Media Statement

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Economic Regulation Authority Releases Draft Report on Retail Electricity Tariffs

The ERA has today released a Draft Report assessing the level of tariffs that a million customers in the interconnected network in the south west of the State will need to pay to reflect the efficient cost of providing electricity retail services by Synergy, a Government owned electricity retailer.

The Draft Report finds that the tariffs, averaged across all customer categories, would need to increase by 15.8 per cent in 2012/13 to ensure that taxpayers are not covering the gap between efficient cost and revenue earned by Synergy.

The two primary reasons for the increase are:

- the Federal Government's carbon price scheme (8.2 per cent) beginning on July 1, 2012; and

- the catch-up for costs that increased during the decade when tariffs were frozen (5.1 per cent);

The remainder of the increase relates to inflation, assumed to be 2.5 per cent.

However, the level of increase varies across individual customer categories. For residential customers, who form the vast majority of Synergy's customer base, average tariffs would need to increase by 23.1 per cent, (cost catch-up of 12.2 per cent, carbon price of 8.4 per cent, and inflation of 2.5 per cent). This equates to an increase of $353 on a typical household annual electricity bill.

For other, mainly contestable customer categories, tariffs would need to decrease to be in line with cost reflective tariffs. For example, the average for small contestable customers would need to decrease by 9.3 per cent.

The ERA notes that at present the Government charges a levy on electricity customers in the south west of WA to fund the subsidy to Horizon Power to allow it to provide electricity services at tariffs that are uniform across the State. Currently, this adds 1.6 c/kWh, on average to Synergy's customers on regulated tariffs.

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The ERA considers that this subsidy should be provided by a Community Service Obligation (CSO), and be funded out of general taxation revenue. This is not an efficient cost incurred by Synergy to supply an electricity retail service. If the Government decides to continue to recover this cost from customers in the South West, it would add another 7.3 per cent (or 1.63 c/kWh) to the average residential tariff.

The ERA has not focussed on how quickly tariffs should be increased to achieve cost reflective levels, as this is a matter for the Government. However, for illustrative purposes, if the Government increases tariffs in 2012/13 by the amount it has previously indicated it would (i.e. by 5 per cent plus 8.4 per cent for cost of carbon), then this would amount to an increase of $203 for an average residential customer.

The remaining increases that would be necessary to achieve cost reflectivity could then be spread over three years and be made up of increases for inflation (around $36 or 2.5 per cent, per year, averaged over the three year period) and of other costs (around $27 or 1.16 per cent, per year, averaged over the three year period) to give a total average of $63 per year (3.5 per cent).

While residential consumers need to pay 8.4 per cent more to cover the full cost of the new carbon pricing regime, the ERA considers that over the next two years, Synergy should renegotiate its carbon pass through clauses in its contracts to reduce its cost by at least 0.88 c/kwh. This is what would be expected to occur in a well functioning, competitive market. The ERA has found that the costs that consumers pay for electricity should be based on generation plant that is, on average, less carbon intensive than current generation plant.

In addition, the ERA has also found that Synergy's portfolio of generation contracts are not optimal. The ERA believes that Synergy's procurement cost should be lower by 3 per cent, and the ERA expects that this should be achieved in 2 years.

The findings in this draft report take into account the ERA's recently released draft decision on the cost of Western Power's network. The ERA sets the amount of revenue that Western Power can earn. Network charges make up approximately 40 per cent of total electricity costs for residential customers. The ERA's draft decision indicated that network costs should not be adding any pressure to retail electricity tariffs in the next five years. However, the full costs of the network are not yet included into retail prices (hence the need for the price increases noted above).

Based on benchmarking with other Australian electricity retailers, the ERA has found that Synergy's retailing activities could be more efficient, and considers that Synergy should be given two years to deliver an achievable reduction in its retail operating costs from $100 per customer to $86.

A more detailed explanation of the ERA's findings is available in the executive summary of the draft report.

This draft report is the result of an inquiry that the Treasurer asked the ERA to undertake into cost reflective electricity prices.

The ERA is now calling for submissions to the inquiry (due 2 May 2012). After considering submissions, the ERA will provide a final report to the Treasurer by 1 June 2012. The final report will become public within 28 days of receipt by the Treasurer.

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