

ELECTRICITY CORPORATIONS AMENDMENT BILL 2013

Second Reading

Resumed from 30 October.

MR M.P. MURRAY (Collie–Preston) [11.19 am]: I will continue my few words of yesterday with a few words of concern. I think many words of concern should be spoken about this Electricity Corporations Amendment Bill, which contains many shortcomings and a lack of detail about how it will work. We have seen the Muja AB fiasco when this government lost almost \$400 million, yet a bill has been introduced and no-one can tell me whether savings or losses are in the wind. I do not think it is right for the government to introduce a very broadbrush bill that does not contain details of costings or regulations that the public, the opposition or even government members can see. There is something very smelly about it, to say the least. Its drafting is so broad and open that as far as we know, costs could even make a record and be more than \$400 million. More cuts would then be imposed on the general community, which we should be looking after.

I have never seen a Liberal government turn socialist halfway through holding office, but that is what has happened with this government in this legislation. It will bring back the running of the electricity system to the government. I have never heard of a socialist Liberal government. I do not think it fits; it is like mixing a pork pie with a custard pie. It is terrible because industry does not want it, yet due to its inept handling of electricity in this state, the government thinks it is a good idea. We have no detail. How will it work? If the minister can explain to me how it will work, I will change my position, but he does not seem to be able to tell us what savings will be made, if any. I do not believe there will be any savings. We do not understand what has happened to the 3 000-megawatt cap, which was allowed for in the disaggregation. What does industry think about the re-merger? How will industry deal with it given there is no detail in the bill. The regulations that contain the detail are very important in the supply of electricity, which is very vital to our state's growth and to society generally. For the minister to say it may or may not reduce electricity prices to the general community or to industry, which relies on it, is quite bizarre, to say the least. We do not know whether electricity prices will go up or down. We have seen electricity prices skyrocket under this government, yet under this bill we do not know what will happen in the future. We are flying blind. This re-merger is occurring on the Premier's whim, and the Minister for Energy has had to act on it. As I said yesterday, I do not think the minister is convinced of the merits of his own bill. If he were, he would provide the detail in the clauses of the bill to let us know exactly what it is about.

People have said I am being blindsided by the coal industry, but it is a major part of the energy system. I would like to be able to go back to my community and my businesspeople and tell them how the re-merger will work, but the bill contains no detail. I can see no rhyme or reason for the introduction of this bill. As I said yesterday, there is room to make some changes to the present system, but let us make them for the better rather than follow someone's political idealism and thought processes. We have seen many thought bubbles burst since this government has been returned to power.

I think it is incumbent on the Minister for Energy to give us more information on the regulations so that we know how the legislation will work in the future. It is incumbent on the minister to tell us the savings and the benefits to not just certain parcels of the community but the community as a whole. People do not know what they are. We have been to briefings with several people, who have said, "I can't give you that answer; I don't know where we're going. How do you as politicians who are voting on this bill understand it?" Today I took a very broadbrush look at comments in the press, and people in the media are as confused as we are about where our electricity system is headed. The minister must do more to convince us that this bill is the way to go.

We do not want the shambles we have seen in the industry over the last couple of years. We do not want to see those cost blowouts that have caused money to be taken from schools because we have to fund deficits in other areas. We do not want to see money taken away from our health services because we have an electricity system that will potentially crumble in the future. I am very concerned about where we are headed with this legislation.

The impact on the business community is very important. It needs certainty around whether to invest. I am talking about not only electricity generating businesses, but also downstream businesses that rely on a secure and readily available electricity supply. I do not see this happening; this bill is muddying the waters and causing people to wonder whether they should invest. They are not clear about where to invest their money; they do not understand our system. Will it be all under government control or will it be under private control? I think the government is taking it away from private control—I am not completely sure. The minister could not explain to me the situation with the 3 000-megawatt cap. I would love to hear whether there is a cap. We have to remember that people have invested huge amounts of money in private enterprise and private power stations, only to have new rules apply. The mind boggles to think that this is the way we are heading. Where are we going? Sure, there must be reform, and, sure, we must be careful about what we do with the system. But this bill does not meet the

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mark; it is short on detail and we need the detail to be in the public arena for consideration by major investors, the community and all people in industry before the bill is passed. I understand the regulations will be developed after the bill is passed. That is unfair on not only the opposition but also the business community.

I think the minister has been blindsided. I do not know how he has managed to keep the Chamber of Commerce and Industry quiet. It was initially vocal in its opposition to the re-merger, and other members of the community have said it is the wrong way to go. It is not the Liberal Party way. In fact, if the Labor Party had sought to make this change, the Liberal Party would have called us the worst socialist rednecks ever seen, but Liberal members are making this change. It is very hard to fathom where the government is heading with this. It makes me suspicious about whether there will be any benefits from this change because the detail is not in the tail of it. I am very interested to hear the minister's answer. I know he has the numbers to push this bill through, but he should remember that once he upsets big business, the political will of those people may see the minister out of a job at the next election.

MR M. McGOWAN (Rockingham — Leader of the Opposition) [11.29 am]: I rise to contribute to this debate on the Electricity Corporations Amendment Bill 2013. This has been a contentious issue for some period. Until this point and certainly before the last election, it was my view that a consensus had been reached in Western Australia that the reforms that had been put in place and the effort to create a market and additional competition within the electricity sector was an agreed position in Western Australia. Until then, that was the information that was provided by the government on this issue; that is, there was an agreement that the reforms would continue and perhaps greater reforms would be put in place in the future. Without any warning, the government changed its position subsequent to the state election. That is a disappointing development because we now see further turmoil and uncertainty from businesses that have invested or propose to invest in the electricity sector in Western Australia. These are not small organisations and these are not small investments that these companies have made or propose to make, and their backers are not small organisations. If there is one thing that the business community hates above all else, it is uncertainty when investments worth hundreds of millions of dollars have been made. This is why this is such a disruptive piece of legislation and why this government has taken such a disruptive, sneaky and tricky approach.

I have been a member of this place for 17 years. I want to take members back to what occurred. In the lead-up to the 2001 state election, the then Labor Party opposition and the shadow Minister for Energy, Eric Ripper, put out an election policy that proposed disaggregation of our electricity system. Until then, we did not have a properly operating market and we had one giant in the electricity generation, retail and distribution space. That was known as Western Power. At the time, Eric Ripper and Geoff Gallop said—this was politically risky for them at the time—that we needed to create a properly functioning market in Western Australia so that a range of organisations will come into the marketplace to generate and retail electricity. I will go into the reasons or the philosophy behind that shortly. It was a risky strategy in the lead-up to the election. I thought it was courageous. I can honestly say that I did not fully understand it at the time but the business community liked the approach. It would be fair to say that Eric Ripper and the then opposition worked with the business community to create the policy because it was welcomed by the business community as a step forward.

The then Labor opposition was elected on that policy in 2001. It would be fair to say that there was some sympathy amongst members of the Liberal Party towards a natural evolution in the electricity market when the State Energy Commission of Western Australia was divided in 1995 to 2001 with the then disaggregation of Western Power, with one exception. The exception to that was the now Premier, the member for Cottesloe. He did not like it. There was sympathy across other elements, and certainly the business community loved it. They wanted opportunities to invest. They wanted to see downward pressure on prices. They wanted to see a diversity of investment in the electricity portfolio. What did the then opposition do? It got elected on a policy. It then went about implementing that policy, which took some years because it is a complex thing. No-one can argue that the electricity portfolio is not complex. It was based on the experience in the eastern states, including Victoria and South Australia—some good and some bad. The experience in New South Wales was pretty bad, overwhelmingly, but we learnt the lessons of what happened interstate.

The then government said that it was going to proceed down the disaggregation route, with various people engaging in that process. The process was commenced within government. It took some years to reach the outcome it finally reached. The Liberal Party, under the leadership of the then opposition leader, now Premier, was opposed, even though we knew there was significant sympathy with many Liberals towards what the government was trying to achieve. The Gallop government was re-elected at the 2005 election on its disaggregation platform. The new Liberal leader, Matt Birney, the member for Kalgoorlie, had always supported disaggregation. He is from Kalgoorlie. He appreciated the nature of competition and markets and he had various arguments about how the marketplace in Kalgoorlie had been beneficial to some industries. I think he even

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crossed the floor on these issues under the leadership of the member for Cottesloe during 2001–05. He became the Liberal Party leader in early 2005. He obviously then had to convince his party room to vote for disaggregation, and that is what happened. When the bills were introduced in 2005, Liberal Party leader Matt Birney led the Liberal Party and the Liberal Party voted for disaggregation. There was a condition. I remember the condition being put because I was sitting right next to the then Premier, Geoff Gallop, and Eric Ripper. Dan Sullivan, the then deputy Liberal leader, said, “We’ll vote for this but you’ve got to put a cap on prices for the next four years.” An agreement was reached. The cap on prices that existed since the early 1990s was continued for another four years. There was only one price increase from, I think, 1993 through to 2008, and that was in 1998 when there was a five per cent price increase. That was the agreement reached. The bills were passed in 2005. The disaggregation process was formalised by law and then Western Power was divided into four entities—Synergy, Verve, Western Power and Horizon Power. We then saw significant investment in the generation and retail arms of the electricity portfolio.

What is the rationale for disaggregation? It is efficiency, market forces, competition, innovation, giving renewables a go, private sector interest and investment and allowing for those who produce the most affordable electricity to put that electricity into the marketplace without fear of a big competitor using its power to squeeze them out. What is the counter argument? The counter argument is that monopolies or virtual monopolies achieve better outcomes. The counter argument is that a big government-owned vertically integrated entity achieves a better outcome for the people of the state. It is based on some experience. Some countries have had these arrangements, particularly Eastern Europe and Spain under Franco. Various other countries have had these arrangements, and they firmly believe that that is the best model.

Mr P. Papalia interjected.

Mr M. McGOWAN: Spain under Franco did believe that; it was very Eastern European. That was the model. The argument was that a big vertically integrated entity could secure more affordable inputs using its power and drive efficiency using the fact that it controls everything from basically the time the electricity is generated to the time someone’s toaster is turned on.

The other benefit of either a virtual monopoly or a monopoly is that it is a big organisation with a big balance sheet and the government can do things that it might not otherwise be able to do. It can use a huge amount of government money to invest in some project it thinks is a good idea and it will not be noticed and if it does not work out, no-one notices it because that is the benefit of that. For want of a better term—“state building” or “nation building”—using that big entity is the counterargument. We accept the argument that efficiency, competition, innovation, private sector interests, diversifying and reducing the cost to government is the right way to go. The Liberal Party is now arguing with this bill that a big government sector agency controlling a virtual monopoly is the right way to go.

Mr W.J. Johnston: Central planning.

Mr M. McGOWAN: Central planning—it is Spain under Franco! That is the difference now. I am looking forward to explaining on many occasions before business audiences that this is the difference now between the two sides.

What happened before the state election? There was no mention of this change. In fact, cabinet was always defeating the Premier whenever he had an outburst on these issues. He had an outburst during the period between late 2008 and March this year. Whenever he had an outburst saying, “We’re going to bring Synergy and Verve together”, cabinet would push it down and hose him down. The then energy minister, Peter Collier, would issue a press release, as he did, and would make a speech saying that re-aggregating or bringing together Verve and Synergy was not on the agenda. We have documentary evidence that states that. It was a promise. Promises were made before the election that this would not occur.

Look at the difference between then and now after the election in March this year. Instead of keeping with an election promise to continue a process involving industry and government that went on from the late 1990s through to disaggregation in 2005—it was voted on twice by the people—we now see no election promise or a promise not to keep the promise and a rushed process without any information to justify it. It is a horrible, hopeless and irresponsible way of dealing with this issue. It is irresponsible.

Who out there in the community is saying that this is a good idea? No-one. The Chamber of Commerce and Industry of Western Australia—I get on fine with it, but it is not known to be a supporter of Labor—is saying it is a bad idea. The Chamber of Minerals and Energy of Western Australia, the representative body for the mining sector in Western Australia, is saying it is a bad idea. The Sustainable Energy Association, which finally had the opportunity to get into the market, is saying it is a bad idea. The Independent Power Producers Association is saying it is a bad idea. The Economic Regulation Authority is saying it is a bad idea. The Oates report says it is a

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bad idea. The Liberal Party in 2005 said it was a bad idea. Who is saying it is a good idea? No-one is saying it is a good idea. The only person saying it is a good idea—someone who has somehow steamrolled this bill through a complacent and easy party room—is the Premier. I admit that the Premier knows a lot about the energy sector. He studied geology at university for a little while and he was the energy minister for eight years back in the 1990s, so he can no doubt override anyone who stands in the Liberal party room or the joint party room—however it works—and says something different. But listen to those parties outside and to those who know about these things. They are saying that this is a bad idea. There is no business case, no plan and no analysis—just assertions. That is all there is behind this bill—just assertions.

All sorts of energy models are being produced. The energy sector hates uncertainty. Now, according to the minister, the government is bringing Synergy and Verve together, amalgamating them and creating that Franco-style monopoly. Then it is going to divide them, as though that is a rational approach. The Premier says, “That is not a rational approach.” For once I agree with him; it is not a rational approach to bring them together and then to divide them. But the Premier says one thing and the minister says another about the future of the energy portfolio. There is therefore mass confusion and uncertainty. Hence, what happens? There is a loss of private sector interest. Businesses in the private sector can invest their money anywhere. They can invest it around the world or they can invest it here in all sorts of projects. If there is uncertainty in government policy, what do they do? They flee; that is what has happened. Under disaggregation, power stations were built by the private sector, cogeneration plants entered the marketplace, and retailers were created and are operating. What happens now? There is a loss of interest and a loss of certainty.

The government says, “We’re going to bring them together and we’re going to have ring-fencing arrangements internally to ensure the market still operates, subject to all sorts of government rules and regulations.” I will give the government a tip: a better way for the market to operate is to just leave it as it is, rather than create a government-regulated arrangement to try to give assurance that there is a market. Would the government not just leave it as it is and go to the next step that should be followed, which is the evolution of this process? The evolution of the process would allow greater contestability, particularly in the business area. The next logical step along this road is greater contestability in the business area rather than recreating a vertically integrated generator and retailer. What has gone on here is very strange. It is supported by no-one as far as I can see.

[Member’s time extended.]

Mr M. McGOWAN: It now requires all sorts of regulatory arrangements to be put in place that were not previously required. Regulatory arrangements are being put in place that Parliament has not seen and will not see for some considerable time, and that is frightening the investment horses! That is what is going on here. If the government just left an operating market in place with a separated major retailer and a separated major generator, it would not have to go through all the ring-fencing permutations and gymnastics that it is now going through to try to create something that already exists and then regulate it through government. What is going on is bizarre!

What will happen in the future? Electricity demand, apparently, is falling. People have made efficiencies in business and in households with solar power and the like so that electricity demand has fallen. That fall in demand has apparently been going on for some time and has no doubt reduced some of the pressure for the need for additional generation. However, ageing plant still has to be replaced. That is a fact. As ageing plant gets older, it does not operate efficiently and eventually the cost of repair is greater than the cost of building new. What will happen now? Government will have to build. The government will therefore put money into building power stations rather than into other capital works, such as roads, railways, hospitals, schools, police stations and all of those things that state governments do. The government had an arrangement by which the replacement of ageing plant in those power stations could have and would have been done by the private sector, but the government has made that unlikely. Why would the private sector do that? The government should go and ask anyone in the investment community, and they will say that that is a fact. Lots of them have come in and briefed me. They will tell the government that that is a fact.

So why would the government do that? It is nonsensical. There will be less investment by businesses in retail. The big retailer is Synergy, and there is a number of small retailers out there—ERM Business Energy, Perth Energy, Alinta Energy—and of course an integrated generator retail model means they may have to buy power from that very organisation. What are they thinking? “We’re going to be buying power from the organisation with which we are competing”! That is economic vandalism. Creating a proper marketplace has been, I think, the lesson of the past 60 years since World War II that has led to greater prosperity and a more effective functioning marketplace.

This is a strange, bizarre step by the Liberal Party. I think it is reflective of people in the Liberal party room not having made themselves sufficiently aware of the issues and allowing themselves to be railroaded on this. Prior

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to the state election there were obviously people inside cabinet who were able to listen to the mining sector, listen to business, listen to the arguments and hear the concerns and stand up to the Premier. Since the election, those people have gone. That is a sad thing, because this is a retrograde, bad step. I look forward to a single Liberal or National Party member standing and justifying it. It would be good to hear just one stand and explain the arguments, apart from the minister. Of course the minister has to respond. Just one other member would be great. Matt Birney took a stand and look what happened to him; maybe I should warn members against it!

Mr R.H. Cook interjected.

Mr M. McGOWAN: He did become the leader, true, but it was a fairly rapid demise after that.

The Liberal Party is doing the wrong thing. I have no doubt it will do it, but I do not think it understands what it is doing; it is a complex area. It is sending the electricity sector and business in this state backwards. I want to compliment my colleagues because some extremely good speeches have been made on this issue—led by the shadow Minister for Energy, the member for Cannington—because we took the time to inform ourselves. It is a great pity that government members did not.

MR P. PAPALIA (Warnbro) [11.52 am]: I will make a very short contribution to the second reading debate on the Electricity Corporations Amendment Bill 2013, but I will participate in the consideration in detail stage because a lot of questions need to be asked and, hopefully, answered by the minister.

All manner of concerns surround this legislation and move by the government, and they have been well articulated by many other speakers, including the Leader of the Opposition. I think all matters raised are worthy of concern. But the thing that raises the greatest level of concern for me is the confirmation, by this move, that this government has established a standard operating procedure of acting on serious matters without proper process, invariably without compiling a proper business case for what amounts to large expenditure of government and taxpayer money. It has, as a matter of course, not engaged in the normal practice of due diligence associated with that sort of act. If it was in the private sector, it would have lost its business by now. If a Labor government proposed this sort of move, the Liberal Party would condemn it as being outrageously irresponsible. Yet it not only comes into this place with this bill, which is irresponsible and a flagrant misuse of parliamentary process and endangerment of taxpayers' money—all those things—but also actually calls upon the Labor Party to support it and condemns us for applying proper scrutiny to the process and demanding that it be undertaken properly and asking that it not declare this sort of legislation urgent. It is extraordinary that the government has done that, but it has done it on a number of occasions now in both terms of government, particularly the process or tendency to act in an extravagant way with taxpayers' money without a proper business case.

I can reel off some of the things it has done. The Leader of the National Party is in this place, so I will start with Ord stage 2, into which \$320 million of state taxpayers' money was invested without a business case or evidence that there was ever going to be a base crop to support the project.

Mr W.J. Johnston: Where's the rice?

Mr P. PAPALIA: We had a series of them over the course of five years, starting with rice, which failed twice in two years. Then it went to sugar. We were told prior to the election that there would be sugar, and not only that, but also there would be a new sugar mill that would provide 400 local jobs. That was gone post-election. Like so many other commitments and promises made to the electorate of Western Australia, it evaporated immediately post-election. Now we are told it will be sorghum, which we have to view with an incredible amount of scepticism. But the big point is that government confirmed and conceded that there was never a business case before it made the decision to invest that money. It did it on two occasions; it started off with a \$200 million investment, and then it went up by another \$100 million. It was extraordinary.

It did the same thing with the stadium. The Premier was going across a bridge in his chauffeur-driven car, looked out to the left and said, "That'd be a good place for a stadium."

Mr W.J. Johnston: Right first, then left.

Mr P. PAPALIA: Sorry; right first, and then left on the way back.

The Premier completely disregarded the independent process led by John Langoulant that determined that that was not the best place to put the stadium. It was not the best option for Western Australia; it was not what the independent report of that committee recommended. The Premier —

Mr J.E. McGrath: He said it was the best site —

Mr P. PAPALIA: — completely ignored that, and, member for South Perth, he did not prepare a proper business case with which to come into this place and argue for it and demonstrate to the people of Western

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Australia in an appropriate fashion the benefits that could be determined and listed for perusal by the people of Western Australia before the government committed to a site which is, in all likelihood, going to cost half a billion dollars more than the recommended site would have, had it been pursued.

I turn to Oakajee. The Premier's interference and this government's choice of interfering with and changing an established process that would have seen private sector investment resulting in a port owned by the state, was never done via a proper business case. No argument was provided in a structured fashion, and no analysis was done to determine whether the Premier's proposed changes would have resulted in a better outcome for the state. It has been conceded that that was never done. I criticised the former federal Labor government for its support of that move without a proper business case, and it conceded that there was not one.

Browse was the same thing. We were told by the Premier that he was just going to scrap an established proper process that had been underway for some time that would have resulted in an outcome. The Premier decided he was going to change it. He never made a proper business case for that change, and it is a disaster.

There was never a proper business case for Muja. There was a series of large incremental expenditure changes by the government without ever analysing whether it was doing the right thing, without ever exposing it to proper parliamentary or public oversight or even giving anyone in Western Australia, other than inside the minister's office and the cabinet room, the opportunity to analyse whether that was a good move. This is an opaque process that completely ignores any normal proper practice. The government hides what it is doing and does not do due diligence. It is all being done on behalf of the Western Australian taxpayer. It is extraordinary that the government continues to do it.

A relatively small one occurred in the Corrective Services portfolio, which I shadow. The decision to shut one of only two juvenile detention centres and cram all the juveniles into one facility was, again, conducted without any due process. There was no business case. We had to extract that out of the Acting Commissioner of Corrective Services during estimates. That is how we finally found that out. That was pretty minor; that was only tens of millions of dollars that had been wasted on behalf of the taxpayers of this state.

When we add all of these things up, we have an extraordinary litany of bad decisions. The common factor to all these decisions is that the government never puts a business case. The government never justifies its decisions. The government never exposes itself to potential criticism and analysis in this place, or even in the public domain. The government does not provide the opportunity for Parliament, the media and the public to analyse whether it is doing the right thing. That is because the government does not even conduct an analysis itself. All the decisions that are made by this government are driven by one individual, the Premier; or, in the case of the Ord, one minister, the Minister for Regional Development, and the Premier has gone along with it.

The same process was applied in the case of this decision. The government just made the decision, and it attempted to justify it with political spin subsequently. A proper analysis and business case is never put into the public domain so that it can be analysed, scrutinised and criticised to ensure that it is robust. The most concerning thing about this process is that it is not a singular failure; it is a pattern of behaviour. The government has now accepted this pattern of behaviour as what it does—this is what defines the Barnett government.

Mr W.J. Johnston: Business case is bad policy.

Mr P. PAPALIA: Yes; business case is bad policy. The Premier criticised Geoff Gallop for being process driven. The Premier's response is to abandon all process. His response is to not have any process. The only process that ministers in this government have to go through is to get the Premier's approval. That appears to be the only prerequisite to getting authority from this government to spend hundreds of millions of dollars, if not billions of dollars, of taxpayers' money and put it all at risk. In the case of this decision, it is doubly wrong, because what is being put at risk is not just taxpayers' money, but also the money of private investors who are investing hundreds of millions of dollars in this state. The minister has put that all at risk by compromising the free market process. It is insane that the Minister for Energy, of all people, is the one who is advocating this policy. That has been said by just about every other member on this side, so there is no need for me to harp on about it. But, rest assured, we will look at this matter in consideration in detail. It will not be good enough for the minister to just shrug his shoulders and throw his hands around and ultimately guillotine the debate. That is not acceptable. We will expect a lot more from the minister. The more the minister does those stupid hand movements in response to criticism and demands for answers on behalf of the people of Western Australia, the more stupid and irresponsible he looks.

DR M.D. NAHAN (Riverton — Minister for Energy) [12.03 pm] — in reply: I would like to respond to the various comments made by members opposite on the Electricity Corporations Amendment Bill 2013. I would also like to straighten out some of the issues and state what our position is and why are we doing what we are doing. I was criticised for the length and depth of my second reading speech on the Electricity Corporations

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Amendment Bill, and it was claimed that I was being political. I did that because the origin of this bill goes back to the disaggregation debate that took place and dominated this house for nearly five years. As the Leader of the Opposition said in his speech, and properly so, these issues go way back. Therefore, the history of this issue is important, because some mistakes were made in history, and we are trying to address those mistakes.

I will explain, for the benefit of my colleagues—I do not think members on the other side care—why we are doing this. We are doing this because we have no other choice. The electricity market, and most specifically the state-owned entities, Synergy, Verve and Horizon Power—Western Power is doing well—are haemorrhaging and have been from the day we came into government in 2008. If we put together just Synergy and Verve—the government-owned retailer created in 2006, and the government-owned generator—before disaggregation, there were no losses in those two businesses. They made a profit. They made enough money to cover the losses in the regions.

The major aim of disaggregation, according to what was stated in *Hansard* at the time, was that it would put downward pressure on costs in the industry and enable prices to decrease. That was the stated objective. It was also to safeguard government expenditure. The assessment was that the four businesses that were to be created out of one, particularly Synergy and Verve, would be solid. In 2005, there was no subsidy into the industry. In 2006, the first year of disaggregation, there was a subsidy of \$12.3 million. That subsidy grew steadily, and this year it is \$388 million. Members might not think that is large, but it is. This is despite huge increases in the price of electricity in the franchise market. When we came into government in 2008, we had a report—I cannot remember whether it was from the Economic Regulation Authority or the Office of Energy—that indicated that prices had to increase by 72 per cent to get to cost reflectivity and do away with the subsidy.

The previous government in its campaign agreed to increase costs by 10 per cent a year for seven years to get to that stage. We increased prices in the vicinity of 70 per cent. If we had not done that and had kept prices constant at 2008 levels, according to Synergy—I have just got it to crank the numbers—we would have had to subsidise Synergy and Verve to the tune of \$4.7 billion. That is equivalent to Fiona Stanley Hospital, Perth Children's Hospital and Midland hospital combined. We increased the price, and we were pilloried by the Labor Party for doing that. I, and my fellow colleagues who were then in marginal seats, remember the campaign that was run by United Voice and the now member for Bassendean, who at the time was the head of United Voice. According to its website, United Voice spent \$3 million campaigning against us on the issue of privatisation. The Labor Party pilloried us for doing that. But we had to do that to safeguard the state's finances.

However, despite increasing electricity prices by 70 per cent, we are still 20 to 30 per cent down. We are still subsidising electricity consumption by \$388 million. The subsidy has gone up fifteen-fold, and unless we do something about it, it will increase even further. We came into the election, and we committed not to jack up prices too far beyond the consumer price index, and we are going to try to keep to that. However, at the same time, subsidising electricity consumption to the tune of \$388 million has to stop.

What can we do about that? There is a raft of problems. Those problems are widespread and systemic to the market. We will undertake a systematic review of the entire market. I am a free-marketeer. My record, as people opposite have reminded me—they do not need to remind me on that—is that I support market processes. I support private investment. I was actively involved in arguing for and advising on the process in the eastern states for the national energy market. In fact, I worked consistently with the Chamber of Commerce and Industry of Western Australia in the early 1990s arguing for market approaches in the electricity industry of Western Australia. But markets ain't markets. It depends on how we do it. These are complicated arrangements that entail billions of dollars. If we get it wrong, we can lose a lot of money. If the private sector makes an investment and loses money, as it has in some industries, okay, that is them. It has been identified that the market structure that was formed in 2006 was fundamentally flawed. Those flaws are still there. The major flaw is that the government underwrote the whole process. This was not a free market. This was not a market in which the private sector took a large amount of the risk. The market was structured so that the state would underwrite private investment. That meant that if that private investment did not pay off, the state would pay for that. That is the problem.

We could listen to members opposite, who are in a dream world, and say that we got everything right back in 2006 and do nothing, but I guarantee members that if we did that, we would be out of government in four years. That is what the opposition wants, but we will not do that. We would debenture the funds of the state. We will have a wide-ranging review of what this will do. When we look back through the issues, what were the economists saying? The Chamber of Commerce and Industry of Western Australia has argued that it wanted disaggregation, but not in the form that came about. It argued that it was a fiasco to put Synergy, a retailer, in a position to need to underwrite every private sector venture that came onto the market by promising to buy energy at a fixed price and a minimum quantity irrespective of the market demand, and to use its lower borrowing rate

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to underwrite its investment. That is what Synergy did. There are a couple of good examples of that, such as Bluewaters, which is a nice power station. Bluewaters 1 and 2 have a strange history. The member for Cannington said that it is strange how it won that contract back then. Labor put in a displacement schedule and said that some of Verve's existing kit and series would be subject to private sector competition. The first time it was subject to private sector competition, Verve won, but Bluewaters won the second time. That still really puzzles me. Verve had its existing plant with capacity completely written off. How could it lose that contract? Bluewaters was then supplied by Griffin Coal, which was owned by Ric Stowe. He is an interesting man with a long history in the Collie coal fields, but he is now bankrupt. How did he win that contract? That is a good question. He should not have won it, but he did, so that, basically, led to the duplication of Verve's asset and excess capacity. We have plenty of stories.

My position is that we made a mess of the disaggregation, and that was known at the time. Many people and reputable firms argued to do otherwise, including Deloitte Access Economics, Frontier Economics, Pacific Economics Group and Acil Tasman. Indeed, during the Howard government, Mr Warwick Parer undertook a very extensive review over multiple years of energy policy around the nation. He looked at Western Australia and told the government not to do this. The Howard government supported disaggregation but did not want the state government to use the structure that it chose. The federal government said that the structure was unique and flawed, and that because it was underwritten by the government, it would come back to haunt the state, which is what has happened.

What does this bill too? It does not change the market. The market has many aspects to it. The short-term energy market is regulated by the Independent Market Operator. This bill does not change the market; it takes the two state-owned entities, Synergy and Verve, and brings them together under a ring-fencing arrangement. All the private contracts that Synergy and Verve have signed will come with them. The new entity will recognise, adhere to, accept and follow the contractual arrangements it has with everyone. There are some problems that we have to look at, such as excess capacity. It depends how we measure it, but it is easily in excess of 20 per cent, costing Verve \$355 million a year. Because Verve and Synergy dominate this market, all the costs come down to them.

Why are we doing this? We are looking at measures to restrict losses in the government sector. My mandate is to do what it takes to restrict the government's losses in this system without undermining the competition and the private sector. In this case, Synergy and Verve cannot talk with each other because they do not have a relationship. Synergy has signed up to \$25 billion of long-term contracts in the market and Verve has a whole range of generating plant. Synergy has more electrons committed to than it has customers. It is taking the surplus, putting it in the short-term energy market and selling it at cut-price rates. Competitors are buying that and taking the market share. It is a downward spiral. We have to put together Synergy's contracts and Verve's kit and optimise them. There will be huge gains in that. I was asked how large those gains would be. Right now, Synergy cannot look at Verve's contracts and Verve cannot look at Synergy's contracts. They cannot talk to each other and see the contracts, so how will they optimise their performance? We know that there will be gains, but until we put them together and have the people with responsibility optimise them, we will not know. We know there will be gains; there is absolutely no doubt about that. Once we get them together, we will make a full report of the expected gains from this.

I now refer to overhead costs. As I mentioned before, Hon Eric Ripper—who is a good man, actually—indicated that one of the necessary problems with the disaggregation was that it would lead to a large increase in overhead administrative costs. It would go from a single agency with a board and senior management costing about \$2.6 million a year, to four agencies with four boards and what not. The member for Cannington criticised me for it and said that I made it up. I took it from one of the annual reports, which are all published and tabled in Parliament. He asked me to table it. It has already been tabled. The total cost of those four agencies is \$12.3 million.

Mr W.J. Johnston: That is not the same thing that you said. You claimed that was the increased cost, not the total cost.

Dr M.D. NAHAN: Yes, I did. It is a \$9.6 million increase.

Mr W.J. Johnston: That is complete rubbish.

Dr M.D. NAHAN: The member for Cannington should read the second reading speech. I will go through some of the claims that the member for Cannington made in a minute. Members should not believe a word he says. He just makes it up. I will show members some examples of when he just made it up. Let us have a constructive debate. We will reduce overhead costs by re-merging Synergy and Verve. It is not overwhelming, but it is significant.

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The re-merger will optimise fuel. As was seen in the papers today, we have some real risks in the coalfields. Coal is a major source of fuel for this state. There are two coal plants in Collie and both are struggling to make a quid. The problems in the coalfields arise from a number of things. In 2004, Western Power renegotiated its coal contracts and it got a damn good price. Before then prices were \$50 to \$70 a tonne. Western Power negotiated a price down to \$30. For the first time, Western Power played off the companies against each other and Western Power gave the whole Verve contract to Premier Coal, which was the better-run supplier, I might add, and left Griffin Coal high and dry, which eventually led to the collapse of the Ric Stowe empire. It also led to very low prices in the coalfields. Wesfarmers owned Premier Coal. Premier Coal and Griffin Coal went into receivership and were bought out of receivership by two foreign-owned companies. Premier Coal was bought by a Chinese firm called Yancoal and Griffin Coal by an Indian firm called Lanco, and they are struggling to make a quid. There are real risks in the coalfields. Synergy gets substantial energy from Bluewaters, which in turn gets its coal from Yancoal, and Verve has a very large and important contract with Premier Coal. There will have to be some rationalisation in that market. I do not know exactly what will happen. Private negotiations are going on now. We may well need an asset base to back up actions in the coalfields; I do not know. It is a real risk to the whole energy market in this state. I cannot give a price for that. I cannot tell members exactly what we will do. I know that Premier Coal has had many discussions with Verve and asked for higher prices. Nothing has been decided. Lanco, by the way, has not come to the government and asked for a cent. I know members opposite have been clamouring that we should throw money at Lanco; it has not asked us for any money.

Mr C.J. Barnett: It is very interesting.

Dr M.D. NAHAN: It is very interesting.

Mr C.J. Barnett: The member for Collie–Preston said that.

Mr W.J. Johnston: That is not true.

Dr M.D. NAHAN: Yes, he did. The member for Cannington might live in a bubble of make-believe — Several members interjected.

The ACTING SPEAKER (Ms J.M. Freeman): Members!

Mr W.J. Johnston: That is false and you know it to be false.

Dr M.D. NAHAN: Both of them asked to put money into the port of Bunbury to help Lanco. Do members know what Lanco said? It said, “We did not ask for it; why would you do it?” But that is the Labor Party! When there is a problem in the coalfields it would get into the state’s coffers and funnel money to them. That is history; it is irrefutable.

There are risks in the coalfields. We are in the process of renegotiating our long-term contracts with the North West Shelf gas fields and replacing them. As the gas price inquiry found and reported to this Parliament, there are significant risks in getting adequate gas and there are significant gains for an aggregator to buy gas under a long-term contract with minimum conditions. The gains from that are huge. Putting both of them together with the Verve asset base will mean that Synergy markets some gas to market, it enters into negotiations with the gas suppliers on behalf of Synergy, and Verve and Horizon provide huge gains. Let us be quite clear: one can have the most competitive market—this one is not that—but unless the fuel price is right, costs will blow out. Fuel costs are more important than the competitiveness of the market. That is what we are trying to do.

There is also huge risk in this market. Structural flaws were discussed ad nauseam during debate. Most of the risk in the market is borne by Synergy, the retailer. Synergy underwrites Bluewaters and NewGen Power Kwinana. Synergy underwrites most of the private sector investments in this market by signing long-term, take-or-pay contracts. When I was about a week into my job as Minister for Energy, one major investor, who I am not criticising, said, “We scour the world for markets like this, where we can come in and invest in the plant. The state entity gives us a 20-year contract and a fixed price unrelated to demand and a fixed quantity that underwrites the whole plant, with capacity credits upright. That pays for all the capital. This is a nirvana!” Members opposite might think that is competitive private enterprise; I do not. That is what is happening.

We have to work our way out of this. We also have to address where we go in the future. We will report to Parliament about the gains from this, but they are real. We could sit back and cop it; funnel taxpayers’ money into the system or, as members opposite would decry, jack up prices. We are not going to do that anymore. We are going to fix the system, and part of it is bringing these two back together like they should have been in the first place, and as the Chamber of Commerce and Industry of Western Australia said they should be.

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In my second reading speech I indicated the problems in the market. I will not go through those again, but I will address some issues. I am more than willing to do it because it is fundamental. Members on the other side think the existing market structure is perfect.

Mr W.J. Johnston: No, we do not. Nobody said that. That is a lie.

Dr M.D. NAHAN: It said it would review it. The Leader of the Opposition said, “Listen, it was controversial, we got it about right. Let’s stay with this market. Let it evolve.”

Mr P. Papalia: Everyone else can read what the Leader of the Opposition actually said.

Dr M.D. NAHAN: Yes, that is right. He can read what the member said, which is a bunch of guff.

We are not doing this to garnish a popularity contest. I know that a large number of private investors in the market do not want change, nor would I if I was in their position—why would I? If a government is willing to underwrite an investment in the market, fixed price, minimum-take contracts, why would I change that market when I can shunt the risk over to the public sector? I do not want change. I guarantee members opposite that every one of them knows there are real weaknesses in this market—I have talked with them all ad nauseam. Many of them would have liked the disaggregation; some of them did not like it. We will have a long, ongoing discussion with the private sector. We need them. We will respect the contracts. When we need additional capacity, we look forward to the private sector not only undertaking the investment but, most importantly, taking all the risk.

I now refer to the costs of the merger. Eric Ripper got it wrong, but he did a good job. He was the only person from the Labor Party who understood what was going on, but he made some mistakes. As I indicated, there was a fundamental flaw in the approach back then. The government wanted private sector competition in the generation—which is good; I support that—but the trouble was all the generating capacity was located in Western Power. That was highly competitive. Western Power had the best fuel, the best contracts, the best location, the best links to market and all the experts. So, how will we get the private sector to come in? The Leader of the Opposition said that Eric looked at the east coast and learned lessons; but he did not because he was constrained. Eric looked but he was constrained in what he could do. As the Premier said, to do this we would have to take some of Verve’s assets and put them into the private sector—that is, privatise. If we want to privatise the electricity industry, do it—sell it; make some value out of it; get some money for it. That is how to do it. The Labor Party could not say the “P” word. It wanted to privatise. In fact, according to the member for Bassendean’s definition of privatising, it did! But it could not sell the asset.

Mr D.J. Kelly: You do not know what you are talking about at the best of times.

Dr M.D. NAHAN: I go through this in great detail. The member for Bassendean’s views are well known from his previous life.

Several members interjected.

The ACTING SPEAKER: Members!

Ms M.M. Quirk interjected.

The ACTING SPEAKER: Member for Girrawheen, you are on one call. I am on my feet. Do not keep interjecting. Minister, if you do not want interjections, do not invite them.

Mr D.J. Kelly interjected.

The ACTING SPEAKER: Member for Bassendean, I call you for the first time.

Dr M.D. NAHAN: Eric Ripper commented that there were some challenges. To go to an aggregated system with market competition, a lot of things have to be done, including the appointment of an independent regulator. There would need to be multiple boards and management. A lot of money has to be spent getting it built up. In my second reading speech I made the point that the Labor Party spent \$154 million setting up the market. How did I know that?

Mr W.J. Johnston: That is the process of reform. It is not the same thing as you said in your second reading speech.

The ACTING SPEAKER: Members!

Dr M.D. NAHAN: The member for Cannington likes to throw around the words lie, untruth and dishonest. He said in *Hansard* —

This is just another example of the fact that this minister cannot tell the truth to save himself. I am not saying he is lying; I am saying that he is not telling the truth.

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He is just trying to use weasel words to say that I am lying, without saying it. He does it all the time. He continues —

For example, the minister says that \$154 million was spent on the reform process. If that is true, he should table a document.

I will table the document, but I do not need to. Do members know why? It was tabled on 11 March 2004 by Hon Eric Ripper. I will re-table the document. The amount and the purpose have also been discussed extensively in *Hansard*. Eric Ripper referred to it. The member for Cannington said that I told an untruth and all I did was what he should have done; that is, look for the evidence.

Mr W.J. Johnston: You're wrong.

Dr M.D. NAHAN: That is what I did and I am still wrong. I will re-table the document.

Mr W.J. Johnston: Table the document and prove you're not telling the truth.

Dr M.D. NAHAN: I will re-table the document, which refers to "costs incurred in relation to the Electricity Reform Task Force" and the implementation of it. That is what I said. The cost of setting up the system was \$154 million.

[See paper 1120.]

Mr W.J. Johnston interjected.

The ACTING SPEAKER: Member for Cannington!

Dr M.D. NAHAN: I will not look for this, but if he were an ethical member, he would stand up and apologise.

Withdrawal of Remark

Mr W.J. JOHNSTON: The minister said that I am not an ethical member.

Dr M.D. Nahan: I said, "If you were."

Several members interjected.

The ACTING SPEAKER (Ms J.M. Freeman): Members! Do not interject on a point of order. Member, it is not a point of order.

Mr W.J. JOHNSTON: The same issue was raised on a comment I made recently and I was asked to withdraw. All I am asking is for the standing orders to be implemented in a fair, reasonable and consistent basis.

The ACTING SPEAKER: I will take advice from the Clerk.

Mr D.A. TEMPLEMAN: The issue the member for Cannington has raised is under the standing order relating to the impugning of someone's reputation and I think that is where the ruling should occur.

Mr C.J. BARNETT: Further to that point of order, the minister clearly said, with reference to the member for Cannington, "if he were an ethical member". That is not unparliamentary. Indeed, had he said, "You are an unethical member", that also is not unparliamentary. That is not what impugning a member is about. If he had called him a liar, clearly it would have been. Give me a break! If members opposite are so sensitive about that, they should have a look at what they call me on a regular basis.

Mr D.A. Templeman interjected.

The ACTING SPEAKER: I have received advice from the Clerk. Standing order 92, "Imputations and personal reflections", reads —

Imputations of improper motives and personal reflections on the Sovereign, the Governor, a judicial officer or members of the Assembly or the Council are disorderly other than by substantive motion.

The comment was, "If the member was an ethical person". I think by assumption that that is an imputation and I request that the member withdraw.

Dr M.D. NAHAN: I said —

The ACTING SPEAKER: Do not argue with the Presiding Officer, member. I have asked you to withdraw.

Dr M.D. NAHAN: I withdraw and I —

The ACTING SPEAKER: No; member!

Dr M.D. NAHAN: I said I would withdraw.

The ACTING SPEAKER: Thank you.

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Debate Resumed

Dr M.D. NAHAN: I also ask the member for Cannington to withdraw the statement he made, “I am saying that he is not telling the truth.”

Mr W.J. Johnston: When did I say that?

Dr M.D. NAHAN: I am reading it; it is in *Hansard*. “I am saying that he is not telling the truth. For example, the minister says that \$154 million was spent on the reform process.”

Mr D.A. Templeman: That is repeatedly said in this place over and again.

The ACTING SPEAKER: The objection has to be made immediately. If the minister had made that objection at the time, I would have made a ruling. Thank you, can we get on with your second reading speech.

Dr M.D. NAHAN: I make this point to show the character of the member for Cannington.

Mr P.T. Miles: Say no more.

Dr M.D. NAHAN: Say no more. It reminds me of the character in the movie *Liar Liar*. Let us get back to the issues at hand. All I did was clarify that the member for Cannington was saying that I was not telling the truth about the cost. The cost of setting up the system was \$154 million.

Several members interjected.

The ACTING SPEAKER: Members!

Dr M.D. NAHAN: I would like to go back to what we have done so far. When we came to power in 2008, it was clear that the market system was not working. It was clear that there were high costs in the system and that the subsidies were blowing out unsustainably. The then Labor government addressed that and promised to increase prices by 10 per cent. That government forgot about that when it went into opposition. This Liberal–National government did a number of things besides increase prices. We commissioned the Oates inquiry. I might add that the disaggregated market was only two years old at the time. Mr Oates looked at the merger of Synergy and Verve and made some recommendations. He recommended some changes to the contract between Synergy and Verve, which was largely in favour of Synergy and imposing all the losses in the market onto Verve. I might add that at the time, in 2008, Verve was losing in the vicinity of \$200 million, with an asset base of \$400 million, and in two years it would have been technically insolvent but, of course, the state would have bailed it out. Mr Oates changed the contracts and made some changes to the displacement contract. He looked at the market and said, “Listen, it’s too premature to make many changes, let’s watch and see.” In retrospect, we should have made changes, but we did not. He also considered a Synergy and Verve merger and said, “At this time it’s best not to go ahead with it; allow the market to look after it.” In subsequent years there was a great deal of debate and no doubt Peter Collier said a number of times that he did not favour the merger.

Mr C.J. Barnett: Yes.

Dr M.D. NAHAN: During the election, we did not have a policy on this. We do not have a policy on everything under the sun. We looked at this when we came into government. It is absolutely necessary.

Several members interjected.

The ACTING SPEAKER: Members! The minister is on his feet; this is not the time for an across-chamber discussion.

Dr M.D. NAHAN: This is one bill, and, as I said before, other major changes will be made in this market, and I am sure the people on the other side will complain about each one.

Mr P. Papalia: Is there just a slight oversight on policy development?

The ACTING SPEAKER: Members!

Dr M.D. NAHAN: This bill will re-merge Synergy and Verve. One of the objectives of the disaggregation was to decrease the market share of Synergy and Verve. To some extent it has done that. There has been a lot of private sector investment but, as I indicated, the vast bulk of that is underwritten by Synergy and, to some extent, Verve. When we add the combined generation of Synergy, Verve and Western Power, and the private generation it underwrites, the market share of those three entities goes from 91 per cent to a little over 80 per cent. The market share hardly changes. In other words, one of the worries about this merger is that Verve and Synergy will dominate. They do. If someone wants to put a large electricity generator in this market, there will be one off-take; namely, Synergy.

Mr M. McGowan: In five years private activity has doubled.

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Dr M.D. NAHAN: The member is not listening. It has all been underwritten by Synergy. It would not exist without Synergy's long-term contract.

Mr P.B. Watson interjected.

Mr C.J. Barnett: Easy to build a private power station when you have a government guarantee.

Dr M.D. NAHAN: The real question is: is that a private sector operation? This is a different issue; Labor does not understand markets. This is how it was in the 1980s when Labor got into government and had all these nice joint ventures with the private sector.

Mr P.T. Miles: Yes; WA Inc.

Dr M.D. NAHAN: It is the same thing. The government underwriting the private sector is not free enterprise; it is not a competitive market. Yes, certain organisations that have most of their capacity underwritten and sold to Synergy, have some surplus and can enter the market and compete with Synergy. It is a top-up; it is just cream and profit. The whole thing is underwritten. In this market, we have to fix this system so that when we need additional capacity, which we do not need now, the private sector can come in, invest and take the risk; otherwise, the state will continue to underwrite it and we might as well do it ourselves.

One of the problems with this market is that when Synergy goes out and enters into long-term contracts, if the market goes against its contract, it has no flexibility. Synergy has to buy the energy no matter what; it has no flexibility. If Synergy representatives were to approach the private sector saying, "Build the plant in public-private partnership and we will operate it", there would be more flexibility. This is what happened before disaggregation. But the structures put in by disaggregation gave the state higher risk and less flexibility and more cost onto the market. It was a failure; we have to fix it. I ask members opposite to recognise the issue and go with us; but they will not.

Putting these two entities together will give them some expansion of market power. We proposed a series of actions that will increase the competitive pressures on Synergy and Verve more than what exists now. First is the ring-fencing. We will have the organisation split up into the generators, and the Labor Party has been briefed on this matter. That generation side will include all Verve's generation, all Synergy's contracting generation and all third party contracts it holds. Therefore, all the generators will be operated and optimised. A wholesale market stands between that and the retailer. The retailer will go out and service the franchise market and the competitive side of the market. The contracts and prices will be done by the wholesaler. We will ring-fence the generation and the retailing in those two organisations so that the retail people will not have access to the generation contracts and the generation people will not have access to the retail information. That existed in Western Power; it is not an oddity.

We will also have a transfer price that the wholesale section determines and gives to the retailer and they can go out to sell in the market. It will be cost reflective. We will also take that same transfer price and offer it to the private sector; in other words, the private sector will be able to buy the price we offer to our retail section at the same price. Therefore, we will take that transfer price, which will be transparent, offer it to the retailer that will then market it and at the same time we will offer it to the private sector. This provision addresses one of the weaknesses that were identified earlier in the disaggregation; that is, how do we get Verve's low-price kit into private sector hands? That was the big challenge. It offered three scenarios; namely, privatise it—that was ruled out; lease it like they did in South Australia, that was ruled out; or offer long-term fixed-priced contracts with the private sector, which was not done. I am not sure why. I think it had something to do with problems in New South Wales at the time. This time it is taking Verve's low-price kit, optimised across all the contracts, and offering it to the private sector. That is giving the private sector the same price that Verve-Synergy retail gets. That is opening that whole system up to competition. This will be hard for that government entity to cope with; there is no doubt about that.

Addressing a couple of things raised by members about the Auditor General, he or she will, as is done now, audit not only the books of this combined entity but also its processes. We do that because that is the skill base of the Auditor General. We will also get the Economic Regulation Authority to carry out an annual review of the market. Part of that review will be an assessment of the competitive structures within the Verve-Synergy merged entity. In other words, for members opposite, the ERA has a role. The ERA has a role that it is skilled in—that is, assessing the competitiveness of the anti-market power positions put in and the policy. That is what it is doing, and we have had numerous discussions with the ERA. Of course, as with the Auditor General who audits the books, we are adding to what the ERA already does. The ERA looks at the competitiveness of the market and we will ask them to look specifically at the conditions within the merged entity—as we should. I should add that both the Auditor General and ERA do not have all their expertise in-house; both of them contract out the audits or the competitive reviews to the private sector. I am sure that they will continue to do so in the future.

Extract from *Hansard*

[ASSEMBLY — Thursday, 31 October 2013]

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Mr Mick Murray; Mr Mark McGowan; Mr Paul Papalia; Dr Mike Nahan; Mr Bill Johnston; Acting Speaker; Mr David Templeman; Mr Colin Barnett

I turn to penalties. We have put in policies that will impose penalties on entities if they fail to meet the regulatory requirements for anti-market power issues. These are not odd. Fines and penalties are now levied against Western Power. If Western Power did do something—I am not saying it did or has—it would pay that to the government. Through environmental regulations, industrial regulations, WorkSafe safety regulations—all sorts of government regulations that apply to the public sector—penalties will be imposed on the private sector as they are in the public sector. If penalties are paid, they go to the government. The reason we do this is not to collect money—that is ridiculous—but to give the entities an incentive to not act improperly and to treat the private and public sector equally. It is logical.

A number of members discussed the issue of renewables. Most of the renewables in this state have been purchased or supported by either Synergy or Verve. Synergy is, by far, the largest offtaker of renewables, which has grown quite dramatically, both large and small scale. In fact, Synergy is the only retailer that has a renewable energy buyback in place. I think Perth Energy is discussing one for small business, but its buyback price is very small. The reason for that is large-scale renewable energy is driven by the commonwealth's renewable energy target. The way that works is that the retailers have to buy the renewable energy target and the amount they have to buy is proportionate to their market share. Synergy dominates the market and therefore dominates the need to buy renewables. There will be no change under this arrangement; Synergy's market share will remain more or less as it is. Of course, we will continue the renewable energy buyback. Furthermore, just to remind members, the uptake of renewables is not 2 000 a month as it was earlier; in the last few months it has been running at almost 4 000 a month. That is eight per cent growth per month—phenomenal!

The bill adds some flexibility into the geographic arrangements of Horizon Power, Verve and Synergy. Right now, Horizon Power's CEO has to be located in its head office, which has to be outside the south west interconnected system. That has not been applied for quite a while. The current CEO of Horizon Power lives in Perth, operates out of Bentley and is paid, I think, \$30 000 to fly to Karratha. We are not saying that that person will not live there; it is just not a necessity. Also, there is a regulation that the majority of Horizon Power's board be located outside the SWIS. The reality is that a large number of people who know a good deal about regional Western Australia periodically live here and commute to the regions. All we are saying is that we have no intention of changing the recruitment of board members by giving preference to those located outside the region, but we will get some flexibility. Technically, Synergy and Verve cannot trade gas outside of the SWIS. They actually do it with Horizon; they have a gas swap. We will allow both those organisations to buy gas from and sell gas to each other and Horizon outside of the region.

Debate interrupted, pursuant to standing orders.

[Continued on page 5818.]