

Synergy —

Ms M.M. Quirk, Chair.

Mr W.J. Johnston, Minister for Energy.

Mr J. Waters, Chief Executive Officer.

Mr J. Cowper, Chief Financial Officer.

Ms K. Ryan, Coordinator of Energy, Energy Policy WA.

Mr R. Sao, Chief of Staff, Minister for Energy.

Mrs A. Keogh, Principal Policy Adviser.

Miss Y. Lucas, Senior Policy Adviser.

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. It is my intention to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point.

The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by close of business Friday, 1 October 2021. 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.

[Witnesses introduced.]

The CHAIR: The member for Moore.

Mr R.S. LOVE: I want to ask about page 798 and “Works in Progress: Other Works in Progress: Corporate”. Business systems replacement is listed as costing \$82 807 000. Can the minister explain what that business replacement is?

Mr W.J. JOHNSTON: It is the underlying IT system for Synergy. It is a work in progress and will continue to be a work in progress. We can see the expected future costs. It continues to roll out over a number of years. The CEO points out that the \$54 million is the legacy SAP that was done about nine years ago. It is fair to say we are not going to junk everything we have done. We continue to evolve the system. As the electricity system becomes more complicated, Synergy is obligated to update its systems to respond to that. AMI is an example.

The CHAIR: Minister, I caution you against using acronyms because that creates a bit of work for Hansard.

Mr W.J. JOHNSTON: AMI is advanced metering infrastructure. In the future, we will have five-minute settlements—these are all going to cost money and they will continue to be invested in the system.

Mr R.S. LOVE: Is this mainly related to Synergy's interface with the consumer and the small generator like the household solar tops, or is it whole-of-system IT?

Mr W.J. JOHNSTON: I will let Mr Waters respond.

Mr J. Waters: The line the member has pointed out there, the business systems replacement, is fundamentally what we call the enterprise resource planning systems, which is more the corporate systems as opposed to the systems that are in the field that customers deal with directly, which are captured further down the page. We are talking about the corporate IT system here.

Mr R.S. LOVE: Okay. That is listed under corporate, though, so it is a different system. Maybe I misheard what the CEO said. I think he said that the system that operates for consumers is a different system.

Mr W.J. JOHNSTON: The CEO.

Mr J. Waters: I thank the minister. I guess to be a bit more specific, an element of our customer-facing systems for customer relationship management, CRM—in this case we have called it the customer engagement platform—is the direct customer interface that our customer service agents would utilise. However, sitting behind that is a raft of additional customer systems that deal with billing, the receipt of metering data from Western Power and the calculation and production of bills. Those systems go back through into the core financial systems of the business that cover procurement and also the generation systems that cover preventive and planned maintenance and asset management of the fleet. It is a complex array of systems. One element is very much customer facing at the front

end, and then there are degrees as we move across the business and a collection of additional systems that all work together and are critical to the operation of the business.

Mr W.J. JOHNSTON: I invite the member to look below where it says “Retail—Customer Engagement Platform”. The total estimated cost is \$30.2 million with only \$1.2 million having been spent. Clearly all that was in the 2020–21 year, and then the money ramps up for two years as the principal piece of work is done. As the CEO explained, that is the bit that people might go to the website and engage with. But, of course, it is an integrated business, and we would not engage with other elements but they would still impact the operations. I think the CEO is saying that that business systems replacement is the ongoing work. Remember that SAP does not just generate the bill; it does a lot of other activity for the organisation.

Ms H.M. BEAZLEY: I refer to page 797 of budget paper No 2, volume 2, and paragraphs 1 and 2 under “Asset Investment Program”. I am hoping that the minister can please provide further detail on how Synergy will adapt to the new market and planning delivered by the energy transformation strategy and how it will progress towards a decarbonised future.

[5.10 pm]

Mr W.J. JOHNSTON: I am really very pleased to answer that question. The first thing to say is that there has already been incredible success with Synergy. Since 2005, which is the year of the Paris accords, it has already reduced its carbon emissions by 50 per cent from nearly 12 million tonnes to 5.5 million tonnes in round figures. We have more than doubled large-scale renewables here in Western Australia. That is not only with Synergy, but overall. Of course, Synergy, through Bright Energy Investments, is supporting that work. It is also adapting to the future by installing the big battery in Kwinana. There will be more good news about the big battery very soon. It is running a project through schools in the south west interconnected system called the schools virtual power plant. That is proving up the viability of virtual power plants—that is, connecting a range of resources. Rather than building a big power station, a range of resources are connected. They are harnessed together to provide the energy that the whole system needs. That is a very important pilot. That is a very attractive future opportunity.

Synergy is also working with the Department of Communities on what is called the Smart Energy for Social Housing project. We are rolling out new technologies for 500 Department of Communities housing properties; again, to see whether we can harness all those things together to get us ready for a higher renewable energy content future. Synergy is working with Western Power to trial the PowerBank project—it is the first time in Australia—using community batteries. They already have great experience in Alkimos where they worked with the land authority and Lendlease on a project. Those community power systems were rolled out across the south west interconnected system to see what value could be achieved.

I am also pleased to say that Synergy is partnering with Western Power, Energy Policy WA and the Australian Energy Market Operator, with support from the state and federal governments and the Australian Renewable Energy Agency, to roll out what is called Project Symphony. We will be able to speak more about that very soon. It will harness these distributed energy resources. Rather than worrying about building big power stations, it will harness the power of individuals’ contributions to the system. Synergy is the sole purchaser of rooftop solar in Western Australia, from residents—1 800 megawatts comes from rooftop solar. That is six times bigger than the amount from the Collie coal-fired power station. Every workday, another megawatt comes from people’s houses. Members can see that the biggest contributor to a low-carbon future is families. The good news is that Synergy is partnering with those people—along with Western Power, EPWA and AEMO—to ensure that it makes the most of that. This is a genuinely exciting future.

The board of Synergy has approved a new Synergy, if you like. It is engaging with its staff to take them on the journey to this new future. I want to congratulate Synergy on the work it is doing in Collie. People from around the world are looking at the work that Synergy is doing with its workforce in Collie in managing the transition from the past electricity system to the future electricity system. I regularly catch up with the unions and they acknowledge that Synergy is doing a good job down there at Collie in working with its people to manage that transition. We cannot pretend that these things are not difficult. We cannot wish away the need for stable services in the electricity system or wish away the high-skilled jobs that we have in Collie either.

Mr R.S. LOVE: I refer to page 795, found in volume 2 of budget paper No 2, and paragraph 12.1 under “Financial Sustainability”. It states that the budget incorporates a new subsidy, the system security transition payment, which is a time-limited operating subsidy. This is to provide support for Synergy to run its thermal fleet. How long will this subsidy apply for? Does it go on beyond the forward estimates? What is the thinking behind this?

Mr W.J. JOHNSTON: This is a very complicated area. We are currently going through the access arrangement 5 process, which of course is the regulatory framework for Western Power. Forty-seven per cent of residential bills is the Western Power costs that are passed through to Synergy. If the AA5 outcome were to be favourable to Synergy,

that would change the need for a subsidy; potentially, significantly. But of course we do not know what the outcome will be. Conversely, of course, a good outcome for Synergy would mean a bad outcome for Western Power. In terms of these subsidies, because of the transition we are in, we cannot afford for the essential systems services that are currently provided by Synergy's traditional fleet to be compromised, because that would be a suboptimal outcome—let me put it that way. At the moment, there is that subsidy.

The subsidy that the government is giving to Synergy is smaller than the subsidy that was given to it by the former government. It is about \$100 million less in these estimates than in the last four years of the former government. Another thing about the subsidies that are provided to Synergy now is that they are for specific non-commercial activity. That puts strong pressure on Synergy to run its business on a commercial basis. It is being made whole for the need to continue to operate its traditional fleet. It is being made whole for the gap between the cost of the renewable energy buyback scheme and the distributed energy buyback scheme and the value of the electricity that it buys. It is being made whole for the subsidies it provides to low-income earners through all the different subsidies—energy assistance payments and those things. But it is expected to run its business as a commercial operation for its commercial activities.

Mr R.S. LOVE: The minister mentioned that the subsidy provides support for Synergy to run its thermal fleet in an uneconomical manner at the moment because of the different mixes of power generation. I note that Muja C is set to shut in October 2022, and unit 6 by October 2024. Will that mean there will be less of a cost to Synergy to maintain the thermal fleet, and will that be reflected in the subsidy?

Mr W.J. JOHNSTON: I make the point that it is \$315 million over four years; that is something like \$75 million a year. The sum of \$2.5 billion was paid to Synergy, without any reason, during the last government. It is modest; \$75 million a year, in a multibillion-dollar business, is relatively small. Synergy has a turnover of \$3 billion and we are talking about \$75 million, which is a relatively small amount. We would expect it to reduce rapidly. The sum of \$315 million over four years acknowledges the closure of Muja C. A range of business events that are likely to take place over the next five years are going to be favourable to Synergy, including the rolling off of the Bluewaters agreement, which was entered into at a different time. A whole range of factors are running in Synergy's favour. I do not know whether AA5, being the future regulatory framework for Western Power, will be as favourable to Synergy as we thought, maybe a year ago. To the extent that AA5 holds prices down compared with AA4, that will be good for Synergy, and will therefore reduce the amount of subsidy required.

Mr R.S. LOVE: Paragraph 12.1, which I referred to originally, stated it was “to preserve electricity system security whilst generation fleet transition options are explored”. Is this the type of work that Energy Policy WA has been doing or is this different? This is a business decision for Synergy alone to make as to what the most effective generation alternative may be.

[5.20 pm]

Mr W.J. JOHNSTON: That is correct. Energy Policy WA's job is to look after the energy system in a policy sense on behalf of government. Synergy's management and board advise the government what investments it should make for the business of Synergy; for example, the big battery in Kwinana. Synergy had a business case for that and, as it happens, it also meets the need that Energy Policy WA said that we had, because batteries are short-term storage. There is a range of exciting options in front of Synergy for its future generation needs. What I will not do with Synergy is have the government's balance sheet fund somebody else's profit, which is exactly what happened in South Hedland. The former government did a 27-year capacity contract with a particular business and locked Horizon into high-cost technology that has no flexibility. The other side of the deal was a good deal. I once said at a conference that whoever negotiated the deal for the commercial partner should get a raise because it was a great deal for the commercial partner. In the same way, Minister Wyatt, when he was the Minister for Energy, did not allow Synergy to do that with Bright Energy Investments because there was risk on the other side in that deal. It is not a live asset, so the other side cannot use our balance sheet to make money—it has to perform. I am looking forward to Synergy coming back and giving me advice about what it thinks will be a good investment. There is a process under section 68 of the Energy Corporations Act 2005 that requires the minister to give consent to Synergy spending lots of money. Before I make that decision, I get advice from the Coordinator of Energy and the Under Treasurer. Technically, it does not have to go to cabinet, but it will go to the Expenditure Review Committee and be extensively reviewed in the same way that we did with the big battery.

Dr D.J. HONEY: In relation to all those subsidies, I refer to page 793 of budget paper No 2, volume 2, “Revenue from Statement Government”, which shows a declining revenue. Is that the total revenue to Synergy from government, including all the programs that the minister mentioned, such as the subsidy for maintaining Muja? By reference, I refer to page 37 of budget paper No 3, the third dot point, which states —

higher operating subsidy payments to Synergy (up \$298 million over the period 2021–22 to 2023–24) to primarily cover the losses associated with running generators to ensure the security and reliability of the electricity system ...

I do not see that reflected in an increase in those line items. What is the total payment of government money to Synergy over the budget period?

Mr W.J. JOHNSTON: I thank the member for the question. Yes, they are the total payments from government and, of course, one of the largest contributions is for the tariff equalisation contribution, which is a through payment. The TEC is collected by Western Power and paid to Horizon Power. Because it is charged to distribution customers—Synergy has almost all the distribution customers—the largest impact of the TEC is on Synergy and so we now fund Synergy for the TEC. The TEC, of course, goes to regional residential customers. It is a subsidy from south west interconnected system customers, principally the metropolitan ones because we do not cover costs for wheatbelt customers. It is principally metropolitan customers paying a subsidy to regional customers. Because that is a non-commercial activity, we pay it to Synergy out of consolidated revenue and Synergy passes it on. We did not change the TEC itself, because some non-Synergy customers are paying the TEC, and that would have excused them from their contribution to Horizon. We did not do that. The member will see in the budget that the estimated actual for Synergy for the financial year was \$922 million, but that was because \$650 million was given to it, which it then gave in rebates for business and residential customers. That is why that was such a large figure. As I said, the \$386 million declines as it does on the page there, and then the other subsidies are explained for the hardship utility grant scheme and Project Symphony, which is the virtual power plant that we have not formally announced. We have not formally announced it because the commonwealth asked us to wait for the formal announcement.

Mr S.N. AUBREY: On 11 March this year, the member for Cottesloe told a press conference that he had heard the nonsense about buying out coal contracts and stated —

They're sunk costs. They're already in the budget, they're already in the bottom line.

He also said that they were not additional costs. Can the minister confirm whether the member for Cottesloe was correct in making that statement?

Mr W.J. JOHNSTON: That is a great question! I am aware that the member said those things. It is interesting; I heard this idea —

Mr R.S. LOVE: Can I ask what page we are looking at?

Mr W.J. JOHNSTON: This is a government trading enterprise; we are talking about the operations of Synergy.

Mr R.S. LOVE: So you are just having a bit of a chinwag.

Mr W.J. JOHNSTON: Absolutely.

I would love it if it was true. What happens is that Synergy pays for coal and then it turns that coal into electricity and sells that electricity to customers. If it still has to buy the coal but it cannot turn it into electricity, it has a loss because the money that it has paid for the coal cannot be turned into electricity, but it still needs the electricity, so it has to pay somebody else for the electricity. The idea that we do not have to account for them is just a fantasy. The member for Cottesloe also used the terminology “sunk costs”. How ridiculous! A sunk cost is a capital cost that has been spent to buy something—it then becomes a sunk cost. This is an operational cost. We have to deal with it every time. During the time the Labor government has been in place, we have renegotiated the coal contract with our coal supplier, Premier Coal. Although the specific terms are confidential, everybody knows what we did—we have said this in public previously. We got more flexible terms for the contract and we are paying a higher price. It is hardly a surprise that that is what we would do. The good news is that when we reduce our future coal consumption, our costs come down, whereas, in the past, because it was take or pay, we did not have the flexibility of reducing costs when we reduced our coal consumption. The idea that somehow we can buy coal for free is a ridiculous comment and it shows that the member did not understand what he was saying in public. If any member in the chamber wants me to, I am happy to get the chief executive officer to explain how the business works, because clearly someone who understands the electricity system would not have said that.

I want to finish by saying that the member for Cottesloe said that he had discussed his new energy plan with the chief executive officer of Synergy, Mr Jason Waters, who is sitting next to me right now. He said that he had discussed it with Mr Waters and that Mr Waters had agreed with his plan. That is simply not true. I have Mr Waters sitting next to me. If the member for Cottesloe wants to ask, I am happy to invite Mr Waters to confirm that he never told the member for Cottesloe that he endorsed his harebrained scheme.

The CHAIR: Mr Waters.

Mr W.J. JOHNSTON: Only if the member for Cottesloe asks.

Dr D.J. HONEY: I am intrigued that the minister is wasting Parliament's time.

Mr W.J. JOHNSTON: Why did you say those things?

Dr D.J. HONEY: This is just a pointless exercise, is it not, minister? That is not what I said.

Mr W.J. JOHNSTON: What did you say?

Dr D.J. HONEY: I said that he said that it was achievable.

Mr W.J. JOHNSTON: That is not what you said.

[5.30 pm]

Dr D.J. HONEY: It states on page 58 of budget paper No 3 —

In early 2019, the Economic Regulation Authority referred Synergy to the Electricity Review Board ... to establish whether prices offered into the balancing market between March 2016 and July 2017 had breached ...

I will not waste time reading it all out. The minister can read it as quickly as I can. Does the minister have any estimate of the likely magnitude of a penalty if a penalty were applied, and what liability that would be for the organisation?

Mr W.J. JOHNSTON: No, it is a statement of risk. There is no budget allocation towards it because it is an allegation of behaviour by the ERA that it will have to prove every element to the ERB. As it sets out there, Synergy does not agree with the ERA's conclusions and is defending itself in the ERB. Like Dr Nahan, I have made comments about the ERA's behaviour in this matter. Almost all of the behaviour being referred to was during the period Dr Nahan was the Minister for Energy. I am not criticising Dr Nahan's stewardship of Synergy on that matter. The ERB will find whatever it finds and then Synergy will make a decision about what it does. Clearly, if there were to be an adverse outcome, Synergy has options to take the matter further. The ERB is not the conclusive decision-maker. This is a highly complicated matter and lawyers and economists are 10 paces from both sides. I am not in a position to make commentary about whether the ERA is right or whether Synergy is right. What I would say though—I have said this publicly—is that I think the ERA's behaviour was not the way I would have it conduct itself, but it is independent of government and it can make any decision it wants.

Mr R.S. LOVE: I note that Synergy is building some electric vehicle charging stations this year. There is a figure in the budget in the order of \$4.5 million. I cannot find it at the moment, but as we have been told, that does not matter because we can talk generally on these matters in GTEs. Given that it is investing that amount, I see that in terms of financial changes on page 794 —

The CHAIR: It is on page 794, member.

Mr R.S. LOVE: Not exactly, because that is the financial changes. I assume that means that is an income change—a loss due to the use of the charging stations. Can the minister outline how many charging stations are to be built and where they will be? Is there a view that this will be of value at some point to the organisation in terms of a profit? Just as oil companies and service stations make money providing fuel for cars, is there a way that this could turn into a profitable business for Synergy?

Mr W.J. JOHNSTON: Not really—not these first 45 that Synergy and Horizon are rolling out. These are clearly a service so that we can encourage people to take up electric vehicles. The expectation of the profit side of this is that in the same way that the government does not own any service stations, we would not expect to have to own charging stations either. We would expect the private sector to fill this need in exactly the same way as it does with existing transportation businesses. There is no expectation. When Minister Sanderson and I made the announcement about this rollout at Kings Park, both of us made the point that we would expect the private sector to step up. We note that the commonwealth government has a subsidy available to the private sector for the rollout of charging stations and we hope that other private sector operators will take up that. Without having spoken to them, I bet the member a hundred dollars that all the service station owners would be examining what options they have, because clearly they do not want to lose their business. I note that the RAC has acted independently of government to put charging stations in certain locations already, and some local governments have done the same. When I was in Esperance a little while back, I spoke to the Horizon manager there. He drives a plug-in hybrid. He tells me that he can drive from Esperance to Perth using his charge and that there are enough charging stations for him to get the distance. We know that one of the hesitations in Australia about electric vehicles is range anxiety. We want to help early adopters overcome that anxiety. There will be lots of business opportunity for Synergy with electric cars, as there will be for Western Power, but these charging stations are not trying to create a big business in that.

Mr R.S. LOVE: I would not anticipate these particular charging stations would be, and I fully anticipated the minister's answer. However, I was interested to know whether there was a view that this would be a profitable arm of the business down the track.

Mr W.J. JOHNSTON: If we go back 15 years, Synergy accounted for about two-thirds of generation in Western Australia; now it is about a third. But clearly, higher use of electricity is good for Synergy. Electric vehicles

are an amazing opportunity for stabilising the grid. We need manufacturers to allow two-way flow of electricity, which most of them do not currently do. It is a huge opportunity. If we think about it in this way, Synergy is paying \$30 a megawatt hour for rooftop solar, which is what it does, and then sells it at minus \$100 a megawatt hour. If people were to charge their cars, instead of selling it for minus \$100, it could sell it at a break-even cost and that would be good for it, I am sure. These particular charging stations are not part of a big business plan, but electric vehicles clearly will be helpful to both Synergy and Western Australia.

Ms E.L. HAMILTON: I refer to paragraph 12.2 on page 795 of budget paper No 2. How is the government supporting Synergy to help Synergy customers in our community by providing concessions or rebates for those who may need support?

Mr W.J. JOHNSTON: That is an excellent question. Synergy is helping customers in a number of ways. One of those is providing support through subsidies such as the energy assistance payment. It is also looking at how it can interact with customers to make hardship less of a challenge. Of course, we had a long period of moratorium on disconnections. We went for 16 months when disconnections were not permitted for Synergy, so obviously we went to zero disconnections. That did not mean that customers were not becoming eligible for disconnection, because not everybody was paying their bill. One of the good things was that the \$600 payment that Premier Mark McGowan gave to all Western Australians meant that the number of people with bill debt was dramatically reduced.

The other thing that happened is the government worked with Synergy to engage additional staff to work with hardship customers to case manage their experience. I will invite Jason Waters to give us an explanation of the experience that Synergy has had with these customers and explain benefits we have seen for these hardship customers.

[5.40 pm]

Mr J. Waters: In the last couple of years, we have embarked on a concerted effort to really improve the performance of our business from a hardship management perspective. We are talking about customers for whom life is not easy in many cases. On average, they are higher consumers of electricity than the majority of people in the system. Under a previous way of operating, they would have been facing a cycle of disconnection risk and the added stress of that. In many cases, they are not in a financial position to work their way out of that from a long-term perspective. With the support of government, we have invested in what we have called our case management program. A small team of specifically trained people deal with hardship customers on a one-on-one basis. They support them through education and work with them over the long term to keep them connected and ensure they get access to additional services such as financial counsellors. We have had a really strong result as an outcome.

We now have a cohort of customers who have, we believe, permanently graduated from what we would have once considered fairly dire hardship to the point at which they now have the level of energy literacy and understanding of household consumption, including time of use and use of appliances, that they are better able to manage themselves. A number of people have graduated to the point at which they are no longer in that cycle of debt and disconnection. I think the Synergy team have done an excellent job in this area. It is certainly one of the things we are proudest of. Amongst all the things we get to do of a big-end-of-town nature, like building batteries and wind farms, it is really important to us that we are helping people who are most in need. I think that has probably been one of the highlights of the last 12 or 18 months from my perspective.

Mr W.J. JOHNSTON: Can I finish by also pointing out that, through a program led by Energy Policy WA, we have introduced the household energy efficiency program. It will be led by Energy Policy WA in conjunction with the two retail government trading enterprises, Synergy and Horizon Power. It will work with non-government organisations to engage with hardship customers to improve their energy efficiency. Maybe we could replace their fridge if it has a low number of stars. One of the interesting things is that hardship customers use more electricity than average customers. We can see it is not the price of electricity that is driving hardship, but the use of electricity. If we can explain to people how they can get the same outcome with less electricity use, that is going to make a massive difference to their lives. This is in complete contrast to the past, when they just got a hardship utility grant scheme payment and everybody left them alone. Synergy was happy because their bills were paid, but the customer had nothing transforming their lives. We are really pleased with this program, by the dedication of Synergy and its staff, and the opportunity we have had to engage NGOs through the HEEP. I have already mentioned the smart energy for social housing as well.

Dr D.J. HONEY: I refer to page 202 of budget paper No 3. There is a \$41.2 million customer engagement platform and flexible operation project for Muja power station. Can the minister please explain what that system does?

Mr W.J. JOHNSTON: The member has not read that correctly. I will read it out. It states —

Over the period 2020–21 to 2024–25, Synergy will invest a total of \$41.2 million in its Customer Engagement Platform (CEP) and Flexible Operations projects ...

It has an “s” so there are two separate events.

Dr D.J. HONEY: Can the minister please explain what those are?

Mr W.J. JOHNSTON: The first one, the customer engagement platform, was explained by Mr Waters to the member for Moore when we had that conversation. The flexible operations projects for Muja are occurring because, at the moment, Muja is four units and one unit is started by using another unit. We are going to close two of the units, which will leave us with two units. We would expect those units to be, firstly, used at a lower capacity more often and, secondly, switched off more often. At the moment, all four units cannot be switched off because then it cannot be restarted. We have to put a cold-start capacity into Muja so it can be completely switched off and then do a cold start. We also have to have the capacity to take it down to lower production levels because we need it to be more flexible. We know, because of the rise of rooftop solar, that the belly of the duck curve is getting bigger and bigger, and we have to be able to accommodate the units at the bottom of the belly. That needs more flexibility. That is what it is about. Because of the closure of C5 and C6, we have to make D7 and D8 more flexible. That is what the project is doing; it is \$11 million.

Dr D.J. HONEY: Would that not be normal operational costs for Synergy? Why is it a special budget item?

Mr W.J. JOHNSTON: It is not a special budget item.

Dr D.J. HONEY: It is a separate budget item and not part of its operational costs.

Mr W.J. JOHNSTON: No, it is a capital expenditure and this is a report on capital expenditure.

Dr D.J. HONEY: It is purely that?

Mr W.J. JOHNSTON: Yes. We have to be transparent. We are reporting our capital expenditure.

Dr D.J. HONEY: I refer to the big battery at Kwinana that the minister has already discussed. Can the minister please update us on the status of the big battery at Kwinana, which the government announced that Synergy would be building in October 2020?

Mr W.J. JOHNSTON: Not yet, no. Watch this space. More decisions and details will be available very soon but we are not in a position today to make any announcement.

Dr D.J. HONEY: The announcement said the battery would be operational by September 2022. Is that still the case, given that it is clearly heading into the danger period of the year when there are more likely to be power surges and significant changes in power usage?

Mr W.J. JOHNSTON: There are two answers to that question. The first is that, because of the other work done by Energy Policy WA and the energy transformation strategy, there is no expectation of those problems in 2022. I can assure the member that we keep in touch with AEMO and Western Power on a regular basis indirectly through Energy Policy WA.

The CHAIR: Acronyms minister, remember?

Mr W.J. JOHNSTON: AEMO is the Australian Energy Market Operator. We have done enough to keep the lights on next year, although we never know because it is a dynamic system.

There are two separate elements to the big battery. The first is the civils and the connection, which are ongoing through Synergy. There is also the battery. Obviously, we have been working on the civils and the connection. Now we wait for the announcement about the battery. We are at a delicate point in the process of approval for the battery. For no reason other than the process, we are not able to make any further comment today on the second element. However, I can assure the member that we are on track to have it done on time.

Dr D.J. HONEY: Is that by September 2022?

Mr W.J. JOHNSTON: Yes, by September 2022.

Mr R.S. LOVE: After cyclone Seroja in the midwest, I asked the minister in Parliament about Mungarra Power Station and the fact that the organisation the minister just mentioned had said that it should be kept open. It was quite fortuitous that it was still open. What is the future of that plant? In practical terms, what other energy supplies or planned expenditures are there in the midwest from Synergy?

[5.50 pm]

Mr W.J. JOHNSTON: The Mungarra gas-fired plant was withdrawn from Synergy's generation cap by Hon Dr Mike Nahan when he was Minister for Energy.

Mr R.S. LOVE: The minister has pointed that out already.

Mr W.J. JOHNSTON: I am just explaining what that means. It means that it is not allowed to participate in the electricity market. It is not that I do not want it to; it is not permitted to provide electricity for commercial customers.

Mr R.S. LOVE: The minister cannot undo that situation?

Mr W.J. JOHNSTON: I could, but that would mean going back on the decision that the member's minister made to reduce the cap. The cap was reduced to try to create space for the private sector to invest, and guess what? It did. It would not perform a function in the market, because the market is, believe it or not, oversubscribed. On the other hand, Western Power, in response to the questions that the Australian Energy Market Operator raised, contracted it as a network-controlled service or NCS, so it is an NCS generator. It is available for Western Power when Western Power cannot provide grid-supplied energy, which is exactly what happened with cyclone Seroja. Western Power contracts it to Synergy to have it available, and guess what? When it was needed, it was used. I asked Mr Waters a moment ago when the NCS contract comes to an end; he is not sure, but at some point in the future, Western Power will recontract the NCS. It may or may not choose to renew the contract with Synergy. Assuming it does not, Synergy will have to make a decision about what it does. Of course, there is also the black start facility. We cannot get rid of it, because look what happened in South Australia. If there is a system black and it needs to restart, that is one of the spots from which it can restart.

Synergy also has a generator in West Kalgoorlie, which is also an NCS that has only a couple more years to go. Western Power will still need the service, but whether it is that facility or not, who knows? Western Power is obliged, under its rules, to go to market to get the lowest cost option for those services. To give an example, perhaps a battery might be a lower cost option in the future. If one of Synergy's competitors wanted to build a big battery in Geraldton because it thought there was a business case, that might be a cheaper option than renewing the contract with Synergy. It performs the same function, but in a different methodology.

Dr D.J. HONEY: Not with Seroja out there.

Mr W.J. JOHNSTON: Who knows? I am saying that it is a decision for Western Power under its regulatory obligations, because it is required by law to take the lowest cost option. When it contracts that out, it may well be that Synergy is the lowest cost bidder because it has sunk capital, and if it does not renew the contract, who knows what it will do with it? One would imagine that Synergy will still be the lowest cost option, but who knows? That will be a matter for that time. It is not the facility that is important, it is the service. I do not think someone else would be able to provide the service at a lower cost than Synergy, but Western Power has to find out. If it does not find out, the consumer will pay more. It is not the facility we should be worried about; it is the service. I trust that Western Power will make sure it has the services it needs available when it needs them. That is its job.

Mr R.S. LOVE: Is there any consideration of investment in the midwest neck of the woods by Synergy at the moment?

Mr W.J. JOHNSTON: The good news about grid-connected electricity is that it actually does not matter where the facility is. If we think about this in terms of physics, because electricity travels at between 20 and 80 per cent of the speed of light—an incredible speed—it means that at the very second the electricity exits the power station and goes into the grid, it arrives everywhere in the grid at the same time. It is instantaneous; at that moment, it is everywhere. Once you are connected to the grid, it does not matter where the power comes from. It is the total net effect of it. There will always be a need to support the grid around Geraldton because it is a long line. The challenge for Western Power is that it might have to do planned maintenance. When it does planned maintenance, it will have to get the Synergy facility running because it will need to provide the electricity. The service will continue to be provided, and I hope it continues to be provided by Synergy, because that is in our interest, as the shareholding minister in Synergy, but it is provided to Western Power under contract and on behalf of the people of Western Australia who want it provided at the lowest cost.

Dr D.J. HONEY: Excuse me if the minister has already answered this question. With regard to the retirement of the facilities at Muja, is there any allowance in this budget or in Synergy's costs for the rehabilitation of the land polluted or contaminated by those facilities? Nearly all those old power stations have PCB contamination in the soil, for example. Is that included as a liability in this budget?

Mr W.J. JOHNSTON: Mr Waters points out to me that Synergy continues to update its rehab provisions, and it is currently sitting at around \$400 million. The experience at Kwinana is that things are costing a little more than was originally expected, so one can imagine that the company is increasing the global provision, because that is common sense. It has already started the process of physically decommissioning Muja AB, and when Muja C shuts, it will have to do the same. But there is a \$400 million provision for preservation and then removal.

Dr D.J. HONEY: This is purely in the interests of longer term information. There are substantial rehabilitation costs projected for the coal mines at location. If the companies that are current operators of those mines defaulted, would the government pick up the cost of the rehabilitation of those mine sites, or does the government have any liability for the rehabilitation of those mine sites?

Mr W.J. JOHNSTON: If the member had asked me as Minister for Mines and Petroleum when the Department of Mines, Industry Regulation and Safety was here, I would have happily answered, but I am not in a position to answer as Minister for Energy.

Extract from *Hansard*

[ASSEMBLY ESTIMATES COMMITTEE A — Thursday, 23 September 2021]

p379b-387a

Chair; Mr Shane Love; Mr Bill Johnston; Ms Hannah Beazley; Dr David Honey; Mr Stuart Aubrey; Ms Emily Hamilton

Dr D.J. HONEY: Sure. That is fair. Does any liability transfer through to the operators of the power stations?

Mr W.J. JOHNSTON: No. Synergy has no rehab obligations in respect of coal. If the member had asked me when I was wearing my other hat, I would happily have answered.

Dr D.J. HONEY: One for next year.

The CHAIR: I think everyone's batteries are flat, so that completes the examination of Synergy.

Meeting suspended from 5.58 to 7.00 pm