



GRIFFIN ENERGY

A Member of the Griffin Group

15th Floor
28 The Esplanade
Perth, Western Australia, 6000

Telephone: (08) 9261 2800
Facsimile: (08) 9486 7330

01 July 2010

Email to: publicsubmissions@erawa.com.au

Inquiry into the Funding Arrangements of Horizon Power
Economic Regulation Authority
PO Box 8469
Perth Business Centre
Perth WA 6849

RE: Submission to the Inquiry into the Funding Arrangements of Horizon Power.

Griffin welcomes the opportunity to make a submission to your inquiry. Griffin's comment is limited to the first term or reference, as outlined in Appendix A of the issues paper:

The cost reflective retail tariffs that would apply in the areas of operation of Horizon Power, for the purpose of determining the efficient expenditure required to supply customers on regulated retail tariffs located in these areas. ***This will inform the setting of the amount of the Tariff Equalisation Contribution (TEC), which will be determined by Government.***

The last sentence (Griffin's emphasis) seems to imply that the form of the Tariff Equalisation Contribution (TEC) is not under review; that is, whether the TEC itself forms part of a robust regulatory process. Griffin contends that the TEC is an inappropriate mechanism for raising funds to subsidise the price of power supplied outside of the SWIS. We also suggest that supporting this form of subsidy, whether explicitly or implicitly by failure to regard, is contrary to the Authority's obligations under section 26 of the *Economic Regulation Authority Act 2003*.

There is no rationale to why the cost of a policy of electricity tariff equalisation needs to be borne by a specific group of electricity customers. If the government decides that customers outside the SWIS should be subsidised, then the subsidy should be derived from general taxation revenue and transparently applied. A guiding principle for setting subsidies should always be by transparent application in a manner that does not distort markets, related or otherwise.

Within the SWIS, non-contestable customers and those contestable customers that chose to remain on tariffs have for some years paid less than the cost of supply for their power. Recently, the government has sought to increase tariffs to more cost reflective levels. These

tariffs are not set by an independent party, but by the government of the day. It does not seem sensible to include in a (supposedly cost reflective) tariff a cost component that is itself based on the difference between a subsidised tariff and the cost of supplying those subsidised customers – especially when the tariffs are required to be uniform across the state. This circular process inevitably leads to a tariff level in the SWIS that is higher than the efficient cost of supply in the SWIS.

Additionally, the SWIS contains a competitive market for the supply of electricity to some customers. Market Customers (retailers) have taken competitive supply positions – and perhaps locked in supply prices to include variable cost components such as network fees – based on expectations that their costs would be subject to either competitive forces (in supply of energy), or regulatory oversight (in network charges). Allowing a government to unilaterally set a level of TEC and recoup this from network fees will have potentially large cost implications for Market Customers. This may be mitigated for supply to tariff based customers (through the setting of perverse tariff levels as outlined above), but will have commercial implications in the contestable retail space. This is both inappropriate and avoidable.

The ERA is guided by a set of regulatory principles, set out in section 26 of the *Economic Regulation Authority Act 2003*. These principles require the Authority to have regard to:

- the need to promote regulatory outcomes that are in the public interest;
- the long-term interests of consumers in relation to the price, quality and reliability of goods and services provided in relevant markets;
- the need to encourage investment in relevant markets;
- the legitimate business interests of investors and service providers in relevant markets;
- the need to promote competitive and fair market conduct;
- the need to prevent abuse of monopoly or market power; and
- the need to promote transparent decision making processes that involve public consultation.

Griffin contends that allowing the current funding arrangements (i.e. ignoring the process of government unilaterally setting the TEC) is contrary to the principles of good regulatory governance. Specifically, it:

- is not in the public interest in that customers in the SWIS will face higher tariffs to reflect the additional cost of the TEC; and that it distorts the competitive retail market in the SWIS;
- is not in the long term interest of customers in the SWIS in relation to the price paid for electricity supply;
- distorts retail competition (and hence discourages investment) in the SWIS;
- is not in the legitimate business interests of investors or service providers in the competitive retail sector in the SWIS;
- does not promote competitive or fair market conduct in the SWIS;

- entrenches the monopoly power of Synergy, the dominant retailer in the SWIS, through distorting the market for competitive retail services and reducing investment incentives; and
- does not promote transparency or involve public consultation as the TEC is set unilaterally by government.

Griffin urges the Authority to recommend the abolition of the TEC in favour of a more transparent CSO funded out of general taxation revenue; and subsequently remove the TEC component from Western Power network charges.

Should you have any questions regarding our comments, I can be contacted on 08 9261 2908; shane.cremin@thegriffingroup.com.au

Yours sincerely

Shane Cremin
GM – Policy & Strategy