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ENERGY PORTFOLIO — GOVERNMENT PERFORMANCE

Matter of Public Interest

THE SPEAKER (Mr M.W. Sutherland) informed the Assembly that he was in receipt within the prescribed time of a letter from the Leader of the Opposition seeking to debate a matter of public interest.

[In compliance with standing orders, at least five members rose in their places.]

MR M. McGOWAN (Rockingham — Leader of the Opposition) [2.47 pm]: I move —

That this house condemns the Barnett government for massive losses in the energy portfolio, including the \$250 million loss from the Muja AB refurbishment, and calls on the Premier to sack Minister Collier from cabinet.

It is a scandal of massive proportions that this government has lost so much money in the energy portfolio in the past four and a half years. It is nearly \$1 billion in losses or blowouts in the energy portfolio on this government's watch, for which the government has no excuse. What has made it particularly bad is that with this latest scandal, we had to drag the information out of this government. It has not been clear, open and accountable about what has gone on here with the refurbishment of the Muja AB power station. There is a culture of cover-up and denial when it comes to this government. There could be no clearer example to better illustrate that than the losses in this case.

I asked very clear questions of the Premier today, because until now he has not been clear and accountable. I asked simple questions. What is the exact loss to the taxpayers of Western Australia, and why did the Premier go out there, when he announced the refurbishment of this power station, and say that it would not cost the taxpayers of Western Australia a cent? I quote once again what the Premier said. On 11 May 2009, he emerged from cabinet with his then energy minister, Hon Peter Collier, and did a press conference. He said that around \$100 million would be spent on Muja AB; it will be 100 per cent funded by the private sector. How much clearer could he have been? The government came out seven or eight months after its election to office and said that it had entered into an arrangement that would ensure Muja AB became operational once again; it would cost \$100 million to do so and it would be paid for by the taxpayer. That was the clear commitment given by the government eight months after it was elected to office. Today we have these pathetic excuses by the Minister for Energy, who seems to have great trouble formulating his argument and sticking to the facts, that somehow it is the former Labor government's fault. It is time to take responsibility, my friend. Members opposite are the ones who entered into the arrangement; they are the ones who have lost the money; and they are the ones who have not ensured we get an operating power station out of that massive amount of government expenditure. This is a blowout, it is a delay, it is non-delivery and it is cover-up. Over the course of this debate, which we have exploded here today to bring it to public attention so that people know what the government is up to, we have seen a culture of cover-up and denial.

When those cabinet decisions were made in July and December last year, where was the announcement? Immediately prior to an election, it turns out that in a comprehensive financial document there was a single line that detailed some additional spending. Where was the explanation for the total additional expenditure to government, and what is the total additional expenditure to government—from zero to what? We estimate \$252 million, but what amount will taxpayers have to pick up to fund the government's incompetence? How can it be that the government entered into an arrangement to refurbish a 46-year-old power station—46 years of producing power for Western Australia—without considering the alternatives? As the member for Collie—Preston said so eloquently today, “For that money, surely you could have put it towards a new power station that would last for a considerable period of time” Alternatively, we set up a disaggregation process so that the private sector would invest and build new power stations. We established disaggregation so that the private sector could build power stations with the confidence they could operate on a level playing field and sell power to the grid forevermore. We did that so the government did not have to meet these expenditures and take on the debt. We see from the Liberal Party the idea that somehow the taxpayer has to pick up the bill, and it did not even tell the truth about it at the time it entered into the arrangements. We have a 46-year-old plant that the government says it can refurbish without cost to the taxpayer, and it turns out that it is costing us in the vicinity of \$250 million and perhaps more. At the end of the day, the power plant probably will not even work. What a scandal the government has foisted on the people of Western Australia.

If it was only the first scandal involving Hon Peter Collier, we might say, “Okay, he's lost \$250 million here; maybe he can stay.” But this is the first of many. There have been \$400 million worth of losses in the solar rebate scheme, all because the government did not cut it off when it said it would and it did not know when the applications were arriving. That cost the taxpayers only an additional \$400 million on that minister's watch. The

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underground power in Karratha blew out by \$100 million, the Port Hedland power procurement process incurred another \$100 million worth of losses, the Synergy billing system incurred a \$54 million blowout and there were various others, taking the grand total to \$970 million worth of losses on that one minister's watch. What happened to him? He was promoted. Hon Norman Moore had his portrait done and retired off into the sunset and Peter Collier rises up. Having lost \$970 million of taxpayers' money, he becomes the leader in the upper house—the second most senior person in the government—and the Minister for Education. Woe betide the Department of Education and the kids in our schools when a minister with that level of competence is leading that agency.

Mr B.S. Wyatt: Hear, hear!

Mr M. McGOWAN: It is absolutely extraordinary. The Premier and the ministers sit there and act as though they are independent commentators. They come up with the Nuremburg defence: "Oh, well; that was someone else. It was Verve." It was a cabinet decision and a process had been established. The disaggregation of Synergy and Verve allowed the government to get the private sector to invest in power stations exactly as happened when Labor was in office with Blue Waters 1 and 2. This all could have been avoided. What is the government doing? It is unwinding that. This is hopeless management of the energy portfolio. It is costing the taxpayers of Western Australia a fortune, and if something should happen, it should be the dismissal of Hon Peter Collier. Someone should be held to account for nearly \$1 billion worth of losses in the energy portfolio while he was the responsible minister. Someone needs to be held to account for that, and that person should be Minister Collier.

MR W.J. JOHNSTON (Cannington) [2.56 pm]: I want to go through a few details on this issue. Before I do that, there will probably be a few people packing their bags after this scandal, but I bet it is not Minister Collier. What is the bet that the government blames the management of Verve, and Peter Collier keeps his role, is treated as a hero and does not take ministerial responsibility for this disaster? I want to make a point here. I asked the minister what happens with old generation capacity. This is what the minister said —

State owned electricity generation assets have finite lives and over time older assets will be phased out of service.

That is the case, unless it is Muja A or Muja B, on which the government is happy to spend \$250 million of taxpayers' money. Government members will get up in a minute and say, "Oh, well; cabinet has approved such and such an amount." But it has to add the \$150 million of debt this joint venture entered into. On top of all the money spent with the authority of cabinet, there is another \$150 million, because the joint venture between Verve and this other company in October 2010 entered into a \$400 million deal with the ANZ to provide a line of credit. That has been drawn down and been guaranteed by Verve. The minister looks at me quizzically. If he likes, he can come over here when I sit down —

Dr M.D. Nahan interjected.

Mr W.J. Johnston: It is \$400 million. I have a copy of the information filed with the Australian Securities and Investments Commission for that \$400 million debt facility. It has been referred to by Mr Jason Waters in evidence to the Public Accounts Committee when he said that Verve has guaranteed that debt and it will have to pick up the liability. Then he says, "But we will also get the asset." The asset is the Muja AB power station. The government already owned that. The government has made a monumental stuff-up here. Let us not misunderstand what has happened. On 11 May 2009, the Premier said —

Around \$100 million will be spent on re-conditioning them and bringing them up to meet modern environmental standards for a coal fired station.

He then went on to say —

Can I stress, that \$100 million will be private sector investment, not State Government or taxpayer funded.

Any cent spent on this project by the government is a blowout. One cent of government money on this is a blowout. One cent is a repudiation of the Premier's position on 11 May 2009. On that same day, the Minister for Energy said —

Look, we've got the plant and we've got the infrastructure the private provider or the joint venture provider will provide \$100 million. Essentially it is cost neutral for Western Australia in terms of the actual up-front ... costs."

Given that the proper full details of this joint venture arrangement were never disclosed, the minister also said on that day in answer to a question —

No, as I said, we will get to the point where the actual, the full disclosure of what goes on with the joint venture will be made public very, very shortly.

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It is now four years later and the government has continued to hide what happened.

During question time the Premier was asked what occurred in July and December last year and January this year when additional decisions were made by cabinet. The Premier refused to answer. Does the Minister for Energy know the answers to those questions? Yes or no, minister? Will he just sit there, dumb?

Dr M.D. Nahan: I am going to respond.

Mr W.J. JOHNSTON: I hope that the minister tells the people of Western Australia the truth about this important issue. Will he continue the dishonest cover-up going on here?

I now come to the election campaign. I have already highlighted the travesty of the Muja AB problems. What did the Premier say on ABC television on 8 February 2013? He has said it is not a blowout. He said —

A blowout is when you set an area of work and you suddenly find it costs more. What we've found is more work will need to be done on that power station than originally anticipated.

It is not a blowout. What did Minister Collier say in the same news report? He said —

We did have an issue with the boilers and that was a fundamental issue that was unforeseen.

Incredibly detailed engineering work is done, which the minister spoke about during question time, but it is not noticed that the boilers are not functioning. Yet I bet \$100 that the private investors knew that, and that is why they are not liable for one cent of the cost of the refurbishment of the boilers. They knew what they were doing. Also on 8 February, Minister Collier said on GWN —

Ultimately the state will have to pay, and, as I said, the thing is with regard to the cost of that, it will ultimately return a healthy profit.

In other words, his view was that it would later come out of higher electricity charges; it does not matter. At least the Premier now admits it was a cost blowout, as does the Minister for Energy. In *Hansard* of 20 September, Hon Kate Doust asked Hon Peter Collier in a question on notice —

Is the minister aware of the reason for Kempe Group quitting the joint venture; and, what is the reason or reasons?

Did the minister respond in the open and transparent way the government has handled all matters regarding this joint venture? He replied —

I am advised that this information is considered commercial-in-confidence.

In September last year the minister went on the record and said that he knows that the private investor is leaving the joint venture, but at no time between 20 September and today has the government explained what happened. That is a cover-up. The Premier knows what happened and he has never at any time told the community the truth about this matter.

Hon Kate Doust also asked Minister Collier, in a question on notice on 24 October 2012 —

Has Verve written down the value of this project; and, if so, by how much?

The minister's answer was, "No." So in October last year the government still believed the project had full value. Verve's argued that it did not matter that it was on the hook for the \$150 million loan for this joint venture because it said it could take the asset and that would cover the \$150 million liability. That is why it is important for Verve not to write down the value of the asset. It is part of the cover-up. If the value of the asset has to be written down, there will be no asset to secure the \$150 million of unreported borrowings. The government never came to this Parliament and said that it was on the hook to the ANZ for up to \$400 million. The people of this state were never, ever told that. I had to do a company search to find that fact, and then I was able to go back and piece together exactly what had happened.

I now go further into the detail of this matter—this scandal. It has to be a scandal. How could the Premier come out of cabinet on 11 May 2009 and publicly state, "Cabinet is still going so I will be relatively brief if I may," and then say how he will get the power station refurbished without any taxpayers' money being invested. That is a scandal, when today we end up with \$250 million of taxpayers' money at risk on a power station that is not functioning properly.

What did Mr Waters say to the Public Accounts Committee last year? He said —

The Inalco proposal, as I understand it, included Inalco working in a joint venture arrangement with Verve Energy, which then became Vinalco, and Kempe Engineering, which is an engineering services arm of the Kempe group that owns Inalco, would provide the EPC work on the plant to refurbish it and return it back to the required operating standard.

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Note what he says: “back to the required operating standard”. The chairman of the committee asked more questions about the plant not working. Mr Waters then said to the committee —

The basis is that the EPC work was effectively a fixed-scope component of refurbishment work. The boiler repair work that is underway now is outside of that scope.

That sounds very technical, but what does it mean? They did a deal with the private operator but the private operator was not required to ensure that the plant worked. What a brilliant contract! The private operator is paid but the electricity plant does not operate. That is exactly what happened.

Mr C.J. Barnett interjected.

Mr W.J. JOHNSTON: No, Premier, at the time they were paid, none of the plant was operating, yet two units are now operating at part capacity. I know exactly what that is—about 36 megawatts, which is two-thirds of its actual rated capacity—because I have asked questions about that. I made sure I knew that because I knew the trickery would continue in this indecent cover-up.

Again in that hearing the Chairman of the Public Accounts Committee asked Mr Waters —

So does that tube failure fall under the responsibility of the joint venture or is that with Verve?

Mr Waters responded —

No. The responsibility for the failure ultimately comes under the joint venture. Verve Energy is repairing that work on behalf of the joint venture, and the cost will have to be funded by the joint venture.

But the joint venture only got one party, because the private operator resigned from the joint venture and is putting no more money into it. I see that the minister is nodding and shaking his head. The fact is two directors of the Kempe group resigned. The government has known since September last year that the Kempe group will not put any more money into this project. The government has known since September last year, and probably before that, that the private operator that was supposed to put 100 per cent of the money in was trying desperately to get out of the project completely. The minister knows there is no capacity for the government to force the private operator to put one more cent into the project. If the project is going to work, it is all down to the government, and that is why it is on the hook for \$250 million. All the money is spent, and then there is the \$150 million of debt.

Mr Waters also spoke to the Public Accounts Committee about the loan. He stated on 14 November —

Basically, the liabilities for the loan would sheet back to us under our guarantee, but then we would pick up the entire asset.

So the return is the return of the plant that the government already owns. How can any government think that is a good deal?

Now the Minister for Energy has run out the defence “it was not our idea” during question time. What a ridiculous defence. The Premier proudly comes into this place and boasts that the last government failed to do any planning and failed to take any action, and so on. The government cannot have it both ways. Either the Premier was wrong when he criticised the former government or he is wrong today. The correct argument is that the former government was planning properly. That is why the former government was able to build two coal-fired power stations in Collie. This was a mistake.

It is interesting that the plant was opened in April 1966 because the HR Holden was also released in April 1966. It had leaf springs, a front bench seat and self-adjusting rear drum brakes. If a buyer wanted options, they could get the 186 red motor or a two-speed automatic.

Several members interjected.

Mr W.J. JOHNSTON: Yes; the Powerglide transmission. That is the sort of technology people had in 1966, and the Premier could not get over the fact that the century had turned.

Go back and read the criticism members made of Hon Alannah MacTiernan when she criticised the government in 2009 for this decision. This decision was wrong in 2009 and it is wrong today. The taxpayers of this state are on the hook for a quarter of a billion dollars because of this basic stuff-up: the basic failure by this government, and nobody else to understand what was going on. I do not know whether the government got conned by the private sector provider, but I would say that it was comprehensively out-negotiated by the private sector provider. The private sector provider knew—everybody in the market knew—that refurbishing Muja AB was a huge risk. The problem here is that the government was not up to negotiations and it left taxpayers completely on the hook when everything went wrong, which was always going to happen with this project.

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DR M.D. NAHAN (Riverton — Minister for Energy) [3.10 pm]: I guess a lot of euphemisms could be used for the Muja AB decision. The whole process from the start left a lot to be desired. I go back to a bit of history.

There is no doubt that the decision to go ahead with the refurbishment was done on our watch; however, it started earlier than that. Indeed, when the plant was shut down in, I believe, March 2007, Verve Energy immediately started looking at what to do with the plant. As I said earlier during question time, Verve asked for expressions of interest widely on what to do with the plant and the land associated with it; that is, to tear it apart, to refurbish it, to rebuild it or whatever. It was a legitimate process. Verve then went out for expressions of interest. It had a discussion with Kempe and Inalco, which are one and the same essentially. Kempe, as I understand it, is a Victoria-based engineering firm with a great deal of experience in these types of operations and Inalco is a subsidiary. Verve had discussions and decided that the proposal put together between Verve and Kempe to refurbish Muja A and B was the best option. Verve then went to the government and the government ticked off on that and entered into negotiations. I might add that during an estimates hearing at that time in May 2008, the then Verve Energy CEO, Shirley In't Veld, in company with the Minister for Energy told the budget estimates committee that Verve saw Muja A and B playing a significant role in the future of the state's energy generation system. In other words, Verve was saying through the minister —

Mr W.J. Johnston: Who said that?

Dr M.D. NAHAN: Shirley, the CEO, during an estimates committee in May 2008. She expressed through the minister that she saw Muja A and B playing a part in Verve's generating capacity. In that same month Verve indicated that the proposal to refurbish Muja A and B from Inalco and Kempe—they are one and the same—was the chosen proposal. They then went off and put the deal together. I might add that in June 2008 Muja A and B were turned on and remained on for a period because of a shortage of gas due to the Varanus Island explosion. Put this in the context of the time. There was no excess capacity in generation as there was none; there was a perceived need for it. The independent market organisation that determines the capacity needed was allocating capacity credits and therefore saying we needed more. There was a perceived need at a mid-rank plant like this for diversity, given the troubles with Varanus; so, it fit at the time and that is the proposal that Verve put to the previous government and to this government.

Mr W.J. Johnston: When did the previous government get it?

Dr M.D. NAHAN: I get that —

Mr F.M. Logan: That's not true. You are misleading the house. Produce the evidence.

Dr M.D. NAHAN: No.

The SPEAKER: Member for Cockburn!

Dr M.D. NAHAN: During 2008 Verve and Inalco–Kempe put together a proposal. That proposal was, as the shadow energy minister highlighted, a joint venture arrangement whereby Verve would supply the plant and Inalco–Kempe would be responsible for the \$150 million refurbishment. Let me explain that \$150 million amount. The cost reported to the government at the time was around \$100 million for refurbishing the old plant and another \$40 million to \$50 million for capitalised interest and other issues. When the government signed off on the deal, the estimate from Verve was that it would cost \$100 million to refurbish the plant and there were other costs associated with the loan and other activity. It is true that Verve's contribution was, of course, the old plant. I have been informed that there were a few million dollars more in other aspects to it. Inalco's contribution was supposedly to do two things. It was to cover the cost of the \$150 million in loans. I have never been informed of an amount of \$400 million. I am not disagreeing with the opposition; I have not been informed of that. Kempe, which is I believe the parent of the joint venture partner, Inalco, did the refurbishment. I have been told that Kempe is a third-generation engineering plant that does work around the world.

Mr W.J. Johnston: How much money did Inalco–Kempe put into the joint venture?

Dr M.D. NAHAN: Inalco, to my knowledge, put in nothing.

Mr W.J. Johnston: A wonderful joint venture!

Dr M.D. NAHAN: It put in nothing.

Mr W.J. Johnston: What was the date of the joint venture? What was the date the JV started?

Dr M.D. NAHAN: I can say when we ticked off on it. I cannot say exactly the date of the contract.

Mr W.J. Johnston: I can; 24 October 2010. There it is, right here.

Dr M.D. NAHAN: Okay, good. Let me —

Mr W.J. Johnston: It was 24 October 2010.

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Dr M.D. NAHAN: I sat here in silence. Please accord me the same.

The SPEAKER: Members!

Dr M.D. NAHAN: We signed off on this proposal. It was delayed a bit because of various complaints through the Environmental Protection Authority approval, but it got going. In retrospect, was the joint venture arrangement put together between Inalco and Synergy suitable? All I can say is that on 23 July 2011 the Auditor General was requested by the chairman of the Public Accounts Committee to inquire into this issue. That inquiry was specifically to see whether the risk to diversification sharing between Inalco and Verve was adequate and whether it was suitable. This was requested of the Auditor General. He responded to Hon John Kobelke, the minister at the time, that Verve could stand to benefit substantially from this joint venture and that he had seen no evidence to suggest that it would be of disproportionate benefit to the JV partner and no evidence to suggest that Verve had taken on too much risk. In other words, the Public Accounts Committee, whose chairman was a member of the Labor Party, asked the Auditor General of Western Australia to look at the distribution of that contract and the distribution of risk, and he gave it the big tick.

I might add that the advice given to the minister of the day that I have seen and therefore to the cabinet was the same. It raises the question of how far and how well we can peer beyond the advice. I might add that the government also got advice on this issue from the Office of Energy and from Treasury. I might also add that Verve did not do the assessment itself that it hatched; it had a number of other firms looking at this process. Was it faulty? In retrospect, yes, it was. Did Verve take on too much risk in that, because Inalco basically put no capital into the project? It was responsible for paying it off but the pay-off of the loan of \$150 million was dependent upon earnings from the joint venture. I might add that Verve underwrote the whole lot. That is the arrangement. Everything was going well except for the delay in getting environmental approval in July 2012. I add that at the time all the advice to the minister was that the project made a lot of sense from the point of view of diversity of supply, helping increased demand for coal in the coalfields of Collie and a need for additional generating capacity. Another argument was that this was a 15-year reassessment of a plant, which would buy time for new quality and more efficient power stations to come online. By the way, the advice also indicated a very hefty return. All available advice given to the minister at the time indicated that we should go ahead.

Mr W.J. Johnston: So, it is not the minister's fault?

The SPEAKER: Member!

Dr M.D. NAHAN: I am explaining the situation.

In July 2012, as the Premier indicated, boiler tubes blew out in units 3 and 4 when they were turned on. The problems were examined and an assessment was made that the extent of the damage was worth \$23 million. That work was funded internally within Verve's budget, but the minister of the day gave a tick-off on it, under section 68 of the legislation, I think. A commitment was then made that no additional expenses were needed on this problem. Assessment was done about whether the project was still viable and appropriate to go ahead, if those were the additional costs, or whether it should be stopped at that time, and it was stopped. A rational decision was made that even with that additional \$23 million cost, it was still appropriate to go ahead. That makes particular sense in the market we have in which capacity credits are bought and a proponent gets paid to build or resuscitate generating capacity, and if those credits are not used, the proponent needs to pay that money back. I believe some of that \$150 million was to buy capacity credits and the loan. Therefore, we went along with the advice. Was it a difficult decision to make? Members had better believe it—it was an old plant.

In December 2012 to January 2013, Verve went back to the minister of the day and indicated that there had been blowouts during the time. I add that there is a very strange thing. These boiler tubes are buried under a whole range of insulation material. The corrosion was from —

Several members interjected.

The SPEAKER: Member for Cockburn, I think your side still has about eight minutes left, if you want to make a speech a bit later. Member for Cannington, I think you should listen to what the minister has to say.

Dr M.D. NAHAN: The corrosion came from the outside of the tubes, which were buried in material, not the inside. The question is: should Verve have been concerned about that, given that it built the plant and operated it for just short of 50 years? We would think they should have been. This is not just a plant that was taken over from somebody else; it is a plant operated by generation engineers from the State Energy Commission, Western Power and Verve.

Mr M. McGowan: Sorry, what was that?

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Dr M.D. NAHAN: This is a plant that Verve built and operated for 50 years and most of the generation engineers in the SECWA–Western Power–Verve system have worked in that plant.

Mr M. McGowan: Relevance?

Dr M.D. NAHAN: They know the plant—simple. They knew the plant; they recommended strongly to the Labor government and to our government that we refurbish it.

Mr W.J. Johnston: We weren't silly enough to agree.

Dr M.D. NAHAN: The Labor government sent them down the process of negotiation.

Several members interjected.

The SPEAKER: Members!

Mr W.J. Johnston: Why did the Premier say it was not going to cost us anything?

The SPEAKER: Member for Cannington!

Dr M.D. NAHAN: I just went through all of that.

Mr W.J. Johnston: Why did he say was going to cost us zero?

Dr M.D. NAHAN: No —

The SPEAKER: Just address the Chair, please, minister.

Dr M.D. NAHAN: We are at January 2013. They came back to us and in the *Pre-election Financial Projections Statement* there was an indication of an additional \$71 million to refurbish plants 1 and 2. Plants 3 and 4 were put online in February and March of this year. I have been informed they are not operating at full installed capacity, but that is the nature of the market. We have not made a decision on whether plants 1 and 2 will go ahead, nor have we been comprehensively informed of the full cost of those refurbishments, if they were to go ahead. I add that plants 3 and 4 are operating. As to the impact on prices, there will be no impact on domestic electricity prices because the energy generated in 3 and 4 is being sold to a private retailer and the private retailer sells in turn to the competitive market, to the contestable market, and the price obtained is determined by the demand–supply that can be achieved. Given that there is excess capacity in the market, it would be expected that additional capacity denoted by Muja plants 3 and 4 would put more electrons on the market and if anything, push prices down. This electricity is not being sold to Synergy and it has therefore not been put onto the regulated small users—that is, residences and small businesses that operate under the regulated tariffs. There will be no cost impost on the regulated market. Funds from Verve that would otherwise be used for other things will be used up, so there will be a cost to Verve.

Several members interjected.

The SPEAKER: Members!

Dr M.D. NAHAN: No, it is not. The increased cost borne by Verve means that there will be an impost on Verve; it is very simple.

Mr W.J. Johnston: Who owns Verve again?

Dr M.D. NAHAN: We do.

Several members interjected.

The SPEAKER: Continue, minister.

Dr M.D. NAHAN: There will not be any impact because —

Mr M. McGowan: Are you sure you have a PhD?

Dr M.D. NAHAN: Is it too difficult and complicated for the Leader of the Opposition?

Mr M. McGowan interjected.

The SPEAKER: Leader of the Opposition, come on. Continue, minister.

Dr M.D. NAHAN: Because electricity from plants 3 and 4 is being sold to a private retailer on the contestable market and not to Synergy, electricity prices to residences and small businesses will not be impacted.

Several members interjected.

The SPEAKER: Members!

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Dr M.D. NAHAN: I am just telling it how it is.

It will impact on Verve's bottom line. Where do we go from here? We have yet to make a decision about whether we progress with the full resuscitation of Muja plants 1 and 2. We are yet to hear from Verve confirmed evidence of the total estimated cost of the plant.

Ms M.M. Quirk: So it could be more than \$250 million?

Dr M.D. NAHAN: I do not know where members opposite got the figure of \$250 million.

Mr W.J. Johnston interjected.

Dr M.D. NAHAN: Okay.

Mr M. McGowan: What is it?

Dr M.D. NAHAN: I made it quite clear, if members opposite had listened, that we have not got final confirmation from Verve, which operates the plant and —

Mr W.J. Johnston interjected.

The SPEAKER: Member for Cannington!

Dr M.D. NAHAN: Going back to the issue of Kempe, in July 2012 there was a \$23 million cost overrun. Inalco, or Kempe, indicated to Verve at the time that it could not afford that. I have been told that Kempe has lost huge amounts of money on its fixed-price contract to refurbish this plant and it is on the verge of, let us say, financial problems. It indicated to Verve in July 2012 that it could not meet its commitment share and therefore Verve took that share, paid it and diminished Inalco's equity. Inalco then put its share on the market and it is my understanding that it is still on the market.

Mr M. McGowan: Did that get ministerial approval?

Dr M.D. NAHAN: Inalco has its share on the market. I have not been informed whether Kempe has left the joint venture yet.

Mr W.J. Johnston: They've resigned the directorship, you know that.

Dr M.D. NAHAN: Yes, they have resigned, but —

Mr W.J. Johnston: You know that.

Dr M.D. NAHAN: Yes they did. Two of them have resigned, that is right, but Kempe is still in the project; I have not been informed that it has left.

Mr W.J. Johnston interjected.

The SPEAKER: Carry on, please, minister.

Dr M.D. NAHAN: Going back to the issue—this is very important—the board of Verve, the experts within Verve and all their engineering advisers, as well as Treasury and the Office of Energy, and subsequently the Auditor General, all advised that this was not just a good project, but an important project, to tick off; and the minister did that.

Mr W.J. Johnston: The Premier did.

Dr M.D. NAHAN: The cabinet did. Is the member saying that we should have taken that advice and used X-ray vision to know that there was corrosion on the outside of these heating tubes, buried in insulation?

Several members interjected.

The SPEAKER: Members!

Dr M.D. NAHAN: I add that when the project was ticked off, all the advice from Verve and its advisers was that they were confident about the engineering solution for this plant. I repeat that this is a plant that Verve knew intimately. They have said they have never experienced anything like this.

Mr W.J. Johnston: That is because they have never tried to refurbish a 46-year-old plant!

The SPEAKER: Member for Cannington, you have had your say. Now it is the turn of the Minister for Energy. I call you to order for the second time.

Dr M.D. NAHAN: So the minister of the day made the decision, confronted with the evidence and advice from Verve and its bevy of advisers, that this was not just a good project, but an excellent one. It hit a technical issue that brought the project down to a very marginal nature, and that is now a decision that we have to make. Are

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there huge losses? There are very large losses. Yes, the member is right. Originally, when we went into this, the only major investment that the state was going to make was the contribution to the old plant; the cost of the refurbishment was going to be borrowed and paid back in operation. It was a very good deal. It did not work out because of the engineering failures.

When we made the decisions in July and later, we made them on the basis that, given the losses, was it more worthwhile to exit the plant or stay in the plant? For sections 3 and 4 of the plant, we made the decision to stay in there, and they are operating. Yes, they might not be operating to full capacity, but a lot of plants in the system do not operate to full capacity; it depends upon the mix that they are using. I will be very blunt about this. The government and the taxpayers have been let down by Verve and its management.

Mr W.J. Johnston: So the government has been let down!

Dr M.D. NAHAN: Yes, we have. I might add that the managing director who made the decision is no longer there, nor is the person in charge of development. Verve was the body that owned the plant and knew the plant. It gave the advice, and it was responsible for the whole project. Verve is a public trading enterprise, and we rely on its expertise and processes. Verve is extremely experienced at this plant and in these processes. No other body in Western Australia has greater history and experience on this and no other body in Western Australia has greater access to procure expertise on this. We, the government of the day, went out and sought parallel advice from Treasury, as I said, and the Office of Energy. But the truth is that their economists or accountants have to rely on Verve. I might add that the Auditor General, at the request of the Public Accounts Committee, also looked at this sharing arrangement and gave it a big tick and said it will earn Verve a lot of money

Mr P. Papalia: Were there any caveats on that observation?

Dr M.D. NAHAN: Just read the letter. It is in the report of the Public Accounts Committee. He gave it a big tick. But, when we read the report, we see that his advice was derived from Verve and Verve alone. He states that he talked only to Verve. This is a case in which the government was into a major industry that has a huge amount of risk in it.

Several members interjected.

Dr M.D. NAHAN: It does. This is an example. We need to balance the risk in this industry against the risk to the taxpayers. We need greater clarity and rigour in the board of Verve to make these decisions, and that is one reason why we are putting the boards of Synergy and Verve back together.

Mr M. McGowan: That will work!

Dr M.D. NAHAN: Yes; that will help.

Mr M. McGowan: Oh, yes!

Dr M.D. NAHAN: That will help. That is one reason, and that is stated up-front. This example of Muja A and B is one contributing factor to this decision.

I might add that there is some confusion in the ranks of members opposite about the importance of this project. The member for Collie–Preston has argued regularly for the refurbishment of Muja A and B and the jobs that it will create in the coalfields. There is some disagreement here. I might add that when the decision was made to refurbish Muja A and B, there was a great deal of uncertainty in the coalfields. Griffin Coal was either in, or going into, bankruptcy, and Premier Coal was struggling. There was some question about the continuation of coalmining in the Collie area, and there was a large amount of unemployment in the area. So one of the issues that was clearly underlying this project was the need to continue the activity and jobs in the Collie coalfields.

Mr M. McGowan: Let the Premier speak! You have got only five minutes left.

Dr M.D. NAHAN: I will.

Mr T.R. Buswell: He is doing a very good job!

Dr M.D. NAHAN: Yes. I am being very thorough and very open.

This was a tough decision. It was a decision in which Verve let the government and the public of Western Australia down. That is one of the reasons we are putting the boards of Verve and Synergy back together. We want to get more rigour in the decision making. It also highlights the need to have a more balanced view about the risks in this market. This is not a decision about which anybody could hold their head high and be proud; in fact, quite the opposite. But the decision that we made was right.

MR M.P. MURRAY (Collie–Preston) [3.37 pm]: I am very concerned that on 14 May in this house, in an exchange across the table, the Premier agreed that this was a poor decision. I said in this house that it would have

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been cheaper to build Collie B, and the Premier said that he was not disagreeing with that. That is in *Hansard*. That concerns me, because the Premier also knew at that stage about this huge blowout. This huge blowout is doing irreparable damage to the generation industry and also to the coal industry. For many years, the coal industry has been the cheapest producer of electricity in this state. Yet people in this place are making excuses for their lack of due diligence before they went forward and looked at refurbishing Muja A and B. I do follow that by saying that, yes, I was agitating for more coal to be burnt at Collie; I do not walk away from that. I have spent many hours and minutes in this place arguing that point. But what was the point of refurbishing something that was over 40 years old without doing the tests properly? Someone has been neglectful in their duty. Somewhere along the line, someone said, “It’ll be right, mate; it’ll be okay”. But it has not been okay, at a huge cost to this state. We could have gone out and built probably three-quarters of another 300-megawatt power station on the back of Collie A, and that would have provided some of the cheapest power, if not the cheapest power, in this state. The coal industry has never had the support of the Premier. He has spent many hours talking it down and talking about the gas industry. A paper that he produced in 2000 about the future of electricity in WA did not mention the coal industry once. Does the Premier want to have a look, because I have it on my file? I sometimes wonder whether he just set us up to fail at a cost to the taxpayers of WA. It has been very rare to see the Premier in Collie. Just before the election he spent a couple of minutes there. The other time he tried to visit, we did not let him land because it was raining.

Where are we headed with this issue? I have no confidence in what the minister said in this house because he said nothing about the future. Will Muja A and B survive? Will we be able to keep it going? Will he keep pouring money into it or will we cut our losses and move on and build another one? From what the minister said, I do not quite understand where we are headed in the future. He is just saying “maybe” and “could be”. Let us get some purpose on this issue and move it forward. It is a concern. It is concerning to the industry and coal producers and for the generation of coal. The industry does not know where it stands. If Muja A and B were going full bore and producing 750 000 tonnes of coal a year, that would amount to quite a few jobs in the industry. The minister has not convinced me or this side of the house that we are on the right track. He has had a bit of editorial licence about how things proceeded down the line. I think that will be taken up further down the line.

I have only a minute or so left in which to speak. We need the confidence of the minister. Will he fork up another \$150 million to get this job done? I do not know whether that will be the cost; I am just using that figure in saying that he has to refurbish the whole plant. Money has been spent on the first half. It needs to be worked through to the second half. Another \$150 million will come from some of the dearest producers of electricity in this state. The minister said that that will not impact on the price of electricity. That is not true. The capital cost must come into the equation. He is saying that the government is going to sell it privately. Verve is in place now; private enterprise is not moving it across. Bluewaters is selling out, Verve is buying in and Western Power is selling out. We have all that movement. Because we have an open market, the minister cannot say that it will not cost extra to produce that and the government will recoup the cost by selling it privately. Private enterprise will have to pay a price that recoups the cost to Verve. If that does not happen, it will have to be subsidised every year. I do not think we should be doing that. The minister should make a firm decision and get on with the job.

MR F.M. LOGAN (Cockburn) [3.42 pm]: The only thing that we have heard from the Minister for Energy that we can rely on is when he said that in 2007 Muja A and B were closed so that Verve could operate under the 3 000-megawatt cap that we put in place. That is the only reasonable and truthful thing that we heard from the minister’s mouth today. I remind the minister, despite him trying to smear this side of the house and the Labor Party with his problems—he has tried to do that twice now—why we would never have brought it back on. It is because we were determined to keep Verve under the 3 000-megawatt cap. Even if it had come to us with a proposal, we would not have agreed to it. The minister should not try to smear us with his problems. What Verve does as a government trading entity in inviting expressions of interest is up to Verve. That does not mean that there is a tender or a contract. In 2008—this is the minister’s story, not mine—Verve went out for expressions of interest. It certainly did not bring them to our government.

Dr M.D. Nahan: Yes, they did.

Mr F.M. LOGAN: No, it did not bring expressions of interest to our government. After expressions of interest were invited, Verve went out for tender—this is the minister’s story, not ours—and the government did the joint venture with it. The member for Cannington would be interested in this. Does the government know why one of the parties in the joint venture did not put any money in? At the time Verve was trying to get around the 3 000-megawatt cap, so it portrayed it to the market as a joint venture. That is what it was up to. It was only later that Minister Collier lifted the 3 000-megawatt cap. That is the reason it came up with the joint venture with one party not putting any money in.

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This is all a problem of the Liberal–National government. It took it to contract and it did the joint venture, where the government wore all the risk. Its company oversaw a complete blowout in a project that it knew from day one could never work. The minister himself said that it knew the plant for 50 years. It knew it could never work. It never managed it properly. The reason it never managed it properly is that the government had a minister in place who did not know what he was doing.

MR C.J. BARNETT (Cottesloe — Premier) [3.45 pm]: This government accepts responsibility for the agreements entered into. We did not seek to blame the previous government. Just for the record, it is a fact that in March 2007 the plant was retired—Muja A and B. In March 2007, Verve Energy advised the then minister that it was undertaking a request for a proposal. The process at the time was supported and endorsed by the previous government. In May 2008, Verve advised that the Inalco group was the preferred proponent.

Several members interjected.

Mr C.J. BARNETT: It all happened. The process started. It is a matter of fact. Under the Labor government, Inalco was the preferred proponent. The Labor Party cannot wash its hands of any association with this.

As I said at the beginning of my brief comment, the government accepts responsibility. What went wrong? Corrosion was discovered in July last year. No-one anticipated that. The government acted on engineering advice of Verve and others. How would a minister or a government anticipate corrosion? Presumably that corrosion occurred during the time in which the plant was idle—I do not know.

Mr M. McGowan: Table the reports. Table the due diligence.

Mr C.J. BARNETT: The Leader of the Opposition has had his chance. That is a reality. The minister has to deal with it.

Several members interjected.

Mr C.J. BARNETT: I am going to sit down. It is a complete waste of time with these clowns opposite.

The SPEAKER: I heard comments from those on the opposition side that they wanted to hear the Premier speak on this. The Premier is speaking, so let the Premier speak.

Mr C.J. BARNETT: When the corrosion issue came to light—it was more severe than originally identified—an extra \$23 million was allocated back in July, and then another \$47 million in 2012.

Mr W.J. Johnston: How much in 2013?

Mr C.J. BARNETT: The total was \$71 million in the *Pre-election Financial Projections Statement*. I do not know whether anyone actually knows the true extent of the problem, even now. Until we do, we will not make a decision on whether to proceed with this project. That is yet to be made. I am not defending it. We acted as a government on professional engineering advice which has proven to be deficient. That is the reality. We accept responsibility. Is the government at fault? I do not believe so. The advice was at fault. People can make a judgement about that. We have a problem to deal with.

I do not know why the member for Collie–Preston bothers to say it, but I remind him for about the fiftieth time that the last energy minister in Western Australia to fund a coal-powered station in Collie was me.

Several members interjected.

Mr C.J. BARNETT: Members opposite cannot deny it. We are going back into the Labor Party’s own ancient history.

Mr M.P. Murray interjected.

The SPEAKER: Members! Maybe you could take this up somewhere else, member for Collie–Preston. Premier, you only have a minute.

Mr C.J. BARNETT: Collie A, the last publicly funded coal-powered station, was done —

Mr M.P. Murray interjected.

The SPEAKER: Member for Collie–Preston!

Mr C.J. BARNETT: But the member cannot escape the only person to have built it. I can remember going to the oval where everyone cheered the Liberal Party and booed the Labor Party because it was the Liberals who built the power station.

Division

Extract from *Hansard*
[ASSEMBLY — Wednesday, 19 June 2013]
p1789a-1799a

Speaker; Mr Mark McGowan; Mr Bill Johnston; It Is Now Four Years Later And The Government Has Continued To Hide What happened.; Dr Mike Nahan; Mr Mick Murray; Mr Fran Logan; Mr Colin Barnett

Question put and a division taken with the following result —

Ayes (17)

Dr A.D. Buti
Mr R.H. Cook
Ms J. Farrer
Ms J.M. Freeman
Mr W.J. Johnston

Mr D.J. Kelly
Mr F.M. Logan
Mr M. McGowan
Ms S.F. McGurk
Mr M.P. Murray

Mr P. Papalia
Mr J.R. Quigley
Mrs M.H. Roberts
Mr C.J. Tallentire
Mr P.C. Tinley

Mr B.S. Wyatt
Mr D.A. Templeman (*Teller*)

Noes (32)

Mr P. Abetz
Mr F.A. Alban
Mr C.J. Barnett
Mr I.C. Blayney
Mr I.M. Britza
Mr T.R. Buswell
Mr G.M. Castrilli
Mr V.A. Catania

Mr M.J. Cowper
Ms M.J. Davies
Mr J.H.D. Day
Ms W.M. Duncan
Ms E. Evangel
Mr J.M. Francis
Mrs G.J. Godfrey
Mrs L.M. Harvey

Mr C.D. Hatton
Dr G.G. Jacobs
Mr R.F. Johnson
Mr S.K. L'Estrange
Mr W.R. Marmion
Mr J.E. McGrath
Mr P.T. Miles
Ms A.R. Mitchell

Dr M.D. Nahan
Mr D.C. Nalder
Mr J. Norberger
Mr D.T. Redman
Mr A.J. Simpson
Mr M.H. Taylor
Mr T.K. Waldron
Mr A. Krsticevic (*Teller*)

Pairs

Ms R. Saffioti
Ms L.L. Baker
Mr P.B. Watson
Ms M.M. Quirk

Mr N.W. Morton
Mr B.J. Grylls
Mr A.P. Jacob
Dr K.D. Hames

Question thus negatived.