

Mr House; Mr Eric Ripper; Mr John Day; Chairman; Mr Colin Barnett; Mr John D'Orazio; Mr Mark McGowan

Division 11: Office of Energy, \$13 300 000 -

Ms Guise, Chairman.

Mr Ripper, Minister for Energy.

Dr L.A. Farrant, Coordinator of Energy.

Mr G. Gilbert, Director, Corporate Operations.

Mr P. Stewart, Manager, Finance and Administration.

Mr HOUSE: According to the budget papers, about \$4.8 million - nearly \$5 million - is being transferred to the Department of Consumer and Employment Protection. What is the reason for that?

Mr RIPPER: The technical and safety division of the Office of Energy is moving to the consumer and employment protection portfolio. That was one of the recommendations of the Machinery of Government Taskforce, and it has taken some time to implement.

Mr HOUSE: The Government budgeted about \$1 million for that task force for this year. How will it spend \$1 million?

Mr RIPPER: I was referring to the Machinery of Government Taskforce when I spoke about the technical and safety division of the Office of Energy. I think the member's question referred to the Electricity Reform Task Force.

Mr HOUSE: Yes.

Mr RIPPER: Electricity reform is a complex matter. Some electricity reform models have been successful, and others have been less successful. We want a range of decisions for Western Australia that are appropriate to its circumstances. The detailed work on the structure of the market and the modelling requires a lot of effort, and expertise must be contracted in. I will ask Les Farrant to comment, as he is a member of the task force.

[3.10 pm]

Dr FARRANT: In this financial year, \$950 000 was set aside to finance the direct costs of the Electricity Reform Task Force, of which some \$400 000 has been expended to date. The minister has indicated that significant expenditure remains to be committed for expert advice, cost-benefit work and the like. We expect that the expenditure will be committed in this financial year but will run into the next financial year. Therefore, some funds will be carried forward into the next financial year to assist with the funding of the task force. In the budget for the next financial year some \$400 000 has been provided in addition to that amount of money to complete the work of the task force, including the consultant work to which I have just referred.

Mr HOUSE: Can I assume from that answer that a fair bit of that money will not go directly to the task force but to consultants who are employed by the task force?

Mr RIPPER: The task force includes three people from outside government. Those three people must be remunerated and, in addition, there is the need to have expert advice on particular aspects examined. It has surprised me how much money has had to be put into the resourcing of the Electricity Reform Task Force. Certainly, before we came into Government I did not imagine that we would need to resource the task force as much as we have. However, that is the expert advice to me and we do not want to cut any corners with electricity reform. We want a quality outcome.

Mr HOUSE: Can the minister provide additional information detailing the break-up of that budget into what has been expended and what is expected will be expended in the next 12 months? We can then make a judgment about where that money is going.

Mr RIPPER: I can provide a breakdown of the expenditure on the Electricity Reform Task Force as supplementary information.

Mr DAY: In that information can we also have an itemisation of what payments have been made to individual members of the task force and the expected payments for the next financial year?

The CHAIRMAN: Can the minister advise what information he will agree to provide?

Mr RIPPER: I will provide a breakdown of the expenditure on the Electricity Reform Task Force. The Government has a process of tabling payments to consultants every six months. That information will be made available to Parliament in due course. I am wondering whether I should break up the payments in the information provided or whether I should provide the aggregate payment to the members of the task force. In any case, I will provide information on that matter to Parliament through the supplementary information process.

Mr DAY: Will you provide what we have asked for?

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Mr RIPPER: I will provide at least an aggregate amount for the payment to members of the Electricity Reform Task Force and, if appropriate, I will break it down further.

Mr DAY: When the minister was in Opposition he would have expected that that sort of information be made public on an individual basis. When we are dealing with people who are being paid as consultants and senior public servants - not that they were in this category -

Mr RIPPER: They are like us; the amount they are paid is revealed. That is my bias. However, I am being a little cautious because I want to make sure there is no contractual difficulty or anything like that.

The CHAIRMAN: For clarification, can the minister specify what it is he will provide as supplementary information?

Mr RIPPER: I will provide a breakdown of the expenditure of the Electricity Reform Task Force as it has occurred and as it is projected, including payments to consultants and members of the task force. The only qualification I make is that I may aggregate the payments to members of the task force. I prefer not to, but it depends on the advice I receive.

[Supplementary Information No A9]

Mr RIPPER: Have I given away nine already?

The CHAIRMAN: You have indeed.

Mr RIPPER: That is far too much leniency to the Opposition.

Mr DAY: So we cannot have any openness or accountability that is not absolutely essential.

Mr BARNETT: I refer to the first dot point on page 193 that relates to the deregulation of electricity and contestability and, from memory, I also refer to the schedule for the steps of contestability that were announced around mid 2000. The schedule refers to the next step being put in place in January 2003. At that stage what proportion of Western Power's sales of electricity will be contestable and how many businesses would that approximately involve?

Mr RIPPER: I am advised that at that stage about 40 per cent of energy sold would be contestable. If members opposite do not agree with that figure, we will talk to Western Power about the information. However, on the advice available to me now, that is the figure, which is about 4 000 customers.

Mr BARNETT: My understanding was that it would be over 50 per cent of electricity sales.

Mr RIPPER: The important thing about contestability is not only the theoretical availability of it but also the practical availability. We can reduce the thresholds all we like, but while we have a vertically integrated utility, people are inhibited from coming in and contesting the theoretical customer base available. That is the issue with which we must deal and the reason for the Electricity Reform Task Force. We must go beyond simply reducing contestability levels and consider what is impeding competition in the Western Australian electricity market.

Mr BARNETT: I understand the argument about transparency and that industry is critical of the ring-fencing arrangements in place. Has the minister been provided with any firm evidence of ring-fencing provisions being broken with respect to Western Power? By that I mean companies giving names, dates and evidence.

Mr RIPPER: Normandy Mining Ltd has been involved in three court cases with Western Power indicating from its point of view that -

Mr BARNETT: That was not about access but about backup. It had nothing to do with ring-fencing arrangements.

Mr RIPPER: Normandy was very upset with Western Power's arrangements for the acceptance and transmission of its power -

Mr BARNETT: The question was on ring-fencing.

Mr RIPPER: Exactly what is the Leader of the Opposition driving at? Is he asking if I have had a complaint that company A approached networks and networks told generation about company A's proposals?

Mr BARNETT: Has the minister got any firm evidence of ring-fencing provisions being broken with Western Power?

Mr RIPPER: I do not have any direct evidence of that and no-one has come to me with a specific example. I have the strong support of the Chamber of Minerals and Energy of Western Australia, the Western Australian

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Chamber of Commerce and Industry and practically all leading energy companies in the State for the electricity reform process.

Mr BARNETT: I do not deny that, but does the minister not think it significant that after three years of debate on this issue, he sits here as the Minister for Energy and must admit that there is no direct evidence of the ring-fencing provisions being broken. I know people dispute them, but there is no evidence. That is a powerful point. In other words, if the matter were to go to court, no evidence would be produced because no evidence can be obtained.

[3.20 pm]

Mr RIPPER: People are not making investments in the merchant plants producing power that can be sold to the contestable customers. We have to ask what is going on, and why the private sector is not investing in the merchant plants.

Mr BARNETT: It is because we have long-term coal contracts and long-term gas supply contracts, which are less of a problem.

Mr RIPPER: The long-term fuel supply contracts are an issue. Indeed, we could debate energy reform at length. However, I have further information about the 300 megawatt hours per annum contestability level. For Western Power, this equates to 40 per cent of the revenue and 50 per cent of sales. This information reconciles that given to the committee by the Coordinator of Energy and the Leader of the Opposition. Both figures are correct.

Mr D'ORAZIO: I refer the minister to the purchase of outputs and item 38 on page 192 of the *Budget Statements*. I want to highlight the problem of underground power for local governments. It has been brought to my attention that in providing joint funding for underground power, Western Power has created a situation in which the cost estimates of a project seem to be as rubbery as a rubber tree; indeed, that has been suggested to me. Once a job has been completed, many local authorities have had to go back to their residents and ask for more money because there has been a cost blow-out in the provision of underground power. This is unacceptable. Can we ensure that the cost estimates are at least close to the mark? In one instance, there was a \$192 000 blow-out on a project estimated to cost \$1 million. That is totally ridiculous. Is there some way that Western Power can provide certainty to its residents, because the last thing we want is councils to stop supporting underground power as a result of cost blow-outs?

Mr RIPPER: Mr Chairman, on this occasion, I am the Minister for Energy.

The CHAIRMAN: I think you might be.

Mr RIPPER: There was a cost overrun of \$227 000 in round two of the major residential project in Mt Lawley. This was attributed to the cost increases for materials, mains and home connections that were estimated to be \$118 000 over the allocated budget for completion of the project. Western Power's mains for system interface were estimated to be \$46 000 over the allocated budget for completion of the project. Cost increases associated with contractors, installation work, mains and house connections over the allocated budget for completion of the project included an extra 18 lots at Walcott Street. This was at the request of the council. The memo I have states that the City of Stirling's in-kind contribution was not clarified.

Mr D'ORAZIO: It is not the numbers but the principle that is important. Will Western Power firm up its cost estimates so that a blow-out is not borne by the residents? If not, residents will soon start bashing on the door of their local members because they agreed to a cost with Western Power, which is carrying out the ongoing and contractual maintenance. Western Power is the principal contractor, and it is a real bugbear going back to the residents to ask for more money.

Mr RIPPER: I agree that we should be able to give local authorities a better outcome prediction. Cost overruns are most unfortunate because they create the type of problems highlighted by the member for Ballajura. I will discuss this issue with both Western Power and the Office of Energy in the hope that we can achieve a better outcome.

Mr D'ORAZIO: I was hoping the minister would say that.

Mr DAY: Further to the underground power program that is referred to in the fourth dot point on page 192 of the *Budget Statements*, the minister will recall the debates that have taken place in the Legislative Assembly about the program and about the policy for awarding contracts being changed from the previous agreed rates system to a tendering system. There has also been debate about the effect of this change, which has put at least one company under major financial pressure. The company to which I refer entered the program three years ago with the expectation that it would obtain at least five years work, which was time enough to allow it to cover the substantial borrowings it made in order to purchase the necessary equipment. Was the decision to change the

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basis of contracts made by the Government or Western Power? Can the situation be reviewed to take into account the major negative impact that the change of policy is having on at least one company?

Mr RIPPER: The decision to shift from a scheduled rate approach to a project by project tender approach was made by the steering committee of the state underground power program in an attempt to ensure that the best value for taxpayers' money was obtained for each contract.

Mr DAY: Was the decision made despite the clear verbal agreement made under the previous Government, and despite the expectation on the part of the companies that if they went into the program and borrowed money to buy specialised equipment, they would be guaranteed work - not at hugely profitable rates, but, nevertheless, at a profitable rate - for four years or so?

Mr RIPPER: I did not make an undertaking of that effect to any company. Neither I nor my advisers are aware of any such undertaking having been given.

Mr DAY: Has the Government slowed down the program? When will round three commence?

[3.30 pm]

Mr RIPPER: As part of the priority dividend approach last year, the Government reduced the funding to the program. The allocation was previously \$6 million a year. The allocation is now \$5 million a year. Expressions of interest will be called for in June this year.

Mr DAY: When does the minister expect tenders to be awarded?

Mr RIPPER: It is expected that tenders for that process will be awarded at the beginning of 2003.

Mr MCGOWAN: I refer to dot point four regarding the underground power program. This program has been operating, I think, for three or four years.

Mr BARNETT: Six years.

Mr MCGOWAN: Sorry, six years. It was the subject of some criticism during the period of the previous Government that the awarding of contracts for this program took place usually in affluent areas. The bulk of the work was done in suburbs in the immediate beach or river areas of the Perth area. A set of criteria was worked out and I would never allege that the Leader of the Opposition was corrupt. Will some of the next round of underground lines be allocated to the less affluent areas such as Rockingham or Ballajura, which areas may not have a high level of wealth? It would be very beneficial for those areas to have underground power and it would show that Governments do not care only about the most wealthy.

Mr DAY: The member for Belmont has benefited in his electorate.

Mr BARNETT: I have been insulted for about the tenth time today. This is what the Labor Party is doing.

Mr RIPPER: I was going to offer advice to the Leader of the Opposition but in the interest of the smooth running of the House, I will desist. It is important that this program be available to a broader range of areas than it was apparently available under the previous Government. The previous Government might have been a bit sensitive to the arguments that the member for Rockingham just put because towards the end of the program I suddenly found that my electorate was getting an underground power program and, lo and behold, so was the current Premier's electorate. The program reached Belmont and Victoria Park at the end of the previous Government's term. In the interim it had serviced Cottesloe, Applecross and other places like that.

I am assured by the Leader of the Opposition that all of this was done appropriately and within the proper decision-making process. The outcomes nonetheless seemed a bit unusual to someone with the perspective that the member for Rockingham and I have.

Mr MCGOWAN: Will some effort be made to ensure that areas such as Ballajura and Rockingham receive equal footing with the more affluent areas?

Mr RIPPER: We govern for the whole State and will assess applications on their merits. I am in receipt of representations from regional areas in which there is susceptibility to cyclonic damage, that they should get preference in the program. I am advised that expenses might be higher in those areas. Those issues will be taken into account. We want to allocate the money fairly. It is, nevertheless, dependent on local government, and residents being willing to support their local governments in that participation. There is a possibility of systematic bias in the way the process works because some local authorities with poorer rate bases might feel disinclined to apply.

Mr BARNETT: I refer to the second dot point at page 193 relating to the proposed Derby tidal power project. I note in the commonwealth budget an allocation of \$1 million for research into the production of hydrogen from

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tidal sources. In addition to that, has the Commonwealth provided any commitment of funding for the proposed Derby tidal power project?

Mr RIPPER: As the Leader of the Opposition knows, not one Derby tidal power project but possibly three or more projects have been floated. The original Derby tidal power project was to supply Western Power's customers in the west Kimberley. That failed to proceed following the coalition Government's support for gas-fired power in the west Kimberley.

Mr BARNETT: Does the Minister for Energy mean the tender process?

Mr RIPPER: Yes. We all know that the gas proposal eventually fell over. However, in the interim, Derby Tidal Power put forward a project for a bigger tidal power station to supply to a zinc refinery. I had concerns about whether the zinc refinery proposal would ever come to pass. However, we assisted the Derby tidal power proponents to apply for \$25 million of remote renewable power generation program money from the Commonwealth for that tidal power zinc refinery proposal.

Once the gas-powered proposal for the west Kimberley fell over, the possibility arose of tidal power once again supplying the west Kimberley. I wrote to the Prime Minister three times seeking an indication of commonwealth support and I sent a delegation of senior officials to meet with commonwealth officials regarding commonwealth support for the project. I finally got an answer that related to the application for the tidal power zinc refinery proposal in which the Commonwealth approved \$25 million for Derby tidal power. That appears to relate to the earlier proposal, as I say, for the zinc refinery and the bigger tidal plant that would supply that.

The sad fact is that \$25 million, although a significant amount of money, would not be enough to make Derby tidal power competitive with other sources of power for supply to the west Kimberley. I am proposing to move to a tender process for the supply of power to the west Kimberley. I am very happy for tidal power to compete in that tender process, but I am pessimistic about its chances of succeeding unless it receives significant commonwealth assistance.

The tidal power proponents are saying that they need \$70 million of tax-free assistance. The State has been prepared to provide \$15 million of assistance. The Commonwealth has indicated it will provide \$25 million for the earlier project. The State has written to the Commonwealth to ask about the other \$30 million, and about making it tax free, so that the \$70 million is provided tax free and the Commonwealth will not be able to claw back its grant and some of our grant through taxation provisions. The ball is in the Commonwealth's court. We will proceed with the tender process. If the tidal power proponents receive something that is of sufficient certainty to be bankable, they will have a realistic chance in the tender process. If not, I am pessimistic about their chances, although they are very welcome to compete in the tender.

[3.40 pm]

Mr BARNETT: The third last dot point on page 197 relates to greenhouse gas abatement. What is the current level of greenhouse gas emissions from Western Australia? What is the projected level of emissions into the future? I do not know whether it is possible to give forecasts for the next five years or for some similar period, or whether statistics are available. I refer particularly to the impact of a number of gas processing projects in this State.

Mr RIPPER: I do not have to hand, and neither do my advisers, the figures that the Leader of the Opposition is seeking, but I can provide them as supplementary information if he wishes.

Mr BARNETT: Perhaps the minister could supply information on the current level of greenhouse gas emissions and the projected increases in the future over whatever period is measured.

Mr RIPPER: I will agree to supply that information, which quite possibly I will have to obtain from another minister. I need to point out to the committee that the Minister for the Environment is the lead minister on greenhouse issues. Quite reasonably, the questions about greenhouse targets should be directed to her. It is obviously related to the energy portfolio as well, which is why I am prepared to provide the information on a supplementary basis to the Leader of the Opposition. There is no doubt, as the Leader of the Opposition would be aware, that Western Australia faces a pretty significant issue. On the one hand, it has resource development projects, downstream processing and value adding but, on the other hand, we know that those projects will add significantly to the State's greenhouse gas emissions. The advice available to me is that three-quarters or more of the total increase in greenhouse gas emissions allocated to Australia under the 108 per cent Kyoto protocol needs to be available for Western Australia, simply to provide for projected growth in the State's resources industries; in other words, the other States would have to curtail very significantly their emissions, simply to provide for growth in Western Australia's resources industry.

Mr BARNETT: Is it not therefore the case that if Australia were to sign and adhere to the Kyoto protocol, a number of resource projects, including liquid natural gas expansion, would not take place in this State?

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Mr RIPPER: There is a very significant conflict between the aspirations that we all have for the development of those resource projects and the 108 per cent emissions limit that the Kyoto protocol presupposes. How is it to be overcome? Internationally we need to be putting forward arguments about the benefits of processing resources close to where the energy supplies are located and in a jurisdiction where there are high environmental standards. I believe that we can present an argument that it is ridiculous to send the energy and mineral resources to another place where the environmental standards are lower, to incur transport costs and have the emissions anyway, when we can produce the same product in Western Australia, with higher environmental standards and with lower emissions because we are not transporting both the energy and the resource. Those are the sorts of arguments we will have.

Mr BARNETT: I understand the arguments. Does the minister not think it in the public interest for the Government to be open about the true level of greenhouse gas emissions?

Mr RIPPER: This issue will emerge in politics with even more force than it has. We need an open debate about the potential conflict between our economic and environmental aspirations.

The CHAIRMAN: The minister will provide the answer by way of supplementary information.

[Supplementary Information No A10]

Mr HOUSE: Pages 220 and 221 cover the capital works part of the budget. I listened with interest to the minister's reply on underground power and the provision of money for that service. I cannot identify in the budget papers any amount of money for infrastructure replacement or development in the wheatbelt or south west land division - that is, the less settled areas of the State - where the infrastructure is now 50-plus years old and in a deteriorating condition. We certainly need to be looking at the planned replacement of that infrastructure, just as was done during the 1950s and the 1960s. Have I missed something or is some money allocated for infrastructure development in those areas?

The CHAIRMAN: Will the member clarify from where he is working, because I do not see a line item on it?

Mr HOUSE: I am working from pages 220 and 221, which cover the capital works program. I have tried to identify where the money will come from to replace some of that ageing infrastructure. I have asked the minister if he could identify for me and inform me whether I have missed something or if the Government will simply not do any infrastructure replacement in those areas.

Mr RIPPER: The member for Stirling has missed something. Of course, the Government through Western Power is investing in transmission distribution and infrastructure in regional areas. However, Western Power is not an agency that appears before the Estimates Committee. The budget papers contain a brief summary of Western Power's capital works program, which is not specified by region or project.

The CHAIRMAN: It is not specified by line either. As there is no line item for capital contribution, it is not an item for discussion.

Mr RIPPER: Given that Western Power is not examined before the Estimates Committee, the member for Stirling might like to put an appropriate question on the Notice Paper.

Mr HOUSE: Perhaps the learned gentleman beside the minister might supply the answer at the appropriate time.

Mr RIPPER: Another learned gentleman would provide the answer, but this learned gentleman would check the accuracy of the answer.

Mr D'ORAZIO: With respect to the member for Stirling, the question relates to division 12. Division 11 has not yet been adopted. If the committee does not adopt division 11, we will have only 12 minutes in which to talk about divisions 12, 13 and 31.

The CHAIRMAN: We are dealing with division 11 at the moment.

Mr McGOWAN: A scheme for solar hot water systems, particularly gas boosted systems, has been developed. The minister and agencies have put forward that positive initiative for renewable energy in household consumption. What has been the take-up rate in that program and has it received widespread support from the public of Western Australia?

[3.50 pm]

Mr RIPPER: The subsidy has received support from builders who aim their packages at first home buyers. First home buyers have the advantage of receiving the grant for electric and gas-booster hot water systems. The Sustainable Energy Development Office has been working with the private sector to adopt that package and provide information to the community about the subsidy. I would like the community to be more aware of the subsidy because I am not convinced that it is widely known about. I do not know whether we have information about the take-up rate.

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Mr McGOWAN: I agree with the Treasurer that the subsidy is not as widely understood and known about as it should be. Considering it is such a positive program that sends all the right environmental messages, it would be a good idea if the Government promoted that project.

Mr RIPPER: We need a glossy pamphlet with a photo of the Minister for Energy on the front.

Mr McGOWAN: We do not want to frighten people away from the program; we want them to support it!

Mr RIPPER: I have received some advice that gives me some cause for concern that the program is not widely enough appreciated and that not enough people are applying for it. We will examine how we can get more information out of that program.

The appropriation was recommended.