

**STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

ONGOING BUDGET ESTIMATES HEARINGS 2010–11

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 7 JULY 2010**

SESSION TWO

Members

**Hon Giz Watson (Chair)
Hon Philip Gardiner (Deputy Chair)
Hon Liz Behjat
Hon Ken Travers
Hon Ljiljanna Ravlich**

Hearing commenced at 11.48 am

COLLIER, HON PETER

**Minister for Energy,
sworn and examined:**

MITCHELL, MR JIM

**Managing Director, Synergy,
sworn and examined:**

ROBERTS, MR GEOFFREY

**Chief Operating Officer, Synergy,
sworn and examined:**

GAUCI, MR ALBERT

**Chief Financial Officer, Synergy,
sworn and examined:**

The DEPUTY CHAIR: On behalf of the committee I would like to welcome you to this meeting, and I apologise for the absence of our chairman, Hon Giz Watson, who is away overseas. Before we begin I must administer the oath or affirmation. The Bible is on the desk in front of you, and if you wish to take the oath, please place your hand on the Bible.

[Witnesses took the oath or affirmation.]

The DEPUTY CHAIR: You will have signed document entitled “Information for Witnesses”. Have you read and understood that document?

The Witnesses: We have.

The DEPUTY CHAIR: These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard, please quote the full title of any document you refer to during the course of this hearing for the record, and please be aware of the microphones and try to talk into them. Ensure that you do not cover them with papers or make noise near them. Please try to speak in turn. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today’s proceedings, you should request that the evidence be taken in closed session. If the committee grants your request any public and media in attendance will be excluded from the hearing. Please note that the uncorrected transcript should not be published or disclosed. This prohibition does not, however, prevent you from discussing your public evidence generally once you leave this hearing. Government agencies and departments have an important role and duty in assisting Parliament to scrutinise the budget papers on behalf of the people of Western Australia. The committee values that assistance.

Members, it will greatly assist Hansard if, when referring to the budget statements, volumes or the consolidated fund estimates, you please give the page number, item, program, amount, and so on, in preface to your questions.

Hon KATE DOUST: Page 596—I think we will just stick with that page, seeing as there is only half a page allocated to Synergy, so it should not be too difficult. My first question is basically around the improvements to the Synergy billing system that occurred over the last year. I have a series of questions around this. Does the new system cater for Smart metering or SmartPower? With

SmartPower, how many customers have signed up; and how does Synergy determine SmartPower tariffs?

Mr Mitchell: Sorry, the number of Smart—I have got the numbers.

Hon KATE DOUST: With SmartPower, how many customers have signed up; and how does Synergy determine SmartPower tariffs?

Hon PETER COLLIER: This came up and there was a bit of an issue with this a couple of weeks ago, where it was thought that the actual SmartPower tariff had increased at a significantly higher proportion than tariffs, which was not the case. The fact was that the SmartPower tariff had not increased on 1 April when the A1 tariffs did increase. I shall get Mr Mitchell to comment.

Mr Mitchell: Today we have about 19 500 customers on SmartPower. It has increased about 12 per cent year-on-year.

Hon KATE DOUST: So it has increased by 12 per cent?

Mr Mitchell: Correct.

Hon KATE DOUST: How do you determine the SmartPower tariffs?

Mr Mitchell: We look at our own portfolio. We have a significant power-purchase arrangement where we buy both baseload and intermediate peaking power and we have to complement that with renewables. We look at what the true cost to us is with respect to each of those load profiles within the day.

Hon KATE DOUST: Coming back to the comments the minister made: yes, there was a question, I think in our chamber, about the tariffs. I understand that since 2008, the summer and winter peak SmartPower tariff has risen by about 60 per cent—that was in the figures that were provided to us previously—but the A1 tariff has risen by a lesser amount of around 49.4 per cent. Is it correct that there has been that increase of 60 per cent for that particular tariff?

Hon PETER COLLIER: For peak time?

Hon KATE DOUST: It is the summer and winter peak SmartPower tariff.

Hon PETER COLLIER: Yes, the aim of SmartPower, of course, is to try to get people away from the peak time, but I will ask Mr Mitchell to comment.

Mr Mitchell: I cannot quote the exact percentage increases.

Hon KATE DOUST: I have a copy; I can give it to you, if you like.

Mr Mitchell: Of the exact increases?

Hon KATE DOUST: I have a copy of the answer that was provided to me.

Mr Mitchell: But irrespective of what those increases were, we look at what our true costs are coming out of the wholesale system.

Hon KATE DOUST: I ask this because I have actually had a number of complaints to my electorate office over the last few weeks, and I note that some of them have also been sent on to the minister—I do not know whether he has responded to them. The people on this system have obviously done this because they want to do the right thing and they see this as being a plus, but they are aggrieved now because they believe that they are actually paying a higher rate for their energy than what they would have if they were on ordinary power not SmartPower.

Hon PETER COLLIER: That should not be the case, because if they are using their electricity, or their electricity use has shifted to the off-peak period, they are actually—it is cheaper; it is much cheaper than the A1 tariff. In some instances for some householders it is just not conducive to their lifestyle, so they probably would be better on the A1 tariff. But I understand your point, that if you are saying—the whole point of the SmartPower is, as I said, they are trying to shift householders'

consumption away from peak period, and to alter that. Look, in some instances—if you have a family of four or a family of five—sometimes it is just not possible, and therefore the A1 tariff would be more appropriate. But they should not—as I said, they have that option; they can just shift at any time. Have you got anything else, Mr Mitchell?

Mr Mitchell: We had to increase our on-peak charges—they went up about 25 per cent—and we have had to increase the other charges, on average, around 12 per cent or 13 per cent. There is only one area of the entire day that is more expensive than the A1 tariff, and that is the on-peak time. There is a difference between winter and summer, and basically we are seeking to help people actually pay less for electricity if they can change their behaviour. We give them little fridge stickers to let them know at what times they should be putting on appliances such as washing machine and dryers—the sort of wet-type appliances.

Hon KATE DOUST: How many complaints have you had made to Synergy in relation to the SmartPower tariff issue?

Mr Mitchell: I would have to take that on notice.

Hon KATE DOUST: I am happy to have that on notice; I would be interested in that figure.

[Supplementary Information No B1.]

Hon PETER COLLIER: The only complaint I think we had—certainly to my knowledge—with regard to the SmartPower was where they said that the increases, they said, had gone up significantly on 1 July, as opposed to the A1 tariffs. But that was not correct, because, as I said, it did not reflect the fact that on 1 April there was no increase in the SmartPower tariff.

Mr Mitchell: If I might add further to that, this is a product of choice by the customer. They have the right to revert back to the A1 tariff.

Hon KATE DOUST: I fully understand that.

Mr Mitchell: We have assisted customers in doing so where we have determined, based on their usage, that that actually would be better for them.

Hon KATE DOUST: I would also be interested in knowing how many people have come off SmartPower in the past 12 months as well.

[Supplementary Information No B2.]

Hon LJILJANNA RAVLICH: Minister, you said earlier that you actually do not like cost-reflective pricing.

Hon PETER COLLIER: No, I did not say that.

Hon LJILJANNA RAVLICH: You did not say that?

Hon PETER COLLIER: No.

Hon LJILJANNA RAVLICH: That is what I thought you had said.

Hon PETER COLLIER: No.

Hon LJILJANNA RAVLICH: So you do support and like cost-reflective pricing, irrespective of the hardship that it puts on the users?

Hon PETER COLLIER: Well, I will qualify my response here, because I think it is economically responsible to get to cost-reflective tariffs. It will take a period of time to get to that point, to get to cost-reflective tariffs. If we wanted to get to cost-reflective tariffs, we would have increased tariffs by around 74 per cent in our first year, which is what the Office of Energy modelling suggested. It was even higher than that actually; the draft modelling was above 100 per cent. We could have done that, and then we would have, as I said, saved the state hundreds of millions of dollars. What we did—I was largely responsible for that decision—was we decided that we could not, in all

conscience, say to the Western Australian public, “We’re going to increase your electricity bills, in one fell swoop, by over 70 per cent.” That was unpalatable to me; unpalatable to the Premier; and unpalatable to the government. What we did is, we took a difficult but necessary decision last year to increase tariffs initially by 26.5 per cent—an increase of 10 per cent to 15 per cent. Then again this year we were faced with the prospect that we were not close to cost reflectivity, so we were still having to pour in hundreds of millions of dollars, essentially, in terms of a bailout. We could have gone down the path again. I mean, if we were going down that so-called glide path, it would have been a 26 per cent increase this year. We looked at it and said that a 26 per cent increase, on top of the 26.5 per cent last year, again would have been difficult for Western Australian householders to bear. So what we did was, we went down the path of the 10 per cent, 7.5 per cent accumulative increase, therefore of about 18.25 per cent. That brings us closer to a point where we are cost reflective—closer. We are not there and we have still got a way to go, but it is closer to that point. I am going to answer this, because this is very important; I do not want to be misquoted with regard to this issue.

[12.00 noon]

At the same time, I am very aware of the fact that it does put hardship on all Western Australian families, particularly those least able to pay. I want to make that quite clear. We had a whole raft of issues that we had to contemplate; number one, whether we needed cost reflective tariffs. The previous government moved to the disaggregation process because it wanted a competitive process in terms of tariffs and electricity. You are not going to have a competitive retail electricity industry when you do not have cost reflective tariffs. You are not going to get anyone coming into the market when they are not going to be able to actually recoup their costs. It is as simple as that. That is one of the issues. Another issue is, as I have said, that we had to look at the fact that it was sending the wrong message to the Western Australia community at large. We get praised by the environmentalists around the state for the fact that we are taking a responsible decision. The —

Hon LJILJANNA RAVLICH: Well, certainly not by the consumers!

Hon PETER COLLIER: Wait on; I have not finished. I do not want to have to increase them. I want you to understand that.

Hon LJILJANNA RAVLICH: But you have not done anything not to increase them—have you?

Hon PETER COLLIER: Well, look, if I had come in and your government had actually been responsible and had increased tariffs at a reasonable rate on an annual basis —

Hon LJILJANNA RAVLICH: Well, you are in now and you are making a decision —

Hon KATE DOUST: Minister —

Hon PETER COLLIER: —I would not be faced with this predicament.

Hon KATE DOUST: — do not misconstrue the history here.

Hon PETER COLLIER: Mr Chair, if you do not mind!

The DEPUTY CHAIR: Let the minister have his say, please.

Hon KEN TRAVERS: It was a Liberal Party requirement, minister. Don’t wash your hands like Pontius.

The DEPUTY CHAIR: Honourable members.

Hon PETER COLLIER: I am not washing my hands of it.

The DEPUTY CHAIR: Honourable members; let the minister have his say.

Hon PETER COLLIER: Good try. I would not mind responding, because as I have said, everything that I have stated over the last 18 months, I stand by.

Another issue that we had was sending the wrong message to the community. As I have said, we have the simple fact that people were basically living beyond their means in terms of electricity use. Around 90 per cent of Western Australians have air conditioners, which they were using 24/7—come summer and the middle of winter. They have two or three plasmas, two or three fridges. The wrong message was getting through to the community at large. We were getting to the point that they were not, perhaps, paying for their electricity. Their electricity bills were the lowest in the nation. We had to say that we actually had to get to the point where the Western Australian public was much more cognisant of the fact that it had to pay for its electricity. With all those variables that I have just mentioned, we then came to the decision to make the increases that I mentioned earlier. Now, at the same time, we looked at those who are least able to pay and we have added over \$31 million to assist those people who are least able to pay. Now a number of people who are still on struggle street will not be captured in that group—people who are on fixed incomes and pensioners et cetera who really are struggling. As a result of that, we have been in dialogue with Synergy about this issue. It has some strategies to assist people in this area. I am very confident that Synergy is doing all it possibly can. As I said, it is all good and well to sit here and bag the government for increasing electricity prices. I feel the electricity prices were necessary. They were unfortunate. And we have done all that we possibly can to assist the Western Australia community to cope with those electricity prices. I will ask Mr Mitchell to comment on what Synergy has done to assist those who are least able to pay.

Mr Mitchell: We take the responsibility of assisting our customers very seriously. We are actually delighted to be able to inform people that we have actually reduced disconnections by 53 per cent since Synergy was formed in April 2006—that is, over the last three and a half years. Disconnections this year will be, for the year that has ended, down on the prior year. We have reviewed our financial hardship policy—with the social agencies like WACOSS, financial counsellors and Anglicare—and we have one of the best in Australia. We have been sympathetic in extending payment extensions to about 130 000 customers, as of May, which is about double where we were this time last year. We have flexibility in our payment arrangements and we are now looking at a scheme of around \$9 million of promises to pay, which is up from about \$1 million last year. We have engaged three case managers who have assisted customers to understand the commonwealth, state, social and church support groups that are around, because if you cannot pay your electricity bill, invariably you have troubles in other areas, so what are the social support mechanisms around there? We have our own policy called keeping connected in which we basically undertake to pay the third instalment; that is, if you pay the first two instalments, we will pay the third instalment. I am delighted that the previous government and the current government have the hardship utilities grant scheme and efficiency products such as fridges and so on. On our website we have an energy calculator for our customers, which provides a bill manager, so they can see the impact of the bills on them. We have a better globes calculator to show how much you could save if you change to CFLs —

Hon LJILJANNA RAVLICH: In all due respect, you do not have to read the whole list because —

Hon LIZ BEHJAT: Why not?

Hon PETER COLLIER: I think it is important.

Hon LJILJANNA RAVLICH: Hang on, minister! The real point is that people out there are probably foregoing meals, foregoing any luxury —

Hon KATE DOUST: Heating!

Hon LJILJANNA RAVLICH: Certainly not turning the heaters on! We know that there are people out there who are maybe not feeding their pets, not heating their homes and who cannot afford to buy food, because they have got to pay this bill—particularly the aged; the most

vulnerable in our community. At the end of the day, all that list that you have read out—in all due respect—is about really deferring the payment. But there is still the obligation —

Hon KEN TRAVERS: No; it is about people who incur the cost and cannot pay. It does not affect the people who do not incur the cost in the first place.

Hon PETER COLLIER: Mr Chairman, can the director finish his response?

The DEPUTY CHAIR: Yes, he can.

Mr Mitchell: We are seeking to allow people to understand how they can reduce their electricity usage, and therefore their bill—so it actually helps them. We have the energy efficiency home designer to show how you can design homes—where you put windows and trees. We have greater gardens for air-conditioned homes and the energy efficiency home renovator, the green energy calculator. We did a series of TV ads a few months ago in which we actually spoke to people about the most effective energy efficiency appliance known to man—it is called the right index finger. Basically, we had an awareness of about 52 per cent versus 20 per cent target. Our cut through was 37 per cent, and 88 per cent understood the message and 41 per cent were likely to change their behaviour as a result of the campaign. We are supporting schools. We have 52 primary and high schools in the switch off campaign, looking at what savings they can make. It was an outstanding success last year. We supply speakers to community groups with respect to energy efficiency and conservation. Disconnections are always our last resort. We encourage people to talk to us early, because we can help.

Hon PETER COLLIER: And can I pick up on the point with regard to tariffs? A flat tariff is one where you are basically paying the same regardless of your consumption. The concept of a tiered tariff is something that the government is looking at. We are doing a review of tariffs at the moment. WACOSS is directly involved in that process. That review will be completed by the end of the year. When I have looked at it and when I have had a superficial look at some of the other models, I am not convinced that some of the models that I have seen a necessarily going to assist those who are least able to pay in the community. I want a model that ensures those who are in hardship are provided an advantage. The tariff review will be completed by the end of the year. As I said, we have consulted, particularly those in the community who represent those in hardship, and I am confident that by the end of the year when we release the outcomes of the review that I will have a good positive story to tell in terms of assisting Western Australians with their electricity accounts.

Hon LIZ BEHJAT: Driving here this morning, the airwaves were running hot with energy issues. Minister, you may want to comment about this; it was alleged that three people died overnight because of a lack of heating. I do not know whether that is the case or not. People were ringing in to the radio station and I heard one thing that I would like Mr Mitchell to confirm through the minister. A woman said that she had contacted Synergy to ask whether there was a system in which she could have set up a direct debit from her account each month to prepay her electricity—so that when the bill came in she would be in credit in her account. She said that Synergy said “No; the only direct debit system that we have is where we take the whole amount. When your bill is due, the whole amount comes out of your direct debit system.” Can you firstly confirm that you do not have that system, and secondly, if you do not, could you look at that? I think that it is obviously a great thing for people to be able to spread things out. I know you can do that with Telstra—that you can prepay for things. Can you comment on that?

Mr Mitchell: We do have a direct debit system where we will take out an equal amount each and every month. It is, basically, both a direct debit and, what we call, even pay.

Hon LIZ BEHJAT: So you do have that.

Mr Mitchell: We do have that. We have to take that question on notice and have a look at that discussion.

Hon LIZ BEHJAT: It was on ABC radio, this morning. I heard the woman say that she had run Synergy and been told, “No, you can’t do that.”

Hon PETER COLLIER: It must be right if it was on ABC.

Hon LIZ BEHJAT: Yes—well, you know, as right as can be.

Hon LJILJANNA RAVLICH: So does that —

The DEPUTY CHAIR: Is that a supplementary question? Are you after this information or not?

Hon LIZ BEHJAT: No; if you have the system, obviously the woman is wrong.

The DEPUTY CHAIR: So, I think the question has been answered.

Hon KATE DOUST: I see in Budget Paper No. 3 on page 233 and the tariff glide path that a 21.1 per cent increase is anticipated for A1 next year. I know there seems to be some confusion. Whilst this is budget papers, I know that in the other chamber the Premier, I think, on at least one occasion has said that even though it is in the budget papers that will not necessarily happen. I just want to know, is it proposed to increase electricity tariffs by 21.1 per cent next year, or not?

Hon PETER COLLIER: I can say—look, as far as I am concerned, there will not be another significant tariff increase.

Hon KATE DOUST: Well, minister, I mean, you have put this in the budget. Obviously, this figure will have—if this does not happen—a significant impact on a whole range of other budgetary matters. Minister, the figure is there. It is either going to happen or it is not going to happen. If it is not going to happen, it is obviously going to have an impact. If it is not going to happen, why did the figure get put into the budget?

Hon PETER COLLIER: The budget contains projections; pure projections from the Office of Energy, to get to a cost-reflective level. That is the simple fact of the matter. I can say quite categorically that I will not be supporting another significant increase in tariffs next year. Now, we will deal with that when the considerations in next year’s budget is given time. But I am saying that at this stage I feel that we have had two years of significant increases and I will not be supporting another significant increase in tariffs.

Hon KATE DOUST: It is interesting that you say that, given your past comments about the need to reach cost reflectivity by next year.

Hon PETER COLLIER: Yes.

Hon KATE DOUST: If you do not move on this figure—sorry, it is not 21 but 22 per cent—how are you going to achieve that goal?

Hon PETER COLLIER: Look, there are a lot of considerations and we have made significant inroads in terms of the glide path that we are talking about. I think the glide path of the previous government was 10 per cent increments or increases. That would have been unsustainable for the state. It would have meant by 2019 or 2020 that we would have had a CSO or a bailout of \$8 billion and that we would not be close to cost reflectivity. In essence, we would have been bailing out the corporations to the tune of billions of dollars and not even close to cost-reflective levels. We are now faced with the fact that because we have taken the hard decision in these two years, it gives us a bit of clear air. Also, we need to consider that the original glide path included the CPRS, which is no longer in existence, and the RET provisions and network charges—a whole raft of things, and they change. Things change. You know, from year in and year out, the projections change in terms of the cost impost or the cost stack of a tariff.

Hon KATE DOUST: Sorry, I just want to be clear minister. Are you saying that there will be no increase next year or that there will just be some increase?

Hon PETER COLLIER: No; I am not saying that at all.

Hon LJILJANNA RAVLICH: So there will be!

Hon PETER COLLIER: I think that there will inevitably be some increase, but that it will not be a significant increase.

Hon KATE DOUST: It will not be 22 per cent.

Hon PETER COLLIER: No.

Hon KATE DOUST: Right. On that, and coming back to the rate of disconnection that Mr Mitchell referred to—I am sorry, I have a cold and cannot remember names today. I understand that there is currently in draft form national legislation for energy.

Hon PETER COLLIER: Yes.

Hon KATE DOUST: I know there has been some commentary, some concern, about this legislation giving utilities that capacity to disconnect customers. I just want to know what your position on that is.

[12.15 pm]

Hon PETER COLLIER: That would be a decision for the ministerial council.

Hon KATE DOUST: Of which you are a member.

Hon PETER COLLIER: Yes, I know, but as I said, that will be a decision of the MCE.

Hon KATE DOUST: I want to know whether you, as the minister, support that proposal.

Hon PETER COLLIER: I thought you were asking Mr Mitchell.

Hon KATE DOUST: Sorry; I will ask you. As minister, do you support that particular proposal in that legislation that would make it easier for utilities to disconnect their customers?

Hon PETER COLLIER: I do not. If they are going to open up the door to disconnections that will be problematic. That situation fundamentally deals with the east coast where there is a multitude of retailers. We have one retailer in Western Australia that deals with householders, so we are not captured by that issue. It is an issue fundamentally for the east coast where, as I said, there is a plethora of retailers. As far as the MCE is concerned, I will wait. We will be part of that dialogue and part of that communication. I think at this stage we have just about got it right, as Mr Mitchell articulated. We have had a decline in disconnections. Synergy is very sympathetic to the issues that exist and the pressures placed upon Western Australian families, and I think we have got the balance about right.

Hon KEN TRAVERS: Minister, I do not understand how you can sit there and say there will not be an increase when it is factored into your budget—things like your future dividends, which are factored into the budget that go to the whole fundamentals of the government's borrowings in the future years and the net debt to equity ratio; their obligations under the Government Financial Responsibility Act. This budget was supposed to be prepared under that. It allows people to understand your long-term borrowing implications. For your community service obligation this year you will get \$202 million, and next year you expect the CSO for Synergy to drop to \$63.45—some \$140 million. That is based upon you increasing the tariffs by 21 per cent. If you do not increase the tariff by 21 per cent those figures will all change.

Hon PETER COLLIER: Would you prefer we increased them by 21 per cent?

Hon KEN TRAVERS: I do not prefer that.

Hon PETER COLLIER: I am sorry to sound flippant. I understand your point; I think it is a good point.

Hon KEN TRAVERS: I want honest answers from ministers about the budget of this state; not statements in which on the one hand you say trust us on our borrowings because our budget is

accurate, and then you come in here and say our budget is not accurate because we will ignore all the fundamental bases on which the budget is prepared. You cannot have it both ways. It is a nonsense.

The DEPUTY CHAIR: We have got the point, Hon Ken Travers. Minister.

Hon PETER COLLIER: Settle. Thank you, Mr Chair.

Hon KEN TRAVERS: I get really upset when I hear ministers trying to have two arguments at once.

The DEPUTY CHAIR: Hon Ken Travers, let us hear the response, please.

Hon PETER COLLIER: It is not a time for statements; I thought it was a time for questions. I do not mind answering your questions.

Hon KEN TRAVERS: Give us a proper answer.

Hon PETER COLLIER: I have given you an accurate answer. We will consider it in terms of the budget considerations for next year. As I have said, the 22 per cent projected increase is a projection, as I stated. Things change in electricity projections, I can assure you. At this stage, that is the projection. I can assure you we will not have another significant electricity increase. That is something the government will have to consider when it brings down its budget next year.

Hon KEN TRAVERS: Why where the budget papers not predicated on that assumption?

Hon PETER COLLIER: All I can say at this stage is that electricity prices will not go up to that level and we will take that into consideration when we develop next year's budget.

Hon KEN TRAVERS: Are you telling us that all the key aggregates within the budget are wrong then?

Hon PETER COLLIER: No; I am not saying that at all.

Hon KEN TRAVERS: Well, then you cannot have it both ways. They are either wrong or you will increase tariffs by 21 per cent.

Hon PETER COLLIER: We will consider it for next year's budget.

Hon KEN TRAVERS: So the budget papers are wrong then?

Hon PETER COLLIER: No, all I can say is that we will consider it for next year.

Hon KEN TRAVERS: In that case, the budget papers are wrong, minister, you cannot have it both ways.

Hon LJILJANNA RAVLICH: Following that line of questioning by Hon Ken Travers, started by Hon Kate Doust, on page 234 of budget paper No 3, the *Economic and Fiscal Outlook*, for 2010–11 there is a Synergy income tax expense and dividend subtotal \$138 million.

Hon PETER COLLIER: Yes.

Hon LJILJANNA RAVLICH: That will take into account the most recent price hike. In 2011–12, it is \$129.6 million. I imagine that is based on this 21 or 22 per cent. Is that correct minister?

Hon PETER COLLIER: I assume so. Is that correct, Mr Mitchell?

Hon LJILJANNA RAVLICH: Yes?

Hon PETER COLLIER: Let me finish. Yes.

Hon LJILJANNA RAVLICH: Okay. You are saying that it may well not be that much next year because when Hon Kate Doust put that to you, you said there will be an increase next year but by how much you do not know but you had factored in the 22 per cent. I refer to the 2012–13 period because anything you do not collect in revenue in 2011–12 will be, I assume, shifted across to 2012–13. You have already factored in there \$176.8 million, which must be more than the 22 per

cent, which would have counted for the \$129.6 million that you had calculated for 2011–12. It gets even worse because by 2013–14, it is up to \$187.9 million, which must be about 30 per cent. If this plan had been followed through, by 2013–14 you probably would have achieved full price reflectivity. Is that a reasonable assumption?

Hon PETER COLLIER: That is correct.

Hon LJILJANNA RAVLICH: I go back to the point that if you do not follow through 2011–12 with the 22 per cent upon which your 2011–12 figures are based, is it not the case that you will be pushing across those deferred costs to the following two financial years?

Hon PETER COLLIER: You are correct. I said it is a policy decision for government and when we formulate next year's budget we will take into consideration everything you have mentioned. It is a policy decision that we will make.

Hon LJILJANNA RAVLICH: Can you tell me, looking at these figures in reverse, \$129.6 million equals 22 per cent increase, yes?

Mr Mitchell: No. For a start, dividends in that year are on the profits of the prior year. If you want to align all the dividends, they must be stepped back a year because that is the way government does accounting. Secondly, if you have a 20 per cent increase and if that does not completely happen, there will be a reduction in the price and in the dividend, but not a significant reduction because it is a 20 per cent and not a 100 per cent reduction.

Hon LJILJANNA RAVLICH: I am trying to get in my head how you achieve your 100 per cent cost reflective pricing over these five financial years. If you present that in another way, I will be happy to receive that information.

Hon PETER COLLIER: I cannot present that because, as I said earlier, we will deal with it on a year-by-year basis. A raft of issues come into consideration. Particularly if there is a CPRS in another form, which has an impact on prices. Also the next access agreement could involve network charges. We cannot determine that. The prices for electricity change; they are very fluid. At the moment, as I said, that is the glide path we are at. But I cannot give you anything definitive today.

Hon LJILJANNA RAVLICH: All right, minister, what you are saying to me is that there is no guarantee you will achieve your policy outcome of true cost reflectivity. You cannot have it both ways. Unless you stick to this plan, the chances are you will not achieve cost reflectivity.

Hon PETER COLLIER: I make no apology for that.

Hon LJILJANNA RAVLICH: That is fine, but I want it on the public record.

Hon PETER COLLIER: I have no problems. I have said that publicly and the Premier has said that publicly. We must be mindful of the fact that there has been a significant increase in tariffs over the past two years and of the impact that is having on the community. As a result of that there will be no significant increase next year. Mr Mitchell would like to add something.

Hon KEN TRAVERS: Even though the budget says there will be?

Mr Mitchell: Clearly, budget assumptions are based on energy markets at a point in time—the price of gas, coal, renewables and so on. At Synergy we have an important responsibility to acquire energy as cheaply as possible, which is something we have been doing for the past four and a half years. To the extent that energy prices move we will ensure we can capture the value drop. If gas goes down, we will seek more energy in the market and so on. Cost-reflective tariffs is one side of the ledger. We on the other side have an important responsibility to reduce the cost of energy consumed. We have gone out every year for competitive tenders to try to get the most cost effective energy for our customers as possible. We have written something like \$20 billion to \$22 billion of power arrangements over the past four and a half years.

Hon LJILJANNA RAVLICH: It seems strange to me. It looks as though what we are doing here is taking money from households and putting it into the government coffers. If we look at the dividend payouts in budget paper No 3 on page 236, in a footnote it states —

With the exception of the Water Corporation, all dividend payout ratios have been increased from 2009–10 onwards. Synergy's payout ratio has been increased by 25 percentage points (to 75%), while all other payout ratios have been increased by 15 percentage points.

Why is it that so much more could be taken from Synergy than from the others? Were you happy for that to occur?

Hon PETER COLLIER: It brings us into line with other public corporations in other jurisdictions. In terms of ensuring that the government can have more of an input or determination in profits of corporations, I do not think that is necessarily a bad thing.

Hon LJILJANNA RAVLICH: You do not think it is a bad thing in terms of the net impact on the householder? That is where you took the money from.

Hon PETER COLLIER: No, but ultimately of course, that money will be reinvested. That is what it is all about. That is what the whole disaggregation process was about.

Hon LJILJANNA RAVLICH: But minister, with all due respect, if members of your government had not run up an expense growth of some 13 per cent in the past financial year, you would not have had to take money from the households through increased electricity prices and feed it back into the government coffers.

Hon PETER COLLIER: I think there have been some significant improvements and Synergy has invested very well, particularly with regard to the new billing structure over the past 12 months. Synergy is a very good corporation that is essentially delivering a good service to the community. The billing system provides a raft of opportunities for Western Australian householders to manage their electricity accounts much more efficiently and effectively and there are other aspects of the new billing system that I think are an advantage to householders.

The DEPUTY CHAIR: Can we move to another topic?

Hon KATE DOUST: I want to talk about the billing system because I think there were a number of issues last year with the difficulties people had receiving bills. A large number of members received complaints about that process. It has been, I think, quite a painful process for both Synergy and the consumer. I have a number of questions about this, some of which you might have to provide on notice.

Does the new customer information system keep statistics of customer complaints and inquiries?

Mr Mitchell: We keep statistics of them.

Hon KATE DOUST: How many complaints came in in 2009–10 regarding Synergy's billing system?

Hon PETER COLLIER: We have provided some of that information. I think it will be readily available because we provided it in response to questions that were asked in the Parliament.

Mr Mitchell: We are not up to speed on that.

Hon PETER COLLIER: Not now.

Hon KATE DOUST: I am happy to have that provided.

The DEPUTY CHAIR: That is information about the number of complaints about the billing system.

[Supplementary Information No B3.]

[12.30 pm]

Hon KATE DOUST: To deal with this new billing system, did Synergy have to put on extra staff to manage the demand? If so, at what cost?

Mr Mitchell: We had always anticipated it; we were going through what we call a storm period, and we are quickly getting out of that storm period. We expect to be out of it by the end this calendar quarter. We were needing to put on extra staff to handle the exceptions. We estimate that about 10 per cent of the issues actually came from the systems; the remainder is all about exceptions, and we were keen not to send out an incorrect bill. What we were keen to do is send out an accurate bill and provide people with time to pay so that we did not cause serious angst. The increase in our project cost has been of the order of \$2.8 million, which we believe will be recompensed through the benefits that come out of the system, both now and in the future, in a very short period of time.

Hon KATE DOUST: I have some more questions in relation to this. How many referrals were made to financial advisers for customers to apply for the Hardship Utility Grant Scheme?

Mr Mitchell: We are currently referring about 440 people —

Hon KATE DOUST: How many Synergy customers —

Mr Mitchell: Sorry; can I just clarify that?

The DEPUTY CHAIR: While you are doing that, just on the time, I know we were planned to finish at 12.30, but we will go through to 12.45.

Mr Mitchell: Sorry, my recollection was wrong. There are 220 customers a week, of which only about 130 actually make appointments.

Hon KATE DOUST: Okay, so how many Synergy customers actually received financial assistance through HUGS in 2009–10? I am happy to take the answer on notice, if you do not have it.

Mr Mitchell: It is around 490 a month. They are only entitled to one payment a year, so a person does not continue to receive it month after month; it is a one-off payment.

Hon KATE DOUST: What is the actual payment they receive?

Mr Mitchell: I think it is about \$360–\$390.

Hon KATE DOUST: Once a year?

Mr Mitchell: Once a year.

Hon KATE DOUST: What are the eligibility criteria?

Mr Roberts: The customer needs to demonstrate that they are, in fact, experiencing financial hardship, including by the time they have got to that point, that is very evident, so they are being managed by one of our case managers. The case manager will then refer them to a financial counsellor. Once the financial counsellor confirms their position, that is really the qualification criteria.

Hon KATE DOUST: Is Synergy aware of whether or not any registered financial counsellors were unable to see referred clients due to demand pressure; and, if so, what action has Synergy taken to ensure customers had someone to see to progress their claim?

Hon PETER COLLIER: Can I just add, before we do that, we did actually add, I think, an additional three counsellors this year; it was three or four additional counsellors to assist in this area as a result of the hardship package.

Hon KATE DOUST: I am happy to take the answer on notice—what action Synergy took to assist its customers.

[Supplementary Information No B4.]

Hon KATE DOUST: I know that last year we raised a number of questions about the number of people who had not received their accounts at certain times, and I know the numbers were declining. I ask this in hopeful anticipation that the answer will be zero, but is there anyone who still has not received their account since the new billing system has been introduced?

Mr Mitchell: As of today, we have about 2 700 people who have not received their account within 90 days.

Hon KATE DOUST: That is since the change last year.

Mr Mitchell: I think it was up to around 38 000 last year, and we have been working on it to basically get it down, so there are about 2 700 people. In our environment, that number will never be zero. It is not zero anywhere around Australia or the world, simply because there are people who cannot get meter reads; things happen in reading meters—dogs stopping people. There are a whole lot of issues as to why that will never be zero.

Hon KATE DOUST: So you are saying that 2 700 people have not had a bill for more than 90 days?

Mr Mitchell: Correct.

Hon KATE DOUST: I would be interested to know what the longest period of time would be—what the figures are for each of those areas, to see the breakdown of the length of time. Is that able to be provided?

Mr Mitchell: I have not got it to hand, but it is available.

The DEPUTY CHAIR: That is B5—the breakdown of the days above 90 days of bills not being sent to customers under the current billing system.

[Supplementary Information No B5.]

Hon KATE DOUST: I have got some other matters, but I might put those on notice afterwards. What I found dealing with the Synergy budget papers is that there really was not much information. When we compare it to other agencies and departments, there is much more information. It is very hard to get a clear picture of both what Synergy has done—it was good that you were able to provide some of that detail there—but very difficult to see what you have done and where you are going, when there is only a half page of figures in the budget papers. It is a very narrow amount of information.

Hon PETER COLLIER: I think that the figures that the member is referring to will appear in the annual report; I am not quite sure whether she wanted anything above and beyond that.

Mr Mitchell: We actually produce our financials on a quarterly basis on our website, and what we are doing in the next year is in the SCI, and what we have done for prior years is in our annual report.

Hon KATE DOUST: I just wanted to make that comment; it is just the brevity of information available about this business.

Hon KEN TRAVERS: I want to go back to the issue about the dividends that Synergy expects to pay to the government. If we run through what was in last year's budget, you expected to pay \$24 million in 2009–10; \$39 million in 2010–11; \$48 million in 2011–12; and \$42 million in 2012–13. You are now expecting, in this year's budget, that in 2009–10 you were going to pay \$64 million; in 2010–11, \$100 million; in 2011–12, \$67 million; and \$110 million in 2012–13. I did not get into Western Power and Verve Energy, and on top of that you also have the increase in your income tax expenses that you are collecting out of these organisations. What I am trying to work out is how much of the increase in tariffs over the past two years have actually contributed to increasing the dividends to government rather than meeting the cost recovery of power prices.

Hon PETER COLLIER: I understand the question; I do not know whether I can give the member a response. We can get the member that information; we just cannot provide it today, so I will take the question on notice.

Hon KEN TRAVERS: But can you give us any idea —

The DEPUTY CHAIR: Sorry, that is supplementary information number B6—the extent of the dividends —

Hon KEN TRAVERS: What percentage of the price increases over the past two years have actually been responsible for the increase in the dividends that are payable.

Hon PETER COLLIER: As a result of the increase in tariffs.

Hon KEN TRAVERS: Yes; how much of the dividend is a result of the increase. I mean, we can look at it from either direction.

[Supplementary Information No B6.]

Hon KEN TRAVERS: What I am adding up there is, over four years, just in Synergy alone, with Western Power you jump it up until you get somewhere in the order of, between income tax and local government and dividends, an extra \$300 million per annum out of them; it strikes me that all of the minister's earlier claims that the power increases are purely about making the tariff's cost reflective, for Synergy alone there is \$200 million in additional dividends that you will be paying to government as a result of those dividend increases. That is actually about putting more money in the government's pocket; it is not about meeting the cost of energy. Is the minister able to give us some explanation of why he is increasing the dividends so substantially, rather than keeping the dividends down and keeping prices down, particularly for pensioners? Programs like HUGS do not help pensioners if they do not turn the power system on. I do not know about the minister's parents, but HUGS will never be of benefit to my parents, because they will never incur a cost that they cannot pay.

Hon PETER COLLIER: I will get Mr Mitchell to comment in a moment, but I will just get back to the point. In terms of the dividends, the member will find that the actual profit of the four corporations since disaggregation is significantly lower in the post three years; in fact, in the three years prior to disaggregation, the profit of Western Power was close to \$1 billion and it is not even remotely close to that with the combined profit of the four corporations since disaggregation, so in fact they are running at a significant loss in comparative terms. We made a decision in terms of the dividends, as I said, for several reasons; certainly in terms of the fact that, from a comparative nature to other corporations from other jurisdictions, it brought them into line with those dividends, and certainly in terms of the impact that the government can have more of an input or more of a determination of the spend of those dividends, that is where we went. It was a policy decision.

Hon KEN TRAVERS: But minister, this is not just about increasing it from 50 per cent to 75 per cent; you have increased the tariffs, and therefore, as a result of the increase in the tariffs, you are increasing the dividends you are getting. People are paying more for their power today so that the government can get a bigger dividend out of Synergy and Western Power; Verve, not so much, because that stays pretty constant, but out of Synergy, Western Power and Horizon Energy. Part of your increase in tariffs has been about increasing your dividends to government.

Hon PETER COLLIER: No, I want to make it perfectly clear that the decision to increase tariffs was made well before the decision to increase dividends. I will get Mr Mitchell to respond.

Hon KEN TRAVERS: I am not talking about the increase from 50 per cent to 75 per cent; I am talking about the amount of dividend you are collecting. Even if you were still at 50 per cent, this year you would still be collecting \$40 million more than you were planning to collect in last year's budget, so your increases in tariffs have increased dividends by \$40 million over and above your increase in the amount of dividends you are getting.

Hon PETER COLLIER: I think I have responded, but I will get Mr Mitchell to comment.

Mr Mitchell: Under the vesting contract, of every \$1 increase that happens in the tariff, Synergy only retains 1.5 per cent of the \$1 increase, so we pay all those moneys out. Essentially, Synergy is three different businesses; one is supplying electricity to the retail market in the south west, another is supplying energy to major industrial commercial enterprises in the south west, and that is about 50 per cent, 50 per cent. The third business is basically selling gas to large industrial commercial customers. We have been able to achieve benefits and profits in the two areas of selling electricity and gas to large industrial commercial customers. The tariff itself, we actually pass back 98.5 per cent of that to Verve.

Hon KEN TRAVERS: Right, but your dividends in 2009–10 and 2010–11—I will not even go into never-never land—were increased. Do not even worry about the fact that you are now paying 75 per cent of your profits; even on 50 per cent of your profits, you have still increased your dividends by somewhere in the order of about \$70 million in the last two years to government. That says to me your tariff increases have been about increasing dividends, so you have actually been putting an impost on people in Western Australia, particularly seniors, to benefit your dividend, not just to meet cost recovery. I still have not had an explanation.

Hon PETER COLLIER: As I said, I want to make it quite clear that the increase in tariffs had nothing to do with the dividend.

Hon KEN TRAVERS: But the result of the increase in tariffs is that your dividends have gone up.

Hon PETER COLLIER: I can only answer, and I have given an answer on at least three occasions.

The DEPUTY CHAIR: Hon Ken Travers, I do not think we can go any further on this; I think the points are very well laid out on the table.

Hon KATE DOUST: You made reference to the vesting contract, and I know there has been ongoing work looking at market rules and the vesting contract, but I do not think any decisions have been made. I am interested in when that will be finalised and tabled, because I think it was due about now, was it not?

[12.45 pm]

Hon PETER COLLIER: I will say to you that it is very close. One of the issues when we came to power was whether or not we would remerge Verve and Synergy. We made the decision to not go down that path. It was evident from the market as a whole that there needed to be changes to the market rules. We had consultation with the IMO, with the industry as a whole to—the IMO will be announcing the changes to those rules. In terms of the vesting contract, yes, I will be able to relay some information with regard to where we are going with the vesting contract in the not too distant future.

The DEPUTY CHAIR: Last question, Hon Ljiljanna Ravlich.

Hon LJILJANNA RAVLICH: First of all, does Synergy have a code of conduct in terms of performance report, like Horizon Power?

Mr Mitchell: The ERA produces that around February each year.

Hon LJILJANNA RAVLICH: In view of the fact that that will not be available, I wonder whether you can take the following questions on notice: the total number of and percentage of Synergy's residential customers who have been granted additional time to pay their bill or bills. Do you have that sort of information?

Mr Mitchell: We do.

Hon LJILJANNA RAVLICH: Good. Do not give it to me now. I want it for the following years: 2007–08, 2008–09 and 2009–10, so the committee can ascertain the trend lines. That is the first one.

For those three financial years, once again, the second question is the total number of and percentage of Synergy's residential customers who have been disconnected because of their failure to pay a bill. Also, the next question—number three—for those three financial years, the total number of and percentage of Synergy's residential customers that have been disconnected who were previously the subject of an instalment plan. Once again, within the same time frame, the total number of and percentage of Synergy's residential customers who have been disconnected at the same supply address within the last 24 months. The next question—also within the same time frame and the same question—the number of Synergy's residential customers that have been connected whilst receiving a concession. Finally, within the same frame, the number of Synergy's customers who have been granted additional time to pay their bills within the same time frames.

Hon PETER COLLIER: We will take those on notice.

[Supplementary Information No B7.]

The DEPUTY CHAIR: That brings a conclusion to the hearing. The committee will forward any additional questions to you that it has via the minister in writing in the next couple of days, together with a transcript of evidence, which includes the questions you have taken on notice. If members have any other questions to ask, I ask them to submit these to the committee clerk at the close of this hearing. Responses to these questions will be requested within 10 working days of receipt of the questions. Should the agency be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met. On behalf of the committee, thank you for your time and attendance today.

Hearing concluded at 12.49 pm