

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

17 October – 18 October 2012

Question: SBT 91-94

Topic: Electricity Prices

Written: Received from Committee – 26 October 2012

Senator JOYCE asked:

From the viewpoint of the Productivity Commission regarding electricity prices generally:

91. Is the PC aware of Lenore Taylor's page one articles on 28 and 29 September 2012 in the SMH entitled, "Ferguson swipes Gillard over electricity prices" and "Labor fury as Ferguson blunts PM's energy attack" respectively, where the Resources and Energy Minister Martin Ferguson appeared to set both the record, and the Prime Minister, straight on electricity price rises?
92. In particular, is the PC aware of the PM's allegations of gold plating of network "poles and wires" by State governments, and price gouging to fund dividends?
93. Further on those articles, the first paragraph of Lenore Taylor's 28 September article said that, "Conservative states are not responsible for big hikes in electricity prices and do not need to be threatened in a quest for "cheap" headlines, Resources Minister Martin Ferguson has said, just months after Prime Minister Julia Gillard made such claims." Is the Minister's frank assessment in late September of the relative impact of alleged State government "gold plating" and "price gouging" on electricity prices of late consistent with that of the PCs, and how so, or not?
94. Does the PC consider there was merit in the clarity and timing of these comments by the Resources Minister in late September, and why (or why not)?

Answer:

91. The Commission received copies of the relevant media reports.
92. The Commission received copies of the relevant media reports.
93. The Commission's draft report on electricity network regulation was focused on one component of customers' retail bills — network charges. Wholesale electricity prices and other costs, such as environmental policies and retail margins are briefly described, but not analysed. In relation to network charges, the Commission's draft report findings identified some pressures on network charges, including:
 - the need to upgrade ageing infrastructure and to address increasing peak to average demand
 - inadequacies in the National Electricity Rules that appear to encourage over-investment, especially by state-owned enterprises
 - inadequate incentives for demand management – given that a relatively few hours of critical peak demand have a large impact on required network infrastructure

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- levels of reliability (largely set by state governments) that sometimes are beyond that needed to meet customer preferences for reliability
- Increases in the weighted average cost of capital (arising from the global financial crisis and from successful network business appeals to the Australian Competition Tribunal)

The Commission found that, in general, states with privatised network businesses had better productivity levels and were less likely to spend more on capital expenditure than forecast in the regulated revenue determinations. Victoria and, to some extent, South Australia had better frameworks for reliability, which allowed some network investments to be deferred, with savings for their customers.

94. In its inquiry, the Commission has not examined the merit in the timing or clarity of the comments made by Minister Ferguson.