

**Synergy** —

Mr P. Lilburne, Chair.

Mr R.R. Whitby, Minister for Energy.

Mr D. Fyfe, Chief Executive Officer.

Mr J. Thomas, Deputy Director General, Coordinator of Energy.

Mr J. Froud, Executive General Manager (Acting), People, Strategy and Social Value.

Mr H. Thomas, Chief Financial Officer, Finance and Business Services.

Ms R. Gill, Senior Policy Adviser.

Mr J. Stephens, Senior Policy Adviser.

[Witnesses introduced.]

**The CHAIR:** This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available online as soon as possible within two business days. Questions must relate to the operations and budget of the off-budget authority. The chair will allow as many questions as possible. Questions and answers should be short and to the point.

A minister may agree to provide supplementary information to the committee. I will ask the minister to clearly indicate what information they agree to provide and will then allocate a reference number. Supplementary information should be provided to the principal clerk by noon on Friday, 31 May 2024. If a minister suggests that a matter be put on notice, members should use the online questions on notice system to submit their questions.

The member for Cottesloe has the call.

**Dr D.J. HONEY:** I refer to page 778, budget paper No 2, significant issues, paragraph 3. That paragraph refers to the battery projects that will deliver 700 megawatts for four hours at a cost of \$2.3 billion. That is less than 20 per cent of the peak energy requirement for the south west interconnected system. If we were going to cover the full load for that four-hour period, it would cost \$7 billion. In relation to the implementation of the batteries, I had the privilege of a briefing from Energy Policy WA, which had been doing its modelling. What is the target in the forward estimates for battery storage for the network?

**Mr R.R. WHITBY:** With Synergy before us, the member is talking about a total ambition by the government. Synergy can speak towards its ambitions, which are actually quite impressive. I will make some general comments about what is being built in Collie and Kwinana as well. Of the Australian jurisdictions, we are leading the way in getting big-grid battery storage into our system, and we are building some very, very large grid-scale batteries. Synergy's Collie battery of 500 megawatts and 2 000 megawatt hours is significant on a world scale. As the member knows, it will play a very important role—it is a four-hour battery—in soaking up all that solar photovoltaic energy during the day and dispatching it at night.

**Dr D.J. HONEY:** Until the battery is charged, but yes.

**Mr R.R. WHITBY:** Well, that is right, but at the moment we have energy from solar PVs going to waste. A huge amount of energy is being produced from rooftop solar. Each year we get the equivalent of a new power station in Western Australia, with people putting more panels on their roofs, so it makes sense to soak that up and dispatch it in the evening when it is needed. It is a very good story, and Synergy has done very well to secure this infrastructure because the world is very keen to acquire it. Perhaps I will hand over to Mr Fyfe to elaborate.

**Mr D. Fyfe:** As part of the announcement to close and exit our coal-fired power stations by the end of 2029—so, Collie in October 2027 and the remaining Muja units in October 2029—the announcement was made that 1 100 megawatts of battery storage projects and roughly 810 megawatts of wind would be delivered in that timeframe. The 1 100 megawatts of storage in the Collie and Kwinana battery phase 2 are part of that 1 100 megawatts. Kwinana stage 1 is in the market already and delivering this project. It has a 100-megawatt capacity with 200-megawatt hours. Kwinana stage 2 has a 200-megawatt capacity with 800-megawatt hours and starts commissioning in June, which is next month. That is a \$650 million project that is on time, on budget and due into the market in October. The Collie project of 500-megawatt capacity with 2 000-megawatt hours is well underway. Some batteries are due at the end of the year. That project will be operational in October next year. Those two projects give us 700 megawatts of the 1 100 megawatts, with 400 megawatts remaining. More than likely, an expansion of Collie will happen to give us the 1 100 megawatts. Those projects are part of the modelling to enable the replacement—like for like megawatt hours—of the removal of coal from the generation mix on the SWIS.

**Dr D.J. HONEY:** How many megawatt hours will that 1 100 megawatts deliver?

**Mr R.R. WHITBY:** Mr Fyfe.

**Mr D. Fyfe:** It will deliver 4 400 megawatt hours. They are all four-hour batteries. Kwinana stage 1 was a two-hour battery, and it was the first one in Western Australia. As technology has developed and expanded, they are now all four-hour batteries.

**Dr D.J. HONEY:** In that response with the mention of the Collie closure in 2027 and the closure of the remaining Muja stations in 2029, is it still the government's intention to achieve those scheduled closures on those dates? The previous Minister for Energy indicated that if there were issues, those dates would be pushed out. Are those dates still the dates planned by the government?

[9.30 pm]

**Mr R.R. WHITBY:** The intention is to meet that timeframe, and we heard from Mr Fyfe that we are well on course to deliver that storage capacity as well. But we will always be responsible, and the priority is to make sure that we have enough electricity capacity to meet the needs of the state and Synergy's customers. There is no reason at this point to expect that there will be any changes. David, do you want to say anything more?

**Mr D. Fyfe:** Those are the dates we continue to work to. I suppose there are two important aspects to it. One is our employees—our people at Synergy—and the certainty they need and deserve as part of this process. They are working towards that end date and basing their lives around it. The other aspect is, of course, the coal supply coming out of the Collie region and the existing mines. It is not getting easier year by year; it is getting harder to get coal out of the ground and more expensive. We are absolutely aiming for those dates, and our projects are well on track to enable that.

**Dr D.J. HONEY:** I refer to page 780 of budget paper No 2, the outcomes table. The second last outcome relates to the emissions reduction target, and says that Synergy aims to reduce CO<sub>2</sub> equivalent emissions by 80 per cent by 2030. I just want confirmation that that will be achieved, and what will be the principal components of achieving that reduction?

**Mr R.R. WHITBY:** Our reduction ambition for state emissions is 80 per cent by 2030, of which the transition —

**Dr D.J. HONEY:** This one is for Synergy, as I understand it. I am only worried about Synergy.

**Mr R.R. WHITBY:** Sorry, which page are we reading here?

**Dr D.J. HONEY:** Page 780, the outcomes, down the bottom, "Outcome: Protecting our environment". It is second from the bottom. Synergy is looking to contribute 80 per cent to the state total.

**Mr R.R. WHITBY:** Yes. The reference there is to reduce emissions by 80 per cent by 2030, which is the total state ambition for state government emissions. The transition out of coal will reduce emissions by 70 per cent, so the components are that the vast majority of the reduction in emissions will be achieved simply by transitioning from state-owned coal-fired power, because we are talking about state emissions. We are looking to achieve a 10 per cent reduction on top of that. That will be achieved through efficiencies. We are looking at the Water Corporation, Health and Education. They are the big users, so how can they be more efficient? How can we bring on more renewables to make sure that they are being powered by renewables as well? We are very confident that with exiting coal taking the big load and reducing emissions by 70 per cent, by 2030 we can achieve the 10 per cent that will get us to a total of 80 per cent.

**Dr D.J. HONEY:** As I say, I am focusing only on Synergy and its goal. My understanding is that getting to 70 per cent reduction or around that is not trivial, but it is relatively easily achievable. Is there a published plan to show how the 80 per cent reduction will be achieved? It is really the blink of an eye until 2030. I know that there is good work going on, but is it an intent with no published plan?

**Mr R.R. WHITBY:** The member pointed out that the 70 per cent reduction through transitioning out of state-owned coal-fired generation is not trivial but to be expected. The other 10 per cent over the next five or six-year timeframe will be achieved through other efficiencies in government. I can refer the matter to Mr Fyfe to comment on how we can achieve that. Synergy will obviously play a role there as well.

**Mr D. Fyfe:** Thank you. When the decision was made to close the coal-fired power stations, based on the modelling, at the moment the generation mix of Synergy and also the south west interconnected system is largely a third coal, a third gas and a third renewables. When we get to late 2029, with the removal of coal-fired power stations, the mix that is left will look more like 50 per cent renewables and 50 per cent gas. The modelling shows that the removal of the three remaining units at Muja and the coal-fired power station at Collie will actually give us close to that 80 per cent reduction in emissions for Synergy as a single entity. Obviously, it is not as much for the SWIS. Synergy accounts for a very large portion of the state government's emissions, so by doing that, the state government is getting very close to meeting its target. As the minister said, other agencies will be playing their part. But for Synergy as an entity and as a business, as soon as we remove those remaining coal-fired units and the renewable assets come online—wind, storage—we anticipate getting close to that 80 per cent.

**Dr D.J. HONEY:** As I think was hinted at then, something like 30 per cent of the power comes out of Bluewaters power station. It is a significant contributor to the SWIS network in terms of electricity supply. What are the other plans around replacing the electricity supply if Bluewaters ceases to operate as well?

**Mr R.R. WHITBY:** I will get Mr Fyfe to respond, because I am not sure that that number was accurate.

**Dr D.J. HONEY:** It is a significant percentage. It is late and I am tired!

**The CHAIR:** Mr Fyfe, would you care to elaborate?

**Mr D. Fyfe:** Yes. It is difficult for me to comment on the operations of a private sector generator in the market. If Bluewaters or another independent power provider outside of Synergy drops out of the market, the market has to accommodate itself to step in. That does not necessarily mean that Synergy will be the entity that would step in to replace that IPP; it could be other private sector players as well. At that time, it would depend on what the SWIS generation mix is, how batteries are being operated and how the Australian Energy Market Operator is dispatching our generation units. But notwithstanding that, as I said, with Synergy removing coal from its generation fleet, we will have that substantial reduction in carbon emissions.

**Mr R.S. LOVE:** I note that on page 780, under outcomes and key performance indicators, there is one for the reduction of emissions; one for a profit margin equal to or greater than 7.2 per cent before interest, taxes, depreciation and amortisation; and another one for net profit after tax at 3.8 per cent expected in 2023–24. How does the minister reconcile that with a company that manages to lose \$16 million before tax, even including \$830 million of operating subsidies? That is from the income statement on page 782. Do we think that Synergy will ever be a financially stable and sustainable organisation on its own?

**Mr R.R. WHITBY:** I will refer the query first to Mr Fyfe.

**Mr D. Fyfe:** Thank you, minister. One of the other benefits of removing coal from our generation fleet is that it will allow us to become self-sustaining by 2030 and not need subsidy payments, based on the work that we are doing. For example, we are removing the cost of a coal generation fleet in a market where, in the middle of the day, there is already too much energy coming into the system and we are subject to negative prices. We pay customers to take our electricity from our coal-fired power stations in many intervals of the day during the year. As well, there is the cost of running our power stations. By 2030, we anticipate that Synergy will be able to wash her face, so to speak, without subsidies from government. In relation to more detailed questions around some of the numbers, let me ask Mr Thomas to add to that.

[9.40 pm]

**Mr R.R. WHITBY:** Mr Thomas.

**Mr H. Thomas:** I have nothing to add to that. As David said, we have a reduction of fixed costs. By the time we get to 2028, the system security transition payment will be eliminated by the erosion of those costs.

**Mr R.S. LOVE:** I have one last question and I think we will finish on this one. I refer to the decision by government to, in future years, instead of providing a subsidy, allow Synergy to make up its shortfall by increasing borrowings. The financial documents show that there will be an increasing reliance on borrowings rather than subsidy in the future. I think in 2025–26, the subsidy drops from \$831 million to \$239 million and the slack will be picked up by borrowings from the organisation. Why was that decision made?

**Mr R.R. WHITBY:** Mr Fyfe.

**Mr D. Fyfe:** I will ask Mr Thomas to add to this. Ultimately, subsidy payments are dealt with generally one year at a time. In the out years, they may not be showing at the moment, but as we move into the next budget cycle, they are added in. Mr Thomas, if you could add to that.

**Mr H. Thomas:** Regarding how the out years are funded, that is a matter for the Department of Treasury. If it receives less in subsidies, it will necessarily increase debt, so that is the way it is funded at the moment. That is a question for Treasury.

**The CHAIR:** Thank you, Mr Thomas. That concludes the examination of the Synergy authority.