

**STANDING COMMITTEE ON  
ESTIMATES AND FINANCIAL OPERATIONS**

**2012–13 BUDGET ESTIMATES HEARINGS**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
FRIDAY, 3 AUGUST 2012**

**SESSION THREE  
SYNERGY**

**Members**

**Hon Giz Watson (Chair)  
Hon Philip Gardiner (Deputy Chair)  
Hon Liz Behjat  
Hon Ken Travers  
Hon Ljiljanna Ravlich**

---

**Hearing commenced at 1.37 pm**

**Hon PETER COLLIER**

**Minister for Energy, examined:**

**Mr TREVOR JAMES**

**Chief Executive Officer, sworn and examined:**

**Mr MICHAEL SMITH**

**Chairman, sworn and examined:**

**Mr WILLIAM BARGMANN**

**Acting General Manager, Retail, sworn and examined:**

**Mr SIMON MIDDLETON**

**Manager, Business Development, sworn and examined:**

**Mr KARL MATA CZ**

**Chief Financial Officer, sworn and examined:**

**Mr SIMON THACKRAY**

**Manager, Retail Regulation and Compliance, sworn and examined:**

**The DEPUTY CHAIR:** On behalf of the Legislative Council estimates and financial operations committee, welcome to today's hearing and especially to my old colleague Mike Smith. Before we begin, I must ask public servants to take either the oath or affirmation and/or members of the board take the oath or affirmation. If you prefer to take the oath, please place your hand on the Bible in front of you.

[Witnesses took the oath or affirmation.]

**The DEPUTY CHAIR:** You will have signed a document entitled "Information for Witnesses". Have you read and understood that document?

**The Witnesses:** Yes.

**The DEPUTY CHAIR:** This hearing is being held in public, although there is discretion available to the committee to hear evidence in private either of its own motion or at the witnesses' request. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session before answering the question. Government agencies and departments and boards of public utilities have an important role and duty in assisting Parliament to scrutinise the budget papers on behalf of the people of Western Australia, and we value that assistance.

These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. It will greatly assist Hansard if, when referring to the budget statement volumes or the consolidated account estimates, members give the page number, item, program, amount and so on in preface to their questions. If supplementary information is to be provided, I ask your cooperation in ensuring that it is delivered to the committee's clerk within 10 working days of receipt of the questions. Should you be unable to meet this deadline, please advise the committee's clerk immediately. The committee reminds any agency representatives to respond to questions in a succinct manner and to limit the extent of personal observations. For the benefit of members and

---

Hansard, I ask the minister to introduce advisers to the committee and for each adviser to please state their full name, contact address and the capacity in which they appear before the committee.

[Witnesses introduced.]

**Hon LJILJANNA RAVLICH:** I refer the minister to page 596, which is the only page for Synergy. I refer specifically to works in progress and specifically in relation to the customer information and billing system. Can you give us a progress report of where we are at with that billing system?

**Hon PETER COLLIER:** Sure. The implementation of the billing system?

**Hon LJILJANNA RAVLICH:** Yes.

**Hon PETER COLLIER:** Absolutely. I will actually ask Mr James to comment on where we are at. As I understand, it is pretty much rolled out. It will continue to evolve over the next year or two. But perhaps Mr James could give us a detailed understanding.

**Mr James:** Yes. Thanks for the question. The billing system is an SAP platform. It was put in place in 2007, with the support of Accenture, the consultants who work with us. It was a two-year process to implement it. It replaced an old COBOL system that we had built in-house in 1994.

**The DEPUTY CHAIR:** COBOL?

**Mr James:** COBOL, yes; that is right. Hence why we had to replace the system, because it was getting hard to find COBOL programs to replace it. The original system was a system built for the old franchise regulatory-type sort of market we had back in 1994. With 2006 moving into new market dynamics, we needed a new system to replace it, and we used the SAP system, as I said. I guess our learnings from that have been that building a system is one thing; going live is another thing. What we found is once you start to tailor some of these systems and make changes to them to suit your unique market, you create a different risk profile than if you just take it off the shelf and put it in place. Our learnings were that once we got to go live, there was still some post-implementation work to settle down the system, and that is why it has taken us a further two years to settle it down. But I can say now that we have stabilised the system and it is now operating as it should do. We are sending accounts out on time and we are able to respond to customers' inquiries as we would expect to. The minister is quite right, though. With these systems, you are constantly making changes as you create new products and new services and as you respond to tariff changes and all those sorts of things, but we have got it stabilised.

**Hon LJILJANNA RAVLICH:** Can I just ask: can you explain how this system, which originally had a budget of some \$38.5 million, has ended up costing almost \$100 million? How come the blow-out is of such a magnitude?

**Mr James:** Certainly, we are not happy or comfortable with the fact that it did cost a lot more than was planned. Sadly, it is similar to experiences that other utilities have had around the world in that, as I have said, once you go live, because you have tailored or configured the system to suit your market, there is a lot of change that happens, and that changes the risk profile. So the extra costs were around, firstly, we had to delay two months going live, so the old system ran for an extra two months; secondly, managing the post-implementation to stabilise the system; and, thirdly, the remedial fixes we had to put into the system to stabilise it. It is a case of stabilising the system after us going live took a lot longer and was a lot more difficult than we anticipated, but it is consistent with other utilities.

**Hon LJILJANNA RAVLICH:** Can I just ask you then: what due diligence did you do in terms of this particular provider and the experience in other jurisdictions? Or maybe that is a better question to be directed to you, minister, because here we have a \$100 million blow-out and we also have six —

**Hon PETER COLLIER:** It is not a \$100 million blow-out.

**Hon LJILJANNA RAVLICH:** Okay; it has more than doubled.

**Hon PETER COLLIER:** It is \$50 million.

**Hon LJILJANNA RAVLICH:** We have seen with the solar panels that the taxpayer now has a bill for \$600 million over 10 years, so —

**Hon PETER COLLIER:** No, you have the wrong figure there.

**Hon LJILJANNA RAVLICH:** That is the latest lot of figures reported in the media. The point is that you seem to have a history of leaving a trail of debt and destruction behind you which is left for the taxpayer to clean up.

**Hon PETER COLLIER:** Do you have a question?

**Hon LJILJANNA RAVLICH:** Yes, I do.

**The DEPUTY CHAIR:** Wait a minute; Hon Ljiljanna Ravlich, to the question, please.

**Hon LJILJANNA RAVLICH:** I want to know what due diligence was done by Verve—sorry, Synergy—in relation to if this had been the experience in other jurisdictions where these troubles had been experienced in terms of setting up this system, how did you finally satisfy yourself that this was the choice of provider?

**Mr Smith:** If you like, I would be happy to give you an answer.

**Hon LJILJANNA RAVLICH:** Well, through the minister.

**Hon PETER COLLIER:** By all means. It is obviously an operational issue with regard to a billing system.

**Hon LJILJANNA RAVLICH:** Sorry, it is taxpayers' money —

**Hon PETER COLLIER:** Can I answer the question? The billing system was ticked off by Fran Logan in the previous government. As a result of issues and pressures with regard to the implementation of that billing system, which Mr James has just articulated, there was an increase in the cost of the billing system. He stated that. You cannot do anything about it; certainly, I am not happy about it and I know Mr James is not happy about it, and I know Mr Smith is not happy about it, but the simple fact of the matter is that that is a component of the introduction of any billing system. You have a million customers and a very profoundly complex billing system structure, with constant changes with tariffs et cetera, and it is going to put pressure on that system. If you are talking about due diligence and the operational component of the implementation of that, I will ask the chairman of the board, which is only appropriate, to make comment.

**Mr Smith:** Thank you. I am answering the question because I think it is a very good question and I think the board has to accept some responsibility for the governance of it. I have been chairman since the start, so I wear responsibility for this from start to finish. We were very worried when this came up. The reason we were very worried is that we were moving from an environment where an old system with not much to do, very simple, had to go to a very complex new system with an executive and an organisation which was part of disaggregation so almost by definition, they had never done this before. Everywhere that I have been associated with a large IT installation has been uncomfortable at best. We therefore felt that we needed to invest heavily in making sure that we did this, if you like, with the best advice we could and the best ongoing support that we could, as much as anything because it would have been completely unfair to impose it on a management team that had had limited experience in this. Accenture won an extensive tender process, as much as anything else because of their experience internationally in this space, and you are quite right to point to the issue and to some extent I think I could end up agreeing with you here. The other thing we did was we appointed Deloitte in their local office to, again, assist in the project management of the contracting. We also made a third appointment. We appointed as a consultant a German gentleman who had specialist expertise in running SAP installations, since that is what it turned up. They were

all procured competitively. We had a specialist subcommittee oversighting it, and we had a project approach that said we would get a storm, which was their expression for, “This won’t go as we expect at the end”, and by and large, it ran as we expected until we started to make alterations to it. The alterations that were made to the system—which was incredibly complex, with a million customers and different rate levels and things like that—were not done as well as they should have been, and that, if you like, created a series of problems which then meant that our customers were inconvenienced and the board made a decision, with government support, to, if you like, invest more aggressively than I would have commercially in another environment, to fix those customer problems. So there was the rework. The bit that I am disappointed and embarrassed about is at a multiple level, but the thing I am most disappointed about is that the level of issues that we ended up getting from the implementation of this system were not abnormal. We did not tell our minister at the time, we did not tell the government and we did not tell our customers because we did not know. In other words, the reason we appointed internationally experienced and skilled people to assist us in this regard was to make sure that we had the best advice we possibly could. As a consequence, with the benefit of hindsight, we could have unquestionably done this better, but I think, to a large extent, a number of the problems were always going to happen and it was sort of a failure to warn people to properly resource ourselves around it. I really think we have learnt a lot from it and we are through it now, but that is my honest view of why we ended up where we ended up.

**Hon LJILJANNA RAVLICH:** Can I just ask you, in terms of householders, there would have been householders who would have received extraordinary power bills or spikes in their power bills that they may not have been able to understand. I remember standing up in Parliament on numerous occasions, asking questions of the minister in relation to one of my constituents, and the minister kept assuring me that the billing system was okay. Those householders who may have paid over and above what they would normally have paid due to billing system errors, were they ever compensated for being out of pocket and was there any attempt by the agency to actually establish how many of them were out there and what the bill might have been to the agency had the agency tried to make good their out-of-pocket expenses?

**Hon PETER COLLIER:** Can I just answer first of all that the gentleman you referred to I am aware of, and there was an issue with that gentleman. I rang him myself and Synergy —

**Hon LJILJANNA RAVLICH:** Yes —

**Hon PETER COLLIER:** I am answering your question. In regard to Synergy itself, Synergy always made recompense whenever somebody was ill-affected —

**Hon LJILJANNA RAVLICH:** Do you know how many, out of —

**Hon PETER COLLIER:** Can you just let me finish? Ill affected by a particular issue with regard to a bill. That is the same with this billing system or any billing system. Synergy is an extremely professional utility, and they will make sure—if you have specific instances whereby perhaps clients or customers have —

**Hon LJILJANNA RAVLICH:** No, I am asking, minister: how many customers were out of pocket as a result of billing system errors across the state; that is what I am asking, not about one individual. Did the agency make any effort whatsoever to find out how many people across the state were out of pocket as a result of those errors, and was the agency taking any active action to compensate those people for being out of pocket?

**Hon PETER COLLIER:** And I am trying to answer that question, which I heard the first time. As I said, Synergy has no problems in terms of making sure that anyone who is out of pocket as a result of an issue with their bill will be recompensed. With regard to specific examples of that, I will ask Mr James to make comment, or perhaps one of the other gentlemen.

---

**Hon LJILJANNA RAVLICH:** I do not want to specific examples, minister, I want an answer to my question.

**Hon PETER COLLIER:** I am asking for the numbers. Have a Bex and a lie down!

**Mr James:** As a general rule, somebody will contact us and say that their account is wrong —

**Hon LJILJANNA RAVLICH:** No, that is not my question. My question was: did the agency, at any point, endeavour to find out how many Western Australians across the state were out of pocket as a result of billing errors through the introduction of this new system?

**Mr James:** We had processes in place to identify where billing errors had occurred, and where they had occurred they were fixed and the customer was either repaid or we made arrangements for them to pay if they were unable to pay but the number was right. It was a process that we went through for every customer that was affected.

**The DEPUTY CHAIR:** I think the question was really: how many did you identify?

**Mr James:** I would have to take the number on notice; I do not have that number.

**Hon LJILJANNA RAVLICH:** Can you provide that answer on notice: the total number and the total amount that was paid out by the agency as compensation to those customers?

*[Supplementary Information No C1.]*

**Hon LIZ BEHJAT:** I refer to budget paper No 3, page 327. Table 8.1 shows the impact of the changes in state government tariffs, fees and charges on the representative household in 2012–13. There we see there is a whole range of things that impact on the standard household: motor vehicles, utility charges, public transport, emergency services levy. If we go to the assumptions we have used to model this impact, it says that the average household, the representative household consumes 5 801 kilowatt hours of electricity per annum, based on the forecast 2011 average level of consumption for a household, which has been provided by Synergy. What I am wanting to know, though: do you actually have any figures that would show the changes in that kilowatt consumption figure from previous years—say, the previous five years to that, perhaps?

**Hon PETER COLLIER:** That is a good question; I think Hon Giz Watson alluded to this in the previous hearing. It is close to 6 000 kilowatt hours, which is correct. We in Western Australia have notoriously been energy guzzlers, and as a result of the wrong messages that have been sent through to the community, the fact that we have not had an electricity increase for years in itself made —

**Hon KATE DOUST:** Let us not go down that path, minister.

**Hon PETER COLLIER:** I am just saying that happened for years; I did not mention any government. That had a significant impact in terms of consumption. The price messages were all wrong. The fact is that we were saying that electricity is relatively cheap, and so consumption levels continued to increase. We had the second fridges, the two or three plasmas and computers et cetera, so all the wrong messages were there. As a result of that consumption increased. Around 90 per cent of those in the south west interconnected system now have air conditioners. There is nothing wrong with that; that is entirely understandable, but I am saying that we have been notorious electricity guzzlers. Yes, without a doubt, electricity tariffs have had an impact and they are making people think more pragmatically about their electricity use, and I would imagine that that has not had a significant increase. I am very comfortable that the Switch the Future campaign has been very successful and helping to change consumption habits as well. In terms of actual reduction—because there has been a reduction in demand—I will perhaps ask Mr James to give us some idea, because I know there has been a change in demand in recent years.

**Mr James:** It is a very good question. I have been in this industry a long time, and one of the easy things to predict in our industry has been that residential growth tends to grow at around two-odd per cent per annum; that has been the normal trend. If we look back to 1996, average household

consumption was around 4 600 in round numbers, and it peaked at around 6 400 in 2010, so we have seen roughly a two per cent increase year-on-year, initially driven by reverse cycle air conditioning, particularly in the 90s when the Koreans were dropping very cheap reverse cycle air conditioning units on the market. We saw rapid growth of just over two per cent per annum. Over 15 years that has increased by just over 30 per cent, but for the first time that I can recall, we have actually seen a significant drop. We have seen consumption drop from 6 400 to 5 800 kilowatts in the year just finished driven, as the minister said, firstly by solar PVs and secondly by the fact that people are responding to the price increases and general community awareness about improving the environment. So we have seen that drop for the first time that I can recall.

[2.00 pm]

**Hon ALISON XAMON:** Minister, what role does the Coordinator of Energy play in deciding, reviewing or approving the premiums for Synergy's GreenPower products?

**Hon PETER COLLIER:** Do you mean the Coordinator of Energy?

**Hon ALISON XAMON:** Yes. I have a series of questions to get an idea of who plays what role. I want to know what role the Coordinator of Energy plays in approving the premiums of Synergy's GreenPower product.

**Hon PETER COLLIER:** Synergy works, evidently, with the Office of Energy in a general sense.

**Mr Thackray:** In terms of the renewable energy buyback scheme buyback rates, the Coordinator of Energy is responsible for approving that, so the coordinator approves the terms and conditions, including the price for the buyback rate.

**Hon ALISON XAMON:** That is the REBS. What about the GreenPower products such as EarthFriendly, NaturalPower and EasyGreen.

**Mr Thackray:** That goes through the state budget process.

**Hon ALISON XAMON:** In that case, what role, minister, do you play in deciding, reviewing or approving the premiums for those products? I am not asking about the REBS; for clarification, minister, I am asking about specifically EarthFriendly, NaturalPower and EasyGreen.

**Hon PETER COLLIER:** Do you mean the actual rate?

**Hon ALISON XAMON:** Yes.

**Hon PETER COLLIER:** Treasury will make the determination.

**Mr James:** The NaturalPower rate is based, firstly, on the A1 residential tariff. Added to that is the cost of buying a renewable energy certificate because the product is about a person paying what the equivalent renewable energy certificate is, so we can buy them in the wholesale market to stimulate renewable energy in the wholesale market. We value the REC based on the market price and add that to the A1 tariff.

**Hon ALISON XAMON:** I am trying to break down the various elements in terms of who is making the decision.

**Mr James:** The government makes the decision on the A1 tariff.

**Hon PETER COLLIER:** That is a budget decision based on the cost stack and what we see is an appropriate increase to narrow the gap to cost reflectivity.

**Hon ALISON XAMON:** I am trying to get to the bottom of who determines the additional cost once we have dealt with the A1 tariff. Sorry, minister, if you do not mind, can I also find out what role the Synergy board plays in that decision?

**Hon LIZ BEHJAT:** Is that on the GreenPower products?

**Hon ALISON XAMON:** Yes.

---

**Hon LIZ BEHJAT:** I would also like to know what impact the carbon tax is having on GreenPower products.

**Hon ALISON XAMON:** I have a series of questions. The first thing I am trying to do is get to the bottom of that decision-making process.

**Hon PETER COLLIER:** As I said, the government is responsible for the A1 tariffs—the tariffs overall—and Synergy will determine the GreenPower projects et cetera.

**Hon ALISON XAMON:** Synergy determines the price, so specifically is it the board of Synergy that makes that decision?

**Mr James:** As part of developing the state budget forecast, management includes the forecasts or the pricing requirements for those sorts of products and incorporated in the overall budget that is approved by the board and then goes into the Treasury system.

**Hon ALISON XAMON:** The board makes the initial recommendation and, ultimately, minister, you could play a role then in determining that final figure? Is that correct because it goes through the Treasury process?

**Hon PETER COLLIER:** Not with GreenPower. Ultimately, I guess, yes. We determine the actual tariff. The determination of the rate for the GreenPower et cetera is done through Synergy. Synergy determines that rate.

**Hon ALISON XAMON:** In determining what the cost of that will be, does the buck stop with the board of Synergy?

**Mr James:** These are products that are outside the regulated process; they are products that Synergy offers the market, so Synergy takes responsibility for pricing them.

**Hon ALISON XAMON:** Thank you. On the day that the carbon price began, GreenPower purchasers were also hit with that cost. I note that GreenPower premiums were reduced a little but not enough to cover the full carbon price impact, so can the minister please explain on what basis those premiums were reduced? Specifically, I am after what methodology was used to reduce that premium and to determine that amount by which it was reduced.

**Hon PETER COLLIER:** The carbon tax is based on the overall tariff I have to say, including GreenPower but not exclusively GreenPower, obviously. I will ask Mr James to comment on the formula.

**Mr James:** The basic formula is A1 residential tariff and, as I said, we add the value or the costs of the REC, which is coming down, so that is why you see a smaller premium in the most recent one. It is still the same formula; the A1 tariff, as it moves from time to time, plus the cost of the renewable energy certificate.

**Hon ALISON XAMON:** Why was the reduction in premiums not equal to the carbon price?

**Mr James:** I guess all I can say is that we have an imperfect market. In a perfect market, you would expect as the costs of energy go up and get closer to renewable energy, the premium would come down. In a perfect market you would see an offset, but we have an imperfect market.

**Hon ALISON XAMON:** What do you mean we do not have a perfect market?

**Mr James:** The \$23 a tonne is not a market; it is a tax on generators, which comes through in the cost stack to us. It is not something that is being traded on the market and being valued by the market, whereas the renewable energy certificates are traded on the market, and there is a separate market for them.

**Hon ALISON XAMON:** For many years these have been marketed as renewable energy; in some instances 100 per cent renewable energy. I am trying to figure out why you would not on that particular part of it take away the full cost of the carbon price.

---



**Mr James:** Every household gets the same energy mix.

**Hon ALISON XAMON:** I am aware of that.

**Mr James:** Under the carbon tax legislation we have to apply that to every household that gets a blended form of energy, which is a blend of coal, gas and electricity. We have to apply it across the whole board but then we adjust the premium for what the market is valuing the renewable energy certificate.

**Hon ALISON XAMON:** I do not understand why the premiums were not reduced by the same amount per unit as the carbon cost was calculated and added to the A1 tariff.

**Mr James:** I will ask Mr Middleton to clarify how that market operates.

**Mr Middleton:** The cost of renewable energy in the market is determined broadly in line with the Australian Financial Markets Association curve and that price varies from week to week, so there is that gap between the A1 tariff and carbon and then the amount on top, because, with renewables, it obviously varies from time to time, so it is true to say that on a time-to-time basis, because that gap changes, one would not necessarily expect it to reduce perfectly in line with the amount added for carbon because it is a dynamic price.

**Hon ALISON XAMON:** Does that mean that the recent reduction in the costs per unit for both premiums accurately reflects the decrease to the cost to Synergy of purchasing the RECs?

**Mr Middleton:** Yes; the price of renewables is updated from time to time and it reflects a longer running price that we price. We obviously do not change the price day-to-day in terms of what we charge customers, but when that adjustment was made it reflected the medium-term change to the price of the RECs.

**Hon ALISON XAMON:** Are you anticipating that the cost of that will be dropping forever?

**Mr Smith:** That will be determined by market forces and market circumstance, so I cannot comment whether that price will be driven down or up. But we will obviously be pricing as a function of those market pressures.

**Hon ALISON XAMON:** Minister, maybe I do not —

**Hon PETER COLLIER:** The chairman would like to make a comment.

**Mr Smith:** From the board's perspective, you are quite right to say the board does have a role. We are very uncomfortable with this. I absolutely understand where you are going and I think we would all agree with you. The dynamic of it is that this is a business turning over \$2.5-plus billion at a knife-edge margin. As a consequence, one of the things we have to do is buy energy very long, but we can sell it only very short. As Mr Gardiner would understand, there is no visible forward price curve and no ability to hedge. We are financially as a board very exposed. We cannot do much better to management than say we want the best possible outcome to our customers but it has to be what it costs. It is not likely to make any significant margin out of it at all. I think the outcome for customers is so compromised and confused now, given the implications of a carbon price on the top of it, I wish all our customers would stop buying it. We could come up with something afresh to address their need to want to support natural power.

**Hon ALISON XAMON:** Can you clarify what you mean by you wish all our customers would stop buying it?

**Mr Smith:** I think, like many of us who have been interested in supporting natural power, we would ideally like to say, the only thing I want to pay for and the only thing I want to get is natural power. That is not possible. We have ended up living with a compromise on a compromise, so what comes out of the plug hole, the output, is a blended product. We cannot avoid a carbon price being attached to that.

---

**Hon ALISON XAMON:** With respect, I do not think any of the GreenPower customers are under any delusion that electricity going to their houses is coming only from renewable sources.

**Mr Smith:** I am not suggesting they are.

**Hon ALISON XAMON:** I am glad.

**Mr Smith:** Of course. The important point is that a carbon price is attached to it that has to be paid due to the blend.

**Hon ALISON XAMON:** I certainly understand that there is a carbon tax attached —

**Mr Smith:** I do not think we are in an argument here.

**Hon ALISON XAMON:** — in terms of coal power energy. As I understand it what GreenPower customers—I am using that term broadly to cover all three schemes—want is to try to make sense of why they have been charged even a portion of the carbon tax on top of the premium they have already been paying in many instances for years in order to ensure that we have some sort of renewable energy within this state.

**Mr Smith:** We agree with you.

**Hon ALISON XAMON:** It is nice to be agreed with. What would be even nicer would be if GreenPower customers were not being charged for something that it does not seem logical that they should be getting charged for at all.

**Mr Smith:** We agree with that too. What we are looking for is a mechanic to be able to do that. If you or anyone else has suggestions—we have pressed management very hard—we would love to have a solution to this. We would like it to be elegant and clean. We greatly regret finding ourselves in the circumstance because of the thin margin and the fact that the tax or the prices are applied against a blend regardless of what you do with the input. It is confused. I do not think it is as good product. We have given all the customers the ability to opt out if they do not want it. We try to support renewable energy and spend a lot of money doing it. I am trying to say to you that if you think this is confused, we agree with you and we are very keen to find a better solution.

**The DEPUTY CHAIR:** I think, in a way, the challenge has come back to us.

**Hon ALISON XAMON:** I do not hear that at all.

**The DEPUTY CHAIR:** I certainly hear that. I think there is a commitment to your question.

**Hon ALISON XAMON:** I am so sorry, Chair; I could not disagree more. It sounds to me then you are very sorry, or the board—I do not want to personalise it, sorry—recognises the unfortunate situation GreenPower customers have found themselves in. But I suppose I am concerned that the board seems to be taking the view that the best way to move forward is to effectively make sure those schemes are no longer in existence, which is what I am actually hearing.

**Mr Smith:** No; I did not say that.

**Hon ALISON XAMON:** You are talking about it being preferable for the customers to opt out of these schemes. I am one of these customers, by the way. Although I also have PV on my roof, minister, you will be pleased to know.

**Hon PETER COLLIER:** Good to hear.

**Mr Smith:** I am trying to say that I wish there was a better product. I wish there was a better solution. In other words, for us to find a way to accommodate your desire to pay for and receive—the last part is completely impractical—100 per cent natural power. I am not seeking for customers to drop it and give up on renewable energy. Synergy has spent a vast amount of money investing in renewables and has been aggressive about it, with everyone's support. The legislation and regulation around this has made it impossible to date for us to find a solution that we are happy with. I am saying that this product is now such a disappointment, if you want to stop supporting it,

we would completely understand and there would be no impediment. We would be profoundly disappointed if we could not offer you a better, more efficient way of supporting renewable energy. Rather than trying to extend this compromise on a compromise, which is now an unholy mess that none of us in this room would like, we are trying to find a better solution to deal with the problem. To be frank, we do not have one yet.

**Hon KEN TRAVERS:** For everyone on the GreenPower product, do you buy a REC?

**Hon PETER COLLIER:** Yes.

**Hon KEN TRAVERS:** On top of that are you buying GreenPower from the providers of GreenPower? Are you sourcing GreenPower from GreenPower providers?

**Mr Smith:** It is, in effect, the same.

**Mr James:** The system has renewable and normal, traditional energy and it is all being put into a system. Every REC you want us to buy, we buy it, and that helps generate a larger renewable power station.

[2.15 pm]

**Hon KEN TRAVERS:** When you buy power from a wind farm, are you buying the power or are you buying the REC?

**Mr James:** Both.

**Hon KEN TRAVERS:** What price do you pay for the power when you buy it from a GreenPower provider? Is it the same price you would pay when you buy it from a coal generator or a higher price?

**Mr James:** They are two separate products. If it is a local generator like Collgar Wind Farm, we will buy the energy and we will buy the REC. In some cases we buy RECs from over east to top up our portfolio so the energy goes into the eastern states market and is bought by other retailers and we just buy the REC.

**Hon KEN TRAVERS:** Can Collgar be selling you power at a higher price because it is GreenPower but then onselling their RECs to the eastern states?

**Mr James:** Through our bilateral contracts, we have a negotiated position when we buy the energy and the RECs.

**Hon KEN TRAVERS:** That is because you take that decision. How are their spare RECs then created? People on the east coast are selling their power to one person at a higher price because it is GreenPower and then selling their REC to somebody else.

**Mr James:** There are two markets; there is an energy market and there is a REC market. The price will be determined by the markets.

**Mr Smith:** Welcome to some of the complexities in trying to find a clean solution to this! We have a percentage of energy that we target consistent with national policy that we want to reach in terms of what is renewable. We cannot buy renewable energy at the same price that we buy black energy, if you like. The answer to one part of your question is that we pay more for Collgar molecules, electrons, if you like, than we pay Verve for coal-fired, and you get a blend in the middle.

**Hon ALISON XAMON:** And that is what the GreenPower customers are paying additional for, because of the additional cost.

**Hon KEN TRAVERS:** We are paying you to buy the power from Collgar.

**Mr Smith:** There are a number of mechanics here. You asked if we pay differently. I am saying that yes, we do. The other part is buying the renewable energy certificate, without which these generators would not be able to sell us the energy for the power that they do because that is another economic contributor to the mix.

---

**Hon KEN TRAVERS:** One of the reasons you are buying the GreenPower is you have to meet the mandatory renewable energy target at some point. When is the 20 per cent required by?

**Mr James:** By 2020.

**Hon KEN TRAVERS:** There is bipartisan support across the nation that we should all get to 20 per cent by 2020. You are buying your mandatory renewable energy certificates. You are buying your physical GreenPower and paying more for it and you are targeting to get to 20 per cent by 2020. By 2020, will you actually have 20 per cent or 20 per cent plus all those people who have asked for GreenPower over and above?

**Mr James:** Yes. The renewable products that we have on the market means that we are buying more RECs than we have to buy under the MRET scheme.

**Hon KEN TRAVERS:** Is there a chart somewhere where you have a glide path to get to a 20 per cent mandatory renewable energy target and another glide path that shows over and above that you are buying more GreenPower than is included in that pathway?

**Mr James:** We manage that every year.

**Hon KEN TRAVERS:** Can we get a copy of those pathways?

**Mr James:** We can give you a copy of the pathway from where we are to 2020 to show you what the line looks like but we have not filled that book up yet. We still have to do deals in the market.

**Hon KEN TRAVERS:** Can you also then show us where you need to be to meet your mandatory renewable energy target and then where you are in terms of the RECs that you have over and above that to satisfy those of us who are purchasing GreenPower?

**Mr James:** Yes.

*[Supplementary Information No C2.]*

**The DEPUTY CHAIR:** I am not sure how you are going to answer that but maybe I do not understand it myself.

**Hon KEN TRAVERS:** That GreenPower that you have purchased is then averaged out in terms of the general tariff that you are charging the ordinary consumer, is it not? Is the cost of the GreenPower put into your modelling that is then part of the process for determining the price paid by everybody else in the market for their power?

**Mr James:** There are two markets—the energy market and the REC market. When we buy the REC and the energy, the REC goes into our REC book and the energy goes into our energy book. We average the energy with our gas and our coal-fired power stations to get an average price for the consumer.

**Hon ALISON XAMON:** Minister, if I could have on notice—I recognise those figures are not likely to be available here—how many people were on earth friendly and then NaturalPower and instant green as of 30 June this year and how many are on as of 31 July? That would be good.

*[Supplementary Information No C3.]*

**Hon KATE DOUST:** I just want to come back to the billing system that was referred to earlier. I note that there has been a further allocation of \$10.3 million on top of moneys already expended for this new IT system. Given that there has been a significant amount of money and it is still a relatively new IT system, can you provide detail about what these further enhancements will be?

**Hon PETER COLLIER:** What we are getting for our dollar?

**Hon KATE DOUST:** I would actually like somebody who knows what they are talking about, minister, to explain to me what the enhancements will be.

**Hon PETER COLLIER:** That is not very nice.

---

**Hon KATE DOUST:** I asked a specific question. I know that there are people here with expertise who can explain —

**Hon PETER COLLIER:** I want to clarify what your question is. Are you asking: what are we getting for our money?

**Hon KATE DOUST:** No, that is not my question. Given that you have provided an additional \$10.3 million, what enhancements does that purchase? What are you doing with that money?

**Hon PETER COLLIER:** Thank you for clarifying that. That is what I thought I said.

**Hon LJILJANNA RAVLICH:** You said it was a world-class system.

**Mr Matacz:** A number of significant improvements in the billing system will be made over the next few years. Some of them relate to proposed tariff increases that will occur over the next few years. We have to ensure that we can adjust the system to meet the tariff changes as and when they occur. We have had the introduction of the cost of living allowance, which requires system changes. Those system changes will need to be implemented to ensure that the allowance can be correctly managed within the system. There are changes within the system to provide a greater degree of security around our life support customers to ensure that we can protect them at all times. There are ongoing maintenance activities related to the system to improve business intelligence capability of the system, reporting and business information generally throughout the business. They are general business as usual activities. A lot of the additional cost is to meet changes in the system driven by tariff increases—changes driven by any regulatory changes that have to be flowing through into the system.

**Hon KATE DOUST:** When there is a tariff change, how much lead-up time do you need with this new system to make the adjustments so that people will get their next bill on time? I know that you have been through all the other issues but how much lead-up time do you need?

**Mr Matacz:** If you take, for instance, the introduction of the carbon tax, the project itself from the beginning to the successful implementation of the changes was somewhere in the vicinity of six months because those changes were quite significant. If you take a tariff increase, generally the tariff increase would take up to three months from the notification of tariff change through to the implementation through to the system testing and then ensure that the testing process delivered the right outcomes.

**Hon KATE DOUST:** I have a follow-up question on this billing system. Earlier today when this matter was first canvassed about the billing system, you again made the point, as you have done in the chamber during questions and debate, that this new billing system was signed off by Fran Logan when he was the minister and implemented by you. Are you sure that was the case?

**Hon PETER COLLIER:** Yes.

**Hon KATE DOUST:** Mr Logan has advised me that whilst the billing system was under review when he was the minister, it was not signed off until he had left that position. It was signed off under the new government and implemented under the new government. Is that correct?

**Hon PETER COLLIER:** No, not as I understand it.

**The DEPUTY CHAIR:** Perhaps we can put that on notice.

**Hon KEN TRAVERS:** Maybe we can see if any of the staff can tell us.

**Hon KATE DOUST:** Mr Smith, was the new billing system signed off under Mr Logan or under the new government?

**Mr Smith:** I could give you an accurate answer given the environment I am in. I can see you looking at me quizzically, and I understand that. This is something that occurred over a couple of years.

---

**Hon KATE DOUST:** There must be a board minute.

**Mr Smith:** Absolutely. I am certain I will be able to give you an accurate answer sitting right here given the correctness of the question.

**Hon KATE DOUST:** Could I please request that the board minute that stipulates the date when this new billing system was signed off on be provided to this committee?

**Mr Smith:** Absolutely.

*[Supplementary Information No C4.]*

**Mr Bargmann:** I can certainly provide a copy of the section 68 signoff, which was signed by Fran Logan, which determines whether we can enter into the contract.

**Hon PETER COLLIER:** By all means, clarify it again.

**Hon LIZ BEHJAT:** I notice again in budget paper No 3 on the electricity tariffs on page 309 that the increases that we talk about there do not include the impact of the carbon tax. How do you intend to implement that with this new billing system? Will there be a single line under this new system that will show the impact of the carbon tax on the residential household?

**Hon PETER COLLIER:** There have been two increases of late; one was 3.5 per cent and the carbon tax increase was 9.13 per cent. That will be a line item that will be identified. At the moment they are putting it in a box and then it will become a line item on 1 January. In terms of the process of accumulating that figure, again, who would be best?

**Mr James:** It is a risk management process where our tariff increase is a process and the carbon increase is a process and we have a new cost of living coming in on 1 October. We are spreading out the changes of the system to be able to carefully manage the system so we do not go back to where we were a year ago. We are putting a general comment on the bill at the moment. By 1 January we will be able to put a specific line item which shows the carbon tax —

**Hon LIZ BEHJAT:** So people can see exactly how much carbon tax it will cost them in their household. That is great.

**Mr James:** Yes.

**Hon LJILJANNA RAVLICH:** Can I ask whether this new billing system will be able to properly account for customers who use low carbon energy? I understand that that was one of the issues. It was not picking them up.

**Mr James:** I am not sure.

**Hon LJILJANNA RAVLICH:** How many people who have worked in the minister's office are currently full-time employees at Synergy?

**Hon PETER COLLIER:** One as far as I can ascertain—Blair Stratton.

**Hon LJILJANNA RAVLICH:** What was his position?

**Hon PETER COLLIER:** He was my chief of staff.

**Hon LJILJANNA RAVLICH:** How did he get that job in Synergy?

**Hon PETER COLLIER:** You would have to ask Synergy. I had nothing to do with that. He left my office and I assume he applied for the position. I think he applied for a few others as well. He is an outstanding young man.

**Hon LJILJANNA RAVLICH:** Why was he not good enough to be in your office if he is outstanding?

**Mr Smith:** Like the procurement of the SAP, this was an area about which the board was quite sensitive. It insisted, with no resistance, I might add, that it be a proper process of competitive recruitment. The position was widely available. It was contested and Mr Stratton won it in that

environment. That is my answer from a governance point of view. I do not want to suggest that Mr James was taking a process that was going to be anything different from that. But certainly the board did go to the trouble of making doubly sure that nobody was exposed.

**Mr James:** When I took over as chief executive in April last year, I restructured the business and I had to recruit four new executives. I used an external recruitment firm to identify potential candidates. They went through a short-listing process, recommended a short list to myself and we chose from the short list. Mr Stratton was in that particular process where he was headhunted, if you want to use a word like that, and he finished the process. The headhunters recommended him as one of the short listed people; in fact, they recommended him as the best person. We then interviewed with himself and a couple of other applicants and he was chosen through that process. It was a tiered process like all the other executives went through.

[2.30 pm]

**Hon KEN TRAVERS:** What glide path are you using for your internal financial projections over the period of your strategic planning for tariffs? What glide path for tariffs do you use for your internal projections?

**Mr James:** We do not set the glide path.

**Hon KEN TRAVERS:** No, that is not what I asked. I am asking what glide path are you using internally for that? It may not be set by you; I am just asking what the glide path is that you are using.

**Mr James:** There is a series of tariff increases over the next five years in the state budget forecast; 3.5 per cent has just been incurred and then, from memory, it is five, five, five and then a 10.

**Mr Matacz:** We are using the Treasury–endorsed glide path, which is 3.5, five per cent, five per cent and then 10 per cent over the forward estimates period.

**Hon KEN TRAVERS:** What impact will that have on your operations if that glide path is not applied?

**Mr James:** Basically there are tariff increases and where the tariff increases are short or the tariff has been cost reflective, we receive a community service obligation payment from the government to fill in the gaps. So if that changes, then the community service obligation changes accordingly.

**Hon KEN TRAVERS:** Did you say five, five or five, 10 and 10?

**Mr Matacz:** It should be 3.5 for 2012–13; five per cent for 2013–14; and 10 per cent in 2014–15.

**Hon KEN TRAVERS:** And then 10 per cent in 2015–16?

**Mr Matacz:** And then 10 per cent in 2015–16.

**Hon KEN TRAVERS:** So, minister, when will a final decision be taken by government on the glide path for the future power price increases?

**Hon PETER COLLIER:** They are in the budget, and that is the glide path that we have got. Certainly depending on the outcome of 9 March of next year, there may be a change in terms of the establishment of the budget after that, but that is our glide path for the foreseeable future.

**Hon KEN TRAVERS:** So the government does not have any intention of changing that prior to the election?

**Hon PETER COLLIER:** No, not at this stage, but we will continue to monitor the situation and see how things go. But at this stage that is what we are going with.

**Hon KEN TRAVERS:** All right, so no changes. So all of your dividends to government are all based upon those glide paths, or your payments in lieu of income tax are all based on those glide paths?

**Hon PETER COLLIER:** They are, as I said. But as I said, things can always change, as you would know. At this stage, certainly with the release of the budget in May of this year they are the projections and that is what we are going with at this stage.

**Hon KEN TRAVERS:** Who funds the cost of Sparky, the chuditch campaign?

**Hon ROBIN CHAPPLE:** That is a love story. Keep going!

**Hon PETER COLLIER:** Synergy and Western Power.

**Hon KEN TRAVERS:** What was the cost of not the campaign but developing the name “Sparky” and the rebranding of the chuditch to be named Sparky? I assume you got lots of brand people in to help you develop that name.

**Mr James:** No.

**Mr Matacz:** The only thing I can say is that in the 2011–12 year the overall cost of the particular program was slightly over \$1 million, but that would have been the total cost of the program over the 12-month period. So, I do not have a breakdown of the individual components.

**Hon KEN TRAVERS:** Because giving the chuditch the name of Sparky is only a recent innovation, is it not?

**Mr James:** That was a competition run amongst schoolchildren.

**Hon KEN TRAVERS:** Right, so what was the cost of that?

**Mr James:** I could not tell you. It would have been fairly minor, I would have thought.

**Hon KEN TRAVERS:** If we can get that on notice if it is available.

*[Supplementary Information No C5.]*

**Hon KEN TRAVERS:** What conversations has the government had with Synergy regarding the merger of Synergy with Verve Energy?

**Hon PETER COLLIER:** I have answered that.

**Mr James:** I have had no discussions with the minister about it.

**Hon KEN TRAVERS:** Chairman?

**Mr Smith:** I am not going to start, I guess, given my experience in other places, a practice of revealing detailed conversations that I have had with ministers and others. But suffice it to say I have not been asked for my advice on it and I have not offered it. But you do find yourself in these circumstances where in wide-ranging discussions it comes up because it is in the media.

**Hon KEN TRAVERS:** In terms of an organisation, have you done any risk analysis or looked at the issue internally as an organisation of what the impacts or the risks would be of a merger with Verve? Is it something that as an organisation you have done any work on internally?

**Mr James:** No. My job is to run Synergy in line with government policy of the day, and that is what I am doing. So, if the government chooses to make that change, then we will work with them on whatever they want us to do but we have not done any detailed risk assessment at all, no.

**Hon KEN TRAVERS:** But often most agencies I am aware of, if they see the Premier out there making comments about something, will often prepare options and briefings and look at the issue in case they are asked for that on the basis of, “While Premier’s talking about, maybe we’d better be ready for it in case we are asked that question by the Premier.” You have not done any work along those lines at all?

**Mr James:** My view is that 95 per cent of what we do gets done regardless of whether we are merged or not merged. And if we are going to merge, we need to understand what is the model we are going to merge to to understand the risks and the options, and I do not know what that would be.

---



**Hon KEN TRAVERS:** So you have not done any work to identify what some options might be if there was a desire to merge, in terms of having heard the Premier express a view that that was something he was considering. Most agencies I know would do that as a matter of course: the moment they heard the Premier say something, they are off to be ready for the briefing request.

**Hon LIZ BEHJAT:** How many times do you want them to say no?

**Hon KEN TRAVERS:** I am just asking in terms of —

**Mr James:** My experience in the industry is once government decides to make a change, a project is set up and there is a group put together and they do exactly the work you are talking about, and I am not aware of any group being set up at this stage.

**Hon KEN TRAVERS:** My next question is: does Synergy have any corporate boxes?

**Mr James:** Yes, we do.

**Hon KEN TRAVERS:** How many?

**Mr James:** We have one at Subiaco and we had some at the WACA which we have either cancelled or are in the process of cancelling.

**Hon KEN TRAVERS:** Do you have any idea of what those costs are?

**Mr James:** I think the actual—do you have the actual with you, Karl?

**Mr Matacz:** The total cost of corporate sponsorship, which includes the boxes and a few other minor corporate arrangements that were in place in 2011–12 was about, I think, \$147 000.

**Hon KEN TRAVERS:** Does that include the catering at the boxes?

**Mr Matacz:** It does.

**Hon KEN TRAVERS:** What is your projection for the 2012–13 year?

**Mr Matacz:** That will drop down to \$70 000.

**Hon KEN TRAVERS:** And the box at Subiaco, is that for all games of footy for both teams?

**Mr James:** Yes.

**Mr Matacz:** It has been for 2011–12. It will change in the following year.

**Hon KEN TRAVERS:** What will it be in the following year?

**Mr Matacz:** It will cut out half of the season.

**Hon KEN TRAVERS:** So that means you are picking only one team?

**Mr Smith:** Well, there is only one team!

**Hon KEN TRAVERS:** So why would you get a box just for the games with St Kilda! I cannot understand!

**Hon ALISON XAMON:** My husband would be happy!

**Mr James:** Yes. My son's a St Kilda supporter too!

**Hon KEN TRAVERS:** Can we also get the figure for the total spend that you have on advertising across all mediums and forms?

**Mr Matacz:** I may do.

**Hon PETER COLLIER:** If not, we can get it.

**Hon KATE DOUST:** Can I just ask a supplementary to that question, please?

**The DEPUTY CHAIR:** Mr Matacz is finding it.

---

**Hon KATE DOUST:** Could we please get a list of all the people who attended the corporate box at the football for the last 12 months?

**Hon PETER COLLIER:** I think that we will get it, no problems, but it was asked on notice just recently, because I signed off on it.

**Hon LJILJANNA RAVLICH:** Yes, but not in this session.

**Hon PETER COLLIER:** No, it was for Synergy that I signed off on. But we will get it.

[*Supplementary Information No C6.*]

**Mr Matacz:** That answer in regard to the promotion and advertising spending in 2011–12 was \$3.2 million.

**Hon LJILJANNA RAVLICH:** An expensive chuditch!

**Hon KEN TRAVERS:** In 2012–13 what is your budget?

**Mr Matacz:** In 2012–13 we have a budget. I would have to take that on notice. I do not have the breakdown of the budget.

**Hon KEN TRAVERS:** You have what you spent last year but you do not have what you are going to spend next year?

**Mr Matacz:** I have the total operating costs but to actually give you the breakdown I would have to have a look at the detail.

**Hon KEN TRAVERS:** What do you mean by the “total operating costs”?

**Mr Matacz:** I can tell you that, for instance, our operating costs in 2011–12 will actually be reported at somewhere in the vicinity of approximately \$120 million, and that includes the P&A spend. I can also tell you that our planned expenditure in 2012–13 will be at about exactly the same level, which actually will reflect in real terms a reduction in our operating costs.

**Hon KEN TRAVERS:** So if we can have that taken on notice, the advertising budget.

[*Supplementary Information No C7.*]

**Hon KEN TRAVERS:** So how do you intend to achieve your five per cent efficiency dividend? How did you achieve it in 2011–12 and how do you intend to achieve it in 2012–13?

**Mr Matacz:** If you go back to just 2011–12, we had a midyear review target of our operating costs in excess of \$132 million. After bringing through the efficiency dividends required by government, we actually reduced that by \$7 million. And in addition to that we actually forced through additional savings within the business and we are actually coming in in our 2011–12 numbers at about \$120 million. We have been able to actually make significant inroads into our operating costs, and a lot of that is driven by the fact that through continuous improvement as a result of the stabilising of the billing systems that we have been able to reduce operating costs across our process improvement initiatives, which have actually led to improved outsourcing arrangements, reductions in costs associated with metering et cetera. There has been, of course, a direct emphasis on any discretionary expenditure to make certain; that we actually resolved that if it was discretionary that we would not actually go through and spend those funds. So we have made concerted efforts to reduce our operating expense. You will note that in real terms they will continue to reduce from the current level over the forward estimates period by \$34 million, and that is what has been approved through the state budget forecast—in real terms a \$34 million reduction in our operating costs.

**Hon KEN TRAVERS:** In terms of that outsourcing, is any of that going offshore?

**Mr Matacz:** None of that is going offshore. The current arrangements are such that there will be a movement towards onshore arrangements rather than offshore.

**Hon ROBIN CHAPPLE:** I want to go back in a minute to a previous question in relation to green power, but quickly on page 596, which is the one we are all working off, you talk about \$10.3 million as being to enhance and improve and enable Synergy to administer its relationships with over a million customers. Are there going to be any provisions made within this to compensate local government for the hardships suffered as a result of system failure on behalf of Synergy; because obviously we have had the billing inaccuracies down there and the sudden cost recoveries by Synergy, which have all sort of blown onto local government down there and they have a significant issue? Are we going to tidy that up?

**Mr James:** I can only recall that there were issues around street lighting, and we had not been able to update our database on the number of streetlights by council to bill them accurately. And so, because of that, they got updated in the more recent times, but we have not gone back and billed them for the whole period; only for nine months of the three years that we had not updated. So they have been compensated by not having a full backdating of the increase in streetlights.

**Hon ROBIN CHAPPLE:** So, are you now going to maintain that updated status?

**Mr James:** Yes, We receive the information from Western Power and it comes into our system and it is being updated regularly now.

**Hon ROBIN CHAPPLE:** In terms of new lighting systems, the new globes that have been requested down there, are you doing anything with that or are you just sticking with the old system? Obviously local government through WALGA are interested in improving the cost of street lighting down there. The current process means that they cannot move forward without Western Power's or your assistance.

**Mr James:** We are totally reliant on Western Power to provide that information to us and as long as they provide it accurately, then we will bill them accurately.

**Hon ROBIN CHAPPLE:** I was meaning actually the retrofitting of street lighting to the more environmentally friendly or beneficial systems, economic systems.

[2.45 pm]

**Mr Bargmann:** The street lighting provided to local councils all around Western Australia is provided directly from Western Power to the local councils, so that is —

**Hon ROBIN CHAPPLE:** You administer it?

**Mr Bargmann:** We administer the billing, but actual the connections between what type of globe and how the poles get refitted or the globes get changed out is purely something that is decided by Western Power. We do not have a say in that.

**Hon ROBIN CHAPPLE:** I want to go back to the previous question on green power. When you establish your base rate for the charge of electricity—the cents per kilowatt—do you just pool all energy, your RECs and everything else, into a bucket and sort of say, “Well, at the end of the day this is what we're going to have to charge”, or do you actually diversify it all out into different little buckets?

**Mr James:** It is an average across all tariffs.

**Hon ROBIN CHAPPLE:** So it is an average of the electrons, basically?

**Mr James:** Yes.

**Hon ROBIN CHAPPLE:** So you have been charging an average of electrons to all the households down there for the last five or 10 years?

**Mr James:** Everyone gets charged based on the tariff, and the tariff is based on an average allocation of our costs.

---

**Hon ROBIN CHAPPLE:** An average allocation. So what have the green power people been paying for for the last five or 10 years?

**Mr James:** They are paying for us to go and buy additional renewable energy certificates over and above the MRET target as part of the federal legislation.

**Hon ROBIN CHAPPLE:** No, no; my key issue here is that the electrons we are talking about—those that are going into the various houses—you have identified just now that you bundle all those electrons together and come up with a charge based on that. Then people are buying green power, assuming that that extra payment they are making is for specifically renewable energy. I know you cannot separate out the electrons—I am an engineer—on that sort of basis; how then can you justify to those people who thought they were buying green power by paying that extra that in fact that green power was being amortised over the whole electricity bill to all the players?

**Mr James:** If we did not have any products, then the only renewable energy we would have in the system would be to meet our MRET target. What the product does is encourage customers to pay a premium for us to go and buy more renewable energy certificates than we have to buy under the legislation, to bring more renewable projects to market. So it is encouraging us to buy more RECs upstream in the wholesale market.

**Hon ROBIN CHAPPLE:** But you are spreading that load, as you have just said, over the whole billing cycle?

**Mr James:** Without the product we would only buy up to the 20 per cent by 2020; with the product it will be something higher than that. So that is what customers are doing.

**Hon ROBIN CHAPPLE:** So all they have been buying in is in fact actually assisting you to buy more green power; they have not been actually generating or, theoretically, separating out electrons and getting green power?

**Mr James:** They have contributed into more renewable energy in the market.

**Hon ROBIN CHAPPLE:** Okay. That is fine; thank you.

**Hon KATE DOUST:** I just want to come back to that customer information and billing system. I just wanted to have a talk about your call centres. I just want you to perhaps explain to me how your call centres are currently operating, where they are operating, and what part of that allocation will be set aside for the contracts for those call centres.

**Hon LJILJANNA RAVLICH:** Are they in India?

**Mr James:** We have two contact centres; we have one in our building at 228 Adelaide Terrace, and we have another one with Stellar up in Joondalup.

**Hon KATE DOUST:** So you do not have any offshore call centres?

**Mr James:** No.

**Hon KATE DOUST:** All right. How much of this funding is allocated to your call centre contracts?

**Mr James:** The cost of running Stellar? I would have to take that on notice.

**Hon KATE DOUST:** That is fine. I am quite happy for you to do that.

[*Supplementary Information No C8.*]

**Hon KATE DOUST:** I understand that recently in some media Perth Energy—I think it was an opinion piece—talked about how they could sell energy to domestic customers for about 21c a unit, and make a profit; and the ERA has stated at some point that they thought a fair price for Synergy to charge was about 28c per unit. I understand that the government and Synergy both say the charge needs to be higher than that. Can you explain to me why Perth Energy think they can sell at 21c a

unit, but Synergy can only sell at a higher price? Can you give me the dummies' guide to how that works, if you like?

**Mr James:** I cannot comment on Perth Energy because I do not understand their costs. All I can say is that Perth Energy is on the market to be sold, and so they have incentives to make whatever statements they want to make.

**Mr Smith:** I could give you a little bit of assistance.

**Hon KATE DOUST:** Thank you.

**Mr Smith:** They could not, if they operated as Synergy. So if you take a broad base of customers and said, "I only have to supply two per cent of them", you would pick the two per cent that were easiest and most profitable to serve. So they are a small company, and, as say, I doubt the number. But what happens when markets deregulate is that those people with the burden of having to supply the whole market and all the infrastructure get cherry-picked, as you would of course, and select, "Here is somewhere close to where I generate, there is a very low cost of administering that." It might be, sort of, the five best accounts in the world, and of course then your percentage shifts. I think it is a provocative statement on their behalf, but the reality is that as markets deregulate that is how it happens.

**Hon KATE DOUST:** I just have one final question.

I just want to come back to that earlier discussion we had about the billing system and whether or not Fran Logan had signed off on that—I know you have already agreed to provide that particular board minute. I would imagine that when Synergy came into being there would have been an initial billing system established, and that Fran Logan would have signed off on that billing system arrangement?

**Mr Smith:** No, that was a legacy system.

**Mr James:** No, it was 1994.

**Hon KATE DOUST:** So the billing system that existed prior to Synergy coming into place continued on?

**Mr James:** It came from Western Power.

**Hon KATE DOUST:** So there was no change to the billing system?

**Mr James:** No.

**Hon KATE DOUST:** Until this new arrangement?

**Mr James:** You are always making changes to your system.

**Hon KATE DOUST:** Okay. All I really wanted to know was, in the terms of the sign-off, for this billing system we now have in place did Fran Logan sign off on this billing system or an earlier version?

**Mr James:** Under our legislation there is a section 68 that requires that over a certain value that we have to go and seek ministerial approval to undertake the project. My understanding is that Fran Logan signed off on the section 68 approval for the new system.

**Hon KATE DOUST:** For the one we now have in place?

**Mr James:** Yes, but we will supply the information.

**Hon KATE DOUST:** As well as that document you are already going to provide, I am wondering if it is also possible to get other documents that pertain to the decisions made about this billing system and about its implementation. I do not know whether they are board documents or organisational documents.

**Hon PETER COLLIER:** We will give you whatever is available.

---

**Mr Smith:** There is a lot there.

**Hon KATE DOUST:** That is okay.

**Mr Smith:** There is certainly no problem there.

**The DEPUTY CHAIR:** Can you just to add that C4, which is the board minutes of the section 68 sign-off, either board submissions or documents that can help just clarify where this is at in relation to the member's query? If there is any confidentiality of any of the documents, do not hesitate to claim it. It does not mean to say that we will agree with it, because it is our decision at the end, but at least claim it and present the case why it should be confidential.

Thank you very much for being with us and giving us the information that we have asked. Any additional questions will be forwarded to you via the minister in writing in the next couple of days, together with the transcript of evidence which includes the questions you have taken on notice. If there are any other unasked questions, members will submit these via email to the committee clerk at the close of this hearing. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. This advice should include specific reasons as why the due date cannot be met. Thank you very much for your attendance.

**Hearing concluded at 2.54 pm**

---