

**STANDING COMMITTEE ON  
ESTIMATES AND FINANCIAL OPERATIONS**

**ONGOING BUDGET ESTIMATES HEARINGS 2010–11**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
WEDNESDAY, 7 JULY 2010**

**SESSION FOUR**

**Members**

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

---

**Hearing commenced at 2.29 pm****COLLIER, HON PETER****Minister for Energy,  
sworn and examined:****IN'T VELD, MS SHIRLEY****Managing Director, Verve Energy,  
sworn and examined:****BOROVAC, MR WALLY****Chief Financial Officer, Verve Energy,  
sworn and examined:****LAJSZCZAK, MR KONRAD****Manager, Financial Planning and Analysis, Verve Energy,  
sworn and examined:**

**The DEPUTY CHAIR:** Sorry to keep you waiting. Before we begin, I must administer the oath or affirmation. In front of you, you will see that there is a bible, if you wish to make the oath. Those wishing to make the oath put their hand on the bible.

[Witnesses took the oath.]

**The DEPUTY CHAIR:** Thank you. You will have signed a document entitled “Information for Witnesses”. Have you read and understood that document?

**The Witnesses:** Yes.

**The DEPUTY CHAIR:** Thank you. These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard, please quote the full title of any document to which you refer during the course of this hearing, for the record. Please be aware of the microphones and try to talk into them, ensure that you do not cover them with papers or make noise near them and please try to speak in turn. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today’s proceedings, you should request that the evidence be taken in closed session. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that the uncorrected transcript should not be published or disclosed. This prohibition does not however prevent you from discussing your public evidence generally once you leave the hearing. Government agencies and departments have an important role and duty in assisting Parliament to scrutinise the budget papers on behalf of the people of Western Australia. The committee values that assistance. Members, it will greatly assist Hansard if, when referring to the budget statement volumes or the consolidated fund estimates, you please give the page number, item, program, amount and so on in preface to your questions.

**Hon LJILJANNA RAVLICH:** I refer to the last dot point on page 230 of budget paper No 3. It refers to the increased dividend revenue for Verve Energy, which is mainly attributed to increased profitability driven by assumed increases in prices received under the vesting contract and bilateral contracts and changes to the coal supply arrangements. I wonder whether the minister can take us through those to explain how you get a net increase in revenue from those things.

**Hon PETER COLLIER:** Yes, there are a number of things, among which are changes to the coal contract and high-efficiency gas turbines. There are a number of issues that relate to this change in profitability, but I will ask Ms In't Veld to comment.

**Ms In't Veld:** The key one is probably the change in the coal contract. From 1 July just gone, our sole supplier of coal becomes Wesfarmers as against Griffin Coal. With the Griffin Coal contract, we had for many years been paying the highest price per tonne in Australia for coal; we have significantly more competitive pricing under the Wesfarmers contract, and that will have a dramatic impact on the profitability of the business.

**Hon LJILJANNA RAVLICH:** Can I just ask you what is the contract price per tonne differential?

**Ms In't Veld:** It is confidential, but the price is less than half of what we were paying for Griffin Coal, so it is a significant reduction from where we have been for the past 20 years under the Griffin contract. Secondly, the vesting contract is currently being renegotiated with Synergy so that it will transfer into a more conventional bilateral contract. We are now receiving the benefit of increased tariffs as well as the increase in the CSO that Synergy receives from the government under that contract, and that has also had a significant impact on our revenue stream coming in, given that it is a net back pricing contract. As Peter said—as the minister said, rather—going forward, the high-efficiency gas —

**Hon LJILJANNA RAVLICH:** We call him by his first name on the odd occasion!

**Hon PETER COLLIER:** When you're being nice!

**Ms In't Veld:** The high-efficiency gas turbine project is now well underway; we had the sod turning ceremony last Friday. That will deliver a benefit to Verve because it has a stop-start capability, which is ideally suited to our balancing obligation, which is a very challenging obligation with additional wind coming in, blowing overnight, and also because it does burn our gas, which is a premium fuel, at far higher efficiencies—43 per cent or 44 per cent, as against the high 30s. That will deliver a benefit. What is probably a slightly smaller but nevertheless long-term benefit is that on the operational side, we are well underway with an operational review. This is a review of our manning and roster systems at our Kwinana power station in particular. We have shut down and demolished Kwinana B; Kwinana A is scheduled to retire next year. We are overmanned, and given the sensitivity to employment and given that we have some very well-paid controllers down there, we are in discussions with the unions at the moment to try to get our numbers down to a more realistic level. I might ask my chief financial officer to add a bit more detail, if he can.

**Mr Borovac:** I guess broadly, the benefit of the higher tariffs is coming through the full year this year; we did not get the benefit for the full year last year. I can simply confirm that the coal price will flow through this year, remembering that we have two coal suppliers, which will go to a sole coal supplier, and certainly the Griffin contract was far more expensive than the current contract. The benefits of the high-efficiency gas turbine will start flowing through in 2011–12, after commissioning, and again, it is a valuable contribution in preserving our gas contract and reducing the amount of gas that we use for the same amount.

**Hon KATE DOUST:** I know that during the estimates committees conducted in the other chamber there was discussion about Verve's debt level. I wanted to go through some points on that. I know that there has been some discussion today about that as well. What is Verve's current debt situation? How much is it? Is it all with the Western Australian Treasury? What were the costs in 2010–11 to service that debt? Will any of that debt be paid back in 2010–11?

**The DEPUTY CHAIR:** We will just take those questions for the time being, I think. Just repeat the first one, please.

**Hon KATE DOUST:** What is Verve's current debt situation? How much?

**Hon PETER COLLIER:** I will ask Mr Borovac to comment.

**Mr Borovac:** Currently, with WA Treasury, it is just under \$1.1 billion. There is other debt on the balance sheet of Verve. It is somewhere around \$190 million in relation to lease liabilities and in relation to a PPA arrangement we have got, which we have taken over from Western Power. Principally, we consider the debt with the Western Australian Treasury as a debt that we can control and endeavour to reduce. I do not have the figures in front of me; I will get them out, but I cannot put my hands on them right now. It reduces, over the next four to five years, by around 40 per cent. I can give the member the figures shortly.

**Hon KATE DOUST:** Can we get that information on notice?

**The DEPUTY CHAIR:** Do you need a little more time to get that information?

**Mr Borovac:** Actually, I have it here now. This is an internal document. Currently we have, excluding lease liabilities, just under \$1.1 billion. Next year, it comes down to —

**The DEPUTY CHAIR:** Mr Borovac, are you happy for this to be public information?

**Mr Borovac:** I think that is fine. I do not believe that there is any commercial sensitivity around it. At the end of financial year 2011, we expect the debt to be somewhere around \$1.2 billion. At the end of financial year 2012, it will be around \$900 million, and at the end of financial year 2013, we expect it to be—I am just doing some mental sums—somewhere in the region of \$750 million. Is that suitable?

**Hon KATE DOUST:** That is fine.

**Mr Borovac:** The member was asking about the financing costs. Again, bear with me as I endeavour to put my hands on it. Total financing costs, which include the financing on the finance lease as well, I have not got the breakdown, but I can give the member the total financing cost that we are forecasting is \$76 million for financial year 2011; \$70 million for financial year 2012; \$61 million for financial year 2013; and \$52 million for financial year 2014.

**Hon KATE DOUST:** I will just finish off that question. It is fairly obvious that Verve sees paying back its debt as a priority. I am just wondering what impact the government's decision to increase the dividend rate has had on your debt reduction plan.

**Mr Borovac:** Obviously, we do not have that cash to reduce our debt, so the full amount of the dividend that will be paid will, of course, not be applied to the debt reduction. We would have used that money for that particular purpose.

**Hon LJILJANNA RAVLICH:** Given Mr Borovac's answer, I come back to this notion that it seems to me that the dividend to the government is 60 per cent or 75 per cent —

**Mr Borovac:** It is 65 per cent.

**Hon LJILJANNA RAVLICH:** It is 65 per cent for this organisation. The increase in the dividend seems to be more about raising general revenue for general government purposes rather than cost reflectivity or price reflectivity that the minister so strongly advocates as being the underpinning principle for why he has made these decisions about increasing the energy prices, if you like, to households across the state. Because here, we have just heard from Mr Borovac, in fact, that the additional revenue that is being generated is not going back to retire the debt for the organisation, which would, in itself, over the forward estimates, continue to drive the household prices of energy down, but rather than choosing to go down that path, which would truly be better for consumers, you have chosen to go down the path of simply taking the money from households and sending it into consolidated revenue.

**Hon PETER COLLIER:** I want to clarify a couple of things. I will state again, as I have several times today, I think that moving towards a point where we get to cost-reflective tariffs is a positive move on a number of fronts, and it is not a decision that I have taken lightly, but I would like to take it in terms of moving down that direction, but I will go through yet again. There are a number of

reasons as to why we have made the decision, the conscious decision, to actually increase electricity tariffs over the last two years.

[2.45 pm]

Number one: Western Australia was by far the lowest in terms of electricity prices across all jurisdictions in Australia. Number two: there had not been an electricity increase in Western Australia for 10 years—since 1998. Number three: we were basically living beyond our means in terms of electricity consumption because we simply were not paying for our electricity. Householders were indirectly bailing out Verve to the tune of hundreds of millions of dollars as a result of the fact that we had not had electricity price increases for over a decade. Cumulatively, they helped to mould the decision for us about why we needed to increase electricity prices. In addition, as I said, I felt it was a responsible decision. We were very mindful of the fact that householders simply were not paying for their electricity. That sent all the wrong messages to the community at large. As I said, a number of householders had two or three fridges and televisions and simply the message was wrong in terms of the fact that they had to be a little more prudent and, from an electricity perspective, more sensible in terms of their electricity use. They are the reasons that we made that decision. We are still not close to cost reflectivity at this stage but it has made a significant improvement in terms of Verve's bottom line. There is no doubt about that. As far as Verve is concerned, what has happened as a result of the fact that we have been able to move closer towards cost reflectivity—although we have not got there yet—is we have been able to pour \$263 million into the high-efficiency gas turbines and we have been able to pour money into Verve to ensure that they are both sustainable and provide electricity generation for the entire SWIS, which in itself is no mean feat. They are the decisions we have made. They are economically responsible. Yes, as I said before, I am extremely cognisant of the impact that electricity price rises have had. I state yet again that with that in mind, we added \$31.4 million for a hardship package over the past two years and we are looking at a tiered pathway through tariff increases. I will be making an announcement on that towards the end of the year.

**Hon KATE DOUST:** On page 597, I refer to Verve's fossil fuel portfolio. What will be the generation capacity of Muja A and B once efficiency works are completed? What is the status of the environmental approval, and how is the project progressing both from a budgetary and a time point of view? That is on page 597.

**Hon PETER COLLIER:** Are we talking about the environmental approval for Muja A and B?

**Hon KATE DOUST:** The fossil fuel portfolio.

**Hon PETER COLLIER:** You mentioned environmental approvals. Is that for Muja?

**Hon KATE DOUST:** That is one of the questions.

**The DEPUTY CHAIR:** Just repeat the first part of the question, Hon Kate Doust.

**Hon KATE DOUST:** The first part of the question is: what will be the generation capacity of Muja A and B once efficiency works are completed? We will deal with that first.

**Hon PETER COLLIER:** I will get Ms In't Veld to answer. She can answer the whole lot.

**Hon KATE DOUST:** And she will do it very well, I am sure.

**Ms In't Veld:** There are four 60-megawatt units that will be subject to approvals refurbished. That means they will be fitted with pollution abatement equipment. Altogether, 240 megawatts of coal-fired power will be available to the state. That plant will be run as a mid-merit plant. Two units will not be running. We will see only two of the units come into play if, for example, there is another gas crisis.

**Hon KATE DOUST:** What is the status of the environmental approval?

**Ms In't Veld:** We are still awaiting environmental approval.

**Hon KATE DOUST:** How is the budget progressing from a budgetary and time point of view?

**Ms In't Veld:** It is on track. The key thing is the environmental approval. Our managers have done the rounds with the bankers, so the financing is looking comfortable as well. The key challenge will be the environmental approval.

**Hon KATE DOUST:** Again on page 597, I refer to Verve's investment in sustainable energy. Is it correct to say that the budgeted amounts for sustainable energy are mainly for the maintenance of existing facilities?

**Ms In't Veld:** I might just clarify that. Is that the reference to an allocation of \$2.6 million?

**Hon KATE DOUST:** Yes.

**Ms In't Veld:** That is correct. That is for maintenance.

**Hon KATE DOUST:** So it is just for maintenance; it is not for anything —

**Ms In't Veld:** Sorry, I might hand that to my expert.

**Mr Borovac:** This is a capital expenditure, which is mainly to upgrade equipment. The maintenance is embedded in our operating budget, so I cannot give you that figure specifically. The \$2.6 million is a reference to upgrades to our existing equipment. We do not have a huge wind farm portfolio at the moment.

**Hon PETER COLLIER:** That is the wind diesel though, is it not?

**Mr Borovac:** Yes.

**Hon PETER COLLIER:** That is outside the SWIS.

**Ms In't Veld:** That is off grid.

**Hon KATE DOUST:** I suppose that leads me to my next question. What renewable energy generation assets has Verve built over the past five years?

**Ms In't Veld:** Two wind diesel farms—one at Hopetoun and one at Coral Bay. The Coral Bay one being particularly unique to Australia in terms of the turbines being able to tilt down. I have been with Verve for only three years, so I am not quite sure what happened in the two years before I arrived, but I am sure that they were the two in the last five years. We are also actively working on a project for an extension to the Albany wind farm at Grassmere. We are waiting for approvals on that.

**Hon PETER COLLIER:** We have a couple of things in the pipeline.

**Hon KATE DOUST:** My next question was —

**The DEPUTY CHAIR:** The question related to the assets over the last five years. Can we make that the assets full stop? What is the total asset in sustainable energy? Is that a question you can take on notice?

**Ms In't Veld:** I can add to that. There are two wind diesel farms; we are working on the Grassmere project; and we have worked for the last five years, and are continuing to work extensively, on our biomass project using mallee plantations. Apart from the wind diesel projects, most of our effort, time and money has gone on the biomass project.

**Hon KATE DOUST:** Alright. My next question would have been about whether you had any plans to build any renewable energy projects in the out years, such as the wind farms, but you obviously have extension plans for Albany. Can you outline for us any other projects that you have planned for the out years that are renewable energy related?

**Ms In't Veld:** We are working currently on a solar PV project. We have looked at advanced solar thermal projects, but they are too expensive. We think that on a joint venture basis we can make a solar PV project work reasonably well and reasonably cost effectively. We are continuing to work

on the biomass project and are hoping that in the next two or three years, subject to harvest trials and technical problems with the technology we are using, that that will also come to fruition. We are working on the Grassmere wind farm. There is also another 55-megawatt wind farm that is fairly well advanced at Mumbida.

**The DEPUTY CHAIR:** Which is where?

**Mr Borovac:** Near Geraldton.

**Ms In't Veld:** South of Geraldton.

**Hon KEN TRAVERS:** Just on that, where would that line actually feed into?

**Ms In't Veld:** Mungarra, just south of Geraldton.

**Hon KEN TRAVERS:** If you do not have the —

**Hon KATE DOUST:** The northern extension of the 330kV line, how does the lack of the northern extension of the 330kV line —

**Ms In't Veld:** No impact.

**Hon KATE DOUST:** None at all?

**Ms In't Veld:** No.

**Hon PETER COLLIER:** The network can cope with it.

**Hon KEN TRAVERS:** The network can cope in Geraldton?

**Ms In't Veld:** There is a power station called Mungarra power station just south of Geraldton. We have actually done the work on that with GE to make sure that the turbines involved in this project—and Western Power as well—that we can make the access work.

**Hon LJILJANNA RAVLICH:** Ms In't Veld, earlier on you referred to the winding up of the Griffin Coal coal supply arrangements. They were due to be finalised by 30 June, as I understand. Were they finalised by 30 June?

**Ms In't Veld:** They were.

**Hon LJILJANNA RAVLICH:** Good. Secondly, it is probably not really your problem, but that whole Griffin Coal issue and the future of that, and particularly the workers, because I know that the minister made some comments in the Parliament when this whole issue blew up about six months ago or even earlier than that, what is the future for Griffin Coal down there? Maybe the minister can enlighten us.

**Hon PETER COLLIER:** I would have to ask Ric Stowe! The administrator is probably the best person to ask. I do not know whether I can comment on that.

**Ms In't Veld:** I can say that we have been approached by a number of bankers to see whether Verve Energy is interested. Our position is that we will wait for direction from government.

**Hon LJILJANNA RAVLICH:** Fair enough.

**Hon KEN TRAVERS:** So it is back to you, minister! And your answer is?

**Hon PETER COLLIER:** I do not want to comment at this stage on where we are going with Griffin.

**Hon LJILJANNA RAVLICH:** That is fair enough. I understand that the arrangements are being finalised for a long-term liquid fuel supply contract. Yes or no?

**Ms In't Veld:** Yes. I am quite sure that we are comfortable with our liquid supply arrangements and storage arrangements. I could not give you the exact dates —

**Hon LJILJANNA RAVLICH:** Have they been finalised recently?

**Ms In't Veld:** We would have to come back to give you specific —

**Hon LJILJANNA RAVLICH:** Can you come back with us and advise who those arrangements were finalised with?

**Ms In't Veld:** Caltex.

**Hon LJILJANNA RAVLICH:** Okay. What is the nature of the arrangements that were entered into, and are there any risks associated with the agency in respect to those contractual arrangements that have been entered into?

**Hon PETER COLLIER:** Ms In't Veld will respond.

**Ms In't Veld:** We do not believe there are any risks associated with that. The liquid fuel is a backup for a gas crisis or problem within our portfolio where we are required to burn liquid fuel. Our high-efficiency gas turbine project, I should say, will be dual fired. If there is a gas problem, it will be able to run on liquids. Our liquid consumption now that our plant is operating so much more reliably has dropped significantly. It is not as critical to our operations as it was three years ago. We will respond to your question.

**The DEPUTY CHAIR:** Was a supplementary response needed?

**Hon LJILJANNA RAVLICH:** I am happy to have a written response from the department, which is a bit more fulsome.

**The DEPUTY CHAIR:** That is the liquid fuel supply contract details, as far as they can be made public. Even if they are private, we can constrain it to the committee, but you just have to make that point.

*[Supplementary Information No D1.]*

**Hon KATE DOUST:** Under the fossil fuel plant portfolio, the last dot point has \$24.8 million for various works to ensure plant reliability and environmental compliance at the Kwinana power station. Can you outline for us exactly what those various works were?

**Hon PETER COLLIER:** The Cockburn gas turbine power station and—sorry, \$24.8 million, was it?

**Hon KATE DOUST:** Yes.

**Hon PETER COLLIER:** It is not Cockburn; sorry.

**The DEPUTY CHAIR:** It is on page 597, the last dot point about one-third of the way down the page.

**Hon KATE DOUST:** Minister, if you were in my electorate, you would understand the distinction between Cockburn and Kwinana!

**Hon PETER COLLIER:** I knew exactly what it was; I was looking at the wrong dot point.

**Ms In't Veld:** In terms of the plant reliability, the work that we have been doing there has been done in conjunction with probably a world-class expert on power stations—RWE. It has basically involved asset upgrades and maintenance work, because the plant had been run down quite significantly over some years. That maintenance program has delivered a fantastic improvement in our reliability. Our forced outage factor has reduced from about 5.6 per cent to under two per cent. This can be quite significant in terms of the costs that we bear. For example, in 2007–08 we paid \$21 million in capacity refund payments to the IMO because of the unavailability of our plant. This year, to date—Wally, correct me if I am wrong—we have paid around \$2 million to the IMO, and that is largely because of the work done on maintenance at Kwinana and elsewhere to improve plant reliability.

[3.00 PM]

In terms of environmental compliance, the one I am aware of is that we have installed additional metering and measuring of the emissions at the stack, and probably additional observation of what the controllers are required to do in the control room. We have video monitors that show what is coming out of the stack so if there is anything visible coming out of the stack, it will be reported immediately and dealt with. To the end of May, the capacity refund to the IMO is \$3.1 million, still significantly better than \$21 million.

**Hon KATE DOUST:** You said earlier that Kwinana B had been demolished. I remember at the time—this would have been a few months ago—there was an issue about asbestos on site. Was any of the money in this line item allocated to the clean-up of that asbestos? Where is that at? Has that job been completed? Has all the asbestos been removed or sealed?

**Ms In't Veld:** We are very comfortable with the amount of work that has been done to remediate the asbestos situation. We had a cleaning operation go right through the place. We had an occupational hygienist fly over from Melbourne to do an audit on what we were doing in terms of managing asbestos. She confirmed that we were compliant with all the national regulations. We have subsequently had inspectors from WorkSafe confirm that it was a safe work environment. We completed the work that was done on that issue some months ago.

**Hon KATE DOUST:** When you come to demolish the second unit, what strategies have you put in place to ensure that you do not have the same difficulties with asbestos?

**Ms In't Veld:** It was not directly associated with the demolishing of Kwinana B. That was speculation that was proven to be incorrect. We will probably be more rigorous in monitoring for asbestos and making sure we are checking more regularly just to head off a similar issue.

**The DEPUTY CHAIR:** I refer to the recent grants made by the commonwealth government relating to sustainable energy. Referring to the sustainable energy line on page 597, it does not refer to those amounts which are in there, but was Verve Energy part of any consortia that made submissions for funding from the commonwealth in relation to solar power or other renewable projects?

**Ms In't Veld:** We looked at the solar flagship project but we ended up not joining the consortium to apply for that. We are in a consortium for what is known as the CO2 hub in the Collie Basin that is looking for funding for carbon capture storage research. We are hopeful that we may be successful there. I understand that solar flagship WA was not successful.

**Hon PETER COLLIER:** Queensland was.

**The DEPUTY CHAIR:** You would be aware that we got nothing. I know we had some good projects going forward —

**Hon KATE DOUST:** We had some excellent projects going forward.

**The DEPUTY CHAIR:** On reflection, would you consider that there is a better way for Western Australia with your involvement or with your catalytic input of some kind?

**Ms In't Veld:** My observations in dealing with the eastern states—this is in my capacity as a member of the National Generators Forum and the Energy Supply Association of Australia—is that unless you are making your presence felt regularly and being pretty active in ensuring that WA's interests are taken into account, it is like coming from a foreign country. I was astounded the first year I spent attending National Generators Forum meetings and Energy Supply Association meetings that Western Australia was not mentioned. It was all about the national energy market. There was no attention paid to WA whatsoever. On the other hand, if you are prepared to spend a bit of time over there and lobby a bit and get the right people interested, you will find that they do start to take a serious interest. We have seen that with the Energy Supply Association, which has been actively involved in WA. It put submission into the Office of Energy on the strategic energy initiative and has probably done more work in the past year or two than it has done in the past two

years. The lesson we learnt is that you really need to be very active and you need to be visiting the right people reasonably regularly.

**Hon PETER COLLIER:** I will just add to that, and that is a good point. Whenever I go to MCE meetings over there, 95 per cent, if not more, of the agenda deals with NEM, of which we are not a component. It pretty much makes us redundant in terms of the bigger picture. That does not for a moment suggest that we are ignored. I feel I have a good working relationship with Martin Ferguson. When he comes over, he always comes to visit and vice versa. I thought we were in with a chance. We wrote letters of support to the various projects in Western Australia. It was really disappointing that we did not get it. They all went to Queensland. I subsequently wrote to the minister to express my disappointment. Yes, we will continue to have dialogue with my federal colleagues. In the next round ideally we will have some success. It was really disappointing.

**The DEPUTY CHAIR:** My understanding from some of the applicants is that we missed out because no substantive stake was actually made and the letters of support were insufficient given the way they made the analysis. In the future will you consider being a catalyst to make sure other bigger players come in to help these, because most of these applicants were small entrepreneurs but technology people? Would we consider doing not just the lobbying but working in different structures to make sure the financial stake was evident to those who are handing out these grants?

**Hon PETER COLLIER:** Yes. We have to learn from our mistakes and take it on the chin. If we can do things better, we have to do it. I was really disappointed. I really thought we were going to get one of these projects.

**The DEPUTY CHAIR:** Especially when we are in the best place in the whole country for solar energy, based on what I have seen.

**Hon KEN TRAVERS:** Has the agency done a formal review as to why we missed out on those grants? It is great to sit there with all these platitudes about the fact that it was disappointing and all the rest of it but I would have thought with a project like that, you would go away, sit down and try to do a proper assessment of why we missed out and what we need to do so we are engaged next time. The reality is that with most of these commonwealth grants, they would have had a fixed set of criteria, they would have gone through their process and we clearly did not make the criteria for whatever reason. That means one of two things. You either need to go back and lobby the federal government on the criteria or you need to work out why Western Australia was not winning bids and make sure that in the next round of bidding we are in there. Has that occurred?

**Hon PETER COLLIER:** Yes, as far as I am aware. You prompted me to follow up on that. I did want to know what we did wrong and how we could improve on the procedure.

**Hon KEN TRAVERS:** Not just an anecdotal thing but a proper assessment. I do not know whether the federal government would allow you to go through it—they often do—and seek a post-assessment interview to try to analyse why bids are missed out and all the rest of it. Has that process been followed? If not, will you undertake it?

**Hon PETER COLLIER:** There is not a formal assessment procedure, from my perspective. It may be deficient. You have prompted me into it. I will look at it again over the next week or so. Western Australia is not the only state that missed out. One state got the whole lot.

**Hon KEN TRAVERS:** They may have made sure that their bids met all the criteria.

**Hon PETER COLLIER:** Exactly. I am not casting aspersions. I am saying it may have had all its ducks in a row. We can learn from that. It is a good point.

**The DEPUTY CHAIR:** I certainly know of some applicants who did go back to get the feedback. I agree that it needs to be formalised. One of the reasons they fell over is because they did not have a big enough stakeholder.

**Hon KEN TRAVERS:** Would Verve do that or one of your other agencies?

**Ms In't Veld:** We could assist or direct the minister to have a talk with one of our non-executive directors, Gaye McMath, who was on the solar flagships panel. She may be able to give the minister some insight. It is probably not appropriate for us to ask her.

**Hon KEN TRAVERS:** Who would be the body under the minister's portfolio?

**Hon PETER COLLIER:** The Office of Energy. The office is the one that gets up the statements of support et cetera, which I sign.

**Hon LJILJANNA RAVLICH:** Have all the recommendations from the Oates report been implemented and has the Oates report been made public?

**Hon PETER COLLIER:** No. We are working through the implementation at the moment. I am very happy with the way things are progressing. Peter Oates' report offered two alternatives in terms of either maintaining the status quo—that is, having two different corporations—or merging. We chose to go down the path of maintaining the status quo. However—I have stated this quite consistently—it is evident that there are some real problems with the vesting contract. I had a six-hour briefing on the vesting contract three weeks into the portfolio. I felt like an intellectual pygmy. I felt like I had absolutely no understanding whatsoever at the end of that briefing. I felt very inadequate.

**Hon LJILJANNA RAVLICH:** I am sure that was not the case in reality.

**Hon PETER COLLIER:** No, I am sure it was not. Then I was told by so many people that there are probably only one or two people in the entire state who understand the vesting contract.

**Hon LJILJANNA RAVLICH:** I am sure if I saw it, I could give it a good go! I could give it a thorough going over.

**Hon PETER COLLIER:** As a consequence of that, the role it plays in terms of the sole balancer in Verve puts an onerous responsibility on Verve in my opinion and it makes it very difficult for its portfolio. To cut a long story short, there will be changes to the market rules. It is with the IMO at the moment. There has been a lot of dialogue with industry and with the sectors from the IMO. There will be significant changes to the vesting contract. They will all be forthcoming by the end of the year.

**Hon LJILJANNA RAVLICH:** What about generation planning?

**Hon PETER COLLIER:** Generation planning is a key component. I launched Generation Outlook about three months ago. That will provide much more substance in terms of details and where we are going—load shifts and so on. We have hit the ground running. As well as that, the strategic energy initiative will feed into it to ensure that we identify the very real issues that exist not just in generation but network, retailing across the board in the state. This is the first time in Western Australia that we will have had a comprehensive energy direction or policy since 1979. That means that we are looking at all broad areas—Generation Outlook and the whole lot.

**Hon LJILJANNA RAVLICH:** Is it possible for the committee to have access to the Oates report?

**Hon PETER COLLIER:** I do not have a problem with that.

**Hon LJILJANNA RAVLICH:** Why was it never made public?

**Ms In't Veld:** I think it was.

**Hon KATE DOUST:** The original version was, not the second one.

**Hon LJILJANNA RAVLICH:** Why not the second one?

**Hon PETER COLLIER:** What do you mean “the second one”?

**Hon KATE DOUST:** He is doing continuing work.

**Hon PETER COLLIER:** You are talking about the Oates report. He is working with the IMO. I have no reason not to release it.

**Ms In't Veld:** It is publicly available.

**Hon PETER COLLIER:** If it is not released, I will release it. There is nothing in it. It is out there.

**Hon KEN TRAVERS:** You spent a lot of money if there is nothing in it!

**Hon PETER COLLIER:** It has an enormous amount in it. It was a very good document. We went through all this day in and day out.

**Hon LJILJANNA RAVLICH:** Do you intend to implement all the recommendations?

**Hon PETER COLLIER:** There were two potential models. We chose the status quo. One of the models was to merge. There were significant arguments for re-merging. I was not swayed by them.

**Hon LJILJANNA RAVLICH:** It could be a very retrograde step.

**Hon KATE DOUST:** I think there was only one person who was really keen on re-merging.

**Hon PETER COLLIER:** I had some very good discussions with both Verve and Synergy and we came to that decision.

**The DEPUTY CHAIR:** The Oates report will be provided as supplementary information.

*[Supplementary Information No D2.]*

**Ms In't Veld:** Two of the key recommendations that came out of the Oates review were to fix up the vesting contract, which, as the minister said, was an unworkable, draconian contract. We are working very, very well with Synergy and making progress to moving back to a more conventional bilateral contract. We expect to have that completed by 1 August. The second area was amendments to the market rules to ensure that Verve Energy was not subsidising the new entrants in the market and that we were properly compensated for our ancillary services and balancing obligations. That is also going very well. The IMO did a presentation last week to industry leaders, where they mapped out the way forward in terms of the various paths that could be taken with the market, and it seems to be making a lot of progress and there is a fairly reasonable level of consensus amongst the industry players on that.

[3.15 pm]

**Hon PETER COLLIER:** You have got this situation where you are paying capacity credits for private entrants into the market, and we are paying the state generator to turn off and on baseload powers. It is a ludicrous situation, it really is. The balancing role of Verve, quite frankly, again is retrograde. That is why we need to make the change. I am very, very confident this is a result of the Oates report and the changes that we have made and we will make in the near future. I think we will have a better system of generation throughout the state.

**The DEPUTY CHAIR:** Thank you, minister, for your frank insight into that vesting discussion. The time is almost up; we have got another five minutes for three questions.

**Hon LIZ BEHJAT:** I actually want to return to sustainable energy, if I might. I note in the line here on page 597 that there has been an allocation for expenditure on wind diesel systems, but I would like to have some information about biomass. I know that Verve has been involved with a biomass kiln in Narrogin and you have done some work down there.

**Hon PETER COLLIER:** Yes.

**Hon LIZ BEHJAT:** I have actually had representations from people in the North Metropolitan Region that I represent who are wanting to look at doing that up in the northern area as well. Has Verve been doing any further work in biomass as to whether that is going to be a way, in the future, that we can provide some of the power at least?

**Hon PETER COLLIER:** Yes, I get a plethora of people coming in with biomass projects—I can assure you of that. They are all really promising, but the big issue, of course, is cost and where we go in terms of our renewable portfolio, but I am receptive to it. I was part of the launch, just a few months ago, at Narrogin, of the harvester.

**Ms In't Veld:** There are probably two key biomass projects that are being worked on in the state at the moment and both of them are facing technological problems in terms of making the technology work. One is the Narrogin project, which we used to refer to as the integrated wood processing project, which was based on CSIRO technology. We have, however, moved away from that technology to what we call rotary kiln technology. Once we can make that work, it can be rolled out in all sorts of different locations around the state. The idea for that is to harvest mallee from wherever in the state and burn it in this rotary kiln and produce renewable energy. But we are still trying to make the technology work in that area, but once it has been made viable and commercial, it can be rolled out anywhere close to the grid.

The other project that is being worked on—we are having discussions with the people involved in this—is a project that is probably known as the biochar project, which involves burning parts of wheat, chaff.

**The DEPUTY CHAIR:** Straw.

**Ms In't Veld:** Straw, that is right, yes. But they are also having a few technical problems as well and they are about to trial a pilot plan at —

**The DEPUTY CHAIR:** Kalannie.

**Ms In't Veld:** That is right—you know more about it than I do. We have talked to them about perhaps using their technology and about joint venturing. What we are trying to do is make something work and make something work in a cost-effective way that we can then roll out around the state, because there are so many environmental benefits to these projects not only in terms of renewable energy but also dealing with salinity issues and revenue streams for the farmers. It is a very compelling project and one we are still active in.

**Hon KATE DOUST:** I just had two short questions. We have talked about the issue of debt and the issue of the dividend return, and we have sort of touched briefly upon the vesting contract I was just wondering, with the vesting changes, what impact can you see it having on Verve's bottom line?

**Mr Borovac:** I suppose, really, at this stage we are still in the development stages on that, and it is perhaps inappropriate to comment at this stage.

**Ms In't Veld:** Probably what you can say is that it will make our forecasting much, much easier, because it is not a net back pricing mechanism and we have got certainty going forward in terms of what we are likely to make given the tariff level and given the CSO.

**Mr Borovac:** I suppose in the context of this committee's subject matter, it is certainly not going to make the forecasts any worse.

**Hon KATE DOUST:** That is good. You talked earlier about the change to Wesfarmers from Griffin. I was wondering were there any issues with the volume of coal delivered by Griffin in that last 12 months of their contract, and were there any issues with the contracted volume that was delivered? Was it delivered on time and did it meet all the appropriate standards and requirements?

**Hon PETER COLLIER:** Yes, there were some significant issues both in terms of timing and in terms of quality.

**Ms In't Veld:** That is correct, particularly in the last week, where Griffin had mined out the moved pit and were delivering coal from their stockpile. Probably the last week they had got right to the bottom of the stockpile and were attempting to deliver what was coal plus sand plus all sorts of other things that nowhere near met the specifications of the contract. There was an issue there when

we refused to take that coal, but Griffin did accept that it did not meet the spec and it was probably a try-on. There were some issues.

**Hon KEN TRAVERS:** You just made the comment that the vesting contract changes will not make anything worse—that is obviously for Verve—but is it likely that it may actually have an impact of the bottom line for any of the other organisations such as Western Power or Synergy?

**Ms In't Veld:** That is actually a good question, because the way the net back pricing mechanisms work —.

**Hon PETER COLLIER:** The net back pricing system has basically meant that Verve has consumed all of the losses for the last three years, essentially, and they have. It is just a component; no matter what they did—Verve, with all due respect, copped a shellacking, which was unjustified in my view. To answer your question: probably, yes, but I will ask Ms In't Veld to answer.

**Ms In't Veld:** It should be more transparent, because what was happening was, any increase in Western Power's costs and any increase in Synergy's costs we would wear, and we had no control over those. It should certainly be more transparent.

**Mr Borovac:** In all honesty, the only problem, from our point of view, is that we see no transparency through to the impact on Synergy and Western Power, although Western Power are not a party to the contract; it is purely ourselves and Synergy. We certainly are not in any position to comment on what happens with them; we have just got no transparency on that.

**Hon KEN TRAVERS:** No, look, I understand those arguments, but I mean I guess I would not want people to be left with the idea that it may not have a bottom line in terms of the finances for government. I had an example the other day when the education department made policy decisions that said it was a saving to government, and it just passed the costs on to other government agencies although it might have been a saving for their department. Anyway, you have answered my question. So, yes, it could have an impact on Western Power or Synergy, but your argument is that it is—I do not have a problem with the idea of transparency.

**Hon LJILJANNA RAVLICH:** You have spoken at some length about the improved profitability and you have given us examples about where you have made, I guess, efficiencies in terms of new contracts and a few other things that have made business more profitable, but I am just wondering to what extent these improvements are real. I refer to the higher vesting revenue as a result of the community service obligations payments arrangements from Synergy, which were approved by the minister.

**Hon PETER COLLIER:** Where is this, sorry?

**Hon LJILJANNA RAVLICH:** This is in your March 2010 quarterly report, financial review. It says that the key reason for the improved profitability of Verve is the higher vesting revenue as a result of increased community service obligation payment arrangements from Synergy, approved by the Minister for Energy, which looks like a transfer from one agency to another agency that is then being sold as some innovative improvements that have led to profit. I wonder whether you can just explain that for me, to give me some peace of mind that in fact the profitability improvement that has been claimed is actually legitimate.

**Hon PETER COLLIER:** No, it is the community service obligation—the CSO—you are talking about; the bailout, as I like to refer to it.

**Mr Borovac:** Just broadly, the CSO is being paid to Synergy and it is to facilitate the glide path between the tariffs that we, as Verve, are being paid by Synergy, and the glide path that the general public is paying. In other words, they are getting a stepped increase in their tariffs, so that that gap, if you like, is being funded by the CSO to the extent that we are receiving cost-reflective tariffs now. That CSO really is an issue for Synergy; however, there is the obvious fact that Synergy is being supported to enable that payment through to us. It is a timing thing.

**Hon LJILJANNA RAVLICH:** Mr Borovac, are you saying that without the CSO you would not have achieved the \$170 million in improved profitability—is that right?

**Mr Borovac:** Yes.

**Ms In't Veld:** That is right; yes.

**Hon LJILJANNA RAVLICH:** In other words, the balance sheet would not look—because, you know, it has sort of been a bit of a success story, if I can say. You have sort of gone from a deficit of \$113.6 million, from what I understand, and now you have turned it around and you are actually in the black to the tune of \$170.9 million according to this document I have in front of me—you can have a look at the document; I do not care. The point is, is it real or is it just a CSO payment that means that, in a sense, it is not that real.

**Ms In't Veld:** I can certainly say that we think it is real, because what it is telling us, as Wally outlined, is that the level of tariffs that are currently in existence, together with that CSO, bring us to cost reflectivity. We have been able to show that if tariffs are at a cost-reflective level, we can make a profit and we can function commercially, and that is a success story.

**Hon LJILJANNA RAVLICH:** But you would have to admit that it is not as good as it appears, because without the CSO you would not have—it is sort of like me going out to buy a dress that cost \$150, but I actually had to go and borrow the money to buy it—something like that.

**Hon PETER COLLIER:** But you would look lovely!

**Hon LJILJANNA RAVLICH:** Always finish on a high note!

**The DEPUTY CHAIR:** Thank you very much; we will conclude. The committee will forward any additional questions it has to you via the minister in writing in the next couple of days, together with the transcript of evidence, which includes the questions you have taken on notice. If members have any unasked questions, I ask them to submit these to the committee clerk at the close of this hearing. Responses to these questions will be requested within 10 working days of receipt of the questions. Should the agency be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met. On behalf of the committee, thank you for your time and attendance.

**Hearing concluded at 3.26 pm**