

ELECTRICITY CORPORATIONS BILL 2003
ELECTRICITY LEGISLATION (AMENDMENTS AND TRANSITIONAL PROVISIONS) BILL 2003
ELECTRICITY INDUSTRY BILL 2003

Cognate Debate

On motion by Hon Tom Stephens (Minister for Local Government and Regional Development) resolved -

That leave be granted to debate the second reading stage of order of the day No 280, Electricity Corporations Bill 2003, order of the day No 281, Electricity Legislation (Amendments and Transitional Provisions) Bill 2003 and order of the day No 284, Electricity Industry Bill 2003 cognately.

Second Reading - Cognate Debate

Resumed from 2 December.

HON GEORGE CASH (North Metropolitan) [7.32 pm]: In respect of the seeking of leave to debate these Bills cognately, it was my understanding that a motion would be moved that would make it clear that we will not progress past the second reading stage of the Electricity Corporations Bill 2003.

Hon Tom Stephens: I can give you that assurance.

Hon GEORGE CASH: The minister's assurance is not worth anything at this stage, because the House has just agreed to debate all the Bills cognately.

Hon Tom Stephens: The second reading stage.

Hon GEORGE CASH: Did the minister use the words "second reading stage"?

Hon Tom Stephens: Yes.

Hon Kim Chance: It is the Government's intention to go only that far.

Hon Tom Stephens: I was assured that what I have just moved had been run past you and agreed to.

Hon GEORGE CASH: The minister sought the leave of the House to debate the second reading stage of order of the day No 280, Electricity Corporations Bill 2003, order of the day No 281, Electricity Legislation (Amendments and Transitional Provisions) Bill 2003 and order of the day No 284, Electricity Industry Bill 2003 cognately. We agreed to debate the second reading, but my understanding was that we would also proceed to the committee stage and third reading of the Electricity Industry Bill 2003, and that the committee stage of the Electricity Corporations Bill 2003 and the Electricity Legislation (Amendments and Transitional Provisions) Bill 2003 would be held over until the new year.

Hon Tom Stephens: That is correct.

Hon Kim Chance: That is our intention.

Hon GEORGE CASH: Right. I needed to check that because some technical difficulties would arise if that were not to be the case.

Hon Kim Chance: The reason for the misunderstanding is that we thought that we would move, rather than seek leave, for a cognate debate.

Hon Tom Stephens: We were told not to move a motion but to seek leave instead.

Hon GEORGE CASH: If that is the way the Government wants to handle it, that is fine with me. I now have an understanding of what it intends to do with the committee stage of the Electricity Industry Bill 2003. I understand that is the Bill the Government is keen to pass this year, with the committee stages of the other Bills occurring next year.

We are dealing with the Electricity Industry Bill 2003, the Electricity Corporations Bill 2003 and the Electricity Legislation (Amendments and Transitional Provisions) Bill 2003. There is no doubt in my mind, and I expect in the minds of those who have spent some time studying the issue, that the available empirical evidence shows that the price of electricity to consumers in Western Australia is unjustifiably too high when compared with that charged in most other Australian States, and appropriate action is required to redress this unsatisfactory situation for the benefit of all consumers of electricity in Western Australia. The benefits that could be achieved by appropriate reform are demonstrated in a study commissioned by the Electricity Reform Task Force. The results of that study are contained in the executive summary of the Electricity Reform Task Force report, "Electricity Reform in Western Australia, 'A Framework for the Future'", which was published in October 2002. The study estimated that the failure to address the high cost of electricity in Western Australia is costing the State 3 900 additional jobs and \$590 million per annum in lost gross state product. It further predicted that if the issue were

addressed, electricity consumers would benefit by \$240 million per annum and the greater competitiveness of the economy would result in up to \$505 million per annum in increased exports.

The Liberal Party holds the view that there is an undeniable need for energy reform in Western Australia. We recognise that the Labor Government also advocates energy reform. However, the difference in achieving what appears to be a similar objective of both parties relates to the manner of the proposed reform, the process to be adopted and the pace of such change. Members will be aware that in my capacity as an individual member of Parliament I have over the past two years spoken on the need for energy reform in Western Australia. However, I recognise that the Liberal Party two weeks ago made a party room decision on electricity reform based on the recommendations of the shadow Minister for Energy. I will put the party room position on this legislation on behalf of the Liberal Party. As a member who has over the years both won and lost votes in the party room on what have been regarded as fairly important issues, I will not let my preconceived prejudices and bias on the merit or otherwise of electricity reform in the south west interconnected system of Western Australia detract from the position recommended by the shadow Minister for Energy, which has been adopted and confirmed by a majority vote of the Parliamentary Liberal Party. The Liberal Party has considered the Government's legislation, and it has agreed to support the Electricity Industry Bill 2003 in the form in which it has been presented to Parliament. It has further agreed to vote for appropriate amendments to the Electricity Corporations Bill 2003 to achieve a separate Electricity Networks Corporation and a Regional Power Corporation. The Liberal party room has voted to oppose the Electricity Legislation (Amendments and Transitional Provisions) Bill 2003. However, depending on the amendments presented to Parliament by the Government to achieve a separate Electricity Networks Corporation and a Regional Power Corporation, it may be procedurally necessary for Liberal Party members to vote for the required transitional provisions to bring those two corporations into effect, and, therefore, to satisfy the intent of the party room decision. I make it clear that it is not for the Opposition to rewrite the Government's legislation; it is for the Opposition to state its position to enable the Government to consider the amendments necessary to achieve the position, should that be the desire of the Government. Unlike the Liberal Opposition and other minor parties, the Government has the resources and benefit of parliamentary counsel to ensure that appropriate and meaningful amendments are forthcoming to achieve a mutually satisfactory outcome.

Members will no doubt recall that soon after coming to office in February 2001, the Minister for Energy established the Electricity Reform Task Force - the ERTF - the role of which was set out as follows in the introduction to its terms of reference -

The ERTF, reporting to the Minister for Energy, has been established to develop detailed recommendations regarding the extent and phasing of the disaggregation of Western Power; the structure of the electricity market to be established in Western Australia; a Western Australian Electricity Code; and arrangements for full retail contestability.

The membership of the ERTF was John Hyslop, OBE, the chair and independent businessperson; Frank Harman, a senior lecturer at Murdoch University; John Kelly, the former general manager of network services with Western Power, and now retired; and Les Farrant, the Coordinator of Energy, who was the state representative on behalf of the Government - and, as required, Les Farrant's alternative was Vince Walsh. The specific terms of reference of the task force are well documented, and it is unnecessary for me to raise them further at this stage. It is fair to say that the task force conducted significant public discussion on the question of the need for electricity reform in Western Australia. The task force released for public comment in November 2001 an initial background discussion paper titled "The Electricity Supply Industry of Western Australia - a Background Paper on the Reform Process". Clearly, this was a significant step in public consultation. More than 90 submissions were received from interested parties about the ERTF background paper.

It was from the submissions that the task force compiled two substantial discussion papers on the reform of the electricity supply industry in Western Australia, both of which were released for public comment in April 2002. Discussion paper volume 1 was titled "Structure and Market Design for the Electricity Industry in Western Australia", and volume 2 was titled "Regulatory Regime for the Electricity Supply Industry in Western Australia". At the time of their release, the task force described the purpose of the discussion papers as providing the then views of the Energy Reform Task Force on the potential reform of the electricity supply industry in Western Australia.

As part of its wide consultative process, the task force further sought comment from interested parties on other aspects canvassed in the discussion papers. These discussion papers to which I have referred canvassed in chapter form in volume 1 such issues as structural reform of the south west interconnected system, an effective wholesale market, key elements of the wholesale market design moving to full retail contestability, renewable industry, distributed generation, demand management, end-use efficiency, competition in the primary field sector, the north west connected and non-connected supply systems and implementation issues and transitional

arrangements. Volume 2 dealt with the regulation of the electricity supply industry in Western Australia, an electricity industry commercial licensing regime and electricity access code for Western Australia, consumer protection measures and tariff protection in a competitive market.

Similar to the original background paper that was released for public comment in November 2001, a significant amount of comment was received on the discussion papers that were released in April 2002. I have had the opportunity of reading those discussion papers and a considerable volume of other documentation. I have also had the opportunity of attending a considerable number of briefings on the question of electricity reform in Western Australia, and I have listened to the individual views of many people on what they believe to be the merits or otherwise of such a program for the electricity system in Western Australia.

I suggest that any reasoned research or inquiry into the current legislative requirements pertaining to the generation, transmission, distribution and sale of electricity in Western Australia and the current legislative and policy constraints on generators, potential generators and potential retailers of electricity in Western Australia would require, as essential reading, the specific submissions that were made to the Electricity Reform Task Force - not just the documentation that came out of the ERTF, but the submissions that were made to the ERTF by all those private, public and union organisations, and the individual submissions. Those groups and people stated their views on the merits or otherwise of electricity reform in Western Australia. I believe it is fair to say that the ERTF engaged in a very wide consultative process across the State. The submissions made to the ERTF were not restricted to organisations from Western Australia. Organisations from other places in Australia also made representations to that group, and I am sure that there was an international flavour to some of the submissions that were made.

A reading of those submissions indicates that they contain a wealth of technical and other relevant information that provides an insight into both the perceived and actual successes and failures of the electricity industry in Western Australia, with considerable additional factual comparative information relating to structural regimes and inherent cost factors that relate to the electricity systems operating in other States of Australia. Also, a number of helpful international comparative studies can be found within those submissions.

The submissions also set out in detail the many opportunities that are claimed to exist to improve efficiencies relating to the electricity supply industry of WA, with a particular emphasis on reducing the cost of electricity in this State while maintaining, and in many cases improving, reliability, security, quality and safety of the electricity supply to all consumers of this essential product. As I work my way through these Bills, it will be clear that the issues that are uppermost in the Liberal Party's mind in respect of any change to the electricity system in Western Australia all hinge on those elements of improving the reliability, security and quality of the system and the safety of the electricity supply to all consumers, be they big or small, across our State. There is no doubt that electricity is an essential product. We cannot operate without it. It is therefore critical that any changes do not jeopardise the reliability, security, quality and safety of the supply.

After all those submissions were provided to the task force, it considered them and produced further documentation, which was really a compilation of its conclusions and recommendations on the opportunity for electricity reform in Western Australia. Those conclusions and recommendations are contained in the final report of the Electricity Reform Task Force titled "Electricity Reform in Western Australia 'A Framework for the Future'", which was published in October 2002. This report sets out detailed conclusions and recommendations regarding the extent and phasing of the disaggregation of Western Power, the structure of the electricity market to be established in Western Australia, a Western Australian electricity code and arrangements for full retail contestability. They are very much in line with the proposition that was put to the task force by the Minister for Energy in 2001 and developed into the terms of reference for this organisation.

I have said that I have had the benefit of considering the various ERTF publications and a significant number of other reports and submissions prepared by interested parties on the issue of electricity reform in Western Australia. Many of my colleagues in the Liberal Party have taken a very intense interest in this reform process to better understand what is a complex technical issue; the generation, distribution and sale of electricity in the south west interconnected system in particular. I am indebted to the Chamber of Commerce and Industry of Western Australia and the Chamber of Minerals and Energy of Western Australia for the briefings they provided to me and a number of Liberal colleagues on this important issue of reform. There is no doubt in my mind that both chambers sought to represent their respective views in a most professional manner. I am indebted to all the individual industry representatives and the officers of both chambers who provided expert evidence, technical information and support on the issue and need for electricity reform in Western Australia. On the submissions and evidence provided by these two significant chambers, there is no doubt that their respective membership sees a need for significant and urgent reform of the electricity supply industry in Western Australia, and, in particular, the south west interconnected system. There is also now no doubt in my mind that the views and expertise of these two long-established and respected chambers were helpful in assisting the Liberal Party formulate its policy position on electricity reform. We heard from not only the officers of the respective chambers, but also

the industry representatives who are members of those chambers. They provided to members of Parliament individual briefings, as required, to convey what electricity reform would do for their particular companies and, in more general terms, what it would do for the benefit of consumers in Western Australia. In that regard, briefings were also offered to Liberal Party members by Western Power, the Office of Energy, the electricity industry reference group, the independent power advisory group, Perth Energy, the Australian Services Union, the alliance against disconnecting Western Australians, various individual employees of Western Power and many other individuals and organisations who are keen to have the Opposition understand their position and views on the merits or otherwise of the Government's electricity reform proposition or program. Many, undoubtedly technically competent but nonetheless diverse, views on the subject of electricity reform were put by the various individuals and organisations that provided Liberal members with a plethora of information on which to base their decisions. Some individuals and organisations strongly argued for the Government's legislation, while some argued very strongly against it. Others put arguments for and against the legislation and suggested a negotiated position to at least achieve what they saw as a step forward in a continuing incremental process of electricity reform. It would be impractical in this debate to try to summarise the massive volume of both general and technical information and other evidence that was presented to me and other opposition members on electricity reform in Western Australia. However, for the record, I will include a synopsis of the general flavour of the views expressed by those in favour and those opposed to the Government's legislative response to the disaggregation of Western Power Corporation. Before I do that, it is convenient at this stage to set out in brief some of the conclusions of the Electricity Reform Task Force following its year-long investigation and consideration of electricity reform in Western Australia. In that regard, I refer to the final report of the ERTF titled "Electricity Reform in Western Australia 'A Framework For the Future'" published in October 2002, in particular the executive summary. At page 1 under the heading "The Approach Taken by the Task Force" it reads -

The Task Force believes that the most sustainable means of achieving the objectives set by Government in its Terms of Reference is by implementing structural, market and regulatory arrangements to actively promote competition in the electricity supply industry.

The task force further states -

The benefits that would flow from successful implementation of the proposed reforms are substantial and include:

benefits to electricity industry productivity, through competitive pressures;

benefits to consumers, through lower prices and greater choice;

benefits to society generally, through more efficient use of limited resources including greater use of renewable energy, distributed generation and demand management; and

economic growth and employment growth, through better resource allocation in the economy.

The task force's proposals incorporate an evolutionary rather than a revolutionary approach to reform and have been guided as much by consideration of the practical issues applying in Western Australia as by reform theory. I am referring to page 1 of the executive summary. Also on page 1 on the need for structural change of Western Power the task force noted -

Central to the proposed structural change is the disaggregation of Western Power. The Task Force recommends that Western Power's activities in the South West Interconnected System (SWIS) be vertically disaggregated into three independent entities, State Generation, State Networks and State Retail. These entities should be established as corporatised Government Enterprises as a matter of priority.

Separation of the networks business is necessary to ensure that it operates in the best interests of all market participants. It is also considered essential that State Generation and State Retail are separate entities to allow them to act independently to achieve the best outcome for the generation and retail sectors and for customers. As a separate entity, State Retail would seek the most competitive sources of generation and this should encourage other market participants and also ensure that State Generation acts in a competitive manner. Measures would be needed, however, to mitigate the market power of State Generation and State Retail in the initial years.

State Networks should be a single entity undertaking transmission and distribution activities in the SWIS. State Networks should consist of two separate and financially ring-fenced business units, Network Management (managing and operating the network assets) and System Management (undertaking system operation, market operation and system planning functions).

The Task Force recommends that Western Power's current activities in the North West Interconnected System (NWIS) and non-interconnected systems be integrated into a new entity, the Regional Power Corporation (RPC).

As a separate entity, the RPC would be able to focus on the operations and requirements in the NWIS and non-interconnected systems.

The task force also recommended the development of a wholesale market model designed to promote greater competition and private sector investment in the south west interconnected system and a number of measures to mitigate the potential market power of state generation in the SWIS. The measures would include provision of vesting contracts and other initial contracts between state generation and state retail, capacity and energy auctions of part of state generation's output, requirements on state generation to participate in the residual trading market, and restrictions on its ability to invest. In that regard, I refer to page 3 of the executive summary.

The task force went on to state that state generation should be required to offer to the residual trading market the energy from all its uncommitted available capacity to promote entry and depth in the residual trading market. It also stated that system management should be responsible for ensuring the reliable, secure and efficient operation of the electricity supply system. That reference is made at page 4 of the summary. Page 5 contains a recommendation that the provision of a statutory tariff protection for the establishment of a tariff equalisation fund be considered. A further recommendation is for a new regulatory framework for the electricity supply industry, including the establishment of a licensing regime for generators and other wholesale market participants, transmitters, distributors and retailers of electricity. The task force also recommended protection for consumers, in particular for residential and small business customers. It also calls for full retail contestability at all levels of the market.

Page 6 contains a recommendation for an electricity access code providing for open access to network assets to suit the conditions prevailing in this State. A further recommendation is that state retail should be able to contract with renewable and distributed generation projects independent of state generation to satisfy its renewable energy certificate requirements and to purchase green power to sell at a premium to its customers. At page 7 the task force also recommends that the Government should continue to promote and, when practicable, facilitate further competition in fuel supply for electricity generation, and facilitate security and availability in fuel supply, including for electricity generation. A further recommendation is that the Economic Regulation Authority undertake administration of the existing access regime applying to Western Power's transmission and distribution systems until the electricity access code takes effect.

I will refer to representations made by individuals and organisations that were in favour of the Government's reform legislation. I can present claims that were made in general terms only as a synopsis. I will also refer to various propositions put to interested members on the question of electricity reform in Western Australia. After that, in the interests of balance, I will provide a synopsis of representations made by people opposed to the Government's legislation. The general flavour of those in favour was that disaggregation would not impact on the scale economies of any aspect of the power supply industry in Western Australia and would simply be a formalisation of the ring-fenced arrangements that currently exist in Western Power.

Vertical disaggregation of Western Power, as proposed by the ERTF, will have no more impact on jobs in Collie than keeping Western Power together. The blackouts in California were due to a lack of new generation capacity installation problems going back a decade before deregulation was introduced in that State in 1998. Although electricity demand in California increased throughout the 1990s, with strong population and economic growth, there was no additional generation capacity due to a number of tough government approval processes for such plant. This imbalance caused the supply crisis in 2000.

Those in favour of the Government's reform package suggested that the reform program being proposed by the Government will not lead to excessive price volatility, as seen in the national electricity market, because the NEM in the eastern States uses a mandatory pool that the ERTF is not proposing. This market, as in California, does not allow direct bilateral contracts to be signed between suppliers and the demanders. All electricity suppliers - that is, those supplying more than 30 megawatts per plant in the NEM - and purchasers must go through the pool, which is a spot market. Some in favour suggested that the proposed ERTF reforms will assist renewable energy projects in the State, on the basis that independent renewable energy proponents currently face the same network access and market risk problems as do fossil fuel generators. On a number of occasions in this Parliament over the past two years we have discussed the problems that renewable energy proponents have faced when trying to gain access to the network. The current integrated Western Power structure means that there is an intractable conflict of interest in Western Power being the manager of network access and pricing, as well as the developer of renewable energy projects on its own account. The proposition advanced for full retail contestability was that it was not responsible for price rises that had occurred in Victoria, because the price movements in Victoria, as with those generally in the NEM, are to be expected in this type of spot market. In

2001 the NEM pool prices both increased and fell substantially according to supply and demand forces. The proposition was also advanced that the ERTF is approaching the issue of full retail contestability on a conservative basis and that the Opposition should have regard to that proposition. The Electricity Supply Association of Australia and other government and industry sources have shown that WA electricity prices have been consistently higher than those in the eastern States throughout the 1990s. It was claimed that this was due to a combination of lower efficiency in WA - such as lower labour productivity and plant availability - and higher fuel prices. It was also acknowledged by proponents for the Government's legislation that although Western Power's productivity performance has improved in this period, mainly due to competitive pressure associated with disaggregating the State Energy Commission of Western Australia, so have the eastern States electricity businesses. It was also suggested that the Opposition's position on the government Bills fails to deal with the most critical aspect of reform; that is, the restructure of Western Power Corporation into four separate corporate entities. One particular organisation stated that it was confounding that the Opposition supports the separation of networks in retail power but not the separation of the generation and retail businesses of the monopoly utility. It was also suggested that the two key elements of reform in the entire reform program, and provided for in the Electricity Corporations Bill, were, firstly, the separation of networks from generation and retail and, secondly, the separation of generation and retail from each other. The first, it was argued, is to resolve the intractable conflict of interest in having a monopoly utility owning both the network infrastructure assets, and the second is to mitigate to some extent the monopoly power that Western Power's generation and retail businesses yield in the market as an integrated entity. Without the implementation of these two elements of the Electricity Corporations Bill, there would be limited benefit to the public of implementing the other Bills that deal with consequential issues such as establishing a supplementary wholesale market and providing transitional arrangements to industry to operate in the new market framework. It was strongly suggested by this group that the retention of the generation and retail areas as a single business has the potential to severely undermine the entire reform program.

It was also suggested that Western Power's plant diversity is a public asset that belongs to all taxpayers in Western Australia - that is, all electricity users in the State - and that Western Power generation-retail owns this asset simply through its legacy as the State's monopoly supplier. This group argued that the asset must not be allowed to be used to shore up and protect Western Power's inefficiency, and it must not be used to favour the monopoly's own projects, regardless of the cost of these projects, and to bar competitive entry. It was suggested that this asset must be used as common infrastructure services to support all market participants equally for the benefit of the public. Those comments are generally consistent with those put to me and other members of this House over the past two years about the difficulties that independent power producers have had in trying to gain access to the network system. About 18 months ago the Minister for Energy promised to bring in regulations that would make it a lot easier to gain access to the network. Regrettably, for reasons still to be understood, those regulations have not been brought in. Any regulations that have been brought in have certainly not achieved the purpose we were led to believe was intended at that time.

Comments about energy matching from proponents of the legislation refer to the current network access regulation that requires an independent supplier to load-follow its customers' consumption profile every half hour. Not doing so, as members would be aware, incurs stiff penalties from Western Power in the form of payments for the energy balancing facilities operated by Western Power. Again, it is a case of Western Power playing the rule-setter, being a market participant and acting as umpire all at the same time. The energy used for balancing services, while managed by networks, is actually owned, controlled and priced by Western Power generation-retail. This clearly obstructs independent supplier entry into the market by allowing Western Power to impose a cost requirement that the utility itself does not have to bear. Only the utility can satisfy this supply to interested users. Once again, it was argued that the public asset of plant diversity that allows Western Power to provide the energy balancing facilities was being used to penalise independent suppliers and, by extension, all customers, through a higher cost structure than would otherwise prevail. Other supporters of the government proposals for reform suggest that, for reform to succeed, Western Power generation must be separated from Western Power retail, so that there will be an incentive for the generation sector to use its public asset - the plant diversity - in the most effective and efficient manner, to provide support to all participants.

It was argued that this incentive is provided for in the form of the residual trading market, as outlined in the Electricity Industry Bill. As members will be aware, there is a parallel market called the available capacity market, which is earmarked to be set up to deal with stand-by capacity trading. Again, the argument for the separation of generation from retail is that the incentive for these two competitive businesses to engage in mutual protection against the public interest will be removed. It was said that they will each be free to trade in the available capacity market with all other participants to minimise the cost of stand-by power, and that for a supplementary wholesale market to develop, incorporating both RTM and ACAP markets, Western Power generation and retail should be separated. It was pointed out that without this separation, the bulk of the south west interconnected system generation capacity, which belongs to Western Power generation, is effectively

locked away in a vertical monopoly structure with no incentive for it to be traded in the wholesale market. It was argued that this would annihilate any prospect of a wholesale market developing. It was also suggested that if the generation and retail divisions are not segregated as is planned, independent electricity retailers in particular, but also generators, will be reluctant to enter the market. This is because Western Power's retail and generation businesses will trade among themselves, locking out potential competitors. It was argued that new retailers need the commercial assurance that they can trade Western Power generation in a competitively neutral position.

Independent electricity retailers are a key component of any electricity market because they agglomerate the small and diverse electricity load profiles of small business users. Through this process retailers are able to negotiate competitive deals with generators and supply power to small business customers at considerably cheaper rates than such small users could secure for themselves. It was strongly argued that retaining the generation and retail divisions as stapled entities would not lead to a significant reduction in the cost of implementing the proposed reforms. It was suggested that more than 90 per cent of the cost of implementation of the reforms will continue to be incurred if generation and retail remain stapled entities, with most of the expensive items, such as the information technology systems to run the wholesale electricity market, still required, and that Western Power will have to upgrade its in-house systems to effectively meet the new market requirements. It was argued that, in fact, if the generation and retail divisions remain integrated, the long-term implementation costs will most certainly increase above those currently projected, as additional regulatory measures will be required to address the market power of the integrated retail-generation entity.

I mentioned earlier that a number of reports on electricity reform in Western Australia have been prepared and circulated. One report, produced by Access Economics Pty Ltd titled "An Assessment of the Case for Electricity Reform in Western Australia", was published in July 2003 and at page 30 states -

The proposals of the Electricity Reform Task Force established by the Western Australian Government are well thought-through, realistic and practical. They are cautious but should provide for the gradual development of competition over time.

Suggestions that Western Power could achieve needed improvements in productivity in the absence of reforms should be treated with scepticism. With the best will in the world, good intentions are no match for the disciplines of competition.

Competition is an enormously powerful driver for greater efficiency and customer responsiveness. It does work in the electricity supply industry if allowed to. Circumstances in Western Australia are not such as to invalidate this conclusion. While the market in WA is unique in some ways, just as other WA markets are unique, the lessons of other jurisdictions can be learnt and applied to good effect.

[Quorum formed.]

Hon GEORGE CASH: The report continues -

In particular, WA's size does not detract from the arguments for reform. While it is true that the South West Interconnected System (this report does not attempt to deal with the rest of the State) is characterised by diseconomies in production, they are not of a dissimilar magnitude to those elsewhere in Australia. As elsewhere, only the network - not generation and retailing - has natural monopoly characteristics.

Without vertical disaggregation, no real reform is possible. It has worked in the Eastern States, where the lessons for WA relate to the need to mitigate generator market power and foster demand-side responsiveness. However, attention does need to be paid to getting a competitive industry structure where that is possible, and to appropriate regulatory measures.

These are just some of the views of people who have indicated to me and other members of the Opposition that they are in favour of the Government's legislative package. As I said earlier, however, many diverse views have been put forward on this subject and no doubt will continue to be put forward. I mentioned also that electricity generation, distribution and retailing is a complex and competitive industry, and that, for every person who is in favour of reform and who spoke to me and other members of the Opposition, there seems to be as many who are opposed to the disaggregation of Western Power.

Those who are opposed to the Government's legislation made a number of pertinent points that they believe should be considered. I will provide a synopsis of some of those points. Again, it is impossible to do justice to the massive number of technical reports that were presented to members of the Opposition on this subject. However, there is no question that a significant number of people in the community are opposed to the way in which the Government has handled its proposed legislation in respect of the disaggregation of Western Power. Some of the comments from those who are opposed to the disaggregation of Western Power were along the lines

that Western Power Corporation's cost of operations is on a par with that of other electricity utility operations in Australia, except for the cost of fuel, and the large area of transmission, which creates significant line loss and requires significant spinning reserve to ensure the guarantee of a reliable electricity supply. Other points that were made were that advances in technology, not deregulation or disaggregation, bring down the cost of electricity; that the new combined-cycle generators that are now being brought on stream will reduce costs from 7c per kilowatt hour to about 4.5c per kilowatt hour; and that Western Power has a progressive renewable energy policy and its new wind generators at Albany will reduce costs to about 9c per kilowatt hour.

Another point that was stressed on a number of occasions was the state of the existing transmission and distribution system. It was indicated that capital expenditure on the existing transmission and distribution system would require about \$1 billion over the next four to five years. Later during my comments I will develop a little further the state of the existing network - that is, the transmission and distribution system - because there is no doubt in my mind that Western Power has been bled by successive Governments; that is, Western Power has been required to produce a significant dividend for government each year. One of the ways it can show it is making a profit and therefore is able to pay the dividend is to not maintain the system in the way in which it could or should be maintained. Arguments were put to the Opposition that, over the past 10 years, Western Power has not spent the money that it should have spent on its networks system to keep it in top operating condition. I will discuss that issue later.

Other arguments were that the electricity industry in Western Australia is a highly technical and strategic industry and that it is rightly dominated by electrical engineers and not economists and, in Western Power's case, has been largely kept free from political ideology over the past 10 years or so. It was also suggested that the present concept of reform that was being bandied about by some advocates of reform is worse than nonsense, as it is used as a technical mechanism to create an opportunity for some groups to profit out of so-called change. For example, some people in the business community constantly talk about the need for change or change agents, but most of those people do not understand in depth or, indeed, at all the concept of change. When developing that particular argument, it was suggested that change is nonsensical unless it leads to clear-cut improvement. That was very much emphasised by a particular group.

It was also claimed that competition in the airline industry has provided Australia with Compass, Impulse and Virgin Blue Airlines and that those particular airlines provided the public with only a short period of demonstrably lower airfares. At the same time, this additional competition has seen Compass and Impulse go broke, and it contributed to the meteoric collapse and bankruptcy of Ansett Australia. The lower airfares that were consequent upon those other airlines coming into the business in Australia has caused the surviving Qantas airline to denude its capital reserves to the extent that these financial reserves are now being progressively absorbed into recurrent expenditure, weakening the company even further.

It was also argued that the cost of access by third party generators to the transmission system and the cost of backup has been a major source of criticism by some sections of industry on the basis that the access rules are claimed to be far too technically tough and that the backup charges - that is, the top-up and spill charges - are much too high. However, these opponents to disaggregation argue that the access procedures and technical requirements imposed by Western Power are, in fact, consistent with the national electricity market regulations and are generally comparable with international practice insofar as they relate to the particular situation in the south west interconnected system.

It was also argued that the stand-by charges are reflective of cost and are approved by the Electricity Access Consultation Committee, and that the Electricity Access Steering Committee takes advice from the EACC and makes the formal approval in due course. It was further argued that the concept associated with the economic principles relating to economies of scale had been given no credence or attention in this legislation. For the electricity industry to progress, as with any other industry, it must be kept abreast of technological and scientific advances and incorporate such changes when it is to its advantage. Opponents of disaggregation argue that this is an ongoing, day-by-day process, which is facilitated by the financial debt of the organisation. The logic behind that argument is that the larger the organisation, the better placed it is to negotiate lower prices for its purchases of not only equipment of various kinds but also supplies. In the case of Western Power, this relates above all to coal and gas purchases.

Those against disaggregation also argue that the various expert reports published on the merits of disaggregating Western Power appear to be in conflict on the question of the costs and benefits that are likely to flow from disaggregation. It was pointed out that the Deloitte Touche Tohmatsu report at pages 52 to 58 appears to conclude that the two or three entity models would bring lower returns, but questions the viability of the constituent parts. The Allen report refers to lower capital costs due to the potential deferment of generation and lower fuel costs. However, it is argued that these will be offset by other costs, notably the implementation of the disaggregation of Western Power. Those against disaggregation also note that the Allen report appears to have

overlooked the fact that the Government has already made commitments to Western Power for new power stations over a period of years and that it is likely there will be no diminution in costs due to deferment.

Again, proponents of the argument against disaggregation argue that the legislation offers no solution to the \$2.5 billion debt that Western Power carries and which they claim has been a burden on the organisation since its establishment in its present form on 1 January 1995. They further argue that nothing has been done by successive Governments to deal with this significant debt problem and that it is clear that since 1 January 1995 there should have been a progressive reduction in the debt level to about \$1 billion today.

Those against disaggregation argue that it is manifestly clear that the proposed division of Western Power will come at a massive cost and will massively diminish the advantage of the current economies of scale, massively diminish bargaining power in relation to fuel costs and almost certainly deliver lower returns to the State Government. They argue that on the facts presented, it is manifestly clear that the way ahead for the provision of electricity in the south west interconnected system is to continue the policy of incremental improvement, which they claim has been the hallmark of Western Power since its establishment in January 1995. However, they recognise that if it were argued that the current policy of incremental improvement should be more vigorously pursued, this would probably not be unreasonable, but that if it were to be pursued, it must be done without risking the operational efficiency of the whole organisation.

It was pointed out on a number of occasions that the modern blueprint for electricity reform in Western Australia was contained in the Carnegie report, which members will be aware was commissioned by a former Labor Government and completed during the time of, and presented to, the former Liberal Government in 1993. It was suggested that the former Liberal Government claimed to have commenced the reform process, but, in reality, was captured by Treasury bureaucrats, willingly accepted the Treasury recommendation and took the lazy way out by selling public assets, like the \$2.4 billion sale of the Dampier to Bunbury natural gas pipeline, the \$970 million public share issue which privatised AlintaGas and the gift of the people's bank - the former Rural and Industries Bank - to the Bank of Scotland. From a union perspective, it was suggested that it was ironic that a Labor Government which derives its existence from the union movement is now doing that which industry has been demanding without success from the conservatives for the past 10 years and which the unions would have accepted if it were based on negotiated incremental change.

Another group that I mentioned earlier was the electricity reform review group. Some documentation was received from one of the union organisations that had membership of the electricity reform review group. It was argued that a balanced fuel policy addressing the need to generate power from coal, gas and renewable sources must be central to any change and must be part of the proposed reform. The argument they advanced was that the current legislation does not have due regard for a balanced fuel policy. The group argued that, in the Western Australian context, a balanced fuel policy means recognising that gas supplies are particularly vulnerable, that energy policy cannot be based solely on competitive pricing; that this policy increases the vulnerability; and that absolute reliance on a single energy source, for instance, gas produced from the North West Shelf and delivered into Perth by a single pipeline, means that the disruption of a gas supply either through production problems on the North West Shelf or pipeline transmission problems, may result in a shutdown of gas-fired electricity generation facilities and that there needs to be a continuation of a viable and efficient coal industry. The group went on to say that in respect of a balanced fuel policy, the options for the south west market are more limited than in the eastern States, making important the maintenance of a viable coal industry and coal-fired electricity generation industry and that the ability to control fuel prices is critical to reform. The group also pointed out that fuel costs account for 39 per cent of Western Power's current annual costs and represent the biggest segment of overall expenditure, and further, that, in the past, Western Australia's reliance on coal as the dominant source of fuel saw prices escalate, and consumers paid the penalty. It argued that if gas became the dominant source of fuel, a similar result would be inevitable.

Representatives from the Australian Services Union provided a number of articles and also a very helpful briefing to opposition members. One of the articles was authored by Dr G.D. Thomas of G.T. Power Consultants Ltd of the United Kingdom. The paper is entitled "Comments on the Electricity Reform Task Force Discussion Paper on the Reform of the Electricity Supply Industry in Western Australia". Page 5 reads -

The role of Western Power should be the "friendly giant" that provides stability and security and encourages and facilitates the required level of inward private investment. To do this requires simply that the government tells Western Power what these targets are, rather than relying on a subjective strategy of "maximising corporate value", which is bound to produce associated perceptions of "blocking new entrants" to maintain value. The regulation of Western Power is therefore simple and what is more it is simpler if Western Power is left to decide how best to meet the government profit targets. That is, it is far simpler to regulate a state owned utility if it is integrated. This is done via the external targets and audited to identify reasons for departure from the targets. The normal "carrot and stick" approach works equally well in public entities just as in private companies.

I have presented what I believe to be a cross-section of the comments that were made to me and my colleagues or contained in the reports and submissions presented to me, many of my colleagues and, no doubt, the Government on the fairly complex issue of achieving electricity reform in Western Australia. There is no doubt that the available reports are voluminous, and that the submissions and notes made at various discussions by interested parties on this important issue of electricity reform are significant. Obviously, in the time available to me I have not been able to touch on many of the other issues that were raised by a large number of people. However, it is fair to say that a significant amount of wide consultation on the subject of electricity reform has taken place over the past two years. In fact, such consultation has been taking place for the past decade; that is, since the tabling of the Carnegie report in 1993. I am sure members will understand that it is impossible to represent all the views that have been presented on this particular subject; however, I have endeavoured to provide, in synopsis form, some of the views that have been presented to me on the subject, both for disaggregation and the government legislation and against disaggregation and the government legislation in its current form. There is no doubt that numerous representations have also been made to the Government over the past two years.

The Government now seeks to legislate to enable the implementation of a reform model that it believes will achieve its objectives of overhauling the way in which the electricity industry in Western Australia operates. To do that, it has introduced three Bills: the Electricity Industry Bill, the Electricity Corporations Bill and the Electricity Legislation (Amendments and Transitional Provisions) Bill. It is necessary to look at the composition of these Bills. The Electricity Industry Bill 2003, which the Government has indicated it wants passed this year, comprises 11 parts, three schedules and a list of defined terms. As with most Bills that come before this House, part 1 deals with preliminary issues such as the short title, commencement and the terms used in the Bill. Part 2 deals with the licensing of the electricity supply and specifies procedures relating to a licence grant that may be imposed by the Economic Regulation Authority, licence exemption conditions, licence amendment and transfer conditions and enforcement and cancellation procedures. Part 3 of the Bill deals with the arrangements for the supply of electricity to certain customers. Part 4 deals with extension and expansion policies for certain corporations and imposes an obligation on the proposed Electricity Networks Corporation and Regional Power Corporation to develop and submit to the Coordinator of Energy for approval an extension and expansion policy. Part 5 deals with last-resort supply arrangements. Part 6 deals with the establishment of a code of conduct for the supply of electricity to small-use customers. Part 7 deals with the establishment of an electricity ombudsman scheme designed to provide a mechanism to resolve disputes between licensed industry participants and customers. Part 8 provides a regime for access to services of the electricity network infrastructure facilities, including the establishment of an electricity access code. Part 9 deals with the provisions necessary to make regulations to prescribe relevant matters for the purpose of establishing a wholesale electricity market in the south west interconnected system.

Part 10 deals with the establishment of a tariff equalisation fund to be used to meet the difference between the actual cost of supply and the price paid by customers in areas outside the south west interconnected system. Members would be aware that the current tariff equalisation system rests on discretionary government policy rather than a statutory base. The Bill incorporates a statutory base to give that tariff cap statutory backing. Part 11 deals with other matters, including reviews by the board and regulation-making powers and regulation powers applying to fees and charges for the supply of services. Schedule 1 deals with licence terms and condition. Schedule 2 deals with objectives to be met by the electricity ombudsman scheme, and schedule 3 deals with transitional provisions.

I turn from the Electricity Industry Bill 2003 to the Electricity Corporations Bill 2003, which comprises seven parts and five schedules. It generally creates four new entities in the form of the Electricity Generation Corporation, the Electricity Networks Corporation, the Electricity Retail Corporation and the Regional Power Corporation. Part 1 deals with preliminary issues, such as the short title, commencement and terms used in the Bill. Part 2 establishes the four new corporations just mentioned, and sets out matters concerning the board of directors and staff. Part 3 sets out the functions and powers of the respective corporations and the respective chief executive officers and staff. Part 4 deals with the operations of the corporations, and imposes various specific requirements on the corporations. Part 5 deals with provisions relating to the accountability of the corporations. Part 6 deals with financial provisions relating to the corporations, and part 7 deals with miscellaneous matters.

I turn now to the schedules of the Electricity Corporations Bill 2003. Schedule 1 deals with the provisions concerning the constitutions and proceedings of boards. Schedule 2 deals with the duties of directors and related provisions. Schedule 3 deals with provisions to be included in the constitution of any subsidiary. Schedule 4 deals with the procurement of new generation, and schedule 5 deals with financial administration and audit in respect of the corporations.

The Electricity Legislation (Amendments and Transitional Provisions) Bill 2003 comprises five parts. Part 1 deals with preliminary issues, such as the short title and commencement. Part 2 deals with the required transitional amendments to the Electricity Corporation Act 1994. Part 3 deals with the transitional provisions for the succession from Western Power Corporation to the four new corporations. Part 4 deals with the consequential amendments required to achieve the purposes of the Bills. Part 5 deals with general amendments to a number of statutes in furtherance of the electricity industry reform measures to be implemented under the Electricity Industry Bill 2003. That is a general brief description of the Bill.

I think it is fair to say that neither the Liberal Party nor the Labor Party is unanimous in the manner of the proposed reform with the process to be adopted and the pace of change necessary to achieve what appears to be a similar objective shared by both parties. That objective is lower electricity prices in Western Australia.

As I stated when I commenced my discussion of these Bills, the Liberal Party has considered the Government's legislation. It has agreed to support the Electricity Industry Bill in the form in which it has been presented to the Parliament. It has further agreed to vote for appropriate amendments to the Electricity Corporations Bill to achieve a separate Electricity Networks Corporation and a Regional Power Corporation. The Liberal Party room has voted to oppose the Electricity Legislation (Amendments and Transitional Provisions) Bill. However, as I said when I commenced my comments, depending on the amendments presented to the Parliament by the Government to achieve a separate Electricity Networks Corporation and a Regional Power Corporation, it would be procedurally necessary for Liberal Party members to vote for the necessary transitional provisions to bring those two corporations into effect, and therefore satisfy the intent of the party room decision.

I also made clear that it is not for the Opposition to rewrite the Government's legislation; it is for the Opposition to state its position to enable the Government to consider what amendments are necessary to achieve a particular position, should that be the desire of the Government. In the interests of achieving some lasting benefit for electricity consumers in Western Australia, and having regard for the diverse views on the methodology required to achieve such change while ensuring the critical elements of reliability, security, quality and safety of electricity supply, we await the Government's response to the agreed position of the Liberal Party, as reflected in the majority vote of the party room. If the Government is unwilling to agree to the amendments that are necessary to achieve what I have stated, we in the Liberal Party will vote on the individual Bills as I have also indicated.

Many other issues need to be dealt with. Although it has taken me some time to represent the views of those who have approached members of the Liberal Party on this issue, I have not yet been able to deal with a number of issues, and I hope that we will be able to deal with them during the committee stage. For instance, it is estimated that the cost of achieving the disaggregation of Western Power will be in excess of \$150 million. For that \$150 million, the Government offers no guarantees. It offers a hope that in the longer term there will be lower electricity prices across the board. It is also fair to acknowledge that it is likely that the greatest reduction in electricity costs will be in the area of heavy industry - some might refer to that at times as big business, because in fact it is a significant consumer of electricity - and there will then be reductions in the various tariffs applied by Western Power through to the tariff at the other end of the demand scale, that of the domestic users. The biggest winner will be industry, with its heavy use of electricity, through to a more moderate saving for domestic users, although I must say that there have been suggestions that the reduction in electricity costs for domestic users could be quite significant in relative terms compared with what is being paid by them at the moment.

The Bills in their present form generally deal with heads of power. It is true that the Electricity Corporations Bill is more detailed. It sets out the constitution of the intended four corporations, and other relevant information. The Electricity Industry Bill comprises significant heads of power that are required to achieve the policy objectives of the Government. However, the detail to put into affect these policy decisions under the heads of power that is created by the legislation is intended to be introduced as, in the main, subsidiary legislation. Of course, at this stage, that subsidiary legislation has not been written. In respect of the detail, it is fair to say that at the moment the Government is telling us what its policy is and that it wants us to agree to it. However, as far as the detailed application of the policy, the Government wants us to take it on trust. Many people in the community are concerned that that might be too big an ask - more than some political parties are prepared to offer. The bottom line that the Liberal Party will be working towards is to maintain the reliability, security, quality and safety of the electricity supply. Therefore, any decisions or negotiations that we conduct with the Government on these Bills will have those elements as the bottom line.

It is interesting to note that in the past few days a Western Power report has come out titled "Mid Year Review Business Outlook And Projections" dated 28 October 2003. It is a document that, as I understand it, was directed to board members of the corporation. However, there is also a note in it to the Minister for Energy from the Chairman of Western Power, Malcolm Macpherson. He says in his note that he is sending the minister a copy for his information of the updated financial forecasts that have been provided as part of the mid-year

review. This document provides some very interesting information that will need to be further developed during the committee stage. Paragraph 3.2 on page 3 of the review refers to electricity reform costs and states -

As discussed above, allowance has been made for approved costs of reform and expenditure totalling \$152m has been included as approved by Cabinet on 30 June 2003. Western Power assumes that the current administrative and legal matters relating to the payment of these costs will be resolved and ultimately funded as per the Cabinet decision. Details of the costs to be borne by Western Power are shown below.

It is followed by a graph under the heading of "Approved Reform Expenditure". It then states -

It should be noted that the operating costs included above cover the additional costs of running the new businesses and not of the actual implementation of the reform program. The latter will be borne by the Electricity Reform Implementation Unit.

The review goes on to say that the graph also assumes that the 2006-07 costs will continue into the future at the same level. As far as the costs of disaggregation go, it is absolutely critical that the minister is able to provide the House with a detailed breakdown of the costs of this so-called reform process because, at the moment, it is vague. Western Power's mid-year review also casts some doubt on the vagaries associated with these costs.

In this document, Western Power also indicates that it anticipates greater retail competition as a result of the introduction of more independent power producers into the system. It predicts that it will need to reduce its electricity charges in Western Australia and, as a result, revenues might decrease, although, given the anticipated economic growth and growth generally in its customer base, there may not be a real decrease in revenue. That needs greater consideration after a detailed reading of this report.

Much has been said about the cost of electricity in Western Australia and that not enough information has been provided on costs relating to the supply of gas to Western Power and the various coal contracts that Western Power has in place at this stage. Some of the people who have been part of the debate generally about the need to reform Western Power have argued that unless action is taken against Western Power to break its monopoly status, there will be no need whatsoever for Western Power to continue to exert downward pressure on its coal contracts. Given the history of the sale of coal in Western Australia, it is not difficult to understand just how Western Power and its predecessor, the State Electricity Commission of Western Australia, have been put in a position in which they have had to pay significant prices for coal over a period of years. That relates to the fact that many people hold the view that true competition has not existed in that industry. There are only two suppliers of coal in Western Australia. The calorific content of that coal is substantially less than that produced in the eastern States, yet the cost of coal in Western Australia is significantly higher than that paid for coal used to generate power in the eastern States. I have had the opportunity to speak to representatives at the coal companies. They argue that it is not the cost of coal that impacts on Western Power's overall costs of producing electricity; other factors play a part, some of which relate to the inefficiency of the organisation itself. One representative of a coal company suggested to us that if Western Power was given the coal at no cost, it would still produce electricity at a higher cost than is currently produced in some eastern States power systems. It remains to be seen whether that was a general statement made to emphasise that it was not coal costs alone that were pushing up the price of electricity.

A number of other interested parties have provided information on the systems operating in other States. Members will be aware that the other States, with the exception of Tasmania for the time being, are connected to the national grid - Tasmania is about to be connected. Much has been made of the situation in South Australia. I was provided recently with what appears to be the front page of *The Advertiser* from South Australia of 20 November 2003. A banner headline reads, "Power Bill to Rise Again" followed by the lesser headline "Retailer's case for a \$50 annual increase". The article reads -

Electricity retailer AGL wants power prices to rise a further 5 per cent next year, adding about \$50 to the average annual bill.

The move for higher prices is backed by two other energy companies, while the state's leading industry advocate, Business SA, says profits for the companies must be high enough to encourage more competition.

There has been significant debate in South Australia on the reasons electricity costs in that State have gone up significantly in the past few years. It would be easy to use this type of front-page story to suggest there are significant problems with the South Australian electricity system. The fairest way to deal with the South Australian problem is to recognise that there are fundamental differences between what the Government proposes to do in Western Australia and the system that was put in place by the Government in South Australia. The system in South Australia was privatised, and that has been argued as one reason that costs have increased. The Western Australian Government does not propose to privatise Western Power at this stage of the game, even

if it is broken into four separate entities. The Bill requires any so-called privatisation to be brought before this Parliament for further consideration.

The Chamber of Commerce and Industry of Western Australia issued a press release today in the form of a statement by its chief executive, Lyndon Rowe, titled "Deferral of electricity debate an opportunity for the Opposition". It states -

The State Government has acted wisely in moving to allow MPs more time to consider Bills implementing electricity reform in WA.

Hopefully, abandoning the Christmas deadline for passage of the legislation - which means key changes may not be voted on till March - will not delay the Western Power disaggregation due to take effect from 1 July.

The need for electricity reform in WA is inescapable and urgent. If the Government's moves to create a competitive electricity sector fail or are compromised, WA faces the likelihood of lost investment and reduced employment through industries relocating to the eastern states where similar reform has made power considerably cheaper.

Disappointingly, this risk did not emerge as a principal concern among non-Government MPs during debate of the Bills in the Legislative Assembly. Nevertheless their speeches did indicate there is agreement that the current system has major shortcomings, particularly in respect of reliability of supply.

The proposed reforms do address those concerns but also tackle the worsening problem of comparative electricity prices. The state is at a crossroad where the electricity industry is concerned and the evidence is overwhelming that the future lies in opening up the industry to private sector participation and competition, not in the maintenance of an under-challenged government monopoly utility.

The reform legislation is in the state's future economic interest and warrants the Opposition's support. Holding the debate over provides the Liberals with the opportunity to argue their concerns with the detail of the Electricity Corporations Bill more clearly, and to pursue the assurances they seek that businesses and householders will share in the benefits of the change, both directly and indirectly.

If the Liberals agree to a new network utility but do not support separating Western Power's generation and retail arms to create a properly competitive market, they will in fact ensure the benefits are restricted to big business. Only a proliferation of new electricity retailers in an open marketplace will deliver opportunities for small businesses to shop around for tailored, lower-priced electricity supply deals.

Nor will private energy utilities be drawn to invest in new generation capacity in WA until Western Power's dominance and control over the industry is contained.

I have read that statement into the record because it was released only earlier today and is very pertinent to this debate in the Legislative Council.

I have set out the Liberal Party's position as agreed to by a majority vote of Liberal Party members in the Parliament. The underlying elements for any negotiated arrangements with the Government are reliability, security, quality and safety of the electricity supply in Western Australia. It is now over to the Government to determine whether it is prepared to agree to the necessary amendments that would see the creation of a separate Electricity Networks Corporation and a Regional Power Corporation, leaving the generation and retail side stapled as an individual and separate organisation. With those comments, I look forward to further discussion during the committee stage on the facts that are necessary to better understand the real meaning of the Government's heads of power.

HON MURRAY CRIDDLE (Agricultural) [9.10 pm]: I take this opportunity to comment on the Electricity Corporations Bill 2003, Electricity Legislation (Amendments and Transitional Provisions) Bill 2003 and the Electricity Industry Bill 2003. At this stage the National Party will oppose the passage of these Bills, which is a reflection of the debate within the party and at its conference. The issues that were raised at the conference were the reliability of supply, the continuity of supply, the quality of that supply and, to a lesser extent, the cost of the supply, but certainly the cost of connection to that supply. The motion passed at the National Party conference states -

That the National Party opposes any consideration of disaggregating Western Power until power supplies in regional areas are reliable and a mechanism is developed to ensure that future infrastructure and generation is reliable and affordable, with supply charges based on the current tariff arrangement.

Anybody who has looked at the problems that have occurred under this Government with country infrastructure - roads, health or education - will understand that country people have lost confidence in the delivery of some of its promises. The Chamber of Commerce and Industry of Western Australia and the Chamber of Minerals and Energy have argued that good outcomes and a reduction in prices will result from this legislation, but the minister has not provided a guarantee that there will be any reduction in prices. Unions have a similar belief. However, I thank the minister and Western Power for the briefings outlining the proposals the Government has put before the Houses of Parliament. I will run through those proposals shortly.

Earlier this year a series of blackouts occurred throughout regional Western Australia. My office was inundated with requests to put forward the views of the people. A meeting, organised out of my office and chaired by me, was held in Koorda on a day when the temperature reached 42 degrees. Not much notice was given of the meeting, but 250 people attended, and, without any prompting, something like 30 people stood up and told Western Power about their everyday problems. They told of poles falling over, lines not having the capacity to carry the power, the loss of the work force from regional Western Australia, and, in some cases, powerlines falling down and causing fires and serious damage. I recently attended a meeting at Jerramungup attended by approximately 100 people, at which similar issues were raised. Those people made it quite clear that there needed to be some absolute guarantees. The Westrail Bill that I carried through the Parliament as a National Party member of the previous coalition Government included some guarantees that infrastructure would be improved. I spoke to the minister recently about the requirement to upgrade the south west interconnected system, and he replied that the Government would need some more votes in the upper House before anything could be done. I suggest that if the Government wants to get anything through the Legislative Council it should start negotiating. I understand that, with the way the Bills are being presented here, we will have the opportunity to negotiate over the next two months before the House resumes. I hope the minister takes those issues on board and understands the requirements of country people. There is nothing worse than essential services not operating properly in the country, and power is one of those essential services that people on the end of the line in particular want to be reliable.

The National Party has had a very good look at the Electricity Industry Bill, the purpose of which is to govern the future operation and regulation of the Western Australian electricity industry. The Government claims that the legislation will put the electricity industry on a competitive footing, promote investment in infrastructure, provide a foundation for lower prices, promote economic growth, create new jobs and improve service delivery to all customers. That is the very point I am making about guarantees - to give the people in country Western Australia an opportunity. The aims of the legislation will fall into place over the next 10 years and build on changes that have been occurring in the electricity sector for some time. The Western Australian economy is heavily reliant on the processing of mineral resources and requires competitive energy prices. There is no market for the sale of the uncontracted electricity and there is no significant entry of new generators or retailers. There is no independent oversight of access arrangements to the network or of networks charges and no incentive for Western Power to contract with other producers. The existing industry structure, therefore, is unsustainable. Electricity reform is essential to a vibrant Western Australian industrial sector. The private sector has indicated that creating the right market structure will lead to a significant investment in electricity beyond the State's own electricity assets.

The key elements of these reforms include a wholesale market in the south west interconnected system; the restructure of Western Power into four new government-owned entities in the form of the Electricity Generation Corporation, the Electricity Retail Corporation, the Electricity Networks Corporation and the Regional Power Corporation; and an independent licensing regime for those involved in generation, transmission, distribution and retail. The electricity access code is being drafted to ensure that all new entrants to the market can use the grid on an equal basis. This is very similar to what exists in the Westrail arrangement. There are also measures to protect customers in a competitive market. Generators of renewable energy will have increased opportunities because the retail corporation will be able to source renewable energy requirements from alternative private suppliers. The wholesale market will remove existing barriers to suitable energy and ensure a level playing field. The new wholesale market will consist of a bilateral contract market with a binding day-ahead residual trading market. This model builds on the existing approach by addressing issues that have inhibited the development of the competitive bilateral market, such as an absence of a market through which retailers and generators can buy and sell uncontracted energy. One of the main things is the opportunity for people to move into these networks. That is one thing that would be welcomed here.

The current use of physical bilateral contracts provides limited opportunities for generators other than Western Power. This is one of the reasons we have not seen the emergence of competitive generators, despite improved access on the electricity grid through reduced contestability thresholds.

For management of the system, a state-owned business within the Electricity Networks Corporation will manage the wholesale market. Market rules will prescribe the rights and obligations of all market participants and

outline the rules of operation. This Bill, of course, contains some enforcement, penalty and dispute resolution provisions. The Government will be able to use the licensing framework to implement renewable energy policies; that is, there will be a possible requirement on retailers to buy electricity from renewable sources and to identify greenhouse gas emissions on customers' bills.

It is claimed that the reduction in the contestability threshold to 50-megawatt hours per annum from January 2005 will mean that an extra 10 000 Western Power customers will be eligible to choose their supplier for the first time. Consumption at this level equates to a small business with an annual electricity bill of \$8 000. That is a substantial amount. My farm bill is about that price.

History has shown that smaller retail customers with no experience in choosing their supplier need measures to safeguard their interests. These include a supplier of last resort scheme, an electricity ombudsman, a customer service code, standard supply contracts and obligations to connect and supply. The supplier of last resort scheme will ensure that customers receive continued electricity supply if a retailer makes an unplanned exit from the market. The Electricity Retail Corporation will be the supplier of last resort in the south west interconnected system and the Regional Power Corporation in its areas of operation. A customer service code will regulate the conduct of holders of distribution licences, retail licences and electricity market agents. The code and the last resort scheme will be developed with industry and customer stakeholders during 2004. There will need to be some advancement in the legislation for all that to happen. Licensed retailers will be obliged to offer a standard contract at a price not exceeding the uniform tariff to all customers within their licence area. Renewable retailers will be exempted from this obligation to allow a premium to be charged for renewable energy to customers who are willing to pay more. Regulations may be made regarding the connection of customers to a distribution system. This will ensure that, when predetermined technical and economic conditions are met, customers requesting supply will be connected to the network. These customer protections will apply to customers using 160 or fewer megawatt hours per annum. Regulations will set tariffs at the same levels as those currently charged by Western Power and will apply to the Electricity Retail Corporation, the Regional Power Corporation and private sector retailers within the existing Western Power areas. The tariff equalisation fund will provide for the transparent transfer of appropriate funds to the Regional Power Corporation to enable it to maintain tariff protection in its areas of operation.

The Bill creates an obligation on the RPC and the Electricity Networks Corporation to develop an extension and expansion policy for government approval. This will specify the circumstances in which a customer can be connected to the network and how the corporations will extend and expand the network. It will certainly add quite a deal of explanation to the Electricity Industry Bill. The Electricity Corporations Bill will give effect to the restructure of Western Power by creating four new government entities to provide electricity to the SWIS and regional areas outside the grid. Of course they are of particular interest to the National Party. As I said, the Bill creates those four new entities to undertake Western Power's existing activities in sectors of industry. Vertical integration of the electricity supply chain is a dominant utility and is inconsistent with the competitive market. Such a structure deters competitive entry and private investment in the market, thwarting efficient service delivery and lower-priced power to consumers. The current structure is a real barrier to achieving a competitive electricity sector. We need to address those issues. In the absence of private sector investment in generation, the Government will need to invest significant funds to ensure sufficient capacity to meet future needs.

The Bill enables the vertical separation of the networks, generation and retail businesses and establishes mechanisms for controlling their behaviour. The Electricity Networks Corporation will house and operate transmission and distribution assets and be responsible for wholesale market operation through the System Management business unit. The System Management business unit will ensure the reliability and security of supply and will have central oversight of the generation capacity requirements in the south west interconnected system. System Management will also review long-term supply issues and be able to commission the development of new generation capacity if reserve capacity is falling below reasonable limits. The Networks Corporation will be able to focus the use of its revenue from regulated access charges on the efficient operation of its existing systems and necessary capital upgrades to cater for future load growth. The Economic Regulation Authority - the Economic Regulation Authority Bill went through the Parliament recently - will be the independent regulator.

The Regional Power Corporation will be responsible for Western Power's existing functions in the north west interconnected system and non-interconnected regional systems. The Regional Power Corporation is to be based in a regional area. The minister has said this will be Karratha. The chief executive must reside in the same location as the head office, and the majority of board members must live outside the south west interconnected system.

Extract from *Hansard*

[COUNCIL - Tuesday, 9 December 2003]

p14649b-14663a

Mr Tom Stephens; Hon George Cash; Hon Murray Criddle

New corporations cannot dispose of any asset, such as a power station, worth more than \$100 million, or five per cent of the asset base of the corporation, unless in accordance with a disposal order issued by the Minister for Energy. That will require the approval of both Houses of Parliament.

The Bill has been modelled on the Electricity Corporation Act 1994, which provided for the creation of Western Power. The minister can restrict specific functions to encourage private competition in the generation and supply of electricity. The Bill provides mechanisms to limit the Electricity Generation Corporation's ability to exercise market power in selling its output. The Bill provides that the Electricity Retail Corporation and the Electricity Generation Corporation may participate in the gas market. The functions of the retail, networks and regional power corporations also enable these entities to provide telecommunications services.

Although the National Party understands that there is a need for reform of the electricity market, in the view of the National Party, unless the issues that I spoke about earlier are addressed and we have some guarantee of an upgrade in the quality of the supply, the poles and wire, and the distribution network, and an increase in the opportunity for the work force to live in and carry out maintenance in country areas, we will not support the legislation. It has been suggested that it will take about \$500 million to bring the network up to standard. That sort of guarantee certainly will be required by us before we will be prepared to even consider supporting these Bills. I leave that message with the minister. I trust that people in country areas will get the hearing that they deserve when it comes to any improvement in the electricity reforms that are intended to be implemented in this State.

Debate adjourned, on motion by Hon Bruce Donaldson.