Economic Regulation Authority

Notice

8 May 2019

Annual review of the effectiveness of the Synergy regulatory scheme 2017

Publication of report

The ERA has published its 2017 review of Synergy's regulatory scheme.

The Western Australian Government established the scheme to limit Synergy's market power after it merged Verve Energy and Synergy on 1 January 2014.

Under the requirements of the scheme, Synergy must separate its generation and retail businesses. It also should not discriminate between its retail business and competitors when offering wholesale electricity supplies. The scheme specifies that Synergy should offer standard wholesale contracts (standard products) to buy and to sell energy, so that other market participants can lock in future prices.

Each year, the ERA assesses how effective this scheme is. The Office of the Auditor General also monitors whether Synergy is complying with the scheme.

As a vertically integrated business, Synergy operates in upstream (wholesale) and downstream (retail) electricity markets. There is no strong evidence to suggest that Synergy is exploiting its market power to the detriment of its retail competitors, as the retail electricity market is relatively competitive.

However, competition in the wholesale market is weak. The ERA is concerned that Synergy's dominance and the lack of competition enables Synergy to exercise market power and push up wholesale electricity prices. High prices are ultimately passed through to consumers who are charged more for electricity than would be the case in a competitive market.

The ERA found deficiencies in each of the main elements of the Synergy regulatory scheme and recommends changes to encourage more competition in the wholesale market through price discounting, product innovation and improving opportunities for contracting. This will ensure that Synergy can only pass through its efficient costs to consumers.

The ERA recommends the gap between the buy and sell prices of standard products is reduced from 20 per cent to 10 per cent. This imposes greater discipline on Synergy's pricing of standard products yet does not unduly expose Synergy to commercial risk.

The ERA has found that retailers think that Synergy's standard product specifications are too rigid and some of the contract terms and conditions are onerous. The report recommends that

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Synergy should review and amend its specifications to encourage more trading in standard products.

Synergy must not discriminate between its own retail business and third parties on the terms and conditions of a wholesale supply of electricity. These non-discrimination requirements apply to all main contractual arrangements except electricity supplied from Synergy's wholesale business to its retail business to supply residential and small business customers that were already contracted to Synergy at the time of the merger. The report recommends the non-discrimination requirements apply to all wholesale supplies.

Synergy must prepare and publish separate financial statements for each of its separate business units. The ERA's review found these segmented reports are not sufficiently transparent to expose any anti-competitive behaviour, such as profit-shifting between business units. The ERA recommends that the segmented reports should distinguish between revenues, costs and profits for gas and electricity activities in each business, and for contestable and non-contestable customers in Synergy's retail business.

The Report on the review of Synergy's regulatory scheme was tabled in Parliament on 8 May 2019.

Further information

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