Synergy —

Mrs L.A. Munday, Chair.

Mr W.J. Johnston, Minister for Energy.

Mr D. Fyfe, Acting Chief Executive Officer.

Mr J. Cowper, General Manager, Finance and Business Services.

Mr J. Thomas, Acting Coordinator of Energy, Energy Policy WA.

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

Mrs A. Keogh, Principal Policy Adviser.

Ms Y. Lucas, 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. The chair 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 close of business Friday, 3 June 2022. If a minister suggests that a matter be put on notice, members should use the online questions on notice system.

Just to be clear with everyone in the room, we will be conducting proceedings in half-hour blocks, so Synergy first, followed by Western Power, Horizon Power and the Gold Corporation. We will shut down each one of those at the half-hour mark when it is due.

The member for Cottesloe is dialling in to join us. I give the call to him.

Dr D.J. HONEY: On pages 790 to 791 in budget paper No 2, volume 2, 21 issues are listed, but there is no mention of the way in which reductions to the cost of electricity are being provided to customers. Is the minister able to outline any initiatives taken over the past five years that has reduced or will reduce the cost structure?

Mr W.J. JOHNSTON: I am not quite sure what the member means by that question. Is he referring to the electricity system or Synergy's operations?

Dr D.J. HONEY: I am referring to the cost of electricity to customers. One of the comments that the minister has made on a number of occasions is that as we develop the network, particularly towards renewables, that should lead to a reduction in the cost of electricity. But of course, we have seen a continued increase in the cost of electricity. I appreciate that the government has offered subsidies on two occasions, the one made before and the one it is offering for the future, but the base cost has continued to increase.

Mr W.J. JOHNSTON: I think the member is a bit confused. Firstly, I never said that the cost of electricity would fall. I said that the structure of the market in Western Australia is such that the price in Western Australia is stable and as we increase the amount of renewables in the system, that will add stability to the pricing. We need a network that works with a high level of renewables. That is a policy question that relates to Energy Policy WA. If the member is asking about the operations of Synergy, which is what we are doing here, I would say that the member is raising two separate issues: firstly, the price paid by customers for electricity and, secondly, the cost of producing the electricity.

In respect of that second issue, budget papers over the last years have outlined in detail how we are taking costs out of Synergy so that the subsidy paid by taxpayers to Synergy has fallen. It was in the billions of dollars when the last government was in power, and it is now down to the hundreds of millions. We want to see those subsidies reduced further and we have a continuing reform program going on inside Synergy, but that is about the costs of Synergy and about how much we subsidise Synergy from taxpayers. As I said, the subsidy today is significantly smaller than it was before I was minister, when Dr Nahan and Hon Peter Collier were ministers.

In respect of the price of electricity, the good news is that we continue to have very low price levels for consumers' electricity. In fact, in Western Australia, the budget papers show a two and a half per cent increase in the price of electricity, which equates to about $45 on the average bill, but we are providing a $400 rebate to customers of Synergy. That will not be provided by Synergy; that will be provided by Treasury. I noticed that the member did not ask any questions of Treasury about that. That would have been the member's opportunity to investigate that. I also make the point that on the east coast, in New South Wales the expected increase in the default market offers at the moment are between 8.5 per cent and 18.3 per cent, and for residential customers in southeast Queensland the increase is between 11.3 per cent and 12.6 per cent. The price of electricity in WA, which the member understands, is one of the lowest in Australia—only Tasmania has a lower price than us. Not only do we have a low price, but the price is going up only very, very marginally compared with the very extensive increase in the price of electricity on the east coast.

Nobody wants to put up electricity prices; that is why we have not followed through on the Liberal Party putting up electricity prices by 96 per cent. We are not doing that. Yes, there is a two and a half per cent increase in the A1 tariff. As I said, that is about an average of $45, which will be completely offset by the $400 rebate that the government of Western Australia will provide to Synergy customers. The good news is that is about the equivalent of three months' free electricity for most customers in Western Australia. I know from the feedback that I am getting—I am sure it is the same for the member for Cottesloe—in my electorate that the decision of the Treasurer; Premier to introduce the $400 rebate has been widely supported. Indeed, I note that the member asked us to do that in the lead-up to the budget. I am sure that he is very pleased that we responded positively to him. Of course, we had already made our decision to do that, but as I said, the $400 is a matter for the Treasurer. I note that the Liberal and National Parties did not ask any questions on that yesterday when the Treasurer was here.

We continue to have a program to drive costs out of Synergy's operation so that the subsidies that we are providing to Synergy fall over time. One of the other things we have done with the subsidies is that we are allocating to specific non-economic activity. As an example, we now provide a specific subsidy for the losses incurred because Synergy buys all the rooftop solar. That is an example of the subsidies. We now directly subsidise the energy assistance payment. That used to be borne directly by Synergy, but now Treasury pays for that.

We are reimbursing Synergy for its share of the tariff equalisation contribution that is paid to Horizon Power. We do it that way because some businesses in the system, other than Synergy, are paying the TEC. If we simply pay the TEC, the whole cost would fall on taxpayers, but by doing it this way, only the proportion of the TEC being paid by Synergy is being paid for by the taxpayer, and the rest—it is not the major part; the major part is Synergy—is paid by the private sector.

[1.10 pm]

The other thing we are doing is providing a specific subsidy to Synergy because it has to use its plant in a non-economic fashion to support stability inside the grid as we transition to a higher level of renewables.

There are three separate issues in the member's question. The first is the $400 rebate. That is a Treasury question. The second is the price increase of 2.5 per cent. That is significantly below what is happening on the east coast. It keeps our A1 tariff significantly below the average price of electricity around the country. The third is costs. That is a continuing program. I am pleased that Synergy has responded so positively to our campaign to drive costs out of the business.

Dr D.J. HONEY: I thank the minister for the answer to that question. As the minister knows, I made sure that I donated my $400 to some people who needed it.

I refer to budget paper No 2, volume 2, page 790, significant issues. Page 791 refers to climate change and a target of net zero greenhouse gas emissions by 2050. Page 793 refers to a 2022–23 budget target of a 50 per cent reduction in Synergy's scope 1 emissions compared with 2005 levels. That is direct emissions from Synergy into the network. How much of that 50 per cent reduction will be as a result of a reduction in generation from Synergy, because other parties have no doubt been contributing more generation to the network since 2005, and how much will be an actual decrease in Synergy's CO_2 generation in gigawatts or megawatts or whatever measure the minister chooses to use?

Mr W.J. JOHNSTON: Again, chair, I am not quite sure how to answer this question, because it is a policy question. We are examining Synergy. If the member wants to ask about policy matters, he needs to raise that when Energy Policy WA is here.

Dr D.J. HONEY: I am not asking a policy question. I am asking how much of the reduction has been achieved simply through a reduction in output by Synergy. Synergy has reduced proportionately the amount of energy that it is directly producing into the network, because rooftop solar and other sources of electricity are coming in. How much will the reduction in intrinsic CO_2 production by Synergy itself be per gigawatt or megawatt of power? It is not a policy question.

Mr W.J. JOHNSTON: The member does not seem to understand the way the system works. The member asked how much of the reduction in CO_2 emissions is because of the fact that we are using more rooftop solar. Synergy pays for all the rooftop solar energy that is injected into the system. Obviously, we do not pay for what is used behind the meter, but we buy 100 per cent of the rooftop solar energy that is produced. That is Synergy's energy. This is the whole point I keep making to the member. I apologise if the member does not understand this. I have tried to arrange briefings et cetera for the member so that he will have an understanding of these things. The whole purpose of the reform program is to have renewables as the generation of choice. The whole tenet of the member's question shows that he does not understand how the electricity system works. This is what we are doing. We are displacing old-fashioned technologies with new-fashioned technologies.

The member for Collie–Preston is in the chamber. I went to Collie just two week ago to engage again with all the people in Collie, because we will be closing Muja C5 in October, and I wanted to make sure that I was taking feedback from the people in Collie and that they would understand the transition that we are in. The basis of the member for Cottesloe's question shows that he misunderstands what is occurring. The member sort of dismisses that and says Synergy is not responsible for rooftop solar. Of course it is responsible—it buys 100 per cent of the rooftop solar. That is why we have to change the way Synergy works. One of the new objectives that the Synergy board has endorsed is to become more involved in distributed energy resources. We are doing the pilot project—Project Symphony—in the south-eastern corridor. That is the whole point. The member is suggesting that is somehow unrelated to what we are doing. The member needs to get away from this old-fashioned thinking. Synergy is not responsible for the carbon emissions of others, but it has had a 50 per cent reduction in carbon emissions in its generation fleet since 2005. The New South Wales Minister for Energy and Environment, Matt Kean—I get on very well with Matt—has set a target of a 50 per cent reduction by 2030. Synergy has already achieved that. The member dismisses that as though it is not important. It is structural change. It is a different way of operating a business.

I regularly talk to the Synergy workforce about how proud I am of the work Synergy is doing to respond to the new way of doing energy. However, there is a consequence. There have been 40 redundancies because of the decision we have made. That is affecting real people. That is why I go down there and talk to them. I do not want them to think that I do not understand the sacrifice they are making because of the fact that we are changing the way Synergy works.

Dr D.J. HONEY: Thank you very much, minister. I think I have a pretty good understanding of how it works; however, the question was clearly imprecise for the minister. To put it another way, what were Synergy's CO_2 emissions in 2020–21 versus the anticipated emissions in 2022–23?

Mr W.J. JOHNSTON: The scope 1 and 2 emissions in the financial year 2020–21 were 5.2 million tonnes, and with the retirement of Muja C, that will fall to 4.7 million tonnes, so we will be reducing our CO_2 emissions by half a million tonnes. I want to make a point about this. The Collie coal-fired power station, which is obviously the largest one in the system, was not switched on once between the middle of September and the middle of November last year; for six weeks, it was not used. That is a massive reduction in carbon emissions. The member says that is only because rooftop solar has replaced it. That is the whole point. That is the strategy. That is what we are trying to achieve. The member dismisses it, and then he says he understands how it works. The member's question clearly shows that he does not understand how it works. That is the whole point of what we are doing. We are trying to build the space to allow renewables to come in. The best renewables are the ones that mums and dads pay for, because then the taxpayers do not have to pay for it. Western Australian taxpayers have invested significantly in renewable energy in Western Australia through Bright Energy Investments and also through the big battery in Kwinana. It is great that other people are doing the investment as well. The member is dismissing our strategy, but then he is describing it. That is our strategy.

Dr D.J. HONEY: Minister, the estimates debate is not supposed to be an opportunity for gratuitous insults. I have not dismissed any of those issues around the move to renewables or the move to rooftop solar. I am simply trying to ascertain by how much Synergy's operations will reduce its CO_2 emissions overall. In any case, what impact will that transition to a further reduction have on costs? Does the minister anticipate that it will be a significant cost, or does the minister think that it will continue to be a relatively minor component of the cost of moving to a further reduction in CO_2 emissions?

Mr W.J. JOHNSTON: Which costs is the member referring to?

Dr D.J. HONEY: The cost of moving from the current level, with scope 1 and scope 2 emissions. I note that the key performance indicator in the table on page 793 refers only to scope 1 emissions. Does the minister anticipate that the target of reducing CO_2 emissions from 5.2 million tonnes to 4.7 million tonnes will add any cost to the production of electricity, or does the minister think the cost will be relatively benign?

Mr W.J. JOHNSTON: Is that page 793?

Dr D.J. HONEY: Yes. The table at the top of the page, "Outcomes and Key Performance Indicators", refers to the reduction in scope 1 emissions. The minister has just told me that the target for scope 1 emissions is a 50 per cent reduction compared with 2005.

[1.20 pm]

Mr W.J. JOHNSTON: There are some costs. Now I understand the question.

Dr D.J. HONEY: The minister quoted the numbers for scope 1 and scope 2, which I am fine with; I am not fussed about that. Is there any additional cost or is that relatively benign?

Mr W.J. JOHNSTON: We have already taken a range of costs for the closure of Muja C. A range of costs are built into closing Muja C. They are already in the financial statements for the business. I was criticised by the member and others for the $450 million writedown of the valuation of the assets of Synergy. Part of that writedown was the writedown in the valuation of Muja C. The valuation is done by looking at future earnings. Obviously, if the plant is switched off, the future earnings will disappear. Therefore, we have to write off those future earnings. That reduces the capital base, which allows us to make more profit in the future because we are removing the future costs. There are redundancy expenses. Interestingly, the rehabilitation expenses and the decommission expenses are not significant because they have to be paid anyway. We have to bring forward the decommissioning costs, but they are not considered material in the future costs profile because it has to be done eventually anyway. All the cost impacts of closing Muja C were identified and included in the business's parameters when we made the announcement three years ago. The chief executive has just confirmed that there has been no increase in those costs that were identified three years ago.

Dr D.J. HONEY: I refer to page 797 of budget paper No 2 and the forecast loss of land from non-contestable customers for reasons that include competition from other retailers. Can the minister outline the anticipated mix? For example, does he anticipate that that is the natural growth in rooftop solar and households producing more of their own energy or does he foresee that other potential suppliers will be coming into that market?

Mr W.J. JOHNSTON: I point out that there is a full stop there. It states —

> Synergy's energy demand from non-contestable customers is forecast to decline over the next five years.

Then it states —

> Changes in customer expectations … competition from other retailers …

That does not refer to the non-contestable customers; that is a comment about all of Synergy's customers. Yes, we expect that there will be a continued decline in the volume of the A1 tariff because more people will be moving to rooftop solar. During the COVID pandemic, we thought there might have been a slowdown in the move to rooftop solar, but it accelerated. When I became minister, the planning assumption was about 200 megawatts a year; 250 to 300 megawatts is now the planning assumption. We expect the number of people moving to rooftop solar to accelerate and not decline. On the basis that we have the second or third highest rooftop penetration in the world, we expect that to go from the current 35 per cent to 50 per cent. Although that is a policy question, that is the planning assumption used by Synergy as well.

We also have an estimate for the number of people who will install batteries. We thought there would be a decline in the cost of batteries and that has not eventuated. Whether that holds up the rollout of batteries—currently, home batteries are not significant—whether our expectation matches what happens and whether that accelerates in the future, we think it will. That was on the basis that we thought the cost of home batteries would fall over time and that has not happened. Whether our planning assumption proves true is yet to be seen.

Dr D.J. HONEY: I refer to "COVID-19 Response" at the bottom of page 794. It states that $1.6 million will be invested in the Smart Energy for Social Housing project. At the outset, I think that is a laudable thing to do—to ensure that not only wealthy people who live in the good suburbs can have solar benefit from it. Why will that be funded through Synergy and why is it not a measure of government itself out of consolidated revenue? I appreciate that, ultimately, being a 100 per cent government-owned agency, the minister might say it all nets out, but I would have thought it was more appropriate for it to be direct expenditure from consolidated revenue than Synergy taking it on. Could the minister explain why this will be done by Synergy?

Mr W.J. JOHNSTON: I am happy to do so. The equipment is actually the property of Synergy. One of the challenges was getting an understanding between the Department of Communities and Synergy so that Synergy could continue to own the equipment. The equipment that is being installed is an asset of Synergy. It is being funded by an equity injection. We are effectively buying shares, if you like, in Synergy. We are injecting additional capital. It is one of those examples of how we are providing money to Synergy to do activity that we want it to do, like we do with the energy assistance payment. It does come out of the budget. The member would have to ask Treasury where it deals with it. It is an injection from the general government sector to Synergy. Synergy then buys the assets and it will write those down over time. The electricity that goes to the residents is not free; there is a special SESH rate. One of the good things is that the Department of Communities is installing heat pumps that use energy during the day because that is effectively a battery. Hot water is created during the day when the electricity is cheaper because it comes off the solar panels. That means there is a significant reduction in cost. The heat pump has been the major component of savings for SESH participants. Of course, it is of benefit to the system because we are increasing daytime demand. As we know, daytime demand is critical for management of the system.

The CHAIR: Member for Cottesloe, I note that we have only about three minutes to the half hour for Synergy questions.

Dr D.J. HONEY: Thank you very much, chair.

I turn to the income statement table on page 796. I refer to the line item "Employee benefits". There is a significant jump from the 2021–22 budget to the estimated actual. I see by the notes below that there is a significant change in FTEs. Then I see a reduction over time, which I appreciate is because the minister anticipates Synergy relatively reducing its input, if you like, into the electricity network. Could the minister explain that significant change in FTEs please?

Mr W.J. JOHNSTON: I thank the member for the question; it is an interesting one. We staffed up for a number of projects, including the Kwinana big battery and the decommissioning of the Kwinana power station. The change relates to short-term projects that unwind. Obviously, Synergy is not a government department; it is a business. When it executes capital projects, it takes on a team of people. That is the unwinding of the team of people who are being used to work on a range of capital projects.

Dr D.J. HONEY: What is the status of the Kwinana big battery, please?

Mr W.J. JOHNSTON: I might get Mr Fyfe to answer directly.

The CHAIR: And succinctly please!

Mr W.J. JOHNSTON: In that way, he can look after anything commercial.

Mr D. Fyfe: The big battery is a fairly substantial project for Synergy. I am pleased to say that the batteries are on their way. There are long lead times for batteries and large-scale transformers. I think the transformers are already in the country. Our target date is October. We are still striving for that. Like any project at the moment globally, there are a lot of supply chain issues that we are unpicking daily, but we are working very closely with our provider of that service and also the local WA-based contractor, GenusPlus Group, to maintain that schedule. It is challenging, but we are aiming for the battery to be in at the end of the year.

[1.30 pm]

The CHAIR: That completes the off-budget examination of Synergy. We will move to the off-budget examination of Western Power.