

# **STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS**

**2016–17 ANNUAL REPORT HEARINGS**



**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
WEDNESDAY, 14 FEBRUARY 2018**

**SESSION ONE  
SYNERGY**

## **Members**

**Hon Alanna Clohesy (Chair)  
Hon Tjorn Sibma (Deputy Chair)  
Hon Diane Evers  
Hon Aaron Stonehouse  
Hon Colin Tincknell**

---

**Hearing commenced at 10.00 am**

**Hon STEPHEN DAWSON**

**Minister representing the Minister for Energy, examined:**

**Mr JASON WATERS**

**Chief Executive Officer, examined:**

**Mr KARL MATA CZ**

**Chief Financial Officer, examined:**

**The CHAIR:** On behalf of the Legislative Council's Standing Committee on Estimates and Financial Operations, I welcome you to today's hearing. Can the witnesses confirm that they have read, understood and signed a document headed "Information for Witnesses"?

**The WITNESSES:** Yes.

**The CHAIR:** Thank you. It is essential that all your testimony before the committee is complete and truthful to the best of your knowledge. This hearing is being recorded by Hansard and a transcript of your evidence will be provided to you. It is also being broadcast live on the Parliament's website. The hearing is being held in public, although there is discretion available to the committee to hear evidence in private. 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 before answering the question. Agencies have an important role and duty in assisting the Parliament to review agency outcomes and the committee values your assistance with this.

Minister, would you like to make a brief two-minute opening statement?

**Hon STEPHEN DAWSON:** No, thank you.

**The CHAIR:** We will open it up to questions then.

**Hon AARON STONEHOUSE:** I refer to page 13 of Synergy's annual report and the reportable incident during which wastewater leaked from a storage dam at a Kwinana power station site. Can you tell the committee what the cost of the new lining of the dam was and how much has been spent to date on the ongoing monitoring of the site as a result of the leak?

**Hon STEPHEN DAWSON:** I will ask Mr Waters to comment.

**Mr WATERS:** Yes, thank you for the question. I do not have the specifics in front of me. We can certainly provide that as further information on notice, if you do not mind.

*[Supplementary Information No A1.]*

**Hon STEPHEN DAWSON:** Just to clarify, that was the cost associated with the lining?

**Hon AARON STONEHOUSE:** Yes, the cost associated with, presumably, a new lining of the dam, which I imagine was probably involved when responding to that incident, and any costs associated with the continued monitoring of that site as a result of the leak.

**The CHAIR:** Maybe we could add to that, if it is okay with you, member—presumably there was an issue around the ongoing maintenance for that incident to have occurred—what has been put in place to ensure that assets are better managed.

**Hon STEPHEN DAWSON:** Yes, Mr Waters can comment on that now. We are happy to provide the figures by way of supplementary, but we can give you a comment now.

---

**Mr WATERS:** The situation with that specific dam, from an operating point of view, was the fact that the station was out of service and the dam, based on its original purpose, is no longer used. The leak that was identified was simply rainwater, which was gathering in the dam, and rather than being captured and sealed was subsequently lost to the environment. From our perspective, we treat that as you would any other breach of integrity of the dam. The response to that, from our perspective, has been to undertake a full investigation of the site, understanding the risk, not only from an operational site perspective, where we would typically put substantially more effort into managing our environmental compliance, but obviously we now have a number of retired sites and increasingly so we find ourselves being the custodian of retired sites. We have heightened our attention and efforts around understanding the risks and obligations of those and ensuring that we have adequate protections and controls in place to ensure that we operate within our licences and protect the environment as we would be expected to.

**Hon DIANE EVERS:** My first question is about the decommissioning adjustment in note 17 on page 50. It is also referred to on page 61 in note 21. It is \$130 million. It refers to the change in assumptions recognised in the property, plant and equipment. What was the item decommissioned and what does it mean by “change in assumptions”? What is different this year?

**Mr MATACZ:** The decommission provision that we have in our accounts is reviewed on a regular basis. What happened was that we engaged external consultants to review whether we had provided enough for the decommissioning of all of our plants. Based on the latest information, the current provision we had prior to the conclusion of the 2016–17 accounts was in excess of the actual cost of the decommissioning. On the basis of the external consultant’s report, we reduced the decommissioning provision that provided the adjustment to the accounts.

**Hon DIANE EVERS:** Back to what you were saying originally, you are decommissioning quite a few things as you go along but you have overprovisioned for it.

**Mr WATERS:** That is correct. We are required to carry provision for all of our sites. Some of them are even operating sites that we may not envisage decommissioning for another 25 or 30 years. There is always an ongoing adjustment to the provision as economic cycles adjust, as factors that would drive the cost of decommissioning adjust relative to advances in technology, for example, but we certainly carry provision available to us for all of our sites that we operate. As Karl mentioned, that is regularly reviewed in accordance with the standards to ensure that that is adequate.

**Hon DIANE EVERS:** Page 7 states—I think it was in the director’s report too—that electricity sales are going down. I imagine this is a continuing thing. What are the expectations for next year and the year after? Where do you see this trending?

**Mr WATERS:** I am able to provide some overall commentary and maybe Karl can provide some numbers in terms of where we see growth going. Thank you for your question. One of the changes that has occurred in the broad provision of electricity, going back over the past 10 or 15 years, is that we have seen grid-delivered quantities of electricity fall, really as a result of the increase in residential PV. That is not a new story to anybody; it is a fact that has disrupted generally the operation of electricity businesses and electricity markets around the place. The four-year view that is shown on page 7 of the report, over that short-term snapshot, the adjustments there are probably more weather related than long-term trends. Karl may have some actual numbers, but I think we are now forecasting flat to low growth in demand. If we look back over forecasts between seven and 10 years ago, based on where we are today compared with where we thought we would be then, we have seen an overall dramatic reduction in the amount of grid-delivered electricity. That makes the operation of the business more challenging because both the investments in the network and the investments in the fixed plant required to generate electricity are being utilised less, so you

are recovering the costs of the operation over a smaller base of energy than you would have envisaged or planned for or would have once been able to provide over.

Karl, could you provide some indication of what we do see as our forecast for the market going forward?

**Mr MATACZ:** Interestingly, for the 2016–17 financial year we saw a decline in our retail sales volumes from the previous year—a 7.2 per cent reduction in sales that are retail. A significant portion of that was actually driven by a loss of contestable market share. We saw sales in our contestable market drop by 6.8 per cent. Overall, for the next few years we see again a slight decline in volumes as we also expect a significantly greater impact of the uptake of solar PVs. We are seeing slight reductions in retail demand, driven potentially by a significant uplift in retail solar PV uptakes.

**Hon DIANE EVERS:** That leads into the next question. On page 8 you talk about charging stations, which seem to make a lot of sense. I know that there are a few that are well used and they are appearing more and more often. What are the upcoming plans for that, given that if we switch more to electric vehicles, you might have a greater demand for the energy?

**Mr WATERS:** Yes. Generally, as an overarching comment from my perspective, we see over a period of time into the future that electric vehicles will be a game changer. It is very hard to put a time frame on it. The majority of time frames previously applied to any target around the uptake of electric vehicles have been missed. We have probably taken a more conservative view around where we see it having a material impact. Personally, I think we will start to see some momentum in the mid-2020s. Interestingly, we are also starting to see now more manufacturers producing lower cost electric vehicles and I think that is a trigger we have been waiting for. Synergy's view of it is that to the extent that we can provide facilitation of the uptake and make it easier for our customers through the supply of charging stations within the community, plus the installation of necessary charging equipment, perhaps at some future stage within the home, and maybe including a range of tariffs and other services that owners of electric vehicles may want to take advantage of, we certainly see as a modern-day contemporary retailer that that is very much part of the expectations of customers. We would be of the view that we will be ready to be able to provide that support when the time comes.

**Hon DIANE EVERS:** It is a bit of a chicken-and-egg situation though: if we had more charging stations, people might be more likely to take up the electric vehicles.

**Mr WATERS:** Yes, there is a funny aspect as well. It is occurring globally, but I feel as though it may be more of an Australian issue, and even more of a Western Australian issue: the concept of range anxiety is still a factor for many people, even though the science tells us that most of us do not drive anywhere near far enough for it to ever be an issue. But the feeling that you are limited to 100 or 150 kilometres has been an issue historically. The more modern vehicles are pushing that right out. My personal view is, again, that by the early 2020s we will see vehicles with 300 and 400-kilometre ranges, and I think that at that stage you will start to see the issue more again.

**Hon DIANE EVERS:** I think the Tesla already has 300 kilometres. I am in Albany, so I am already looking for one and seeing how quickly can I charge at Kojonup or Katanning. I have dealt with an electric motorcycle since 2010, I think, and it does a 60-kilometre round trip. It is there and we need to get past the idea of the range anxiety, because it is no longer a factor, especially if you can charge up when you go to the shopping centres.

**Mr MATACZ:** The other issue is affordability and range. There is not a great deal of scope in terms of alternatives for an electric vehicle's limited range. Also, the fact is that the price is still a problem for a lot of people.

---

**Hon DIANE EVERS:** They are under \$40 000, so they are getting down there.

My last question refers to page 10 of the annual report. You talk about a renewable future and community projects. There are a lot of different communities I am talking to who are starting to say, “Can we have a community windfarm or solar panels?” What is Synergy’s role in facilitating that? I know that sometimes they come up against the exorbitant cost to get them linked into the system, which pushes them to say that maybe they should just do it in their own community. Where does Synergy see that community structure go for renewable energy?

[10.15 am]

**Hon STEPHEN DAWSON:** Madam Chair, I will ask Mr Waters to comment on that.

**Mr WATERS:** We take a view that we are open to supporting any of those arrangements that communities want to bring to us on the basis of them being commercially sustainable with regard to other renewable energy alternatives that we can have, and we have some that we are party to currently. But I think, from my view currently, that our strategy is more about the economics of delivering to the large-scale target. We probably have some construction to make in the 200-megawatt range, at which there is a significant connection cost efficiency and construction efficiency. I can see the concept of community projects, fringe-of-grid projects, gaining momentum from here. I noted with interest this week the announcement around the Kalbarri project. That is a very good and very innovative approach to the delivery of renewable energy at a fringe-of-grid location that has historically had supply reliability problems. I think in that place, where you are talking about relatively small installations, that community-based model has significantly more potential to stand up against the larger, probably more cost efficient grid-based projects. Again, from our perspective, we do not take a view of preferring one approach over the other, but it is for us about achieving overall least cost outcomes for consumers whilst making the renewable energy transition. So we do therefore have a view that we monitor this thing on a case-by-case basis.

**Hon DIANE EVERS:** Using other parameters and costs, you are saying, such as distance, if it is on the edge of the grid?

**Mr WATERS:** I guess we have an edge-of-grid requirement. That is probably more of a Western Power-specific issue than ours, albeit that we still carry the same concern around the reliability for customers at the end of the day. Where there is a fringe-of-grid issue, and you are talking about a network-related issue, there is certainly an advantage in that space but I guess if you then swing back to the bulk of the system, which is providing large-scale energy to the south west interconnected system, and certainly the larger-scale transmission-connected projects then carry the advantage.

**Hon DIANE EVERS:** I guess I am still just thinking it would be useful to get some of those smaller scale ones where you have the community support, they are pushing it on and getting community funding to make it happen, if you could just give them a little bit easier access.

**Hon STEPHEN DAWSON:** That is something I am happy to raise with the minister, who probably has more power over this. There are ways of bringing it to his attention as well.

**The CHAIR:** I will move on to the next member, but I will point out that these are actually hearings on the annual report, and we probably need to focus on the content of the annual report, rather than hold a free-flowing informal briefing, although it has been very interesting. The purpose of it is to actually look at the performance of the agency based on what is reported in the annual report and, in doing so, also keep in mind that it is difficult for the agency to comment on that as a policy, particularly when the minister is not here. The minister representing needs to make sure that there is some kind of overview on that.

---

**Hon TJORN SIBMA:** My question pertains to some notes on page 81 of the annual report. It concerns the amended coal supply agreement and the convertible loan instrument with Premier Coal. I have some questions that stem from that. First of all, can I just ascertain whether Premier Coal has sought to renegotiate any of the terms or conditions of the current contract since March last year?

**Hon STEPHEN DAWSON:** I might ask Mr Waters to comment on that, but I seek your guidance, Madam Chair.

**The CHAIR:** March last year was in the context of the annual report.

**Hon STEPHEN DAWSON:** Absolutely, so we are talking about whether there was any renegotiation or any conversation between March and 30 June last year? Can I just confirm that?

**Hon TJORN SIBMA:** No, that is fine, particularly within the bounds of the annual report, absolutely, yes.

**Hon STEPHEN DAWSON:** Member, I was not trying to be difficult, I was just trying to get guidance from the Chair about the period of time we are talking about. In light of that, I will ask Mr Waters to comment on that period of time in the annual report.

**Mr WATERS:** There has been no request for further renegotiation. I think my overarching perspective on that coalmining operation is that it has operated with a degree of financial stability over the past couple of years and appears to be, from my point of view now, a pretty well run coal operation.

**Hon TJORN SIBMA:** When is the expiry date of the current contract?

**Mr WATERS:** It is 2030.

**Hon TJORN SIBMA:** You might not be able to provide me with this information—it might be an educated guess—but can I ascertain, through you, minister, what the expected life of the Collie mine is?

**Hon STEPHEN DAWSON:** Again, I will ask Mr Waters to comment on that, if he is positive that he can.

**Mr WATERS:** Yes, I can provide an overarching comment, and an estimate. If we look at the Collie basin generally, and we look at both the reserves and the resource that is currently available within those bounds, the broader Collie basin, I believe, has sufficient coal for many decades to come—probably in excess of 50 years, but again, I would say that would be something of an estimation from my perspective. The challenge when you are talking about the life of coalmines is the economic mineability of those coalmines, and that is subject therefore to the capital costs of accessing coal, the operating costs of removing it, the economics of its use in regard to the application of a carbon tax or any other regulatory impost, and issues with water. There is a whole raft of issues, but, certainly as it stands right now, the broader Collie basin in aggregate contains sufficient coal for well beyond the current life cycle of the assets that it supplies.

**Hon TJORN SIBMA:** In terms of ensuring security of supply and potentially maximising life and type of the existing resource, have you been in any consultation or early discussions with Premier Coal about the development of a new mine at Wilga?

**Mr WATERS:** Nothing in any detail. We are aware that that is an operation that they have access to, but we certainly have not been involved in any detailed discussions or negotiations.

**Hon COLIN TINCKNELL:** Thank you for attending, minister and Synergy. Page 10 of the annual report states that Synergy is a leader in renewable energy and will balance renewable energy and traditional generation to ensure a secure electricity supply. One of my questions is: what percentage of electricity supply is from traditional sources and what from renewable energy sources?

**Hon STEPHEN DAWSON:** I will ask Mr Waters to comment on that.

**Mr WATERS:** If I can, I will take the specific detail on notice, and we will provide that subsequently.

**Hon COLIN TINCKNELL:** All right, can I then also add to that: can you provide a breakdown by percentage of how much each type of renewable energy generates, and the cost associated with generating that energy?

**Hon STEPHEN DAWSON:** We can provide that.

**The CHAIR:** Are you able to provide all of that information?

**Mr WATERS:** There will be questions around our ability to provide specific cost information, depending on the extent to which it is specific to a facility or a site, but I would be of the view that we could provide general information around some of that.

**The CHAIR:** For information you are not able to provide, you will be able to provide us with an explanation about why not.

*[Supplementary Information No A2.]*

**Mr WATERS:** If you like, I can make a general comment in regard to the relativities of energy supply in Western Australia. Without knowing the specific percentages, we are still, I think, relatively low in renewables. From a total grid perspective, I think we are probably around about the 10 per cent mark but, as I said, I will provide that in more detail. We do have an opportunity to integrate, sustainably, more renewable energy into the system in Western Australia, and that is certainly something we are working on in coming years.

**Hon COLIN TINCKNELL:** The second half of this question is to do with the same. I will ask through the minister: how is Synergy building safeguards into these projects to prevent a large-scale blackout situation, as has occurred in South Australia, where the mix of renewable and traditional energy is a 50–50 situation?

**Hon STEPHEN DAWSON:** Member, just to clarify, those safeguards are solely in relation to renewables, not in relation to the traditional system?

**Hon COLIN TINCKNELL:** Yes.

**Hon STEPHEN DAWSON:** I might ask Mr Waters to comment on that.

**Mr WATERS:** To the extent that the issues in South Australia in particular are sheeted solely to the renewable energy component, which I think is debatable, very much so, but if we use that as the basis for the statement, I think South Australia has probably achieved well in excess of 40 per cent renewable energy penetration, maybe as high as 45 per cent. When I talk about us being around about 10 per cent, we have an opportunity to integrate a lot more. We are a long way from the level at which the South Australia event occurred, if we were to base that event and those subsequent events on the renewable energy levels, so we are a long way off that.

The second thing I would say is that we have a different market structure here in Western Australia, which is capacity market based, so we have both an energy and a capacity market here in WA, whereas the national electricity market that spans the eastern states in South Australia is an energy-only market. The key difference between the two in the Western Australian context is that our market actually has an obligation on the market operator to procure the availability of plant that can guarantee the provision of capacity, and renewable sources in those instances get significantly lower capacity credits allocated to them than a dispatchable form of generation, being a coal-fired plant or a gas-fired plant. Our market will always ensure that there is available generation to meet a given demand scenario, and I think that is a significant and positive factor in regard to that supply and reliability criteria that we have here in WA, which is actually growing in its application globally—

the idea of these capacity markets—and is certainly continually spoken about as being one of the options being considered for the national electricity market. In effect, the national energy guarantee contained some provisions of this, which is about that guarantee of providing some grid-dispatchable generation backup. We have that effectively designed into our market over here, which I think is a key factor.

**Hon AARON STONEHOUSE:** Those—I think you referred to them as capacity credits—can you explain little bit how that works? I have had somebody explain to me outside of this committee that Synergy pays generators for their generation capacity, not necessarily on the specific demand on electricity generation at any given time. Can you explain how that works, exactly, I suppose for a layman, so maybe not in too much detail?

**The CHAIR:** I just note that this is kind of outside the capacity of the annual report, but, minister, are you good with that?

**Hon STEPHEN DAWSON:** Sure.

**Hon AARON STONEHOUSE:** Just based on your answer, I might have some more questions along the same thread as the renewables question we just had.

**Hon STEPHEN DAWSON:** Given that the member wants an answer, and Mr Waters is happy to give it, we are happy to provide it.

[10.30 am]

**Mr WATERS:** The obligation around the application in the capacity market resides with the market operator, not with Synergy, so it is essentially a provision arrangement. It does a few things. One, it takes a forecast view of electricity demand in the system and it does that on the basis of extreme weather scenarios and with planning criteria that assumes a certain amount of plant that may be out of service at any given time. Therefore, it determines a level of capacity credits that it needs to acquire to meet a given extreme demand scenario inclusive of some plant being out of service, so there is always a safety margin built in. It then allocates capacity credits to facilities and those capacity credits are allocated on the basis of that facility to generate electricity as requested at a point in time when atmospheric and other conditions are likely to be least favourable to its operation. So it is again a conservative measure.

Gas turbines, for example, will get a D-rated amount because gas turbines produce less energy in extreme heat than they do during cold weather. Coal-fired machines tend to get something close to their nameplate rating and wind will tend to get a lower number, in some cases, even a relatively small percentage of its total nameplate amount, because the assumption is, if it is 40-plus degrees, it is unlikely to be particularly windy. The market operator will then aggregate the availability of capacity and if that amount is in excess of what is needed to meet the planning criteria, then there is nothing more to do; the capacity market has delivered the capacity it needs. If, however, there is a shortfall, it has the means of going to the market and procuring additional capacity to meet any forecast shortfall. It is doing this on a rolling two-year-ahead basis. The funding for the capacity market is funded by retail organisations of which Synergy is one and certainly the biggest, but other retailers also fund payments for capacity and those payments are made to those generators on the basis of their availability. If they break down or they are not available when required, then those refunds are collected, money is taken off them and is paid back to the retailer. It sits over to the side from the core energy market as a standalone market. It operates with a long-term planning view, but still operates very much day-to-day around: is plant available when it should be; and, if not, there is a penalty paid.

---



It is actually proving, I think, to be a pretty successful component of our market overall. We have had to make some tweaks and adjustments over the years. There are still aspects of it that are under review currently. But generally speaking, it has performed its purpose, which is to ensure that we have a reliable grid.

**Hon COLIN TINCKNELL:** I refer to page 10 of the report. In the last year, Synergy has been assessing investment opportunities, including expansion of the Greenough River solar farm and development of the Warradarge wind farm. My question is: is it confirmed that the new entity that will develop this Warradarge wind farm plus other Synergy assets be 80 per cent owned by a Dutch infrastructure fund?

**Hon STEPHEN DAWSON:** Madam Chair, I will ask Mr Waters to comment. I guess we are potentially straying outside the annual report time period; however, if he is able to comment on that —

**Hon COLIN TINCKNELL:** Thank you, minister.

**Mr WATERS:** Yes, I think as announced by the Minister for Energy last year, Synergy is currently working on closing out a partnership arrangement with a private sector investor, the result of which, subsequent to its closure of the arrangement, will see the development of Greenough River stage 2 and the Warradarge wind farm.

**Hon COLIN TINCKNELL:** Is the Dutch infrastructure fund committed to full payment of the developments in regard to all assets in the entity?

**The CHAIR:** That might be a question that goes to commercial-in-confidence, but I will check with the minister.

**Hon STEPHEN DAWSON:** Thanks, Madam Chair. At the same time as you were saying that, Mr Waters was telling me that this is up for negotiation at the moment and it is commercial-in-confidence, so I cannot give you an answer to that question.

**Hon COLIN TINCKNELL:** I understand. If there is a cap on the Dutch infrastructure commitment, what would that cap be?

**Mr WATERS:** I cannot comment on that.

**Hon STEPHEN DAWSON:** Again, I think we are in the process at the moment, so we cannot comment further on that at this stage.

**The CHAIR:** We will go to Hon Dr Steve Thomas.

**Hon Dr STEVE THOMAS:** Thank you, Madam Chair.

**The CHAIR:** You are very welcome.

**Hon Dr STEVE THOMAS:** The parliamentary friends of estimates over here!

**The CHAIR:** Just so you know, Hon Dr Steve Thomas is a participating member, not a full member.

**Hon Dr STEVE THOMAS:** I am an estimates fan!

**Hon STEPHEN DAWSON:** As long as you still treat him with the same respect, Madam Chair, as you would anybody else.

**The CHAIR:** He is, and he is also the shadow minister.

**Hon Dr STEVE THOMAS:** I refer you to page 77 of your annual report and information relating to subsidiaries. Obviously the interesting one for me, coming from the South West Region, is Vinalco. I must admit that I am a little interested that it was a little hard to find information in your annual report on the proposals for particularly Muja AB and that component. In relation to the Vinalco project, a 100 per cent subsidiary of Synergy, can I ask you: At the end of the reporting period that

is presented here, have you done a calculation of the total cost of that project from one end to the other? Have you put in the budget process an expectation for the decommissioning costs? I am interested to see, as a previous member mentioned decommissioning costs, what the proportion of decommissioning costs for that particular project are and how you have managed that process, and then, I guess, whether there is an estimation of the total cost of the Muja AB Vinalco revamp that may be presented. You must be planning for that overall estimate and cost at some point in time. If we can get some information on that project, I would be particularly pleased.

**Hon STEPHEN DAWSON:** I am happy to ask Mr Waters to comment on that. I do believe that this was something that Synergy was given as a result of the merger with Verve and it was not a deal it went into in the first place.

**Hon Dr STEVE THOMAS:** I am happy for complete honesty on both sides of the ledger here.

**Hon STEPHEN DAWSON:** I am happy to ask Mr Waters to comment as much as he can on this issue.

**Mr WATERS:** In terms of the original project and the cost overruns suffered, we certainly have calculated, and it has been subject to multiple investigations, inquiries —

**Hon Dr STEVE THOMAS:** The media have reported \$330 million. We can take that as the base level.

**Mr WATERS:** I think that is the kind of project cost.

On the first part of your question in regard to the total cost up until the closure of the annual report, we do not have that and the reason we do not is because for the majority of that period of time, really from about 2014 onwards, the power station was actually operating, so there were a lot of costs going into it which were typical maintenance costs, which you would expect with the operation of a facility. We can endeavour to provide something like that. However, it would be, I guess, inclusive of reasonable operation and maintenance charges that were invested in the plant over its running time beyond the completion of the original project that suffered the cost overrun.

**Hon Dr STEVE THOMAS:** Would you be willing to provide the cost to the end of the financial year or the annual reporting period in total and any estimates you have, and we will get to decommissioning costs in a bit? Would that be reasonable?

**Mr WATERS:** Yes, we can. I am happy to take that on notice.

**Hon STEPHEN DAWSON:** Mr Waters is happy to take that on notice. Obviously, as Mr Waters said, there are some variables or some things like maintenance costs that will be factored in there.

**Mr WATERS:** We will try to break those out.

**Hon Dr STEVE THOMAS:** If necessary. Maintenance is a normal part of the operation of the venture.

*[Supplementary Information No A3.]*

**Mr WATERS:** In regard to the decommissioning, a share of our total decom provision is inclusive of the amount allocated to Muja AB. That amount would have been spent irrespective of whether the project was rejuvenated back in 2009 or not. That was always something we carried.

Karl, do you have the decom share of our total decom provision that was allocated to the AB site?

**Hon Dr STEVE THOMAS:** Or it could come as further information if necessary.

**Mr MATA CZ:** I have the total for all our sites, but not specifically for the Muja AB assets.

**The CHAIR:** You have the overall total?

**Mr WATERS:** We have the overall total. We can provide the Muja AB decom provision component on notice, if you like.

**The CHAIR:** Was that not part of A3?

---

**Hon STEPHEN DAWSON:** No; we have not gone as far as the decommissioning.

**Hon Dr STEVE THOMAS:** It is separate.

*[Supplementary Information No A4.]*

**Hon Dr STEVE THOMAS:** I think that information will deal with the first part of where we are going with this. Thank you for that.

To move on from that, I guess we could use the same point or I could refer you to some of your other comments in the annual report about Muja. But in relation to the coal question earlier on, there are about a billion tonnes of coal sitting in the combined Collie valley, which includes the Wilga extension. You are absolutely right; the real question is how much of that coal is available at \$43 a tonne is the critical question, so well done on that. That is an aside.

In relation to Muja CD, though, my understanding is that, obviously, these are old units that have had their life extended as happens with every power station over a fair period of time. We are talking, I guess, units 5, 6, 7 and 8 and two of those units in particular, in my view 5 and 8, are struggling a little bit in terms of the need to invest in maintenance or replacement or retirement on the basis there is still close to 1 000 megawatts of excess capacity. What is Synergy's plan for units 5, 6, 7 and 8? Is there a retirement schedule in place over time that you are working on over future planning processes, or is it an intention to try to extend the lifespan of those units further and further down the track? There would have to be some significant planning engaged in this reporting period to plan for future years.

**The CHAIR:** I will point out that some of that question, of course, goes to questions of policy. I know you are asking what planning was undertaken in the context of the annual report. That is really what you are asking, isn't it?

**Hon Dr STEVE THOMAS:** Yes. There will have to be planning as a component of that. You have inherited it, so it is not a political point score; it is actually a question of substance.

**Hon STEPHEN DAWSON:** Sure, thank you, member, for the question. I agree with Madam Chair; you were kind of talking about the future and questions probably best left to parliamentary questions in the house or the normal kind of estimates period after the budget. However, Mr Waters might be able to comment in relation to the annual report time frame and what work was done, if any was done, in that period.

**Mr WATERS:** I guess in regard to your comments, yes, Muja CD, we are talking about units 5, 6, 7 and 8 and they are roughly 200 megawatts each. They are getting on in their lives, although the reality is that while coal plant of that design is kept operating and there is availability of both sustaining capex plus opex that can be invested in them, they can run for very long periods of time. We do not have a very strong and certain view at this stage around retirement dates because there are just too many bands of uncertainty that we are dealing over the next, I am probably talking 10, 15, 20-year period now. I would say that as guidance, we would see that the Muja C machines would operate out until roughly the middle of next decade. Muja D will probably operate potentially well beyond that by as much as another decade to maybe the mid-2030s. The reason I say there is uncertainty is because we have a range of unknown policy directions, most of which are at a federal level. So I am not talking about state policy, but about federal policy; that is, where do we go with the reintroduction of some form of carbon abatement mechanism, bearing in mind Australia is a participant in and has signed up to the Paris Accord which requires that 26, 28 per cent reduction in carbon emissions off the 2005 level by 2030. Some of these questions are not necessarily clear yet in terms of the impact they will have on our fleet. It is an area of significant work for the business, almost constant ongoing oversight, because these are very critical and delicate decisions and you

really only get to make the decision to retire a big plant like that once, in most cases. From our perspective, with the obligations we have around maintaining least-cost supplied energy and affordability and reliability while we achieve that sustainability and carbon reduction component, it is very important. We spend a lot of time almost continually modelling this and looking at various, I guess, potential outcomes. But we are unable, given the duration we are talking about, to have firm dates.

[10.45 am]

**Hon Dr STEVE THOMAS:** Absolutely, and obviously there are the unknown maintenance issues that crop up, and you never know those things. I am not chasing too many specifics, but the one you might be able to answer is: Is there the capacity to stage either decommissioning or replacement? Could you ultimately drop those units, one at a time, over a 30-year period if need be, or is there a structural mechanism that requires it to be done in job lots?

**The CHAIR:** Member, that is a hypothetical. Generally we do not take hypotheticals. I will leave it up to the minister —

**Hon Dr STEVE THOMAS:** If it is not answerable, that is fine.

**The CHAIR:** — whether it is answerable, but I just want to bring us back to the parameters of these hearings. If we want to have general briefings or information hearings, I am sure that could be facilitated. The point of these hearings is the annual report. If we are not concentrating on the annual report, our time would be better spent with other agencies as well on their annual reports. Having provided that framework, I will go to the minister.

**Hon STEPHEN DAWSON:** I appreciate your guidance, Madam Chair. Mr Waters is here and I am happy to ask him if he is able to provide any further comment to that question. If he is happy to, he can.

**Mr WATERS:** Thank you; I am happy to answer it. The reality is that you have the choice to do it either way. It can retire at the end of the time, albeit that the units are tied together and there is a raft of common plant that sits between the two. It is probably more traditionally the approach to retire them stage by stage, but the circumstances may be such that we would look at an alternative and retire them under a separate structure, a unit at a time, to those you have described, over a longer period. So we have those options.

**Hon Dr STEVE THOMAS:** Thank you. I might come back to renewables once we have gone around again, if we can, Madam Chair.

**The CHAIR:** Okay, and the content of the annual reports. Thank you. What members are left interested with questions?

**Hon AARON STONEHOUSE:** I have something to say on mine. I was just wondering, when talking about the Paris Agreement and that 26 to 28 per cent target—it is on page 12 of the annual report—the report talks about doing this “responsibly, balancing renewable and traditional generation to ensure security and reliability of electricity supply”.

**Hon STEPHEN DAWSON:** Sorry, member, I do not mean to be rude, but can you tell us what page number?

**Hon AARON STONEHOUSE:** Sure; it is on page 12. It is sort of on the right-hand side of page 12 under the subheading “A renewable future”.

**Hon STEPHEN DAWSON:** Member, page 12 on our report is a picture.

**The CHAIR:** We have come across this problem before.

**Hon AARON STONEHOUSE:** I am on the PDF. It would be page 10 on the printed version I think.

---

**Hon STEPHEN DAWSON:** Thank you for clarifying.

**Hon AARON STONEHOUSE:** Just the language that is used there, talking about balancing renewable and traditional energy generation, are you able to quantify that and put that into a figure that we could understand? In the short term, what mix of renewable and traditional creates that sustainable and balanced and secure energy generation for our needs? Can you talk to that at all—where we are at the moment in the short term? I know the Paris Agreement is, I think, 2030, so we are a fair way off of having to hit that 26 per cent target. Have you got any commentary on that at the moment?

**The CHAIR:** Again, I will point out that this is annual report hearings rather than a general commentary hearing on matters of policy, which we could have as a committee. It is about the agency's performance. It is a retrospective look at the agency's performance based on the annual reports. I will take broader questions to assist with the flow of the hearing, but, minister, in the context of that, could you please answer?

**Hon STEPHEN DAWSON:** Sure, Madam Chair. I think Mr Waters probably can give you a comment. How long is a piece of string is probably the answer to your question, member, in terms of what it might look like. I will certainly ask him to make a comment if he can.

**Mr WATERS:** Thank you. It is very hypothetical. It really also comes down to the economic framework of the market at that point in time. I guess more my view now is that, coming off a relatively low base, we have space to invest without impinging on those parameters there, up to around the 20 or so per cent mark. That is probably our near-term target. I think in the next decade and the next raft of decisions we make, we would need to undertake a much deeper level of analysis to get to the answer I think you are seeking, which is what might a 2030 picture look like. That will come down to questions again around the availability of technologies. The availability of storage I think will be critical out then. We have a view that sees storage becoming a much more significant part of the overall generation mix. The extent and its price and therefore availability I think is a little bit uncertain, so there are probably some key planks we need to land still before we can paint that future picture with any sort of clarity.

**Hon AARON STONEHOUSE:** I suppose as technology changes, that target will shift as well as we see innovations in that space.

**Mr WATERS:** Yes, certainly.

**Hon TJORN SIBMA:** Through you, minister, but Mr Waters might be best able to provide me with some satisfaction of my —

**Hon STEPHEN DAWSON:** Are you suggesting, member, that I cannot provide you with any satisfaction?

**Hon TJORN SIBMA:** Well, minister, that is possibly for another time and place.

Mr Waters, I refer you to your chief executive officer's report on page 4. My query commences with the recorded after-tax loss of more than \$12.5 million. You go on, I think quite reasonably, to explain the reasons underlying that result, but can I seek from you how that actually corresponded with Synergy's own targets that would have been expressed in the statement of corporate intent?

**Hon STEPHEN DAWSON:** I will ask Mr Waters to comment. He might want to give Mr Matacz an opportunity to answer some of it.

**Mr WATERS:** Unless Karl has that, I do not have in front of me the SCI target. I would need to take that on notice and go and find it and provide it. Karl, do you have that? That was not a target we have probably looked at for a little while.

---

**Hon TJORN SIBMA:** If it would be of assistance, gentlemen, I have a copy of that statement of corporate intent that was tabled on 11 October, presumably by you, minister. I can pass it to you if it assists in the accurate and timely answering of some questions.

**The CHAIR:** Thank you, member. What we will do is just give Mr Waters time to have a look at the statement and bring it back to the annual report.

**Hon STEPHEN DAWSON:** Thanks, Madam Chair. The advisers are having a look through that at the moment. I would point out that I have obviously provided you with some satisfaction previously by tabling the SCI in the Parliament, member!

**Hon TJORN SIBMA:** Indeed, minister; you are among the highest performers in our house, notwithstanding the excellent chair we have here, but among your ministerial colleagues you are first-rate.

**Hon Dr STEVE THOMAS:** A rose among thorns on Valentine's Day.

**The CHAIR:** Valentine's Day is spilling over! Much too much Valentine's Day.

**Hon TJORN SIBMA:** Gentlemen, you might understand the implied point that I am making here: that these agency hearings, dealing with an evaluation of annual reports, need some metric to gauge performance against. With respect to the annual report—I am not saying that it is an incomprehensive document—I just want to know how to accurately assess Synergy's commercial performance when I do not have data in the annual report that actually guides whether targets were met, justifications for why targets were not met or exceeded, and what the actual performance for the 2016–17 year was.

**Hon STEPHEN DAWSON:** I will ask Mr Waters to make a comment first, and he might then hand over to Mr Matacz. We may well have to provide a level of detail on notice, but let us see what we can give you now.

**Mr WATERS:** I do appreciate your point, because we have targets and we report in the annual report. Unless you know what the targets were, it is very difficult to get a judgement on whether or not we perform well. Looking at our accounts that Karl has got there, the margin we achieved for FY17 was 5.3 per cent and the target —

**Hon TJORN SIBMA:** Sorry, Mr Waters; was that for your earnings before interest, tax, depreciation and amortisation?

**Mr WATERS:** Yes.

**Hon TJORN SIBMA:** Without being silly, so the actual was 5 —

**Mr WATERS:** What I was going to suggest, member, if you do not mind, is that we can actually provide a follow-up table comparing our actual results with those provided in the SCI and we can provide some commentary, because I think the next question, which I do not have right at my fingertips, although Karl may have a view, is: why did we finish a per cent shy of a target; what changed? If you are happy to take that as a question on notice?

**Hon TJORN SIBMA:** More than happy to. I think that would certainly satisfy where I am going with this.

*[Supplementary Information No A5.]*

**Hon TJORN SIBMA:** Without providing gratuitous advice that educated people do not need, and the point has been taken, can I underscore my deep passion in seeing some comparative metrics in your next annual report so that there is actually a sufficient base to make educated assumptions about whether Synergy is meeting or not meeting its targets. This is not to get to policy; this is to get to

the evaluation of performance. Has a statement of corporate intent been drafted for the 2017–18 year?

**Hon STEPHEN DAWSON:** I will ask Mr Matacz to comment on that.

**Mr MATA CZ:** Just in regard to your request, we actually do not do comparatives against SCI targets in the annual report. Unfortunately, the annual report is not for a comparison against planned performance; it is a comparison against a previous year's performance. That is why, for instance, in the annual report we do not report our performance against targets that have been set. We do that to the board and we do that to the minister and to Parliament through different mechanisms. But in regard to the annual report, we do not report against targets that have been set for the business.

**Hon TJORN SIBMA:** Can I just seek clarification through you, minister, and gentlemen? What actual document, then, should I refer to? If you are providing performance reports against KPIs as established in the SCI, what particular document should I refer to so I do not waste anyone's time in a hearing like this in the future?

**Mr MATA CZ:** We provide the minister a quarterly report against our financial performance and against operational KPIs that have been set and are actually established and compared against the SCI.

**Hon TJORN SIBMA:** Fantastic, so I should seek clarity via you, minister, of the quarterly?

**Hon STEPHEN DAWSON:** By all means, member. You are welcome to ask me a question in the Parliament.

**Hon TJORN SIBMA:** Thank you. I might just pass up my time. Can I just clarify, though, that a statement of corporate intent has been finalised at board level in Synergy for the 2017–18 year?

**Mr WATERS:** I believe so, but I would take on notice and confirm that. I certainly would expect and believe so. Karl, are you aware that one has been set up at our end?

**Mr MATA CZ:** Yes, it has, and then we are reporting against it to the minister on the quarterly basis.

**Hon TJORN SIBMA:** Thank you very much, gentlemen. For the time being, I have no further questions.

**Hon Dr STEVE THOMAS:** If we could just then slip back into, and we have discussed it a little so far, the renewable energy settings, I guess. We could go to page 3 of the report.

**The CHAIR:** That is your hook, is it?

**Hon Dr STEVE THOMAS:** This is my hook. It states —

While further reform is required, Synergy will continue its focus and drive to develop the cheapest forms of renewable energy in the state in order to meet our 2020 renewable energy obligations.

I understand that you will provide further information based on a previous question about how far Synergy is along in that process, unless you wanted to make approximate comment on how far through you are and upcoming demand that might require. Can I ask you, then, in relation to this reporting period, what renewable energy capacity you are looking at and planning on? I note, in particular, that there are some proposals for renewable energy projects on top of those that currently exist in the state—solar, in particular, in Collie; wave, which looks particularly interesting in Albany, which Hon Diane Evers is probably quite interested in as well; and biomass, which is probably a bit more problematical, but you would have had experience with the projections for that as well. In relation to making sure that this particular bit from the chairman of the corporation is met, can you make some comment on how those projects look and where else you might look at investing in alternative renewable energy?

[11.00 am]

**The CHAIR:** Thank you, member. That is a very interesting question and I am really interested to hear the answer too. However, it is verging on the future and is hypothetical. It is not based on the performance of the agency in 2016–17 per se. Having said that, we would welcome a general briefing from Synergy regarding its future plans, but these are the annual report hearings. Minister, noting that you and the agency have been very flexible in responding to these answers, I hand it to you.

**Hon STEPHEN DAWSON:** Obviously, we are here to please. The question probably should have been: what forms of renewable energy were progressed in 2016–17? But, anyway, you have asked your question. Mr Waters can probably make some commentary.

**Hon Dr STEVE THOMAS:** I am sure some planning work was done during that period of time, minister.

**Hon STEPHEN DAWSON:** Potentially. Let us see what we can give you, member.

**Mr WATERS:** The planning emphasis for the last 12 months has been Synergy's obligations under the large-scale renewable energy target. As I touched on earlier, that is where we envisage, subject to the completion of current negotiations, the delivery of the Warradarge wind farm and the Greenough River solar farm. Having said that, there is always scope for us to consider alternative projects in the post-2020 view. We are aware that there are lots of opportunities and offers and interest and various technologies available to us but we have not actually developed firm plans around that yet. There are a few things we are looking at. Our focus is on what is in front of us now, which are the current two projects that we are working hard on.

**Hon DIANE EVERS:** The first one is on the annual report. I was looking at depreciation.

**Hon STEPHEN DAWSON:** Member, can I ask you what page you are on please?

**Hon DIANE EVERS:** I am on page 51. The reason I looked at this is that you were talking about the loss of \$12 million. I noticed it was in two parts—the corporation and the group. In the corporation side, the depreciation was shown quite differently. That brought to my attention that depreciation in 2016 was \$128 million and then just \$52 million in 2017. Usually depreciation does not vary that widely. Were some adjustments put through?

**Mr MATACZ:** In the 2016–17 financial year, we accelerated the depreciation of the Muja AB assets because the decision was taken to early retire those assets. That was the reason why the depreciation figures looked significantly different from the prior year.

**Hon DIANE EVERS:** You have actually taken out for Muja?

**Mr MATACZ:** Yes. Because the idea was to retire the assets earlier than what was planned, we depreciated the assets over the shortened life of the asset.

**Hon DIANE EVERS:** You removed it. If it was being taken out, would your assets drop by the value of it as well?

**Mr MATACZ:** Yes, because in our impairment, we have included a reduction in the value of the asset as well. We accelerated depreciation because they were now retired or planning to be retired, and also the impairment in relation to the decision to actually close those units.

**Hon DIANE EVERS:** Could you tell me about the loss on the retirement debt? Does that go back to the earlier question? In the books here, there is a loss because of that.

**Mr MATACZ:** There is no loss recorded at the moment simply because for Muja AB, it is part of Vinalco—100 per cent owned; a subsidiary. At a consolidated level, the impact is that we get

---



significant increase in the depreciation and we also get an impairment. That is what is in the accounts at a group level.

**Hon DIANE EVERS:** The other question relates to the capacity credits that you were talking about earlier. It does relate somewhat in the same way to the previous question. Diversification: you said the capacity credits are based, in bad circumstances, on what is expected to be got out of that. But if you have a variety of solar, wind, biomass, battery back-up, wave, geothermal, it is not quite as critical. It seems to me that that capacity credit system, which I do not quite grasp completely, may actually inhibit the production of more renewable energy. Is there any thought that as we have a greater diversity of renewable energy, maybe that capacity credit system might be changed to reflect the fact that you have other things to rely on?

**Mr WATERS:** Your question probably goes to a greater level of detail that I went into in answering that. When I spoke about the capacity credits being allocated on a worst-case scenario basis, I was probably being overly general in regards to the way it plays out because it certainly does do that for gas and coal and what you would call other dispatchable forms of generation. My understanding—I must admit that I have been a little bit away from the detail of the market operation in this space for a couple of years now—is that in regards to renewables, it is based on the actual performance of the facility in the prior period at the peak market interval or an average over the collection of peak market intervals.

**Hon DIANE EVERS:** What is peak marketing?

**Mr WATERS:** Peak demand market intervals.

**Hon DIANE EVERS:** So summertime, mid-afternoon?

**Mr WATERS:** Yes, summertime. They look across the year and say that the peak intervals or the peak group intervals occurred during that week when it was 40 degrees and at that half hour at 4.00 pm, this is what the aggregate of the renewable energy generation was generating. By default, it actually picks up that diversity that you are talking about, but at an individual facility level, it judges it on the basis of its individual performance across those peak intervals. It does reward, for example. To talk in general terms about the correlation of renewable energy production, I am talking about going to wind here as the kind of key technology. South coast wind farms like the Albany wind farm that we have had in operation for many years actually correlates quite well with Perth peak demand because in the majority of cases, you probably know that it is cold in Albany and you will have a steady southerly blowing.

**Hon Dr STEVE THOMAS:** It is always cold in Albany!

**Mr WATERS:** However, if your wind farm is in the goldfields or the midwest, it is less likely at peak times to be seeing that generation. It actually does indirectly send an investment signal and it does reward the diversity of both technology type and location.

**Hon DIANE EVERS:** That is interesting. It does not have anything further to do with the annual report but that would affect, as you say, investment and it may not be that we just need peak demand, but, for now, maybe that is what we are looking at.

**Hon COLIN TINCKNELL:** I have just one interest question. I have a great interest in the Indigenous workforce. This is regarding your “Our People” part of your report. Can you give a rough figure of the percentage of your workforce being Indigenous? If you cannot give that, could you just give me some idea of the courses or programs that you may be running to assist in that area? I notice that your staff took part in NAIDOC Week and things like that. I would just like some idea of that.

---

**Hon STEPHEN DAWSON:** I will pass that on to Mr Waters. It is a good question, member. I think a few of us in this room have a strong interest in the Indigenous workforce and increasing that across the public sector.

**Mr WATERS:** As do we. In terms of the current percentages, I would have to take that on notice, if you do not mind. I am more than happy to provide that.

**The CHAIR:** We will give that A6.

*[Supplementary Information No A6.]*

**Mr WATERS:** I would say that without needing to see the target, it is certainly lower than what I would consider acceptable and certainly lower than my personal ambitions for what we could achieve as a business. Under our direct diversity program, as you have touched on, we celebrate NAIDOC Week and a range of similar events. To the specific though, we are slowly getting underway an internship program looking to provide Indigenous employment training opportunities at our sites. As is the case with these things when you are trying to change the operation and approach of a relatively large business, we are starting gently and building our internal capability and ensuring that we are able to offer a successful outcome. We have a small number of current trainees in that space. As I said earlier, I have a personal ambition that we can grow that in the future.

**Hon STEPHEN DAWSON:** If I can further add, obviously the Minister for Energy is also the Minister for Aboriginal Affairs. He, too, has a strong interest in this area. I know that he will be making sure that all agencies under his portfolio lift their game in this regard. He is very keen to see all of us increase the number of Aboriginal employees, whether it is GTEs or government departments. Stay tuned. It is a very good and important question.

**Hon TJORN SIBMA:** I just want to refer to page 3. I will generally focus on tariffs pricing, and perhaps if you have available time, you can talk about assistance to some of your customers. At the outset, I am taken by the chairman's very candid report. From my perspective, it is quite welcome. Can I just focus on systemic problems in governments not taking the politically brave decision to set tariffs that are reflective of the costs behind the generation of electricity. I just note in recent times that decisions—I understand them; I am not making a political point here—effectively led to a 10 per cent increase in residential electricity consumption costs. I just want to know whether we are getting close to cost reflectivity from Synergy's perspective or do we still have some way to go? Would you be able to detail what that gap is at present?

**Hon STEPHEN DAWSON:** I do not think the premise is right in terms of individuals having a 10 per cent increase in their power bills. I think the 10 per cent increase was in relation to the service charge. I just make that point. I am not sure if Mr Waters or Mr Matacz want to make a comment on this issue—or can.

**Mr WATERS:** It is very important to note that Synergy does not set tariffs; it is very much an area of government policy. It is an area for government decision-making that occurs on an annual basis through the budget process. However, I think, generally speaking, we are about 15 per cent shy of cost reflective tariffs, but, again, I could not provide that as a definitive answer. It is not one that Synergy is in a place to make specific comment in regards to.

**Hon TJORN SIBMA:** I understand they are government decisions. They are not taken by Synergy; they are taken by the Treasurer and cabinet. I am curious to know about that gap. You can comment on costs. I just want to confirm whether or not that 15 per cent gap is —

**Mr WATERS:** I am happy to provide that. Karl has just informed me that it is 8.3 per cent.

---

**Mr MATA CZ:** That variation is a variation between not Synergy's cost but the Public Utilities Office long-run marginal cost estimate and based on the long-run marginal cost estimate, the gap is 8.3 per cent.

**Hon TJORN SIBMA:** Is that for the 2016–17 financial year or the 2017–18 financial year?

**Mr MATA CZ:** That is for the 2017–18 financial year and that is the gap relative to the A1 tariff.

**Hon TJORN SIBMA:** Thank you very much for that. I want to get an understanding of how far that gap has been closed.

This might be a series of questions for another agency but I thought I would address it because it is included in your annual report at page 9. It concerns Synergy providing customers with payment assistance. If you need to take these questions on notice, that is fine. If they are better referred to another agency, that is fine. I am curious to see what I can get out of this opportunity. Can I see whether or not there is information available as to the number of customers experiencing financial hardship in paying their bills for the period of this annual report?

**Hon STEPHEN DAWSON:** Is that the number of customers who experienced financial hardship on a monthly basis during 2016–17? Do we have that information available?

**Mr WATERS:** The difficulty with a question like that is the definition of “hardship”. It actually requires a hurdle and at which point we consider hardship. We have numbers of customers who are recipients of various concessions. Some of those are Seniors Card holders. For example, we do not necessarily determine that all would be exposed to hardship. We have some customers who temporarily request a payment extension. Sometimes that payment extension may be based on an external factor like “We’ve just bought a new house. We’ve got a tonne of bills. Can we just have a payment extension?” and is not necessarily a classification of hardship. I think my challenge with that is understanding the definition.

**Hon STEPHEN DAWSON:** Can I clarify, member, are you asking for the number of people who access the hardship utilities grant scheme who may well have been Synergy customers?

**Hon TJORN SIBMA:** Yes, please.

**Mr WATERS:** We could provide that.

**The CHAIR:** Okay, for 2016–17.

*[Supplementary Information No A7.]*

[11.15 am]

**Hon TJORN SIBMA:** On a related matter—you may wish to get back to me on this as well—do you have data available on the number of customers who were disconnected from Synergy for exactly the same period of time and presumably on the basis of non-payment or late payment of bills?

**Mr WATERS:** We will do it on disconnection, and we have that data. We can take that on notice and provide information for the reporting year on that as well.

**The CHAIR:** Sorry; can I just get clarification? Is that disconnection for non-payment of accounts? Is that it?

**Mr WATERS:** It will just be disconnections.

**The CHAIR:** Just disconnection for any reason.

**Hon TJORN SIBMA:** Disconnections for any reason. I made an assumption there, but I am just happy to go with the data you have.

---

**Mr WATERS:** It will not include move in, move out. It will not include people who just sell the house. It would be disconnection on the basis of non-payment.

**The CHAIR:** Can we have an explanation with that data when comes?

*[Supplementary Information No A8.]*

**Hon TJORN SIBMA:** As a final one—it might be dealt with in the same way and it is out of genuine interest—do you have any insight as to the value of bad or outstanding debts for the 2016–17 year and what the total value of those debts was?

**Hon STEPHEN DAWSON:** Madam Chair, Mr Matacz will answer that question now.

**Mr MATA CZ:** In the 2016–17 financial year, we actually wrote off \$11.4 million of bad debt. We also have in the accounts a provision for another \$47.9 million. In total, in the financial reports, we have almost \$59 million comprising, as I said, \$11.4 million, which was amounts written off, and we have \$47.9 million in provision.

**Hon TJORN SIBMA:** Is that \$47.9 million provision for doubtful debts for 2016–17? Sorry for being pedantic, I just want to confirm that.

**Mr MATA CZ:** Yes, it is for 2016–17.

**Hon TJORN SIBMA:** How does that compare with the prior year?

**Mr MATA CZ:** It is a significant increase. If you look at the bad debts, we actually increased bad debts written off from \$9 million to \$11.4 million, but we actually increased the provision from the \$5.3million the prior year to the \$47.9 million. We actually reassessed our provisioning methodology and, as a result of that, we were led to a view that we had not provided sufficient for potential bad debts, and so that is why there was an increase in the provision.

**Hon DIANE EVERS:** Just following on from that one, is that something you see increasing? Is it due to the current economic situation in this state or is it —

**The CHAIR:** The methodology?

**Mr MATA CZ:** It is a combination of methodology and also the experiences that Synergy was facing in the 2016–17 financial year. We have made an assumption that anything that is actually over 180 days old will eventually have to be written off and so we have made a specific provision for those, and for anything between 90 and 100 days, we have made a general provision and just taken a percentage, and that is why the increase was so large.

**Hon STEPHEN DAWSON:** Madam Chair, Mr Waters was just going to make an additional comment and we will go back to the member then.

**Mr WATERS:** Noting the change, which, as Karl has just explained, was a combination of methodology plus conditions, the actual percentage that we now, I guess, are exposed to from a bad debt perspective on the basis of a \$2.5 billion to \$3 billion revenue per annum business actually is well in keeping with industry norms and standards. It is also important to remember the size of the numbers that we are actually talking about.

**Hon DIANE EVERS:** Given that, are there any specific reasons that you know of, or is it average size or who this applies to? Is this your normal domestic customers or is it across the range, or are there large customers that go bankrupt?

**Mr MATA CZ:** Most of the provision relates to residential customers.

**Hon Dr STEVE THOMAS:** The chairman's report in the annual report states —

In my Chairman's report two years ago I noted the increasing impact of renewable energy, distributed generation and storage technology on the traditional utility model and reinforced Synergy's focus on delivering value for both our customers and our shareholder.

Our focus has not changed ...

The answer to this question might be that you might need to refer this to Western Power, but given that they have just walked into the room, they can be preloaded for that one. How is Synergy expecting to manage that group of people who are looking to become independent and disconnect off the grid? I know we are currently limited to that five-kilowatt system at the moment, but as capacity increases for that group of people, are you getting applications for customers to remove themselves off the system and be independent, and how do you manage that? You must be planning for that to probably increase in the future—the little south west clique over here are very enthusiastically supporting our lithium mine—as lithium batteries become more stable. There is an angle for Synergy in here in going how do you manage it from the retail arm. Then there will be an angle for the Western Power guys eventually where that distribution arm, as people start to move off, has an impact where the number of users will impact on the capacity of Synergy to repay Western Power for distribution. How is the plan for that coming?

**The CHAIR:** That is a beautiful question, member—absolutely gorgeous question—in the realm of general briefing however, not in the realm of annual report. Having said that, both the minister and the agency have been very flexible today, so I will ask them to provide some sort of response.

**Hon STEPHEN DAWSON:** Madam Chair, noting that the member did refer to the chairman's statement on page 3 of the report and some specific comments there, I will ask Mr Waters to make comment on that.

**The CHAIR:** That was his hook; it was not necessarily relevant to what was contained in the annual report.

**Hon COLIN TINCKNELL:** He also mention the south west guys are very progressive; it is a clique.

**The CHAIR:** That is what it was; it was the south west.

**Mr WATERS:** Thank you for that. I think part of it is a good question for Western Power and I am sure they will be delighted to provide some further thoughts in that regard. When we talk about grid disconnection, I think it is important to categorise it; there are a couple of things we are talking about. We are seeing progressive disconnection at fringe of grid and, I guess, areas where the grid-based costs—we are mainly talking more the Western Power end of it where the economics of the cost of a long-run set of poles and wires to supply a small community or a farm are much better served now through a standalone microgrid structure. I am sure Western Power can provide their thoughts on that. I am not aware that when we are talking about the vast bulk of Synergy's customer base, which is around the larger population centres —

**Hon Dr STEVE THOMAS:** It is a bigger metropolitan area—for example, the south west.

**Mr WATERS:** I am aware of a significant amount of interest in regard to the potential for future disconnection. I think a lot of people are talking about their personal vision of being sustainable and self-sufficient and off the grid at some point in the future. What I do not see yet is that, aside from those maybe few very high net worth individuals or those particularly passionate about it, really the economic framework exists at the moment for successful, sustainable grid disconnection within those core grid areas. As to when it will occur, I am not really sure. I think the economics will start to turn at some point in the future. It will be as a result of the cheapening or lower cost of batteries and continuing reductions in the cost of solar; albeit I think a study I saw a couple of years ago now was still indicating some of the realities of the challenge of going off grid when solar is your primary

form of generation. Despite the potential for a household to carry large amounts of storage, you are still, even in Perth, prone to several days on end of high cloud or cloud and darkness that would actually still impose some risks and challenges without the need for access to backup generation, which is more about what the grid under a repurposed model may become under some form down the track. So there are a number of hurdles I see for the mainstream grid, but, certainly, as I touched on earlier, for the fringe of grid and some of the communities that Western Power is dealing with and looking at currently, I think there is significant scope and continued work to be done.

**Hon Dr STEVE THOMAS:** In terms of an individual customer in the middle of metropolitan Perth who wants to try it, from a Synergy perspective, there is no issue with them contacting Synergy seeking a disconnection—that they disconnect now if they want to try?

**Mr WATERS:** I believe so. I am not aware of it occurring, but I do not believe there are any obstacles in regard to anyone demanding they stay connected.

**Hon Dr STEVE THOMAS:** There is probably a cost of disconnection, which is more a Western Power question.

**Mr WATERS:** Look, there could be a cost of disconnection; there is no question around that. But I do not know that there is a firm obligation to be connected, but that is probably a question of some detailed regulatory area.

**Hon Dr STEVE THOMAS:** They are preloaded now.

**The CHAIR:** Okay; any others?

**Hon Dr STEVE THOMAS:** Thank you, no. I have pushed my luck enough.

**The CHAIR:** You still have five minutes of luck pushing. I think that probably concludes the hearing with Synergy.

On behalf of the committee, I thank you for your attendance today. The committee will forward a transcript of evidence which highlights the questions taken on notice, together with any additional questions in writing, after Monday, 26 February. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible beforehand. The advice is to include specific reasons as to why the due date cannot be met. If members have any unasked questions, I ask them to submit these via the electronic lodgement system on the POWAnet site by 5.00 pm Friday, 23 February. Once again, I thank you for your attendance today.

**Hearing concluded at 11.26 am**

---