STANDING COMMITTEE ON ESTIMATES AND FINANCIAL OPERATIONS

2012–13 BUDGET ESTIMATES HEARINGS

TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
FRIDAY, 3 AUGUST 2012

SESSION FIVE
VERVE ENERGY

Members

Hon Giz Watson (Chair)
Hon Philip Gardiner (Deputy Chair)
Hon Liz Behjat
Hon Ken Travers
Hon Ljiljanna Ravlich

Hearing commenced at 4.46 pm

Hon PETER COLLIER
Minister for Energy, examined:

Mr DAVID EISZELE
Chairman, sworn and examined:

Mr JASON WATERS
Chief Executive Officer, sworn and examined:

Mr WALLY BOROVAC
Chief Financial Officer, sworn and examined:

The CHAIR: On behalf of the Standing Committee on Estimates and Financial Operations I welcome you to the hearing this afternoon. Before we commence, I am required to ask the public servants to either take an oath or an affirmation.

[Witnesses took the affirmation.]

Mr Eiszele: To just clarify "the public servants", I am not a government employee.

Hon PHILIP GARDINER: And chairmen!

The CHAIR: That is a very good point. I am following my script here, but we should say "witnesses". Thank you for checking.

You will have all signed a document entitled "Information for Witnesses". Have you read and understood this document?

The Witnesses: Yes.

The CHAIR: The hearing this afternoon is being held in public but there is discretion available to the committee to take your evidence in private either of its own motion or at the request of a witness. If for some reason you wish to make a confidential statement during the proceedings this afternoon, you should indicate to the committee that you request that the evidence be taken in closed session, obviously before you actually answer the question. Government agencies and departments have an important role and duty in assisting the Parliament to scrutinise the budget papers on behalf of the people of Western Australia and we appreciate your assistance in that process this afternoon. The proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. It would greatly assist Hansard, members, if when you refer to the budget statement volumes or the consolidated account estimates that you give a page number, item and a program in preface to your question. If supplementary information is to be provided, I ask your cooperation in ensuring that that is delivered to the committee clerk within 10 working days of receipt of the questions. Should you be unable to meet this deadline, please indicate to the committee clerk immediately. The committee reminds agency representatives—and chairmen—to respond to questions in a succinct manner and to limit the extent of personal observations.

[Witnesses introduced.]

The CHAIR: Hon Ljiljanna Ravlich.

Hon LJILJANNA RAVLICH: I refer to page 597—it is the only page actually—and "Works in Progress". I noticed that the estimated total cost is $1.067 billion. In terms of those projects that are listed—Cockburn power station, Collie power station et cetera—could you advise whether there are any overruns on those projects; and, if so, which ones?

Hon PETER COLLIER: Yes, probably Wally would be best.

Mr Borovac: I am happy to address those. On a portfolio basis, we have not had any overruns on Cockburn, Collie, Kwinana and Muja. We are anticipating overruns on the high-efficiency gas turbines.

Hon LJILJANNA RAVLICH: So, the "High Efficiency Gas Turbine". The "Other Low Value Generation Projects"?

Mr Borovac: No.

Hon LJILJANNA RAVLICH: No overruns on that. The "Pinjar Gas Turbine"?

Mr Borovac: No.

Hon LJILJANNA RAVLICH: "Worsley Gas Turbine"?

Mr Borovac: No.

Hon LJILJANNA RAVLICH: "Sustainable Energy" whatever that is —

Hon ROBIN CHAPPLE: Can we just go back and ask about the sustainable energy, if they have got a cost overrun there?

Hon LJILJANNA RAVLICH: So really it is only the high-efficiency gas turbine. At the moment, by how much is the expected overrun anticipated to be?

Mr Borovac: It is somewhere in the vicinity of about 10 per cent. Originally we budgeted $263 million and we would expect it to be around $295 million; it is a 10 per cent overrun.

Hon LJILJANNA RAVLICH: So it is about $35-odd million.

Mr Borovac: It is about $26 million.

Hon KEN TRAVERS: The budget here says $273 million is the estimated total cost for the high-efficiency turbine.

Mr Borovac: The $263 million is for the base and there is $10 million as strategic spare.

Hon LJILJANNA RAVLICH: How are you going to fund that?

Mr Borovac: Effectively, we are going to have to fund it out of our cash flow and move around some of the other capital expenditure.

Hon LJILJANNA RAVLICH: I understand that you are already under some pressure given the efficiency dividend that you have been asked to harvest—is that correct?

Mr Borovac: Yes.

Hon LJILJANNA RAVLICH: I also understand that you have advised the government that there will be difficulty for you in actually providing those savings—is that correct?

Mr Borovac: Yes we did; we advised that last year.

Hon LJILJANNA RAVLICH: And the government has come back to you and said, "Find it."

Mr Borovac: Perhaps I might ask Jason to address that.

Mr Waters: There was a body of work to be completed within the business to identify where the cost savings could be found. As you can imagine, in a business like ours with a very large portfolio of plant, we are talking about finding expenditure in large sort of categories across a fleet of plant. We have got to a position now where we believe that we will satisfy the requirement without any impact on service delivery.

Hon LJILJANNA RAVLICH: Can I just ask you how you intend to satisfy that requirement, where you will be making those savings from?

Mr Waters: Re-prioritisation fundamentally.

Hon LJILJANNA RAVLICH: Of what?

Mr Waters: Of expenditure across the business.

Hon LJILJANNA RAVLICH: What sort of expenditure, in terms of what areas?

Mr Waters: Maintenance fundamentally.

Hon LJILJANNA RAVLICH: Maintenance—there will be a reduction in the amount allocated to maintenance. What is the total quantum of savings that will be achieved by cutting back on maintenance?

Mr Borovac: At this stage I have not got the specifics in relation to maintenance, but across the portfolio we are looking for $63 million for the 2012 efficiency dividend and around another $20 million in the second round. I would say roughly around 80 per cent to 90 per cent of that will come from re-prioritising the maintenance budget. Now, how we have proposed to deal with that is that we will be allocating priorities at the moment. To the extent that we identify any impact on services, we will go back to the government and request additional funding. That is the direction that the board and the management has decided such that we do not want to jeopardise any of our services.

Hon LJILJANNA RAVLICH: Okay, I can understand you not wanting to jeopardise services, and that is good. Will you be jeopardising or compromising safety?

Mr Eiszele: Absolutely not.

Hon LJILJANNA RAVLICH: Anywhere?

Mr Borovac: No. It is non-negotiable on that.

Hon LJILJANNA RAVLICH: I wonder whether you could provide for the committee by way of notice—in fact, you have given us a broad outline of how you will achieve that $63 million in savings. If you can provide more fine-grain detail of exactly how those savings will be made to the extent that that is possible both in 2012 and in 2013, that would be appreciated.

[*Supplementary Information No E1.*]

Hon LJILJANNA RAVLICH: I go back to my original question, which was: given that you have to find $63 million in savings in order to meet the efficiency dividend—I know it is not three per cent for you—how will you then deal with meeting, I guess, the additional funding required for the overrun for the high-efficiency gas turbine?

Mr Borovac: As I mentioned earlier, it will be a matter of re-prioritising projects that we feel are the most important—as we pointed out, safety is a non-negotiable—and then ensuring reliability of supply. We have got a number of projects where there is a high priority. The other projects which will emerge we will go back to government with a business case on. To the extent that it is going to impact on services, we will put a very high priority on that.

Hon LJILJANNA RAVLICH: Through you, minister, Mr Borovac has offered to provide the committee with how the savings will be achieved for the $63 million in 2012 and the $20 million additional in 2013. What I am also going to ask now is whether you can include also what other savings you will be making in order to be able to find savings to in fact fund the shortfall for the gas turbine. If you can take that on notice, that will be good.

The CHAIR: That is part of supplementary information E1.

Hon PHILIP GARDINER: Just in terms of that maintenance you mentioned that you might be looking at—I might have missed part of the answer you have given to the question—what is the total budgeted maintenance that you have in your budget as of 2012–13, roughly?

Mr Waters: We can provide you the figures.

Mr Borovac: For 2012–13, we have got a combined materials and services budget of $167.5 million.

Hon PHILIP GARDINER: The $167 million, that is materials and services to do with maintenance—changing parts, changing water valves or whatever it might be.

Mr Borovac: Yes, fundamentally. They are principally applied to our maintenance.

Hon PHILIP GARDINER: How much do you expect to cut that total maintenance by to offset whatever else you have got to re-prioritise?

Mr Borovac: That is already incorporating the savings.

Hon PHILIP GARDINER: So what was it without the savings? I just want to get a percentage of what you have taken out of the maintenance because maintenance is a pretty important feature of any mechanical operation. I know what happens when you do not do it, so I just want to know what proportion you are taking out of it.

Mr Borovac: I think it is around 10 per cent —

Hon PHILIP GARDINER: So it might be $16 million or $17 million or something like that.

Mr Borovac: It could be up to $20 million, yes.

Hon KEN TRAVERS: But you need to make that up again, I assume, in future years, do you not?

Mr Borovac: Yes, that is right. It is a matter of re-prioritising and ensuring that you have actually got the funds there for the program. I guess on a broad basis you could argue that this year we have had a major maintenance program on two units down at Muja. They have been an absolute priority and we have been working on those. We have identified other equipment that has been underutilised and to the extent that it has been underutilised, the maintenance program was reassessed and pushed out. So, again, it is a matter of prioritising the program.

Hon LJILJANNA RAVLICH: When you decide that you are going to defer maintenance, do you undertake some sort of a risk analysis?

Mr Borovac: Yes, we do—absolutely.

Hon LJILJANNA RAVLICH: Great. Can you provide to this committee the risk analysis that you did to come to the determination that these maintenance priorities will now be deferred so that you can harvest these savings? You can take that on notice, but you have just —

[5.00 pm]

Mr Eiszele: I understand. Could I make a comment?

Hon LJILJANNA RAVLICH: Yes, sure.

Mr Eiszele: I think that the provision and application to basically implement these efficiency dividends is not easy, but we will not take it to the stage of compromising the effective maintenance that is required or the safety requirements of the plant and the people. The board has said we will do what we can to cooperate with the government in respect of the efficiency dividend. But if it gets to the stage where we believe that that is going to threaten the operation of the plant, we will come back to government and ask for further funding. We will not put our plant or our people at risk to implement the efficiency dividend. So you ask for information on risks, on costs: please be assured that the board will not put the plant or the people in any sort of risk under those conditions. Management have had clear instructions from the board that if that is the situation, we must get back to the owner and have further discussions. In respect of our plant and our operations, discretionary expenditure is not the same classification. Applying that across all organisations, we do not have a lot of discretionary expenditure in our business, so it is much more difficult for us to implement these sorts of cuts. I just want to reassure you that we will not take risks with the plant or the people.

Hon LJILJANNA RAVLICH: Mr Eiszele, can I just say thank you very much for that. Whilst the board makes certain decisions based on the recommendations of the bureaucracy or whoever and you can satisfy yourself that there will be no risks, I think this committee, too, has an obligation to also satisfy itself that what is being claimed is in fact true. So we also have a moral obligation, if you like, to satisfy ourselves that the information that is being presented is such because, at the end of the day, we are talking about the taxpayer dollar and also about ensuring that there are no risks. So, if I can once again, Madam Chair —

The CHAIR: I have it that we have asked for supplementary information with regards to the risk analysis.

[*Supplementary Information No E2.*]

Hon PHILIP GARDINER: Thank you, Hon Ljiljanna Ravlich, for taking up that question because that was coming; that was the next part. Chairman, your remarks gave me comfort to some extent excepting when you said we do not have much discretionary expenditure in Verve, because you just do not have it. So, $20 million out of maintenance implies a certain discretion about what maintenance is and what it is not, and that is what worries me. It is like not checking the oil in a sump. I know it is a bit different for you guys, but —

Hon ROBIN CHAPPLE: They have got a bigger sump!

Hon PHILIP GARDINER: What I would like ideally to have, if you can do it, is of the $20 million, which areas of the maintenance schedules that you undertake are being taken out for this coming year. Is that possible to provide?

Mr Eiszele: Can I just go back and clarify? When I was talking about discretionary expenditure, it is the definition of discretionary expenditure that comes from Treasury that does not really apply to our business. So it is in that context. It is the way it is defined within the statement that comes from Treasury that we have difficulty in complying with.

Hon PHILIP GARDINER: Okay.

Mr Borovac: If I could point out, the philosophy of the company has not changed at all in relation to the way we run our maintenance program. We have been asked to address it and we have addressed it where we can. One of the things that I can point the committee to is in our annual report at the front section, we put a record of our forced outage factors and the percentage of money that we actually expend on maintenance and services. Off the top of my head, we had somewhere in the vicinity of five per cent forced outage factors, we dropped down to two to 2.3 per cent, which is approaching world's best practice in terms of forced outage factors. The philosophy of this company has been to spend the money in the most economic manner to get the best benefits for the company and therefore for the shareholder. We have consistently done that, we are on record and we publish that result in our annual report every year. I was here with the previous MD a few months ago where we discussed that, and there is a graph that clearly shows that. I can assure you that philosophy is still remaining and that target of two per cent forced outage factor is still the relevant target that our company works towards. I can assure you we are very proud of what we have been able to do in terms of turning around what was in 2007 and 2008 dire straits in terms of our plant and the performance of our plant as evidenced by those forced outage factors, to what we are achieving today. There is a lot of science that goes to that. We would not be acquiescing to this unless we felt, first, we could change it without jeopardising services and, secondly, we identified that where there are going to be things coming up we will be going back to government and that is the proviso that the board put up. So I can assure you that there is absolutely no compromise on that score.

Mr Waters: Could I just add further? Just in regards to the way that our maintenance is planned, I do not want it to come across as though there is a very simple process that goes on and there is a simple approach to risk within the business that spits out a number. We have a large number of technical staff within the business; we probably have 60 to 80 engineers distributed across our sites, each of whom are geared towards maintaining the availability of specific areas of plant. So when we talk about the decisions that go into the maintenance spend that we prefer, it is by nature a somewhat inexact science. You cannot dictate based on spending $100 million on your plant that you will achieve a fixed target of availability; it is a grey zone. The availability of plant and the spend certainly correlate over a period of time, but the approach we take is risk based and we put a lot of thought and analysis into coming up with the numbers. We will certainly provide the information that has been requested, but I would just like to point out that it is not conducted within any sort of singular point in the business; it is very distributed and a very key part of our entire function is actually managing this very aspect that we are talking about.

Hon PHILIP GARDINER: A lot of it is to do with the skill of the people —

Mr Waters: Absolutely.

Hon PHILIP GARDINER: With your 80 engineers, you are sensing and hearing what is going on and then adjusting and so on. But could we have as supplementary information the forced outage graph over the last five years?

Mr Borovac: It is actually in our annual report and it was actually tabled at a similar committee—not this particular hearing, but it was tabled—and it is on the public record.

Hon PHILIP GARDINER: Okay, I can access that. And the maintenance of each of the last five years, because I would like to see the correlation?

Mr Borovac: That is actually shown in the graph.

Hon PHILIP GARDINER: That is in there, too. I will access it, thanks very much.

Hon KEN TRAVERS: On your website, there is mention of a Greenough River solar farm and a Mumbida wind farm and in fact even a Grasmere wind farm. I am trying to reconcile those with page 597—your capital works program. Are those in one of those projects or are these over and above that?

Mr Borovac: The Greenough and the Mumbida renewable projects are in the nature of a joint venture and they appear on our balance sheet as investments, rather than capital expenditure that fall within these particular definitions, so they do not get specifically shown there. Reflective of the funding for those investments, we show capital contributions coming in on the equity side; however, they do not actually appear in here.

Hon KEN TRAVERS: Right, so how are they being funded? When you say “equity”, is that through retained earnings or is the government actually giving you an equity contribution for them?

Mr Borovac: In relation to Greenough, we were provided with a $20 million injection; $10 million from royalties for regions and $10 million from another fund. Then we provided an additional $13 million investment into the Greenough River solar farm, and then we went into joint venture with GE who provide another $13 million.

Hon KEN TRAVERS: Right, so what is the total cost for the project then?

Mr Borovac: The total cost of the project is $46 million.

Hon KEN TRAVERS: So there are absolutely no borrowings involved?

Mr Borovac: Not in relation to Greenough. In relation to Mumbida, it is a $200 million project. It is in the vicinity of $150 million of project finance and then $25 million from ourselves and $25 million from our joint venture partner, which is now Infrastructure Capital Group. Originally it was Macquarie Group—we developed that with them—and they have sold out to Infrastructure Capital.

Hon KEN TRAVERS: How much was the borrowings that the government is putting in?

Mr Borovac: Basically we funded $25 million. That was funded by an equity contribution from the government in through to us into the joint venture —

Hon KEN TRAVERS: So then the project will borrow $200 million to complete; so the $50 million of equity—$25 million from each partner—the rest will be borrowings.

Mr Borovac: Yes.

Hon KEN TRAVERS: So what was the competitive process to determine that partnership then?

Mr Borovac: We commenced this process back in 2008. We actually went out to the market to look for prospective partners to develop jointly wind farms. We identified Macquarie as the best prospect. They then joined with us and we have competitively bid into a number of procurement processes and we were not successful. We continued to work together and when the opportunity arose to develop Mumbida—that was one of the projects that we agreed with them that we would develop together—we then proceeded. So there was a competitive process in 2008 where we went out to the market and identified a suitable partner.

Hon KEN TRAVERS: So who is the other equity holder now if it was Macquarie?

Mr Borovac: Infrastructure Capital Group who I understand invest in quite a number of power projects, renewable projects —

Mr Waters: And non-renewable projects within Western Australia and nationally.

Mr Borovac: Exactly, yes.

Hon KEN TRAVERS: In that sense, do we know when Macquarie sold out of their share whether they made a profit on that?

Mr Borovac: Sure, they entered into a commercial arrangement and sold down. We assume that they would have done it for a profit. We know that they made a profit.

Hon KEN TRAVERS: I would imagine you would know what had been injected into the project by that stage and you would probably have a fairly good idea of what they sold out for as well, as the partner in it. Do we have any idea in percentage terms what their profit would have been? I mean, because you would have been putting in joint equity, I assume, in developing up the project.

Mr Waters: We certainly are aware of the equity contributions that went into the joint venture, but we do not have any visibility of the sale price that Macquarie achieved for their equity share.

Hon KEN TRAVERS: I guess that is a question for the minister. If there is a significant profit to have been made—my understanding is that it is quite significant—is that something that the government is happy about, that they have got joint equity partners in projects like this making profits just on the development of the project at the expense —

Hon PETER COLLIER: No, it is not; ideally, it is not.

Hon KEN TRAVERS: So what are you doing about it? If you are not happy with it, what are you doing?

Hon PETER COLLIER: I am not aware of the profit level or the profit figure; you have obviously got more information than I have.

Mr Waters: We have not got that information either.

Hon PETER COLLIER: I certainly have not been provided with any advice to that effect at this stage.

Hon KEN TRAVERS: Because it strikes me that that is a problem of a procurement process, if people are getting in and not even getting to the point of building the project and working with you to develop the project, and then selling out.

[5.15 pm]

Mr Waters: However, in any competitive market that is actually a very normal transaction. The raft of private power stations that have been built in the system over the last five or six years have undergone numerous changes of hands at equity levels. In this case, Macquarie beyond investing the equity will have spent an enormous amount of their money during the development phase. They would have self-funded. They put their money in, I guess, at a time when the project was at its most risky in that the commitment had to be made ahead of the certainty of the project being delivered. Critically, they brought skills to the joint venture that enabled, ultimately, the state to benefit through the development of a first-class project under excellent commercial terms. Really my view is: in a competitive market, if we want a competitive market to work, you have to enable people to be able to buy in and sell out on a fair commercial basis; otherwise, how can we continually attract this sort of private sector investment into our system? So it is kind of a fundamental process that Macquarie went through. It is appropriate that we do not know what they made. I am not aware that they made an unreasonable profit. At the end of the day, the state is left still holding a 50 per cent share in a project that it ought to be extremely proud of; what will be a new wind farm that will come on in the coming months.

Hon PHILIP GARDINER: And the investment was made during the global financial crisis, as far as I can tell by the dates you have given.

Mr Borovac: Well, no, this one was post —

Mr Waters: It was certainly post-GFC, absolutely.

Hon PHILIP GARDINER: We are still post-GFC!

Mr Borovac: That is right. As you rightfully point out, Macquarie's involvement with us—they carried their own risk, they carried their own costs. During the global financial crisis—during our lack of projects—they fundamentally carried those costs and carried the risk, as Jason said. Effectively, if you look at it, the government put $25 million into that project, and the private sector, if you like, put in $175 million.

Mr Waters: As a combination of debt and equity.

Mr Borovac: Yes, a combination of debt and equity came in.

Mr Waters: So from the state's perspective, as I said, we have a flagship renewable project providing renewable energy to the Water Corp to supply its desal facility, and the state has made a contribution of $25 million. It is a considerable achievement.

Hon KEN TRAVERS: And our share of the total project is $125 million now—the value of the final project —

Mr Waters: Our share is still 50 per cent of the value of the project.

Hon KEN TRAVERS: So 50 per cent of $250 million?

Mr Borovac: No, of $200 million.

Hon KEN TRAVERS: Of $200 million; sorry, yes. I think you may have just answered this question: who is the customer?

Mr Waters: Yes, Water Corp.

Hon KEN TRAVERS: And that was done through a competitive tender directly with them?

Mr Waters: Correct.

Hon KEN TRAVERS: So where is the equity injection coming from? Is it retained earnings or has the government actually given you a cash injection?

Mr Borovac: Correct, yes. In the budget papers we showed $25 million coming in for this one.

Hon KEN TRAVERS: Out of royalties for regions.

Mr Borovac: Sorry; Mumbida is $25 million; Greenough is royalties for regions and —

Hon KEN TRAVERS: And that is the solar farm?

Mr Waters: Mumbida is shown on page 8 of the budget papers, item 120, government equity contributions, I believe.

Mr Borovac: Yes, sorry; in 2012-13—page 298 of budget —

Mr Waters: At the top of page 18, and again on page 298. Budget paper No 2, page 8 and 9.

Mr Waters: Item 120.

Mr Borovac: So under 2013 budget estimates, item 3—sorry, $24 464 000; that is fundamentally the funding for the joint venture.

Hon KEN TRAVERS: So what is the $25 million there in the final year of the forward estimates?

Mr Borovac: That is a provision. For the original projects we were looking at back in 2008 we had an allocation of $50 million; in this particular instance we only required $25 million, and we are looking—we believe that at that stage there will be a requirement for another wind farm or renewable project similar to a Mumbida so we have this provision. That could change in timing, but that is where it is at the moment.

Hon KEN TRAVERS: That was the wind farm. What is the situation with the solar farm?

Hon PETER COLLIER: That is a combination; it is royalties funding, and it is a joint venture. So the combination of royalties funding, government injection and the joint venture comprise the funding for the solar farm.

Hon KEN TRAVERS: What is the basis for it being royalties for regions?

Mr Borovac: It was developed in the Greenough area.

Hon KEN TRAVERS: Your wind farm is in the regional —

Mr Borovac: No, this is the solar farm.

Hon KEN TRAVERS: Yes, but I am saying that your wind farm is in a regional area; why is a wind farm in a regional area not funded through royalties for regions but a solar farm in a regional area is funded through royalties for regions?

Hon PETER COLLIER: As I said, that was just a decision of government.

Mr Borovac: Fundamentally, the solar project would never have gotten up without the support from those funds. It would have been struggling to be a commercial project on its own, without that support.

Mr Waters: One of the issues that solar faces is that it is still not a commercially viable technology as a source of electricity in the generation side without a significant contribution. It was effectively that share, by offsetting that debt against the project effectively with that equity injection, that enabled the effective commercialisation of the supply from the solar farm.

Hon KEN TRAVERS: So how much is going into the solar farm in equity?

Mr Borovac: It is all going in as equity.

Mr Waters: It is $20 million each side.

Mr Borovac: No, it is more than that. It is, in fact, $20 million as a subsidy, and then $13 million each party.

Hon KEN TRAVERS: Because in terms of royalties for regions the only money I can find is $5 million under "Midwest Solar Farm – MidWest Initiative", and that is over five years under the royalties for regions expenditure.

Mr Borovac: Which page are you looking at?

Hon KEN TRAVERS: I am looking at page 234, but this is an electronic version and sometimes they do not necessarily correspond. But it is the section of budget paper No 3 where they list all the expenditure through royalties for regions.

Mr Borovac: Sorry, I may not have that.

Mr Waters: Sorry, we do not have that page.

Hon KEN TRAVERS: Where is your view that it is shown in the equity injection? I guess that is the other way of looking at it.

Mr Waters: In budget paper No 2, page 597, item 4.

Hon KEN TRAVERS: Which volume is that; do you know?

Hon PETER COLLIER: It is on page 597.

Mr Borovac: Could I come back and confirm to the committee on whether it was $10 million in total or $5 million and $5 million?

Hon KEN TRAVERS: I thought earlier you said it was $20 million each.

Mr Borovac: It was $10 million; I am pretty sure it was $10 million.

Mr Waters: My recollection is that it was $10 million, but that is indicating $5 million.

Mr Borovac: I will have to come back and confirm.

Mr Waters: We will have to revisit these papers —

Hon KEN TRAVERS: So it is that $2.5 million, which would coincide with what I was looking at in royalties for regions?

Mr Borovac: Yes, that is right. I certainly have no issues with that. I need to perhaps —

The CHAIR: Do you want to take that on notice?

Mr Borovac: Yes.

The CHAIR: E3 will be the clarification of that figure.

[*Supplementary Information No E3.*]

Hon KEN TRAVERS: So how did that project come about?

Mr Borovac: Effectively, it was an opportunity through discussions with government.

Mr Waters: Water Corp initially, I think, triggered the need for a purchase of renewable energy. We were identifying —

Hon KEN TRAVERS: So it is Water Corp purchasing both the wind farm and the solar farm?

Mr Waters: Yes, Water Corp originally ran the tender. We have a renewable energy group that is looking at a range of renewable energy technologies and sites. We have always seen the potential in Western Australia for solar. The challenge with solar, as I mentioned though, is that it is a maturing technology, it is rapidly becoming more cost-effective, but we at the time did not see it as a commercially viable investment in a stand-alone sense, and so the discussion was taken up with government.

Hon PETER COLLIER: And we embraced it. It is a really good project; 10 megawatts, with the potential to expand to 40 megawatts.

Hon ROBIN CHAPPLE: Is that solar thermal?

Mr Waters: No, it is PV.

Hon PETER COLLIER: Actually Hon Philip Gardiner was there when I laid the first panel, and that was only, like, two months ago or three months ago. There will be 150 000 panels.

Hon KEN TRAVERS: It may be a great project, but I am still interested in how we came to procure it with a joint venture partner. That is the bit I am interested in.

Mr Waters: Once the decision was made to pursue the project, then a similar procurement process to what we did with Mumbida was undertaken to identify both a partner and a supplier. First Solar was the successful tenderer for the panels, and arrangements were struck and construction was commenced.

Hon KEN TRAVERS: So why are you not doing these projects on your own? Why do you need a joint venture partner in them?

Mr Borovac: I think at this stage what we are trying to do is get private investors into the system. We see it as an opportunity where we can leverage the private sector to get both expertise and funds so that it is not all carried on the government's balance sheet. Similarly, where there is an opportunity to expand such projects, we are then able to engage with project financiers. The benefit of that is that as we develop these projects jointly we can expand those and they, effectively, do not hit the government's balance sheet; they are actually stand-alone projects.

Mr Waters: I might just expand on that. We also find that by bringing these partners into these arrangements they bring specific skill sets that an organisation like Verve Energy cannot actually afford to maintain. Particularly around Mumbida, when we were dealing with project finance, with a range of banks, and there was a lot of money involved, we find that the skills that an equity partner like Macquarie Bank brings, with all of their expertise in dealing in that environment, complements extremely well our skills, which are focused on the technical side of the business. So we have the experts in renewable energy, we have the experts finding the sites, and ultimately we have the experts who will lead to the construction and then the operation of these facilities in the market. It complements our skill set very well to partner up with organisations like Macquarie, which brings the banking and the commercial and private sector finance skill sets that are impossible for an organisation like ours to retain.

Hon KEN TRAVERS: In the end result what is the cost of capital when it is done through a joint venture partner versus what you would be paying on average for your own capital?

Mr Borovac: Basically, it is higher. Our joint venture partner is looking for something higher, but, to be honest, so would we on renewable projects; we would see those as a higher risk.

Hon KEN TRAVERS: Why?

Mr Borovac: Basically, that is it; they are higher risk. They are a newer energy and they are also more expensive. Basically, they are more expensive to set up and they demand a higher return.

Hon KEN TRAVERS: There is the rate of return, and I was also asking about the cost of the actual capital on your borrowing side of it. What is your average interest rate for your borrowings on joint ventures versus when you do it as a stand-alone project?

Mr Borovac: Obviously we do not get the benefit of the AAA rating that the government can supply us. There is a variety of rates that we have been able to achieve, and they are generally struck at around 200 to 300 basis points, or two per cent or three per cent above what they call BBSW. That is the sort of range that we are generally getting the finance.

Hon KEN TRAVERS: Are they run with their own board?

Mr Borovac: Yes, they are.

Hon KEN TRAVERS: Do you have representatives on the board?

Mr Borovac: Yes, we do.

Hon KEN TRAVERS: They obviously then have their own budgets and all the rest of it to do whatever they want to do.

Mr Borovac: Correct.

Hon KEN TRAVERS: Are they captured under your five per cent efficiency dividend?

Mr Borovac: No.

Hon KEN TRAVERS: That is nice.

Mr Borovac: Fundamentally, they are very capital intensive, so their ongoing costs —

Hon KEN TRAVERS: As is your whole business; I think that point was made earlier this afternoon. Trying to find a five per cent efficiency dividend on a capital-intensive industry is not necessarily the easiest thing in the world.

Mr Borovac: It is not like you have to —

Hon KEN TRAVERS: You do not have corporate boxes at the footy, do you?

Mr Borovac: No, we do not.

Hon KEN TRAVERS: Well done!

Mr Borovac: Just to clarify: we do not have to move fuel, manage gas supplies and suchlike, so you do not have a large workforce that needs to maintain a field of solar panels or wind farms.

Mr Waters: To give you an idea, the solar side, which I would encourage you all to visit at some stage, is enormous; it will be the largest solar site in Australia when it is built. It will be surpassed, probably, pretty quickly, but if we get it up to 40 megawatts in the future, which we can, I think it will be Australia's biggest once again. I think we are talking about having maybe a maintenance crew of one being employed to maintained it; all you are really talking about is someone with a window wiper going around and cleaning them.

Hon KEN TRAVERS: Is that on the old land at Wilbinga or Breton Bay, or whatever it is—the one that was bought for the nuclear power plant? Have you still got that land?

Mr Waters: We did up until a short while ago; I do not know that we still do have that land. I think we do.

Hon KEN TRAVERS: You do or you do not?

Mr Borovac: We certainly have not relinquished any land since disaggregation.

Mr Eiszele: I think what actually happened was that the land around has been all re-zoned, so you cannot use it for a power station now.

Mr Waters: I think it is in the Shire of Gingin, and broad re-zoning went on up there and that land is probably not suitable for power —

[5.30 pm]

Hon KEN TRAVERS: This is further north than that site?

Mr Waters: This is further north; this is at Greenough near Geraldton.

Hon KEN TRAVERS: I guess my final issue is, in terms of both the projects were you getting outside advisers assisting you in the projects in terms of advising you on the deals, or were you doing all that internally?

Mr Waters: Yes, we had a significant amount of external advice. We had our own banking finance people. Outside our joint venture partner we had our own independent people advising us, and we also had a significant amount of legal and technical due diligence support as well. Yes, it was quite a bit. You are talking about a wind farm site, so, for example, there will be years of wind monitoring that will go on at a site like that, all conducted with the support of external agencies. There will be obviously, in negotiating the agreements, a huge amount of legal work and a huge amount of finance work, so, yes, we use —

Hon KEN TRAVERS: I guess it is the commercial–financial side I am particularly interested in and whether or not you got outside advisers to assist you in that field.

Mr Waters: We did.

Hon KEN TRAVERS: Can we get a list of who the advisers were that you used for the two projects as a supplementary?

Mr Waters: I do not see why not.

[*Supplementary Information No E4.*]

Hon KEN TRAVERS: I guess the other issue that I would have is I suspect that in the energy industry in Western Australia the 360 degrees of separation probably comes to about two. How do you manage the potential of conflicts of interest in a project like that? How were they managed?

Mr Waters: That is a question on notice?

Hon KEN TRAVERS: If you are able to answer it now; or, if not, on notice.

Mr Waters: Fundamentally, the potential conflicts are dealt with on a case-by-case basis through structured conflict checks that go on with every agency that we engage and do business with. It is effectively the first part of any arrangement. If you are talking about using a legal firm, most legal firms represent all sides of every argument. A conflict check will be run and if there is any potential conflict, we will find a different agency to support us. Beyond that, there are fairly extensive confidentiality agreements put in place and Chinese walls effectively around arrangements to ensure that the dealings within a particular business transaction are protected even within the agency. Even within Macquarie Group, for example, there would be protection within Macquarie around their arrangements with us to a degree. So, a combination of conflict checks, confidentiality arrangements and the establishment of Chinese walls.

Hon KEN TRAVERS: Maybe you can take this on notice, whether there were any potential or actual conflicts identified in either of those processes and how they were managed; if you are able to provide that as supplementary information.

Mr Waters: We can ask the question: was there any; and, if there was, we can give details.

[*Supplementary Information No E5.*]

Hon KEN TRAVERS: One final question from me: when you have people sitting on the boards, are they members of the board or are they actual employees that sit on the board?

Mr Waters: They are members of the executive. I personally sit on each of our joint venture boards with members of the executive. We generally have two Verve participants on each board

Hon KEN TRAVERS: Do you pick up separate board fees for that or is that all considered part of your remuneration —

Mr Waters: We do not pick up any additional fees.

Hon KEN TRAVERS: — as employees of Western Power; so you do not get a separate —

Mr Waters: Verve Energy.

Hon KEN TRAVERS: Verve Energy; sorry.

Mr Waters: Yes.

Hon KEN TRAVERS: Old habits die hard sometimes!

Mr Waters: Each of those boards is run as a proper legal board; as an entity. We have our own rules and regulations and whatnot within those organisations, but in Verve's case we run them clearly to the same high standard that Verve Energy would operate at.

Hon KEN TRAVERS: Do you also apply the same standards in terms of procurement, local content, all of those sorts of issues in terms of the way in which they operate as you would be required to under government policy as Verve Energy?

Mr Waters: Yes.

Mr Borovac: Yes

Hon KEN TRAVERS: So that is a requirement of the joint venture that they comply with those matching standards and ethics and all the rest of the things? All of the policies you are required to comply with as a government agency, the joint venture partners are required to comply with those?

Mr Waters: In most cases, for example, a specific policy exists within one of the joint venture boards, be it a trading policy or a Treasury policy or something of that ilk, for example, we will generally use Verve Energy's policy and adapt it to that specific organisation.

Hon ROBIN CHAPPLE: In relation to page 597 of budget paper No 2, you are going to spend $249.7 million on its asset investment program. I think you talk about $0.8 million as being planned under sustainable energy for the upgrade of Denham.

Mr Waters: Yes.

Hon ROBIN CHAPPLE: Who determines your parameters of investment in either renewing the Muja power stations or indeed moving into maybe the renewable energy sector? I am not talking necessarily about solar farms; I am talking about wind farms, geothermal and those sorts of things. Is that a decision made by Verve or is there a direction from government?

Mr Waters: No. That is a Verve decision.

Hon ROBIN CHAPPLE: It was your determination to refurbish Muja A and B?

Mr Waters: Absolutely.

Hon ROBIN CHAPPLE: Did you consider investing? You are putting an awful lot of money into something that, from my understanding, will have a significant carbon cost to pay as a result of redeveloping those. Was that assessment made at all?

Mr Waters: It absolutely was. We understand, and we have had to deal with this matter very many times in explaining the Muja A and B decision, whilst it may not appear so on the surface, it is actually a part of an investment program we have to get us to a point where we can invest in renewable technologies or cleaner fossil fuel technologies at a time when they are available. We are going through a very difficult period this decade where we certainly acknowledge the need to transition to cleaner sources of generation, but we do not have the technologies available that we can deploy now to get us there. Bearing in mind, when a power station is built, it has a 20 or 30-year life. What is very important from our point of view is that when you do build a new power station, you build it at a time when the technology is mature and you can make the best decision for the long term. What Muja A and B enabled us to do was to buy time—we are talking about seven years as the minimum amount Muja A and B has to run for—so that we can delay decisions around our next major power station out until about 2020 and beyond, by which time we will be talking about moving to leading-edge technology around the consumption of gas at efficiency figures that are much higher than we have today or we would like to think will have made some progress around a move to low emission coal. If you look at a business like ours where we are making all of these decisions, if we did not have the likes of Muja A and B we may have been in a position to have made a decision around building a new baseload coal-fired power station or baseload gas-fired power station earlier, when we did not feel we had the appropriate fuel and technology available to deploy to do it with a long-term view, with enough comfort in regards to carbon emissions. It is quite a complicated decision process, but I can assure you it is very much part of a broader strategy that we undertake.

The CHAIR: But are those the only two options? What about wave energy and baseload solar? I would be horrified if you are only looking at pinning your hopes on so-called clean coal, which does not exist, and other things like that.

Mr Waters: I agree. We certainly are looking at them. However, at the moment they are probably second and third-wave renewable technologies. Wind is here now and it is rapidly becoming, or is, a commercial technology. PV solar is getting there. Advanced solar thermal and the alternatives that sit within that category—geothermal, wave and other things we see as being slightly further out.

The CHAIR: How come you can build a whole plant in Spain to have a baseload of solar thermal and you are saying the technology is not available? I am a bit bemused by that. Can we not send somebody to Spain to have a look at it and nick the plans?

Mr Waters: There is an enormous advantage in Europe, notwithstanding the fact that they have sent themselves broke partially with some of their investments over the last decade, but I will not blame their renewable energy push for that. They do have the advantage of being interconnected and an ability to bring large amounts of nuclear and coal-fired energy in and out of each country at times when deficits in production exist within stand-alone countries. In Western Australia, we do not have that advantage. We make decisions around our long-term plant procurement here in WA with three critical things in mind—it has to be reliable, it has to be cost effective, and it has to be low carbon. As it stands today, we do not have the ability—particularly not the availability of technology—to deliver upon all three. Our view is that we nail the reliability and cost effective aspects first, but you can rest assured we are doing a lot of work and spending a lot of money dealing with that third issue—our desire to reduce our carbon intensity. We have a large group within the business that is looking constantly at renewable energy sites and renewable energy technologies so that when they become mature, we will be among the first to be able to deploy them.

Hon PETER COLLIER: We put the $12.5 million into the Carnegie pilot project in Garden Island. We have just given a round of LEED funding of $5.556 million for the geothermal project in the midwest. We have looked at putting investments in other areas. The Greenough River solar plant as well, that is a further investment into a diversity of portfolios as opposed to just wind.

The CHAIR: Those figures show the bulk of the money is in Muja and gas.

Hon ROBIN CHAPPLE: That was the point I was making.

The CHAIR: A hugely different amount of money.

Mr Borovac: That reflects the level of our current investment in those types of technologies. The nature of this investment is principally sustaining capital; in other words, extending the life of these assets so the expenditure is capital in nature. Again, the newer projects that we have just discussed we are funding through these joint venture structures.

Hon ROBIN CHAPPLE: One wonders what you might have done with that money in really fostering geothermal or really going after something. We know geothermal is incredibly capital expensive. To get that up and running we actually need capital investment, but once it is up and running, it is not too bad. When we have had a few problems —

Mr Eiszele: We still need to remember that the actual cost of producing electricity from renewables as distinct from coal and gas is like chalk and cheese. Renewable costs at least two to three times the cost of producing the energy now. It is still going to be a fairly tough decision for governments to make the decision to go all renewable, for example.

The CHAIR: I thought wind was just about on —

Mr Eiszele: No.

Hon ROBIN CHAPPLE: I just had a long session with Volker Oschmann from Germany and sat down with him. They are sort of saying that dollar for dollar they have got solar, in a country that has no sun, operating at the same level as coal.

Mr Eiszele: I would challenge those figures.

Mr Waters: I would too. Our current figures are that a PV solar array, you are looking at sent out electricity costs based on the yield of energy and the availability of sun and the capital cost of the facility itself is of the order of $180 to $190 per megawatt hour. That is without any government subsidy. Whereas coal and gas are within a band—at least coal is—of more than $100 a megawatt hour cheaper than that.

Hon ROBIN CHAPPLE: You are putting in $249 million worth of subsidy anyway by reinvigorating old plants.

[5.45 pm]

Mr Waters: Although not technically a subsidy but —

Hon PETER COLLIER: Remember the three things that Jason talked about in terms of costs, reliability and a cleaner energy future. That is a first imperative. It is an isolated grid. We have massive challenges on our doorstep on a constant basis. Our vulnerabilities with regard to gas of course were exposed very vividly in June of 2008.

Mr Borovac: Just a point of clarification: the $249 million is basically supplementing our maintenance of that plant to ensure its safe and reliable long-term operation of basically sunk investment.

Hon ROBIN CHAPPLE: I really quickly want to go onto my perennial, so that I am satisfying Hon Ken Travers! One of the issues that came up recently at the Mining the Pilbara Conference was energy security in supply, and certainly there were papers being produced there and concerns raised by the mining industry that with the anticipated expansion of the energy needs—notwithstanding Gorgon, Apache and all of these coming on board—that in fact moving out into the future with the decline of some of these fields and the increase in power demand, it would create a problem for the north west, but that would actually flow on to the south west in terms of long-term contracts. What is your view in terms of the needs of your gas-fired generation in a long-term future? I know recently—not this time around—we had Synergy in, we were really rather concerned about their long-term contracts. They managed to tee one up with Gorgon. Where are we sitting for the future of Western Australia?

Mr Waters: It remains a significant challenge for the downstream. Gas is a fuel that, coming back to the issue of our carbon intensity, is one of the most simple ways we can make a fairly immediate transition to a lower carbon sector. It is a fundamentally cleaner fuel to burn than coal as an alternative, but critically we have to retain a —

Hon ROBIN CHAPPLE: It produces most of the emissions in the Pilbara.

Mr Waters: Sure. We have to also maintain a balance, though. As it stands today, we do have an agreement in place with Gorgon that was negotiated over the last couple of years. That was, I guess, a key plank for us in getting that in place, but we still have a shortfall into the future beyond Gorgon. We have a number of discussions underway with the upstream at the moment that I could go into, but it would have to be in a closed session because each of those is subject to confidentiality. I expect that those discussions will ultimately yield some additional supply that will give us at least in the medium term sufficient gas supplies. But in the longer term, there is no doubt that domestic gas supplies for the south west are dependent on the very large LNG developments continuing up north and the appropriate incentives remaining in place for those developers to bring that gas onshore and bring it down for domestic purchasers like us to use—and that includes domestic users in the Pilbara and in the south west. When you get down into that post-2020 period of time, at the moment we are still seeing the potential for a fairly significant shortfall in gas overall. But there has been a lot done in recent years to deal with the problem, but it is going to require a continued effort.

Hon ROBIN CHAPPLE: Just two things on that, if I may. We have currently got this policy of 15 per cent for domestic purposes. That is only a policy; it is not enshrined anywhere. Are we assured that we will actually get out 15 per cent?

Mr Waters: The proof is in the pudding that Gorgon met its obligations to market domestic gas. The developers of Wheatstone have equally stated that they are intending to market their domestic share based on the policy. Besides that, Apache, for example, have completed the Devil Creek development and brought all of that gas onshore for domestic purposes without the need for that sort of policy intervention. So collectively I believe it is working.

Hon ROBIN CHAPPLE: In terms of Apache and in terms of Gorgon, say, for example, I know you cannot tell me, but are we paying significantly different prices for gas depending on where it is coming from?

Mr Waters: We are certainly paying different prices, but I cannot clearly tell you what they are.

Hon ROBIN CHAPPLE: But it would be significantly more than the cost that they are exporting it.

Mr Waters: Sorry; you are asking whether the gas we are buying domestically is higher or lower than the price of LNG?

Hon ROBIN CHAPPLE: Yes.

Mr Waters: It is lower, but to go beyond that I think I would be in potential breach of those agreements.

Hon PHILIP GARDINER: Can I just go back to the discussion of the comparative costs of the renewables and coal? When you do that comparison, I think you said that solar is roughly $180 to $190 per megawatt hour, and coal was roughly $100 less.

Mr Waters: Yes, probably $80 to $100.

Hon PHILIP GARDINER: So say $90. When you make that assessment, what coal price do you use?

Mr Waters: We would be using the current coal price that we can access under our long-term contract with Premier Coal.

Hon PHILIP GARDINER: Are you able to say what that is?

Mr Waters: No.

Hon PHILIP GARDINER: Having some idea what it might be or the range it might be, I suspect that there is a distortion—an economic distortion—because really everything should be on an export parity price or international parity price. If you are using a price which is much lower than the export parity price which has been negotiated with some implications quite some time back—not having seen documents or anything like that; this is just what is gathered around the public arena—then you are creating an economic distortion of the cost between renewable—solar in this case—and coal. What if we use the export parity price? What would that difference be?

Mr Waters: I could not tell you because I do not know what the export parity price is for coal on the basis that Collie coal is not viable for large-scale export. Despite what has been said, we do not have a Collie export price.

Hon PHILIP GARDINER: Let us assume, though, that we put the port in at Bunbury and the railway line and so on—let us assume that is available.

Mr Waters: Then I would say that if you were to extend that thinking across the entire energy sector and move to broad, market-based pricing for all of our fuels, we would have an enormous electricity tariff issue in this state.

Hon PHILIP GARDINER: I understand. Let us deal with reality.

Mr Waters: Personally, I do not accept that it is a distortion. We have resources available to us in this state—Collie coal and gas in the north west. We negotiate contracts with those suppliers on a fair and reasonable basis and we get the best deal we can. We use those fuels to provide the most reliable, cost-effective power to the system. Everybody went in and everyone does go into those deals with their eyes open and they are commercially astute. The outcomes are all established to last long term, and that is the expectation I have with Collie coal. I accept that the price of that coal may be lower than some international market. I would suggest we also buy gas at a price that is lower than some international market. From my perspective, I do not see that it as a particularly relevant point.

Hon PHILIP GARDINER: We can differ on the opinion of it.

Mr Eiszele: Can I just add to that? Our situation is no different to what there is in Queensland and New South Wales, where they are in the situation of using coal for domestic purposes and exporting. They do not use export parity pricing in the end pricing for their tariffs for their coal plants. In justifying the decisions that they would use, they would use a much lower price for coal than we would use, because they can buy their coal much cheaper than us. I know their export prices would be at least three times the price at which they would price domestically, but they are two different markets. What you do is you look at your product and which market it is being sold in and that establishes value. We are not blurring economic lines here. It is really very much one of market prices for individual markets and what those prices need to be in those individual markets. And it is what your customers are prepared to pay. Export markets are prepared to pay higher, and sometimes they get higher quality coal as well.

Hon PHILIP GARDINER: I hear the point very clearly that you really do not think that there is an economic distortion because of the pricing, excepting there is. You cannot dispute, surely, the distortion if you are allocating capital to new investments and you have got one which is producing energy on a lower price because there is some other complication with the price of that source of energy compared to putting into solar or wind or any of the others where there is no economic subsidy of any kind or economic twist to the resource. You are getting a misallocation of capital which could well go into coal-fired power stations than solar or wind or any of the others. It is just a natural fact, because if the coal price is below export parity, sure, you are producing energy for your market which you do not think you can afford it—that is a political question. We have got to handle that really, and the minister has a difficult task. I know it is a difficult question, but we have to get some time to a reflective cost position, but that is a separate issue to the one I am making. The one about the economic distortion is because the price that we have got for generating our electricity for coal is cheaper only because it has got a little bit of a twist to the price. It is better for you guys to actually offshore it, to export the Collie coal—the export parity price for Collie coal, which might be $60 or $70 a tonne—and use what you make to put into renewables perhaps.

Mr Waters: The point we differ on there is that the case for economic distortion would only be carried in the instance where that supplier is being forced to sell that product at a lower cost than they could otherwise achieve in a separate market, and in this case we do not have that instance.

Those contracts were negotiated on a free commercial basis. We are assuming that it was an economic decision for them to sell coal to us at that price when those arrangements were negotiated. So therefore, there is no distortion. There would only be a distortion if there was either a subsidy or a regulated price that was below the economic delivery of the product. In the case of both our coal and gas contracts, everybody entered into those agreements on the basis that they are commercial, so therefore, commercial and economic all the way through the supply chain. That is the point, I suspect, we differ on as to whether or not there is actually a distortion.

Hon PHILIP GARDINER: I am sure you understand the history of it. I hear a little bit of the history of it. That is again back to the opinion side. This matter of which price you are using for your future investments—when does the pricing that you have got currently run out with coal, roughly? Is that the public date?

Mr Eiszele: There is eighteen years to go.

Mr Waters: We have got a long way to go.

Hon PHILIP GARDINER: A long way to go. What we have effectively got, given some of the history about the way that went and the sale and so on and whether people can get out of those contracts, I do not know. But in the whole energy business then, we do have still a distortion where you have got coal which is going to be having that advantage against putting the investment into renewables—for 20 years just about.

Mr Waters: To the extent we are making an asset investment decision where the fuel supply to that asset extends beyond the term of our current contracts, then we do have to obviously make decisions around what the market is likely to yield in terms of those prices beyond that terms of those contracts. That is the only time we apply the thinking you are suggesting, which is that, if we were building a coal-fired power station today or at least developing one, which we are not, and we are saying it is going to run to 2040 and its life is going to go beyond the term of our current coal contract, then we would have to take a view of what will be the market price of that coal in that period. That may be some price that is considerate of international prices, but it is certainly not the case for our business modelling.

Hon PHILIP GARDINER: It worries me that it is so long away. Anyway, that is an opinion, too. Sorry.

The CHAIR: I will just go to Hon Ken Travers and then we will need to wind up shortly.

Hon KEN TRAVERS: With the Muja upgrade, is that on time?

Mr Waters: Muja A and B?

Hon KEN TRAVERS: Yes.

Mr Waters: The capacity is due for supply into the capacity year that commences on 1 October. At the moment we have four units which, based on the current schedule, are all due for delivery on time. However, there is still some time to go with those units and we are still not fully through commissioning, so we are always reviewing the situation, but as it stands right now we certainly have a view that they will be ready by the 1 October market requirement.

Hon KEN TRAVERS: I take it that that is a yes, then.

Mr Waters: Yes, based on where we are today.

Hon KEN TRAVERS: All right. You said that you had a procurement process for both those renewable energy projects. Was that an open process or was it by invitation only? Maybe the simple answer is—if we can have it taken notice: what was the process? If it was a public process, what was the copy of the advert or whatever?

Mr Waters: At the risk of misleading the committee, I will take that on notice, if I can, and provide a factual answer to that.

[*Supplementary Information No E6.*]

Hon KEN TRAVERS: Has Verve done any work on the concept of the merger with Synergy?

Mr Waters: No.

Hon KEN TRAVERS: Have you provided any advice or have you been requested to provide any advice to the government?

Mr Waters: No.

Hon KEN TRAVERS: No work at all? Your statement of corporate intent—have you reached agreement with Treasury on that?

Hon PETER COLLIER: No; it is still with Treasury.

Hon KEN TRAVERS: Is Verve aware of why Treasury has not given their concurrence to it at this stage?

Mr Borovac: No.

Hon KEN TRAVERS: Have you sought from Treasury the reasons why they have not given their concurrence by 30 June?

Hon PETER COLLIER: I think it is with the Treasurer at the moment.

Mr Waters: I thought we had submitted it.

Mr Borovac: We have submitted it. It is up there; it is just going through the process.

Hon KEN TRAVERS: What efforts have Verve made to seek the concurrence of the Treasurer to their statement of corporate intent?

Mr Borovac: At this stage, we are working through the minister's office.

Hon KEN TRAVERS: Again, if we can have from you, minister, what efforts your office has made, a list of the occasions on which contact —

Hon PETER COLLIER: A lot of them would be phone calls, of course.

Hon KEN TRAVERS: I am sure they have all been diarised and recorded that they have been actively pursuing this matter.

Hon LJILJANNA RAVLICH: There will be some emails, surely.

Hon KEN TRAVERS: We are now into August. I would have thought that if you were not getting responses to your phone calls, we are after the cut-off date by which you were supposed to have tried to have got—you would be getting quite frantic and writing letters seeking the concurrence, not just doing phone calls.

Hon PETER COLLIER: As I said, there has been a cabinet reshuffle a couple of weeks ago.

Hon KEN TRAVERS: But you kept Energy.

Hon LJILJANNA RAVLICH: Which is a miracle in itself, I have to say!

Hon LIZ BEHJAT: Hang on!

The CHAIR: Order, members. That is unkind.

[*Supplementary Information No E7.*]

Hon KEN TRAVERS: What is your average weighted cost of capital and what is the average interest rate you pay for borrowings? Again, I am happy if you want to take it on notice.

Mr Waters: Pre-tax or post-tax?

Hon KEN TRAVERS: Give us one of each; give us both.

Mr Waters: We will take it on notice at the risk of misleading. I think 12.75 per cent—or less than that now.

[*Supplementary Information No E8.*]

Hon KEN TRAVERS: I think we talked about there being $25 million for a future wind project. Are there any other renewable projects that you have got? Do you have any other procurement processes in place to try to develop any other energy producing assets?

Mr Waters: No, nothing in place in terms of an expression of interest or a procurement process. We are actually undertaking some generation planning now, re-establishing a 20-year view of our portfolio and our projects. That will yield a range of projects which will be a balance between renewable and non-renewable, and from there we will go back into another sort of phase of project development, but there is nothing formal at this stage in terms of expressions of interest.

The CHAIR: Given that it has just gone past six o'clock, I will close the hearing. The committee will forward any additional questions it has to you, minister, in writing over the next couple of days along with a transcript of evidence, which includes questions taken on notice. Members, if you have any unasked questions, please submit them to the committee clerk by email at the close of the hearing. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date and include any specific reasons as to why any particular due date cannot be met. Finally, thank you very much for your attendance this afternoon. We will close this hearing and we will finish for the evening.

Hearing concluded at 6.04 pm