

Division 12: Treasury — Service 4, Energy, \$28 714 000 —

Ms S.E. Winton, Chair.

Mr W.J. Johnston, Minister for Energy.

Mr Z. Khan, Executive Director, Public Utilities Office.

Mr R. Watson, Executive Director, Infrastructure and Finance.

Ms K. Ryan, Program Director, Energy Transformation Implementation Unit.

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

Mr P. Meyerkort, Senior Policy Adviser.

Miss K. McKenzie, 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. It is the intention of the Chair 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 estimates committee's consideration of the estimates will be restricted to discussion of those items for which a vote of money is proposed in the consolidated account. Questions must be clearly related to a page number, item, program or amount in the current division. Members should give these details in preface to their question. If a division or service is the responsibility of more than one minister, a minister shall be examined only in relation to their portfolio responsibilities.

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 Friday, 31 May 2019. 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.

I give the call to the member for Bateman.

Mr D.C. NALDER: I refer to page 145 of budget paper No 2, volume 1. Paragraph 29 refers to additional funding of \$420 000. It states —

... 1 FTE for the Public Utilities Office to engage a dedicated advisor on consumer issues and \$420,000 for consumer advocacy consultancies over three years.

Who are the consumer advocacy consultancies receiving \$420 000 over three years, and what is the funding for?

Mr W.J. JOHNSTON: One of the features of the Western Australian electricity system is that there is no dedicated advocacy on behalf of consumers. This is obviously a serious error and we need to correct it. We have appointed an officer to the Public Utilities Office to be a consumer advocate to come to the electricity and energy questions from a consumer perspective. This was done because, if we look around the sector here in Western Australia, there is no single organisation with the strength to take on that workload. I have met with the Western Australian Council of Social Service, which urged action in this area. It said that it did not have the capacity to fulfil that role. We have created a consumer advocate within the Public Utilities Office, which is obviously a very good thing to do. In addition, we have recognised that we need to talk to players outside of government.

When Peter Collier was the Minister for Energy in the first term of the Barnett government, he contracted with WACOSS to analyse the structure of the bills that are sent to people by Synergy. Unfortunately, that consultancy report was never publicly released so, sadly, the community has never been able to see the outcome of that large piece of work. Even the Barnett government recognised the need to do work in this consumer space. We have created a fund of \$420 000 that the Public Utilities Office will control. It will be able to invite people to tender for specific projects that are developed by this consumer advocate in conjunction with Mr Khan as the executive director of the PUO, so we can look at specific projects.

When the member asks who gets the money, I cannot tell him, because we have not made any tenders for that at this stage, but he can imagine the sorts of people who would be interested in that type of work. There are people from the Brotherhood of St Lawrence, who have done a lot of work on the east coast, the Western Australian Council of Social Service and the Bankwest Curtin Economics Centre. The member can see a range of groups are discussing the issues of consumer outcomes in the energy sector. This gives a small amount of money; \$420 000 over three years is not a huge vote, but it is an important contribution towards research so that we can respond to the demands of individual consumers. I imagine the member would agree that there is a need to examine the impact on low-income earners and the opportunities they have for the developing energy sector, because we all know that

a transformation is going on at the minute and we do not want low-income earners left behind by that transformation. It has been a challenge. I remember that when the member for Riverton was Minister for Energy, he often talked about the need to make sure that low-income earners were not left behind by the energy transformation. The member can see that this is a good opportunity to build on that base of work so that we can move forward in this space and ensure that individual consumers, and particularly low-income earners, are properly represented in our system.

[9.30 am]

Mr D.C. NALDER: The \$420 000 is set aside for tender processes only, so everything will be a tender. Will those tenders be publicly listed, such that there is a formal process to go through for evaluation and appointment of those tenderers?

Mr W.J. JOHNSTON: It is \$140 000 a year for three years. The rules about procurement apply to this money in the same way as they apply to all other moneys, and the Public Utilities Office controls the vote, not me. Although I am sure it will come to me to talk about what projects it should seek, it will be up to it to follow the procurement rules. I understand that for an amount of less than \$50 000, there is no need to go to tender. If the amount is under \$50 000, only a certain number of people need to be invited to put in a bid; it does not go to public tender. If the amount is less than \$10 000, it can be done through invitation as well. The procurement rules will apply, and that is being done by the PUO, not by the minister's office, and it will follow the procurement rules that apply to every other grant of money coming from government.

Mr D.T. REDMAN: The minister talked about an advocacy capacity within the organisation and said that the advocate talks to various groups. Will there be a shopfront for organisations and communities to put their views to the advocate?

Mr W.J. JOHNSTON: No, it is not intended to be a shopfront. It is about advocacy. We all know that certain groups in the community are already debating the needs of consumers. This is a policy function; it is not a resolution-of-issues function, because we already have systems in place to resolve those issues. This is about policy development and policy advocacy. For example, the regulatory process through the Economic Regulation Authority currently does not have a consumer advocacy step, which is done in other states. That person might make submissions on behalf of government to the ERA. They will engage with WACOSS and other groups such as St Vincent de Paul and the Brotherhood of St Lawrence about the policy objectives, not about individual people. They will be contactable because they will be within Mr Khan's unit at the Department of Treasury. But it is not about advocates for individual people.

Mr D.T. REDMAN: The minister has just broadly described what he sees as the scope, obviously putting the emphasis on the low income end of town, with a strong focus on power bills and the like. How about other groups? Has the minister defined the scope? For example, policy also applies to service delivery in fringe-of-grid areas in regional areas. Does that fall within the scope of the advocacy role?

Mr W.J. JOHNSTON: I am really very happy to talk for quite some time about fringe-of-grid issues because a lot of work is being done in that space. That would certainly be part of this, but it would not be the sole focus. If the member reads the literature, there is a lot of discussion about the role of advocacy for consumers. Currently, consumer advocates are not amongst the list of people who make submissions to the ERA. On the east coast, Energy Consumers Australia fills this role, but, unfortunately, it is not active here for a whole range of reasons. It was even considered that we should maybe fund the ECA to set up in Western Australia, but in the end we thought that was not the best way forward, so this is the approach we are taking.

Mr D.T. REDMAN: Scope is a very important point because resourcing is being put into an advocacy role. If the advocacy role and who is talked to is directed by government, there could be limits on that role. A lot is happening in the energy space—I do not need to tell the minister that—and I would have thought that participation of communities in those discussions and in some of the distributed energy resources opportunities fits into the policy space. Is this going to be a platform to pull those together into the policy discussion?

Mr W.J. JOHNSTON: Yes. As I said, we thought about making this external to government, but we did not think it would work at this point in time. We want to make sure that somebody is there who has a consumer perspective on things—small business, consumers, low-income earners, and fringe-of-grid and disadvantaged people. There is no question that fringe-of-grid people are disadvantaged. This is designed to be outward looking engagement in the policy development process on behalf of government into the community. I suppose ultimately the test for the community of the success of the government idea is whether we make a difference. That is why we have the \$140 000 a year over three years for research. Clearly, there will be organisations—many in the member's electorate and across the state—that might have something to contribute, but they do not currently have the resourcing to do that.

Mr D.T. REDMAN: Can I get an example of something? I am interested whether it falls into the remit of this policy. Esperance is probably not fringe of grid by definition. It is served by Horizon Power; it is a pretty substantial centre. Esperance has now reached its limits on solar photovoltaic power on rooftops. The limitation is

basically because of the take-and-pay contracts of gas by Horizon to run its turbines. If we were to profile members of the Esperance community who do not have solar PV power, they would probably be the people who could not afford it and who can also ill afford to pay their power bills and do not get a chance to offset any of those costs. Do those sorts of discussions fall into the remit? To me that is policy, because just by the quirk of the energy procurement process, part of the community is disadvantaged. Is that a discussion for the advocate to take on board in the policy settings of government?

Mr W.J. JOHNSTON: It is a very interesting issue and that is why we have set up the Energy Transformation Taskforce. The first piece of work to be completed by that task force is the “Distributed Energy Resources Roadmap”, and that is designed to identify what is holding back DER and how to integrate a higher quantity into the system. I know the member for Warren–Blackwood is on the committee with the member for Swan Hills and others. I do not know what the conclusion of the recommendations are going to be.

Mr D.T. REDMAN: I am sure they will be good!

Mr W.J. JOHNSTON: I am sure they will be excellent!

Ms J.J. SHAW: We have got to manage expectations!

Mr W.J. JOHNSTON: But the point here is that there is no question that the sort of things that the member is talking about, such as hosting limits in Western Power, Broome hosting limits or the question of take-or-pay contracts for gas in Esperance, probably need to be looked at. The idea of the DER road map is to identify what is holding back distributed energy and to make sure that we have a regulatory and technical framework to deal with all those issues, because we want to have more distributed energy in the system. The point there is that this person will probably not look at that particular technical issue that the member has described, but, rather, those other affordability and social issues.

Mr D.T. REDMAN: As an entry point, I refer to service 4, “Development and Implementation of Energy Policy”, on page 150 of budget paper No 2, volume 1. We have just been through a federal election campaign, and one of the things that has frustrated me somewhat is the amount of focus on energy on the east coast, including pretty significant investments by federal governments, whichever colour they are, in the energy space. That is for the same issues we have here: the changing nature of the network, the pressure points and the renewable components that are coming on, including the federal government purchasing Snowy Hydro 2.0. That would have been nice for the balance sheet of New South Wales, without saying it is privatising it. We have not had any attention whatsoever, of federal government participation in that, yet we have the same issues, albeit we are managing pretty well as a state. Will this section, which is putting a policy space under Treasury, have a remit of engaging with our commonwealth partners to try to get a better deal for Western Australia?

[9.40 am]

Mr W.J. JOHNSTON: That is a fabulous question, and I am really pleased the member asked it.

Mr D.T. REDMAN: I thought it would be a bit of a dixer, in a way!

Mr W.J. JOHNSTON: Yes, it is. He could have described it as that.

Mr D.T. REDMAN: I am on the minister’s team if he is chasing it.

Mr W.J. JOHNSTON: I am a member of the relevant Council of Australian Governments, and I attended the COAG twice on behalf of the Treasurer when he was not able to attend, even before I was Minister for Energy. It is fair to say that I became famous for throwing bombs, and one of those was: Where is our \$1 billion? If we are 10 per cent of the federal economy and the federal government is spending \$10 billion on firming the east coast energy sector, why is it not spending \$1 billion firming ours? Of course, we have a problem. I look outside every day and there are no hills, so we do not have pumped hydro like Tasmania and we do not have the Snowy scheme paid for by the commonwealth government. Remember that both the Victorian and New South Wales governments got several billion each from the commonwealth out of that, which, as the member said, was like money for nothing. It would be great for the commonwealth to put \$1 billion on the table for batteries over here, because we could put in a grid scale, a gigawatt of batteries, or we could experiment with bottled sunshine in Collie or something like that. We could really be incredibly innovative, but we do not get our fair share. It is a dorothy dixer, because this is the point I make at every COAG meeting, no matter who the Minister for Energy is. The federal government has won a clear mandate at the federal election, and I accept its mandate, but I really think it needs to do better over here.

We also have the same problem with its approach to carbon reduction, because, as we keep saying, it cannot have a policy that only applies to the national electricity market, because that would then exclude us. We want to be part of the national carbon outcome, because we are more carbon efficient than the east coast. Our superior carbon profile should be rewarded instead of punished, because if the federal government has a separate target for Western Australia, we will have to do more than the east coast as we already produce less carbon per unit of electricity. Our carbon emissions are going up because our volumes are going up. The east coast’s emissions are

going down because its volumes are going down. We will be penalised by a state-by-state approach to the electricity system, which is why we keep saying that we do not want a state-based mechanism. We need to have a genuinely national mechanism, and national does not mean the national electricity market; it means the whole country. Yes, we are very bitter that the commonwealth government is throwing taxpayers' money around the east coast and to the second undersea cable to Tasmania for it to be the "battery of the nation". It is not connected to Western Australia, so how can it be a battery to the nation? It was funny that at the last COAG meeting in Adelaide just before Christmas, one of the state ministers said, "No state is an island." I said, "We are!" They said, "You're an islanded system, yes." Then the Tasmanian minister said, "We are." But it is connected to the national scheme! There are states that are islands in this system and we are the one that is an island. We are getting nothing out of the commonwealth government's largesse, and we need to. To my colleagues on the other side of the chamber, why do we not do something together to put pressure on the commonwealth government to treat Western Australia properly and fairly in this space?

Mr D.C. NALDER: On the comment regarding renewable strategies, I want to seek confirmation —

Mr W.J. JOHNSTON: I did not say anything about renewable strategies.

Mr D.C. NALDER: There was the federal Labor position of 50 per cent, which historically —

Mr W.J. JOHNSTON: I did not mention anything about renewables. I said carbon targets; I did not say anything about renewables.

Mr D.C. NALDER: Yes, but with the carbon targets and then —

Mr W.J. JOHNSTON: Carbon targets and renewable energy targets are separate things. As the member will know from New South Wales —

Mr D.C. NALDER: All right. The minister can choose whether he feels it is appropriate to ask the question. I will ask the question.

Mr W.J. JOHNSTON: Just do not verbal me, that is all.

Mr D.C. NALDER: You can determine whether it is appropriate; I will ask a question.

Mr W.J. JOHNSTON: You can ask me a question, but do not say I said something that I never said.

The CHAIR: And it was going so well!

Mr D.C. NALDER: This is when you start to show your pathetic attitude to things.

Mr W.J. JOHNSTON: Do not say things that I have said when I have never said them and do not do these pathetic things if you do.

Mr D.C. NALDER: You are starting to lecture me in this place.

Mr W.J. JOHNSTON: You just claimed I said something when I did not say it. Do not start with a lie as the basis of a question.

Mr D.C. NALDER: Prior to the election you were supportive of a 50 per cent renewable policy.

The CHAIR: Member for Bateman, can we restrict ourselves to a further question.

Mr D.C. NALDER: Can the minister confirm that WA will not be pursuing those targets, given that the coalition is going in? The minister has said that he wants a national policy. I am seeking confirmation that the minister is standing by that claim, that he wants it to be national, and that he will not be pursuing increases in renewable targets.

Mr W.J. JOHNSTON: We will do in Western Australia what the law requires us to do. As the member knows, because he was a minister in the former government that made these decisions, in 2014, the federal Liberal government under Tony Abbot signed up to the Paris accords, and he also set a 32-gigawatt renewable energy target. Those are legal requirements on our system in Western Australia, and we will adhere to them. If those targets change, we will adhere to them because we have to. That is the whole point. We will comply with the laws of this nation. I have never heard anybody suggest anything else. Let me make it clear: I have never said the words that the member for Bateman just claimed of me. His words do not arise from the issue that was raised by the member for Warren–Blackwood. The member for Warren–Blackwood was making a very sensible comment about the fact that the federal Liberal government has ignored Western Australia. I agree with him and it is a real tragedy that it has ignored us. Instead, the member for Bateman pivoted to Saturday's election, which happened in the past. If the member wants to continue to live in the past, be my guest. I want to make sure that Western Australia's electricity and energy supply system is facing the future. That is why we are dedicated to taking advantage of the new technologies that are coming in. Wind energy is now the lowest cost electricity supply on the globe. Every time there is a competition for a new energy supply, based on price, wind wins. That is a challenge for our network, and we need to make sure that we accept those challenges, instead of living in the past like the member.

Mr D.C. NALDER: Thank you for that lecture, minister. All I asked was a simple question—that the state will not be pursuing individual renewable targets towards 50 per cent. That is all I asked. I do not disagree with what the minister has said regarding federal government support over the eons towards Western Australia. I do not disagree with that whatsoever. The minister said just before the election that he really wanted a national target and that it needs to be a national target. I am just saying that given the outcome of the election, is the minister standing by that he will not pursue individual targets for the state? That is all I asked.

Mr W.J. JOHNSTON: When did I say the words the member said?

Mr D.C. NALDER: I am just asking.

Mr W.J. JOHNSTON: The member is asking me to agree to something that he then cannot tell me when I said it. I am simply saying to the member that the federal government has set targets and we will meet them. The New South Wales Liberal government has set a target of zero net carbon emission by 2050 and 50 per cent renewables by 2030. The Tasmanian Liberal government has a 100 per cent renewable target, and a zero net carbon emissions target. The South Australian Liberal state government also has a carbon target. States setting carbon targets and other things are not unusual. I said that we need to have national leadership on this. We need to have a national solution that recognises the unique nature of Western Australia. Let us understand what would happen: if the federal government does not have a national policy that accommodates Western Australia, we will have to have a target. The reason that the commonwealth will make us have one is that it has set the 26 per cent target. Does the member see what I am saying? Let us assume that the national government only sets a target for the national electricity market. By implication, that means we would also have to meet it on our own, separately to the nation. That is bad for Western Australia. Let us assume that Tasmania goes past the 26 per cent target, which it probably will because it has pumped hydro. If we cannot “use” part of that extra reduction, we have to meet a higher target because we have rising emissions. Let me make it clear: if the commonwealth government does not do what we ask, there must be a separate target in Western Australia. That is the consequence of not setting a genuine national target. If the commonwealth sets a target that applies to only the national electricity market, that means we must have a separate target. The member’s question demonstrates that he does not understand the question that he is asking.

[9.50 am]

Mr D.C. NALDER: No, I understand it very well.

Mr W.J. JOHNSTON: Let me make it clear: if the commonwealth government does not set a single target for all the electricity systems in Australia, that by definition means that there is a separate target for Western Australia.

Mr D.C. NALDER: Other states have pursued their own respective targets—South Australia and Tasmania, as the minister talked about. I am just trying to understand what the minister intends to do if there is inaction on a federal level.

Mr W.J. JOHNSTON: The point is that we have to meet the targets set by the commonwealth government—by Tony Abbott in Paris. That is a legal requirement.

Mr D.C. NALDER: That has already been done. The minister knows that.

Mr W.J. JOHNSTON: Let us understand the mathematics. If we leave aside the Northern Territory because its electricity system is tiny, there are effectively two large-scale grids in Australia—one is the national electricity market and the second is the south west interconnected system. If a target is set for the national electricity market and that target is separate to Western Australia, that means we have a separate target. It is not a question of government policy in Western Australia. That is the consequence of the federal government’s approach. We are saying that we do not want that. We want a single target for the entire nation. Let me make it clear: this is not a question that the member should be posing to me; he should be posing it to the commonwealth because if it does not set a target that takes into account the whole nation, it has set a target for Western Australia and we will legally have to meet it. It does not matter what my views are, it simply has to happen because the mathematics requires it to.

Mr D.C. NALDER: I think the minister is trying to complicate the issue.

Mr W.J. JOHNSTON: No, I am not.

Mr D.C. NALDER: He is trying to complicate the issue. I have tried to keep things very simple. I want to understand what the intention of the state government is in the absence of a commonwealth decision.

Mr W.J. JOHNSTON: Does the member understand that we are talking about a commonwealth requirement? When he says in the —

Mr D.C. NALDER: We have met the targets that were set in Paris. The minister keeps talking about Tony Abbott.

Mr W.J. JOHNSTON: No, we have not.

Mr D.C. NALDER: Yes—the 23 per cent by 2020 with Warradarge and all of that coming in.

Mr W.J. JOHNSTON: The member is missing the point. There are two separate targets. There is a target of renewable energy and a target of carbon emissions —

Mr D.C. NALDER: Yes, I know.

Mr W.J. JOHNSTON: — and they are not related to each other; they are separate. It is pure mathematics. I do not understand why the member does not get this. Think about it: if the commonwealth government sets a target for the national electricity market, by definition that means that there is a target for the south west interconnected system because we are not part of the national electricity market, but we still have to meet the 26 per cent target as a nation, and we are part of the nation. The only way we can avoid a state mechanism is if the commonwealth includes Western Australia in whatever mechanism it applies nationally. If it does not do that, that means there is a target, not applied by the state government —

Mr D.C. NALDER: The minister is now referring to a carbon target and not my question of renewables.

Mr W.J. JOHNSTON: I am sorry. As I keep saying to the member, he is the one talking about renewable energy targets. I am the one talking about carbon targets.

The CHAIR: I think that is the key problem. I give the call to the member for Swan Hills.

Ms J.J. SHAW: I refer to page 145 and specifically paragraph 24 under “Energy Transformation Strategy”. I am interested to understand the minister’s views on vertical integration and/or the government’s ownership of the government trading enterprises in assisting energy transformation in the state of Western Australia.

Mr W.J. JOHNSTON: That is an excellent question. Firstly, I think that higher renewable energy content and distributed energy resources can be accommodated in a vertically integrated utility like Horizon Power as well as a disaggregated utility like Western Power. The great advantage of the government owning the distribution network is that it can make regulatory changes and not have to compensate anybody. One of the challenges on the east coast is the question of: if a business loses future revenues, how is it compensated for that? In Western Australia, we do not have that challenge because we own the majority of the assets. That gives us much greater flexibility. I am sure that the member would be aware from her committee’s inquiry that it is faster and easier for Horizon to move because it owns the asset and it sends the bill, whereas there is a question about the regulatory framework for moving to standalone power systems inside Western Power. The trick here is that we have to make sure that we get access to Western Power’s allowable revenue because we need to spend that to buy the assets. Of course, Western Power does not send bills to consumers, so then how do we ensure that they still get a bill and what is the basis upon which the bill arrives? That creates a small amount of additional complexity and it is one of the things that the distributed energy resources road map needs to consider.

I think we have rolled out 56 standalone power systems in Western Power and a further 620 are planned in the near term. Two per cent of Western Power’s customers have 50 per cent of the overhead infrastructure. The member can see that it is very expensive to service those customers. Let me make it clear that we are absolutely committed to the uniform tariff structure. It is not a complaint; I am just making the point that that is the fact. The great thing about standalone power systems is that we can reduce the cost of service for that two per cent of people, which not only benefits them because they can potentially have more reliable energy at a cost that is more reasonable than currently is the case, but also removes the cost for everybody else. If we are reducing the cost to service those very remote customers, that benefit can flow back to all other customers because it is the average cost of the service across the network that leads to their electricity costs. This is a really exciting opportunity. As I say, one of the great things is that because we own and regulate the network ourselves, we do not have to compensate anyone. Imagine if we had a separate owner of the fixed infrastructure. Why would they want to spend their capital on a product that is not going to benefit them in the future? The bill will come from someone else and that owner would not be paid for the product. Western Australia has this really exciting opportunity and people are literally coming here from all over the world, as I am sure the members for Swan Hills and Warren–Blackwood learnt during their inquiry, because we are at the leading edge of the application of these new exciting technologies into our system.

Ms J.J. SHAW: Last night in the estimates committee, the Economic Regulation Authority appeared alongside the Treasurer and was specifically asked whether the regulatory framework that it administers accommodates Western Power operating or considering investment in standalone power systems. The adviser flagged that the current framework does not give the ERA perhaps the flexibility to do that. As part of the distributed energy resources road map, is a program of regulatory reform anticipated, and what work is going on within the Public Utilities Office on that?

Mr D.T. REDMAN: I wonder who asked that question?

Ms J.J. SHAW: It was an excellent question, member.

[10.00 am]

Mr W.J. JOHNSTON: The short answer is, yes, but I think that Mr Khan might usefully say a few words.

Mr Z. Khan: Member, the Public Utilities Office has a work program in the very near future looking at reviewing the access code, which is the particular issue that was highlighted yesterday. The access code has not been reviewed or updated since it was put in place in the mid-2000s. Since that time, we have had technological developments such as standalone power systems. It is very clear to the industry, the sector and the regulator that the current regulatory framework is not appropriate or fit for purpose to account for the developments that we are seeing, so the Public Utilities Office will review the access code. Changes to the access code are the responsibility of the Minister for Energy, so the Minister for Energy will be making changes to the access code to facilitate those changes that will accommodate standalone power systems going forward. The intention is that we seek to have changes in place to the regulatory framework in time for the next access arrangement, AA5, which is due to commence in 2022.

Mr D.T. REDMAN: I think the current access arrangement runs to 2023, does it not? Does AA4 run from 2017 to 2023 or 2017 to 2022?

Mr W.J. JOHNSTON: It runs to 2022.

Mr D.T. REDMAN: We have a scenario in which we have two pressure points. We have the pressure point of technology now offering up solutions, and if we had an open book about how to make the investment without the Economic Regulation Authority constraints, we could invest in those technologies to deliver a better outcome for the consumer as well as the state. However, we have an agency operating under a regulatory framework—the ERA—which is putting pressure on its decision-making around what is and is not in its asset base in terms of offering its asset opportunities. The outcome of that is that Western Power, for example, would be thinking that it has other options, but it has to wait three years until 2022 before it can make that investment. Therefore, it will put a limited amount of investment into the network right now, perhaps delivering significant service restrictions, understanding that if it did, it might well be a stranded asset down the track. There is a pressure point here. I am wondering whether the minister or the government has any sort of authority in order to override that to allow good investment decisions.

Mr W.J. JOHNSTON: The PUO has certainly raised the regulatory framework with me, and also who should own the asset. Clearly, the number one thing is to make sure that we have access to Western Power's allowable expenditure, because it is the one with the big balance sheet. When I became Minister for Energy, Western Power came to me and said, "Look, we have this pilot we want to run." I said, "No, it's not a pilot; it's stage 1, because we know we are doing it. It's just the first phase." That is the first 56 that I talked about a minute ago. We are determined to do it, because it just makes sense. The great thing is that because we own everything, we do not have to worry, because it will still be our asset anyway so we will still be able to send somebody a bill. If we have to retrofit some of the regulatory framework, we can do that at the same time. We are in a unique position, and I genuinely have ministers from other states saying that they wish they were in the same position, because we can move very, very quickly, and that is what we are trying to do.

Mr D.T. REDMAN: That is going to take direction, is it not? Do they not have to come to the minister cap in hand to pursue that? Again, I come back to fringe-of-grid areas where some of the pressure points are. Western Power would love to take that on its asset base, and will not be allowed to do that. Therefore, it is not going to pursue that unless it gets some ministerial direction. There is a bit of a challenge here. I would like to think that government is not going to let it swing in the breeze out there.

Mr W.J. JOHNSTON: No, there is no way we will let it swing in the breeze. This is such a sensible change; therefore, we have to make sure that nothing gets in the way of it. The government is effectively, if you like, underwriting the risk.

Mr D.T. REDMAN: But the government is also overruling Western Power's decision, is it not?

Mr W.J. JOHNSTON: No, Western Power did not come to me and say, "We don't want to do this; will you make us?" It came and said, "We're doing this", and I said, "Let's get on with it." No. This is a remarkable point in history for Western Power, because technology has switched and it is now cheaper for it not to put the wire up. Of course, it does not take the wire down for these standalone power systems, and that is the way it keeps in its regulatory base. This is a workaround with the ERA. The wire stays in place. Even though no electricity flows down that wire, technically it is still connected to the network; therefore, it has a workaround on the regulatory process. But do not forget, again, in Western Australia, we are unique because we can do our own regulatory environment. The east coast have to go through all this rulemaking process. Here, Mr Khan can walk into my office with a thing, and I can sign it, and that is a new regulatory framework. We have a different set of issues here in Western Australia because we can make decisions that are in the interest of good outcomes.

Mr D.T. REDMAN: I am a little cautious to ask this extended question, because I have a live letter in the minister's office about the Walpole scenario, and I genuinely want to pursue a good solution. The minister's colleague sitting behind him was there at the meeting, which was fantastic. It is on the end of a thin line. It has had massive issues with reliability over time. Now technology presents a solution, and I suspect that finances will still be a burden. If the minister looks at the threshold of the service delivery, it is not being met, but it is not being met for, in the sense of the state, not that many people, so I can understand how Western Power might well treat it. Having access of investments there to the asset base to alternative solutions—because it does hit on emergency services, health, and a whole range of communication issues, which are a sharp point for communities—I would like to think that we are not going to have this little waiting period that allows it to be made into the asset base.

Mr W.J. JOHNSTON: There are two separate issues here, although I know people see them as the same. There are the standalone power systems and then there are the microgrids. I am sure the member understands the difference, with his new experience from inquiries. I was specifically talking about the standalone power systems. I do not know the details of Walpole; my staff attended that meeting, and I understand it went pretty well. I recently went to Mullewa at the invitation of Hon Darren West and Hon Laurie Graham, because it has some problems. There would probably be a microgrid in a village rather than a standalone power system. Basically, Western Power's point is that it started with Kalbarri under the member for Warren–Blackwood's government and said that that was the worst one, and it is dealing with that. Now it is going to Perenjori, and then it will work down the list and reinforce from the other end, because obviously it will cost the most to increase the reliability of the most unreliable ones; therefore, applying these new technologies to those is a cheaper option. There is no question there are some regulatory risks, but because it is a government-owned enterprise, we can accommodate that, and if we need to, we can fix the regulatory framework for AA5, as Mr Khan said, by having a new set of regulations before AA5 starts.

Mr D.C. NALDER: I refer to page 145 of budget paper No 2, volume 1, and paragraph 25 on the energy transformation strategy and the impact of distributed energy. When will the distributed energy resources road map be completed?

Mr W.J. JOHNSTON: It will be completed by Christmas.

Mr D.C. NALDER: Is that by Christmas this year?

Mr W.J. JOHNSTON: It is my Christmas present.

Mr D.C. NALDER: I note that the Australian Energy Market Operator released a report in March 2019 called “Integrating Utility-scale Renewables and Distributed Energy Resources in the SWIS”, which highlighted that the electricity sector is under threat of the lights going out as early as 2022 due to voltage control issues. With the time that is required to build synchronous generation, what action is being taken now to stop the lights going out in a few years?

Mr W.J. JOHNSTON: I thank the member for the question. That is a really good question and I am really pleased that the AEMO has responded so positively to our approach to these issues. I attended the speech by Audrey Zibelman at a Committee for Economic Development of Australia event a little while ago—I think the member for Bateman was there, too; he was actually at the same table—in which she highlighted the risks, and with her last slide she thanked the government for our agenda. She had three items on the agenda there. The first was the GIA—the generator interim access arrangement. The second item she congratulated the government on was the distributed energy resources road map, and the third was the whole-of-system plan. The DER road map and the whole-of-system plan comes out of negotiations and discussions between me, my office, the Public Utilities Office, the Australian Energy Market Operator and Western Power. We had a workshop on Saturday, which went for six hours, to try to come up with solutions to the impending problems. The Australian Energy Market Operator is very pleased by the government's response to these coming challenges. The distributed energy resources road map is designed to create an environment in which we can make sure that we have as much DER as possible in the system and identify the technical issues that are raising problems. The whole-of-system plan is to make sure that we can see a helicopter view of the system to have a picture of where we need investment. I have a mantra. I keep telling everybody: good, not perfect. I want a good solution quickly, rather than the perfect solution in five years, because then it is too late. The transformation task force has been tasked with the three things together—plus, a fourth item is the rules around generators.

[10.10 am]

Mr D.C. NALDER: I appreciate the action being taken to work out the solution. Does the minister have a sense of what the solution may be at this point?

Mr W.J. JOHNSTON: Absolutely. We need to make sure that distributed energy resources are visible to the system. One of the problems is that we might know physically where most of the distributed energy is, but it is not visible in the system. This is really interesting because there is no intergovernmental agreement for electric equipment. Each state separately regulates electric equipment, so we can move instantly to set the technical specifications for distributed energy connected to the network. That means that if we decide, out of the DER road map, that we want certain technical rules for installations, we can require them immediately. We do not have to

go through some long process. Obviously, we cannot ask for things that are not made. We cannot have technical rules that cannot be delivered by the market, but we could have these technical rules to require, for example, smart inverters. We do not currently have smart grid, but we have authorised Western Power to roll out smart grid, so when it arrives, the smart inverters can be instantly connected to it. Where do we need batteries in the distribution system to reduce the congestion on the distribution network? Again, the DER road map will provide help with that. They are two examples in the DER space.

One of the challenges with the whole-of-system plan is that the best resource for renewable energy is north country, around Geraldton and inland from there, but the historic investment in generation was in the south. We have this incredible investment by the people of Western Australia in the transmission infrastructure to the south, so what can we do to incentivise renewable energy generation in the south? That way we do not have to replicate the existing transmission infrastructure, because it might be cheaper to go to the south where the energy resource might not be as good, but the overall cost to the system will be lower. The final piece of the puzzle is what is called ancillary services and all that stuff. I hate these words “ancillary services”, but really what that is saying is: if a generator connects, how do we make sure that it is firm? It is about inertia and frequency control, and how we make sure that the generators are firm. That is the third element that we have asked the transformation team to look at. I always say to people that government is best at telling people what we want and the private sector is best at working out how to do it. Rather than saying how it is to be done, let us tell them what we want and then they will go away and do it, and that will probably include an ancillary services market.

Mr D.C. NALDER: The minister said that the road map is expected at Christmas. Is that to the minister or will it be public at that point?

Mr W.J. JOHNSTON: That is to me. Each element of this will work only when it has been made public, so it is not intended to be just for government.

Mr D.T. REDMAN: I have a question that is sort of linked but it is different. The minister has talked about the elements of what shifts in a regulatory sense to deal with all the competing interests. The other little arm-wrestle is the jurisdiction of the respective utilities, such as Western Power and Horizon, and their operating space and what they are entitled and not entitled to do, and Synergy to a lesser extent. Will this policy space with the Public Utilities Office and Treasury subsection give advice on any structural change—in other words, whether there is a shift in a certain part of the jurisdiction to vertically integrated organisations or a break-up of certain components, such as transmission and distribution? The pie could be cut in all sorts of ways. Will the minister receive advice on this?

Mr W.J. JOHNSTON: I have said I do not want recommendations for legislative change. That will delay things. This goes back to the “good, not perfect” stuff. It might well be that the perfect solution is to come up with a new set of legislation, but let us be honest; I am not going to get that through before the end of the term, am I? We all know how long these things take. I have said, “Look, let’s get things done.” If we need legislative reform, that can wait until the next term of government, whoever is in government.

Mr D.T. REDMAN: Legislative reform would allow an organisation such as Western Power to build a generator.

Mr W.J. JOHNSTON: Not necessarily, but because we own everything, we can allocate resources to whoever needs it. Does the member see what I mean? It is not really a problem for us. Also, if we cut the wire, we could say that is not Western Power anymore; that is Horizon. Then we would have total control. The response depends on the circumstance.

The appropriation was recommended.