

Synergy —Estimates Committee

Mr R.S. Love, Chair.

Mr B.S. Wyatt, Minister for Energy.

Mr J. Waters, Chief Executive Officer.

Mr A. Kabra, Manager, Financial Planning and Analysis.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is 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 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, 1 June 2018. 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 caution advisers to wait until I call you before you start to talk. I give the call to the Leader of the Opposition.

Dr M.D. NAHAN: I refer to dividend, income and tax equivalents of Synergy on page 143 of budget paper No 2. After very large payments in the previous two years, the payments in 2018–19 and 2019–20 go down very sharply. Can the Minister for Energy explain the apparent decline in Synergy's income and dividends, which means profit?

[7.50 pm]

Mr B.S. WYATT: I can, and I might get the CEO to make a comment in a minute. It is due to a number of factors. Firstly, margins were under pressure due to falling customer demand and increased competitor activity in both retail and generation segments, coupled with competitive contestable markets in electricity and gas. In addition, increasing competition in the gas market coupled with the decline in retail gas prices has significantly reduced the profitability of the gas trading book. Secondly, the government's decision to retire 380 megawatts of electricity generation capacity by September 2018 has impacted short-term profitability due to lower capacity payments revenue and higher depreciation costs. Mr Waters, do you have anything to add to that?

Mr J. Waters: In general, we have come off a period of high dividends relative to the go-forward view on the back of some delayed dividends from previous years and the dividend as a result of the sale of the Mumbida wind farm. These created a spike that inflated the dividends in a one-off sense in the 2017–18 period.

Dr M.D. NAHAN: Further to that, in the contestable electricity market, is Synergy's market share stabilising and are its margins decreasing?

Mr J. Waters: The share has stabilised. The Leader of the Opposition will know that we went through a period of intense competition and we saw a reduction in market share. At the moment, that market is a very balanced between all the major participants and there is a healthy level of customer churn. However, it is still very much a buyers' market and margins are skinny for all participants. That is reflected in the profitability of the segment.

Dr M.D. NAHAN: What market share has Synergy stabilised at?

Mr J. Waters: I would have to take that as supplementary unless Amit knows that.

Mr B.S. WYATT: Mr Kabra.

Mr A. Kabra: The market has stabilised, but we see that as only temporary. It depends on how the competitors react.

Mr J. Waters: The question was about the current share. Do we know what share we have? I think it is around 30 per cent. We will take that as supplementary.

Dr M.D. NAHAN: That is about what it was a couple of years ago.

Mr B.S. WYATT: We will provide that as supplementary. It will not take too long to get.

The CHAIR: What will you provide exactly?

Mr B.S. WYATT: We will provide to the Leader of the Opposition Synergy's current market share in the contestable market.

[Supplementary Information No A22.]

Dr M.D. NAHAN: In the contestable market there appears to be—please confirm this or otherwise—growth in business solar. That would be an additional source of competition beyond the traditional providers. Is large-scale solar growing in businesses in the contestable market?

Mr J. Waters: The Leader of the Opposition is quite correct. The pattern over the last decade has been a steadily growing uptake of photovoltaic generation in the residential segment. We saw the early moves of interest in that space spilling into the contestable sector emerge for the first time about two years ago. We are now seeing a fairly rapid uptake in that segment. Going forward, it probably presents among the largest areas of growth for further solar PV penetration into that business segment, given its size, the availability of roof space and what appears to be a growing interest in investing in solar among those customers. Whether it is for environmental reasons or risk mitigation varies from customer to customer. I certainly have a view that we will see continued growth and uptake of solar PV into the contestable segment.

Dr M.D. NAHAN: With that and other factors, does Synergy see the contestable market remaining very tight and competitive for the foreseeable future?

Mr J. Waters: I absolutely do. There is no question that it will remain a very good market for buyers. However, the pressure of competition is no longer coming purely from a front-of-meter position. It is now coming from a behind-the-meter position. In effect, the competition is on two fronts. It is now about the retention of customers in addition to the potential supply of solar PV and, longer term, other products such as batteries in that behind-the-meter space that are not in the contestable market area

Dr M.D. NAHAN: On radio and television I see that Synergy is increasingly entering into that market very aggressively. It was controversial when Synergy first decided to do it because people did not want the behemoth competing with them. Those complaints are still there. As a local member I get complaints all the time, mainly from Synergy's competitors, but not only them. A series of complaints has been put to me, that I would like Synergy to respond to, that because Synergy is a regulator in part and a competitor in part it has a conflict of interest. The rumours are that Synergy uses its regulatory process to promote its sales.

Mr B.S. WYATT: I think it is only fair that Mr Waters has the opportunity to respond to that accusation from the Leader of the Opposition.

Mr J. Waters: The Leader of the Opposition is quite right. It was controversial when the previous government approved it and it is controversial now. We expect it is going to be —

Mr B.S. WYATT: By way of interjection, I get similar complaints.

Dr M.D. NAHAN: Yes, I know.

Mr J. Waters: I would approach it from a couple of angles. We are about providing customers the products and services they need to best manage their energy demand. For some customers that is purely grid-based supply. For some customers that is a combination of grid and behind the meter. Down the track it may be completely off grid. My view is that to be a retailer that is interested in providing the full suite of services demanded by customers requires us to move with the times and be flexible to ultimately give customers what they want, which is choice of a range of competitive products including products from us. I also make the point that we are competing on that front-of-meter space with the big end of town. I am talking about Alinta, AGL, Origin and all those groups that have come into that market. Each one of those companies is unencumbered in its ability to offer those multiple product choices, be it grid-supplied energy only, with or without PV, and with or without batteries. If we are not able to move with the market and be competitive, there is a significantly greater risk to the value proposition of the organisation than the risk of the perception of us selling panels into a market with some question mark over our regulatory role. The bottom line is that we sell those products on a purely commercial standalone basis. They are not subsidised products. They are bought and sold to customers for a profit, as an adjunct to the range of additional services we provide, including traditional energy.

[8.00 pm]

Dr M.D. NAHAN: Why does Synergy still have a regulatory role in the approval of solar cells? I can understand that Western Power does; they have to attach to its grid. I guess the question is: does Synergy still have a regulatory role and is it necessary? That is where the conflict of interest lies, not so much with Synergy selling solar. I have no problem with Synergy selling solar, except for those arguments.

Mr B.S. WYATT: Mr Waters.

Mr J. Waters: Our role broadly in the space is still critical because we administer the Renewable Energy Buyback Scheme, which is non-dependent on the purchase of panels from Synergy. People are free to buy their panels—this is in the residential segment now—and avail themselves of those arrangements. Synergy then provides the revenue streams back to those customers based on the energy that they spill. The proposition that that service go elsewhere is not one that I have contemplated. It would be a question for the Public Utilities Office or other

regulatory bodies about whether that would be better off somewhere else. Certainly, I would guess that the thinking that would have had it with Synergy already would simply have been that it is the organisation best placed to provide that service.

Dr M.D. NAHAN: Can Synergy give any assurances to me and others that its regulatory role is not being used to assist it in its commercial role in selling solar?

Mr J. Waters: Yes.

Dr M.D. NAHAN: Does Synergy have in place processes to make sure that it does not communicate and pre-warn—the Chinese Wall or whatever we want to call it, or some in-house regulatory system? The report I have heard is that someone calls up and has a customer and before they do the final purchase, they have to contact Synergy and Synergy gets the sale.

Mr J. Waters: I am not aware of those accusations. The way that it works is that we have a sales desk that is involved in selling the solar products that people ring about. We have an entirely separate function that is the administrative component that oversees the REBS application and management. They are separate functions. I would have to respond to a specific accusation to provide any further comment, but there is certainly nothing that I am aware of in that regard.

Dr M.D. NAHAN: Those two do not cross over.

The CHAIR: Leader of the Opposition, let him finish his answer and then I will give you another question.

Mr J. Waters: They do not cross over. They are separate and discrete functions.

Mr D.T. REDMAN: I am interested in where the sale is at with the Bright Energy investment. How is that going in meeting the government's Large-scale Renewable Energy Target commitments? Also, what is the nature of the deal for the offtake of energy and the pricing of it?

Mr B.S. WYATT: I will ask Mr Waters to make some comments, but it will meet our LRET obligations when Warradarge is operating. The Warradarge project is a very good project, and Mr Waters might make some comments around that as well. It is proceeding well.

Mr D.T. REDMAN: So the new entity has been formed and is in place?

Mr B.S. WYATT: Bright Energy has been, yes.

Mr J. Waters: The initial stage of financial close that led to the creation of Bright Energy has been completed. The Greenough River solar farm component has been brought in to Bright and the stage 2 development of that has now been triggered and construction must be commencing soon. I do not have the specifics; I can provide that. That is underway. We are now working hard on finalising the development of Warradarge, which will be the big step forward in renewable energy production. That will be 180 megawatts that will enter the system in 2020. As it stands today, we are still on track to deliver that within the 2020 time frame.

Mr D.T. REDMAN: In terms of how the offtake agreement is managed, I understand that Synergy is a 20 per cent shareholder in Bright. A deal has been done between Synergy as an entity and Bright as an organisation. How was that deal struck in terms of the price of energy? It supplies energy into the market.

Mr B.S. WYATT: I think I understand the member's question.

Mr D.T. REDMAN: Synergy is a retailer.

Mr J. Waters: The member is quite right; Synergy holds 19.9 per cent of the shares in Bright Energy. The two key projects relevant to this conversation are Greenough stage 2 and Warradarge. Both projects involve the sale of that energy back to Synergy under a power purchase agreement. The PPA is in place for Greenough stage 2, which is the project under construction. Warradarge is not yet. That PPA will be signed at the financial close of that project. Synergy will effectively buy the offtake longer term from those two facilities once both those projects are completed.

Mr D.T. REDMAN: Are there any processes that market test whether that is in fact the best renewable energy source against other options?

Mr B.S. WYATT: Yes. We went through a long process. I think there were half a dozen different options around buying certificates. Is that what the member is saying?

Mr D.T. REDMAN: That was prior to the Bright decision.

Mr B.S. WYATT: In terms of other renewable sources? I will let Mr Waters answer that. Is the member asking whether Synergy, as a 20 per cent owner of Bright, is testing other sources for the commercial supply of energy or for better rates?

Mr D.T. REDMAN: Yes.

Mr B.S. WYATT: Mr Waters.

Mr J. Waters: The answer is we are and we do. We are constantly receiving offers, both solicited and unsolicited, from the market. We are consistently looking at project developments nationally and getting price guidance on those and therefore ensuring that the arrangements that we are getting through the energy purchases back from Bright are indeed the best available.

Mr D.C. NALDER: For clarification on the assets that have been transferred in, the Greenough solar farm has been mentioned, but I understand it also includes the Albany wind farm. Does the minister have a valuation of those assets that have been transferred in, because I imagine that they are coming off balance sheet? I am really keen to understand the asset value of Warradarge, the Greenough solar farm and the Albany wind farm and any other assets that we are not aware of that have been transferred in.

Mr B.S. WYATT: We do. We cannot tell the member them unfortunately, because those values are confidential. It is just those two, plus Warradarge.

Mr D.C. NALDER: I am just trying to understand on what basis the asset values of state-owned assets that have been transferred into private equity hands are confidential.

Mr B.S. WYATT: It is because it is part of a commercial-in-confidence arrangement between Synergy and the other parties in Bright, presumably.

Mr D.C. NALDER: What does the value of the state-owned assets have to do with an operational agreement with them? We are trying to understand the value.

Mr B.S. WYATT: Everything. Mr Waters might want to make some comments, but I suspect that the percentage that Synergy holds in Bright and the value of Bright itself is what keeps that commercial-in-confidence. Mr Waters might want to make some more comments on that. I think I am right.

Mr J. Waters: That is correct. We can use the Albany wind farm as an example. In transferring its operation into Bright and effectively buying back its energy under a PPA, the value that is agreed under the PPA sets the value of the enterprise at the point that it is transferred. Therefore, there is a tight relationship between the value of the assets and the value of the energy that is produced from those assets and further purchased.

Mr D.C. NALDER: How do we determine that this is a good arrangement for Western Australian taxpayers?

[8.10 pm]

Mr B.S. WYATT: It is in terms of the private investment in what will hopefully be a very successful, large-scale wind farm. I will think further about the member's points about the value of Albany and Greenough and perhaps take some advice, but I cannot guarantee that I will provide that information. Having private investment, effectively, construct a 180-megawatt wind farm for what will be, in my view, one of the cheapest sources of wind power in Australia is a good outcome.

Dr M.D. NAHAN: Here we have Synergy, which is a state-owned entity, selling assets to another entity that is 80 per cent privately owned. It then buys back, but that is a separate transaction. The buyback arrangement should also be public. By structure, Bright Energy–Synergy is a minority asset holder in it—it had better be otherwise the minister will have trouble with debt on the books. It is in the budget papers as an estimated \$853 million sale of non-financial assets that logically includes this transfer of assets from Synergy to Bright as an asset sale. A value will be struck for those three assets: Warradarge, Albany wind farm and the Greenough River Solar Farm. I cannot see why the transfer price is not disclosed. Its value entity will be made up of a number of things, including the purchase of the asset, the efficiency of the operations and, of course, the sale price. I cannot see why selling an asset to a primarily privately owned entity is commercially confidential.

Mr B.S. WYATT: We have articulated our position, but the point made by the Leader of the Opposition and the member for Bateman is well made and that is why I said I will seek further advice on it. I will not provide it to the Leader of the Opposition here, but I will seek further advice and write to him about it. I am not in a position to give it to the Leader of the Opposition now because I want to test it, and I think it is a reasonable expectation that I test the advice that it is commercial.

Dr M.D. NAHAN: I refer to the sale of energy from Bright. I take it from a previous response that Synergy is the sole purchaser of that.

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: Why was it not structured so that Bright could compete with Synergy? The requirement of the Large-scale Renewable Energy Target is that Synergy underwrites the expansion of renewable energy. I do not believe necessarily that it has to buy that energy or be a responsible marketer. It has to facilitate, underwrite or

ensure that capacity is built. Will the minister disclose the price arrangement, the power purchase arrangement, that Synergy is buying that on given that it is not necessarily an issue of competitiveness in the market because no-one else is going to do it?

Mr B.S. WYATT: The issue is a contestable market. Why is there a PPA? I imagine it is to get the private sector investment required.

Dr M.D. NAHAN: I understand that.

Mr B.S. WYATT: But there is a contestable market where there is commercial-in-confidence.

Dr M.D. NAHAN: I can see that if it is competing with a contestable market, such as Alinta or somebody else, that it would want to keep its fuel price confidential. I understand that. But this one is a project of which Synergy is a minority shareholder and there is no competition to buy its energy. It is monopoly relationship. All the energy goes to Synergy under a certain arrangement, which could be complex. Why is that confidential?

Mr B.S. WYATT: That is true, but Synergy is, of course, selling into the contestable market space as well, not just the residential space. That is where, I suspect, Mr Waters would have some problem in disclosing those figures.

Mr J. Waters: Correct. That is at one level. The other level is that from the perspective of our partners and their ongoing investments and interests in potential projects in Western Australia and nationally, these things are always closely guarded in terms of the offtake prices.

Dr M.D. NAHAN: We are interested in this major transaction in which a number of assets that the state invested in are being transferred to a private entity. We are being told that the sale value—they are in the books and not isolated—is confidential, but the minister has agreed to look at it.

Mr B.S. WYATT: I will test that.

Dr M.D. NAHAN: Okay. The purchase of the energy back from that entity is also confidential. There will be a rate of return that the joint venturer will require and the asset sale price and PPA will determine that. That is how it works, as I see it. I do not expect the minister to indicate the expected rate of return of that. I suspect that because of that, most of the risk is borne by Synergy in this entity—it has to be. What risk is the entity Bright Energy bearing? The government has sold Warradarge to it and put a lot of money into that in terms of the quality asset information and the government is guaranteeing a buyback. What is the risk borne by the entity?

Mr B.S. WYATT: The term of the PPA is shorter than the life of the project—it is considerably shorter—so that would be where the risk is being borne by the private sector. The PPA is not for the life of the project; it is shorter so the risk of the private sector investor is that once the PPA expires, it has an asset that it has to sell energy from.

Mr M.D. NAHAN: What is the life of the PPA?

Mr B.S. WYATT: Similar to the other issue, I am reluctant to disclose that at this point, but I will test that as well.

Mr D.C. NALDER: How was the 19.9 per cent share for Synergy determined? How did it come about?

Mr J. Waters: I think it was landed upon from a range of perspectives around tax and investment efficiencies. I would have to take the specific question as a supplementary, but it is a backworking from what was an efficient appropriate representation of, in effect, the state in the project.

Mr D.T. REDMAN: Was it working back from commitments to get off-book strategies to meet the LRET requirements?

Mr B.S. WYATT: Not necessarily. It was a range of factors, some of which we have probably discussed already. It was not just that.

Mr J. Waters: The meeting of the LRET requirement is done through the PPA and, irrespective of who develops the projects, we would always be the core offtaker. The 19.9 per cent was a different consideration of the structure, operation and representation in the structure.

Dr M.D. NAHAN: Let us talk about the structure of Bright. As a former Minister for Energy, I used to have information about it but I will not disclose it, okay? Can the minister advise the equity that was put into it to the extent that he can describe the transaction? Three assets of undisclosed value have been put in —

Mr B.S. WYATT: Which is the equity, effectively.

Dr M.D. NAHAN: Can you guys please describe it? I think I know what it is.

Mr B.S. WYATT: I think the member knows what it is, by the sounds of it.

Dr M.D. NAHAN: I do!

Mr B.S. WYATT: Mr Waters, you describe it!

Dr M.D. NAHAN: If there is confidentiality around it, I do not want to, in a de facto sense, break it.

Mr J. Waters: Let me take as supplementary the value of the equity, because we may be able to disclose that but I would like to test that first. If I can take that as a supplementary question, I can do that.

[8.20 pm]

Mr B.S. WYATT: We will just deal with that now because that is an important part. By way of supplementary, we will provide the value of the equity in Bright Energy Investments.

[*Supplementary Information No A23*]

Mr J. Waters: If the member likes, I can describe the transaction in high level. We sold into Bright the existing operation of the Greenough River Solar Farm, the development of stage 2 of Greenough River and an offtake arrangement for stage 2. We have sold into Bright the Albany and Grasmere wind farms with an offtake arrangement, and we will sell, subject to its completed development, the Warradarge wind farm with an offtake arrangement. The returns that come from that are a combination of sale values and development fees that we earn. We use some of that as a reinvestment of our equity that we have carried in. The remainder will be paid as a dividend. That is the approximate outworkings at a high level of the structure. We have gone from having a greenfield development asset, two operating assets and one that could be called a brownfields development—being stage 2 of Greenough—and sold that into a fund to buy a share in a much larger operation inclusive of Warradarge that the state will carry an interest in, and for that we will buy energy back from Greenough stage 2 and Warradarge. That will enable the state to meet its renewable energy target obligations from 2020. We will have done that at least cost relative to all the other alternatives that we as a business could identify.

Mr D.T. REDMAN: I assume that the decision to secure the sale was a cabinet decision, and I assume that there was only one decision and all the parties that were party to Bright as an organisation were known in all cases. In other words Cbus was there. Were there always two other parties?

Mr B.S. WYATT: No. Actually, Cbus came in late. Mr Waters will correct me if I am wrong, but I think the initial view of the deal was to have two other parties—Dutch Infrastructure Fund and another party—and Synergy. Along the way there was another party that eventually fell away, and then Cbus came in quite late. Is that correct?

Mr J. Waters: That is correct.

Mr D.T. REDMAN: Was there anything in or around a cabinet decision to accept that or was that part of the commercial space of this entity?

Mr B.S. WYATT: It was both. Of course, cabinet made a decision around it, but that came as a package. I thought it was a good outcome.

Dr M.D. NAHAN: I would like to explore the structure a bit first and then ask another important question. Is Synergy going to build the Warradarge wind farm and then put it into Bright or does Bright build it or do you act as the builder within Bright?

Mr J. Waters: My understanding is that Synergy undertakes the development process and then at the point of development readiness—when it is ready for the establishment of an engineering, procurement and construction contract, network connection and everything else—it goes into Bright and gets delivered. But Synergy is then able to provide some services to then support Bright in that process in terms of asset management and development-type services. That is my understanding.

Dr M.D. NAHAN: Is the wind farm going to be put up on the land at Warradarge and then, when it is all finished, be transferred over to Bright?

Mr B.S. WYATT: That is not quite right, but Mr Waters will explain it.

Mr J. Waters: It is as the member described, but it is before the building starts. At the point that the development is closed, everything is ready to be signed and all the signatures go down, the asset and the package then transfers.

Dr M.D. NAHAN: The Warradarge is a very good resource—that is what Mr Waters told me and I think that is the case. Did Synergy look at selling that separately from the Bright joint venture? Was it priced separately?

Mr B.S. WYATT: In terms of what?—saying Synergy sells the right to Warradarge —

Dr M.D. NAHAN: Yes, and then to buy it back through the private sector. It is a very high-quality resource.

Mr B.S. WYATT: It is very much so, yes. I guess that was an option. I prefer this outcome in the end but I am not sure whether along the way something else was looked at—Mr Waters?

Mr J. Waters: It may have been looked at but the value in the asset was through the development for which Synergy had the expertise and the history of its ownership. I cannot recall that that option went far. Fundamentally,

we were looking for a partner that was interested in developing the project as greenfields utilising our knowledge and experience in the ownership of the site and the wind data we had from there. I really could not provide a great deal more colour to that one.

Dr M.D. NAHAN: I think the real question has to be that the electricity network access code had to be met somehow—fair enough. Warradarge was the lowest cost option that could be found—fair enough. Those other ones are good add-ons but they could have been done in the government's book. The government would have had to borrow, but it could be done in its own book, and the borrowing cost for the government alone. The real question is: what is the value of Bright as opposed to doing all these things on borrowings on the government's own balance sheet?

Mr B.S. WYATT: The challenge we put to all areas of government now is how they go about doing things that they want to do without dramatically increasing debt. No doubt, when the Leader of the Opposition was in government, he put a similar challenge to Synergy, I suspect. This was a creative solution.

Dr M.D. NAHAN: Is the minister confident, and can he tell me now? When we looked at this, Treasury was adamant that it would come back on the balance sheet—adamant.

Mr B.S. WYATT: When we came into government, this was around, as the Leader of the Opposition has pointed out in here. He pointed out that Treasury opposed it. I said to Synergy and Treasury—the Public Utilities Office—“If you guys can go off and make it work and agree, then I'll look at it”, and they did. I think the Leader of the Opposition asked if am I confidently off-balance sheet —

Dr M.D. NAHAN: The accounting changes in the wind.

Mr B.S. WYATT: That is right. One can never be 100 per cent certain at this point, but all the good advice we have from our advisers in terms of engaging with the Office of the Auditor General, is that there is no difference in the opinion that we have around being off balance sheet. We can never be 100 per cent certain because we do not know how it is going to land. But in any event, it is something that looks to be of value.

Dr M.D. NAHAN: To put it simply, this is not the lowest cost solution. The lowest cost but higher debt solution would be to use Synergy—the government's balance sheet. This is a higher cost solution but it has substantially lower debt implications.

Mr B.S. WYATT: Government debt is always cheaper than private sector debt.

Mr D.C. NALDER: Has there been any further advice around the changes to the accounting standards to suggest that it may be forced back on our balance sheet?

Mr B.S. WYATT: Beyond what I have said tonight—I was sort of just squizzing through—we have advice on the changes that are coming. I assume that is what the member meant. No account would give advice that it is nil, but it is very low. As I said, the accountants involved are also engaged with the Office of the Auditor General and there is no difference of opinion between those two.

Mr D.C. NALDER: So it is not clear.

Mr B.S. WYATT: There is no difference of opinion on it. The advice that it is staying off balance sheet under the new arrangements is still probable.

Mr D.C. NALDER: So the Australian Accounting Standards 2017–18, or whichever, feel it is fine.

Mr B.S. WYATT: Whatever it is, yes.

Mr D.C. NALDER: It is 2016–17 or 2017–18.

[8.30 pm]

Dr M.D. NAHAN: Into the future, is there an understanding that Bright Energy Investments will take on Synergy's additional Large-scale Renewable Energy Target or equivalent renewable commitments? This will get to the LRET requirements for 2020–23, but there might be something beyond that. Who knows? I do not know. Is there any understanding that the Bright project will be the developer or otherwise of the renewable energy requirements placed on Synergy into the future beyond this current deal?

Mr B.S. WYATT: There is no understanding, deal, arrangement or side deal about it. I guess there probably could be if they wanted to, but there is no arrangement around that.

Dr M.D. NAHAN: Does Bright have plans for developments beyond the ones that Synergy is involved with?

Mr B.S. WYATT: I doubt that with Synergy being in the state, but Mr Waters —

Dr M.D. NAHAN: But Synergy only has 19.9 per cent of voting rights.

Mr J. Waters: I guess personally I think it is an incentive for Synergy. Our total energy at the moment is going into getting the two projects built that we are currently committed to, and we are not getting ahead of ourselves anywhere beyond that. From a renewable energy perspective, that will see us through the life of the current scheme, and therefore that sees us through our current planning horizon.

Dr M.D. NAHAN: Because Synergy holds 19.9 per cent of the risk and assets, if Bright decides to go on and build some more, does Synergy have the ability to divest its share of that additional one?

Mr B.S. WYATT: We do—nothing would stop us from doing that if that is what we wanted to do.

Dr M.D. NAHAN: The commitments could be cauterised to the ones that are already committed to.

Mr D.C. NALDER: I want to change tack a little bit. I refer to page 653 of budget paper No 2, volume 2, and Muja stages C and D. What are the current retirement plans for Muja stages C and D? What assumptions underpin their life expectancy?

Mr B.S. WYATT: Mr Waters is probably best placed to make comment on that. Suffice to say, clearly these assets are under pressure by the uptake of solar, for example. Mr Waters might want to make some more comments while I fossick for my notes.

Mr J. Waters: At the moment, we see that Muja D has a life. We are talking about planning horizons. We go out five to 10 years, and anything beyond that tends to be that over-the-horizon view. For us, Muja stage D still has a life that probably extends beyond that. I would say that Muja stage C is within that horizon. I think our current planning assumption is around the mid-2020s, but these things, as we can imagine, are always under review. As things change—for example, LRET targets change and get amended, and carbon abatement targets enter—factors come along that are required to be reviewed. We review these things periodically, almost annually, but that is the current planning window.

Mr D.C. NALDER: I am really keen to understand whether any analysis has been undertaken of the coal supply agreement with Premier Coal. Is Synergy bound by a long-term contract or is there flexibility if those assets are retired early?

Mr B.S. WYATT: Mr Waters can make some comments on this. We have talked about this, Mr Waters.

Mr J. Waters: The current contract has flexibility, both in its terms through options, and in its offtake quantities, which are able to be varied within limits which are probably generous. If the member were to ask Premier Coal, it would say that it is overly generous from an intra-year and an inter-year perspective. We have a cap and a floor to work within, but they are well within the parameters of our fleet as we see it over that planning horizon. We are always talking to Premier Coal. We work very closely with them and we do a lot of planning and have a lot of conversations about coal in general and that long-term view, but, at the moment, that contract fits well within our operating window.

Mr D.C. NALDER: Do you have an idea of how much coal Synergy purchases on an annual basis?

Mr J. Waters: I would say it is of the order of three million to 3.5 million tonnes per annum. We can provide the specifics as supplementary information.

Mr B.S. WYATT: Does the member want that as supplementary information?

Mr D.C. NALDER: I would be keen to understand what it is and the expected trend over the next few years.

Mr B.S. WYATT: By way of supplementary information, I will provide for the member for Bateman coal purchases from Premier Coal in 2017–18 and the expected forecasts of coal purchases over the forward estimates.

[*Supplementary Information No A24.*]

Dr M.D. NAHAN: As Synergy's renewables increase, it will lead to the substitution of renewables for coal; therefore, the expectation is that the demand for coal will decline, putting further pressure on our already pressurised set of coalfields. If we go down to where the minister thinks we might be going, is Premier Coal, which is a marginal business at best, still in the red or is it in the black? Is it viable?

Mr B.S. WYATT: I will ask Mr Waters to make some comments, but of course his comments are from the fact that he is the CEO of Synergy and not Premier Coal.

Mr J. Waters: I really cannot comment on Premier Coal's viability or the economics of their business, but certainly what we are talking about and have discussions about is that longer term view and ensuring that we work together proactively on what is really a transition that is occurring in Collie so that we end up with the best results for everybody, which is secure, reliable and sustainable operations between them and us. That requires a lot of collaboration and a lot of work. I really cannot go into any specifics beyond that, because that is a question for Premier Coal.

Dr M.D. NAHAN: On the other side is Bluewaters power station. Its contract with Synergy will come up in the mid-2020s. Does the minister see any changes to that in terms of the supply of energy?

Mr B.S. WYATT: With the same caveat that I gave, I will pass to Mr Waters.

Mr J. Waters: That is a question that really requires a crystal ball. Again, I cannot recall the exact date that that power purchase agreement term ends, but I think it is towards the end of the 2020s. My view is that the question then will very much depend on, as I discussed earlier, a lot of the economic impacts that we have. For example, do we have a price on carbon? Do we have a renewable energy target? What advancements in technology have occurred, so therefore what is the size of the energy market? Has that energy market changed through the uptake of electric vehicles, which has the potential to reshape and almost transform the generation sector? Really, once you get out towards that 10-year window, there are a lot of things I would only be speculating on, at this stage, as to how I see it playing out.

Dr M.D. NAHAN: I have been lobbied by people who argue that with the growth of non-coal capacity, the demand for consumption of coal will get down to a point, in the not-too-distant future, at which the throughput—the production—makes both unviable. To some extent, there is nothing we can do about this, because renewables are coming on, but in terms of Collie and the stability and cost of our system, this is a really vital issue. Does the minister see that as a major medium-term policy issue for the state?

[8.40 pm]

Mr B.S. WYATT: I do, absolutely. We do not need to know much, a person can just follow the media to know that this is an issue that may well be a medium-term as opposed to a long-term issue for the state to confront. Suffice to say, it is something that Synergy and the Public Utilities Office gives a lot of thought to. It worries me, I must admit. Mr Waters might want to say more.

Mr J. Waters: To answer the Leader of the Opposition's question, it is one of the bigger issues that we have in front of us as a market. The national electricity market has been a good example of how the dynamics are played with the removal of coal. We had the situation in South Australia—I think I have probably had the same conversation in here over the last two years—and the retirement of Hazelwood. From a single lens of economics it may look like it was a sensible decision for the owner of that power station, I am sure it was, but its resulting impact on wholesale electricity prices has led to negative consequences for customers. We have some time up our sleeve to consider the south west interconnected system, given that we do not have the benefits of the interconnectivity of the east coast. For me, one of the big couple of challenges we have is how we make a series of decisions over the next 10 years or so to deliver the right outcome for customers as we make that transition, with our minds, around the transition in Collie as a town.

Mr B.S. WYATT: That crystal-ball thinking—I guess Mr Waters said that, or it might have been the Leader of the Opposition; I cannot remember now. But we have asked the PUO to do this work as well around its view of future generation mix: Where is it heading? What is the likely make-up of that? That is an important piece of work.

Dr M.D. NAHAN: On this coal issue, when Warradarge comes on board Synergy will have an increasing percentage of wind. Even the Merredin plant was putting huge pressure on the operations of Synergy's coal-powered fleet, and Warradarge would increase that. Will Synergy have to do some mitigating factors?

Mr J. Waters: They do; Warradarge has a better profile. However, the Leader of the Opposition's overall point holds in that any new generation that comes onto the system ultimately displaces something, and a part of what will be displaced when Warradarge comes on will be coal. That has been part of the analysis. But equally that was what part of the Large-scale Renewable Energy Target was designed to do. For us it is about doing it in the smartest way possible in the best way possible from the perspective of the state and customers. All our planning around Warradarge was largely with a strong view to the impacts on our power stations. There are some things we can do to mitigate the effects. We are also able to invest in technology in those plants to make them more flexible in their operation, give them better turndown overnight so that they can operate at slightly lower modes, and operate more flexibly. That is the journey that our coal fleet has been on for the best part of the last 10 years as we have seen the progressive construction and entry into renewables over that time frame.

Dr M.D. NAHAN: Synergy has reduced its overall capacity by 380 megawatts. Does the minister propose to reduce capacity anymore? Is there a need to reduce capacity over the next three to four years?

Mr B.S. WYATT: Not currently, no. Mr Waters?

Mr J. Waters: Not currently, but that is always the question around what is happening in the market, in the generated new entrance space, and in Canberra. What are the impacts of the different incentives that may be structured in that may change that? The market conditions are such for us that for the majority of my career, we have had a market in which demand has only ever gone up and planning was only ever about what we built. We have to do two things. We have to think more widely around that than we ever have—there are more factors at

play in those decisions—but we also need to be almost more continuous in our approach and our thinking in regard to this future as well. I have laid out my view of the plans, but these things are constantly up for review because we are finding that things are changing at a rate that is quicker than it historically has.

Dr M.D. NAHAN: From the government’s perspective, what is the minister’s response to whatever the commonwealth government is proposing to replace the renewable energy target with?

Mr B.S. WYATT: We actually had a bit of luck with the recent Council of Australian Governments energy ministers’ meeting, in that it is now looking at Western Australia. We are doing our own generation mix work that will inform policy and I suspect we will have our own work, most of the work in any event, so the Energy Security Board will now look at WA and what our emissions target might look like under its scheme, a national energy guarantee scheme, bearing mind the NEM issues. But I have to tell the Leader of the Opposition, for a while it has been, “Well, is WA being thought about in all this?” And WA and the Northern Territory were not being thought about at all, but at the last meeting it was agreed that this would happen. I have just confirmed that in a letter, this week or last week, to the security board. That work is now happening, but I have a certain sense of frustration in that we have started our own work in any event in this generation mix. I suspect that unless something dramatic happens, that might be more useful for us in any event. The generation mix modelling that is going on is going to be useful. I am obviously in this chair for a brief second, but hopefully that will help future governments around what this might look like. As Mr Waters says, and the Leader of the Opposition knows this better than most, the change is dramatic.

Mr D.C. NALDER: I refer to page 43 of budget paper No 3 and the increasing hardship utility grant scheme payments, and also page 253 of budget paper No 3 under “Other Subsidies” to Synergy, which shows a reduction.

Mr B.S. WYATT: Sorry, the member has caught me short there.

Mr D.C. NALDER: The minister will hear it as I explain it. It is more around Synergy.

The CHAIR: You might just have to let him find the page first.

Mr D.C. NALDER: I am more concerned about page 253 in budget paper No 3, which has the subsidies to Synergy and shows a reduction in the HUGS payments. I just want to know what changes will be made to HUGS that sees a reduction in payments from \$19.8 million to \$7.9 million.

Mr B.S. WYATT: I suspect they are the changes that we implemented in January and February this year around two things: firstly, having a minimum debt threshold of \$300, but, secondly, requiring six months of basically putting it on the utilities to manage the shorter term debt by way of a payment plan. That will, and I suspect is, drive down the cost. Ultimately, we had a dramatic take-up. There was no assessment process or eligibility criteria around the scheme, to the point at which I got to see some of the interesting transcripts of people calling in and receiving HUGS payments. That is now being limited by those decisions, plus also the requirement around financial counsellors. That is what is driving that decline.

Mr D.C. NALDER: Has Synergy made any changes to its disconnection policy following these changes?

Mr B.S. WYATT: We have not made any changes while we have been in government, so November 2016 was the last change to disconnections policy.

Dr M.D. NAHAN: Has there been any change in trends to the late payments from Synergy’s customers? In other words, have delinquent payments—put aside HUGS—changed over the last couple of years?

Mr B.S. WYATT: From memory, the amount of debt greater than 90 days has been declining over the last few years. Whether it has now ticked up again, I would have to look, but I do not think so.

Mr J. Waters: We can provide that.

[8.50 pm]

Mr B.S. WYATT: Can I provide the member with a category —

Dr M.D. NAHAN: That is for the non-contestable market.

Mr B.S. WYATT: Yes. I will provide the amount of debt that is greater than 90 days, because I know that that specific measurement has been taken internally over the last, say, three years.

The CHAIR: Could the minister repeat that?

Mr B.S. WYATT: I will provide by way of supplementary information to the Leader of the Opposition the amount of debt in the non-contestable market held by Synergy for greater than 90 days.

[*Supplementary Information No A25.*]

Dr M.D. NAHAN: I see that according to table 8.5 in appendix 8, the feed-in tariff phases out.

Mr B.S. WYATT: Contracts come up.

Dr M.D. NAHAN: I assume that when the period comes to an end, it will not be renewed.

Mr B.S. WYATT: Correct.

Dr M.D. NAHAN: Is that an illustration of the government's lack of support for renewable energy?

Mr B.S. WYATT: No, it is not. I assure the member of that. Suffice to say, my mother, who is on one of those very good contracts, will be delighted when those contracts come to an end.

Dr M.D. NAHAN: When all the people hear about this, is it fair for me to send them directly to the member for Victoria Park?

Mr B.S. WYATT: I am sure the Leader of the Opposition will.

Dr M.D. NAHAN: I have the third highest density of feed-in tariff people in Willetton.

Mr B.S. WYATT: In the member's electorate; is that right?

Dr M.D. NAHAN: Yes. Bloody engineers.

Mr B.S. WYATT: They would have been onto it quickly. My mum made terrible financial decisions in her life, but she nailed this one.

The CHAIR: I feel a bit sorry for the government members sitting there waiting for this examination to finish, so I will ask whether there are any more questions. No. In that case, that completes the examination of Synergy and I thank all those who have taken part.

Meeting suspended from 8.51 to 8.56 pm