Division 52: Office of Energy, $52 704 000 —

Mr P.B. Watson, Chairman.

Mr J.H.D. Day, Minister for Planning representing the Minister for Energy.

Mr M.G. Kerr, Acting Coordinator of Energy.

Mr G. Kessaris, Director, Corporate Services.

Dr P. Biggs, Director, Governance Division.

Mr P. Smith, Acting Director, Clean Energy and Community Programs.

Mr R. Custodio, Acting Director, Strategic Policy and Planning.

The CHAIRMAN: Minister, before we start, this division goes only until half past five.

[Witnesses introduced]

The CHAIRMAN: I give the call to the Leader of the Opposition.

Mr E.S. RIPPER: I refer to the first dot point on page 604, which begins —

> Energy prices need to continue to rise to better reflect the full costs of supply.

My question relates to the costs. What particular cost increases are impacting on the energy system or the electricity system, and what is the prognosis for those particular factors in the next three or four years? Could the minister tell me the annual rate costs in the electricity system that appear to be increasing at the moment, what is driving that and what is likely to happen to each of those factors?

Mr J.H.D. DAY: In general terms, the cost pressures are present because of increases in the cost of fuel, both gas and coal, in recent years; and also the need to invest substantially in both maintenance and upgrading generation equipment and transmission equipment—I understand there has been over probably the last two or three decades an underinvestment—to ensure that the whole system, including the network, is in an appropriate condition. Given that it was installed 40 to 50 years ago, I am sure the Leader of the Opposition is well aware of all those aspects. All that investment costs a large amount of money and that is now flowing through and putting pressure on the cost of electricity as it is provided to the public. I will ask Mr Kerr to comment further.

The CHAIRMAN: Mr Kerr through the minister.

Mr M.G. Kerr: Dr Biggs can deal specifically with this question.

The CHAIRMAN: It has been handballed to Dr Biggs, through the minister.

Dr P. Biggs: I will try to cover all the details of the question. In trying to forecast the rate of increase in the future, I think the minister has identified the major drivers behind the costs. About half the cost of the electricity supply is due to the transmission and distribution network. There is a large backlog of ageing infrastructure there that needs to be maintained and replaced, as well as augmentation of the transmission and distribution system to meet the growing demand. We have an increasing peak-load demand. Western Australia is particularly different in its peak load in the evening, particularly in summer, and we need to make sure that the network can cope with that. Gas prices will continue to go up, and we have been doing some modelling with the strategic energy initiative, which will shortly be published. That is showing that we must expect gas prices to be higher in future than the prices in the legacy contracts that have been in place for the last 10 to 15 years. Gas, which provides more than half our current electricity generation, is the major cost driver. Renewable energy sources will increase the cost, but they are expected to moderate over time as renewable technologies become cheaper and more competitive. We expect that the increase in those costs will continue to exceed the consumer price index, but there is a large catch-up, and that is the difficulty that the energy sector has been facing over the last two years and again this year.

Mr J.H.D. DAY: I reiterate the reference by Dr Biggs to the demand pressures and the requirement to provide peak-generation capacity, which typically occurs on hot days during summer. A lot of money is spent in paying for peak-capacity generators that are used for only 10 days or so a year. That is because more and more people want to use air conditioners. That is important; however, there is a high cost in paying for generation capacity that is used on only a small number of days a year. It is very expensive to install and the public, therefore, has a really important part to play in moderating demand and using energy efficiently. There is quite a major advertising campaign underway now—the Leader of the Opposition, in his former role as Minister for Energy, would well understand this—to try to reduce the consumption at peak periods when it does not really need to be that high necessarily.

[5.10 pm]

Mr E.S. RIPPER: Can I just follow up on that? Years ago the Office of Energy advised me, in my then capacity, that about $2 billion worth of infrastructure was in place simply to provide for peak demands that occurred on 135 hours a year. Would the minister have available to him a similar figure for the amount of infrastructure that we now have in place to meet peak demands?

Mr J.H.D. DAY: I do not know whether I can comment, but I would not be surprised if it was of that order. As I understand it, the replacement cost of Verve's generation capacity is probably about $6.5 billion or so, so it probably would not be surprising if, together with generation capacity that is paid for from the private sector, it was of that sort of order of around $2 billion or so. I do not make that comment on the basis of any specific advice, but it sounds sensible.

Mr B.S. WYATT: Page 603 of the *Budget Statements* has an amount for total appropriations for 2010–11 of $53.5 million and an estimated actual of $32.7 million. What is the reason for that underspend, and which programs or projects were affected by that underspend?

Mr M.G. Kerr: I think there are a range of reasons, as far as I am aware.

Mr G. Kessaris: Shall I cover it? Basically, we have had to transfer a number of projects to the forward years. We have transferred some funds for the hardship efficiency package; we have reallocated the purchase of green power funding by the Department of Treasury and Finance to Verve Energy; we have transferred some money for the Solar Schools program to the 2011–12 budget; and we have also transferred some money from the solar hot water subsidy scheme. Funds have been moved forward for a number of projects.

Mr B.S. WYATT: Can I just ask a follow-up question through the minister? In respect of the hardship efficiency package that was transferred through to the forward years, how much was not spent in 2010-11, and was all of that transferred through to 2011–12?

Mr P. Smith: An amount of $11.9 million was transferred to 2011–12 and the forward estimates; so it was not all 2011–12, there was some to future years as well.

Mr B.S. WYATT: Just to clarify that, an amount of $11.9 million that was not spent in 2010–11 was transferred across the forward estimates, or the vast majority of it was, into 2011–12. What is the split?

Mr P. Smith: Bear with me a second.

Mr G. Kessaris: An amount of $11.9 million was transferred to 2011-12.

Mr B.S. WYATT: The whole lot was transferred to 2011–12?

Mr G. Kessaris: Yes—sorry, 2011–12 and forward estimates.

The CHAIRMAN: Could the advisers say their name when they are answering the questions to make it easier for Hansard, please.

Mr B.S. WYATT: While that information is being gathered, perhaps the adviser to the minister's left might enlighten me about why there was that $11.9 million underspend in 2010-11.

Mr M.G. Kerr: One of the reasons that money was not spent was that we were still negotiating with the Department of Housing on one of the major components of that program, which was an efficient water heating in public housing program, and quite a number of million dollars were still to be negotiated to be provided for that. We are getting very close to agreement with the department, and we should be able to transfer quite a reasonable amount this year and next year for the Department of Housing to run that program. I am not sure of the exact figure, but I think it is in the order of, in total, about $7 million or something like that. There are other programs that have had difficulty in moving; for example, we have been providing funding for additional financial counsellors, but there has been some difficulty in actually getting more counsellors on board. The challenge has been trying to have sufficiently well trained counsellors, which is quite difficult at times because we cannot just bring people off the street and make them financial counsellors. It takes quite a bit of training, so there is a cost there, and time is needed to train people, and obviously that has not been quite as well spent as it could have been. Although it is not directly the Office of Energy's responsibility to run this program, we are obviously contributing the funds through the budget, and there has been difficulty in getting enough financial counsellors to do that training. There are a number of reasons why some of the programs have not quite spent the money that we would have hoped.

Mr B.S. WYATT: Financial counsellors are in hot demand.

Mr E.S. RIPPER: Minister, this seems to raise an issue, because I think financial counselling has to be obtained before people can access the hardship utility grant scheme. Is this failure to achieve the anticipated financial counsellor complement actually contributing to people not being able to get the financial assistance they might have expected in the face of rising electricity prices?

Mr J.H.D. DAY: HUGS is primarily managed by the Department for Child Protection, which we had in here earlier this afternoon—I think it is the Department for Child Protection, not Communities. My recollection of the briefing I had from it is that it is very attentive in following up to ensure that people who make an application or who are seeking financial counselling are either given information or provided with assistance and assessed on a very timely basis under HUGS. My recollection also is that the department is looking at, maybe, a change in how the assessment operates or the order in which things operate to try to ensure that there is not any untimely delay. But we had those agencies in here earlier and they are not here now to provide more specific information.

Mr E.S. RIPPER: It seems remarkable that, in the face of community anxiety about rising electricity prices, we are not actually managing to spend the money that the government has allocated for relief.

Mr J.H.D. DAY: Yes, if that is the case. My recollection is that people who have actually applied for assistance and who meet the criteria have been assisted in a very timely manner. That is something that probably would be best directed to the minister responsible.

Dr M.D. NAHAN: Page 604 of the *Budget Statements* has a heading "Significant Issues Impacting the Agency", and one of those issues is that energy prices continue to rise. The commonwealth is considering putting a tax on carbon—I remember the strategic energy initiative addressed this a bit—and Ross Garnaut has proposed a $26 a tonne carbon tax. Has any modelling been done on the impact that would have going forward on energy prices—specifically electricity prices—in Western Australia?

Mr J.H.D. DAY: I will ask Mr Kerr to answer.

Mr M.G. Kerr: I am not aware that we have undertaken any specific modelling of that in any of the work that we have been doing to date, no.

Mr J.H.D. DAY: But clearly it is expected that there would be an increase in electricity prices.

Mr M.G. Kerr: Absolutely.

Mr E.S. RIPPER: If I could follow that up.

Mr J.H.D. DAY: Let that answer be completed, and then we will come back.

Mr M.G. Kerr: Is the question about whether the carbon price will have an impact on prices?

[5.20 pm]

Dr M.D. NAHAN: It obviously will. The question was: does the Office of Energy have any data on the magnitude of the impact a carbon tax mooted to be $25 or $26 a tonne would have?

Mr M.G. Kerr: We have not done any detailed work on the impacts yet. Obviously, we do not know what the carbon price will be yet. We are very clear that there will be an impact on prices. That is something that we will be looking at in the coming months and certainly when we get a better understanding of what the carbon price is likely to be, which we assume will be fairly soon, given the way —

Dr M.D. NAHAN: We would assume that the impact would not be as large as in the eastern states because of our high use of natural gas in generating electricity in Western Australia.

Mr M.G. Kerr: Yes, we would assume that. Obviously, we have something like a 60 per cent use of gas. If that continues to increase, the impact of the carbon price will be less than it might have been otherwise if we had much higher, for example, coal use than we currently do.

Mr J.H.D. DAY: I will ask Dr Biggs to comment briefly on the modelling that will be undertaken.

Dr P. Biggs: There is some modelling that is yet to be completed for the strategic energy initiative and the reason that is not available now is that it is still incomplete. Some broad modelling has been undertaken at national level that confirms the point that was just being made that Western Australia has a lower emission intensity for a megawatt hour of electricity because of our use of gas. We would emit about 70 per cent of the carbon level of the pure coal-fired electricity in the east coast. There are some difficulties in modelling because until we know what the national emissions trading or taxation regime would be and to what extent that will apply to electricity, it is very difficult for us to predict with any certainty at this stage what the impact will be.

Mr E.S. RIPPER: That takes me back to my initial question. Given the sensitivity of electricity price increases in our community, we expect that somewhere in the government people will be modelling the increases in electricity prices that could occur for a variety of reasons, not just carbon reduction reasons. Are we to assume that the price path in the budget of five per cent, five per cent, 12 per cent and 12 per cent reflects the actual increase in costs that has been modelled somewhere in the government or is there a different increase in costs that has been modelled if not in the Office of Energy, then in the Department of Treasury and Finance? Presumably we cannot talk about cost reflectivity in electricity without having done some modelling of what is happening to the costs in the system.

Mr J.H.D. DAY: I presume that has been done and maybe Treasury would be the relevant agency to provide more detailed information. Despite the projected increases that have just been announced in this year's budget of five per cent, five per cent, 12 per cent and 12 per cent, as the Leader of the Opposition said, a substantial subsidy is still being provided out of general taxation revenue to ensure that the increase, certainly at least in the next couple of years, is lower than it otherwise would be if full costs were being reflected in the price that is charged. It is one thing to do modelling around the expected increase, but another for the government to make a decision about how much subsidy will be provided. There is a substantial subsidy being provided that obviously —

Mr E.S. RIPPER: But the government cannot make a decision without having done the modelling, can it? The government would not know what the subsidy is unless it had some information about the costs.

Mr J.H.D. DAY: I presume that is the case. However, the decision the government made was that it would continue providing a subsidy. Obviously, less of a subsidy is being provided than if there was a zero per cent increase, which I know is what the opposition was calling for. If no increase had been announced this year, the amount of the subsidy would have been substantially more than the $1.1 billion that is being provided over the next four years. Obviously, that is $1.1 billion that cannot be spent on many other important areas of public service, which I think is an important point. As far as whatever modelling is undertaken, my recollection is that the Department of Treasury and Finance has considered those issues in some detail in preparation for the provision of information for the budget. I do not know whether anyone from the Office of Energy wants to make any further comment.

Dr P. Biggs: The Office of Energy with the Department of Treasury and Finance participated in the modelling of the actual costs and the known and anticipated cost increases. That modelling at this stage does not include a carbon price for electricity because we simply do not know what the national regime will be and how that will impact on electricity. However, all the other known costs and the regulated costs within Western Australia have been modelled and were available to the government for its decision.

Mr E.S. RIPPER: Minister, can we have a copy of the modelling outcomes?

Mr J.H.D. DAY: That is something that should be sought directly from the Minister for Energy, I believe, Mr Chairman.

Mr E.S. RIPPER: Is the minister saying that he is not prepared to provide that to this committee?

Mr J.H.D. DAY: I would not make a commitment to provide that modelling without seeking the advice of the minister who is directly responsible, so I think it would be appropriate for the question to be either put on notice or for the Leader of the Opposition to seek it through the other means available.

Mr E.S. RIPPER: Like FOI?

Mr J.H.D. DAY: Indeed.

Mr C.J. TALLENTIRE: I refer to the second dot point on page 605, which refers to the Office of Energy providing the government with advice on ways to achieve greater deployment of renewable energy. What advice did the Office of Energy give to government regarding the 150 megawatt cap on feed-in tariff payments to owners of photovoltaic panels?

Mr J.H.D. DAY: I am not sure whether it is appropriate to go into whatever advice might have been given to the minister. Clearly, a decision has been made within the budget to provide a cap, which is related partly to the cost of the subsidies that are provided and obviously it has to be funded somehow or other. The larger the amount of renewable energy we have for which a rebate is paid or a feed-in tariff is provided, the greater cost there is to the budget and what government can do to provide services for the public in all the other areas that are expected. That is one aspect. The other aspect would be the effect on the electricity system as a whole. There are technical limits to what can be provided from these sorts of sources, if we are going to have a stable and reliable electricity supply system.

Mr E.S. RIPPER: You guys used to laugh at me when I put that argument to the house!

Mr J.H.D. DAY: I am not sure that I did, but I am glad to see that the Leader of the Opposition agrees with me. I do not know whether Mr Kerr wants to make any additional comment about the factors involved in relation to a cap.

Mr M.G. Kerr: Not specifically around the cap other than to reinforce the minister's view that it was a decision around how long the government would want to keep a feed-in tariff scheme going. Certainly, it was our understanding in looking at the additional costs and the actual reduction in the rate that people would still be able to pay off their systems within the originally intended 10-year time frame. In terms of the effectiveness of the scheme, it certainly was as effective as it was when it was originally canvassed and put out there, other than the cap now being put on it.

Mr C.J. TALLENTIRE: The minister in his response indicated that there were perhaps technical reasons why the cap has been brought in, yet in the budget papers there is an indication that the Office of Energy is responsible for achieving greater deployment, so surely that is a contradiction to what the minister is saying.

[5.30 pm]

Mr J.H.D. DAY: I do not think it is. All I am saying is there are technical electrical engineering reasons for the limit on how much renewable energy generation sources can be part of the overall network. I am saying that may well be one factor. It is certainly not the only factor. The financial aspect would be the other.

The appropriation was recommended.