

Synergy —

Ms M.M. Quirk, Chair.

Mr W.J. Johnston, Minister for Energy.

Mr D. Fyfe, Chief Executive Officer.

Mr J. Cowper, Chief Financial Officer.

Mr J. Thomas, Deputy Director General; Coordinator of Energy, Department of Mines, Industry Regulation and Safety.

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

Ms A. Keogh, Principal Policy Adviser.

Mr J. Stephens, Senior Policy Adviser.

[Witnesses introduced.]

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

A minister may agree to provide supplementary information to the committee. I will ask the minister to clearly indicate what information they agree to provide and will then allocate a reference number. Supplementary information should be provided to the principal clerk by noon on Friday, 2 June 2023. If a minister suggests that a matter be put on notice, members should use the online questions on notice system to submit their questions.

I give the call to the member for Cottesloe.

Dr D.J. HONEY: I refer to page 776 of budget paper No 2 and significant issues. Item 1 refers to the government's announcement to retire all state-owned coal-fired power stations by 2030. One of the suggestions for dealing with any interruption to power supply with intermittent renewables was to use pumped hydroelectricity. Is Synergy and the government still considering pumped hydro or has that plan now been abandoned?

Mr W.J. JOHNSTON: We are still considering it.

Dr D.J. HONEY: If the minister is —

The CHAIR: Is that a further question?

Dr D.J. HONEY: Sorry, I have a further question. Chair, you will have to forgive me. We are at the tail end of a very long couple of days. As part of that plan, where is pumped hydro being considered?

Mr W.J. JOHNSTON: It is within the south west interconnected system. Let me cut to the chase. The member is probably asking about these private proposals. They have nothing to do with Synergy. There are people around who are looking at private proposals. If any of them come up with a plan, I am sure that they will pitch it to government, but at the moment nobody in government or Synergy has received any commercial offers for pumped hydro. At the same time, Synergy has a team investigating what other options might be available to us, but every single option has lots of problems. As I have said on many occasions, there is no silver bullet in Western Australia when it comes to pumped hydro. We need long-duration energy storage; we all understand that. Lithium ion batteries cannot provide long-duration storage. Western Australia has everything we need for pumped hydro except for mountains and water. Given that they are the two things that make up pumped hydro, it makes that option very complicated. As I say, we have a team that is looking at it. We have not made a decision about any particular proposal. In respect of those commercial operators who are out in the market talking about stuff, not one of them has ever made a specific offer to government for any proposal.

Dr D.J. HONEY: The minister has spoken before about the difficulties with pumped hydro, which are logical concerns. What is the next cab off the rank in terms of high priority alternatives to provide that backup for intermittent renewables?

Mr W.J. JOHNSTON: In the end it is really a question for the Australian Energy Market Operator, not Synergy. Synergy is replacing its coal-fired power units using a combination of rooftop solar, wind and lithium ion batteries. That is exactly what we said we would do when we announced the closure and we are implementing that. At the time we announced the closure, we also explained that we were going to see whether pumped hydro is a business case for Synergy. Other people are looking at pumped hydro, but they do not need the government to get those to market because, in the end, the Australian Energy Market Operator will decide what the system looks like in terms of generation capacity because it controls the capacity market.

Dr D.J. HONEY: I refer to generation at the bottom of page 779 and item 4. This is obviously related to the point the minister just talked about but I will be asking a new question. It explains that Synergy's existing portfolio

is coal, gas, liquid fuel and renewable energy assets. It lists an amount for major investments. Does the minister anticipate constructing a new gas-fired coal plant prior to the closure in 2030?

Mr W.J. JOHNSTON: Sorry, I do not understand the question—gas or coal?

Dr D.J. HONEY: Gas-fired power plant.

Mr W.J. JOHNSTON: There are two elements to that. The first is that Synergy has an existing fleet of gas-fired plant, some of which is old and some newer. Synergy keeps in mind the age of its plant to make sure that it continues to be effective. We are looking at whether any additional volume of gas plant would be needed. If we think about the profile of the supply, it is unlikely that we are going to need more gas megawatt hours, but we might need more gas megawatts, if the member sees the difference. Again, it is the Australian Energy Market Operator that is principally involved in that, not Synergy. Notwithstanding that, Synergy would be responding to the needs of the operator of the system—sure, we are looking at what options are available. Having said that, we still need to get our carbon reductions and that is our overriding principle. That does not change the obligation on Synergy to reduce its carbon emissions by 80 per cent, which is what we are doing.

Dr D.J. HONEY: I know that the minister is on top of his portfolio so he would be aware if we need significant increases in gas-fired generation capacity in the south of the state. Based on the current forecast, it is likely that our gas pipeline will be constrained. Is Synergy looking at that or is it relying again on AEMO or some other body to look at that in relation to gas supply into the south of the state?

Mr W.J. JOHNSTON: There are a number of elements to that question. Some of those elements can be asked about when Energy Policy WA is around because they are not really related to Synergy. Synergy has a sufficient supply of gas for all its current expected scenarios. The member is asking about a separate issue: what is the constraint on the pipeline for other users of gas? That is not a challenge for Synergy because Synergy already has sufficient gas for its needs.

Dr D.J. HONEY: For example, if Synergy required a 20 per cent expansion in its megawatt capacity for gas, would it have access to sufficient gas to achieve that?

[2.10 pm]

Mr W.J. JOHNSTON: As I have explained previously, it might need more megawatts, but not more megawatt hours. Therefore, it is not a question of the total volume of gas, because we turn the gas into energy. According to the advice I have, Synergy has sufficient gas to meet its current expected scenarios for generation into the medium term.

Dr D.J. HONEY: Just to elucidate that a little more, I understand the difference between peak energy and total energy consumption and between megawatts and megawatt hours, or whatever number we want to use. I thought the area of concern was the instantaneous demand in that moment; over the year it is fine, but in the period of an hour there can be a potential constraint on supply.

Mr W.J. JOHNSTON: Again, I think people are talking about a separate issue, which is the total volume of gas needed by industrial consumers in the south west. That has nothing to do with Synergy. If the member wants to ask me the same question when Energy Policy WA is here, we can have that discussion. Synergy has sufficient supply to take account of its needs.

Dr D.J. HONEY: I am looking at the income statement table on page 782 and the line item “Other expenses”. I am interested to know how much money Synergy is spending on advertising, particularly on the “Greater, connected” campaign. How much money was spent in the last financial year on that campaign, and how much is proposed to be spent in the next financial year?

Mr W.J. JOHNSTON: I do not know the answer to either of those questions because Synergy is a government trading enterprise that makes decisions about these sorts of matters itself. I am happy to ask Mr Fyfe whether he has any information on that.

Mr D. Fyfe: We would need to take that question on notice to get the exact figures.

Dr D.J. HONEY: Can we have that as supplementary information?

Mr W.J. JOHNSTON: No, I think it will be easier if we put it on notice.

The CHAIR: Are there further questions or new questions?

Dr D.J. HONEY: Absolutely. We are festooned with questions! I have a further question. I am intrigued about why Synergy needs to advertise. It is effectively a monopoly supplier, certainly to residential customers. There is no potential for competition. I appreciate that it might do that for larger customers, but I am certain that the larger customers are not swayed by advertising; they are affected more by commercial decisions. Why is it necessary for Synergy to advertise its brand in that way, given that it is a government monopoly?

Mr W.J. JOHNSTON: Firstly, Synergy engages with its customers on a regular basis and responds with the information its customers tell it to provide. It provides information so that its customers understand what activities and engagements it has. People often say that they do not understand the energy system, why decisions are made or how the elements of the business connect with each other, and that is why Synergy invests in keeping in touch with its customers.

Ms J.J. SHAW: I have a further question. Just on that very same point, I wonder whether the minister could elaborate on Synergy's role in educating its customers, through the advertising it provides, about energy consumption patterns and the ways in which customers can influence their own energy costs.

Mr W.J. JOHNSTON: That is a very important issue because people often complain about the cost of energy. Obviously, the cost of energy in Western Australia is not going up by 25 per cent, as it is in New South Wales, South Australia and south east Queensland. It was announced yesterday by the regulator that the price in Western Australia will actually go down this year, when we take into account the contributions being made by the federal and state governments to the rebate. If people understand the way they manage their own electricity, it can help them to reduce their bills. Working with its customers is actually one of the elements in which Synergy has invested quite strongly.

I might ask Mr Fyfe to talk about some of the programs Synergy is running to help hardship customers—things like case management and working with customers to try to reduce their costs.

Mr D. Fyfe: I thank the member for the question. Synergy has a dedicated team for our vulnerable customers that consists of a case management team. As soon as a customer phones in with hardship issues, such as having trouble paying their electricity bill, an agent will stay with that customer throughout the journey. It has a very good record of success in assisting vulnerable members of the community to get through difficult periods in their lives. We are also assisting with the household energy efficiency scheme with the Department of Communities. We go out to households and assess their electricity usage, the kinds of appliances they have and help them change out to more efficient appliances as well. I should say that the community looks to Synergy to be that voice when it comes to decarbonisation, for example. The community has indicated that it wants to be a part of the decarbonisation journey. With more than 30 per cent of households having solar panels on their roofs, it is clear that people want to be part of this transition. I think it is important for Synergy to connect with the community, and that is part of the reason we have the advertising campaign. We want our customers and the community to know who they should contact in the event of hardship, and when they have questions around energy.

Mr W.J. JOHNSTON: Just to add to that answer, the member will have seen Synergy branding at bus stops. People see the TV ad, they see the branding and they understand that the two things are connected. As the member has not done TV advertising as a former party secretary, I can tell him that it needs in-depth advertising. The outdoor advertising is directed at specific messages, including hardship messages and even small business hardship messages; I have seen those on the outdoor ads. We can see how Synergy is working in an integrated fashion through its advertising, along with what goes into the bill inserts, to make sure that people understand what the options are and what Synergy is doing to transition the generation fleet for the future.

The CHAIR: Before I give the member for Cottesloe the call, I welcome the students from Carey Baptist College.

Dr D.J. HONEY: I refer to page 782 of budget paper No 2. The first line item of the income statement table is "Sale of goods and services". The actual for 2021–22 is approximately \$3.12 billion, which is 10 per cent higher than the estimated outcome in the last budget of \$2.84 billion. The same result is found in the budget for this year, with an estimated revenue of \$3.08 billion, which is again higher than the budget estimate of \$2.76 billion. What was the surprise in that? That is a vast amount of extra electricity being sold. Is there some new commercial customer, or is that just general growth in sales of electricity?

Mr W.J. JOHNSTON: Because Synergy has the largest generation fleet, it is most commonly called by the Australian Energy Market Operator and it charges from the short-term energy market because it is making a bigger effort. When other generators do not bid, Synergy is called, so it is just the market outcome; it is about the operation of the south west interconnected system by AEMO and Synergy's contribution to that.

Mr D. Fyfe: Overall system output as a total over the year has not really changed that much, year on year; our fleet of assets has just been called upon more by the Australian Energy Market Operator and, for various reasons, market participants have not been able to participate as much as in previous years, so Synergy has been asked to take up that shortfall.

Dr D.J. HONEY: Given the continuing dramatic rise of rooftop solar, I am surprised—perhaps the minister cannot comment.

Mr W.J. JOHNSTON: I can.

Dr D.J. HONEY: It seems to be counterintuitive; we would think sales or income would be going down rather up.

The CHAIR: That is just rhetorical, minister. You can choose whether to answer.

Mr W.J. JOHNSTON: I will just make the comment that I think we can talk about these issues when Energy Policy WA is here, rather than Synergy. There is no question that buying electricity for \$70 or \$25 a megawatt and then selling it for minus \$180 a megawatt is not a good business project. In fact, closing that gap, as I have said in public previously, is the source of the funds to pay the \$3.8 million for the decarbonisation process. But of course daytime energy use is only one element of the south west interconnected system. Again, when EPWA is here we can have a long conversation about minimum demand, which is actually just as complicated as maximum demand, but the net effect for Synergy is that it has had a good couple of years on revenue.

[2.20 pm]

Dr D.J. HONEY: I should have covered this when I asked my first question. I refer to page 776 of budget paper No 2, paragraph 1 and the announcement of the retirement of state-owned coal-fired power stations in 2030. We are obviously a little way down that path and there has been more analysis. Is the minister still confident that we will not require government-owned coal-fired generation capacity past that announced date?

Mr W.J. JOHNSTON: Yes, that is right. Again, people confuse two separate issues—that is, the capacity needed by the Australian Energy Market Operator and the capacity required by Synergy to serve its customers. The coal fleet no longer serves its purpose for Synergy. Therefore, the longer we operate the coal units, the bigger the losses are going to be. We need to use less coal so that we lose less money. We have talked previously about the fact that in 2021 the Collie A unit was switched off for six weeks, from September to November. It had nothing to do with coal supply or anything like that; it just does not fit into the market.

Hon Dr Steve Thomas occasionally asks me about baseload power supply. The baseload in Western Australia is now below 700 megawatts. Think about it; the Muja units by themselves are more than that. That is the challenge we have. Remember coal works best when it is used at the same level all the time. That is what it was designed to do. It is not designed to ramp. Synergy needs to get out of coal for commercial reasons. The great advantage of that is that we get this massive benefit to our carbon emissions profile. We can reduce our carbon emissions by 80 per cent by doing this because Synergy is 95 per cent of the government of Western Australia's carbon emissions. Just that one decision will make a massive difference to the government of Western Australia's scope 1 and 2 emissions.

It is a really fundamental issue and I get very frustrated when so many commentators get confused about the business needs of Synergy and the Australian Energy Market Operator's responsibility to manage the electricity system, which are two separate things. The idea that Synergy has to continue to run a commercial loss because somebody else has a problem does not make any sense. No commercial business would operate like that, and we are not going to.

The good news is that all the batteries are starting to work. This afternoon I was given a download from AEMO that shows that the Kwinana battery, which is in its startup phase, has participated in the market—only a very small amount. It is the first contribution from the battery. Obviously it cannot be turned on at 100 per cent straightaway in case something goes wrong. It has to be turned on progressively to make sure that an unknown fault does not cause trouble. But it is now participating in the market, which is good. The other good thing about this is that Synergy now has all those learnings from doing a battery, not talking about it, so when it does its next projects—Kwinana battery energy storage system 2 and the Collie battery energy storage system—it will be in a much better position to make them work effectively.

Dr D.J. HONEY: I refer to page 776 of budget paper No 2 and significant issues impacting the government trading enterprise. Paragraph 7 states that additional renewable generation and energy storage projects will continue to be progressed. Can the minister outline which other battery storage projects are going to be progressed this year?

Mr W.J. JOHNSTON: We have announced what we will be doing for the next financial year, which is KBESS 2 and Collie BESS plus the King Rocks wind farm and the expansion of the Warradarge wind farm. They are the projects that we have announced we are doing and are being executed. When they are finished, we will do the detail of the next ones. It is 200 megawatts, or 800 megawatt hours, at KBESS 2; 500 megawatts, or 2 000 megawatt hours, at Collie BESS; between 70 and 140 megawatts at King Rocks wind farm; and the expansion of Warradarge, which of course is a Bright Energy Investments project, not a Synergy project. They are the projects we have announced, and that is what we are doing at the moment. Remember it is about 20 years since Synergy did a major project so it had to create a major projects team to execute these projects. This is for our current profile and there will be further projects to complete the other parts of the announcement, but we are not yet at the point at which we can say what those projects will be. The point is that this \$2.8 billion is for a big set of projects. We want to get them done efficiently and effectively. It is a very difficult market to work in. People around the world, not just around Australia, are building this stuff so there are lots of challenges on supply chain and other issues. There are challenges about making sure we have sufficient workforce. We are working with all our different contracting partners. There are all those things, so let us get these ones done, and then we will do the next ones.

Dr D.J. HONEY: I refer to page 782 of budget paper No 2 and the income statement. Is the electricity credit the government is paying borne by Synergy or by general government so that it does not affect Synergy's revenue?

Mr W.J. JOHNSTON: Yes. It is a pass-through. Treasury pays it to Synergy and Horizon and they hand it on to their customers. It is not carried by Synergy and Horizon.

Dr D.J. HONEY: I refer to page 776 of budget paper No 2 and the announcement of the closure of the coal-fired power stations. Since that announcement was made, we have had an issue with coal supply into that power station. What does the government anticipate coal imports will be in the coming financial year?

Mr W.J. JOHNSTON: We have never imported coal.

Dr D.J. HONEY: Into the state—the Newcastle coal?

Mr W.J. JOHNSTON: Does the member mean the coal that came from New South Wales?

Dr D.J. HONEY: Yes.

Mr W.J. JOHNSTON: We have never imported coal. We did bring 100 000 tonnes from New South Wales. I have answered a question on this topic in this chamber recently; there is no expectation of needing any additional coal. We responded to the opposition's call for that action.

I remind the member that on 3 October last year he was reported as saying —

“If we have the hot weather that we had last December then we're getting to a stage where there could be a threat to the power supply for the whole of south-west of Western Australia.”

Because we did not know in September or October how our coal supply would perform, we took out insurance—exactly as the member said we should—and bought 100 000 tonnes of coal from New South Wales. We have learnt a lot about doing that; that is, it is much more difficult than it looks. The coal is not lost. Again, I think I answered a question from Hon Dr Steve Thomas the other day about where we are at with the burn rate. We are through 50 per cent of it now and we will be done by October or November. We have a blending rate to take account of all the issues in the system, and that means we are able to manage our coal supply and we know that we will not have these challenges next summer because Premier Coal's performance has improved and we have a 100 000-tonne buffer.

[2.30 pm]

Dr D.J. HONEY: When we were going through the port section in the budget discussion, the Bunbury port manager said there was not an issue with importing material. It can import large volumes of material, but there was a substantial issue with trucks and the logistics on that port side. Is that a contingency that the government has looked at in case there is a requirement for the importation of coal in the future?

Mr W.J. JOHNSTON: In answer to that, Premier Coal brought the coal through the port of Bunbury, not us. We worked with it in detail on all the challenges there. It is very complicated to bring in the coal. We know that other users of coal have talked about using genuinely imported coal, such as coal from Indonesia. It would be up to Premier Coal to work with the port of Bunbury to find a solution. It shows us that it is really only an emergency solution. To the extent that we can be confident about a third party, we are confident that Premier Coal will deliver the contracted volumes. As I said previously, we understand that as volume goes down, the price goes up, and we are continuing to talk to it about that.

The CHAIR: That completes the examination of Synergy.