

COALITION SENATORS' DISSENTING REPORT

1.1 The Varanus gas explosion and its sequelae have been a major disaster for Western Australia and Coalition Senators wish to make some comments relating to the overall management of the crisis by the Carpenter Government and suggest future action to be taken.

1.2 Western Australia has become heavily dependent on gas from the North West Shelf as a source of energy in the Pilbara, the Perth Metropolitan area, the Wellington Region (which encompasses the Bunbury Hinterland), and the Eastern Goldfields. The Varanus gas explosion meant that gas supplies to the south west were reduced by 350 terajoules a day, or by around one-third of the 1000 terajoules supplied to various consumers around the state.

1.3 This reduction in the supply of gas caused immediate and enormous disruption to industry around the state particularly in the south west, which overall, according to the Chamber of Commerce and Industry of Western Australia (CCIWA), lost an estimated \$2.5 billion in income.¹

1.4 This serious impact on the state economy was confirmed by Mr Court, from the State Treasury, who said:

...there has been a relatively significant impact on current economic conditions from the gas disruption, equivalent to around \$2 billion in terms of gross state product over the two year period of 2007-08 and 2008-09. This translates to half a percentage point reduction in gross state product, from the 7.5 per cent forecast in 2007-08 to seven per cent.²

Government Response to the Crisis

1.5 While the State Government appeared to move quickly to deal with the gas crisis, setting up both the Gas Supply Coordination Committee and the Gas Supply Disruption Recovery Group, this either disguises or ignores the fact that despite two previous incidents where gas supplies were compromised, the State Government did not have a contingency plan in place to deal with a major disruption of the supply of gas from Dampier such as the Varanus Explosion caused.

1.6 From the beginning, the State Government's communication with community and industry was sporadic at best. Local councils and residents were given little or no indication as to how the crisis would affect them, nor were they given direction on how they could contribute to lessen the effects. This was a reflection of not only the

1 Chamber of Commerce and Industry of Western Australia, *Submission 16*, p. 2.

2 Mr Michael John Court, Department of Treasury and Finance, *Proof Committee Hansard*, 2 October 2008, p. 111.

Government's ignorance to the effects of the crisis, but their lack of preparation for such a crisis.

1.7 This Committee has heard that the State Government was unprepared to handle this crisis, despite two similar occurrences, one earlier this year and one in 2006. There is a strong view that the State Government ignored these precedents, as well as industry advice, to develop an appropriate contingency response plan to deal with such a crisis and accordingly deserves strong criticism.

1.8 The State Government's failure to keep businesses informed led to a fall in confidence in their ability to handle the crisis. This was highlighted by the Government's decision to leave the distribution of gas to market forces, the bulletin board system, instead of declaring a state of emergency which would have enabled the State Government to equitably direct gas to where it was needed.

1.9 A number of businesses have argued that this decision left their industry at a disadvantage.

1.10 As Robert Birrell, from the Bunbury Chamber of Commerce and Industries, said in evidence:

The market was left to operate independently. And, left to its own devices, the market failed to deliver equity of supply to the business community.³

1.11 In the absence of prior planning and adequate communication from the State Government, it was difficult for business to have confidence in the Government's response. The Government's initial interactions with stakeholders did little to reduce business anxiety and arguably left many businesses less sure of the Government's ability to handle the crisis. As the mayor of Bunbury, and former State Cabinet Minister, David Smith said:

When the explosion happened and it became obvious that there were going to be major impacts locally, I was invited to a meeting of the major local industries. I expected initially that that would be for a briefing in relation to an emergency plan that I presumed would have been prepared prior to the explosion to manage exactly that sort of event. With the sort of energy mix we have developed in WA and with the fact that we have the one pipeline, with a few duplications between Dampier and Bunbury, I presumed someone would have planned for either a problem in the supply to that pipeline or a problem with the pipeline itself and that we would be quickly given an emergency plan as to how it was all going to operate. In fact, at the first meeting, it seemed to me that all the major companies around the table were being asked to address the state as to what problems were being created for them. That surprised me because there was not one employer around the table that employed fewer than 200 people, and I would have

3 Robert Allan Birrell, Chief Executive Officer, Bunbury Chamber of Commerce and Industries, *Proof Committee Hansard*, 3 October 2008, p. 23.

thought they would have been contacted already by the state directly to find out what problems they were having.⁴

1.12 The Carpenter Government argued that they had sufficient advisory groups in place, and that the flow of information to effected businesses was high. However, most participants in these groups have indicated that they were ineffective in developing an adequate response, and in informing the public of their course of action.

At the second meeting that I attended, we were really no further advanced in getting any public knowledge which would explain to us exactly what impact it was having, who was being affected in what way and what the state or the suppliers were doing. I was also surprised that, when the notion of a competitive market for that gas was being considered, the issue of whether or not it should be state managed was raised. The philosophical position of the chambers seemed to be that they wanted the state to stay out of it, they wanted it to be an entirely free market that would effectively bid for what gas was available and they wanted it to be determined privately. That really surprised me, because there were a number of public interest issues there that I thought should have meant that there was some public involvement in the scarcity market that developed, and the companies were not really left to bid.

The second issue that surprised me was how little information was forthcoming from Alinta in particular, again, in terms of exactly what the impact was on their supply, distribution and availability*. That information was not being provided in any way, nor was there any indication of whether they were simply going through the customers and prioritising them in terms of need or importance or whether it was purely a market based thing where they were effectively able to take advantage of the situation by allowing people to bid up the price of what was available.

All of that to me just seemed, from a public interest viewpoint, out of character for what I would have expected. I would have expected that everyone knew there was only one pipeline and in terms of planning the energy mix for Western Australia generally, and Perth and the south west in particular, there would have been an enormous amount of preplanning—whether it was Apache, or Woodside or the pipeline operators themselves who had problems—and there would have been emergency plans and all those philosophical issues about how you would develop a market—whether it would be a free market, who would take control of the situation and what information would become available—would have been determined in advance, but it was not.⁵

4 Mayor David Lawrence Smith, City of Bunbury and Private Capacity, *Proof Committee Hansard*, 3 October 2008, p. 9.

* Of electricity

5 Mayor David Lawrence Smith, City of Bunbury and Private Capacity, *Proof Committee Hansard*, 3 October 2008, p. 10.

1.13 Given that the Carpenter Government and its advisers must have been aware of the impact on Victoria from the 1998 Langford Gas Explosion which led to the Victorian Energy Network Corporation shutting down the State's entire gas supply and devastated Victoria's economy, it is surely not unreasonable to expect that a contingency plan to deal with a similar situation in WA would have been put in place.

The Role of Minister Logan

1.14 Following Mr Logan's opening statement, the chair put the following proposition to Mr Logan:

...We have had various evidence before us today in relation to the view of the government response to the crisis. One view is:

“The State government response was poor, inadequate and uncoordinated. It lacked action and true support. In particular at the beginning of the incident, information was fragmented and patchy, inconclusive and meaningless to businesses. At the later stage of the gas crisis the public was misled believing that the crisis is over, where in many cases force majeure with many suppliers is technically still in place.”

Would you like to comment on that perception of the government's position, because, whether it is true or not, if that is the perception, there are obviously some issues you have to deal with.⁶

1.15 Although Mr Logan sought to defend the government's actions in his answers to questions on various issues from Coalition Senators, including Senators Johnston, Bushby, Eggleston, and Adams, the Coalition Senators were not convinced by his answers.

1.16 During the committee hearings in Perth, the issue of whether or not the State Government should have had a contingency plan was raised with Mr Logan, the Minister for Energy at the time of the explosion. Mr Logan made clear that he was very aware of the unique challenges that Western Australia's energy security faced:

...given the nature of the system here in WA, where you have effectively two 1,500-kilometre pipelines bringing gas, 95 per cent of it from the north west, it is a strategic issue...[t]herefore it is not like the eastern states, where there is an integrated state system which primarily comes out of Moomba, Victoria and Queensland and where, if there is a catastrophe in one state, it can be supplied from another state or from another hub. We do not have that luxury here in Western Australia.⁷

1.17 Despite this understanding, when it was put to him that Western Australia had already experienced interruptions to its gas supply, his response was that in the history of gas in the state, this was the first long-term disruption.

6 Senator Doug Cameron, *Proof Committee Hansard*, 2 October 2008, p. 137.

7 Francis Logan, Member for Cockburn, Private Capacity, *Proof Committee Hansard*, 2 October 2008, p. 148.

For a long-term displacement, such as the one we face from Varanus Island, this is the first time this has ever occurred in Western Australia since the exploration and delivery of gas in Western Australia. Nothing like this has ever happened before.⁸

1.18 Coalition Senators are of the view that Mr Logan, as Energy Minister, should have been aware of the 1998 ESSO Longford Gas Explosion and its consequences. He should also have been aware that NSW has a contingent emergency response plan in readiness for any possible disruptions to its supply of gas.

1.19 The view that a plan should have been in place before the Varanus explosion was also shared by witnesses such as Robert Birrell from the Bunbury Chamber of Commerce and Industries:

Senator BUSHBY – “Given the Longford explosion, which you mentioned, and the two interruptions to gas supply in WA that we have seen in the last three or four years, do you think that something like this—not necessarily to the same extent but another disruption—was foreseeable and that a crisis management plan should have been put in place prior to this occurring?”

Mr Birrell (Bunbury CCI) – “Without doubt.”⁹

1.20 Following questioning from Senator Eggleston, Mr Logan also stated that he had raised the issue of energy security with the Federal Minister for Energy, Martin Ferguson, and showed that not only was he aware of the issues surrounding the State’s energy security but also that he knew where the impacts of any disruptions to supply would be most felt:

Senator EGGLESTON - “Would you like to comment on that and say whether or not you feel, as a general issue as much as a particular issue, we should have a plan dealing with emergencies and also a broader plan for energy security.”

Mr Logan - (Former Energy Minister) “...When I was minister for energy I raised that with the minister for energy Martin Ferguson and suggested that the issue of security of domestic gas in Western Australia...[i]t is a strategic issue. **It is also an economic issue for industry, which is primarily in the south west.** [emphasis added].¹⁰

1.21 Coalition Senators believe this quotation demonstrates Minister Logan understood the potential economic impact on industry in the south west from any disruption to gas flow through the Dampier to Bunbury pipeline, and accordingly hold the view that his failure to put in place a contingency plan to manage such an event

8 Francis Logan, Member for Cockburn, Private Capacity, *Proof Committee Hansard*, 2 October 2008, p. 149.

9 Robert Allan Birrell, Chief Executive Officer, Bunbury Chamber of Commerce and Industries, *Proof Committee Hansard*, 3 October 2008, p. 27.

10 Francis Logan, Member for Cockburn, Private Capacity, *Proof Committee Hansard*, 2 October 2008, p. 148.

amounts to gross incompetence on his part for failing as Minister to ensure that such a plan was established.

Energy Security

1.22 Coalition Senators are concerned that insufficient attention appears to have been addressed at Government level to the potential danger of Western Australia's heavy dependence on gas from the North West Shelf and believe that if there is a lesson to be learned from the Varanus Incident it is that there is a need to diversify the sources of energy available to supply the south west grid.

1.23 Interesting evidence was given regarding possible renewable energy sources but while further research is needed before such sources as wind, wave and solar power can deliver base load levels of energy, it is felt that the State would be wise to maintain diesel and coal powered electricity stations in a state of operational readiness as a backup to the gas supply from the north west. This is already done in the Pilbara with the Red Bank Power Station in Port Hedland on stand by, as is that at Cape Lambert, ready to run on diesel should the gas supply be interrupted.

1.24 Evidence that the development of smaller on-shore gas fields closer to Perth producing only for the domestic market (rather LNG for export) feeding into the southern end of the Dampier pipeline so lessening the dependence on the North West Shelf as a source for domestic gas was regarded as a matter which should be given priority.

1.25 Coalition Senators are of the view that addressing the issues of energy security and the energy market makeup of Western Australia requires constructive cooperation between Government and key stakeholders. This view was reflected by the Chamber of Commerce and Energy's willingness to participate in a roundtable on Energy Security and their ongoing concern about the State's future.

Senator EGGLESTON— "We just heard about the issue of diversification of power sources. It seems to me that there would be some value in the state government calling a roundtable conference with parties like your organisation, the Chamber of Commerce and Industry, people like the food group who have appeared before us today who were very critical of the state government's response, to come up with an overall contingency plan to deal with crises such as this, and also to talk about the overall energy and power needs and sources of power and energy for Western Australia. Would your organisation support that sort of concept?"

Mr Howard-Smith (CME) - "Yes. There are a number of issues. One is the immediate response to the issue and, quite honestly, I do not know what else the government could have done. That does not escape the consideration of much broader strategic issues—that is, diversity of supply of gas, perhaps alternative forms of energy.

It is a clear vision for the state in terms of key infrastructure; not just the supply of energy, but I would also argue for things like water and the people issues, and infrastructure. That does not just involve the state

government, I would suggest, it also involves the federal government. These are major issues of infrastructure. That is a broadsheet issue, and on that we would be more than happy to engage. I think that is where we should be focusing.”¹¹

1.26 Coalition Senators accordingly support the recommendation that such a planning conference be held.

Impact on Business

1.27 The Chamber of Commerce has suggested that the crisis cost individual businesses, on average, in excess of \$1.1 million. This is significantly higher than the State Governments estimates, which only highlights the Carpenter Government’s lack of understanding and control over the effects of the crisis.

1.28 It has been submitted to this Committee that amongst the confusion and lack of information during this crisis, local businesses, particularly smaller ones, were left to fend for themselves. According to James Pearson from the Chamber of Commerce and Industries:

Of the 250 businesses which responded to that question (on the gas crisis), around 40 per cent told us they had been affected in some way by the shortages of gas and the consequences there from. On average, our membership told us the gas crisis cost affected businesses in excess of \$1.1 million...[a]bout a third of affected businesses found it difficult to obtain inputs and supplies for production. There was reduced demand and higher energy costs.¹²

1.29 In addition, Paul Brockschlager from the Australian Hotels Association said:

There was a lack of recognition in regard to the potential for fundamental damage to the business reputation of individual accommodation providers through no fault of their own. Increased costs for CO₂ supplies impacted on the availability and cost of tapped beer lines and gas supply rationing resulted in reduced hotel food and beverage services, the closure of hotel facilities such as pools and saunas, and reduced linen supplies and laundry services.¹³

Impact on the South West

1.30 While businesses across Western Australia have felt the impact of the Varanus Explosion, Coalition Senators would like to make a special

11 Reginald James Howard-Smith, Chief Executive, The Chamber of Minerals and Energy of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 105.

12 James Pearson, Chief Executive, Chamber of Commerce and Industry of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 34.

13 Paul Brockschlager, General Manager, Parliamentary and Corporate Affairs, Australian Hotels Association (Western Australia), *Proof Committee Hansard*, 2 October 2008, p. 12.

acknowledgement of the south west region of the state which suffered severely from the crisis.

1.31 During the hearings in Bunbury, members of the committee heard first hand what impact the loss of gas was having.

1.32 It was made known during the Bunbury hearing that various businesses in the south west operated with equipment which required a consistent and predictable supply of gas. The operations of such businesses were compromised by the intermittent nature of the supply of gas provided.

1.33 Mr Birrell made this clear in response to questioning from Senator Pratt:

...One of the issues was that businesses would be told at five o'clock in the afternoon that they would get so many gigalitres of gas tomorrow for so many hours. In a lot of cases it took them perhaps two days to ramp the plant up to the temperature or the operating level they needed to actually start. The point was made a number of times that a lot of industries would prefer to get less gas more often, rather than a lot of gas in very short bursts.¹⁴

1.34 One of the reasons the impact on business was felt more in the south west than the Perth metropolitan area is that the south west labour market was relatively tighter even before the explosion at Varanus Island. South west businesses were acutely aware that if they were to lose workers through the crisis, there was a high likelihood that those workers would find work outside the region making recovery from the crisis all the harder.

1.35 According to David Smith from the City of Bunbury:

One of the major concerns when this explosion took place was businesses securing their workforce. They were very frightened that, if they allowed annual leave or put off any of their workforce because of the problems caused by the explosion, those people would quickly move off to either another industry in the south west or, more likely, to the north west and become one of the fly-in fly-out population. Bunbury already has a reasonably large fly-out population because of our proximity to Perth. We have a local airport and an airport at Busselton that is used for fly-in fly-out.¹⁵

1.36 Preston Gardiner, Managing Director of Premin Holdings, put forward to the committee his personal experiences of the crisis:

My driver has been doing probably only 40 hours a week. Yesterday he gave me his notice. He is going north because he cannot afford to even pay

14 Robert Allan Birrell, Chief Executive Officer, Bunbury Chamber of Commerce and Industries, *Proof Committee Hansard*, 3 October 2008, p. 28.

15 Mayor David Lawrence Smith, City of Bunbury and Private Capacity, *Proof Committee Hansard*, 3 October 2008, p. 9.

his mortgage on 40 hours a week—and we pay exceptionally good wages. We cannot find MC truck drivers or mechanics. I even have mechanics now wanting to go up north. If this continues into February, I do not know what we will get, but I am seriously considering putting our business on the market and shutting the doors...¹⁶

...I have to make my repayments and pay my drivers. I have had to pay my drivers for days that they do not work so that they get enough money to make their repayments on their houses so that they do not lose their houses. It is not just myself that I am concerned about here, I am concerned about (1) my fellow associates and (2) my employees. My employees are more important to me than the assets that I own; they have young families too.¹⁷

1.37 Having had much involvement with local industry during the crisis, Nola Marino, the Federal Member representing the south west seat of Forrest, also put to the committee the important issue of staffing to industry in her electorate:

As you have heard, we have a skill shortage in this region...some of the operators in two businesses I spoke to take five to six months to train... They literally could not afford to lose these people, plus they have such a significant attachment to very good staff—and they are good staff. They wanted to keep them and they were prepared to absorb the cost of keeping those staff on at very low, if any, production levels.¹⁸

1.38 Louise Kingston and Rose Moyle, from the Manjimup Chamber of Commerce and Industry, gave one example of the complete halting of one business, showing also their frustration at the lack of attention given to their area:

...a full-time contractor who ran two trucks...[h]is business stopped overnight and has not resumed...¹⁹

...Out of sight of the metropolitan area, you get the feeling that you do not exist. I think that is a frustration you feel at times...²⁰

1.39 Robert Birrell, from the Bunbury Chamber of Commerce and Industry, raised the issue of the heavy impact to contractors in the south west and the additional capital costs faced by businesses as they attempted to adapt to the loss of gas:

16 Preston Graham Gardiner, Managing Director, Premin Holdings, *Proof Committee Hansard*, 3 October 2008, p. 17.

17 Preston Graham Gardiner, Managing Director, Premin Holdings, *Proof Committee Hansard*, 3 October 2008, p. 19.

18 Ms Nola Bethwyn Marino MP, Member for Forrest, Private Capacity, *Proof Committee Hansard*, 3 October 2008, p. 51.

19 Louise Kingston, Committee Member, Manjimup Chamber of Commerce and Industry, *Proof Committee Hansard*, 3 October 2008, p. 32.

20 Rose Moyle, Administration Officer, Manjimup Chamber of Commerce and Industry, *Proof Committee Hansard*, 3 October 2008, p. 37.

We know that there have been a lot of contractors, especially in the timber industry, who have been very badly affected. The business community and industry in the south west was hit on two fronts: first, loss of production and, secondly, fairly significant capital cost as they struggled to change the structure of their operations to take alternate fuels.²¹

1.40 Coalition Senators would like to note that when businesses in the south west were forced to lay off staff, there was no specific social security support established for those workers despite the rhetoric put forward by both the State and Federal Governments. Mr Logan's submission to the inquiry states that an offer of assistance had been made by the Federal Government:

The Federal Government also offered assistance after discussions between the Premier and the Prime Minister, particularly in the area of targeted social security and unemployment benefits to those impacted by the gas shortage.²²

1.41 A statement from the Federal Resources Minister, Martin Ferguson, in the *Sunday Times*, indicated that not only was support available, but that the Federal Government was keen to provide such support if it were so requested:

In terms of whatever requests the WA Government makes, we will be going out of our way to try to meet them...I can assure you that relationships like Centrelink – any assistance required – will be made available.²³

1.42 When the issue of such assistance was put to the then Premier, Alan Carpenter, he made clear that discussion was had with the Prime Minister regarding the crisis and that the issue of targeted Centrelink support had been raised:

We discussed the issues, including the possibility of ex-gratia payments to affected people, as well as the possibility of waiving Centrelink eligibility requirements and asset tests that would normally apply, so that we can respond quickly and supportively to people in need because they have lost their employment, albeit temporarily²⁴

1.43 However Centrelink later confirmed that NO allowances had been made, to which the then Premier responded that support specifically for people affected for the crisis was being covered in ongoing negotiations, referring to his statement in parliament that such support was then referred to as a "possibility".

1.44 While arguing that the impact of the crisis would be felt throughout the economy, the government's actions in providing targeted support were limited to

21 Robert Allan Birrell, Chief Executive Officer, Bunbury Chamber of Commerce and Industries, *Proof Committee Hansard*, 3 October 2008, p. 28.

22 Francis Logan, Member for Cockburn, *Submission 31*, p. 4.

23 *Sunday Times*, p. 4, Sunday 15 June 2008.

24 *The West Australian*, p.16, Thursday 26 June 2008.

rhetoric only, despite the Premier's statement that such support would allow them to "respond quickly and supportively".

1.45 Clearly both the then WA State Government and the Federal Government deserve strong criticism for failing to respond the needs of employees who were stood down as a consequence of the gas supply crisis particularly in the south west.

Operation of the Bulletin Board

1.46 Coalition Senators are of the view that the Bulletin Board which was established as a secondary gas market during the crisis was severely flawed in at least two areas. Firstly, it failed to ensure the provision of gas to essential services including the food industry, and secondly, it left small businesses at a disadvantage. Furthermore it has also been submitted that, as a result of the failure of the State Government to intervene, the Bulletin Board allowed price gouging tactics by energy suppliers.

1.47 Not only were businesses left fighting for the remaining gas, they were forced to pay, in some case, up to three times the cost. It has been alleged that this occurred because suppliers used "force majeure" clauses to cancel contracts on the grounds of having no gas, then after sourcing additional supplies of gas sought to establish new 2 to 3 year contracts at much higher prices.

1.48 Despite early indications that this could be the case during the crisis, the Carpenter Government refused to intervene, allowing energy suppliers to take advantage of this crisis, at the expense of Western Australian business.

Senator JOHNSTON - "Were they happy with the bulletin board function?"

Mr Brockschlager (AHA) - "From my discussions with them, no."

Senator JOHNSTON - "Why would you say that?"

Mr Brockschlager (AHA) - "I would say that because my understanding is that the bulletin board cost them up to three times their normal cost, and it should be noted that that normal cost was to make no profit. That was just to keep the business afloat and to service our industry."²⁵

...

Senator EGGLESTON—"So what we needed was a different model which could have more specifically catered to the different needs of different industries, and the market model which was adopted really did not do that."

25 Paul Brockschlager, General Manager, Parliamentary and Corporate Affairs, Australian Hotels Association (Western Australia), *Proof Committee Hansard*, 2 October 2008, p. 16.

Mr Lock (FIA) – “Correct. The market model did not give any power to those industries that were very significant, which were essential services. There was no mechanism to ensure that those essential services got gas.”²⁶

“The secondary market that was developed a month or so after the explosion occurred was used only minimally and there was a minimal amount of gas available. Obviously it was the bidding or Alinta’s own decisions that were being made, and you could not get any information as to the basis upon which those allocations were being made.”²⁷

Price Rises

1.49 A most concerning feature of the aftermath of the Varanus explosion has been that as the gas supply has been re-established, prices for gas, and more importantly electricity, have reportedly been substantially raised.

1.50 Coalition Senators are concerned about allegations made to them that “force majeure” clauses in contracts for the supply of gas were being used to terminate contracts and then replace them with new contracts at considerably higher rates for periods of 2 to 3 years. It has been suggested to Coalition Senators that electricity rates to industry were raised considerably.

1.51 Coalition Senators are strongly of the opinion that these matters require further investigation.

1.52 It has been suggested to members of the committee that gas suppliers are seeking to increase Western Australia’s domestic gas prices to so called “international parity pricing”; a benchmark which has been described as fictional to members of the committee.

Senator Cameron (Chair) – “That market failure is, you say in your submission, complicated by this theory that we should pay international gas prices within Australia, when you say that there is no real international benchmark. Is that an issue?”

Mr Hohnen (DomGas Alliance) – “That is an issue, yes. We do not believe that there is any real nexus between a market for gas in Western Australia and an international gas price so-called. Gas is sold in various parts of the world in competitive markets, and reaches very different price levels in those markets, so there is no particular magic between a price that might prevail in the United States, the Henry Hub gas price, or a price that might

26 David Alexander Lock, Chairman, Food Industry Association of Western Australia Inc, *Proof Committee Hansard*, 2 October 2008, p. 96.

27 Mayor David Lawrence Smith, City of Bunbury and Private Capacity, *Proof Committee Hansard*, 3 October 2008, p. 13.

prevail for LNG in a particular market, or a price that might prevail in North Africa or Nigeria.”²⁸

1.53 A reasonable conclusion to be drawn from this is that the energy companies may be seeking to exploit the situation to unreasonably increase prices to Western Australian consumers. Such a scenario could only be regarded as reprehensible and should be subject to further investigation by the State Government.

1.54 Coalition Senators believe this emphasises the need to develop more on-shore gas fields closer to Perth, designated to supply the domestic market rather than produce LNG for international sale. In addition such developments would inject much needed competition into the Western Australian gas market.

Why Did Gas Supply Problems Continue Past August?

1.55 Coalition Senators are concerned about suggestions put to them that the gas crisis was unnecessarily prolonged.

1.56 As is well known the Dampier to Bunbury Gas Pipeline carries about 1000 terajoules/day; the Varanus Island explosion removed about one-third or 350 terajoules/day.

1.57 As stated in the submission by Mr Logan, Woodside, operator of the North West Shelf, quickly increased its supply by more than 100 terajoules/day, and with some extra gas from the smaller suppliers in the mid west, supply had increased by around 150 terajoules/day.

1.58 In early July, the Office of Energy released an update on the crisis which explained that with the extra 150 terajoules/day from other sources, and Apache expected to restore partial supply from Veranus Island at around 200 terajoules/day, WA’s domestic gas supply would be returned to pre-crisis levels. Therefore, by end of August, it would seem in the face of this information that the gas supply crisis should have been over and all gas consumers returned to pre-crisis reliability and prices.

1.59 Mr Logan’s submission also states that in addition to the extra gas supplied, which restored gas supply to pre-crisis levels before the end of August, even more gas became available upon Verve returning coal capacity to production. This involved generation from Muja &, Collie A and Kwinana B units freeing up a further 100 terajoules/day into the domestic supply.

1.60 There was a further source of easing of the crisis by September which was the passing of the winter peak gas demand by households and business for heating purposes.

28 Stuart Hohnen, Chairman, DomGas Alliance, *Proof Committee Hansard*, 2 October 2008, p. 24.

1.61 The result of these factors is that in September, with 350 terajoules/day of gas supply restored, Verve releasing a further 100 terajoules/day and the winter peak having passed, WA's domestic gas industry had more gas available for supply than when the crisis occurred.

1.62 Under such circumstances, it seems irreconcilable with the facts that some small business gas users were still being denied reliable gas supply at normal prices even in late October when the Committee held its hearings.

1.63 Coalition Senators are of the opinion that with the failure of the previous State Government to publicly disclose critical information, an inquiry must ascertain the facts so the community can see if the gas crisis was unnecessarily prolonged and if so, to what purpose and to whose benefit.

Conclusion

1.64 The Varanus gas explosion was a major disaster which has cost Western Australian businesses at least \$2.4 billion according to the CCIWA and has cut the forward growth of the State's economy by 0.5% according to State Treasury.

1.65 Coalition Senators are deeply concerned about the manner in which the Western Australian Government managed this major crisis and believe that Minister Logan displayed gross incompetence as the responsible Minister and that overall the deficiencies in the management of this crisis by the WA State Government amount to negligence.

1.66 Specifically, as a result of this inquiry, Coalition Senators believe that in the public interest there is an imperative requirement that the following matters be the subject of further investigation to determine whether the management of the crisis by the Western Australian State government was negligent and that the question of compensation to injured parties should be considered;

1. **The absence of a Contingency Plan:** Given that the consequences of the interruption of the gas supply to the south west were predictably severe, the failure of the State Government to have a contingency plan in place to deal with such an event and whether this amounts to negligence.
2. **Minister Logan:** Minister Logan's failure to develop a contingency plan in spite of his recognition of the desirability of having such a plan in place and whether this amounts to gross incompetence.
3. **Competency of the Crisis Management:** Coalition Senators believe the following three questions must be addressed:

Whether the actual management of the crisis and the process under which gas was allocated to industry was competent and met the needs of consumers both industrial and domestic.

Whether the reliance on a market forces model was in the public interest.

Whether the State Government should have become more involved by the formal declaration of a state of emergency as is possible under state law.

4. **Small to Medium Sized Enterprises:** The apparent lack of concern for small to medium businesses who were forced to bid for gas through the Bulletin Board with no regard for their individual circumstances nor their importance to the wellbeing of local communities all of whom were thereby disadvantaged.
5. **Use of Force Majeure:** The termination of contracts under 'force majeure' clauses because of a lack of gas allegedly followed by energy suppliers seeking to re-negotiate contracts with clients at higher prices for periods of up to 3 years.
6. **Increase Gas and Electricity Prices:** The reasons for the general increases in gas and electricity prices which have occurred following the progressive restoration of the supply of gas.
7. **Energy Security:** The need for Western Australia to reduce dependency for energy on the North West Shelf gas fields and the Dampier to Bunbury pipeline (which supplies the Perth metropolitan area and the Bunbury Wellington region), in particular by diversifying sources of energy.

Recommendation

1.67 Coalition Senators believe the implications of these conclusions are of such gravity that the State Government be called upon to establish a Judiciary or other major independent Inquiry to investigate the aforementioned matters.

**Senator Alan Eggleston
Deputy Chair**

Senator Judith Adams

Senator David Bushby

Senator the Hon David Johnston

Senator Barnaby Joyce