

PILBARA ELECTRICITY REFORMS — HORIZON POWER

Statement by Minister for Energy

MR W.J. JOHNSTON (Cannington — Minister for Energy) [12.11 pm] — by leave: I would like to bring to the attention of the house important matters relating to Horizon Power and the Pilbara electricity reforms. The Pilbara electricity reforms have been foreshadowed for many years. They are intended to bring competition to industrial electricity consumers in the Pilbara. This is designed to create the potential for lower industrial energy costs and more opportunities for renewable and other new energy technologies in the Pilbara. These reforms were first discussed during the time of the Carpenter Labor government. They were later revived by the member for Riverton when he was the Minister for Energy during the second Barnett Liberal government. The member for Victoria Park worked on the reforms as Minister for Energy as part of the McGowan Labor government, and I am now moving to implement these reforms, with an intended start date of 1 January 2020.

However, in progressing these reforms, we have discovered a serious impediment to finalising the reform agenda. This impediment is the decision by the member for Riverton and the former Liberal government in July 2014 to require Horizon Power to enter into a high-cost, unsustainable contract for an “off-balance sheet” contract for power station capacity in South Hedland. This bad decision has raised costs for Horizon Power, and therefore the taxpayers of WA. Horizon Power is bound to this bad decision until 2042. This contract means that Horizon Power is locked out of using renewable energy for this long period, despite the fact that the Pilbara is arguably the best place in the world for renewable energy. It is important to put on record what we know about this appalling decision. Horizon Power’s Pilbara network provides electricity for businesses and households in the Pilbara. In respect of Horizon Power’s supply of electricity to households and small businesses in the Pilbara, it is well understood that the cost of supply far exceeds the price charged to consumers, and the costs are made up by a subsidy known as the tariff equalisation contribution.

The tariff equalisation contribution, also called TEC, is paid for by households and small business consumers in the south west interconnected system—that is, the consumers largely supplied by Synergy. This means, in effect, that any increase in costs for Horizon Power are passed on to Synergy’s customers. This subsidy is important for keeping electricity prices in the Pilbara at a reasonable level. However, there is no such thing as free money—additional costs are paid for by someone. In respect of Horizon Power, extra costs are paid for by Synergy consumers. Therefore, it is the responsibility of the Minister for Energy to keep the costs of operating Horizon Power as low as possible.

By way of background, Horizon Power advised the Barnett Liberal government in about 2009 that there was a foreshadowed shortfall in energy capacity for the summer of 2012–13. Horizon Power asked the Liberal government for authority to build a power station to meet this shortfall. This authority was not given. It is important to understand that the shortfall of energy did not arise. Despite no additional generation being commissioned, there were no shortages in power as the demand forecasts were too high. Although the Liberal government did not authorise the construction of a power station, for some bizarre reason, Horizon Power was authorised to build a switchyard in South Hedland, at a cost of over \$138 million. It is important to understand that the only reason a switchyard is built is to allow the connection of a power station.

This means that the Liberal government had refused to sanction the construction of a power station, but nonetheless authorised the construction of a switchyard that only had value if there were a power station to which it was connected. From this point on, Horizon Power was placed on the pathway to building a power station at the South Hedland location, despite the fact that the Liberal government had rejected the request of Horizon Power to build this power station.

In 2012, Horizon Power was authorised by the Liberal government to secure a “temporary power generator”, by spending operational expenses, rather than capital expenditure, for this purpose. These costs were therefore passed through to Synergy customers in the south west of the state through TEC. Notwithstanding that this was a temporary power station, the chief executive officer of Horizon Power told the estimates committee on 22 August 2013 —

Although we say that it is temporary, if the member went and looked at the facility, he would see that it looks pretty permanent, and from an engineering point of view it is a nice piece of work.

Despite the fact that this power station was complete and operating, the Liberal government did not consider retaining this facility as an option. All the costs of installing this station were therefore lost, and the flexibility in the contracting arrangements associated with it were not available to Horizon Power. Notwithstanding this decision, the Liberal government established a separate process to replace this power station with another power station at the same location. At this time, Horizon Power wanted to build, own and operate the new power station. However, the former government directed Horizon Power to instead participate in a procurement process to obtain the capacity through an off balance sheet power purchase agreement with a private provider. It appears that the primary driver for this approach was to obtain access to the generating capacity without disclosing the very

significant increase in the state's long-term liabilities to the people of Western Australia. In other words, this was to hide from Western Australians the true extent of the former government's spending binge.

The former government announced the outcome of this procurement process in July 2014; namely, the construction of a 150-megawatt gas-fired power station at South Hedland. The construction of the power station was underpinned by a 25-year, 110-megawatt agreement with Horizon Power, with a total cost in excess of \$1 billion. The remaining capacity was to be taken up by a mining company. Important for an understanding of the true extent of this bad decision is recognising that this contract was not for the purchase of electricity. This contract was for access to the capacity of the power station. To generate electricity, Horizon Power must provide its own gas to the power station so that electricity can be produced from that gas. As a result of the off balance sheet criterion stipulated by the former government, the power station was funded at private sector financing rates, which have substantially increased the cost. It was also a government requirement that the contract transfer ownership of the Horizon Power-owned switchyard to the private provider, even though this was never part of the original plan. In effect, the Liberal government required the successful bidder to purchase the switchyard that had been built at a cost of \$138 million—and then the Liberal government agreed to buy the switchyard back over the 25 years of the operation of the power station. This resulted in the cost of the switchyard being recovered by the private provider from the state at a private sector rate of return over the life of the contract. This effectively doubled the cost of the switchyard. This is a substantial and unnecessary additional cost that does not appear to provide any benefit to the state. It is a bizarre effort by the former Liberal government to shift debt off the balance sheet, and hide a significant extra expense of Horizon Power, and therefore shift it onto ordinary household electricity customers of both Horizon Power and Synergy.

From the start, this decision appears to have been fraught with errors and omissions. The expected increase in demand in the Pilbara electricity system has not materialised. In fact, demand is lower today than it was in 2012. Leaving aside the forecasting issues, a number of potential options for dealing with the projected capacity shortfall do not appear to have been adequately considered. For example, the option to continue or expand existing supply arrangements with Alinta Energy do not appear to have been seriously considered and the option of retaining the temporary generation facilities was never considered. These options were potentially the lowest cost options available and they certainly would have provided more flexibility and reduced risk compared with the option ultimately chosen. Nowhere in the process does there appear to have been consideration of the opportunities for low-cost renewable energy. The value of flexibility does not appear to have been considered. Locking Horizon Power into a 25-year contract means that there is no flexibility to respond to changing circumstances. As the contract is for access to generation capacity rather than the generation of electricity, there is absolutely no risk transfer to the private sector. The use of the off-balance-sheet model means that the finance cost is more than double the rate available to Horizon Power.

Even taking account of the incredible list of errors, the former Liberal government went even further in failing to protect the interests of Western Australians. Two companies bid for the South Hedland power purchase contract and Horizon Power evaluated the two bids. One supplier provided a range of flexible options for the contract; the other provided just one option. On every criterion, including cost, all the bids from the first provider were rated by Horizon Power as superior to the bid of the second provider. However, because the former Liberal government required the contract to be structured as off balance sheet, Horizon Power could not be the sole customer of the power station, so a mining company was brought into the deal. This mining company would not deal with the tenderer that had the better price and more flexible terms. As a result, the more expensive and less flexible tenderer was selected to build the power station. This demand by the former Liberal government to Horizon Power compromised the tender process for the power station by eliminating the superior tender, even though it had a better price and more flexible contractual terms than the tender that was ultimately successful. This is despite the fact that Horizon Power's tender evaluation clearly shows that the selected provider was more expensive and less flexible.

The former Liberal government's botched decision process means that Horizon Power's costs in the Pilbara are now higher than they need to be and will continue to increase unnecessarily into the future. Horizon Power's costs in the Pilbara increased by more than 46 per cent in the first year of operation of the new contract. These additional costs are almost entirely fixed costs that must be paid regardless of the amount of electricity that Horizon Power sells to its customers. By 2022–23, Horizon Power's Pilbara costs are expected to be more than 75 per cent higher than they were in 2016–17. Going forward, Horizon Power is expected to have significant unused generating capacity that will overhang the market for as long as can be reasonably expected. Further, Horizon Power will also be the most expensive provider, even compared with potential new-build electricity generators.

The long-term and inflexible nature of the contract also substantially reduces Horizon Power's ability to increase the level of renewable energy on its Pilbara electricity system. In effect, the deal will likely lock Horizon Power into using gas-fired generation as its primary energy source in the Pilbara until 2042, preventing it from moving to renewables. This is despite the Pilbara having some of the best renewable energy resources in the world, and at a time when large-scale renewables are now the lowest cost source of energy.

Further, the significant overhang of costs for Horizon Power means that it is unable to take advantage of innovative new proposals in the Pilbara to partner with other developers to support low-cost renewable projects. These challenges also mean that the Pilbara electricity reforms that have been so long in the planning are now significantly compromised. The McGowan government must consider how to overcome the consequences of the former Liberal government's bad decision. We must find a path to recover Horizon Power's losses in an equitable way to protect the taxpayers of Western Australia. If we do not share these costs across industrial consumers in the Pilbara, they will be recovered through the tariff equalisation contribution from Synergy's household consumers. The only other alternative is for the losses to be picked up by the taxpayers of Western Australia, who have already been saddled with the former Liberal government's \$40 billion of debt. We certainly do not know what the Liberal Party's plan was, apart from hiding the financial implications of this appalling deal under the cover of an off-balance-sheet transaction. We would be pleased to know whether it just planned to charge this to Synergy's ordinary consumers, as it did when it built the switchyard and the so-called temporary power station.

Of course, the current Leader of the Opposition was never the Minister for Energy in the former Liberal government. However, just because the person who brought this proposal to cabinet is no longer the Leader of the Opposition does not mean that the current Leader of the Opposition can escape responsibility for this appalling transaction. The member for Scarborough was part of the cabinet that approved this appalling deal. Perhaps the Leader of the Opposition recognised that it was a bad deal when she saw it and spoke up instead of being complicit in seeking to hide the true situation from the people of Western Australia. We need a clear picture of why the former government deliberately entered into this bad deal.

On 18 June 2018, I wrote to the new Leader of the Opposition to request access to the cabinet documents relating to this decision. This is holding back our decision-making process for the Pilbara electricity reforms and I implore the Leader of the Opposition to provide these documents so that we can move forward. It is essential that the Leader of the Opposition be open and honest with the people of Western Australia. It is time for all the details of this secret decision be made public.

Several members interjected.

The SPEAKER: Members on my right!

Statement by Member for Bateman — Response

MR D.C. NALDER (Bateman) [12.25 pm]: This is nothing more than the Minister for Energy playing politics and bowing to union masters such as Christy Cain. The Minister for Energy has long been opposed to competition in the energy sector. This is in stark contrast to the Treasurer, the former Minister for Energy. Every member in this chamber knows that the Treasurer supports choice in the electricity sector and the benefits it brings through lower prices. That is the reason why he made the decision to allow competition in the Pilbara. If members do not believe me, they can read the reasons for his decision, which were published on the Public Utilities Office website. This is in stark contrast with the Minister for Energy who has long opposed competition in the energy sector to support his union mates. The minister is trying to find any excuse to reverse the former energy minister's decision, which is not surprising, given that it would be very difficult for him to argue against competition in the electricity sector in the south west interconnected system when he supports it in Karratha and Port Hedland. He is now using a power station as an excuse for major reforms that will deliver benefits for businesses and households in the Pilbara. The Treasurer was fully aware of the contract with TransAlta when he made his decision. He never used it as an excuse for why he could not introduce competition. In fact, when the former Minister for Energy opened the power station in November 2017, he said —

One of the most efficient power plants in Western Australia was opened in an event that welcomed a new era of energy for the Pilbara.

...

The new power station, delivering 150 megawatts of the most fuel-efficient energy in the Pilbara, is the result of a successful joint initiative between the state government and industry to meet the long-term power needs of the region.

An extensive procurement process funded by the state government and driven by Horizon Power awarded the contract to build, maintain and operate the station to Canadian energy company, TransAlta.

This followed two years of negotiations, designed to deliver power to the Pilbara at the lowest possible cost to taxpayers.

This is in stark contrast to the current Minister for Energy's arguments. What is actually going on here? What is going on is that the Minister for Energy is against competition in the grid, which he is trying to shut down. He is in opposition to his colleague the Western Australian Treasurer, who is absent from the chamber at the moment. That is what we are flushing out. We are flushing out the grubby internal politics that the Minister for Energy is

playing. He is trying to lay blame on the former administration and not look at the accountability of the Treasurer, who was open to competition. We know that the Minister for Energy is deadset against it and that is what this policy and the grandstanding in the chamber today is all about. We will flush that right out, because the Minister for Energy's issue is not with the opposition and the Nationals WA, but with his Treasurer. We can see that the Treasurer fully supported it.

Mr D.J. Kelly interjected.

The SPEAKER: Minister for Water!

Mr D.C. NALDER: I will go back a little and refer to some comments that were made by the Joint Select Committee on Northern Australia. Its deputy chairwoman was Hon Alannah MacTiernan, who was shadow parliamentary secretary for Western Australia.

Mrs L.M. Harvey: Bring back Alannah!

Mr D.C. NALDER: She was in support of this project. I quote —

“Of all the priorities across the State, the number one nation-building project is the building of this,” she said.

That is in reference to the power grid project in the north west interconnected system. The article continues —

“It's every bit as important as building roads.

“It's been demonstrated the power demands will increase in the Pilbara; this is the most cost-effective way of dealing with it.”

That was a quote from Hon Alannah MacTiernan in the *Pilbara News* —

Several members interjected.

The SPEAKER: Members, your own member is on his feet. I cannot hear what he is saying, and I want to hear it.

Mr P.A. Katsambanis: Repeat it!

The SPEAKER: I will repeat you out the door, the way you are going!

Mr D.C. NALDER: Thank you, Mr Speaker. This was in the *Pilbara News* of Wednesday, 17 September 2014. It again highlights that the Minister for Energy is out of step with his own parliamentary colleagues. I do not know whether he has consulted his colleagues to find out what their views are. I am sure he is aware of the Treasurer's views on opening up the NWIS and his public statements in support of that to increase competition because of the benefits it would bring to consumers.

I am a little confused as to what arguments the minister is actually making. He purports to make some off-the-cuff remark about not having cabinet documents opened up. If we are going to do that, I assume he therefore supports Metronet cabinet documents being opened up to the opposition to ensure that we scrutinise this government properly and make sure it is doing the right thing. As a former Minister for Transport, I can assure the minister that I was advised by the department that to build a railway line to Ellenbrook before 2030 would not be feasible or justifiable from a business case perspective. Here is the Minister for Energy wanting all these cabinet documents opened up, yet he is not prepared to have his own cabinet decisions scrutinised. That is the inconsistency and hypocrisy of this minister.

There is no question that this minister continually plays grubby politics. What I cannot understand is his obsession with the opposition. He has not yet woken up to the fact that he is in government and that he has to actually say how the government is going to take this forward. He makes arguments that he needs access to past documents, but he does not make a cogent argument as to how that is going to benefit decision-making to take something forward. All he is interested in is trying to find a little area in which he can pointscore against the opposition. The minister needs to wake up. He is in government and he is there to make good government decisions to take this state forward, not to focus on the past and fail to make cogent arguments as to why he should have access to confidential documents. It has always been standard practice that such documents are preserved. He knows that; he knows the conventions of this place. He is seeking something outside the conventions without making any argument as to how that will improve things for the community of Western Australia. All he is interested in is cheap political pointscoreing. It does not work; we can see through what he is doing.

The minister does not even have the support of his own parliamentary colleagues. At the end of the day, it is all about supporting the people of the Pilbara by delivering a safe, reliable and fuel-efficient supply well into the future. The reforms to introduce competition were supported by the former government and are still supported by the opposition. Western Australian households are struggling under the burden of massive cost-of-living increases, and the introduction of competition in the electricity sector will bring downward pressure on electricity prices. That should be the minister's responsibility to the people of Western Australia—not going out there, spruiking that

he has delivered the lowest increase in 10 years on the back of record price increases at a time when people's salaries are not going up and they cannot afford those increases. One in six mortgaged houses in Western Australia are in negative equity, yet the minister is increasing people's household charges at a faster rate than the rate at which their wages are increasing—and he wonders why they are hurting. Over the last two years, the power increases for 20 000 businesses were greater than 40 per cent, and the minister wonders why we are seeing so many small businesses and shops closing up and down our streets in Western Australia.

The minister needs to wake up. His priority has to be supplying cheap and affordable electricity to the consumers of Western Australia. He does not have a cogent plan for how he is going to deliver that; all he is doing is cheap political pointscoreing, and I will tell him what: it is embarrassing his government. He needs to wake up and actually start delivering something for the people of Western Australia so they can say, "This guy's actually championing a cause for us." The comments that we in opposition are receiving are that he is not. People are actually saying, "We're hurting." It will not matter if the power increases in the next 12 months are the lowest in 10 years, because it will be compounded on what has come before it. The minister has already gone beyond what was in the forward estimates. There was a 10.9 per cent increase in the first 12 months and 19 per cent power increases in the first two years. We know from freedom of information documents that were supplied to the Treasurer that this has disproportionately affected those who can least afford it. We know that it has affected pensioners and that single pensioner households have seen power increases of greater than 30 per cent.

This government does not care; this government is not showing responsibility for the people who are struggling. That is what the minister needs to focus on—delivering cheaper, more reliable energy for the people of Western Australia. I ask the minister to please focus on how he will take this state forward and stop reflecting on the past. He is behaving as though he is in opposition! He is in government. At some point he is going to wake up and realise that he is in government. At some point he is going to wake up and say, "Oh, it's my responsibility to develop a plan for the future of Western Australia!" How about he use his 15 or 20 minutes to stand up and spell that out for the chamber? That is what we would like to hear—not this cheap political pointscoreing that focuses on the past. That has been a surprise about this government.

Let us look at the concerns of households in this state. As I said, one in six mortgages are in negative equity, and record numbers of people are seeking hardship utility grants, after the government made it almost impossible for them to get them, to help pay their bills. That should be the government's priority; that is what it should focus on. The number of people who have been disconnected has doubled in the past 12 months to nearly 20 000 disconnections. That is what the government's priority needs to be—not cheap political pointscoreing. Every government member sitting in a marginal seat should spell that out to the minister, because I can tell the minister now that that is the issue his colleagues have. They are going to face an election in less than 18 months —

Ms S.E. Winton interjected.

The SPEAKER: Member for Wanneroo, I call you to order for the first time.

Mr D.C. NALDER: They want to understand what the government is doing to help the people in their communities, because at this time, it is not helping them. It is totally absent. The minister beats his chest about the lowest power increase in 10 years whilst record numbers of people are being disconnected. I have not seen the minister respond to that. He sits there saying, "It's the lowest in 10 years; I beat my chest!", while people are suffering. The minister has to do something about this, because we are going to take this all the way to the election—the lack of focus of, and the lack of response from, this government, and its lack of care about people. The minister is living in the past, he is not dealing with the future, and the people of Western Australia want to see a plan for the future—not the minister looking over his shoulder, particularly when he cannot give a reasonable argument as to how that information is going to benefit him in the decisions he makes going forward. That is what really reinforces that this is purely grubby politics from the Minister for Energy, and he should know better.

Statement by Leader of the Nationals WA — Response

MS M.J. DAVIES (Central Wheatbelt — Leader of the Nationals WA) [12.38 pm]: We had 20 minutes of diatribe from the Minister for Energy and a seven-page document. I have to confess that when I was reading the document and trying to understand the intention behind asking the Parliament to consider an extended brief ministerial statement, I thought there must have been some serious reason. When we were in government, I think there were three, and never did we use the processes of Parliament for such grubby political purposes. It does not surprise me that this minister has done so. Seven pages in, we actually figure out exactly what his agenda is, and it is grubby political manoeuvring to deflect from what is going on behind the Premier in his party. The government is focused on the opposition instead of doing its job as the government of Western Australia.

Mr D.J. Kelly interjected.

The SPEAKER: Members! Minister for Water, that is the second time.

The previous speaker outlined absolutely why this is not worth the paper it is written on or the 20 minutes that we had to sit here and listen to the Minister for Energy present it. It is sleazy, it is political, and it is deflecting attention from the government's own internal fighting. It is grubby and overtly political.

The minister had absolutely no need to bring this statement to the Parliament. He is part of the government and it has responsibility for solving some of the challenging circumstances that it finds itself in. I think the previous speaker outlined exactly what the government should be doing: that is, having the discussion within its own ranks to decide what the government's priorities are. We are not going to break the convention and agree to release cabinet documents. The minister did not need to come to the Parliament to do that. We could have told him that, but he has absolutely no respect for these processes. How appalling that statement was. Using this Parliament in that way is a disgrace and it reflects more on the Premier and the minister than it does on the opposition or anything the minister has tried to raise in his ministerial statement. The government comes in here every day focused on the opposition and, as members opposite have highlighted, it tries to score points like a gaggle of schoolkids. The public notices behaviour like that. Members opposite should behave like a government—do their job. Their ministerial officers spend all their time trawling through old *Hansard*, media and social media so they have the punchline in question time. People expect more than that. They expect more of their government and this is an appalling use of the Parliament's time. It deserves no consideration from this opposition and no consideration from us. It is not worth the paper it is written on or the 20 minutes that we had to spend listening to it. Members over there are fighting each other. They are fighting internally. They are trying to deflect attention from what is going on within the Labor Party at a state and federal level and within its organisation. It is no surprise to us that documents relating to the police department have been leaked to directly link and cast a shadow over the new Leader of the Opposition. We now have this political manoeuvring in the Parliament today. It is overt and the public understands that. It is obvious and the government should be doing better than that.

Government members should get on with the job of governing and stop behaving like a pack of schoolkids. The statement raises more questions than it answers and it will certainly create uncertainty for the stakeholders that the minister says he has been working with, and certainly his Treasurer has been working with in his role. I look forward to speaking to some of those stakeholders after they have had the opportunity to scrutinise this position statement. All we have to say to members opposite in relation to this is: shame on you, and shame on your Premier for allowing this to be brought to the Parliament in this way. Their grubby, hypocritical, politically motivated utilisation of schoolyard tactics will be seen by the public for exactly what it is and the stakeholders they need to deal with. They are the hallmarks of this McGowan Labor government. That is exactly what this is, and it deserves no further consideration by this Parliament.

The SPEAKER: Orders of the day.

Several members interjected.

The SPEAKER: Members!

Several members interjected.

The SPEAKER: Members! Premier, member for Churchlands and member for Bateman, I call you all to order for the first time. I was on my feet.