

**ECONOMICS AND INDUSTRY
STANDING COMMITTEE**

INQUIRY INTO DOMESTIC GAS PRICES

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 13 SEPTEMBER 2010**

SESSION THREE

Members

**Dr M.D. Nahan (Chairman)
Mr W.J. Johnston (Deputy Chairman)
Mr M.P. Murray
Mrs L.M. Harvey
Mr J.E. McGrath**

Hearing commenced at 3.00 pm

ELIOT, MR STEPHEN NIELS
Chief Executive Officer,
Retail Energy Market Company,
examined:

The CHAIRMAN: Thank you for coming in. This committee hearing is a proceeding of Parliament and warrants the same respect that proceedings in the house itself demand, even though you are not required to give evidence. Have you completed the “Details of Witness” form?

Mr Eliot: Yes, I have.

The CHAIRMAN: Do you understand the notes at the bottom of the form?

Mr Eliot: Yes.

The CHAIRMAN: Did you receive and read the information for witnesses briefing sheet regarding giving evidence before parliamentary committees?

Mr Eliot: I did.

The CHAIRMAN: Do you have any questions relating to your appearance before the committee today?

Mr Eliot: No; it is pretty clear, thanks.

The CHAIRMAN: Would you please state for Hansard the capacity in which you appear before the committee?

Mr Eliot: I am the chief executive officer of REMCo.

The CHAIRMAN: The committee has received your submission, thank you. Do you wish to propose any amendments to your submission?

Mr Eliot: No.

The CHAIRMAN: Before we ask questions, do you wish to make any statements in addition to the submission?

Mr Eliot: No; I will just make it clear that REMCo is owned by its members, so, although I am here, my comments are from REMCo and should not be regarded as comments from my members.

The CHAIRMAN: Who are your members?

Mr Eliot: WA Gas Networks, the network operator, as well as all the companies that are involved in the retail market—Alinta, Synergy, Premier Power and Perth Energy.

The CHAIRMAN: For the record, can you describe REMCo’s remit—what you do?

Mr Eliot: We operate the gas retail market in Western Australia. We deal with transfer of customers between retailers to permit competition. We deal with balancing allocation and reconciliation of gas in the gas networks. We also govern our own rule-change process. There is a set of rules that all the gas market participants must abide by under legislation. The Economic Regulation Authority approves changes to those rules, and we deal with compliance matters under the rules.

The CHAIRMAN: Can you describe the characteristics of a “Properly functioning competitive market”, you describe as a priority for government in your submission?

Mr Eliot: I guess the key characteristic would be a market that allows for free entry and exit of competitive retailers to set prices as opposed to regulated price-setting mechanisms. Effectively, it would require a competitive wholesale gas market, which is the issue that we primarily have in WA at the moment, as well as open access to the infrastructure—the pipelines and the networks—and competitive retail markets.

The CHAIRMAN: Do you think we have a competitive market now?

Mr Eliot: No.

The CHAIRMAN: Why; because of lack of access to the pipeline?

Mr Eliot: Yes. We have seen very little competition in the small side of the market in WA—that is customers below a terrajoule per year, households et cetera. In fact, we have seen no competition at that level.

The CHAIRMAN: It is a monopoly there?

Mr Eliot: It would be a monopoly among small-use customers, yes. Technically, anybody can enter that market, except Synergy. That is one of the reasons we do not have competition. Synergy is held out of the market because we do not have full retail contestability in electricity. They are being held out until electricity full retail contestability is implemented. That is a competitive neutrality issue and is probably an appropriate measure. That is one thing. We are holding out one of the most likely and reasonable competitors to Alinta. The other reasons would be access to gas and access to pipeline capacity. We have seen significant competition in the large customer markets. Synergy has by volume something like 40 per cent of the gas customers in the state—less than one per cent by customer numbers. That tells you something. That suggests there is competition at the large end, not at the small end. As we see wholesale gas contracts expiring for companies like Alinta, we are seeing competition at that end, but it is not flowing to the small end of the market.

The CHAIRMAN: You are seeing competition for the supply of gas or competition with Alinta in the wholesale market numbers?

Mr Eliot: Competition with Alinta in the wholesale market, but it is, of course, the wholesale supply.

The CHAIRMAN: Are you implying the reason Alinta gas prices are going up and others are more competitive is as a result of that?

Mr Eliot: Yes; except the other retailers would be held to the same pricing Alinta would.

The CHAIRMAN: Except lumpiness in terms of numbers?

Mr Eliot: Agreed, yes.

The CHAIRMAN: In the eastern states there has been full retail competition in gas, and, particularly in Victoria, a large turnover of people in terms of one competitor to the next. That does not exist here.

Mr Eliot: Correct.

The CHAIRMAN: Is there much to gain from doing it in such a small market?

Mr Eliot: At the time REMCo was set up, it was largely because, at the time, the commonwealth government was giving out competition payments. So it was implemented on the back of that.

The CHAIRMAN: When was REMCo set up?

Mr Eliot: In 2004, with the idea that the state would then continue down the process of gas retail competition. That was before Western Power had been split, and the wholesale electricity market had been set up so that was the next step and then electricity FRC and further measures to increase competition in the wholesale gas market. We are part way down the track. We need to finish going

further down the track before we are going to see the sorts of benefits we are seeing in the eastern states. Whether we will get there and when is difficult to say. There are lots of steps outstanding.

Mr J.E. McGRATH: Can you elaborate on what you think the government should do or what those steps are?

Mr Eliot: The primary impediment to competition at the retail level in WA will be energy tariffs—both gas and electricity, both of which are currently set below cost. Despite the large increase we have seen in both tariffs, they are still below cost and, on the electricity side, that is largely due to a 17-year interim between tariff increases. On the gas side, there have been CPI increases in gas tariffs since the tariffs were set up. But we are seeing large increases in the prices for the wholesale supply from the North West Shelf.

Mr W.J. JOHNSTON: What percentage of the retail price is made up of the gas price?

Mr Eliot: It has been a few years since I have looked at that, so I hesitate to guess right now. There is certainly information on that directly on the Office of Energy's website. It used to be that, depending on which sector you are looking at, between 20 and 40 per cent.

The CHAIRMAN: The variable portion of it would be larger gas prices?

Mr Eliot: Correct. The Economic Regulation Authority sets the rates for the network.

The CHAIRMAN: It is not related to gas prices—some kind of cost of production and inflation number?

Mr Eliot: Yes; or a market-driven price depending on what they can achieve from the Asian markets.

The CHAIRMAN: Yes. Do you see a growing lack of supply in the domestic market for gas and, therefore, continued increases in pricing?

Mr Eliot: As long as we have restrictions on supply, you will see high pricing. That is the nature of supply and demand. We need to make sure we take reforms to make sure we do not have barriers to competition. There is likely to be tightness in the market in the short term because it takes time to get these large projects up and running in the North West Shelf and to get pipeline expansion et cetera on the DBNGP et cetera. But I do not see why, if we can get a market-driven price and people are willing to pay that price in WA, that we would see a shortage of gas. The key being to have a price at which people are willing to sell and people are willing to buy it.

The CHAIRMAN: There are a couple of avenues. I guess this inquiry arose through political concerns about the availability and rising price of gas. You indicated that the price, at least at the retail level or even the wholesale level, is still too low to induce more competition into the market?

Mr Eliot: Correct.

The CHAIRMAN: There is, therefore, a bit of conflict here between politics and the direction of prices. One of the questions is: uncompetitive and disjointed as it is—you said it is not a fully competitive market—will pricing through that market bring about adequate supply?

Mr Eliot: I think it would. We are seeing some gas coming into the market—some tenders et cetera for gas. It is not really the area that I would have expertise in necessarily or exposure to on a daily basis. You would probably be better served to ask some of the retailers such as Synergy about those sorts of questions. The evidence seems to be that there is a willingness from parties like the DBNGP to expand if and when necessary. We are seeing projects come on line and they are all indicating willingness to supply into the WA market at the right price.

The CHAIRMAN: What do you think that right price is?

Mr Eliot: From the perspective of a gas producer, why would they sell to a WA consumer if they can sell it at a high price to an Asian market? You would have to net off all the costs to get it to the

Asian markets and a similar price available to WA. I would not think that any of the producers in the North West Shelf would be opposed to selling in WA at those sorts of prices.

The CHAIRMAN: So they netback LNG?

Mr Eliot: That is one way to look at it.

The CHAIRMAN: For some projects even offshore, but potentially onshore, there is no LNG market because it is either too small or they do not have the facilities. Perhaps that is the area the market might focus on. There has not been too much exploration for that in Western Australia for a long time, for obvious reasons. Due to the adequacy of the market and the pricing is pretty low, the way you tap into the high price of course, is by exporting. Are you confident this system we have of price transfer setting and transmission is an adequate signal to induce people to go out over a long time and spend a lot of money growing, forming and discovering and bringing gas on shore?

Mr Eliot: It is about allowing a price that allows such parties to earn an appropriate return on their investment. Without that, they certainly will not enter the market. Putting such an arrangement in place will not guarantee anything because companies will look at what sort of return they can get for investing their money in WA or elsewhere—be it offshore, onshore or in other countries. It cannot be guaranteed, but, globally, the evidence suggests that where there is sufficient supply and sufficient demand, you will get market-driven results. You can certainly see it in North America and in Europe.

The CHAIRMAN: How much more do gas prices need to adjust to be adequate? You said they are too low?

Mr Eliot: When I say prices are too low, I am talking about the government-set tariffs. On the gas tariffs, the last time the Office of Energy looked at tariff setting, it effectively did a cost stack and took the retail costs, so it is a view on what a reasonable retail cost was—the cost of transmission and distribution—and then said that if the wholesale price of gas is, I think they said \$6, a tariff would need to go up by this much. Alinta had made a proposal of something that was less than that, so the government said that it knew the price was in the plus \$6 range at the time, and it approved the increase. That is why we can say that the price was below cost at that time. That was a few years ago.

The CHAIRMAN: That is in the regulated portion of the market.

Mr Eliot: Yes.

The CHAIRMAN: What proportion of the market is total gas consumption?

Mr Eliot: Very small.

The CHAIRMAN: About four per cent?

Mr Eliot: Or less.

The CHAIRMAN: If that is regulated, okay you lose a bit of money on that. The shops do that on bread and milk all the time. That is really not holding back in, let us say, growth in the gas market very much.

[3.15 pm]

Mr Eliot: No, not on the large customer side, but on the large customer side, as I said, we are seeing significant competition.

Mr W.J. JOHNSTON: It has been suggested to us that there are residential developments going ahead in Western Australia now that do not have reticulation of gas as an option. Is that what you are experiencing as well?

Mr Eliot: That would, I suspect, largely be cost based as far as installing the network and access to the pipeline. Residential networks that are a long distance from the pipeline would be costly to

install, and it would ultimately be the developer who would be making that decision. **At the moment, I am working with WA Gas Networks to put that in place.**

Mr W.J. JOHNSTON: It has been put to us that perhaps it is because without a winter baseload—because people are not using gas for heating any more; they are using reverse-cycle electric air conditioners—you end up with such a small load of gas that the investment in the infrastructure is not returning. Is that something that sounds —

Mr Eliot: That would be a reasonable part of the explanation as well. With larger cost divided by smaller volume, you need to have a much higher price.

Mr J.E. McGRATH: Can I take you back to your comment about Synergy. You said that Synergy are basically held out of the retail market —

Mr Eliot: Yes.

Mr J.E. McGRATH: — and by doing that you are holding out the most likely competitor to Alinta. What would be the impact if Synergy was allowed into that market? What do you think would be the result?

Mr Eliot: Well, Synergy has a new billing and retail system, and would be fully capable of entering the market if the restriction was removed. Whether they would be willing to do so or not would depend on, again, whether they have gas contracts that they can make a reasonable return selling under, with, of course, the cap on what they can offer for a price, being regulated tariffs. I am not an expert on Synergy's gas contracts, so I do not know whether they would have the current gas capacity to do so, but I do know they are active in the market at the large end, which suggests they do have volume.

Mr J.E. McGRATH: So what you are saying is that there could be some benefit to consumers if that was allowed to happen.

Mr Eliot: Yes, but you would have to weigh that, of course, against the fact that if you gave them full access to the gas market without giving other parties access to the electricity market, you are giving Synergy, a state-owned corporation, a significant competitive advantage, which would have negative impacts as well.

Mr J.E. McGRATH: I have a further question. Are you suggesting that maybe both should be done at once—the electricity and the gas?

Mr Eliot: The gas is already done. I am suggesting we want to open the electricity retail market to competition and remove the restriction from Synergy. Timing for those should definitely be aligned. As for when we should open the electricity market for competition, that is a little bit harder question.

The CHAIRMAN: And that would be dependent upon whether or not they can make some money selling gas into the smaller market—right?

Mr Eliot: Yes; and the same would apply on the electricity side. Alinta, for the same reasons—they have billing capability and they have generation capacity—could offer electricity into the electricity retail market.

The CHAIRMAN: So could the Water Authority for all that.

Mr Eliot: Theoretically, if they were allowed to enter those sorts of markets, yes, as could any other retailer from the eastern states.

The CHAIRMAN: We did a trip to the eastern states and talked to all the regulators there. A couple of issues have come up. One is the gas bulletin board, and another one was that in Queensland—this is not a national initiative but an initiative of the Queensland government—they have a gas commissioner, as they call it, whose task is to look at and monitor the market and come up with, I guess, regulatory policies that, as the coal seam methane gas market unfolds, are

appropriate. There was another one, which was the short-term trading market that opened up when we were over there. Can you comment on these three policy initiatives?

Mr Eliot: I certainly can, yes. The gas bulletin board is an interesting initiative. Its main intent is to provide transparency to the market—what volumes are shipping where—which is information that is not currently available to the market.

The CHAIRMAN: Is that for the whole market?

Mr Eliot: The bulletin board that is operational in the eastern states is for all of the interconnected states. It is up and running, and has been for a little over a year now. WA does not currently have one. The Office of Energy put one in place for a short period of time immediately following the Varanus explosion, and trades were done under the gas bulletin board there. I should distinguish between two different types of bulletin board. One is an information platform, which is what the one in the eastern states is, and the one that was put in place in WA after the Varanus explosion was what the minister at the time called the dating service, which is actually not a bad term for it. It was parties saying, “I have gas available and I’m willing to make it available at this price”, and a customer saying, “I need gas and I need this much”, and simple matching. Then the parties went and figured whether they could come up with a commercial arrangement. The WA government is currently considering implementing a similar bulletin board in WA to what is now in place in the eastern states. That came out of a commission, or a committee, that was asked to address some of the issues that came out of the Varanus explosion. The Office of Energy and the minister have asked two parties whether they are interested in operating the bulletin board and why they would be an appropriate body. REMCo was one of them; the other one was the Independent Market Operator.

The CHAIRMAN: The state-based one?

Mr Eliot: Correct.

The CHAIRMAN: Did they consider the people who run the bulletin boards interstate?

Mr Eliot: The recommendation from the committee was a WA-based operator, and that was largely so that the market participants have direct access to the operator of the bulletin board. REMCo’s proposed path forward would be to use the IT systems that the Australian Energy Market Operator currently has running. It actually already has a WA component; it is just not switched on. And that was in fact paid for by the WA government. The Ministerial Council on Energy paid for the bulletin board, so, from a capital perspective, why would you not take advantage of that? If REMCo is to be given this function, we would get the information. The confidentiality arrangements would be with REMCo, which would then have a contract with the AEMO, and they would post et cetera. That bulletin board would not have the matching capabilities that the previous WA bulletin board had.

The CHAIRMAN: Could you build that in if it was needed in crisis times?

Mr Eliot: Yes, you could. I guess I should say that it would have the capability to do that. It actually does have, I guess, the capability to do it now. It is not being used in the eastern states. It is simply a matter that these parties, instead, do arrangements between themselves because the market is functioning. The short-term trading market that you mentioned is 13 days old now. What it does is that it handles the balancing on the eastern states’ markets. That is one of the functions REMCo currently does. We use a different type of arrangement called the swing service, and they are very similar in nature. The REMCo operations do most of what the short-term trading market already does. The exception is that the short-term trading market has that component that the bulletin board does not have. It allows for gas trading at hubs. They have currently got two hubs, and they will be looking to open further ones over time. The committee that recommended the bulletin board looked at that as a next step down the track: “Let’s get the bulletin board up and running; let’s get a gas statement of opportunities up and running, and then we can look to those as next steps.”

chai: What committee was this?

Mr Eliot: This was the Gas Supply and Emergency Management Committee.

The CHAIRMAN: That arose after the Varanus explosion?

Mr Eliot: Correct.

The CHAIRMAN: Okay. What minister or —

Mr Eliot: That was the Minister for Energy.

The CHAIRMAN: In the gas statement of opportunity, which is done federally also, do you think that would be a good idea?

Mr Eliot: Yes. That is another one that has been recommended. The Australian Energy Market Operator has published one so far. They are set to do their version 2 in December this year. And another one—this Gas Supply and Emergency Management Committee recommended it for WA as well, and the same thing applies. The Office of Energy has asked REMCo and the IMO, “Would you like to do this? Would you be capable of doing it?” and REMCo has put itself forward for that. We are awaiting a decision from the minister on both of those at the moment. The GSOO, as it is called, would be a mechanism to provide long-term transparency to the market, whereas the bulletin board would be short term. Again, neither of them would make a market per se.

The CHAIRMAN: Would they help, do you think?

Mr Eliot: Absolutely. Lack of transparency is one of the concerns in the WA market. It is not going to solve the problems; it is a step along the route.

The CHAIRMAN: And it is also a bit of sunshine on transactions and volumes and whatnot.

Mr Eliot: Volumes, yes. It would also help in emergency situations. One of the problems that arose during the Varanus explosion was a lack of information about the market.

The CHAIRMAN: Do you have issues about the security of supply pipeline? The Varanus explosion highlighted the dependence on a few thin pipelines, or, rather, onshore facilities or offshore facilities in that case. Do you and your members have concerns about that?

Mr Eliot: Certainly, yes.

The CHAIRMAN: What type of solutions have you thought of?

Mr Eliot: I would suggest that that is probably another one of those that you are best served to ask my members. They will have differing views on the subject.

The CHAIRMAN: Have you heard about firms wishing to invest in underground or otherwise storage of gas?

Mr Eliot: Yes. Storage is another good means to deal with seasonal fluctuation of gas demand. It allows parties to more optimally contract for pipeline capacity and gas capacity. My understanding is that the Mondarra facility is being considered for upgrade. I do not know what stage they are at on that, and I do not know what capability there is for other expansions. That is really a geology question. But you would expect, if we have a more liquid market, a more competitive market—that that is certainly something the participants would be more interested in taking advantage of. It is certainly an extremely important part of the North American market, where we do see a lot of liquidity.

The CHAIRMAN: In the Victorian market, too, yes. Can you expand on your argument on page 1 about community service obligation payments as a means of reducing the financial burden caused by a shift to cost-reflective pricing?

Mr Eliot: Sure. I guess that is what was recommended by the Office of Energy when the electricity price recommendations came forward. It was recognised that the —

The CHAIRMAN: When was that—recently?

Mr Eliot: That would have been —

The CHAIRMAN: That was before the election in 2008.

Mr Eliot: Correct; yes. That was when it was recognised that the electricity tariffs were something like 50 per cent below cost.

The CHAIRMAN: Seventy-two, actually.

Mr Eliot: It depends on which one, yes. But it would be fairly unreasonable to hit parties with a price increase of that much in one hit. That said, if you do not have tariffs that are cost reflective, you distort the market. So the concept was: if you move the tariffs to cost reflectivity too quickly, you have social impacts, as opposed to: if you do not move them there, you will have impacts on the market itself.

[3.30 pm]

You will see lack of supply, you will see the sorts of problems we have seen out of companies like Verve who was basically assigned the problem. The fact that the tariffs were so far below cost reflectivity was effectively assigned to Verve. The recommendation was, if you give a CSO to Synergy and that then flowed through to Verve through the contract between the two companies, it would address the market side of the concerns and the social aspects, and you could then increase the tariffs over time on a more reasonable path. That was sort of a one-off, let us bridge to where we are recommendation from where we are to where we need to be. Once we get to the cost-reflective tariffs on both gas and electricity, we need to recognise that social policy and energy policy are not the same thing and you cannot necessarily address one with the other. You see a lot of parties suggesting that we need to limit price increases or tariffs on the basis of social equity or social concerns, but that actually gives price advantages to parties who you do not necessarily want to be providing these benefits to—large homeowners in Peppermint Grove.

The CHAIRMAN: What is wrong with them?

Mr Eliot: They are not the sorts of people you want to subsidise. There is nothing wrong with them. I would love to be one myself!

The CHAIRMAN: Years ago when they did some—it was the rural one—the biggest user was the pub. By far the dominant users in rural areas were the pubs.

Mr Eliot: Yes, and small businesses.

The CHAIRMAN: Yes.

Mr Eliot: But I guess, if you look at the examples, something like 25 per cent of Western Australians are subsidised for electricity tariffs now.

The CHAIRMAN: What percentage?

Mr Eliot: Over 25 per cent, and that is aside from the fact that everybody is getting subsidised by the lack of cost-reflective tariffs. On top of that, a huge portion is getting subsidised. The question that government needs to ask is: who do we actually want to subsidise and who do we not? And if you put in a policy that says, “Let’s put prices below cost”, you are not targeting who you should be giving your social benefits to, and you will have negative impacts on the energy market. So, the better approach is to put the prices to where they need to be, figure out who you want to subsidise and use the CSO to hit them.

Mrs L.M. HARVEY: Just further to the 25 per cent of the Western Australian customers being subsidised —

Mr Eliot: Not an exact number though, something like that.

Mrs L.M. HARVEY: Are you talking about domestic users?

Mr Eliot: Yes.

Mrs L.M. HARVEY: You are not talking about industry or business in that number?

Mr Eliot: No.

Mrs L.M. HARVEY: It is more the domestic consumer?

Mr Eliot: Correct.

Mrs L.M. HARVEY: And their subsidisation, is that linked to their income or age?

Mr Eliot: It is linked to having any number of a list of qualifications being from pensions—a large list of them, not all of which are means tested, so you will get pensioners who are well off and get the subsidy.

The CHAIRMAN: Retired people?

Mr Eliot: Correct, yes—some of which will need it and some will not.

The CHAIRMAN: So the subsidies are targeted for various criteria.

Mr Eliot: Yes.

The CHAIRMAN: They might be a pension card or an elderly card.

Mr Eliot: Yes.

The CHAIRMAN: You have got to be careful about using that word, but nonetheless.

Mrs L.M. HARVEY: A Seniors Card.

The CHAIRMAN: A Seniors Card, yes.

Mr Eliot: Yes, and there is a long list of them. It is an extensive list of people who get subsidies; like I said, not all of which are means tested and that is why there is a large number of the population that is getting subsidised and are not the people that government really is trying to target for subsidy.

Mr J.E. McGRATH: You would not get it with a Seniors Card, though, would you?

Mr Eliot: Yes.

Mr J.E. McGRATH: You get a subsidy on your —

Mr Eliot: Yes.

The CHAIRMAN: You have a Seniors Card, don't you?

Mr J.E. McGRATH: No, I do not, but I do know people who are very well off who use the Seniors Card to get free travel and things like that; and they could buy the bus or the ferry!

The CHAIRMAN: There are decisions made by governments to provide subsidies on social grounds that are not related to income. But the point is well taken that energy policy and social policy can diverge and energy policy is not necessarily the most effective means of providing social benefits.

Mr Eliot: That is right.

Mr J.E. McGRATH: What about hardship policies? We heard in our visits in other states that I think all states have this hardship policy for people who are having difficulty paying their bills. How does that work in the domestic market in Western Australia?

Mr Eliot: There is a program called HUGS—hardship utility grant scheme. It is effectively a means to help parties when they have difficulties paying their bills. They can get some counselling on how to address financial concerns; they can get assistance for paying bills; sometimes direct financial assistance, depending on their specific circumstances. What we see out of a lot of the parties directly involved in these sorts of services is that, one, it is underfunded by government, and that is

a social policy question for government to consider—how much money should we be giving to these schemes? The other one is actually taxing the agencies who deal with this.

The CHAIRMAN: What agencies deal with it?

Mr Eliot: There is a number of agencies that can qualify for helping people with this assistance.

The CHAIRMAN: No, there are two things. One is people having trouble paying their bills and to get HUGS, as I understand it, you have to be delinquent or otherwise prove you cannot pay or have trouble paying.

Mr Eliot: You have to prove that you cannot pay, yes.

The CHAIRMAN: Then there is the other issue, the adjustment mechanism to rising prices; that is separate.

Mr Eliot: Yes, and then there are subsidies of customers as well.

The CHAIRMAN: Yes, okay. What programs exist to help the adjustment process, the CSOs; are there programs?

Mr Eliot: The CSO is a payment to the corporations because of the fact that they are not getting any cost-reflective price, and then the government is selecting annually how much they are going to increase the price. A more appropriate measure would be a long-term price path. This is where we want to go to get to cost reflectivity and then hand electricity pricing over to an independent authority, such as the Economic Regulation Authority.

Mr W.J. JOHNSTON: That is in respect of electricity.

Mr Eliot: The same applies for gas.

Mr W.J. JOHNSTON: Yes, but at the moment there is already an approval process for gas. The government does not set the gas tariff.

Mr Eliot: It does set the gas tariff. It is set by the Minister for Energy. It is actually entrained in the gas tariff regulations, which are changed by executive council.

Mr W.J. JOHNSTON: Okay, I will put it in a different way. When the utility was privatised the purchasers understood the system that was being used. I will put it in that term.

Mr Eliot: Yes. The tariff arrangements were put in place at the time of the sale and it was a CPI increase, to the maximum increase annually of the CPI.

Mr W.J. JOHNSTON: Indeed, the minister said he did not expect it to go up by CPI at the time of the sale.

Mr Eliot: Possibly. That is correct, and now we are seeing Alinta saying, “We need a larger increase than that”, because of their wholesale price pressures.

Mr W.J. JOHNSTON: They would say that, wouldn’t they?

The CHAIRMAN: Any other issues? Do you want to raise any issues that we have not explored?

Mr Eliot: No; I think it has been good.

The CHAIRMAN: Good. I have a closing statement. Thanks for your evidence today. A transcript of this hearing will be forwarded to you for minor corrections. Please make these, if you have any, and return the transcript within 10 working days of the date of the covering letter. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added by these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on a particular point, please include a supplementary submission for the committee’s consideration when you return or transcript, or we do accept subsequent submissions. Thanks for your evidence today.

Mr Eliot: Thank you.

Hearing concluded at 3.39 pm