Synergy —

Ms M.M. Quirk, Chair.

Mr W.J. Johnston, Minister for Energy.

Mr J. Waters, Chief Executive Officer.

Mr J. Cowper, General Manager, Finance and Business Services.

Mr N. Roberts, Chief of Staff, Minister for Energy.

Miss K. McKenzie, Principal Policy Adviser.

Miss Y. Lucas, Senior Policy Adviser.

Mr P. Meyerkort, Senior Policy Adviser.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. I will ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. If an adviser needs to answer from the lectern, will they please state their name prior to the answer.

The minister may agree to provide supplementary information to the committee, and I ask the minister to clearly indicate what supplementary information will be provided and I will then allocate a reference number. Supplementary information should be provided to the principal clerk by Friday, 30 October 2020. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system.

Dr M.D. NAHAN: I refer to budget paper No 3. It deals with Synergy's financial viability subsidy. There is a table there, and it appears to be a new phenomenon to some extent. The policy of the previous energy minister appeared to be to drive down the subsidies—not all the subsidies, but most of them—the main subsidy. It appears that there was a change in policy. I think it could be described as "mugged by the reality of the market". Could the minister describe where the government is going with this? What is driving it? Then I will follow up with some more detailed questions.

Mr W.J. JOHNSTON: Yes. I actually was actually watching the member talk to the Treasurer and the Under Treasurer yesterday on this topic. I have had a look at that. We are changing. In the past, during the previous government, there was just a subsidy paid to Synergy to make up the gap between its costs and its income. That was actually stopped for one year and, effectively, it had to borrow its losses. That is obviously unsustainable.

Dr M.D. NAHAN: It always was unsustainable.

Mr W.J. JOHNSTON: Yes. It was never intended to be a permanent solution, borrowing money without getting a subsidy.

Dr M.D. NAHAN: The hope was that the need for the subsidy would go to zero.

Mr W.J. JOHNSTON: Sure. But what I have done is worked with the leadership of Synergy—the board and the senior management—to change the nature of what we are doing. Treasury has supported me in this, and I am very pleased about that. I do not know the page number, but it is in a table with Synergy in budget paper No 3. I am sorry, I do not have budget paper No 3 with me, but it is on the page with all the subsidies.

What we are doing is asking Synergy, "What are the non-commercial things that you are doing?" There is the renewable energy buyback scheme. Synergy is paying 7¢ for electricity that is worth about 3¢. We are subsidising the gap between the 7¢ and the 3¢. There is a small subsidy for the distributed energy buyback scheme because the new DEB scheme has reduced the subsidy, but it is very, very small. Basically, it is not quite cost reflective. We are covering the last of the feed-in tariff and we are covering a range of small fees that Synergy pays when it waives the full cost to consumers. Then we are also making good its tariff equalisation contribution. When we think about that, there are other subsidies that have always been in place: the air-conditioning allowance, the dependent child rebate and WA government energy assistance. They have always been there. But in respect of the gap between revenue and expenses, we are only covering the non-commercial aspects. So, now we are saying to Synergy, "You go and be a commercial business because we are not going to subsidise you for your commercial operations", and that has changed the nature of Synergy's operation. The Treasurer was correct. The aim to reduce the costs in Synergy started when the member was Treasurer and energy minister, but we have continued that, and we are driving out costs from the business. We are making it into a new business, if you like.

Dr M.D. NAHAN: Yes. Minister, I accept the intent. Some of those costs that have been included in those subsidies as non-commercial activities were treated as separate line items before, but let us not argue about that.

There are some structural problems in the industry that Synergy faces, I believe, that make it inherently non-commercial. It is very hard to change. For instance, its generation has dropped by, I do not know, 30 per cent, just looking at these numbers, but it has to maintain its fleet—that is, it is ageing, and repair maintenance costs would be very high. It has to pick up, currently, a large cost of the intermittency inefficiently by running clapped-out coal-fired power stations as backup. Is the minister working on the inherent market, not the firm-based but the market-based problems that Synergy, as the dominant player, has to pick up the costs of?

Mr W.J. JOHNSTON: Yes. As Kate Ryan outlined, the new essential system services market deals with a number of those issues that the member has raised. To be generous, the former government closed Kwinana; that was a good decision. We are now having to spend tens of millions of dollars rehabilitating it, but somebody had to!

Dr M.D. NAHAN: The government will have to do that with Muja C.

Mr W.J. JOHNSTON: Yes. My friend the Treasurer, when he was Minister for Energy, closed Muja AB. I have announced the closure of Muja C. So, we are actually dealing with the overhang of—what was the term the member used?—clapped-out coal-fired power stations. I am just adopting the member's language; I am not saying —

Dr M.D. NAHAN: I was the minister of Muja A and B. If there was nothing clapped-out, that was!

Mr W.J. JOHNSTON: Indeed.

Dr M.D. NAHAN: As the man sitting next to you would attest!

Mr W.J. JOHNSTON: No, we blame Verve! Who was the CEO at the time?

Dr M.D. NAHAN: I do not know.

Mr W.J. JOHNSTON: Anyway, we had the same joke, I can assure you!

Anyway, we are addressing the underlying challenges there. The whole system plan, despite it being misreported, has also outlined the future generation profile, and that is renewable. That is why we are looking at the Kwinana big battery. I can let the member in on a secret: lithium-ion, so Li-ion, its internal nickname was "Project Simba". Project Simba is about moving into that space. I understand the member for Bateman does not want to do Project Simba, but we see it as essential to the future of the energy system and to the future business model for Synergy because we want to create a new Synergy. We want to leave the past behind and create a new business, and that includes a new customer engagement process—I am sure we will talk about that further—and a new generation profile. That is why we have announced the Muja C closure. Future coal closure will be for a future date; we have no current plans to do that and that will be dealt with at the time. The big battery in Kwinana is part of that new approach, as is the school virtual power plant and the work with smart energy social housing.

Dr M.D. NAHAN: Is the minister confident that he can restrain the growth and the effect of subsidies, particularly the tariff equalisation contribution, going forward according to the forward estimates?

Mr W.J. JOHNSTON: It is expected that Synergy will remain operationally cash flow positive over the forward estimates. That is not to say it is not a challenged business. I get that it is a challenged business. When we about it, if this was a private company, the new CEO would have come in and written down all the assets, created a new business plan and then injected new capital into the business. Guess what? We wrote down the old assets. We told the member in the estimates last year we were going to do that and then we announced it in the annual report. We created the new business model internally. Western Power's board and senior management created the new business model, and the member will hear about that further. We need to inject a little bit of money, and that is what we have done here.

[11.10 am]

Mr D.T. REDMAN: There has been some referral to the big battery in Kwinana. That is in Synergy's portfolio.

Mr W.J. JOHNSTON: That is correct.

Mr D.T. REDMAN: The minister commented in a media statement that that will keep the lights of 260 000 houses on for two hours.

Mr W.J. JOHNSTON: Yes.

Mr D.T. REDMAN: Is it intended to keep lights on or was that simply a statement to refer to the size of the battery?

Mr W.J. JOHNSTON: It reflects the size of the battery, but it will have two purposes—all batteries will. The first purpose is as an essential system service and the second is as energy arbitrage. Remember, Synergy is the only utility that buys rooftop solar. It is paying $70 a megawatt hour for energy that it currently is selling at negative $1 000. It pays $70, and sells it for minus $1 000, so it can look to do a bit of energy arbitrage. But it will serve.

Mr D.T. REDMAN: It will provide system services, but will Synergy get a financial benefit for those system services?

Mr W.J. JOHNSTON: Yes; absolutely.

Mr D.T. REDMAN: It is not in place now, I did not think, the mechanism for that.

Mr W.J. JOHNSTON: No. Industry often says that having the Minister for Energy being both the regulator and the owner is a challenge, but there are actually Chinese walls. Everybody in the sector knows that the Energy Transformation Taskforce is working on the new essential system services market. That has been well engaged with the private sector and everybody knows about that. Synergy is included in that. So in looking forward, Synergy believes that this battery is a good business proposition. The government as the owner agrees, and we are moving down that pathway. Synergy's estimate of the ESS revenue is its commercial decision. What the market finally looks like, we will see very soon, because, as the member knows, the market participants are all engaged. The consultation level by the Energy Transformation Taskforce is extraordinary.

Mr D.T. REDMAN: What will be the ultimate ownership structure, because I thought the government was going to market?

Mr W.J. JOHNSTON: Yes. We are going to market to see; however, it is essential that Synergy retains control of the battery, regardless of the ownership structure.

Mr D.T. REDMAN: So is it 51 per cent, Synergy?

Mr W.J. JOHNSTON: No. It is management control; it is not a question of ownership.

Dr M.D. NAHAN: It is operational.

Mr W.J. JOHNSTON: Yes, it is operational control. We are very pleased that the commonwealth government is putting in a $15 million grant contribution to the battery.

Mr D.T. REDMAN: That means it could be a long-term lease or something. What is the nature of the arrangement?

Mr W.J. JOHNSTON: We are currently out to market. Dozens and dozens of people are talking to Synergy about what the project might look like. Because of the accounting standards, doing things off balance sheet is not as big a deal as it was in the past, because we now have to count lease obligations. The trick is that it is not valuable to Synergy if it does not have operational control of the battery.

Mr D.C. NALDER: The minister made a statement that I was against batteries; I am not against batteries.

Mr W.J. JOHNSTON: Well, you came out and —

Mr D.C. NALDER: The concern I raised —

Mr W.J. JOHNSTON: —said you would not do it.

Mr D.C. NALDER: The concern I raised on this issue was about the growing subsidisation of Synergy and, therefore, the growing cost base and the impact on taxpayers. We have an increasing gap on cost reflectivity, so my concern was about the increase in costs and how this was impacting costs, which ultimately flow through to taxpayers or consumers. That was the concern I was raising—that we did not have any transparency on that.

The CHAIR: That is not a question.

Mr D.C. NALDER: Yes. Just on that question, can the minister comment on the increased cost base of Synergy and the gap that is widening around cost reflectivity?

The CHAIR: That is probably a further question.

Mr W.J. JOHNSTON: Cost reflectivity is not widening; it is narrowing. The average subsidy for the eight years of the Liberal government was $286.4 million. The average subsidy over our first four years plus the forward estimates is $120.7 million. In 2020–21, the subsidy is $164.7 million, which is reflected in the table that the member referred to, so we actually have halved the subsidy. As I say, I recognise the work done by the member for Riverton in starting the process of driving out costs, but it simply is not correct.

Mr D.C. NALDER: It is not tipping back up again now?

Mr W.J. JOHNSTON: No. The member can see that on the Synergy table that the member for Riverton referred to in budget paper No 3. It shows that the viability payments are $164.7 million in 2020–21, $135 million in 2021–22, $134.3 million in 2022–23 and $134.8 million in 2023–24. Understand that they are the subsidy payments for non-economic activity. Synergy's underlying cost base actually will fall over that period, and there will be even further advances as certain high-cost arrangements in the market end beyond the forward estimates.

Dr M.D. NAHAN: Is the minister assuming that is the Bluewaters transaction, which runs out, I believe, in 2025?

Mr W.J. JOHNSTON: Yes. As it happens, that is when it runs out. Synergy has a range of high-cost arrangements for fuel and energy. I want to congratulate the management of Synergy in settling the price renegotiation for their gas, which significantly reduced its cost. It has also resettled its contract for gas transportation, which has obviously also been to its advantage. It has resettled its coal supply agreement, which, although it does not reduce their costs, creates flexibility for the future.

Dr M.D. NAHAN: Is that the Premier Coal contract?

Mr W.J. JOHNSTON: Yes. It has settled that. It does not reduce costs, but it gives Synergy more flexibility.

Dr M.D. NAHAN: Does it not increase costs?

Mr W.J. JOHNSTON: I think it might increase in the short term. It goes up, but goes down over time because it has more flexibility. Then in 2025, other contracts will come to market as well.

Dr M.D. NAHAN: Minister, the market is transforming and Synergy, as the dominant player, has to transform.

Mr W.J. JOHNSTON: Yes; that is correct.

Dr M.D. NAHAN: The minister announced that Kwinana and Muja C are shutting down, and Muja A and B are shutting down. Traditionally, when that baseload capacity is shut down, it would be replaced with other baseload. I assume that it would be replaced with gas baseload, particularly in the traditional sense, unless the policy is changing, particularly to back up the intermittence that is growing in the industry. Does the government have any plans to allow the market, if it thought it was needed, to build a gas-fired baseload power station?

Mr W.J. JOHNSTON: "Baseload" is an interesting word. People say "baseload" when they mean "dispatchable". In the old days, baseload was whatever the minimum demand was, and the coal was built up to the minimum demand and then there was flexibility up and down. But the problem for us now is that that minimum demand might be negative, so how do we build for minimum demand if it is negative? We have to build an intelligent grid. That is what the transformation strategy is about. I am not sure that anybody would be able to bank a gas-fired power station at this stage. If one came to market, I imagine it would replace an existing older gas unit because the dominant future supply of electricity is going to be rooftop solar plus wind. Rooftop solar, despite the fact that Synergy is currently playing $70 a megawatt hour for it and in future will be paying $30 a megawatt hour for it, is free to build because the consumers are paying for it. There has been 280 megawatts of additional solar in the last 12 months. That is extraordinary.

Dr M.D. NAHAN: Was that 280 megawatts?

Mr W.J. JOHNSTON: Yes.

Mr D.T. REDMAN: What is the total number now?

Mr W.J. JOHNSTON: It is 1.3 gigawatts or something like that.

Mr D.T. REDMAN: Is that just the Western Power network?

Mr W.J. JOHNSTON: Yes. That is the Western Power network.

Dr M.D. NAHAN: What is the installed capacity of wind and what does the minister expect it to be in four years?

Mr W.J. JOHNSTON: I am sorry; it is in the "Whole of System Plan".

Dr M.D. NAHAN: That is growing very rapidly, too, is it not?

Mr W.J. JOHNSTON: Funnily enough, the only wind power that Synergy owns is in the Horizon network, in Esperance and Denham.

The CHAIR: We are ranging fairly widely. I know we are off budget —

Dr M.D. NAHAN: Is the minister of the view that —

The CHAIR: Member.

[11.20 am]

Dr M.D. NAHAN: Yes.

The CHAIR: I just said that we are ranging a bit far and wide. Can we keep it all to the one vague subject area?

Dr M.D. NAHAN: I am going right back to what we dealt with, just to get a summary from the minister on a comment that he made.

The CHAIR: All right. Further question.

Dr M.D. NAHAN: Is it the minister's expectation that a large, additional gas-fired power station will not be built?

Mr W.J. JOHNSTON: None of the four scenarios run in the "Whole of System Plan" are predictions of the future; they are scenarios. Two of those scenarios are high-demand scenarios, and one of them predicted no coal closures and potentially gas firming. Is that a realistic prediction? I do not think so. I always say that I am dealing with the problems of today. In five years' time, whoever is the minister can deal with the problems then. The next revolution in Western Australia is export hydrogen, because if we get three or four massive 30-gigawatt export hydrogen projects, Western Australia's domestic energy needs will become a margin—it is like our domestic gas supply; it is just supplied by the exporters and they do not even care—because the margin cost of our total demand is so low if we have 120 gigawatts of export hydrogen. Am I saying that there is going to be 120 gigawatts of export hydrogen? Who knows, but it will be interesting. We have run the scenarios. We have made the predictions. We have set ourselves some benchmarks that we can make, which are described as "no regrets" decisions, a bit of augmentation for the network out around the goldfields and encouraging future generators to build in the south. That will give a different wind resource and will remove the need for network augmentation. I do not think we are going to end up with demand for additional gas generation other than to replace the existing generators. Would Synergy come to me with a business case for that? I doubt it.

Dr M.D. NAHAN: In Synergy, is the minister still implementing the caps on generating capacity?

Mr W.J. JOHNSTON: The cap is in place; yes.

Dr M.D. NAHAN: Is the minister reducing them?

Mr W.J. JOHNSTON: Yes. As they retire, the plant cap is reduced. Remember that Bright Energy Investments is not Synergy's. Synergy owns 19.9 per cent of Bright, so that is not Synergy's. It is building through virtual power plants and other things, a small amount of generation.

Dr M.D. NAHAN: Yes, but as Muja is retired, the cap will come down. Is the policy, therefore, to increase competition?

Mr W.J. JOHNSTON: I do not know that that is the case.

Dr M.D. NAHAN: That is why the caps were put there.

Mr W.J. JOHNSTON: That is what the cap was for, but I do not think it serves that purpose anymore, because I think that the market is so different now, it is no longer relevant. The future generation is wind; that is the big growth. Warradarge through Bright and Yandin through Alinta are going to come on, and they will be the dominant players. I expect that they will be the price setters in the future.

Mr M.J. FOLKARD: I refer to page 760, budget paper No 2, volume 2. How has Synergy improved its case for management of customers in hardship? I am referring to paragraph 1.2.

Mr W.J. JOHNSTON: That is a really good question.

The CHAIR: It was worth the wait, was it not?

Mr W.J. JOHNSTON: It was worth the wait.

Mr M.J. FOLKARD: I thought so!

Mr W.J. JOHNSTON: Last year, Synergy and I had a conversation about its relationship with its customers. I challenged Synergy to improve, and I think it is great that it has. I just want to read—I wish I could table it, but I am not allowed to—a letter that was sent to me at the beginning of September from the Financial Counsellors' Association of WA —

> I am writing on behalf of the … (FCAWA) to highlight our appreciation to Synergy for all the hard work and effort undertaken to provide the new 'Financial Counsellor portal'.

It then states —

> Synergy have dedicated their resource in order to provide this service acknowledging the valuable work done by Financial Counsellors across the state and the importance of being able to help vulnerable people and how challenging this can be.

It goes on —

> FCAWA would like to acknowledge the work Synergy has done to change attitudes and consumer perception and the ongoing positive relationship between Synergy and the Association is a testament to this.

I would like to invite Mr Waters to explain what is going on inside Synergy, which is a really exciting change to the business.

Mr J. Waters: Yes, the minister is correct. He did challenge us last year in regard to how we can lift the bar in handling, particularly, customers who are confronting hardship. We dedicated a team to that and spent a bit of time speaking to people, speaking to hardship customers directly and speaking to financial counsellors, and considering the different options and what can we really do with the resource we have to improve the way we operate. There are probably two things that would come out of that that I would like to highlight.

One is that for the first time, we implemented a concept known as case management for customers facing hardship. As opposed to the traditional means of ringing our contact centre and then getting whoever answers the phone and then having to explain their situation to them and go through the challenge of that and getting the response, we have now dedicated staff trained with the special skills needed to deal with customers who are facing hardship. That is still in its infancy. We have four case managers currently and we are looking to expand that number to about 15 soon, so we will be creating 15 new jobs for people who are specialised in supporting people in hardship. That has been a great initiative.

The second one to come out of that work, though, was the financial counsellors' portal. One of the challenges we have is that when someone confronts us with significant hardship problems, we refer them to a financial counsellor through which they can gain additional support through the hardship utility grant and various other schemes, but the privacy provisions that we have in place require the customer to provide their authority for the financial counsellor to access their information. That needs to be done through a contact centre. They would ring up like anybody else and there was often a long delay and quite a bit of frustration because the customer would have to be there to provide the authority. We would then provide the information the counsellor needed, and if any further information was required, they would often have to ring back to get a little bit more information on that customer to help them. Instead, we have now designed a digital portal through which financial counsellors can access our customer information system directly. The privacy matters are overcome through a secure PIN arrangement that is sent to the customer. The customer can then provide authority directly to their financial counsellor and the counsellor can access the customer's information on their behalf and see all the information that is relevant to them: the historical usage, the billing, the premises that they hold, the history with us and whatever history of support they have received. There is significantly more information. That has led to much better outcomes. It makes the financial counsellor's work more efficient; shortens the time and duration for us; reduces calls into our contact centre; saves us money; and, most importantly, customers in the hardship space are getting better and more complete support more quickly without the frustration of the to and fro between Synergy and the financial counsellors.

I am thrilled with the work the team did. It is really innovative and it is different. I think it is a new sort of paradigm of operation for us and for other utilities to consider about how we deal with customers in hardship through a slightly different approach. So, yes, thank you for the question.

Mr D.T. REDMAN: I understand the points made about those who cannot pay their bill and, therefore, the challenges with HUGS and all those other processes, and the one Mr Waters just described as strategies for dealing with that.

One of the other groups that emerged from the inquiry that I was involved in—I acknowledge the Chair of the Economics and Industry Standing Committee, who is here—was that rooftop photovoltaics are open to those who can afford to put them in. It is a blind Freddy argument—put it up and it will be paid for in no time. There is a group of people out there who cannot afford rooftop PV. Can the minister expand on what strategies might be deployed to support that group of people who are not necessarily nonpayers, but who are not able to get the benefits that many others in the community do?

Mr W.J. JOHNSTON: I will ask Mr Waters to make some comments, because obviously we have a program that is exactly that.

Mr D.T. REDMAN: Is the minister talking about social housing?

Mr W.J. JOHNSTON: Yes. The easiest thing in the world to do is to throw a set of solar panels on somebody's roof, but that, of course, then contributes to the challenge in the broader system, and we are not doing that. So, Synergy is working with the Department of Communities as one of the line items in the state recovery plan to put 500 houses that belong to the Department of Communities into this program. We are just finalising the business plan at the minute, but the idea is to bring a change to the way in which energy is provided in the social housing space. I invite Mr Waters to make some comments.

[11.30 am]

Mr J. Waters: Thank you for the question. It is a very good one because we certainly see that separation between people who can always buy their way out of the energy market through large solar systems, and those who cannot. The smart energy for social housing project is an excellent example of that. What we will be doing there is combining controllable solar with electric hot water into the community housing stock that will become, in effect, assets of Synergy that we will then maintain over their full life cycle. What I am particularly interested in with electric hot water combined with its storage capability is that it is a significant component of the overall distributed energy resources road map that people do not think about too much. When we think about the DER, we tend to think of batteries and panels and all the kind of stuff that immediately comes to mind, but electric hot water —

Mr D.T. REDMAN: Are you talking about heat pumps?

Mr J. Waters: Absolutely. Combined with insulated storage, the ability for that to be controlled initially within the home to heat the water when solar production is at its peak and the system may not need exported energy, deals with two issues within the home: first, it has the benefit of the solar being there and it avoids the direct spill into the system that creates some of the other concerns that no doubt members will be aware of; and, second, it also shifts a second major household bill, which is around the supply of hot water, and it does it at a time of day that is efficient and in sync. Ultimately, I think, looking further down the track when we talk about orchestration under the DER road map, electric hot water will become a major part of what ultimately will become part of the controllable asset suite within those homes. So I think that is a great one.

The second matter that I would not mind mentioning, if I could, is that I was with the minister earlier this week when we opened the affordability experiment home in Bennett Springs, which is a project between Synergy, Keystart, Mirvac and Terrace Homes, as part of BGC. That project is looking at ways of putting affordable housing into the market, inclusive of significantly improved building standards around sustainability and efficiency, and includes panels and batteries in those homes. We are a part of the initial roll out of that. We are working with the tenants of those homes over the first two years to work out exactly how efficient these homes can be. We are not talking about homes at this price point that are extremely expensive; these are almost entry-level homes in some cases. I think that is another initiative where we want to see this technology being made available to people who would otherwise, in the traditional sense, perhaps not be able to afford the initial cost of $5 000, $10 000 or $20 000, if we are including a battery. The question is: how do we make that work?

Mr D.T. REDMAN: The solar panel heat pumps are for social housing. That is not outside social housing, so those who have some financial challenges to start with.

Mr J. Waters: Yes.

Mr D.T. REDMAN: Do those systems have the communications technology to have centralised control? Mr Waters mentioned having control of the solar panels. Is that a central control, as in a virtual power plant–type arrangement?

Mr W.J. JOHNSTON: VPPs are interesting, but they are for the future at this stage. They are controllable because we do not want to have uncontrolled spill. The energy system is complicated, as I keep saying to people, so we do not want to add to the challenges that we already have. In the future, all solar panels will need to be controllable, so we are doing that with the Synergy ones. If somebody said, “Let’s run a government program to throw more solar panels on”, I would not be supportive of that. We have got to have something that is innovative. It has to be new and different.

Mr D.T. REDMAN: Such as running some batteries, minister?

Mr W.J. JOHNSTON: We are all laughing because Neil has put batteries in his brand-new house, so he is our demonstration. He will get his phone out and show us in a minute!

Dr M.D. NAHAN: You overpay him!

Mr N. Roberts: Sorry?

Dr M.D. NAHAN: You are overpaid!

Mr N. Roberts: I knew that!

Mr W.J. JOHNSTON: Anyway, the pay-off for batteries is crossing over. It is probably just not in the money at the minute because people have to be able to pay them back before their warranty expires, so batteries are a bit challenged at the minute, but when the price of batteries come down, they will be in the money. I think about 2 300 people in the south west interconnected system have home batteries. If we think about that, we are probably about where we were at with solar panels in 2003, so they are probably 10 years away from having a big influence on the system. We want to have everything right for when they arrive. It is like electric cars. I always say that I do not want to plan for the first 1 000 electric cars; I want to plan for the first 100 000 electric cars, and it is the same here.

We have a number of projects that arise from the DER road map, one of which is Project Symphony, which is the virtual power plant that we are seeking funding for from the Australian Renewable Energy Agency. Synergy is a participant in that with Western Power and the Australian Energy Market Operator. We do not currently have ARENA’s approval. It was hoped that the approval would have been given in July, but it changed its board, which pushed the decision out a little bit, but we hope that perhaps for Christmas the commonwealth government’s agency will tick off on that and that will allow us then to do a large-scale trial of a VPP like the one that is being done in Adelaide with ARENA funding. So this is not, of itself, a VPP, but when VPPs are around in the future, it can be plugged into the VPP.

Mr D.T. REDMAN: This question is related to the first one, but I need to refer to a point in the budget papers, so I refer to the COVID WA recovery plan on page 760 in budget paper No 2. I am assuming that the line item “Renewable Energy for Social Housing” is what Mr Waters just talked about.

Mr W.J. JOHNSTON: Yes.

Mr D.T. REDMAN: The line item just above that is “Community Energy Exchange”.

Mr W.J. JOHNSTON: Yes, that was changed —

Mr D.T. REDMAN: Has that been involved in any of the conversations the minister has had or not?

Mr W.J. JOHNSTON: This was Synergy’s original name for the project and then it went to Treasury and got included in the budget, but we actually changed the name before we announced it. It is the school VPP.

Mr D.T. REDMAN: Okay.

Mr D.C. NALDER: A minute ago the minister talked about wind power and the growing reliance on it, particularly with Warradarge wind farm and Alinta's Yandin wind farm. I just want to refer back to the intermittency issue, and I understand the need to stabilise the grid with rooftop solar. Moving forward, if we are going to have this growing reliance, is the intermittency going to be the problem of the state or is the minister considering putting more pressure on the suppliers to provide a more stable or quasi-baseload instead of having an intermittent supply?

Mr W.J. JOHNSTON: That is really a question for Energy Policy WA, but as Kate Ryan said, Energy Policy WA is looking to a "causer-pays" approach. So if someone causes the problem, they need to cover the cost. One of the things that I have talked about as minister right from the start is about how we make people do the right thing. We could simply specify that all generation must be firm and then it would be the generator's problem to create that and whether they did it through a bilateral contract or through some other mechanism would be up to them. That was the challenge that I put out, but when I went out to the Energy Transformation Taskforce, the sector said that it preferred to have an essential system services market. Some of those ESS obligations will be purchased by AEMO and, clearly, Synergy is in a good position to sell those because it has coal-fired plants and gas plants, but, of course, there are other operators who have equipment that can support the system. As I said, the battery is in two parts: one part is the ESS component and the other part is an arbitrage component. I imagine that there will be other companies—there is only one currently, and therefore I will not name it—but only one that has ever spoken to me about putting a battery in the SWIS, but I imagine there are people talking to others about putting batteries into the SWIS. I have certainly had competitors to Synergy talking about putting batteries behind the meter in their generating facility—either a wind farm or a solar farm—to smooth out their intermittency.

Dr M.D. NAHAN: If the government charges for intermittency, or however it does it—it is a big issue—will the government back cast to past investments on intermittence?

Mr W.J. JOHNSTON: No. This is Synergy's whinge—sorry—Synergy's complaint, that —

The CHAIR: Its representations, I think you mean, minister.

Mr W.J. JOHNSTON: Yes, its very strong representations are that it is absorbing the essential system services costs but not being rewarded for those, so Synergy is desperate for us to get the market. All of its competitors say, "What are they talking about? They get all this other revenue." Everybody in the market defends their own position.

Dr M.D. NAHAN: Yes, of course.

Mr W.J. JOHNSTON: Our aim is to make sure that the costs are transparent and driven down. The good news is that the "Whole of System Plan" shows that in those four scenarios, the costs either remain the same or go down by up to 50 per cent over the time of the forecasts.

[11.40 am]

Dr M.D. NAHAN: Just to follow up on that point, if we price for intermittency only on new entrants to the market, that is going to increase the cost for new entrants.

Mr W.J. JOHNSTON: Yes, that is why we are not doing that.

Dr M.D. NAHAN: So how is the minister going to deal with the —

Mr W.J. JOHNSTON: We do not, because the system has to be in balance; therefore, those that are contributing to the imbalance have to pay for that.

Dr M.D. NAHAN: Going back to my point, if existing wind or solar was purchased under a different pricing regime four or five years ago, is the government going to charge for the intermittency?

Mr W.J. JOHNSTON: Yes, but there are three revenue sources. The first revenue source is the capacity market, and that makes us unique in Australia. Most revenue actually comes from the capacity market. The second element is the energy cost, but, of course, the intermittent generators are driving down the energy costs. That is why the wholesale balancing price has fallen and will continue to fall. The third element is the ESS costs. At the moment, there is some transparency on some elements of the ancillary services, but the more mature essential system services will expose the costs and price them appropriately.

Mr D.T. REDMAN: At a household level, there will be a lot of batteries behind the meter, either driven by the price and/or any other incentive that might be there. Communications technology will tend to manage that as a unit. How much will that contribute to the collective issues that Synergy has with its load? It is the issue of system services and the like. How much is that being factored into the future?

Mr W.J. JOHNSTON: There are two separate things there. The first is the question of the impact of those things on Synergy, and the second is the impact of those things on the system. In respect of the system, that is what the

DER road map sets out. It sets out the series of technical, administrative and rules changes that need to be made. There are 39 actions with specific people responsible and that is already being implemented. That is about making the system work with high levels of DER. The separate issue is how Synergy makes money. Does the member see that they are not related to each other?

Mr D.T. REDMAN: But there must be some understanding of just how much that is going to contribute to all the things we have just been talking about, which is intermittency and managing all those services.

Mr W.J. JOHNSTON: Yes, that is true, but they themselves do not directly impact Synergy. The impact on Synergy is that nobody wants to buy electricity anymore.

Mr D.T. REDMAN: I remember sitting around the table with my colleague here talking about a $13 million program of putting rooftop solar panels on houses.

Mr W.J. JOHNSTON: Yes, I am not going to do that.

Mr D.T. REDMAN: It very quickly turned into something else.

Mr W.J. JOHNSTON: Yes, because as I say —

Mr D.T. REDMAN: So I guess that is —

Mr W.J. JOHNSTON: Dumb solar on roofs is not the solution to our future.

Mr D.T. REDMAN: I know.

Mr W.J. JOHNSTON: It is controllable solar combined with batteries.

Mr D.T. REDMAN: But we have got another beast out there, and that is batteries, which is going to move out of the government's control.

Mr W.J. JOHNSTON: Okay, but that is the question of the impact of batteries on the system. Synergy wants to play in that space, and that is why it is looking to see what we can do with VPPs. That is why the school VPP trial, SESH and Project Symphony are so important to us. But they are separate issues because Synergy does not run the grid. That is for AEMO, EPWA and Western Power. A range of benefits come with controlled solar. It provides benefits as well as challenges, and that is what the VPP and Project Symphony are all about.

Mr D.T. REDMAN: The load and intermittency issues are important to Synergy because if behind-the-meter batteries and VPP technology bring that on as a significant player in the mix, it will be very directly related to Synergy.

Mr W.J. JOHNSTON: Yes. So, there is a business case to be made for getting into VPP, and guess what? Synergy is talking to me about that.

Mr D.T. REDMAN: I guess my question goes to just how much Synergy is factoring that in.

Mr W.J. JOHNSTON: Yes.

Mr D.T. REDMAN: Is it significant or is it small?

Mr W.J. JOHNSTON: Yes, it is significant—absolutely. If we go from having one-third of houses to one-half of houses having rooftop solar, that is going to have a massive impact on Synergy. The Member for Riverton can assure the member that the revision of the estimates of future cash flow for Synergy is a major worry for the budget. If we looked four years ago at what Synergy thought its revenue would be in 2019–20, we would see that none of those figures have come true because the demand is falling.

As I keep saying, there are two separate issues. There is the issue of what the government is doing to plan for the future to make sure that the lights stay on. That is EPWA, Western Power and AEMO working together through the energy transformation strategy. How that impacts on Synergy is a separate question that really goes to the heart of the questions that the members for Bateman and Riverton asked about subsidies and driving costs out of the business. The other challenge is what Synergy will look like in the future. As I said, we have worked together with management and the board to create a vision for the future of Synergy, and I am sure they will talk about that, not today, but very soon.

Dr M.D. NAHAN: Let us talk about the asset investment program and Bright Energy. If the minister needs a flag, it is the asset investment program on page 234 of budget paper No 3 under "Utilities". Synergy's bases go from stationary to declining slightly.

Mr W.J. JOHNSTON: Sorry, I do not have a copy of BP3 in front of me. I am not trying to be unhelpful.

Dr M.D. NAHAN: It is $58 million in 2020–21 going down to $42 million over the forward estimates. The government is not investing very much either in new kit or, in fact, existing kit. Is that because Bright Energy is going to be the vehicle for Synergy meeting its energy expansion?

Mr W.J. JOHNSTON: The asset investment program for Synergy that the member referred to is, of course, repeated on page 760 of budget paper No 2. The member can see the breakout there of all the specific expenditure that makes up that asset investment program. The member can see what the different elements of the AIP are.

Synergy would probably like to spend more on its AIP, but we are very, very cautious about that because it is a business—a government trading enterprise—not a government department, and therefore this money comes from its customers, so we need to keep Synergy focused on keeping its costs down.

Dr M.D. NAHAN: One of the challenges that Synergy has in this market has basically been the balancing mechanism in a market increasingly dominated by intermittence. Synergy has some really nice diagrams here showing us the pattern from 10 years ago to today. Synergy is using coal-fired power stations to balance the load. I have looked at some of the utilisation of the coal-fired power stations, and it is going up. They are being used for balancing when they are not meant to be used for that, and that would lead to high repair and maintenance costs, I am told, by the experts.

Mr W.J. JOHNSTON: Yes.

Dr M.D. NAHAN: Is there a risk of a large capital blowout if some of this old kit is being used for balancing purposes when it was not designed to do so, and that results in high repair and maintenance costs? To be specific, this is a very thin capital works program for a very capital intensive industry.

Mr W.J. JOHNSTON: I am happy to ask Jason Waters to make some comments, but I will just front up and say that this is what has led to the decision to close Muja C. We have given notice that we are closing Muja C on the time line that we have expressed, not because we do not like coal but because it is harder to fit that facility into the very issue that the member is raising. I will ask Mr Waters to speak.

[11.50 am]

Mr J. Waters: The member is correct. There is definitely stress and strain on the fleet as a result of the shift in requirements to meet the intermittency of the market, but we are, I guess, the beneficiaries of the fact that we have seen it coming for a decade or so as well, and so we have started to, I guess, come to grips with that progressively. The asset investment program that is reflected in the budget papers certainly includes provisions for what we believe are those wear-and-tear items that we will need to replace. As an example, we have just completed a major overhaul of Collie power station in the last financial year. That captured a significant scope of work that is related to what we believe will be its operating duty into the future. We are certainly on a pathway now to reducing incremental capital investment on Muja C, as would be expected with its imminent retirement. In the current year, we are completing major overhauls on the two stage D units at Muja, where we again found wear and tear with the shift-of-duty factor. The member is quite right; that is reflective of the challenges and the change. Certainly, one of the watching briefs that we maintain as a management team right through to the board is ensuring the process safety associated with those machines that are being operated differently from the way they were designed. They are high-temperature, high-pressure and high-voltage pieces of equipment, so we have to make sure that we are absolutely squeaky clean from a process safety perspective. We have put a lot of effort into that.

The other thing I would say is that in terms of investing for the future, really what is contained within that program does include a lot of reform associated with the market changes the minister has spoken about on a couple of occasions. We are investing in our systems and we also have system enhancements coming up related to the advanced metering infrastructure rollout and some investments around our retail platforms. We are certainly investing for the future in ways that we think will be interacting with our customers in a very different way. It is going to be data driven and more technology based. When we are talking about VPPs in the future, we are possibly talking about a situation in which we are actually connecting other people's assets with software to enable them to be aggregated and then dispatched as a power station.

Another key investment for the future for us will be Simba, the big battery, which is also going to alleviate pressures on some of those coal plants and some of those older fleet matters as well by levelling that load. I am comfortable with that plan. I think it contains the provisions that we need to safely maintain our future, and transition and deal with the market as it is changing and evolving around us.

Mr D.T. REDMAN: Mr Waters mentioned Simba providing some ancillary services. Does the battery provide the full scope of essential services as the synchronous generators do? I did not think that it did.

Mr W.J. JOHNSTON: I am very happy for Mr Waters to answer.

Mr J. Waters: No, it will not. Certain services, like inertia-based services, actually require connected synchronous generation. It will reduce the amount that needs to be connected, and particularly the amount that will need to be started at peak periods heading into when the sun sets and the PVs start to wind back. Effectively, we will have a couple of hours of battery supply at that peak to alleviate those ramp rates and that stress and strain, but it certainly will not replace the full suite of services that synchronised generation can provide.

Dr M.D. NAHAN: Mr Waters and the minister talked about connecting solar to the grid. I agree strongly with the position that we should not just bung it on there anymore; we should never have done that. Will the government allow competition for that interconnection with Synergy? Synergy has a position and it has history, but that provides, I think, the basis for a virtual power network in the future, which is interesting, and has incentives for households to participate in.

Mr W.J. JOHNSTON: Yes. The DER road map sets out that competition will be permitted. At the moment, of course, only Synergy buys the electricity off the rooftops. I recently had a call with different people in the sector who were saying to me they did not think the 10¢ rate for the buyback at peak times under the new distributed energy buyback scheme was sufficient. I told them that if they wanted to offer the market a rate above DEBS, I would be very happy to look at that. I am still waiting for the call back.

At the moment, there is not a lot of value coming off the roof because the technology that will create the VPP is yet to be demonstrated. We know that it will work because it is a technological problem and there are a lot of clever people around. Interestingly, Audrey Zibelman from AEMO has gone to work for X, which is the Google Hail Mary future lab. Clearly, her role will be something to do with VPP. I imagine that when Google gets onto it, it is going to solve it. This is a technological software problem, and when it is overcome, then people will be able to play in the market.

Dr M.D. NAHAN: I asked a question about Bright Energy. What is the outlook for that? The government owns nearly 20 per cent of the asset.

Mr W.J. JOHNSTON: The government is a 19.9 per cent junior shareholder in it. It is principally owned by Dutch Infrastructure Fund and Cbus. We have a series of commercial arrangements with it that underpins the needs for Synergy to meet its obligations.

Dr M.D. NAHAN: Will most of Synergy's obligations for building renewable energy be put through Bright Energy?

Mr W.J. JOHNSTON: Bright Energy is intended to meet an overwhelming majority of its large-scale renewable energy out to 2030.

Dr M.D. NAHAN: What is the outlook over the forward estimates or beyond for Synergy's need to invest in new renewable capacity?

Mr W.J. JOHNSTON: That is a really interesting question, but really the answer is that we are creating a new business that will look very different in the future. We will not necessarily see traditional generation as part of it. Synergy will continue to own traditional generation, but the electricity system will be different and Synergy will be different.

Dr M.D. NAHAN: But it currently has regulatory requirements under the commonwealth to build so much to meet —

Mr W.J. JOHNSTON: No, it has regulatory obligations to have large-scale generation, and there is a whole range of ways that it can meet those obligations. Synergy is confident that it will meet those right out to 2030.

The CHAIR: All right. So it looks as though, ironically, we are running out of steam. Are there any further questions?

Dr M.D. NAHAN: Yes. The minister is on the record as flagging—I think it was more of a thought bubble—that the government would reduce the 50-megawatt cap, to provide competition.

Mr W.J. JOHNSTON: It is not a thought bubble, but it does not relate to Synergy; this question should have been asked when we considered Energy Policy WA.

Yes, we are working on reducing the cap for small businesses, but if I am going to do that, I want to make sure that all small businesses on the SWIS benefit. A significant number of small businesses pay exorbitant fees for their electricity. The example that I will give is a business in my electorate. The business owner owns three McDonald's restaurants. For two of them, he buys electricity from received from a company other than Synergy, and for the third one he has to buy electricity from his landlord. He tells me—whether it is true or not—that his electricity costs for the one he has to buy from his landlord is three times higher than for the ones that he buys in the market. So, if we are going to move further down this small business deregulation space, which I think is fine, I want to do it for everybody. Energy Policy WA had started work on this when COVID kicked off and then it stopped but it is now back on to it. I know there was a rumour around a little while ago that in six weeks' time I would make the announcement. That is not going to happen. This is a complicated regulatory framework that involves not just the electricity sector.

Dr M.D. NAHAN: I just indicate that a lot of the higher price for one year is an example that the recipient's landlord is actually operating in the competitive market and he was just not passing on the benefits.

Mr W.J. JOHNSTON: I understand that. That is why I do not think it is fair.

The CHAIR: That completes the examination of Synergy, and I will now vacate the chair.

Meeting suspended from 11.59 to 12.02 pm