

SYNERGY — PREMIER COAL SUPPLY AGREEMENT

792. MR N.W. MORTON to the Minister for Energy:

Could the minister provide further information to the house on how the Liberal–National government has supported Synergy in its attempts to ensure a sustainable coal supply agreement with Premier Coal?

Dr M.D. NAHAN replied:

I thank the member for that very important question. Coal is important to the state; it provides about 40 per cent of our electricity consumption in the south west. Coal has been a longstanding major supply of fuel to the electricity industry, and it all comes from Collie.

Back in 2004, the old coal supply contract was coming up for renewal. Western Power at the time bought energy from two players—Griffin and Premier Coal. Western Power at the time, with the support of the then government, agreed to change that; that is, it sought a new coal supply agreement and set up the two companies to compete with each other. Subsequently, the government signed an agreement with Premier Coal, owned then by Wesfarmers, to buy coal exclusively from Premier Coal and not from Griffin Energy. That is an important point. The government got a very good price—no doubt about it—a substantial reduction in price. To give members an indication, it came into effect in 2010, the old contract was up to 2010, the price that Verve Energy was buying coal under the old contract was at the end, the last purchase price, in the vicinity of \$100 a tonne. The contract signed with the Premier was less than 40 per cent of that price.

Almost immediately, even before the contract started producing coal in 2010, the owner, Wesfarmers, came to Verve at that time and started to say that it was under the water and that the prices were too low. As we now know, Wesfarmers sold it to a firm owned by Yancoal, a Chinese firm, and it now runs Premier Coal. I do not know how it sold it, but it did; it got just south of \$300 million for that facility. Soon after purchasing it in December 2011, Yancoal came to Verve and said that the price was too low and that we had to do something. It had been coming back and over. A year ago, 2013, Premier Coal, with the support of its parent, came to Verve Energy at that time—soon to be Synergy—and said that the price is too low and if it continued at that price, the company would probably go into receivership. With the support of the parent company, Synergy has been negotiating with Premier Coal. I must say, Premier Coal is a well-run, professionally managed operation, and is committed to the coalfields. That is what we want. One of the problems that we have had is the large number of changes of ownership, causing risk and uncertainty to not only the coalfields and the employer, but also the electricity firm.

As I announced yesterday, Synergy has renewed, altered and renegotiated that contract, which includes an uplift of the price. It also procured a number of other aspects of the contract to ensure that it has better rights, particularly in case the operation goes into receivership. I might add that the uplift is nowhere near what Premier Coal wants. Even with the uplift, Premier Coal is struggling to make an operating return. It has to carry out substantial reforms, including investment in additional capacity and additional opening of new seams if it is to remain viable, so it was a hard bargain.

I might add that I have been criticised by people opposite about not reopening the contract completely—that is, to allow other parties to bid. That would be a breach of contract. The contract signed by the Labor Party gave exclusivity to Premier Coal; that is, Synergy and Verve have to buy all their coal from Premier Coal. We are doing nothing more than renegotiating an existing contract signed by the Labor Party. The idea to open it up to other bidders would be a violation of the contract and, no doubt, it would lead to penalties if we did that.

The SPEAKER: Minister, can you start winding the answer up, please.

Dr M.D. NAHAN: We have also renegotiated the contract so that it has confidentiality clauses in it, and we are adhering to that as per the existing contract. Again, people opposite have criticised me for not being completely open about all the details. All I can say to them is to go back to what the then energy minister, Alan Carpenter, and the then Premier, Geoff Gallop, stated when they announced the contract—that the details are confidential, just like all fuel contracts we have.