



2 October 2013

Economic Regulation Authority  
Level 4, Albert Facey House,  
469 Wellington Street, Perth WA 6000

### **Inquiry into Microeconomic Reform in Western Australia**

Alinta Energy (Alinta) welcomes the opportunity to comment on the Authority's inquiry into Microeconomic Reform in Western Australia.

Alinta is both a generator and a retailer of gas and electricity in Western Australia and the Eastern States energy markets. It has over 2500MW of generation facilities and about 750,000 retail customers.

Alinta is strongly of the view that well-functioning competitive markets provide the greatest protection and long term benefits to consumers and the economy generally. Any micro-economic reform should be directed at achieving this market outcome. We therefore welcome this inquiry which aims to identify markets in WA which are sub-optimal and could benefit from micro-economic reform.

### **Background**

The WA electricity and gas industries are amongst the largest in Australia. In the 2008/09 financial year the total energy value was recorded at \$10.2b. The energy industry underpins growth in many industries relying upon it, including many of Western Australia's export industries (for example the mining sector which contributes 35% of WA's GSP). The competitiveness of these industries is dependent on efficiencies being achieved in the energy industry.

In many national and international markets energy infrastructure is in private hands and is subject to government regulation.

Alinta notes the pace of reform in the WA energy market has slowed since the disaggregation of Western Power and the establishment of the Wholesale Electricity Market in 2006. The Government's recent announcement to re-merge Verve and Synergy has the potential to create further inefficiency, with the merger raising concerns by market participants about the negative impact it may have on competition and investment in the market<sup>1</sup>.

Given all of these issues, Alinta believes the priorities for the Authority's inquiry into micro-economic reform should include a review of the WA energy market. Alinta's specific comments on reforms in the energy market which should be examined in the inquiry are outlined below.

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<sup>1</sup> "It [the re-merger] is likely to scare off, not encourage, private sector investment. We all know greater competition is the best chance we have to drive prices down." James Pearson, Chamber of Commerce and Industry, April 2013

### **Competitive neutrality**

An examination of competitive neutrality in the energy market should be undertaken as part of this inquiry.

In the WA energy market, where government owned businesses are competing directly with the private sector, it is important that adjustments be made to address any net advantage the government businesses have purely because they are government owned. Without ensuring a level playing field, particularly post the remerger of Verve and Synergy, continuing private sector investment in the market is at risk.

In this regard Alinta notes the Government is planning a review of the Wholesale Electricity Market (WEM); and is currently considering the form of the remerged Synergy. These reviews may address some of the areas requiring reform, for example the new Synergy not discriminating against its private sector competitors in energy transactions. However, there are a number of areas which may be out of scope of these reviews which may require further examination.

For example, the inquiry should investigate the appropriate long term involvement of government in the market in both the South West Interconnected System (SWIS) and the North West Interconnected System, and the net cost of their continuing investment. If the inquiry finds that the market would be best served through the Government exiting the market over time, a plan for achieving this should be developed.

### **Further deregulation of the energy market**

Continued private sector investment in the energy market is fundamental to creating a competitive and efficient market and accordingly further deregulation of the market is warranted. Deregulation should focus on the following matters.

#### *(a) Increasing competition*

Customers benefit from having choice, both in terms of price and product offerings. Reducing the threshold for contestability in the electricity market will allow more customers this choice.

In addition, a transition to full retail contestability (FRC) should be considered once electricity tariffs reflect market costs; and where it can be shown that the costs of developing systems to allow for FRC are outweighed by the benefits to consumers of choice.

#### *(b) Retail tariff reform*

All prices should transition to efficient levels to allow retailers the ability to recover their market costs and encourage market entry and competition. This is best achieved through competition which will drive prices down to efficient levels.

In the retail gas market where competition already exists prices should be set by the market and therefore price regulation should be replaced with price monitoring.

In the retail electricity market, price setting should be transferred from the control of Government to an independent entity such as the Authority, until such time as electricity FRC is introduced. Following the introduction of FRC, price monitoring should replace price regulation.

### **Removal of subsidies**

The energy market has a number of cross subsidies in place. Cross subsidised tariffs discourage competition in subsidised areas thereby distorting efficient market outcomes. These subsidies



should be assessed to ensure that any distortionary impacts are outweighed by benefits; and there are not more efficient ways of achieving the desired outcomes.

In particular further tariff reform is warranted to address cross subsidies between customer groups, particularly between regions where costs can vary. For example, if the government wants to pursue a uniform tariff policy it can be achieved through a number of mechanisms which may be more efficient than the current Tariff Equalisation Contribution, including through a direct subsidy from government on the customer's bill, or through network tariffs.

For customers requiring financial assistance generally, Alinta is of the view that a targeted concession funded by Government and aimed at those customers that require it is a preferable outcome. It means the subsidy can be transparently shown on the customer's bill allowing any retailer to pass-through the subsidy directly to customers.

Alinta also notes that solar panels have become prevalent in the market and receive a number of rebates both at the Federal and State level. It's important that any rebates or subsidies paid to solar customers reflect the true costs and benefits to the market of the solar energy.

### **Regulatory approval processes**

Power generators are subject to numerous regulatory approvals to build power plants. While it's recognised that a robust regulatory and compliance environment must exist, the inquiry should consider opportunities to cut red tape in this sector.

If you would like to discuss this submission, please contact me on 9486 3762.

Yours sincerely

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