

ENERGY SUPPLY

560. Dr D.J. HONEY to the Minister for Energy:

The Minister for Energy is looking very relaxed over there.

Mr W.J. Johnston: I am!

Dr D.J. HONEY: I refer to reports that the Australian Energy Market Operator is seeking that 326 megawatts of supplementary reserve capacity to address looming shortfalls in energy supply to be available from the 1 December 2023 to 1 April 2024 in order to avoid brownouts and blackouts during summer. That is almost double the amount of 174 megawatts of reserve capacity that was asked for last summer. This is the third time in recent history that AEMO has needed to tender for reserve capacity.

- (1) Does the minister think this is now the norm?
- (2) How will this impact WA's productivity, given large energy-using businesses are being asked to sacrifice production to maintain household electricity supplies?

Mr P.J. Rundle: Good question!

Mr W.J. JOHNSTON replied:

It is an interesting question, and I am very pleased to receive it.

- (1)–(2) I want to explain a few things. The first is that this has been reported as a crisis. I make it clear that that is not the case. The Australian Energy Market Operator has three tools available to it to purchase reserve capacity and supplementary reserve capacity is one of those tools. It has been commented upon in the media that this is only the third time in 20 years that it has been needed, and that is true, but that is because, generally speaking, the AEMO predictions of future demand come true. On this occasion, AEMO's reserve capacity cycled three years ago underestimated load growth and so AEMO is using the tools the government has given it to go to market and seek the supplementary reserve capacity.

Also, the planning margin has changed. The government has engaged on this. AEMO has always operated at what is called $n - 2$, which is the total expected demand plus the two largest units. Therefore, that way, if we are at peak and the two largest power stations break down, we would not have to have a market response. AEMO has now moved to $n - 3$, which means that if three plants were to break down at peak, it would not require a market response. AEMO did that because the coal plants are unreliable. For those people who say that we need more coal, such as Paul Murray writing in *The West Australian*, I make the point that we changed the planning criteria because of the challenge of managing the old coal plant as it gets towards the end of its life, which is one of the reasons we are doing a phased planned retirement.

The next thing is that I think the member's question referred to demand-side management. I want to remind the member that demand-side management is actually an essential part of a modern electricity system. Members will remember that in the last sitting week I showed them a chart of peak demand—it goes up and down. We have to build a pyramid of generation and the last block on that pyramid is the most expensive. Therefore, if we do not need that last block of a power station, it will be the cheapest way going forward. Remember there is actually a peak. There is a minute of time that is the highest demand. If we can shave off that peak, we do not have to build the power station that would then be used on all the other days of the year. We are talking about two hours in a single day, and we have to have enough power from power stations to get through that peak. It is much cheaper to engage with industry and have industry choose—it is not made to do it—to use a flexible response to ensure that that last block of the pyramid is not needed. That means that it is cheaper for everybody, including industry. Not only that, industry is paid to do it because it is part of the reserve capacity mechanism.

I do not understand this war against demand-side management. It is a feature of every modern electricity system in the world. I know that the former government under Mike Nahan fought hard to drive demand-side management out of the system. At the time, I said that that was the wrong call. Mike Nahan made some correct calls, but that one was wrong, and I do not apologise for using common sense to save money. Let me make it clear: demand-side management means that in Western Australia electricity costs are lower and carbon pollution is lower than they would be if members opposite were in government.

The SPEAKER: A supplementary, which I note will be the last question.