

Perth Energy

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26 OCT 2006

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ACTION:

Dear Robert

SUBMISSION ON REVISED FORECASTS PROPOSED BY WESTERN POWER

Thank you for the ERA's invitation to comment on Western Power's revised forecasts.

We would call to the ERA's attention the importance of minimising the cost structure of electricity supply in the face of substantial inflationary pressures. This cost structure may be thought of as comprising three components of approximate equal size – capacity, energy and network.

Since the new Wholesale Electricity Market (WEM) commencement on 21 September, both capacity prices and raw energy prices (as measured by the Short Term Energy market) have increased dramatically. The higher capacity prices are locked in for at least the next three years and the higher energy prices are likely to be sustained by the general shortage of gas fuel.

In addition, the financial performance of the successor organisations of the former Western Power Corporation also decreased significantly in the quarter prior to the WEM commencement. This situation is likely to have deteriorated since WEM commencement. Press reports indicate that the need for price rises has been acknowledged by government but that for political reasons these cannot be implemented for approximately 2 years.

We note that Western Power's submission contains no comment on the impact of the revised forecasts on access prices. We advise that regardless of the appropriateness of the revised budgets, it is imperative that the ERA take an holistic approach to the issue and ensure that access costs are minimised.

Yours sincerely

DR STEVE GOULD
DIRECTOR