

2 May 2012

Economic Regulation Authority
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Lodged via email: publicsubmissions@erawa.com.au

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

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Economic Regulation Authority's (the Authority's) Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs Draft Report.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 38 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 61,000 people and contribute \$19.3 billion directly to the nation's Gross Domestic Product.

As outlined in our Issues Paper submission, the Association supports the development of a fully competitive and financially viable retail electricity sector. The electricity retail arrangements in Western Australia remain short of this goal.

With electricity prices having risen by 57 per cent since April 2009, there has been increased public scrutiny of the system. This inquiry is therefore important to shed light on what has – and has not – driven the recent price rises and indicate what the future holds in store. We consider it contains a number of important messages.

The Draft Report's finding that the 57 per cent price rise was an inevitable consequence of the bipartisan tariff freeze accords with our view. Freezing electricity prices for more than a decade, while the cost of electricity supply was increasing, meant that a painful catch up period was always going to be required.

We also share the ERA's view that this price rise would have occurred regardless of whether Verve Energy and Synergy remained as a single government trading entity. This means that re-aggregation is not the antidote to rising prices, especially as the Draft Report also finds that prices are still below cost. It estimates they need to rise by a 23 per cent further for residential customers to be cost reflective (including 8.4 per cent for the carbon price).

Fortunately, this shows that the price rises of the last three years have 'broken the back' of the task of catching up prices. Nonetheless, closing the remaining gap as soon as possible is imperative. While more price rises will put financial pressure on households, failure to fix this situation now will sow the seeds for history to repeat itself, with sharper price rises in the future necessary.

The report also exposes the extent of the cross-subsidisation between different Western Australians under the current pricing arrangements. Customers in the SWIS will be

cross-subsidised \$349.6 million in 2011-12 by Western Australian tax payers via the Tariff Adjustment Payment.

Further, electricity consumers in the South West Interconnected System fund the \$129 million subsidy in 2011-12 to regional customers via the Tariff Equalisation Contribution. We support the ERA's proposal to transfer the funding burden of the Tariff Equalisation Contribution from South West Interconnected System customers to the Government via a Community Service Obligation.

More generally, we support moving to cost reflective prices and unwinding the current in-built cross subsidies buried in electricity prices. These should be replaced with transparent, purposely designed, budget funded measures to support hardship consumers that find cost reflective electricity prices beyond their capacity of to pay.

Such an approach would be a more efficient and transparent method of electricity pricing. It would also be fairer than the current system. This is because the current blanket cross subsidies do not take account of the financial position of different customers; both in terms of their ability to contribute to supporting other customers and their need for support themselves.

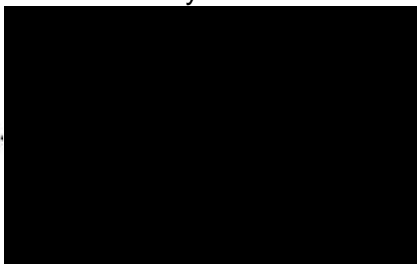
For example, the current Tariff Adjustment Payment draws \$350 million of tax payer funds to subsidise all South West Interconnected System electricity consumers irrespective of their need for assistance. A fairer approach would be to set cost reflective tariffs, which would make the Tariff Adjustment Payment redundant, and then use targeted measures to support customers experiencing hardship. An existing example of such a measure is the Hardship Utility Grants Scheme, which provides assistance to people with financial difficulties paying utility bills and will receive \$10 million in funding in 2011-12.

The history of electricity prices in Western Australia also demonstrates the need to remove electricity prices from the political process. This would help prevent a repeat of the situation over the last decade, with an unsustainable price freeze followed by rapid and painful price rises. However, the development of measures to support vulnerable customers unable to afford electricity should remain part of the political process via the Government's budget.

We consider that price regulation should therefore be independently applied. The ERA is well placed to do this. The price regulation framework guiding the ERA would need to be consultative, based on a transparent methodology and importantly, explicitly track towards a fully competitive and financially viable retail electricity sector.

Any questions about our submission should be addressed to Kieran Donoghue, by email to kieran.donoghue@esaa.com.au or by telephone on (03) 9205 3116.

Yours sincerely



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