather than customers. This will have two negative impacts on the long term costs to customers:

- customers will not respond to price signals to reduce their consumption or their contribution to peak demand so network costs will continue to rise;
- the rising costs will be transferred to Synergy resulting in the need for higher subsidies to be paid by all Western Australians with limited ability to influence the costs they must pay.

The ERA's proposal to move to cost reflective retail tariff levels is an important step towards delivering efficient electricity prices and reducing the costs to customers over the longer term. This is fully supported by Western Power.

Cost reflective pricing requires the removal of subsidies. The Tariff Equalisation Contribution (TEC) represents nearly 15 per cent of Western Power's distribution network tariffs. The TEC is provided to ensure that customers of Horizon Power do not pay more than Western Power's customers for electricity network transportation.

Western Power supports the ERA's recommendation to remove the TEC from electricity prices and pay it directly through a Community Service Obligation (CSO) payment from consolidated revenue during the transition to cost reflective tariffs. This approach is also consistent with the Ministerial Council of Energy's principles for the provisions of subsidies in the energy sector.²

The benefit of cost reflective tariffs and the removal of subsidies is a more rapid adjustment of discretionary consumption patterns by electricity customers. This would facilitate deferral of network reinforcement expenditure and reduce the pressure of rising peak demand on network tariffs.

Western Power recognises that some customers may end up paying more for their electricity where prices are efficient. Customers that may have a limited

²http://www.ret.gov.au/Documents/mce/_documents/MCE_Energy_Community_Services_Obligation20080929151353.pdf

capacity to pay for the impact of efficient prices should be appropriately assisted through targeted assistance programs. This ensures that those who are contributing to the high cost of electricity by choice pay for their choices rather than increasing the bills of all other electricity customers and taxpayers.

Western Power's smart meter program will be a key enabler of more efficient tariff design, as well as facilitating access to a range of tools and information, such as real time electricity consumption. When combined with our targeted customer education program, it will empower customers to better manage their own bills and save money. The information that will be available through the smart meter program will facilitate informed choices by consumers about how much electricity they use and when it is used. The impact of this on reducing the costs of the network will be enhanced when prices reflect the full cost of electricity use.

In summary, Western Power supports the Authority's recommendations in the draft report, in particular more efficient pricing for electricity through cost reflective tariffs, which will deliver lower electricity costs to customers over the longer term.

Yours sincerely,



PHIL SOUTHWELL
GENERAL MANAGER REGULATION & SUSTAINABILITY