



# NOTICE

## Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs

### FINAL REPORT TABLED IN PARLIAMENT

The Treasurer, the Hon. Troy Buswell, has released the Economic Regulation Authority's final report on its Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs. The inquiry, requested by the Treasurer on 11 July 2011, considers the efficiency of Synergy's operating and capital expenditure programmes and procurement of wholesale electricity and renewable energy certificates. The Authority has determined the efficient cost-reflective level for each regulated tariff available in the South West Interconnected System (SWIS). The SWIS covers the more densely populated areas of the State from Kalbarri in the north, to Kalgoorlie in the east and Albany in the south.

The Authority's final report finds that Synergy's estimated overall revenue from regulated customers, on average, will have to increase by approximately 21 per cent to achieve efficient cost reflectivity. Of this amount, the new carbon pricing regime introduced by the Federal Government on 1 July this year will increase the average price by an estimated 8.3 per cent.

In determining efficient cost reflective tariffs, the Authority considers that the TEC (Tariff Equalisation Contribution, an amount paid by SWIS customers to subsidise regional and remote customers) should not be part of these tariffs and recommends that the TEC no longer be paid for by electricity consumers in the South West. If the TEC continues to be retained it will add, for example, a further 7.1 per cent to the average residential tariff, over and above the estimated cost reflective level.

The Authority has determined that Synergy's actual cost is more than the overall efficient cost of supplying retailer services; and Synergy's tariffs (including residential tariffs) are below efficient cost reflective levels.

### Residential Tariffs

The Authority finds that Synergy's residential tariff (the 'A1' tariff) needs to increase by 29 per cent on 2011/12 levels to reach cost reflectivity. 2.5 per cent of this increase is attributable to inflation, with another 8.6 per cent relating to carbon costs.

In addition to inflation and carbon costs, a further 17.7 percent increase is required to reach cost reflective levels for residential tariffs; this gap will drop to approximately 12 per cent with the tariff increase and full carbon pass through indicated in the 2012/13 budget papers.

If the Tariff Equalisation Contribution continues to be retained, it will add a further 7.1 per cent to the average residential tariff.

## **Average across All Tariffs**

The Authority finds that Synergy's tariffs, on average across all tariff classes, need to increase by 21 per cent on 2011/12 levels to reach cost reflectivity. 2.5 per cent of this increase is attributable to inflation, with another 8.3 per cent relating to carbon costs.

In addition to inflation and carbon costs, a further 10.2 percent increase is required to reach cost reflective levels on average across all tariffs.

## **Other Recommendations**

The Authority considers that the B1 Residential Hot Water Tariff should be removed or merged with the A1 Residential Tariff. There is currently no justification for merging any other tariff categories.

The Authority recommends the removal of regulated tariffs for the M1, S1 and T1 customers. Given the large average annual expenditure on electricity by these customers, they are likely to be able to negotiate fair contracts with retailers of their choice. The Authority also notes that Western Australia is the only State that regulates tariffs for customers with consumption greater than 160 MWh.

The Authority recommends that the next inquiry into the efficiency of Synergy's costs and electricity tariffs be conducted in 2014/15, rather than at the end of the four year review period, to allow for a timely assessment of changes in Synergy's carbon cost.

The Authority recommends that if there are significant changes to economic conditions, a mid-period review should be undertaken.

In preparing the Final Report, the Authority conducted two rounds of public consultation and overall received 18 public submissions.

A copy of the inquiry is available on the Authority's [website](#).

For further information contact:

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