Synergy —

Mr P. Abetz, Chairman.

Dr M.D. Nahan, Minister for Energy.

Mr J. Waters, Chief Executive Officer.

Mr K. Matacz, Chief Financial Officer.

Ms S. Unwin, Chief Transformation Officer.

Mr G. Roberts, General Manager, Retail.

Ms Sonja Tasovac, Principal Policy Adviser, Energy.

The CHAIRMAN: 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 provide 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, 19 June 2015. 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 with the Clerk's office. I now ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

The CHAIRMAN: The member for Cannington.

Mr W.J. JOHNSTON: I draw the minister's attention to the $450 million that Synergy has forecast it will save over the forward estimates from the business efficiency program. I note that Treasury has listed this as a risk in the budget papers. I am wondering whether the minister could identify what categories of expenditure will be cut to add up to the $450 million.

Dr M.D. NAHAN: First, I will answer the question about the risks. Treasury identified that Synergy has a reform agenda that will achieve reductions in costs of more than $400 million over the forward estimates, and that these are yet to be achieved. They have not been banked yet; they have not been achieved yet. If something is yet to be achieved, Treasury indicates that. We expect, but have not booked, things beyond that. I am confident—I think Treasury is very confident but has quite rightly indicated that there are some risks—that we will achieve those. I will now pass over to Mr Waters who will go through the breakup of those efficiencies.

Mr J. Waters: In response to the member's question, our business efficiency program is a corporation-wide program, looking at general productivity and cost efficiency improvements across the whole of the business, in all streams and facets of the business. We launched the program towards the end of last year and at the end of the last calendar year and into the early part of this year we started to gain a sense of the opportunities available to us, so for the state budget forecast we structured a target of delivering on the $450 million we have retained within the SBF. We have gone into an implementation phase as of about 50 days ago, so we are in the early days of delivery. Nothing that we have identified yet would give us any cause for concern about our ability to achieve the target that is established in the budget, albeit at the time the budget was formed, given the infancy of the program generally, it was a risk rightfully identified by Treasury.

The savings will come from right across the corporation, but one stream I will point out for particular interest is our external spend. We have a large number of contracts in place with some very large suppliers of spare parts and maintenance services, particularly focused around our generation business, which is the very capital intensive, large end of our organisation. We have a lot of contracts that were established at or around the time of the mining boom in Western Australia, for which we were paying rates for materials and labour that do not necessarily reflect the commercial opportunities available in the market today. As an example, we have a large number of high-value contracts for which we are now going through a process of renegotiating and we are identifying significant opportunities for cost savings as a result of that. It is a category of expense. We are also looking at areas around our retail cost to serve—another typical example—where we are investing in a digital platform that will enable our customers to interact with us via the website as opposed to using traditional means such as a contact centre. As a result we have significantly lowered the cost of transactions. There are a number of streams, but those are two specific examples. As I said earlier, the basis of the risk is about the infancy of the program, but we are very pleased with the progress we are making.

Mr W.J. JOHNSTON: What is Synergy's expectation, for example, of savings in labour costs over the four-year program?

[8.40 pm]

Dr M.D. NAHAN: I will pass this question to Mr Waters in a minute. One measure is that we have closed the Kwinana power station, which made savings of a certain number of people. Mr Waters can elucidate on that. As indicated, there will be some renegotiation of contracts, and contractors might adjust their workforces; we do not know. I might add that, just like Western Power, some of those were contracted out to certain large firms that did the work, and often the work is being brought back into Synergy, as is happening in Western Power. So the effect, actually, full-time equivalent numbers for Synergy go up, but there are savings. Sometimes these are hard to measure.

There are some other areas that we made significant savings in, and that is by balancing, especially with bringing Synergy and Verve in. When we brought in all their generating units we were able to balance and optimise across the contracted fleet versus the owned fleet more effectively. Bringing them in allowed us to pool the various gas purchases and manage that more effectively. By the way, there is some downward pressure on prices of gas—there is some surplus gas in the market now for a variety of reasons—and Synergy can take advantage of that. But as to the impact on FTEs known and forward, I will ask Mr Waters.

Mr J. Waters: We do not have a specific target planned currently around FTEs. The program itself is made up of a large number of initiatives occurring in various parts of the business. There will be a reduction in the total number of people employed by Synergy in terms of both direct and indirect means—by that I mean our reliance on contractors—because we are looking at achieving productivity improvements that will enable us to actually insource some activities and reduce our reliance on maintenance services provided by organisations outside the business. But in regard to being able to provide a firm number in terms of a headcount reduction, I think I could give an example. Maybe I could ask Stephanie to provide the example of the changes to some of the maintenance practices at Muja power station that I think have resulted in a reduction in reliance of about 40 staff numbers that were a contract workforce. Maybe Stephanie could just provide a bit of an overview on that in relation to the productivity improvements.

Ms S. Unwin: One of the key initiatives we had in the program was around —

Mr W.J. JOHNSTON: Sorry, Mr Chairman; I cannot hear.

Ms S. Unwin: One of the initiatives we are working on in the transformation is around tool time, as we call it, which is around our productivity at Muja power station. We have tracked a typical technician's day and we have allocated for each hour of that shift how much of it is spent on productive time versus time spent in dealing with administrative processes such as the issuing of permits, for example, or the safety to start the day, issuing of tools and the like. When we went through and analysed, we found that there are significant savings by streamlining those different processes across the day. As a result, we can therefore schedule our maintenance crews to have 100 per cent allocation of tasks across the day and to make sure that those tasks are completed as they are scheduled. By doing that, over time we will be able to reduce the number of maintenance crews we have available on our site. Firstly, that comes from our external service provider. We have a major contract that is provided by an external provider; the first part that we were able to achieve efficiencies was by having less reliance on those external contractors to do the work. The next part that we then look at for tool time efficiency is the temporary labour resources. One of our key initiatives we are working hard at is in relation to our temporary labour contractors. The more we can have our own people doing and the more efficient we make them in terms of how much planning and scheduling we have in the day, the more efficient we are in delivering the work on site. One of the other aspects to the tool time initiative has been around the way we do our planning and scheduling and tracking what we call break-ins to the schedule and making sure that those break-ins happen only for very high category events, rather than things that can be postponed and planned and scheduled on another day. That is an example of that category of spend.

Mr J.E. McGRATH: I know the minister has touched on this already, but I am very interested in the long-term fuel contracts that Synergy has. What is the status of them at the moment, and what is the minister's expectation?

Dr M.D. NAHAN: First, there are two basic fuels—coal and gas; I will pass over to Mr Waters in a minute on the gas issue. There are some complications there but we are resolving them. With coal, we have a single contract with Premier Coal, which supplies Synergy. We renegotiated that contract; it was a standing contract of some duration and was discussed in Parliament at length. That was an uplift somewhat, but there were all sorts of other aspects to negotiate into it, including getting assurance that Premier Coal was undertaking proper investment in the asset, that it also was a viable going concern because these are long-term issues, and my advice—Mr Waters can talk about that—is that the coal contract with Premier is going well now. It is not highly profitable from its perspective, but it is making changes to it to move towards that direction. With gas, of course, we are moving from a reliance on the North West Shelf to Gorgon—there is that transition—and maybe Mr Waters can discuss that.

Mr J. Waters: I guess in an overarching sense we are very comfortable with our long-term fuel position. We have done a lot of work over the last couple of years and we have certainly restabilised that, and the announcement last year of the changes to the contract with Premier Coal has been very important in that regard. Since that contract was signed, we now have a very stable coal supply in Collie, the performance of the mine is healthy, our strategic stockpile is at the targeted levels, and as far as coal is concerned at the moment we are certainly pleased with our standing. Likewise on gas, we are running into the last couple of years of our legacy North West Shelf contract that was signed in about 2004 but really had its beginnings back in the 1980s when the shelf project was commenced. In 2011 or thereabouts we signed a new long-term contract with the Gorgon joint venture partners for supply that will commence with the completion of the Gorgon project. At the moment we are at a stage of going through the process of just ensuring we can match off and manage adequately the exit from one contract and the commencement of the new one when it starts, and our expectations are that that will be in 2016. Again, that requires some operational flexibility on our side to achieve that, but broadly speaking we are very pleased with where the gas situation is heading. I think our fuel position generally is secure.

Mr B.S. WYATT: This question has probably been partially answered. It is in respect of page 84 of budget paper No 3 and the statement of risks. The third dot point states —

> … Synergy's contractual arrangements and changes in market conditions have the potential to place upwards pressure on Synergy's generation costs over the forward estimates period. If Synergy is unable to pass-through increases in its generation costs to its customers, deterioration in the State's financial position can be expected;

From Mr Waters' answer, it sounds like that risk is perhaps fading, or is that risk still very much alive?

Dr M.D. NAHAN: We cannot go out without gas, so we have to make sure that we hand the baton for the supply from North West Shelf to Gorgon seamlessly. Gorgon has to come on in a timely manner for that to happen. We built some overlap into the contract, obviously, for security. The real issue is the extent of overlap to make sure Gorgon gets its domgas facility on time.

Dr G.G. JACOBS: Is it likely to get cheaper though? Is the gas going to be cheaper?

Dr M.D. NAHAN: No; I will just have Mr Waters elucidate on that.

[8.50 pm]

Mr J. Waters: That is correct. I think the minister has summarised that risk. It is in that transition. Our management of that is financially important to us, but we have time and we have flexibility in the way we can configure our plan to ensure that we manage that risk effectively.

Mr F.M. LOGAN: I am following up and probably asking the question for Dr Jacobs on the other side as well! How long is the proposed contract with Gorgon expected to be; and what would be the average price per terajoule over that period occurring?

Dr M.D. NAHAN: I can pass to Mr Waters, but we will not disclose that.

Mr F.M. LOGAN: Let us put it like this: obviously, the minister does not want to give us the price, but is the price higher or lower the previous contract with North West Shelf?

Mr J. Waters: It is higher.

Dr M.D. NAHAN: But the length of the contract, Mr Waters?

Mr J. Waters: It is 20 years.

Mr F.M. LOGAN: The minister indicated earlier something about getting the best prices for gas, and although this does not relate to any sensitive data on long-term market purchases, in terms of the spot price purchases Synergy entered into, what was the best price Synergy got this year per terajoule—just on the spot price purchases?

Mr J. Waters: Just so I can clarify that, what is the best price at which we have purchased spot gas this year?

Mr F.M. LOGAN: Purchased, yes.

Mr J. Waters: I would have to provide that as supplementary information. I do not have that information at my fingertips. I would say that at the moment here in Western Australia from a downstream perspective we appear to have a period of healthy gas supply, which means that at the moment spot prices are low relative to expected long-term contract positions. Our view though is that that will not be a long-term situation and over the next year or two that situation will resolve and we will move back to the long-term average contract price.

Mr F.M. LOGAN: It would be nice to have that by way of supplementary information, minister.

The CHAIRMAN: Is the minister happy to provide that information?

Dr M.D. NAHAN: Yes, subject to confidentiality. Mr Waters and Synergy will provide evidence of approximately the lowest price of spot gas sales and I suppose timing on them, because the duration of the contract is vital.

[*Supplementary Information No B27.*]

Mr F.M. LOGAN: Further to the question on fuel supplies, the step-in rights Synergy has with Premier Coal amounts to a five per cent of the asset of Premier Coal; is that correct?

Mr J. Waters: Not quite.

Dr M.D. NAHAN: I hand the nature of the contract over to Mr Waters subject to confidentiality.

Mr J. Waters: Our step-in rights on the basis of default are in regards to the entirety of the operation.

Mr F.M. LOGAN: Would the step-in rights be the purchase of the assets or simply the receipt of the assets?

Dr M.D. NAHAN: No, we have step-in rights to operate it, but it depends what happens and why we stepped in, if it went into receivership. One of the weaknesses of the last contract was that even though we were the value proposition of the deal—we were buying and using—our step-in rights were uncertain, as were our rights if it went into receivership to determine who it was sold to and whether we would bear the total cost of operating the mine until it was sold, which are two very important factors, as we have seen in other transactions. There is the right to step in and acquire the contractual amount of coal, but there is not the right to acquire the assets.

Mr F.M. LOGAN: I have one final question on fuel. What is the volume of oil, if any, still used in the operating fleet?

Mr J. Waters: Currently for operational purposes we burn relatively small quantities of oil. With an oversupply of capacity in the market these days, it is not the requirement it once was. We still carry oil stocks in the event of a major fuel supply interruption; however, other than for testing and occasional compliance purposes, I cannot recall a time we have burnt significant amounts of oil in the last couple of years for production.

Mr F.M. LOGAN: That is a change.

Dr M.D. NAHAN: Are there some decent peakers around?

Mr J. Waters: Yes, correct.

Mr K. Matacz: Our annual average expenditure on fuel oils ranges between $12 million and $15 million.

Mr J. Waters: That includes the start-up and shutdown fuel that is used in coal-fired plants. For the actual production fuel, which would be the gas turbines that run on diesel, there are much lower quantities than there once was.

The CHAIRMAN: Member for Cockburn, your question now. I have caught you by surprise!

Mr F.M. LOGAN: The Chairman has caught me by surprise!

This question is again to do with gas supplies. Are the Mondarra gas reservoirs used at the moment; and, if so, to what extent are they full or not full?

Mr J. Waters: I could not tell the member the quantity in there today, but we maintain fairly high stock. Bear in mind that we initiated the Mondarra investment after the Varanus Island incident when we felt exposed from a downstream perspective to gas supply shortfalls. In addition to that, in moving from our current structure of gas supply agreements with North West Shelf to a much tighter take-or-pay arrangement under future contracts, which have become the norm for gas contracts in the downstream these days, we needed a means of managing the swings in our gas take between hot weather and, I guess, cooler weather. We have used it on multiple occasions over the last 12 months when we have had shortages in generation from our coal-fired fleet. We have had a couple of interruptions in gas supply from the North West Shelf facility. On each of those occasions we have been able to get our full contract to take out of the Mondarra facility, which I believe is up to 90 terajoules a day, so it is a significant amount of gas. From my perspective, the performance of the facility has been very good. Its availability has been high and it has certainly become integrated into our operations now from a plant dispatch and fuel management perspective.

Mr J. NORBERGER: I refer to product and software development under “Works in Progress” on page 615 of the *Budget Statements*. I had the benefit of being in this division last year and we spoke a bit about the customer information and billing system. I believe this time last year we were not entirely sure whether the end was in sight in relation to rolling it out. I know that from a budget perspective the appropriations for that are beginning to tail off, so the bulk of the spending and the forward estimates show about $1 million a year. I am just interested to know whether I am reading it correctly and the software development is more or less finished and that $1 million is for the ongoing maintenance and running of it. How much is the total billed cost for the billing system and are we still happy that it will give us the value for money we had hoped for.

Dr M.D. NAHAN: This honour goes to Geoff Roberts!

Mr G. Roberts: Unfortunately, I do not have the total cost of the billing system because that was implemented back in 2009. I can say though that that billing system has well and truly stabilised down. We invested heavily to stabilise that system and the $1 million we see on an ongoing basis is largely just maintenance of that platform, but also implementation of the pricing changes. That is really the key change we made through the course of the year.

Mr J. Waters: I am certain that Karl would have the correct answer, but my understanding is that with the other expenditure, as I think the member alluded to, on upgrades and maintenance, there has been one major upgrade of the SAP billing system. I think we reported previously that the total cost at completion was around the $90 million mark.

[9.00 pm]

Mr W.J. JOHNSTON: How much was that $90 million figure over budget by?

Mr K. Matacz: Sorry, I cannot answer that. It was too long ago for me.

Mr W.J. JOHNSTON: Was it $40 million or $50 million?

Mr J. Waters: Yes, something like that.

Dr M.D. NAHAN: I think the member will find that many of the SAP systems do go over, which is why they were named as such.

Mr W.J. JOHNSTON: I refer to the announcement that Synergy will do a battery trial in the northern suburbs and I assume it will be in conjunction with the property developer —

Dr M.D. NAHAN: Lendlease and, I think, LandCorp.

Mr W.J. JOHNSTON: I understand it involves a 1.1 megawatt-hour battery. This trial is being done by Synergy rather than Western Power, so is it intended that Synergy will sell back the stored energy from the batteries?

Dr M.D. NAHAN: I will pass over to Mr Waters in a moment, but we would like Western Power to participate in this because, as the member elucidates, there are some territorial issues that have not yet been resolved. Indeed we must look at some regulatory impediments. One of the issues that audit and risk is doing a lot of work on is the fact that distribution and transmission firms are prohibited from getting into generation, and this is getting into that space. If it is regulated we then we have to deal with how it is regulated and what not, so this is the cutting edge of regulation and decision-making. I might add that a growing number of firms, of which Alinta Energy is one, are selling stand-alone systems, photovoltaic and batteries.

Mr W.J. JOHNSTON: That might even be a follow-up question, minister.

Dr M.D. NAHAN: Yes, and Synergy has been looking at this exact issue itself. As the member will see in a minute, one of my objectives is for Horizon Power to become a specialist in that area.

Mr J. Waters: I will come back to the member’s original question about the battery. In electrical systems everything is interconnected and the battery will be embedded within the suburb at Alkimos. It will be used as part of the access supply to the homes to either supplement supply or indeed store energy depending on the movements of energy in and out of the district. We cannot say that the battery is directly connected to any home because the way that networks are configured, which means that that cannot be achieved. From our perspective, it is a really exciting project and undoubtedly the way we see power and electricity delivery heading in the future. It is probably the first step towards what we will see in another 10 or 15 years where micro grids are progressively disconnected from the main network once batteries become cheap enough and generation available from solar panels is sufficient to meet supply at all times in aggregate. The important thing is the learnings that we will gain from knowing what products the customers want, how they will use electricity, the tariffs and other services that a business like Synergy may provide in that instance, which will ultimately be our future business. We are collaborating with Western Power and the learnings that we extract from this will be shared by all of us.

Mr W.J. JOHNSTON: I take it then that the customer will still get a bill in the same way they do now from Synergy that will show a renewable energy buyback scheme payment from Synergy and a bill for the use of electricity that is drawn from the network. Effectively the battery is just like a little peaker up in the northern suburbs and that is the way that it will be looked at from Synergy's point of view. From the customer's point of view it may as well be a little peaker because they are not directly connected to that battery.

Mr J. Waters: Although the member is correct in part it is fair to say that we do not yet know what the tariff structures and products will be, but we will look at evolving that in as part of the trial. It may well be that the customers do not get a REBS rebate that normal grid-connected REBS customers get. We may look at a different suite of tariff products specific to that trial site given the presence of the battery.

Mr W.J. JOHNSTON: The minister mentioned the article by Dan Mercer about Alinta. Other people on the east coast are doing the same thing but over here in the absence of retail contestability at the franchise level; they are describing it as selling the electricity behind the meter. It would be interesting to know what the government's view is about selling behind the meter, and is Synergy examining any behind-the-meter products?

Dr M.D. NAHAN: It is a very important move because Alinta is in a contestable market. The penetration of photovoltaics in the contestable market, particularly the medium-sized business, has not been huge but it is growing and this is why Alinta has discussed it extensively with us—with me at least. It is a good move and I support it fully. On the eastern seaboard a number of major players have been in this space for a while. It really has potential here particularly with our long feeders in the country and the wheatbelt areas. Synergy has been discussing this quite extensively with me so perhaps I can pass over to Mr Waters to explore that a bit.

Mr J. Waters: As the minister puts it, there is no doubt that this is, as I alluded to with regard to the Alkimos example, the future business model for electricity retailing. It will be progressively more about what goes on behind the meter and, no doubt, the retailers of the future will be those who can engage effectively with the customers in that space be it through solar panels, which are already a mature technology, batteries, energy management tools, advanced metering, control, communications and the whole gamut of products we will see as part of the future household. Not unlike every one of those businesses, Synergy is undertaking the same type of thinking and going through a process now of undertaking a round of strategic planning. We will be continuing those conversations with the minister around any future move we may make into that space.

Dr M.D. NAHAN: It is all very interesting. We can read the magazines on this subject and many people are experimenting on different webs and how they interact, and the pricing arrangements and who funds it and how it is transferrable, and then this digital revolution in terms of communication in management has come in at the same time. This is one of these disruptive technologies par excellence that we are trying to come to grips with and, at the same time, we have this large, expensive old fleet of generators out there that we have to make a quid off.

Mr F.M. LOGAN: Speaking of expensive old fleets, why has the sale of Muja AB been deferred to June 2017? Is it because nobody will take it off the government's hands?

Dr M.D. NAHAN: We still have a policy of selling at least part of the Muja AB joint venture. It has been under a good deal of operation lately. Perhaps I can get Mr Waters to explain.

Mr F.M. LOGAN: He can probably explain if it is paying for itself.

Dr M.D. NAHAN: It is.

Mr J. Waters: Muja AB has been operating well and we have been pleased with its availability. It is profitable. From my perspective the main reason that would drive the delay of the sale is that the electricity market is currently under review. Whenever we undertake asset transactions in a space like that we want to be sure that we do it in a market that is set and stable. The decision to defer the sale was to give us more time to get key settings in place around the electricity market.

Mr F.M. LOGAN: Given what the minister just said and the discussion about disruptive technology available through the battery issue, would it not be better to move the sale of an asset like this as quickly as possible to get whatever return possible?

Dr M.D. NAHAN: No. We are committed to going to cost reflectivity, getting the tap down to zero and allowing for competition. People will enter into the market and they will want a portfolio of generating sources. Some of them will perhaps be new to the market, some may expand into the market and some will want a mix of gas and coal sources.

A limited number of generators use coal. Coal baseload is still the cheapest; it is still there and it will remain. For a variety of reasons someone might want to buy that asset, but they will want to know that they can go into an expanded market that includes a contestable market as it stands now and expand the non-contestable market as it stands now. Once the market is down, the subsidy will go down and there will be competition in the contestable market—there will be a bevy of players—and we are confident that the price of the asset will go up. It will be a different story whether we recoup the asset.

[9.10 pm]

Mr W.J. JOHNSTON: The 2013–14 annual report of the then Verve showed all the payables from Vinalco Pty Ltd to Verve Energy. I assume that it was getting its coal on spec and paying for it later. However, in the 2014–15 annual report, Vinalco is not separately accounted for, but there are two columns in the report: one that shows the parent entity, which I assume is the company itself, that being the new Synergy; and the second column being the group, which I assume is the then Vinalco subsidiary along with the parent company. I make that assumption based on what we used to do in the Labor Party to a much smaller degree, but it was very similar. It is not easy now to find how much is payable from Vinalco to Verve. I think it was about $145 million as at 30 June 2013. How much does Vinalco now owe Verve? If it is not possible to get that information now, can we have that by supplementary information?

Mr K. Matacz: At the moment there is an arrangement between Vinalco and Synergy in terms of the payment of the receivables that are due to Synergy from Vinalco. At the beginning of the financial year the amount payable was about $130 million. Vinalco pays that on a monthly basis as its cash flows allow. We expect that the majority of that amount will be paid over the following years.

Mr W.J. JOHNSTON: Further on the issue of Muja AB and Vinalco, again it was shown that about $76 million was written off in the 2013–14 annual report when Synergy took over the entity and integrated it into the company. Has any of that writedown been recovered yet from the Vinalco operation?

Dr M.D. NAHAN: An impairment was taken two years ago and it was continued. Synergy made a decision, I have been told—it was not me, of course—and it will report in the annual report whether that impairment will be removed in full. As a result, there has been an increase in the value of the asset in the books. Maybe Mr Waters can explain.

Mr J. Waters: That is subject to the closure of the current set of accounts. We have a view at the moment, with a couple of years' operating history, that we are more confident in our ability, as we are required to each year, to make a more accurate re-evaluation of the facility. Part of that is likely to include the reversal of the impairment that was taken at the point in time the member for Cannington referred to.

Mr W.J. JOHNSTON: That issue of the impairment was not specifically reported in the 2013–14 annual report, but will Synergy go back to reporting it again in the 2015–16 annual report?

Dr M.D. NAHAN: No; in 2012–13 it took an impairment, as the member stated. It had a discussion about it in 2013–14 and it continued with the impairment. Now in 2014–15, it is going to remove the impairment at the advice of the auditors.

Mr J. Waters: The structure of the accounting will be per the most recent report.

Mr W.J. JOHNSTON: How is Synergy going with the Economic Regulation Authority investigation into price gouging by Vinalco?

Dr M.D. NAHAN: Let us put this matter in accurate terms—it is not "price gouging". The ERA inquired into Synergy's pricing arrangements when there was an impairment on a transformer that required Muja AB to operate extensively for a long period of time. There was an inquiry into whether or not Synergy priced according to the rules. Maybe Mr Walters can expand on that further.

Mr J. Waters: Last year Western Power's Muja AB units were constrained into service for a lengthy period of time due to some transformer issues. At that point in time some difficulties were encountered with the way the market rules operated in regard to units that were constrained on and that required a difficult level of analysis to be taken within a short period of time by the Muja AB team to establish a price that enabled it to reflect fair payment for the service it was providing. Without going into any detail, the wash-up of that is that a review has been undertaken by the ERA into whether or not that pricing approach taken by the Muja AB team was fair and appropriate, and we are awaiting an outcome on that.

Dr G.G. JACOBS: I want to ask a question around transmission and an issue on which I have spoken to the minister before concerning the long feeder lines to places on the edge of the south west interconnected system grid, particularly places like Ravensthorpe and Kalgoorlie. We have seen how much is spent on transmission lines when improving capacity to, for instance, Kalgoorlie and how much is spent on transmission lines to, for instance, Ravensthorpe when there are significant reliability issues. I do not envy the minister this, but I would like him to show me some way of working through this, considering the traditional power source versus some of the disruptive technologies and independent sources that can produce stand-alone generation units for those places on the edges of the grid. How are decisions made on spending a lot of money to try to upgrade a 20-kilometre feeder line for a source at the end that is fairly small, in particular Ravensthorpe, and when can that be cut and when can we say that that is a bad spend on transmission and we have got to look at some independent sources so those places can have reliable power, the capacity they need, independent of the grid with the reliability that is needed?

Dr M.D. NAHAN: It is one of our most difficult questions and, again, it relates to whether Western Power is the regulated poles and wires or is the generator—that is, Synergy or, in Esperance, Horizon. It is a mixture. We are getting hit with a revolution of technical opportunities other than the grid—the traditional network systems. It is in its infancy but it is getting to the, let me say, toddler stage, and it will grow quickly.

There are regulatory problems with this and decisions have to be made. Let us say there is a spur from Esperance out to some of the farms and someone wants to get off the grid. They are willing to give up the grid altogether, but are their neighbours? There is a lot of regulation of networks around here. Then there are issues about trade-offs between price and safety and security and reliability. In terms of decision-making and regulation, these things are still evolving. Western Australia probably has it worse than most places because of the extensive nature and thinness of our grid, but it is a very common factor. We have not resolved this yet. We had a debate earlier about who should be in Alkimos—Western Power or Synergy? Is it a networking alternative or generating? Those are institutional issues we have to decide but also regulatory issues. It is very difficult. One reason we are going to the Australian Energy Regulator is to participate in the debate over there, which is the same. Queensland, New South Wales and South Australia have the same issues that Western Australia has.

[9.20 pm]

Mr W.J. JOHNSTON: I want to know whether Synergy is selling electricity into the contestable market at below cost. I understand that this time last year it was.

Dr M.D. NAHAN: Below cost —

Mr W.J. JOHNSTON: Into the contestable market.

Dr M.D. NAHAN: In the contestable market, no, it is not. It is losing market share. Market share has gone right down. Maybe Mr Waters can talk about that. It is not something one brags about usually but it is the reality!

Mr J. Waters: Competition in the contestable market is ferocious. I would have to say that 12 months post-merger one of the key things that we have had to work on, to understand and learn about this new business that we brought together, was exactly what our cost structures are and exactly what is market price. I guess across the full book of contracts there are always contracts that, at various times, are in and out of the money—old legacy contracts and newer contracts—but generally speaking the way we price today is at the market competitive price. There are a number of retailers competing hard for customer share in that space. That result is, I guess, played out in terms of the market share we currently have, which is in the 30 to 40 per cent range.

Mr W.J. JOHNSTON: There are many reports that the price in the contestable market has drifted up notwithstanding that Synergy is losing market share so that the bottom is closer to the top in the pricing in the contestable market. Is that something that is true of Synergy’s contract profile as well?

Mr J. Waters: I might ask Geoff Roberts to answer this. My sense is that prices in the contestable market have actually continued to fall over the last 12 months.

Mr W.J. JOHNSTON: Could I make it clear what I am saying: the gap between the highest and the lowest has narrowed.

Dr M.D. NAHAN: My understanding is yes, it has. Both of them in parallel have gone lower. That has been driven because of our excess capacity in the market. Synergy has most of that excess capacity either directly or indirectly. It has minimum take contracts and is putting electricity into the balancing market and drawing the price low. Its competitors are buying that in a balancing market short term and competing very effectively with Synergy.

Mr W.J. JOHNSTON: I thought there was going to be a more detailed response.

Dr M.D. NAHAN: Mr Roberts.

Mr G. Roberts: To add to that, I can talk from the actual customer contract perspective. Certainly, market share for retail has continued to fall over the last 12 months. I have not seen anything except a continual decline in customer prices. I certainly have not seen that turn around recently.

Dr G.G. JACOBS: As an alternative to power generation, could I just touch on solar thermal generation. There is certain interest in a solar thermal plant at the Mungari Industrial Park out of Coolgardie. Considering the capacity increases required in Kalgoorlie into the future, if the price of gold holds up and iron ore improves, this improved capacity could be met by renewable energy technology such as solar thermal. It is interesting to note that the federal government has now settled on a renewable energy target and the advice to me from various people, who know much more about it than I do, is that by 2020 there could be a requirement for somewhere in the vicinity of 400 megawatts of power generated by renewables. Since we are pretty much well served by wind-driven turbines and wind generation renewables, what would be the minister's view and Synergy's view on the market for renewable energy from a solar thermal plant supplying the capacity of Kalgoorlie into the future?

Dr M.D. NAHAN: An agreement has been thrashed out at the commonwealth level for the Large-scale Renewable Energy Target. Synergy will be required to purchase the required amount according to the amount of electricity generated. Those are chits if you wish. They are determined on a national basis, not on a state basis. There is a whole pile of requirements. It will go out and meet its requirement in terms of buying renewable energy units, whatever they are, I forget the term. The second question was whether we can buy those in the market now. In fact, we have to. Sometimes increments do not allow us to underwrite a new one. We will try to pursue those at the lowest price possible. Our objective is to remove the subsidy and keep electricity prices low. At the same time we meet our obligations for renewable energy and recognise the real challenge is not the large scale, it is the small scale that are growing very economically and competitively and really do not require any subsidy. We are going to get a very large increase in renewable energy by photovoltaic. It is already 450 megawatts of installed capacity in the metro area alone. We expect it to be 1 000 megawatts in five years; larger than the Muja plant. We will get a large increase in renewable energy going forward. Whether Synergy underwrites a solar thermal, I guess it depends on the cost of that relative to other alternative renewable energy options. There is the issue of constrained capacity in Kalgoorlie. I might add there are a number of competitors out there, including base load renewables for waste energy plants, whether that is municipal waste or wood waste. There is a lot of competition out there. Those other waste renewables have another advantage, that is their base load potentially, and so is solar thermal.

Dr G.G. JACOBS: Because of the renewable energy targets, it would seem reasonable to expect that Synergy would be in the market for renewable electrons from sources such as a solar thermal plant.

Dr M.D. NAHAN: It will be in the market for renewable energy. The member would have to talk to his constituents, and make sure they are cost competitive. There is a whole range of technologies out there and a whole range of sources.

Dr G.G. JACOBS: It could be said that there is downward pressure on the cost of production of those renewable electrons, with this technology.

Dr M.D. NAHAN: Yes.

[9.30 pm]

Mr W.J. JOHNSTON: I note Mr Waters' comments this time last year in response to the member for Willagee's questions on gender equity at the board level and throughout the executive. I specifically note his statement "a 50 per cent target in our leadership group within a window of, say, two to three years," that is, the target for the number of women. I wonder how that is going and what the current split is and whether he will meet his target.

Dr M.D. NAHAN: We made some changes at the board level. We have two women on the board of Synergy. I might add that one of the things I am launching this week is not just gender equity but ethnic equity to encourage culturally and linguistically diverse community representatives on boards. We do not have any of that in Synergy yet. As to the management structure, I defer to Mr Waters.

The CHAIRMAN: Time has expired, unfortunately.