

Mr Colin Barnett; Chairman; Mr Eric Ripper; Mr Mick Murray; Mr John Day; Mrs Carol Martin; Mr John Bowler

Division 10: Office of Energy, \$15 921 000 -

Mr Dean, Chairman.

Mr Ripper, Minister for Energy.

Dr L.A. Farrant, Coordinator of Energy, Office of Energy.

Mr G. Gilbert, Director, Corporate Operations, Office of Energy.

Mr P. Stewart, Manager, Finance and Administration, Office of Energy.

Mr G.B. Eley, Principal Policy Adviser - Energy, Office of the Deputy Premier.

Mr BARNETT: Can the minister explain why the Western Australian Independent Gas Pipelines Access Regulator appears in the budget papers but is not part of a division? It is referred to on page 185 of the *Budget Statements*.

The CHAIRMAN: I guess that occurs for the same reason that Homeswest is not included in a division. The same problem was mentioned with Homeswest this afternoon.

Mr BARNETT: It is not a government trading enterprise.

The CHAIRMAN: It does not have any government outputs. That is the only reason I can think of.

Mr RIPPER: I will deal with that question in a minute.

The CHAIRMAN: It is not covered by Standing Order No 222. It was a good question; it is worth finding out more about that matter.

Mr RIPPER: The Leader of the Opposition asked a question about the status of the Office of Gas Access Regulation in the budget papers. The Office of Gas Access Regulation is usually funded by industry contributions or charges; however, the Office of Energy provided a sum of money for working capital to the Office of Gas Access Regulation last year. I am not sure why the decision was made to include the Office of Gas Access Regulation in the budget papers. It is perhaps in the budget papers because of the decision to provide it with working capital in the 1999-2000 financial year.

Mr MURRAY: I refer to dot point two under significant issues and trends on page 187 of the *Budget Statements*. What arrangements and preparations have been made for the introduction of a fully contestable gas market?

Mr RIPPER: The Government has established a gas retail deregulation steering committee. Most of the members of that committee represent the gas industry. There are two considerations; the first is the question of legal contestability and the second is the question of making the necessary practical arrangements to provide competition in the retail gas market. The gas retail deregulation steering committee was formed to make those practical arrangements. Representatives on that committee come from retailers, shippers, pipeline operators and relevant government agencies. The gas retail deregulation steering committee has been provided for in the budget. We have set aside \$350 000 in this budget for the operations of that committee, plus \$70 000 has been carried forward from the past financial year. The committee will need to engage some consultants. The cost of those consultants will be shared on a one-third basis by AlintaGas, other participants in the gas industry and the Government. Industry will also meet many of the costs involved in developing customer call centres and billing systems.

The target date for retail contestability in the gas industry was to be 1 July 2002. I am disappointed to be advised by the steering committee that it will not be possible to meet that date. I am seeking further advice from the committee about a practical date. I am seeking advice about whether potential competitors and consumer representatives are happy with the proposed delay. I understand that to be the case. It is something that I regret, but I note that progress towards full gas retail contestability has also slipped in other jurisdictions.

Mr BARNETT: I will ask a supplementary question on that issue. Why was the timetable for gas deregulation delayed? There may have been some technical and safety issues to deal with, but July 2002 is a long way away. I do not know one justifiable reason to delay that timetable.

Mr RIPPER: I am interested in the member's comments. He is the former minister for this portfolio. Had the steering committee been established earlier, when there might have been more chance of meeting the deadline -

Mr BARNETT: The timing had already been stretched out once. We had allowed for that. It was stretched out by six months.

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Mr RIPPER: It might have been helpful if the former minister had established the committee last year, rather than leave it for the incoming Government to establish. Nevertheless, I was advised that, although tight, the 1 July deadline was practical. The committee has now told me that it does not think that date is practical. They are the people who must implement it. I am attempting to satisfy myself that the potential competitors - in other words, the potential losers from a delayed deregulation date - are happy with the arrangements. I will ask the Coordinator of Energy, who is a member of the steering group, to provide some information on the nature of the deliberations.

Mr DAY: Could the minister also provide the expected date for retail contestability?

Mr RIPPER: Yes.

Mr FARRANT: I chair the gas retail deregulation project steering group. As the minister described, that committee has representatives from industry as well as relevant government agencies. The task of determining the practical requirements for industry to implement the systems to enable customers to switch between retailers has been tackled in other jurisdictions in Australia and has proven to be a difficult and intractable problem. The steering group is now assessing the systems being developed in New South Wales and Victoria. A comparative analysis of those systems will help determine what will be recommended to industry and to the Government here. The system adopted should pick the best features of systems in other parts of Australia and will aim for some consistency between States to allow businesses to operate across the country without incurring extra costs in other jurisdictions. The practical requirements include the considerable development of information technology systems. The implementation of those arrangements will be a large cost to industry. We are keen to make sure that the cost is minimised and that we achieve the delivery of those systems at the earliest practical date. Further recommendations from the steering group will be put to the Government in a matter of days.

Mr DAY: Do you have any idea of the date this will take place?

Mr FARRANT: The objective date for removing legal impediments to contestability in gas is 1 July 2002. The State committed to that date with other jurisdictions through an intergovernmental agreement arrangement that was signed in November 1997. The delivery date for practical systems appears to be about six months beyond that date. More work needs to be done on making what is available and what needs to be achieved clear to the industry. The industry must commit to its part in delivering those systems.

Mr BARNETT: It would be a disappointing outcome if the delay were for more than six months. If the date ended up being 1 January 2003, it would probably be neither here nor there, but I would hate a delay beyond that date.

Mr RIPPER: I am disappointed by the delay. The only thing that gives me some comfort is that this was the advice of all industry and consumer representatives on that committee.

[9.30 pm]

Mr DAY: I refer to the establishment of the electricity reform task force, which has been allocated \$950 000. Does that amount appear in the Office of Energy's budget?

Mr RIPPER: It is allocated through the Office of Energy, so it is in the Office of Energy's budget.

Dr FARRANT: There is no line item in the budget papers for that amount of money. However, it is an amount of money that the budget provision makes available. The industry has been advised that that money is available from the State to help the electricity reform task force do its work. Other contributions will be made from the Office of Energy budget by way of support services from the Office of Energy to the task force. Indeed, we expect industry participation as well in the working groups of the task force. There will be a considerably greater effort than that which the \$950 000 appears to provide at face value. The \$950 000 will certainly provide for the establishment, accommodation and delivery of the task force, but the work will involve a large number of other participants.

Mr DAY: Can the minister provide a breakdown of the budget for the electricity reform task force? I would be quite happy to have that provided by way of supplementary information.

Mr RIPPER: Does the member mean what the \$950 000 is being spent on?

Mr DAY: Yes.

Mr RIPPER: There is no reason that information could not be provided, although I might need to check whether the budget for the task force has been completed.

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Dr FARRANT: The task force is currently formulating a more detailed budget, which I am sure it will then be pleased to make available.

Mr DAY: However, will the minister provide what he can by way of supplementary information?

Mr RIPPER: Yes, I will. I also point out that funding for the task force is included in the figures for output 1.

Mr DAY: As I understand it, the main aim of the exercise is to make recommendations in relation to the disaggregation of Western Power. The minister has expressed the desire for a reduction in electricity charges, which is an aim we share in general terms. Can the minister give any indication about what he expects will be the effect on electricity prices as a result of this whole process? Can the minister break that down into a comment about the effect on generation costs and the effect on transmission costs?

Mr RIPPER: The main aim of the exercise has been misstated by the member. The aim of the exercise is to establish an electricity market and to introduce greater competition into our electricity system in Western Australia and, through that greater competition, to drive down or hold down real electricity prices. It is the Government's view that to achieve enhanced competition in the proposed electricity market, it will be necessary to disaggregate Western Power. However, that is a means to an end, not the end. The task force will be asked to make recommendations on the extent and phasing of the disaggregation of Western Power. I do not have a target for the prices that will flow from this reform process. By definition, it is difficult to predict by how much competition will lower electricity prices. However, I believe that the pressure of competition stimulates people to act in productive and efficient ways and that the best way in which to hold down and drive down electricity prices in the future is to promote additional competition in the market.

Mr DAY: To reiterate what the minister has said, the aim is to get competition as opposed to reducing the cost of electricity. It would seem to be putting it the wrong way around.

Mr RIPPER: The aim is to lower prices and the preferred means is to enhance competition.

Mr DAY: I think that is what I was saying in general terms earlier. Does the minister intend to maintain the same deregulation timetable as was announced last year?

Mr RIPPER: That is my intention. If the member reads our policy, he will see that I committed to the deregulation timetable announced by his colleague and went further by saying that we would aim for full retail contestability by 2005. The electricity reform task force is considering all of these matters and will make recommendations. However, the Government's intention is to proceed with the deregulation as foreshadowed.

Mrs MARTIN: I refer to dot point four on page 188. I will begin by stating the disappointment of the people in the Kimberley after the poor way in which they were treated by the previous Government in relation to this matter. There remains strong interest in the potential for tidal energy in the coastal areas of the north west. What is the expected outcome of the Government's commitment to a study of options for power supply to Derby?

Mr RIPPER: The Government has engaged a consultant to study the options for tidal power and the supply from tidal power for electricity consumption in Derby. There are a number of possibilities for small-scale tidal operations based on run-of-tide or run-of-stream options rather than the barrage or dam option.

Mr BARNETT: The minister is ripping off the speech I gave in here 18 months ago almost word for word.

Mr RIPPER: One can always learn from one's opponents. I hope the Leader of the Opposition is engaged in that process right now.

Mr DAY: Especially one's predecessors.

Mr RIPPER: I have been distracted. The consultant will study the options for small-scale tidal technologies in Derby. At the conclusion of that study, I hope we will be in a position to call for tenders for such a tidal supply for Derby's electricity needs.

Dr FARRANT: The consultant that has been engaged is Hydro Tasmania and that work has started, including visits to Derby.

Mrs MARTIN: Is there a time frame?

Dr FARRANT: The consultant's brief calls for report before the end of the year. I am advised that the minister's requirement for this is that the Government be in a position to look at calling tenders early in 2002.

Mr BARNETT: Given the minister's comments about a small-scale, run-of-flow tidal project, can he now confirm that the Government is not interested at all in the so-called Tidal Energy Australia Pty Ltd project based on the two-reservoir system?

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Mr RIPPER: I cannot give the Leader of the Opposition that confirmation. The prospect of that project supplying power to the whole of the west Kimberley was legally closed off by the previous Government's authorising Western Power to conclude a power purchase agreement with alternative proponents.

Mr DAY: Which the Government is very thankful for, I am sure.

Mr RIPPER: There is obviously a way to go with that project. It has not been implemented yet. I cannot say that the Government does not have an interest in a larger-scale tidal project. However, as members are aware, a power purchase agreement was concluded by Western Power with alternative proponents. I am aware that the tidal power proponents have proposed a new project based on mineral processing requirements.

Mr BARNETT: They always have a new project.

Mr RIPPER: Through the Office of Energy, the Government has facilitated Tidal Power Australia's application to the federal Government for support for that project. However, the project requires a significant amount of public assistance. Although we have heard much pro-tidal rhetoric from the federal Government, we have not heard any definite statement about a dollar commitment.

[9.40 pm]

Mr BARNETT: The minister was pretty big on the rhetoric about 12 months ago.

Mr RIPPER: The member will recall that our commitment to support a tidal power project in the west Kimberley is based on a number of conditions. A federal government feasibility was to be conducted. We want confirmation that the study confirms the technical viability of the project and that the federal Government is prepared to provide the significant support that has been requested of it to enable the project to supply power at commercial rates. We also need to know that the option of selling power to the west Kimberley is open. That is the basis on which we made our commitment. We also said that we were prepared to fund the required roadworks, which would cost \$15 million. If it becomes possible to meet all the other conditions and establish a tidal power project, that commitment will be fulfilled.

Mr BARNETT: The Minister for Energy referred earlier to the tidal energy project being associated with a mineral processing project. I assume he is talking about the Cadjebut mine. Is he aware that that company has publicly dissociated itself from the tidal energy project?

Mr RIPPER: I am advised by the Coordinator of Energy that the company involved has, in his words, stood back from the proposal.

Mr BARNETT: That is very diplomatically expressed.

Mr MURRAY: I would like to move further south and on to a different sort of fuel. What strategies is the minister pursuing to ensure the continued viability of the coal industry in Western Australia?

Mr RIPPER: Coal is an important part of Western Australia's energy sector. We need sustainable long-term competition to maintain future energy prices. We do not want to find ourselves restricted to one energy source, thereby raising the possibility that the State will be exposed to a monopoly power. Western Power is undertaking a public power procurement process. In some ways it is the same process as was announced by the previous minister. He announced that Western Power would seek peaking and mid-merit power in two tranches of 240 megawatts by 2004-05 and 120 megawatts by 2005-06. I have asked Western Power to consider the alternative option of 360 megawatts of capacity by 2005-06. It is not possible nor responsible for me to require Western Power to purchase power that it does not need. Western Power argues that it does not need base-load capacity, but that it needs peak and mid-merit capacity. However, I want it to give coal a fair go. The size of the capacity required and the lead times provided by the option of 360 megawatts by 2005-06 would give coal a better chance than would the previous Government's proposal. The requirement would still be for mid-merit and peaking power. It would be better for coal if it were base load; however, Western Power is arguing strongly that it does not need additional base-load capacity at this time. It is difficult for a Government to direct an agency in a commercial environment to purchase power it does not need.

We have improved the position for coal. I am hopeful that the coal companies will approach the issue creatively. They potentially have the option to supply other customers on a base-load basis. They could then meet Western Power's mid-merit or peak demands in conjunction with supplying other people or with other processors. I have indicated that to assist them provide power at an economical rate, we are prepared to allow them to develop Collie B by leasing from Western Power on a commercial basis the necessary infrastructure at the Collie power station. That might be a more economical way of developing a coal-fired power station. To ensure that the process is fair to all, I have appointed an independent person to oversee it and to provide me with independent advice. As minister, I have responsibilities under the Act to approve substantial contracts, and I will need independent advice to do that. Bill Heron is the person I have appointed.

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I am aware that the work force in Collie has made very significant concessions over the years to improve the productivity and efficiency of the coal industry. Regrettably, Western Power has not experienced the fall in coal prices that would be expected from those efforts. It is something to which the companies must attend. Western Power is paying too much for coal. The concessions and the changes the work force have made are not properly reflected in the prices charged to Western Power.

Mr BOWLER: Is that because of the long-term contracts?

Mr RIPPER: That is an issue, but the work force is entitled to say to the companies that it has made the changes and that the companies must now sharpen their pencils and produce a result that will ensure the continued viability of the coalmining industry.

Lest I slacken in my concern for the coal industry, I have a very vigorous advocate in the member for Collie, who approaches me in the House on almost a weekly basis, ensuring that I take into account the needs of his constituency. The people in Collie need not doubt that they have a redoubtable advocate fighting for them in this place.

Mr MURRAY: Rest assured it will not cease.

Mr BARNETT: I refer to Collie coal, the power industry and the Government's policy of no privatisation - although I note that it will allow leasing. There is not much difference in my book. The long-term coal contracts supplying coal to the Collie power stations have another 10 years to run, and, therefore, the cost of electricity from the stations, particularly Muja, will remain relatively high. If the Government proceeds with the other arm of its policy and disaggregates Western Power, will it require Western Power to have matching back-to-back contracts? In other words, will the Government require the power station division to maintain the coal contracts and Western Power to maintain the existing back-to-back electricity purchase contracts with the power stations, or will it break that nexus?

[9.50 pm]

Mr RIPPER: Considerations like this led me to establish the electricity reform task force. There are complexities with electricity reform in this State such as long-term contracts and the possibility of stranded assets in the reform process. All these things need to be taken into account. I will seek advice from the task force on these matters. The aim of the exercise is competition. I do not want to unduly advantage or hamper Western Power in that competition. Arrangements will have to be made to sort out the position of long-term contracts. As Minister for Energy, I am concerned about the legacy of the past and how it bedevils reform and policy making into the future. I am sure that the Leader of the Opposition, as a former Minister for Energy, had to grapple with the legacy of the past. It is regrettable that the State has a history of entering into long-term contracts that make it very difficult for policy making into the future.

Mr BARNETT: I have a supplementary question. I understand that the intricacies are yet to be played out, and I do not want to debate that. Given the Government's policy commitment to disaggregate and deregulate the electricity industry, does the Treasurer acknowledge that the board of Western Power will have little choice but to write-down or write-off the value of the Collie power stations? I am talking about Muja and some of the old generating plants, not new Collie.

Mr RIPPER: It is not something I have received advice on from Western Power. One would think that, in its representations to me, it might have mentioned that if it were something it was intent on doing fairly soon.

Mr BARNETT: It could only be done after decisions were made. At that stage, it would have no choice but to write-off some of the assets.

Mr RIPPER: It depends on the decisions made and the recommendations. The task force will consider all the issues. The task force is a group of experts that includes the Coordinator of Energy. Once it makes its recommendations, the Government will make its own decisions before it proceeds. The member can be assured that the Government will take into account Collie and the value of government-owned assets in making its decisions.

Mr BARNETT: Would the Treasurer not agree that if a decision were made by the board of Western Power, according to its responsibilities, to write-off some of the older coal generating plant, it would significantly reduce the value of Western Power?

Mr RIPPER: The Government can maintain or increase the value of Western Power if it maintains or enhances the dominant position of Western Power in the electricity system. The Government can do what was done in South Australia. Competition was limited by limiting investment in the interconnection between South Australia and the eastern States. That was done to boost the price of its electricity system prior to privatisation. South

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Australia is now paying the political cost in terms of unreliable power supplies. If Western Power is maintained as a monopoly its value will be higher than if it is in a competitive market. The previous Government was moving toward opening up the electricity market to competition.

Mr BARNETT: A disaggregated Western Power? Its market position in retail is unaffected by that. The Government wants to disaggregate it! It had better think about it a bit more.

Mr DAY: I have a supplementary question. Would the minister agree, on the balance of probabilities, that if there is to be greater competition in electricity generation, it is likely that there will be a greater reliance on the use of gas than coal for electricity generation, given the comparative costs?

Mr RIPPER: The coal industry argues vigorously that it can provide the cheapest electricity. It would not agree with the member in his judgment that coal is not competitive. Let them compete and see what happens.

Mr DAY: I ask about the substantial priority and assurance dividend that applies to the Office of Energy. It is shown on page 190 as \$833 000 for the current financial year. It will increase to over \$1 million in the out-years. That represents about eight per cent of the office's budget. What impact will that have on the Office of Energy's operations generally? Specifically, will there be any reduction in the allocation to the technical and safety division of the Office of Energy?

Mr RIPPER: I am advised that the priority dividend does not impact on the operations of the technical and safety division of the Office of Energy. Savings of \$144 000 will be achieved in travel, advertising and consultancy. Savings in advertising and promotion may impact on some of the work of the technical and safety division.

Mr DAY: Does the Treasurer not think it important for people like Dr Farrant to be able to travel interstate to keep up with important policy issues and developments?

Mr RIPPER: While there is a cut in the interstate travel budget, it is not a 100 per cent cut; it is only a 30 per cent cut. Dr Farrant has attended a number of recent meetings.

Mr BARNETT: He needs to.

The previous Government made a decision to increase funding from \$4 million a year to \$6 million a year for the underground power project. The figure was matched by Western Power. What is the Government's long-term commitment to funding for the underground power project?

Mr RIPPER: The priority dividend has impacted on the underground power project. As has been reported in the media, the commitment to the project has been reduced from \$6 million a year to \$5 million a year. The cut was made on the basis of improved efficiencies in the underground power project. I am advised that there has been progress in the way in which the project has been implemented. The same number of lots can be done for a smaller amount of money. In an ideal world we would not have cut that particular allocation because there are benefits to local communities and Western Power in maintaining the underground power project. On the basis that the same physical amount of work can be maintained for a lesser allocation, the cut has been applied.

The CHAIRMAN: I draw the attention of members to the time. Several votes must be conducted before 10.00 pm.

Mr BARNETT: I want to record in *Hansard* that because of the bomb threat, three-quarters of an hour was lost to this division. I do not criticise the Government or the Chair for that, but I think it is a deficiency in the estimates process if an untoward event occurs. Further questions in other areas were going to be asked.

Mr RIPPER: I agree with that. If we had the flexibility, I would be happy to sit here for a further three-quarters of an hour and answer more questions. However, to do that we would need to recall the House and suspend standing orders.

Committee adjourned at 10.00 pm
