PUBLIC

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24 JAN 2014

Hon Mike Nahan MLA
Minister for Energy; Finance;
Citizenship and Multicultural Interests

Our Ref: 48-04388; 48-04389; 48-04390

Hon Ken Travers MLC
Chair
Standing Committee on Estimates & Financial Operations
Parliament House
PERTH WA 6000

Attention: Samantha Parsons

Dear Mr Travers

Further to your correspondence dated 10 January 2014 regarding the 2012/13 Agency Annual Report hearing's please find attached the answers to the Questions on Notice that have been submitted by Members of the Legislative Council.

Answers attached are from the following agencies:-

- Horizon Power
- Synergy
- Western Power

The answers have also been sent electronically as requested.

Yours sincerely

Mike Nahan

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MINISTER FOR ENERGY

24 JAN 2014

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ESTIMATES AND FINANCIAL OPERATIONS COMMITTEE

QUESTIONS ON NOTICE SUPPLEMENTARY INFORMATION

Wednesday, 10 January 2014

SYNERGY

Question No. 1: Hon Ken Travers asked -

I refer to the increase of Synergy's operating subsidy by $558 million and I ask:

1. I refer to the $558 in additional operating subsidy payments to Synergy announced in the Mid-Year Review and ask:
    a. Was this increase in operating subsidy calculated using the approved increases in non-contestable tariffs outlined in Table 8.2 in Appendix 8 of the 2013/14 Budget Paper 3?
    b. If no to (a), can you please table the proposed increases in tariffs for each year of the forward estimates on which this operating subsidy was calculated?
    c. What will be done to reduce this going forward?
    d. Can Synergy provide an approximate breakdown of all issues, by per cent, which has caused the increase?
    e. Specifically, how much of this $558m is due;
        i. to increased capacity costs;
        ii. declining customer demand;
        iii. increasing costs associated with State and Commonwealth renewable energy initiatives; and
        iv. any other drivers of the increased subsidy (please specify them) ?

Answer:

a. Yes

b. N/A

c. A variety of initiatives are being considered and implemented by this Government to reduce upward pressure on electricity tariffs. These initiatives include seeking efficiencies within the electricity sector in terms of operational costs, fuel purchasing, and portfolio optimisation. Also, as announced, a review of the Wholesale Electricity Market (WEM) is expected to identify further opportunities and options which can contribute to managing costs.

d. See below

Item	Percentage	$M
Lower demand	-17%	-94
Recognition of Synergy's forecast costs for energy and capacity	46%	257
Excess capacity in the SWIS	31%	173
Higher network costs to maintain Western Power's regulated revenue	33%	182
Increase renewable energy costs and other market	15%	84

fees		
Additional margin due to additional allowable costs	4%	22
Synergy's lower cost to serve	-12%	-67
Total	100%	558

e. See above table.

2. Based on current modelling;
   a. How much would residential electricity tariffs need to have been increased by in 2013/14 for them to be cost reflective?
   b. How much would they then need to be increased by in 2014/15, 2015/16 and 2016/17 to maintain cost reflectivity?
   c. What is the estimated operating subsidy required due to residential tariffs not being cost reflective?

Answer:

a. 33.5 per cent excluding carbon.

b. Regulated tariffs are a matter of Government policy, where Government will make determinations on a yearly basis, taking into account a variety of considerations at the time, such as the community impact of potential decisions as well as financial drivers and overall economic conditions in the State. These decisions have not yet been made.

c. Over the period 2013/14 to 2017/18 the operating subsidy required for residential customers totals $1,576 million with the remaining $329 million required for small business customers.

3. Regarding individuals employed by Verve and Synergy at the time of the merger:
   a. Have any jobs been lost during the merger?
   b. If so, how many people have lost employment?
   c. How many people have been relocated?
   d. What is the total amount of employees currently employed by the newly merged entity, Synergy?

Answer:

a. Yes.

b. One.

c. Yes, four, with an additional one to follow in February.

d. 1109.

4. **How are Verve's debts being consolidated in Synergy, and what impact is this having on Synergy's overall function, debt level and profitability?**

Answer:

According to the legislation Synergy's (Electricity Retail Corporation) assets are being incorporated into the existing Verve Energy's Balance Sheet. As such the existing Verve's debts remain as they were prior to merger. There is no change to function, debt level and profitability. At the time of merger Synergy (Electricity Retail Corporation) had no debt.

5. **I refer to the merger and I ask:**

What is the total amount of expenditure on the merger so far, and on what was that expenditure made?

Answer:

Total expenditure to 31 December 2013 including RBU and GBU contributions, was approximately $10m.

6. **Can Synergy provide a breakdown of revenue received by way of providing energy, and revenue received by providing capacity? In other words, what per cent of Synergy's total revenue was generated by way of capacity credits, and what per cent of Synergy's total revenue providing actual energy to STEM generated?**

Answer:

For the financial year 2012/13 Synergy (Electricity Retail Corporation) received revenue primarily by the way of sales of electricity to both regulated and contestable customers, operating subsidy and the sale of gas. Synergy (Electricity Retail Corporation) must procure energy and capacity on behalf of its customers.

7. **What percentage of Synergy's revenue is generated through Government subsidies (with respect to the non-contestable market)?**

Answer:

Of Synergy's (Electricity Retail Corporation) total revenue in 2012/13 of $3,063.4 million government subsides accounted for approximately 14.5% ($445 million).

8. What is the total megawatts of capacity provided, and what is the total megawatts of energy provided to Short Term Energy Market (STEM) for the last financial year?

Can you estimate what those figures will be for financial year going forward?

Answer:

Synergy (Electricity Retail Corporation) must procure energy and capacity on behalf of its customers. However it spilt 459.9 GWh of energy surplus to requirements onto the STEM in 2012/13. At the present time this is forecast to be approx. 141 GWh per annum of surplus energy that will be spilt over the forward estimates.

9. What capacity margin is Synergy providing for the coming year?

Answer:

This question requires clarification as the definition of “capacity margin” is not clear.

10. What was Synergy's percentage retail margin for the year ending 2013?

Answer:

As per Synergy's (Electricity Retail Corporation) annual report, based on energy revenues of $3,063.4 million in 2012/13, Synergy achieved a retail margin (gross margin for electricity, gas and other services) of approximately 4.9%.

11. What will Synergy's percentage retail margin be for 2014?

Answer:

As approved during the Mid Year Review Synergy (Electricity Retail Corporation) is currently forecasting a retail margin (gross margin for electricity, gas and other services) of 5.1%.

12. What was Synergy's overall rate of return for the year ending 2013?

Answer:

Synergy's retail operations hold negligible tangible assets and therefore a rate of return, or weighted average cost of capital is not a meaningful metric, and is therefore not tracked on an ongoing basis.

13. During the year ending 2013, what was the total amount spent on corporate hospitality?

Answer:

Corporate hospitality expenses in 2012/13 totalled $314,667. This includes activities to secure significant sales contracts in the highly competitive contestable market.

14. What is the budget for corporate hospitality for the year commencing 2014?

Answer:

Corporate hospitality expenses in 2014/15 are budgeted to be $370,000. This includes activities to secure significant sales contracts in the highly competitive contestable market.