

Chairman; Mr Bill Johnston; Mr John Day; Mr Paul Miles; Mr Tony O’Gorman; Ms Margaret Quirk; Dr Mike Nahan

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**Verve Energy —**

Mr P.B. Watson, Chairman.

Mr J.H.D. Day, Minister for Planning representing the Minister for Energy.

Mr J. Waters, Chief Executive Officer.

Mr W. Borovac, Chief Financial Officer.

Ms A. Nolan, Director General, Department of Finance.

**The CHAIRMAN:** This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister’s cooperation in ensuring that it is delivered to the committee clerk by Friday, 8 June 2012. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk’s office.

I now ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

**The CHAIRMAN:** Member for Cannington.

**Mr W.J. JOHNSTON:** I refer to the asset invest program detailed on page 597. Regarding Verve Energy’s high-efficiency gas turbine plant under construction at Kwinana, how much is Verve required to pay the Independent Market Operator each day because it has not brought the unit online? How much do these payments now total? How much is expected to be paid into the future? When is it expected that this unit will be brought online?

**Mr J.H.D. DAY:** That information is not available now. We are happy to provide it as supplementary information if the member wishes. I understand that it is not commercially sensitive. Does the member want that as supplementary information?

**Mr W.J. JOHNSTON:** If that is the way I will get it, that is fine.

**The CHAIRMAN:** Could the minister advise the Clerk of the information he will provide.

**Mr J.H.D. DAY:** We will provide that information.

**The CHAIRMAN:** Would the minister just let us know what the information is.

**Mr J.H.D. DAY:** It is the information that the member for Cannington requested.

**The CHAIRMAN:** Could the member for Cannington detail it?

**Mr W.J. JOHNSTON:** Regarding Verve Energy’s high-efficiency gas turbine plant under construction at Kwinana, how much is Verve required to pay the Independent Market Operator each day because it is has not brought the unit online? How much do these payments now total? How much is expected to be paid into the future? When is it expected that this unit will be brought online?

[*Supplementary Information No B54.*]

**Mr W.J. JOHNSTON:** Is United Group Ltd seeking contractual benefits from Verve; and, if so, how much is the claim against Verve?

**Mr J.H.D. DAY:** I will ask Mr Waters to comment on that.

**Mr J. Waters:** The specifics of our contractual arrangements with United are confidential, so I cannot provide any particular detail.

**Mr W.J. JOHNSTON:** Is it seeking contractual benefits?

**Mr J. Waters:** There is a regime laid out in the contract, the details of which are confidential and I cannot go into them any further.

**Mr W.J. JOHNSTON:** The project is currently not only six months late, but also more than \$10 million over budget. Is it envisaged that there will be even more blow-outs in this project?

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**Mr J. Waters:** The project will be delivered to the system imminently. Commissioning is underway now and we believe that the cost overrun of approximately 10 per cent will be the final figure.

**Mr P.T. MILES:** I refer to the net debt levels on page 597, which shows that Verve Energy is able to fund its asset investment program from internal funds. Can I ask the minister to outline some of the key initiatives that have contributed to the reduction in the net debt levels?

**Mr J.H.D. DAY:** Is the member talking about the net debt levels of the state overall, as opposed to Verve Energy specifically?

**Mr P.T. MILES:** Of Synergy.

**The CHAIRMAN:** Is this a question about Verve Energy, member?

**Mr P.T. MILES:** It is about internal funding.

**Mr A.P. O’GORMAN:** Just read out the answer you have, minister.

**Mr J.H.D. DAY:** Whether or not it is the right answer remains to be seen!

I am advised that net debt levels for Verve Energy are expected to fall by \$697 million from June this year through to June 2016. Some of the actions that are expected to result in this reduction include a new gas-swap agreement entered into during 2011–12 that is expected to lower the net debt in 2015–16 by \$250 million compared with the reported levels in the midyear review. Key recommendations of the 2009 review into the financial position of Verve Energy have been put into effect and that has enabled Verve to produce an appropriate economic return on its substantial electricity generating assets and lower its debt to sustainable levels. The use of private sector investment through joint venture agreements for projects such as the Muja A and B refurbishment, the Mumbida wind farm and the Greenough River solar farm project is also expected to alleviate pressure on net debt levels and have a positive effect. Savings will be made to Verve’s operating expenditure as a result of the efficiency dividends announced by the government in the 2011–12 and 2012–13 budgets. In addition, there will be capital expenditure savings in 2015–16 as a result of the government’s capital works review, which was announced in the 2012–13 budget. All these decisions make a contribution to ensuring that the state will retain its AAA credit rating.

**Mr W.J. JOHNSTON:** The minister mentioned the government trading enterprise efficiency dividend. I note the comment by the CEO of Verve last year that it was extremely difficult for Verve to meet those dividends because of the significant efficiency efforts it had already made. There is a note in the midyear review that Verve had not submitted a plan that matched the Treasurer’s plan for future efficiency. I note the Treasurer’s comments in the estimates hearings yesterday that, if he had to, he would issue a direction to Verve regarding this issue. What is the difference between the amounts claimed under the Treasury claim for the GTE? How much has the Verve board agreed to? Has the minister issued a direction?

[5.40 pm]

**Mr J.H.D. DAY:** My understanding is that no direction has been issued at this stage. Discussions are ongoing between the minister’s office and the Treasurer’s office, and no doubt between the two ministers’ offices, with a view to achieving what has been announced by the Treasurer. It is the case, I am assured, that service provision will not be affected. Obviously, ways to operate more efficiently need to be identified, and discussions are being undertaken between the two ministers.

**Mr W.J. JOHNSTON:** I have a further question on this issue. For the 2011–12 financial year, which is nearly complete, what is the difference between what was claimed by Treasury and what is being delivered by Verve Energy?

**Mr J.H.D. DAY:** I am not aware of any decision to vary what was published in last year’s budget. Unless there is a decision between now and the end of the financial year, that will be the case no doubt. But that is an issue for the Treasurer primarily to deal with.

**Ms M.M. QUIRK:** I refer to the equity contribution amount of \$31 362 000 on page 597 of the *Budget Statements*. Is it expected that further equity contributions will be required in the out years. Does the government expect that Verve will build another major power station at any time in the next four years? If yes, can the minister explain when this might occur, what planning has been done so far and how much it is envisaged this work might cost?

**Mr J.H.D. DAY:** I will ask Mr Waters to comment on future electricity generation and, as far as can be publicly made available, the proposals being considered by Verve.

**Mr J. Waters:** Nothing beyond the estimates.

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**Mr J.H.D. DAY:** On the equity injection, I will ask Wally to comment.

**Mr W. Borovac:** I refer to pages 8 and 9 of budget paper No 2, which refer to further equity injections expected to be put into Verve. I confirm that \$31.4 million for the 2011–12 year relates to the high-efficiency gas turbines, so that is the balance of the equity injection for that. For the 2012–13 year we expect to get an injection of \$24.5 million, which is a contribution towards the development of the Mumbida wind farm; and in the out years, 2015–16, there is provision for another \$25.5 million, which is nominally set aside for a further wind farm development.

**Mr W.J. JOHNSTON:** But they are not reflected on page 597.

**Mr W. Borovac:** Yes; sorry. The member asked what further equity injections will be made. Pages 8 and 9 of budget paper No 2 outline the further equity injections expected to be made. The ones on page 597 specifically relate to those investment programs and how they will be funded going forward; therefore, \$31 million is expected to be injected for that.

**Mr J.H.D. DAY:** I will ask Mr Waters to provide some information about future generation development.

**Mr J. Waters:** We have a generation plan that will typically look out to 15 years, and we are constantly reviewing a range of alternatives around new power stations, depending on the availability of technology; renewable energy targets; and price and availability of gas and other fuels. We therefore do not have a specific project being worked up beyond the current crop of projects; however, we are always looking at new baseload, a new Merredin peaking plant and certainly new renewable energy projects extending out a long way into the future.

**Mr W.J. JOHNSTON:** In looking at the next four years and into the future, when does Verve think it will need to make a decision about another major piece of investment?

**Mr J. Waters:** The next power station investment we would see is a large baseload power station at this stage around 2019–2020. Obviously, the decision around that would have to be made some years prior.

**Mr A.P. O’GORMAN:** I refer to page 597 again, which states —

The primary functions of Verve Energy are to generate and supply electricity in the ... (SWIS) region.

What is the estimated and actual expenditure of Verve Energy on fringe benefits tax for the 2011–12 year; how much of this was in respect of entertainment; how much was the underlying expenditure that attracted the entertainment FBT; and what are the details of that expenditure?

**Mr J.H.D. DAY:** I will ask Mr Waters to comment on the general issue of entertainment.

**Mr J. Waters:** On the specific matter we might have to come back with some further information, but generally we are constantly reviewing our approach in regard to entertainment. We clearly understand that we have an obligation to operate within community expectations. It is a large part of our business to ensure that we operate in that way, and we are working towards improvements and savings as we can find them within that space. Bear in mind that when we are talking about matters such as Christmas parties and staff rewards, we also have a need to retain our good-quality staff, who are attracted in a lot of cases to mining and upstream energy sectors, and we have lost good people to those areas in the past. We therefore have to balance what is reasonable with the need to keep our staff motivated and rewarded and, obviously, in our employment.

**Mr A.P. O’GORMAN:** Mr Waters has indicated that we are going to get the specifics from him.

**Mr J. Waters:** We will have to give that on notice, I think.

**Mr J.H.D. DAY:** We will provide that.

**Mr A.P. O’GORMAN:** By supplementary information?

**Mr J.H.D. DAY:** Is it the amount expended on fringe benefits tax?

**Mr A.P. O’GORMAN:** I will read it again, minister. What is the actual expenditure for Verve Energy on FBT for 2011–12; how much of that was in respect of entertainment; how much was the underlying expenditure that attracted entertainment FBT; and what are the details of that expenditure?

**The CHAIRMAN:** Is the minister happy with that?

**Mr J.H.D. DAY:** Yes.

[*Supplementary Information No B55.*]

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**Dr M.D. NAHAN:** I refer to funding issues on page 597. What is the latest estimate of the cost of meeting any carbon tax for Verve; how will it be met; and how will it fund it or charge for it?

**Mr J.H.D. DAY:** Mr Waters.

**Mr J. Waters:** The specifics of the number are not settled yet, but it is a significant sum of money—in excess of \$200 million—per annum for Verve Energy. I guess our opening position is that it is a payment that we will pass through to our retail customers, primarily Synergy but including other retailers in the market, with which we have existing contracts. We are going through a process with each of those retailers now in assessing the pastoral arrangements and how we will handle the recovery of those costs. In regard to how we deal with it in the longer term, we clearly now have a pricing in the market that will require us in the longer term to reduce our CO<sub>2</sub> emissions and obviously that really ties into our plant investment program and other things that the business is doing in the longer term.

**Dr M.D. NAHAN:** How is Verve going to pass it on? Particularly, how will Verve pass it on to retail customers? The price is regulated.

**Mr J. Waters:** Yes, that is a Synergy issue.

**Mr J.H.D. DAY:** I will ask Anne Nolan to make a comment.

**Mr W.J. JOHNSTON:** Point of order, Mr Chairman. This is Verve, and Verve cannot answer on behalf of Synergy.

**Mr J.H.D. DAY:** It is, but I have asked the Director General of Finance, which includes the Public Utilities Office, to be in here just to assist in dealing with the wider policy issues.

**Mr W.J. JOHNSTON:** Yes, but this is Verve.

**The CHAIRMAN:** I do not think you can do it, minister.

**Mr W.J. JOHNSTON:** We have Synergy in next. I mean, give us a break!

**Mr J.H.D. DAY:** I will ask Anne Nolan just to make a brief comment and then if we want to go back to Verve, that is fine.

**The CHAIRMAN:** I do not think she can, minister.

**Mr J.H.D. DAY:** So that is a direction, is it?

[5.50 pm]

**Dr M.D. NAHAN:** The question is: how will the costs imposed on Verve be passed on?

**Mr J. Waters:** Specific to Verve?

**Dr M.D. NAHAN:** Yes.

**Mr J. Waters:** We have obligations under the broad carbon tax regime. We will have to meet standards in monitoring our CO<sub>2</sub> emissions. That is primarily done through metering fuel input quantities and plant efficiency arrangements. Obviously, we will monitor and track them. For each of the retailers that buy our output we will attach a price based on the amount of carbon we emit in a period and the price of that carbon, and recover that money from that retailer under contract.

**Dr M.D. NAHAN:** The aim of the carbon tax is to get Verve to react by moving towards lower carbon emissions. What is Verve’s response to this tax? How much carbon emissions does Verve expect to save over the next, say, four years?

**Mr J. Waters:** I do not have the specifics of the abatement at hand, but in our market the quantity is very low. In our case it may be almost zero on the basis that, typically, abatement occurs through the transference to the next least carbon-intensive fuel. In our market that would require a transfer from coal to gas and the carbon price has to be such that it overcomes the price differential between coal and gas. In our market we have such a differential at the current carbon price and what it is forecast to be over the next four or five-year period that we do not see that gap being closed.

**Dr M.D. NAHAN:** To get it clear, Verve will incur costs in the vicinity of \$200 million a year—it has not been settled—and the chief executive thinks the response in terms of carbon savings, which is objective, will be close to zero?

**Mr J. Waters:** Correct.

**Mr W.J. JOHNSTON:** Is the chief executive saying that the price of carbon is so low that it will not have an impact on Verve’s generation fleet?

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**Mr J.H.D. DAY:** My interpretation of that is that it will certainly have an impact on the amount Verve needs to charge its customers for the electricity it produces, but it will not be so large as to produce a change in Verve’s generation arrangements.

**Mr W.J. JOHNSTON:** Thank you. I refer to page 597 and the purpose of Verve to generate electricity. What is the current usage of the Muja power station? Last year it was said to be a mid-merit plant; is that still the case? How many units of the Muja station are used in that capacity? For how many hours was the plant used in the past 12 months? Is the refurbished AB plant still scheduled to be completed late this year? Is the budget for this project still \$150 million, the amount on the website? How many units are held in reserve for potential gas outage, which was talked about last year? Has the introduction of the Mondarra gas storage facility impacted on the need to retain the Muja units as reserve against a possible major gas outage?

**Mr J. Waters:** We will have to take a number of those questions on notice, I am sorry. The Muja AB plant is on target for the commercial operation as per the plan. The Mondarra gas facility is planned to come online early 2013, so its impact has not been fully analysed in terms of how it will change the dispatch at Muja, although my expectation is that it will not change it. I can provide the other answers as supplementary information.

**Mr W.J. JOHNSTON:** Is the budget for Muja still \$150 million?

**Mr W. Borovac:** Yes; at this stage that is the budget. However, it is a project and there could be overruns. I have to put that out there but, to the best, of my knowledge, at this stage that is the budget.

**Mr W.J. JOHNSTON:** I will read out the technical questions that I need as supplementary information. What is the current usage of the Muja power station? Is it continuing to be used as a mid-merit plant? How many units at the Muja station are used in this capacity? For how many hours was the plant used in the past 12 months? How many units are held in reserve for potential gas outage?

**Mr J. Waters:** Is that at Muja?

**Mr W.J. JOHNSTON:** Yes, the Muja facility.

**Mr J. Waters:** The answer is zero but we will provide a comprehensive answer.

*[Supplementary Information No B56.]*

**Dr M.D. NAHAN:** The chief executive mentioned that Verve is adding investments in a wind farm. What is the cost to Verve of purchasing the power for the wind farm, including any spinning capacity, Verve must also have on its other baseload plants? How does that compare, say, with the cost of production from one of Verve’s coal-fired baseload stations?

**Mr J.H.D. DAY:** The precise information is commercially sensitive; however, I think the member may be asking for some comment on the comparative cost or purchasing power from that form of generation compared with other non-renewable sources.

**Dr M.D. NAHAN:** Yes; I do not need a precise amount.

**Mr J. Waters:** When we consider the total cost of the project and the reduced yield compared with that for baseload forms of generation—a wind farm might operate only 40 per cent capacity factor, for example—wind power is still a more expensive form of generation than the alternatives of coal and gas. We may be talking 30 or 40 per cent more expensive.

**Dr M.D. NAHAN:** That is what I was after; the differential is 30 or 40 per cent. The real issue is the relative indicative price. Are the wind farm costs, relative to, in this case, the lowest price of coal-fired power, coming down because of the technology, the location or other factors?

**Mr J. Waters:** All forms of renewable energy are slowly getting cheaper. We have seen that progression over a number of years, although they have a fair way to go to meet our current cost benchmark for fossil fuel generation. However, one issue that renewable forms of generation, particularly wind, have with our system being relatively small is that it introduces a degree of instability to the system that can increase the cost of production elsewhere. We have certainly seen that, so the question in constructing renewable energy projects, particularly wind farms, has to be judged on not just the cost of that facility relative to alternatives, but the broad cost impact on the system, which can increase as a result of wind generation in particular.

**Mr A.P. O’GORMAN:** I refer to sustainable energy on page 597. Does Verve have any additional plans for sustainable energy? When does Verve intend to put them into action if it has them, and how much does Verve expect to spend on these projects?

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**Mr J.H.D. DAY:** We have just covered that issue to some extent, but in relation to the comparative costs, I will ask Mr Waters to respond.

**Mr J. Waters:** In terms of a pipeline of projects, we have the 10-megawatt Greenough solar farm under construction, and there is a proposal to increase that to 40 megawatts. I believe the under-construction Mumbida wind farm, at 55 megawatts, can have turbines added to increase its output by an estimated further 30 megawatts to bring it up to 85 megawatts. In addition, development work is underway on a number of other wind farms at sites across the state. Warradarge in the midwest is one I can name and I am aware of Wellstead in the great southern. Obviously we continue to look and work towards that.

*Meeting suspended from 6.00 to 7.00 pm*