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STANDING COMMITTEE ON ECONOMICS

(Subcommittee)

Reference: Gas explosion at Varanus Island, Western Australia

THURSDAY, 2 OCTOBER 2008

PERTH

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**SENATE STANDING COMMITTEE ON
ECONOMICS**

Thursday, 2 October 2008

Members: Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), Senators Bushby, Cameron, Furner, Joyce, Pratt and Xenophon

Participating members: Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Ellison, Farrell, Feeney, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Hanson-Young, Heffernan, Humphries, Hutchins, Johnston, Kroger, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams and Wortley

Senators in attendance: Senators Adams, Bushby, Cameron, Eggleston, Johnston, Ludlam and Pratt

Terms of reference for the inquiry:

To inquire into and report on:

- a. the economic impact of the Western Australian gas crisis, including but not limited to:
 - i. the extent of losses faced by business and industry failing to meet production targets due to the lack of gas supplies,
 - ii. the disproportionate disruption to industry in the south west of Western Australia, and
 - iii. the nature of contractual arrangements forced on business and industry during the gas crisis and their status since the resumption of gas supplies from Varanus Island; and
- b. the government response to the Western Australian gas crisis, including but not limited to:
 - i. the adequacy of the crisis management response,
 - ii. the adequacy of reliance on one source supplies of gas for domestic markets,
 - iii. the provision of reliable and affordable supplies of alternative energy,
 - iv. the feasibility of developing emergency storage facilities of gas in depleted reservoirs or other repositories, and
 - v. the justification for any refusals to release relevant facts and documents publicly.

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Subcommittee met at 8.21 am

CHAIR (Senator Cameron)—I declare open this meeting of the subcommittee of the Senate Standing Committee on Economics. The subcommittee was formed to conduct public hearings in Western Australia for the economics committee's inquiry into matters relating to the gas explosion at Varanus Island. This is the first public hearing of the inquiry. The Senate referred this inquiry to the committee on 28 August 2008 and the committee has so far received 27 submissions. The committee is due to report by 13 November 2008.

The inquiry's terms of reference require the committee to examine:

- a. the economic impact of the Western Australian gas crisis, including but not limited to:
 - i. the extent of losses faced by business and industry failing to meet production targets due to the lack of gas supplies,
 - ii. the disproportionate disruption to industry in the south west of Western Australia, and
 - iii. the nature of contractual arrangements forced on business and industry during the gas crisis and their status since the resumption of gas supplies from Varanus Island; and
- b. the government response to the Western Australian gas crisis, including but not limited to:
 - i. the adequacy of the crisis management response,
 - ii. the adequacy of reliance on one source of supplies of gas for domestic markets,
 - iii. the provision of reliable and affordable supplies of alternative energy,
 - iv. the feasibility of developing emergency storage facilities of gas in depleted reservoirs or other repositories, and
 - v. the justification for any refusals to release relevant facts and documents publicly.

These are public proceedings. Although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera, I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as contempt. It is also a contempt to give false or misleading evidence to a committee.

If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, also be made at any other time.

The Senate has resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This

resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted.

[8.25 am]

DUFFECY, Ms Jennifer, Acting Chief Executive Officer, Tourism Western Australia

LOWE, Ms Renata, Acting Executive Director, Industry Development, Tourism Western Australia

CHAIR—Welcome. Do you wish to make an opening statement?

Ms Duffecy—Yes, thank you. Renata and I have both had a key role in managing the impact of the incident. Tourism Western Australia is the state government agency that is responsible for the development, promotion and protection of tourism in Western Australia. During the gas incident we were interested in four things: first, the impact on visitors to the state; second, the impact that it would have on the tourism industry; third, a matter of timing—Tourism Western Australia was hosting 2,380 international and interstate visitors to a trade show, the largest tourism trade show in the Southern Hemisphere, so we had a responsibility to manage communications with those delegates; and fourth, any potential reputational risk in terms of the tourism industry in Western Australia. They were the four things that we had a role in managing.

I will go to ATE, which is the Australian Tourism Exchange. We hosted that from 14 to 20 June and there were pre and post familiarisation tours with a lot of those delegates, where people were travelling throughout the state, as well as the event that was held at the Perth Convention Exhibition Centre. We had more than 2,000 delegates in town, from more than 40 countries, so we had an interest in making sure that the reputation of Western Australia and Australia as a tourism destination was protected by the experience that those delegates had.

In managing that, we made a statement to all of the ATE stakeholders, including Tourism Australia and Qantas and the major sponsors, and the hotels in Western Australia that collectively had offered us more than 4,000 free-of-charge rooms to host those delegates. The hotels had been generous to us in hosting that event and we were keeping them in the loop. We provided information directly to all the delegates in terms of a flyer. That needed to be in simple language because a lot of the delegates were from non-English-speaking backgrounds, and we had regular notices in a daily newsletter that went to those delegates. The familiarisation tour leaders were all fully briefed about the results of the gas incident, so that they could pass it on to the delegates that they were travelling with, when they were travelling throughout the state.

Post the event, we ran a survey for all the delegates and we had no complaints from ATE delegates. They were all fully aware of the impact of the gas incident and it did reduce the services that were provided to them, particularly through hotels and their linen service, but we did receive no complaints. That was the issue about ATE.

We found out quickly that the biggest impact that it was likely to have on the tourism industry was the supply of linen. We discovered that Prime Laundry and Spotless were the two linen suppliers that provided most of the linen for the hotels in Perth and in the south-west, keeping in mind that they not only launder the linen, they own it. The hotels do not own their own linen and we discovered that it is hard to run a hotel without linen.

The challenge for us started when Prime was notified that their gas allocation to be able to run their business had been affected and they were given a daily notification of how much gas they would have access to on the following day to be able to process their linen. Some days they got gas and some days they did not.

In terms of the things that we were looking at outside of the ATE process, we were communicating to our industry and visitors about what was happening, making an assessment about what the impact was on a day-by-day basis and trying to do some forward projections about what the impacts might be under particular scenarios, giving advice to government decision-makers so that those decision makers were fully aware of the potential impacts on the tourism and hospitality businesses, and assisting the industry to put into place management measures.

So we did a number of things. We ran surveys with the hotels in particular so that we had an understanding about what was happening. We worked with peak bodies—the Australian Hotels Association, Tourism Council and Australian Tourism Export Council; we had a communications group set up very quickly that met five times between June and the end of July; and provided ongoing advice to the other government agencies—Premier and Cabinet, Alinta, Office of Energy.

We were helping Prime Laundry manage the impact on its business. It became quite clear after a couple of weeks that they were unlikely to be able to continue to run their business the way that they had. We assisted them by providing them with some financial assistance to employ a company to look at some contingency plans, particularly their pricing model—and this was at about the time that the Gas Bulletin Board came onstream—to see what the impact would be if they bought gas at a higher price than they had been paying. That company, WHK Horwath, did some contingency planning for Prime that looked at pricing models that they would have to put into place if they bought gas at a higher price, and the other contingency plan that they looked at was freighting linen from Perth to another state, and we looked at the potential pricing impact of that.

As a result of that, Prime bought gas off the bulletin board, a secure supply for four weeks. That resulted, in the first week, in them having to put on a surcharge of 60 per cent to their customers. In the second week it was 35 per cent. In the third week it was 25 per cent. As a matter of interest, the contingency plan for freighting would have resulted in a cost increase of 450 per cent, so we are glad we did not have to use that one!

We were monitoring national and international media, and particularly tourism trade media internationally, to see if there was a reputational risk, and we were writing to our trade partners, particularly interstate, to make sure that they were fully aware of the situation and to manage that reputation risk. They are some of the details of the things that we did throughout the process to assist the industry to manage the impacts during the incident.

CHAIR—Thanks, Ms Duffecy. You indicated that you had no complaints from the delegates to the conference and you indicated also that you had conducted a post-crisis survey. Could you tell us whether in your view there has been reputational damage to the tourism industry in Western Australia from this?

Ms Duffecy—There were no complaints during ATE. We ran three surveys with hotels and other tourism operators throughout the course of the incident. We had about a 20 per cent response rate to those surveys, so not everybody responded. A number of operators said that they had received complaints about the reduced service. The majority of them reported that customers were satisfied that the hotels were doing the best that they could.

One of the services that were reduced was, particularly, linen. In particular establishments there was not a daily change of linen; linen was only changed at check-in. The number of towels in a room was reduced. You would not have got a face washer or a handtowel. The number of pillows in a room was reduced, so you would have got two pillows instead of four, and a number of hotels moved from quilts to blankets. We know that a number of hotels took the heating out of their pools. In the middle of winter not too many people are using the pool anyway. From a restaurant and catering perspective a lot of operators went to paper based product rather than linen, so they were using high-quality paper tablecloths and paper napkins rather than the linen version. Bathrobes were not available in rooms. So there was some inconvenience. I have to say that some people were surprised to hear that their linen was usually changed daily; they did not know that their linen was getting changed daily anyway. People do not change their linen daily at home. So, yes, there were a number of complaints, but we do not think that there was any reputational risk. There was nothing in the international trade media, and certainly our visitation numbers have not been affected.

CHAIR—Good. Thanks.

Senator EGGLESTON—I am interested in how you handled this event because we have had two other incidents in the last four or five years when gas supplies to the south-west were interrupted. Did those two previous events cause you similar problems?

Ms Lowe—Not to my knowledge, no.

Ms Duffecy—Not to my knowledge either. We certainly learnt from the experience that tourism went through with the collapse of Ansett, and the plans that were put in place to manage that incident were dusted off. We had a look at what we did then in terms of communicating to industry. So there had been previous tourism related incidences that we had learnt from in terms of putting management plans into place.

Senator EGGLESTON—But you were not specifically affected by the other two interruptions to the gas supply.

Ms Duffecy—No.

Senator EGGLESTON—Can you give us any indication of the cost to your industry of this interruption state-wide?

Ms Duffecy—No. We have not done any post-economic analysis. I can tell you the cost to Tourism Western Australia. In terms of cash, I think it cost us about \$40,000 and a lot of staff time and a lot of work after hours, but that was the only financial impact on us. I am sure that there would have been a cost to Prime Laundry, who did not think they were in the tourism industry before but now very well know that they are, and that was part of the reason that we

provided them support to get some outside assistance in making their analysis about how they could manage that economic impact on their own business. When Prime put the 60 per cent surcharge on, our communication to industry was that industry basically had two choices: they could pass on that cost to consumers or they could absorb it. The week after they did that, I did a quick scan of all of the internet sites where people could book hotels online and none of the major hotels were indicating on their websites that they were passing that cost on, so my assumption is that they were absorbing the cost, which was, I think we estimated, about, at a maximum, a \$7 a room change.

Senator EGGLESTON—How long did the 60 per cent surcharge last?

Ms Duffecy—One week. Then it went to 35 per cent, and then it was 25 per cent for two weeks.

Senator EGGLESTON—I must say, I was at the Australian tourism trade fair and everybody there looked nice and clean, not as though they needed to have a shower! But were you happy with your relationship with the state government over this incident and were they sensitive to your problems?

Ms Duffecy—Yes. We had very good access to, particularly, the Office of Energy, who attended two of the meetings that we had with the tourism industry to explain the situation very clearly, and so we had access, and it was difficult at the time because they had a lot of things to do. The policy position was very clear, so it was easy to articulate to our customers what the policy position was in terms of the way that gas was being allocated, that there was daily allocation to AlintaGas customers, and that is the way that it was. We know that there were a lot of people that were not happy about that, but it was very clear about what the policy position was. We could get information through to the Premier through the Department of Premier and Cabinet that set up a group as well and we had representation from Alinta, attend a meeting with the tourism industry. So in terms of communicating, yes, we had good access. They were open to the information that we were giving them and the position was very clear.

Senator EGGLESTON—In the allocation of gas to various consumers, were the laundries responsible for hotel linen—and hospital linen, I presume, perhaps—given any kind of priority?

Ms Duffecy—Prime did not do any hospital linen. Spotless is another large company. It is a national company. I understand they do some hospital linen as well. We asked Spotless if they wanted any assistance but they said that they had the capacity to deal with it themselves and, being a big company, we would understand that. Prime is a family run company and had not faced this sort of thing before, so they needed the assistance more. My understanding is that Spotless was not given any leeway in that area, but you would really have to ask AlintaGas or Spotless about that. But we know that Prime is getting a daily allocation.

Senator JOHNSTON—Thanks for the submission, Ms Duffecy. Who is Tourism Western Australia?

Ms Duffecy—Tourism Western Australia is the state government organisation. It is a statutory authority.

Senator JOHNSTON—Funded by the state government?

Ms Duffecy—Funded by the state government. Every state has a state tourism organisation. We do marketing and development.

Senator JOHNSTON—So you actually do not have constituents per se; you are simply a state-run agency that is responsible for promoting Western Australia.

Ms Duffecy—Promote and develop industry, so we do have a development arm. Our functions include the development of tourism product and raising the quality of tourism product, so it was within our statutory authority to deal with those issues of industry.

Senator JOHNSTON—I am sure it was. Do you recall giving any detailed advice to Premier and Cabinet, state government, Office of Energy, as to what your industrial connections were telling you about what needed to be done?

Ms Duffecy—Absolutely. On a regular basis, we were passing on information that we were getting from our surveys. They attended a number of meetings for the communications group and they were given the minutes of that. We were talking to the Office of Energy—

Senator JOHNSTON—What were your surveys saying?

Ms Duffecy—We did three surveys and over the course of those three surveys the industry was becoming more concerned about the impacts. The analysis that we were doing in terms of how much supply was left in the system before we got to a critical point was showing less and less. Our initial assessment was that there were four or five days supply at any point in time before linen ran out. At the end of that, we were down to about two days.

Senator JOHNSTON—So it was a bit of a crisis situation unfolding over time.

Ms Duffecy—It was quite hard to assess because of the daily allocation issue. At four o'clock we would know what Prime were getting the next day and how much laundry they could get through and what they could stick in a truck. We were giving advice to Prime about the properties that we knew were running short or getting down to one or two days supply, so they were prioritising their deliveries that way. So, yes, there was going to be a point where, if the situation continued, laundry was going to run out. We did not get to that.

Senator JOHNSTON—Do you think your industry was, overall, satisfied with the way the crisis was managed by the state government? You did three surveys.

Ms Duffecy—Yes. We did not ask a question about whether they were satisfied with the way it was—

Senator JOHNSTON—Were they happy campers? Were you getting some vibes over the phone and what have you?

Ms Duffecy—Hotels did not want to have to deal with it, and they certainly did not want any more cost pressures. Tourism is a marginal industry. Hotels are running at very high

occupancies, and any of you that tried to get a hotel room last night might have found that out. There was not a lot of leeway in the system. I think that our constituents were happy with the way that the industry pulled together, and we were very good with that, and I think hotels did a fantastic job of reducing their energy use, communicating to their customers and working together to get through it. I think they were happy with that. I think they were happy with what Tourism WA did in terms of giving them the information that they had, but of course they would not want to do this again.

Senator JOHNSTON—No. What is the current status? We are three or four months down the track—3 June was the event. What is your industry like at the moment? Has it fully recovered? Is everything back to normal?

Ms Duffecy—Absolutely.

Senator JOHNSTON—Or are we still limping along?

Ms Duffecy—Everything is back to normal. I am not sure that it was ever very far from normal anyway. So, yes, hotels have gone back to full allocation of laundry; those that have chosen to do so. There are a number of operators that have discovered that there have been some cost savings out of this. I am not sure that every restaurant has gone back to linen tablecloths, because there are potential cost savings in the reduction of energy use. So there have been some lessons learned. I would not say that everything is back to the way it was, but certainly our customers are getting the high-quality service that they have always got in WA.

Senator BUSHBY—Thank you for your submission. I am also interested to hear a little bit about how things have panned out in the longer term. You have mentioned that the surcharge applied for four weeks. Were they able to remove the surcharge because at the end of that four weeks they received a full gas allocation again?

Ms Duffecy—That is right. They bought four weeks allocation off the Gas Bulletin Board. They were advised just before the end of that period that Alinta would go back to supplying them with the normal gas supply.

Senator BUSHBY—So Prime Laundry received full gas supply after four weeks.

Ms Duffecy—Yes.

Senator BUSHBY—We understand from some submissions that we have received that other businesses did not receive a full supply at that point and probably still have not. Was Prime Laundry given some priority, that you are aware of?

Ms Duffecy—I do not know how Alinta made those choices. Prime was notified that they would be getting their gas supply back, and they went back to their customers. One of the things that they needed to happen was for hotels to go back to using their full allocation because that affected the cost for them.

Senator BUSHBY—Absolutely.

Ms Duffecy—So they were encouraging their hotels at that point to go back to 100 per cent use of linen.

Senator BUSHBY—Given some of the cost savings that you have mentioned, maybe that has not happened.

Ms Duffecy—Maybe that has not happened, but I have not been in touch with Prime in the last few weeks to see how that has gone.

Senator BUSHBY—Do you know whether the gas that they now buy, or that they bought after the four-week period, is on the same terms as it was prior to the explosion?

Ms Duffecy—I am not aware of that.

Senator ADAMS—Thank you for your submission. If this were to happen again—hopefully, it will not—what have you done as far as contingency plans? What has your agency done post the problems that arose?

Ms Duffecy—We have certainly done an internal debriefing about what lessons we can learn from that, in terms of things like communicating with our industry and making assessments. Tourism WA does have risk management plans for the organisation and we have identified a number of risks in that, such as airlines or major tourism operators not running. We now understand that there are secondary suppliers to the tourism industry—we have always looked at the primary suppliers of tourism—so we need to look at those sorts of things. We have not looked at what are basically two suppliers supplying an industry and whether there should be more competition in that market in terms of risk management. We have learnt from the internal communications and management processes.

Of course, the contingency plan that we had done for freighting was very valuable and, if this happened again for something like laundry, we would know a lot quicker what those contingency plans could be and be able to refine them.

Senator ADAMS—Which areas of the state, other than Perth, were affected the most with this?

Ms Duffecy—Perth and the south-west. Prime supplies linen to 85 per cent of the hotels in Perth and about 55 properties in the south-west, and there was at least one property in Karijini National Park—an eco retreat there—that got its laundry from Prime as well. That was a tough one because that is in the middle of the Pilbara. I know that they were managing it by using local washing machines.

Senator ADAMS—As far as employment, are you aware of how many people lost their jobs in the tourism industry through this?

Ms Duffecy—I am not aware of anyone losing their job, apart from the employment issues that Prime faced. They had staff on contract that they had to let go throughout this process. I am unaware that any hotel or tour operator or restaurant let staff go because of this.

CHAIR—Ms Duffecy, you indicate in your submission that you attended regular meetings of the Chamber of Commerce and Industry Gas Supply Coordination Committee. Was that an important body in relation to the communication with government?

Ms Duffecy—I will let Renata answer that because she attended the meetings; I did not.

Ms Lowe—Yes. I attended those meetings. We met every fortnight at one stage. There were numerous organisations that attended, from tourism to forestry, to building, master builders—a number of agencies around the table. We used it more as an opportunity to update each other on what was going on within our own industries. We had the Department of Premier and Cabinet attend those meetings at times to provide us with an update on what was happening from an office manager perspective as well. The information that Tourism WA secured out of our Gas Incident Tourism Communications Group meetings updated that Chamber of Commerce meeting. From a tourism perspective the AHA—Australian Hotels Association—and the Tourism Council of Western Australia were also members of that group.

CHAIR—Thank you.

Senator MARK BISHOP—Reading your submission and hearing your evidence this morning, Ms Duffecy, I gained the impression that, apart from the terrible inconvenience that could have been suffered, the reactions of government, key departments, industry organisations and peak organisations, seem to have been relatively swift. Information was disseminated, people had an understanding of what was going on, and the best was made of a very difficult situation. Is that an untoward comment or inaccurate?

Ms Duffecy—No, that is the way I would describe it as well. From a tourism perspective, the industry and government worked together well to manage what was a tough situation. Yes, we were relatively happy with our response.

Senator MARK BISHOP—Thank you, Ms Duffecy.

Senator JOHNSTON—I wonder if we could have the three surveys that were conducted. I would be interested in whether they would provide to the committee the surveys that were carried out of their members, so we can see what the members actually thought of it.

CHAIR—Do you want the surveys or the results of the surveys?

Senator JOHNSTON—Whatever you can provide for us.

Ms Duffecy—We have a PowerPoint presentation for each of those surveys with a summary and the results that we provided back to the communications groups. I am happy to forward those.

CHAIR—Thank you.

Senator JOHNSTON—Thanks, Chair.

[8.52 am]

BROCKSCHLAGER, Mr Paul, General Manager, Parliamentary and Corporate Affairs, Australian Hotels Association (Western Australia)

CHAIR—I welcome representatives of the Australian Hotels Association of Western Australia. Thank you. Do you have an opening statement that you would like to make?

Mr Brockschlager—Yes, I do. Firstly, can I extend the apologies of our CEO Bradley Woods who, unfortunately, is overseas at this time, meeting with key hospitality schools, trying to work on alleviating our labour shortages in Western Australia. I would like to start by thanking the subcommittee this morning for realising the significance and importance of the explosion on Varanus Island and on the state of Western Australia, and I would like to thank you for affording the AHA the opportunity to appear at these hearings and provide the hotel sector with a voice.

I would like to provide a quick overview of the continuing situation that impacts the hotel sector in WA. The AHA is the peak industry organisation representing major accommodation: hotels, resorts, pubs, taverns, bars, restaurants and bistros. Our accommodation members have been operating at above the national and international averages for occupancy for the last 12 months. They provide essential residential services for a range of stakeholders including the corporate market, national and international tourism, and people who travel from regional areas of the state for essential services.

Our membership endured significant gas supply uncertainty and disruption in the six weeks following the explosion at Varanus Island. The accommodation sector was never directly consulted by the state government nor was it provided with representation on the key taskforce that was initiated by the former Premier in the days immediately following the explosion. It is the opinion of the association that the industry was ignored until the issue of ATE surfaced and again on the conclusion of ATE.

The ATE, as now you know, stands for Australian Tourism Exchange and it is the largest tourism and trade expo in the Southern Hemisphere. It occurred between 14 and 20 June and held over 1,800 delegates representing over 40 different countries. This was Perth's opportunity to showcase WA and Australian tourism industries and was supported by the hotel sector which supplied more than \$1 million—yes, \$1 million—worth of free accommodation for delegates attending ATE.

In partnership with Tourism Western Australia, the AHA established a crisis communications program and produced communication materials that were placed in hotel rooms and high-traffic areas for guests of accommodation service providers. These communications focused on protecting the reputations of tourism and hospitality industries, providing customers with detailed information about the gas shortage and the impact of the crisis and information about how everyone could assist with energy conservation. During the gas crisis the AHA maintained daily contact with the industry and key suppliers.

One thing that was evident from the outset was the significant concerns held by the majority of our members regarding the protection of their brands, corporate reputations and their absolute commitment to protecting the minimum service standards offered to their guests. 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.

For example, the cost of CO₂ increased by a minimum of 30 per cent almost overnight and it was supplied on a take it or leave it basis. There was no choice but to pay the increased premiums because the gas supplier was forced to source CO₂ supplies from interstate and overseas to ensure supply. Our members absorbed those costs and they did not pass them on to the customers. As essential service providers to the sector were unable to operate under the security of reliable sources of energy, the accommodation sector was only ever 24 to 48 hours away from having to close rooms, turn away guests or cancel bookings.

The reasons behind the explosion we believe need to be known. Contingencies need to be put in place to safeguard against future threats, and the role of the hotel sector and its importance to the wider tourism industry and the state's economy need to be recognised and reprioritised.

Simply, the key facts are: state senior government officials never consulted directly with the industry. All the information came through Tourism Western Australia and industry suppliers, excluding Alinta; and let's not forget about Alinta in this. The accommodation sector was not prioritised as an essential service, despite providing residential services for thousands of people who would otherwise have no place to go; no contingency gas supplies. To date, there has been no advice provided regarding any available avenues for compensation, given the hotel sector was forced to pay up to 60 per cent surcharge for essential services or forced to purchase new laundry and linen provisions from interstate.

People need to know this is not going to happen again and, if it does, that there are clear contingencies to minimise the impact. There has been no debriefing involving key stakeholders and the state government. What did we learn? What could have been done better? These are simple questions that deserve answers. Thank you.

CHAIR—In your submission you say that the accommodation provides an essential service and should be reclassified as an essential service.

Mr Brockschlager—Yes.

CHAIR—Are you aware of the priorities that the state government laid out in terms of supply?

Mr Brockschlager—Generally, not specifically. Our understanding was that if you were rated as an essential service—let's call it a hospital, which was at that level—they received continual gas supply. Our view, which you saw within this submission, was that people turn up, whether they are coming from interstate or just regional areas. They might have operations within hospitals, and loved ones need places to stay. We have people that are coming from overseas—

whether it is South Africa, the United States or anywhere—and our real concern was for them to get off a plane and come up to a hotel and not be told, ‘You don’t have fresh linen. I’m sorry, we can’t provide a certain service. You’ll have to go home.’ That is unacceptable.

CHAIR—You said that you have to be reprioritised to be an essential service.

Mr Brockschlager—Yes.

CHAIR—You are not aware of how the government prioritises.

Mr Brockschlager—No.

CHAIR—You tell me that AHA has not looked at how the government prioritised this issue.

Mr Brockschlager—My understanding was that Alinta determined, in conjunction with the government, what industries and businesses were recognised as essential services.

CHAIR—The government did publicly indicate its priorities, and there was a ministerial statement on that. You have not seen that ministerial statement?

Mr Brockschlager—Not that specific one.

CHAIR—Even though it was public and even though it was a major issue?

Mr Brockschlager—No, I did not.

CHAIR—Can I then draw your attention to how the government did prioritise it and ask you where you should fit in.

Mr Brockschlager—Yes.

CHAIR—No. 1: the government said that energy infrastructure is to be given top priority for supply—that is, providing more energy to the public. No. 2: energy services are defined as critical services that could seriously impact on the health and safety of the community and include essential public transport and communications. No. 3: essential services to residential customers, to minimise the potential for health impacts and disruption to the community, and consumers are encouraged to reduce energy consumption. No. 4: industries providing essential goods and services to the Western Australian community. No. 5: in shorthand, all other industries. What would you have done differently on that?

Mr Brockschlager—Can you repeat the third one.

CHAIR—The third one was essential supply to residential customers, to minimise the potential for health impacts and disruption to the community.

Mr Brockschlager—We do provide residential services. That is where I feel we lie. We are a home away from home. A simple example is: when people come up and use our hospitals and need priority surgeries, they need a place to stay.

CHAIR—Have you raised your concerns with the new government?

Mr Brockschlager—Not at this point, and we look forward to doing that and working with the new government.

CHAIR—There will be, what, a submission to the new government on your issues?

Mr Brockschlager—Yes.

Senator EGGLESTON—In your submission on this question of priorities—and I take on board the list that Senator Cameron has read out—you say you had some concerns about the rationing of power by Alinta and you refer to the disproportionate impact on business in Perth and the south-west.

Mr Brockschlager—Yes.

Senator EGGLESTON—Can we tease that out a bit. Are you differentiating Perth and the south-west, say, from the eastern goldfields, which—

Mr Brockschlager—Yes.

Senator EGGLESTON—also depend on gas? Would you like to then, since you are nodding your head, provide us with some details of what you were talking about there.

Mr Brockschlager—Yes. The key areas that were affected were the south-west and roughly the Perth metro area. Areas such as the goldfields, as you rightly pointed out—for instance, the north-west—did not really access their gas from the south-west grid, and the people that did it from the south-west were the ones that it affected, in particular the people that utilised Alinta. In those particular areas, a majority of them did not access from that grid or use Alinta, so their businesses were not really affected.

Senator EGGLESTON—It is like a tree with branches. There is a trunk that comes in from Varanus. One branch runs down to the south-west and on to Bunbury and then there is another branch that goes east to Port Hedland and then there is a branch that goes down through Newman and then down the Great Northern Highway, supplying a lot of mines and so on, all the way to Kalgoorlie and Kambalda.

You seem to be saying that, even though the root source of the gas is the same, the gas supplied through to the Pilbara and down to the eastern goldfields was preserved at the expense of the south-western metropolitan area. Is that what you are saying in practical effect? I am interested in this as an issue, because of course there could be a rationale for that in terms of the Pilbara mining industry and the mines along that line down to Kalgoorlie and Kambalda.

Mr Brockschlager—I am not sure specifically. All I can say is: from our feedback, the hotels that were not customers of Alinta, being specific, in the main did not have the disruption.

Senator EGGLESTON—That were not customers?

Mr Brockschlager—Correct.

Senator EGGLESTON—That is interesting! The other supplier was able to maintain a supply.

Mr Brockschlager—Apparently, or they sourced it from other areas, yes.

Senator EGGLESTON—That is quite an interesting point, which we will need to look into. The other thing you talk about in general is the government response. You are critical of the government response. We of course have had two previous episodes of interruption of gas supplies from Dampier, one effectively a reduction in gas supply in 2004 and one earlier this year. Were you happy with the contingency arrangements which the state government had in place, or did you think they would have a more effective contingency plan in place for reduction of gas supply, given there were two previous episodes?

Mr Brockschlager—You will see from our submission that it is the view of our association and over 50 per cent of our members that the state government and Alinta were unprepared for an explosion or a crisis of this nature. Of our survey results, close to 75 per cent rated the state's reliance on one source or one supply as poor and said that there should have been more contingency plans in place. That is very clear.

Senator JOHNSTON—Thank you, Mr Brockschlager for your submission, and please thank Mr Woods for his submission. Are you aware of any of the bulletin board users from your constituency and membership having to sign onerous terms and conditions to participate in the bulletin board, wherein they released and discharged all of the upstream providers of the gas from liability before they could play in the game? Do you follow what I am saying? In order to participate in the bulletin board, you had to sign a contract.

Mr Brockschlager—Correct.

Senator JOHNSTON—Are you aware of the terms and conditions of that contract, whereby they virtually required a release and discharge by the end user of the gas to the supplier of the gas for the incident?

Mr Brockschlager—No.

Senator JOHNSTON—Did you have any constituents that participated in the bulletin board purchase?

Mr Brockschlager—The only one that I know specifically is Prime Laundry.

Senator JOHNSTON—Prime Laundry?

Mr Brockschlager—Yes, who, as you heard, supplied 85 per cent of our sector.

Senator JOHNSTON—Were they happy with the bulletin board function?

Mr Brockschlager—From my discussions with them, no.

Senator JOHNSTON—Why would you say that?

Mr Brockschlager—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.

Senator JOHNSTON—You may not be aware, but a number of users have made confidential submissions to this committee. Do you have any idea why they would want to remain confidential in writing and making submissions to the committee?

Mr Brockschlager—No.

Senator JOHNSTON—You also say in your submission that the current cost of gas is a concern to you.

Mr Brockschlager—Yes.

Senator JOHNSTON—Obviously, your members are complaining that prices are still 20 per cent, I think you quoted, above what they were prior to the incident.

Mr Brockschlager—Yes.

Senator JOHNSTON—Is there any reasoning or underlying explanation for that current state of cost structure?

Mr Brockschlager—No, we are not aware. In the latest reports—and some of these are properties that have come out of contract—they are being quoted up to 60 and 70 per cent increases.

Senator JOHNSTON—With no explanation as to why that is?

Mr Brockschlager—No.

Senator JOHNSTON—I will draw this to your attention from your submission:

This was evidenced by the adhoc and discriminatory nature of gas rationing, a lack of communication with affected industries and failure to put in place immediate emergency gas supplies.

In the view of AHA members, the failure of the WA State Government and Alinta to have adequate, pre-planned crisis management and alternative energy supply options has severely damaged the reputation of the State's tourism and hospitality industry.

When you say that there was a ‘discriminatory nature of gas rationing’, why do you use the word ‘discriminatory’?

Mr Brockschlager—Specifically let’s go back, if we can, to the Australian Tourism Exchange, the largest trade expo. Just prior to that, Prime had no gas. Then there were certain statements made in meetings and pressure within the media. All of a sudden they had gas. That occurred again at the end and then, following, all of a sudden no gas for a while. So I guess it does beg the question: why at some times do they have gas, why at other times do they not have gas?

Senator JOHNSTON—Would you answer the question. Why do you think that was? The squeakiest wheel got the oil.

Mr Brockschlager—I think the government was very aware that it was hosting one of the largest and most visible trade expos in the Southern Hemisphere and it is no secret it was election time. We could sit here and make assumptions all day. I do not know the specific answer, but something of this nature is interesting, when they all of a sudden are supplied with it and then they are not.

Senator BUSHBY—Could I first make the comment to the chair that I am quite happy to ask some very short questions and give a bit of extra time to Senator Johnston.

CHAIR—If we get there in five minutes!

Senator BUSHBY—That is right. In general I mean, if it assists.

CHAIR—Yes, sure.

Senator BUSHBY—You talk about the increased gas costs coming out of this for your members. Are you aware of what appeared to be the recouping of cost by Alinta to cover the higher cost of providing power through diesel and by then selling gas on to the market that would normally be under contract by putting it through the bulletin board and getting much higher prices?

Mr Brockschlager—No.

Senator BUSHBY—Do you think that the higher prices that have been quoted to your members now may be a little bit of profit-taking to try and recoup some of the costs that they incurred during the crisis?

Mr Brockschlager—I cannot say for sure.

Senator ADAMS—Thanks for your submission. I am just looking at your recommendations and you state:

There needs to be an appropriate agency appointed to assist businesses develop adequate crisis management and contingency models.

How closely did you work with Tourism Western Australia during the crisis?

Mr Brockschlager—Extremely closely, and I would like to just get on the record that I sincerely congratulate Richard Muirhead, who is the CEO, and Jennifer Duffecy and Renate, whom you heard previously. Their team worked absolutely fantastically with our association and our members to work on contingencies and minimise the impact. However, we do not believe that is the role of TWA. As you heard, their role is to promote and protect tourism. We believe that to actually determine where gas allocation occurs and things of that nature needs to be at a high government policy level—senior, Premier level.

Senator ADAMS—So there needs to be another agency set up to deal with contingency plans?

Mr Brockschlager—That is correct, yes, and we are more than willing to work with it. We look forward to it.

Senator ADAMS—Any redundancies or people losing their jobs with your organisation or the companies associated with it?

Mr Brockschlager—I am not aware at the point in time.

Senator MARK BISHOP—Mr Brockschlager, I am just reading the submission of Tourism Western Australia. They identified 13 immediate reactions to the crisis from the beginning through to its end. One of those was the establishment of the Gas Incident Tourism Communications Group, of which your organisation is a member, and they go into considerable detail as to the number of meetings, communications backwards and forwards, who they liaised with, raising it to the attention of the most senior officers. Do you have any criticism to make of Tourism Western Australia?

Mr Brockschlager—No, not at all.

Senator MARK BISHOP—Do you have any criticisms to make of their role in inviting you to participate in a range of meetings?

Mr Brockschlager—No.

Senator MARK BISHOP—Do you have any criticism to make of the communications they relayed to government at all stages of the crisis?

Mr Brockschlager—I am not—

Senator MARK BISHOP—That your group was involved in.

Mr Brockschlager—Yes, absolutely.

Senator MARK BISHOP—What are those criticisms?

Mr Brockschlager—I do not have any criticisms of Tourism Western Australia.

Senator MARK BISHOP—Okay, I will ask the questions. Do you have any criticisms that information that you relayed was not passed on?

Mr Brockschlager—No.

Senator MARK BISHOP—Do you have any criticisms that information you relayed was ignored or put inaccurately to the relevant government bodies?

Mr Brockschlager—I am not aware of that, no.

Senator MARK BISHOP—Thank you. The second question I wish to ask is about occupancy rates for the bulk of your members in September. Sixty per cent, 70 per cent?

Mr Brockschlager—I would have to check that. It may be higher than that.

Senator MARK BISHOP—The previous witness told us it was very high. Evidence I have had in other inquiries suggests it was regularly over 90 per cent in this state in September and latter August. Is that correct?

Mr Brockschlager—I would have to check specifically, but I will not dispute against it. It would be anywhere between 70 and 80 per cent, correct.

Senator MARK BISHOP—Indeed, it would be in excess of 90 per cent in September.

Mr Brockschlager—I am not sure of that.

Senator MARK BISHOP—Do you have any reason to suggest it is not the case?

Mr Brockschlager—No.

Senator MARK BISHOP—Are your members complaining to you of low or inadequate occupancy rates in September?

Mr Brockschlager—No.

Senator MARK BISHOP—Thirdly, go to page 2 of your submission. There are the results of a survey of your members. The bottom dot point says:

- 9.1 per cent reduced their ability to accept short or long term bookings.

In the middle of a crisis, where there is potential for blackouts, extremely restricted services, people cancelling visits, nine per cent of thousands of establishments strikes me as extraordinarily low.

Mr Brockschlager—It is.

Senator MARK BISHOP—It is. Thank you. Indeed it is. Finally, you say that your members complain:

... the WA State Government and Alinta were unprepared for the Varanus Island explosion and the resultant gas supply crisis.

How many times in the last five years has your organisation written to the respective Premier or the respective government agency, drawing their attention to these problems and your fears for their concerns?

Mr Brockschlager—Sorry, are you referring specifically to the gas situation?

Senator MARK BISHOP—Yes.

Mr Brockschlager—I would have to check that, but I would say probably none. But—

Senator MARK BISHOP—Thank you.

CHAIR—Mr Brockschlager, could I take you to your recommendations.

Mr Brockschlager—Yes.

CHAIR—And before I do that, could I draw your attention, for your association, to the fact that there was a public statement made by Margaret Quirk, the Minister for Small Business, on 10 June 2008, outlining how gas would be rationed. That is just for your information because you were not aware of it.

Mr Brockschlager—Yes. Thank you.

CHAIR—It was a public statement, a ministerial statement. In your recommendations you say:

The Western Australian State Government needs to ensure that a reliable, secondary, replacement supply of energy is constructed and able to be brought online in case of a similar emergency.

You are aware that it is a privatised, free-market energy system in Western Australia, are you?

Mr Brockschlager—Yes.

CHAIR—Are you calling for the government to take a stake in that industry and build some secondary supply?

Mr Brockschlager—I think it needs to be looked at, yes.

CHAIR—Have you any idea the cost that that would entail to the public?

Mr Brockschlager—Not specifically, no.

CHAIR—So does it matter, the cost to the public, in your view?

Mr Brockschlager—Yes, cost matters, but I also think the public wants something that is reliable so that they know they will not go through this again.

CHAIR—So the privatised approach to the industry in Western Australia on this approach has failed, has it?

Mr Brockschlager—I am not an expert on whether something should be privatised or not. What I am saying and what we are trying to say within this submission is that the current system obviously has flaws, there do not seem to be any contingencies set forward, and they need to be explored, and done quickly.

CHAIR—Do you think any government could predict this type of massive failure?

Mr Brockschlager—Potentially, but at least you would think—

CHAIR—Somebody said yes. I do not know whether you have got your hands up your back. I am not sure.

Mr Brockschlager—We can look at a lot of things. We can look at the bombings, the source, and there are things that, in hindsight, we are great at. We need something as an industry—because we affect so many people, not just in WA but internationally, and play a role within that—and all options need to be explored so that a crisis of this nature and on such a large scale does not happen again.

CHAIR—Your third recommendation states:

Retail and business supply companies should have to meet stringent, transparent and reliable risk management and supply-contingency criteria in order to guarantee replacement of supply facilities.

Is this a call for quite stringent government regulation on the private sector in Western Australia?

Mr Brockschlager—It is a call for government to get more involved and make people more accountable, more than providing these types of services.

CHAIR—How do you do that, other than by regulation?

Mr Brockschlager—I am not sure, but it needs to be explored. We know what to do now.

CHAIR—So make some regulations an option?

Mr Brockschlager—It is an option.

CHAIR—You said:

There needs to be an appropriate agency appointed to assist businesses develop adequate crisis management and contingency models.

On this approach, is this another government body that should be established?

Mr Brockschlager—Potentially. This goes back to Senator Bishop’s question when he asked: how many times have we written to the appropriate parties? We are not experts on some of these things, but there are people within government that are. We are happy if groups or a team get together and say, ‘These are some things that could happen. How can your industry help support or minimise the impact?’

CHAIR—That is fine. What role should the private sector play in this, given that it is their industry, given that they make the profits from the industry, and that it is a free-market approach? Why is it that government should be the one that has all of these responsibilities in a privately run free-market industry?

Mr Brockschlager—I guess because in this specific case we look at this as an essential service. It is something that people need on a day-to-day basis to live and survive. I am not standing here and saying that the private sector should not be responsible in some shape or form; please do not get that impression. I am saying that there need to be better systems set up going forward, that we need to explore and to get in place, and they need to be transparent.

CHAIR—Your last recommendation is:

There needs to be an independent and ongoing energy crisis taskforce, consisting of key stakeholders, developed to deal with any energy supply crisis that occurs in the State.

You will be raising that with the new government?

Mr Brockschlager—Yes, we will.

CHAIR—I thank you for your evidence.

[9.23 am]

GOH, Mr Gavin, Executive Officer, DomGas Alliance

HOHNEN, Mr Stuart, Chairman, DomGas Alliance

CHAIR—I welcome the representatives from DomGas Alliance. Would you like to make an opening statement?

Mr Hohnen—Yes, I will make a brief statement, if I may. I am here in the capacity of Chairman of DomGas Alliance. I also hold the position of Executive Chairman—meaning chief executive—of Dampier Bunbury Pipeline, and, while Dampier Bunbury Pipeline did not make a submission to the inquiry, I am happy to answer any questions that might relate to the role of the pipeline in the incident. I am joined by Gavin Goh, who is the executive officer of the alliance.

DomGas Alliance was formed in 2006 in response to serious gas supply shortages in Western Australia. We represent the majority of WA's gas consumers and transmission operators, including small industrial and household gas users. The Varanus Island incident caused significant economic damage to individual alliance companies and other gas users. Many of our members are dependent on Apache gas for gas supply, the loss of which resulted in severe disruption to operations. Those companies that were able to switch to alternative fuels faced significantly higher and unsustainable energy costs. The alliance supports a thorough review to ensure the reliability of the gas supply chain and the adequacy of emergency response mechanisms.

At a broader level, however, the incident underlines the importance of greater competition, supply and long-term energy security. Even before the Varanus outage, Western Australia was already experiencing a serious gas shortage. Gas users were unable to secure long-term gas supplies in substantial quantities and wholesale prices have more than tripled over the last 18 to 24 months. Prices reported for recent gas sales are now almost three times the eastern states' prices on a delivered basis. At current price levels, natural gas is no longer competitive with coal for baseload power generation and resource processing, and has forced a number of projects to switch to coal-fired energy. This is unlikely to change under an emissions-trading scheme where a price is placed on carbon.

At the same time, oil and gas producers continue to expand exports of LNG. Despite having just over two per cent of the world's natural gas resources, Australia aspires to be the world's second-largest gas exporter. All this raises long-term challenges for Australia as we face an energy and carbon constrained world. LNG exports in the eastern states, for example, are expected to lead to significant increases in gas prices for local consumers. As industries forced by the Varanus Island gas outage to pay diesel prices can tell you, industry and jobs are dependent on competitively priced energy.

The alliance supports a range of policies to deliver greater diversity and competition in the gas market and to balance LNG exports for the long-term needs of the local economy. These policies include—and this is not an exclusive list—strengthening the retention lease system to ensure

producers do not withhold supply from the domestic market; removing anticompetitive selling arrangements whereby some of the world's largest oil and gas companies sell as a cartel to consumers; encouraging domestic gas exploration and development through tax and royalty arrangements; and establishing a 2050 energy security strategy, underpinned by a domestic gas reservation policy. These proposals are set out in more detail in our submission.

I believe that the Varanus Island incident provides an important reminder of our dependence on competitive and secure energy, and gas in particular, in Western Australia. We must use this incident to put in place strategies to ensure Australia's long-term energy future.

CHAIR—Thanks, Mr Hohnen. First of all, thank you for your submission. You make some very important points in your submission. I would like to go straight to the point you make on page 3, under the heading 'Rising natural gas prices are impacting Australian industry'. You say:

Before the Varanus Island emergency, Western Australia was already experiencing a serious gas supply shortage. Current and prospective gas users are unable to secure long term gas supplies in substantial quantity.

Given the importance of gas supply to the economic wellbeing of Western Australia, is this a market failure that we are experiencing in Western Australia, with flow-on effects to the rest of Australia?

Mr Hohnen—The alliance believes that it demonstrates a market failure, yes.

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

CHAIR—You also say that there are anticompetitive selling arrangements in place in the market in Western Australia.

Mr Hohnen—That is correct.

CHAIR—Are you aware that the Senate is conducting an inquiry into those anticompetitive—

Mr Hohnen—Yes, I am, and the ACCC has the matter under review at the present time.

CHAIR—I would expect you will be making a submission to that inquiry.

Mr Hohnen—We will be making a submission to the Senate inquiry and have made submissions to the ACCC in the matter.

CHAIR—Your submission seems to me to be quite an indictment of the market based approach to power generation supply in Western Australia.

Mr Hohnen—Yes. We believe that it is essential for the long-term future of Western Australia and the Western Australian economy that there be a vibrant and competitive energy market upstream in Western Australia. That would require a larger number of entities selling competitively into that upstream market and it would require a different mechanism with respect to retention leases to avoid companies being able to withhold gas from that market for many years.

Senator JOHNSTON—Thanks, Mr Hohnen. Roughly can you assist the committee with what percentage of the 100 per cent of gas which comes from the North West Shelf, or from the north-west, into Perth or into the south-west corner of our state, is used by residential consumers?

Mr Hohnen—It is in the order of about five per cent. It is quite small.

Senator JOHNSTON—So any call for residential users to inhibit or restrict their consumption would be pretty meaningless when there is 95 per cent used by industry.

Mr Hohnen—No, there is a much bigger proportion of gas that flows into electricity and that electricity is then used by household consumers, so it is householders' savings in electricity that become more significant than savings in gas, but I might also say that that five per cent is an annual average, and home heating causes that to spike considerably more than five per cent during the winter months. So, given that this Varanus incident happened during winter, a call for householders to reduce their gas consumption and electricity consumption was relevant.

Senator JOHNSTON—Yes, okay. Are you aware of the terms and conditions by which players participated in the bulletin board?

Mr Hohnen—Not in detail.

Senator JOHNSTON—So none of your constituents at DomGas were on the bulletin board?

Mr Hohnen—I cannot respond to that with any certainty. I believe that Alinta may well have been. I think, as far as the bulletin board is concerned, it is important to recognise that the quantity that was processed through the bulletin board was minuscule in relation to the total volumes of gas that are handled by the system.

Senator JOHNSTON—Currently, is everything back to normal for your constituents? I see you have got Verve, Windimurra, FMG, Synergy et cetera. Are we back to where we were?

Mr Hohnen—Definitely not.

Senator JOHNSTON—Definitely not?

Mr Hohnen—Definitely not. One of my constituents, a recent member of the alliance, is Burrup Fertilisers. Burrup Fertilisers is still totally closed down. I believe that the power station

operations that Alinta have, the co-gen plants, are not back up to full operation at the present time. Varanus Island is still only delivering a little more than 200 terajoules a day out of their 350 previous capacity.

Senator JOHNSTON—Pre incident, yes.

Mr Hohnen—Yes.

Senator JOHNSTON—Have your constituents or members told you what the costs of this event to this point have been?

Mr Hohnen—We have not endeavoured to assess the cost. The Chamber of Commerce and Industry and the Chamber of Minerals and Energy have canvassed their members and they have estimates of the costs.

Senator JOHNSTON—My last question relates to an interesting component of your submission. The competition, I think, is between domestic gas and LNG.

Mr Hohnen—Yes.

Senator JOHNSTON—And, of course, you are representing domestic gas consumers, hence your name. You say:

- Review tax and royalty arrangements to promote domestic gas exploration and development.

In other words, you are looking for the Commonwealth government to provide incentives to explorers and developers of gas so that those incentives can put a bond towards or earmark such discoveries for domestic gas supply to ease the constraints on that. Is the way I am reading that correct?

Mr Hohnen—Yes. Tax is used as an instrument of government policy. It has been used in the past to encourage explorers to go out into the deeper waters and explore for the massive accumulations of gas, and there was 150 per cent deductibility that was introduced some years ago to encourage that. I guess we are arguing for levelling out the playing field, or even tipping it towards DomGas, so that there is specific encouragement for exploration and development specifically for domestic gas.

Senator EGGLESTON—I am interested in the way the gas from Varanus Island was distributed. I believe they produced 350, 365 terajoules a day. Can you give us any idea how that gas was distributed down the pipelines, what percentage went where?

Mr Hohnen—Roughly a third of that gas would go directly into the goldfields gas pipeline and service markets all the way down through to Esperance, roughly a third of it would go backwards, backhaul up the pipeline—the molecules do not actually go, but the transactions go backwards, so go back to Burrup Fertilisers, go through to the Pilbara markets in Port Hedland and Telfer and so forth—and roughly a third of it would go down our pipeline through to markets in the south-west.

Senator EGGLESTON—That is very interesting. So that is about a third of 350 or 360.

Mr Hohnen—And I might say, if I could interrupt, that there are interconnections between our pipeline and the other pipelines which enable the transfer of gas from our pipeline into the other systems.

Senator EGGLESTON—That is very interesting. The deficit into the south-west was made up fairly quickly from, I presume, the Burrup and Woodside, was it not, from releasing gas from other consumers? You referred to Burrup Fertilisers, for example.

Mr Hohnen—Yes. The government's decision was to let the market work and not interfere to too great an extent with the workings of the market. That meant that it was the Apache customers that missed out on gas and that those that were supplied from other sources—and the bulk of that was from the North West Shelf—continued to receive their requirements. Some consumers get their total requirements from the North West Shelf, some get a portion of their requirements from the North West Shelf, so they were affected in different ways and to different degrees.

Senator EGGLESTON—Would the North West Shelf consumers mostly be on the Burrup, such as the fertiliser plant and so on?

Mr Hohnen—No, the fertiliser plant is supplied by Apache, and North West Shelf consumers are, by history, mostly in the south-west of the state because the goldfields pipeline was developed since North West Shelf. The bulk of the goldfields pipeline customers would be supplied by Apache and so the goldfields would have been more impacted, proportionately, than the south-west.

Senator EGGLESTON—We heard earlier evidence that the goldfields were less impacted, and so that is quite an interesting point, because it would seem from what you are saying that, if they were supplied by Apache, that would have had a greater impact there than in perhaps some other places in the south-west. Where I am going is: how was the deficit made up? Was it pulled from North West Shelf customers?

Mr Hohnen—North West Shelf were able to replace, depending on the day, 100 terajoules a day, plus some. They were not able to do it with certainty at any time, and so it was a best endeavours basis on their part. From the point of view of the Dampier to Bunbury pipeline, we worked closely with Woodside, as operator, to ensure that we could take every possible molecule of additional gas into our system. A good deal of that additional gas was bypassed into the goldfields pipeline.

Senator EGGLESTON—If you could draw on an extra 100 terajoules a day—I was looking at those figures—I suppose 50 was going to the south-west from Varanus and you were pulling in another 100. So really you were covering it fairly well, in fact, weren't you?

Mr Hohnen—No, nothing was coming from Varanus. Varanus was closed absolutely.

Senator EGGLESTON—It was, but you were providing a substantial alternative. This is what I am really trying to tease out: what was the real deficit? Where, for example, did the gas on the spot market come from?

Mr Hohnen—It took Woodside, North West Shelf, quite a long time to gear up to produce that additional amount of gas, and I cannot speak with any accuracy but I think it was probably three weeks or so before they could really respond. My recollection is that they had maintenance issues when the incident first happened and it took them a while to work that through. There was probably a period of three weeks where we had lost 30 per cent of our total gas supply, and that was not being made up from anywhere other than liquids.

Senator EGGLESTON—Fair enough. I am specifically interested in where the gas on the bulletin board or the spot market was coming from. Where was that being drawn from?

Mr Hohnen—I refer to my earlier comment. The gas available on the bulletin board was tiny compared with the total volumes of gas being handled by the system. It did provide an opportunity for a few small consumers to bid for gas, but my understanding is that it came from North West Shelf.

Senator BUSHBY—Mr Hohnen, you mentioned, I think, that about 60 per cent of the pre-explosion amount of gas being produced at Varanus Island is currently being produced.

Mr Hohnen—It is 200 or thereabouts out of 350, I understand.

Senator BUSHBY—Is this being allocated through any particular process or is the market handling its allocation of 60 per cent?

Mr Hohnen—My understanding is that the allocations are being handled commercially, and I am not clear exactly what processes are involved. I think you need to understand that Apache leads a number of joint ventures that each feed into Varanus Island and their contracts are from individual joint ventures to the customers, and just what the arrangements for transfer between those fields are I could not comment on.

Senator BUSHBY—So that might have some impact on who is getting supplied and what the priorities are, but there is no longer a state government involvement in terms of deciding priorities and who gets what?

Mr Hohnen—The state government committee still meets on a weekly basis to review what is happening, and I cannot comment on the extent of their involvement in allocation.

Senator BUSHBY—How much gas is currently going through the Dampier to Bunbury line?

Mr Hohnen—At the moment we deal with, depending on the day, between 600 and 700 terajoules a day.

Senator BUSHBY—How does that compare to the pre-explosion amount?

Mr Hohnen—Remembering that we have just completed an expansion, our expectations would have been that we would be up in the 850 to 900 category.

Senator BUSHBY—So down a substantial percentage.

Mr Hohnen—Substantially down, that is correct.

Senator BUSHBY—Are you aware of any contracts being negotiated to sell gas to purchasers at a higher price than pre-explosion? You have talked about there being a shortage of gas profit, even pre-explosion. Are you aware of how that is affecting prices in commercial contracts?

Mr Hohnen—That is not something that I am close to at all. Our individual members may be in supply and pricing discussions, but that is something that would be for them, not for the DomGas Alliance, and the pipeline does not get involved in those negotiations. We are a transporter solely. We do not buy and sell gas.

Senator BUSHBY—Do you have any knowledge of when it is expected that full production will resume from Varanus Island?

Mr Hohnen—They are still talking in terms of December.

Senator BUSHBY—You have not heard anything to suggest that that might be changed at all?

Mr Hohnen—No, I have not.

Senator BUSHBY—When production is resumed, do you expect that purchasers of gas will be able to do so at prices comparable to the pre-explosion prices?

Mr Hohnen—In the main, I think gas supplies and prices will be governed by the long-term contracts that have been in existence for some time, remembering that those contracts relate to the wholesale purchasers, if you like, and there is a whole layer of people below the wholesale purchasers that buy from aggregators such as AlintaGas and Synergy, and just what the purchase arrangements might be for those second-level parties that do not deal directly with the producers I could not comment on.

Senator ADAMS—Thank you for your submission. What contingencies does DomGas have in place if something like this were to happen again?

Mr Hohnen—It is not the place of DomGas Alliance specifically to have contingencies. The Dampier to Bunbury pipeline takes contingency planning very seriously, and we do what we can. We work closely with government on contingency planning and with the major suppliers. There is a critical infrastructure unit that operates at a federal level that deals with security issues and the like, and so we are closely plugged into that mechanism.

Senator ADAMS—How effective was the Gas Supply Coordination Committee, in your opinion?

Mr Hohnen—Having started with the premise that the government determined that they wanted to deal with it, to the extent possible, through market mechanisms, I think the committee operated quite effectively.

Senator JOHNSTON—Does that mean the outcome was a satisfactory one—or the committee might have been a verdict on the sinking ship!

Mr Hohnen—I think the fact that we lost 30 per cent of our gas supply meant that there were a lot of people that were going to be hurt commercially and suffer significant losses. That was inescapable, having lost 30 per cent of the supply. You cannot avoid serious pain in that set of circumstances.

Senator ADAMS—In your submission, at the end of your recommendations, you say you would like to encourage and support the development of tight gas fields. Could you elaborate a little on that, please.

Mr Hohnen—There are a series of gas fields that have been discovered in Western Australia onshore that are in relatively impermeable strata, and that means that they are more costly to develop and they require a different sort of technology to develop. The state government's Department of Industry and Resources has identified something between seven and nine, or seven and 12, tcf of gas that might be available from those fields if we can get the technology right. The United States is moving more and more to tight gas development and that is something that we would encourage.

Senator ADAMS—Do you see renewable energies complementing the gas supply?

Mr Hohnen—Renewable energies can play a role but I do not see them making a substantial impact on our current energy situation in Western Australia.

Senator ADAMS—So really it would be better to try to deal with these other gas fields that are on land rather than renewable energies?

Mr Hohnen—Gas fields that are offshore, on land, wherever. We are currently reliant on gas for more than 50 per cent of our primary fuel. It supports the bulk of our power generation, a great deal of mineral processing and a huge number of jobs in Western Australia, so the availability and competitiveness of gas as a fuel is a significant component of the Western Australian economy.

Senator ADAMS—What is your opinion about a gas pipeline going from Bunbury to Albany? Would there be enough gas to supply that pipeline?

Mr Hohnen—The market from Bunbury through to Albany is relatively limited. That is the reason the pipeline has not been built in the past. It has been examined a number of times. As DBP, we are more than happy to work with government to look at developing that pipeline, but my current assessment is that it would need government support in order to make it viable. The amount of gas that would be used, at least in the first instance, is relatively small in the scheme of Western Australia's total consumption.

Senator MARK BISHOP—Mr Hohnen, your submission refers to greater diversity of supply sources. Do you mean extra fields, extra processing plants or extra pipelines to bring it down?

Mr Hohnen—If I can answer the last one first, I noticed that the upstream lobby were calling for a second pipeline to bring it down. I can counter that absolutely. DBP and its owners have committed \$1.8 billion since 2005 to continuously increase the capacity of the pipeline and we are just into our third major expansion at the present time. The most cost-effective approach is to progressively expand the existing system and it can be expanded incrementally ad infinitum. DBP's business model is to be able to deliver new pipeline capacity within the time frame within which companies building power stations, alumina refineries or other major facilities can develop their own facilities. So pipeline capacity is not a constraint on development and the development of new upstream capability in Western Australia.

Senator MARK BISHOP—Your organisation wants to reserve expansion rights on the pipeline yourself and not have competition for additional rights?

Mr Hohnen—We are more than happy to face competition but I am just saying that we are a regulated business. As a monopoly, we are regulated under the gas law.

Senator MARK BISHOP—So your answer to my question was: extra fields and extra processing plants?

Mr Hohnen—Yes.

Senator MARK BISHOP—And additional capacity in terms of existing pipeline.

Mr Hohnen—We believe that there should be development of additional fields and additional processing plants to provide a greater diversity of supply. That is the basis of a great deal of what the DomGas Alliance has been trying to achieve over the last two and a half years and the direction of the various programs that it has put forward.

Senator MARK BISHOP—Your submission calls for government to:

- Remove anti-competitive selling arrangements whereby major gas producers currently sell jointly as a cartel to local customers.

Mr Hohnen—Yes.

Senator MARK BISHOP—Can you explain that in more detail, and what are the principal constraints to a more competitive gas market in this state?

Mr Hohnen—The North West Shelf joint venture comprises six companies and they currently sell jointly. They originally had authorisation from the Trade Practices Commission and subsequently the ACCC to sell jointly. That no longer exists. That authorisation was removed earlier this year and they continue to sell jointly.

Senator MARK BISHOP—Whilst it was authorised, it is no longer?

Mr Hohnen—No longer authorised.

Senator MARK BISHOP—But no longer illegal either?

Mr Hohnen—That is to be tested. Naturally, the North West Shelf joint venturers claim they are working in accordance with the law. Our argument is that what they are doing seriously reduces competition in the market.

Senator MARK BISHOP—Has your organisation or any of its members challenged their continued cartel supply?

Mr Hohnen—We have made submissions to the ACCC in that respect.

Senator MARK BISHOP—You have not initiated any court action?

Mr Hohnen—A specific legal challenge? It is difficult, when you have a series of industries that are dependent upon a group of companies as large and influential as the North West Shelf joint venture, to take specific legal action.

Senator MARK BISHOP—I see one of your members is Fortescue Metals. They must have spent the best part of \$30 million in the last 10 years on getting access to infrastructure networks in the north-west. They are not scared of a fight in the courts.

Mr Hohnen—They are not currently a purchaser from the North West Shelf and energy is not central to their economics. Quite apart from the influence within the North West Shelf joint venture, if you look at the prospective developments on the North West Shelf for new supply of gas, the vast majority of them are controlled by the same companies that are participants in the North West Shelf, so they all have detailed knowledge of each other's contracts and they can determine the terms on which they are prepared to sell and the timing and the amounts which they are prepared to sell to suit their collective preferences. That is a key issue to us.

One of the other issues we have talked about is the retention lease mechanism and we believe that that should be managed in a way that does not permit any company to withhold gas that could be commercially developed from the market.

Senator MARK BISHOP—Just briefly, what were the principal constraints on the competitive gas supply market in this state?

Mr Hohnen—Joint selling and retention lease arrangements.

Senator MARK BISHOP—Nothing else?

Mr Hohnen—I do not believe so.

CHAIR—Mr Hohnen, you indicated on page 8 of your submission that you want to ensure that there is a domestic gas supply. You raise the issue of gas being sent overseas, creating that international energy price, and that having this economic effect on the Australian industry. Are you saying that governments, both state and federal, should intervene in the market to bring about defined, sustainable gas supply for Western Australia?

Mr Hohnen—The principal focus of what we have put forward is to work with market oriented mechanisms to make sure that there is an effective market and the market is working,

and that we are doing what we can on a commercial basis to stimulate new gas supply and to make sure we have supplies of gas, but we believe that there is an important role for government in establishing a long-term energy security policy that applies for the next 40 or 50 years. If I could speak just for the pipeline, we are regulated, our rates of return are regulated. The mechanism under which that operates looks at rates of return over a period of 60 years. Can I put my hand on my heart, as the pipeline operator, when I go to the banks and go to my owners and say, 'There is gas available, and gas available competitively, for the next 60 years'? I cannot. Other major consumers are in an equivalent situation. They invest for a very long term life, whether it is alumina refineries or power stations or whatever, and we all need to have long-term comfort and reassurance that we are going to be able to be supplied economically for a long period of time.

CHAIR—You indicated earlier that the state government had a market based approach to the crisis. In future, do you believe there should be a more interventionary approach, such as using emergency powers to provide security of supply?

Mr Hohnen—There is a point at which emergency powers become relevant. I do not think emergency powers were appropriate in this particular situation but, if it had been North West Shelf that went down rather than Apache, I can assure you that emergency powers would have been necessary. That would have been the appropriate response. Where the balance is it is difficult for me to judge.

CHAIR—That is for judgement.

Mr Hohnen—That is what governments are there for.

CHAIR—Yes. Thanks, Mr Hohnen. Thanks for your submission.

[10.03 am]

LOVELLE, Mr Trevor, Executive Director, Industry Policy, Chamber of Commerce and Industry of Western Australia

PEARSON, Mr James, Chief Executive, Chamber of Commerce and Industry of Western Australia

CHAIR—I now welcome the Chamber of Commerce and Industry of Western Australia. Mr Pearson, do you have an opening statement?

Mr Pearson—Thank you for that invitation. If I may, I would like to make a brief statement to follow up on the written submission that my chamber has made to this inquiry. I would like to highlight the fact that the Chamber of Commerce and Industry is the leading and the largest business association in this state. It has a membership of over 5,700 organisations and represents businesses and not-for-profits and some government agencies across all industry sectors in the state. It is the state's peak business lobby group. The vast majority of our membership are small businesses and we have members in all geographical regions of the state.

Talking about the role of the chamber, in the response to the Varanus Island incident we did play and continue to play a key role in assisting and representing industry in the broad in the wake of the crisis, in the wake of the incident, and we have worked closely with the state government in the response to the incident as a member of the Gas Supply Coordination Committee set up by the Premier. Also, we had representation on the recovery committee set up by the government and also on the communications group set up by the government.

Overall, I would like to highlight that the WA business community adopted a cooperative approach in terms of its engagement with government and within industry sectors and between businesses, which we believe was an important aspect of the response to the incident. We strongly endorse the government's decision, which was taken at an early stage, not to intervene in gas production and delivery arrangements by invoking emergency powers and instead allowing, to the extent possible, market forces to resolve issues which arose as a consequence of the incident.

We have talked in our written submission about the broad economic impacts and immediate business impacts of the crisis. Without repeating what we have written in our submission, I would like to draw your attention to the most recent survey that my chamber has done as part of our quarterly surveys of our business membership in the state. We included a question on the gas crisis. Of the 250 businesses which responded to that question, around 40 per cent told us they had been affected in some way by the shortages of gas and the consequences therefrom. On average, our membership told us the gas crisis cost affected businesses in excess of \$1.1 million. I stress that is an average figure, with a large variance, cost estimates ranging, for example, from around \$1,000 of cost impact in smaller sized businesses up to the \$50 million range in large businesses. About a third of affected businesses found it difficult to obtain inputs and supplies for production. There was reduced demand and higher energy costs. Also, there was lower production in the case of some 16 per cent of respondents, insufficient energy supply in the case

of 11 per cent of respondents, and an effect of reduced market share as reported by six per cent of the respondents.

In terms of the long-term business impact, we remain concerned that, notwithstanding the partial resumption of gas supply from Varanus Island, which is very welcome, we are still a distance away from having full production of gas resume from that facility, and the gas network in the state remains fragile and our overall energy network in the state remains in a vulnerable position. We know, for example, that the hospitality industry was negatively impacted, and I believe you have already received some commentary about that today. We know that construction, health and community services, and retail trade, all reported impacts to us, and there are a number of supply chain and flow-on impacts that have been reported to us by our member organisations. For example, providers of building materials, including powder-coated windowframes and doorframes, were forced to decrease production because of lack of energy inputs and that inevitably knocked on into the building and construction work that relied on those inputs that they produced.

We understood that the National Offshore Petroleum Safety Authority is still conducting its investigation and we look forward with interest to the results of that investigation. We have called publicly and repeatedly from the earliest days in the wake of the incident for the development of a state energy policy, but that position of the chamber actually predates the incident by a considerable amount of time.

We have also recommended publicly and directly to the government that there should be a review of the incident, including an assessment of the government's response, and I acknowledge that this Senate inquiry is addressing in its terms of reference some of those issues. We do, though, think that the opportunity needs to be taken for the development of a state energy strategy. There are some key issues, such as a lack of diversity in the state's energy supply, which the incident has highlighted.

We would like to suggest that the work that the federal government is currently undertaking, in terms of looking at the national energy security situation, provides an opportunity for some dovetailing and perhaps some exchange of information; that some work is obviously already being done, including by Western Australian business and industry, in relation to the development of the federal white paper. We think that consideration of infrastructure needs and future investment in infrastructure in this state, including assistance perhaps from the Commonwealth government's Infrastructure Australia Fund, could be considered in light of lessons learnt from this particular crisis, and we also feel that any future energy strategy for the state should include clear contingency plans for adequate preparation should an event of this nature occur again and, to the extent possible, prepare to mitigate the risk of it happening in the first place—or in the second and third place, in this instance—and also to make sure that there are adequate and tested crisis management response measures in place. My chamber looks forward to any opportunity to work with the relevant authorities to those ends.

CHAIR—Thanks very much, Mr Pearson. We have had evidence this morning from the Australian Hotels Association to say that they did not feel that there was adequate communication or consultation with the association. They also indicated that they should be treated as an essential service. Is it viable for every organisation to be consulted in the circumstances that the Western Australian government faced during the period of the gas crisis?

Mr Pearson—Thank you for that question. I might mention some of the communication strategies that were adopted by government and industry in response to the incident. Approximately five days after the incident occurred, the Premier convened a meeting of key stakeholders—a representative group, I guess one might argue, of key stakeholders—who had the potential to be affected directly or indirectly by the incident at Varanus and the consequences of it. That included my chamber and also the Chamber of Minerals and Energy, and representatives of individual companies. That was an important step in our view in getting together into the one room, into the one place, a group of relevant representatives to discuss the nature, the facts around the crisis, and the implications of it.

In terms of the communications effort, the government did engage my chamber and the Chamber of Minerals and Energy directly, and it was clear that the government looked to our chambers to play an important role in facilitating communication in both directions—between the government and industry. To that end, we did convene a series of regular meetings between industry associations, sectoral industry groups, including the Australian Hotels Association, and those meetings which we facilitated brought those groups together with representatives of the government. The discussions at those meetings were, in my opinion, of a frank nature and enabled all of the parties involved to talk about any issues of direct concern to them, recognising that there were, of course, some matters of a commercial confidential nature that people tend not to want to raise in that kind of setting.

We also encouraged the government and encouraged industry sectoral groups to deal directly with each other wherever possible. For example, we encouraged particular industry sectoral groups to engage closely with the relevant agencies and departments of the state government with whom they had the closest relationship, in order to facilitate the state government knowing what kind of impact was being felt by that particular industry and businesses within that industry.

Overall, I would like to make the comment that I feel that more could have been done at an earlier stage in terms of encouraging the household sector to adopt energy conservation efforts. That was identified as an important part of managing the impacts, and that was something which my chamber, both publicly and privately, encouraged the government to do and encouraged directly, by messaging through the media, the public to do. Industry did adopt a number of significant energy conservation measures, in some cases involuntarily because they did not get gas or did not get enough energy supplied to them; in many cases voluntarily. I can talk about my own organisation, for example, where we have turned off a bank of lifts, we have lights down to the minimum safe level, and heating down at the minimum safe level as well. I know that approach was adopted by a number of companies and government agencies too, and, to a greater or lesser extent, some of them are still doing that.

You mentioned in your question, I think, the issue around essential services and whether a particular industry or sector should be recognised as such. At an early stage in the consultation between government and industry, guiding principles for the allocation of available energy were set out by government in consultation with industry, including my chamber and the Chamber of Minerals and Energy, and they made a clear scale of priorities, five separate priorities in order, and it was made clear that the principles for priority allocation of limited energy sources were protecting health, safety and property, minimising broad community disruption, and minimising economic impact.

Our strong view was that market forces wherever possible should be allowed to prevail, and then issues of allocation of energy supplies. We very much encouraged individual businesses to negotiate directly with their energy suppliers in order to find what gas, what electricity was available and at what price. We also encouraged the government to establish the bulletin board, as it became known, in order to add more transparency into the market and provide more information about what supply was there and what demand was there and, indirectly, to help set a price for that.

Senator JOHNSTON—Are you aware, Mr Pearson, why there would be a group of businesses and consumers who would want to keep their submissions to the Senate confidential in this hearing?

Mr Pearson—The short answer is no. However, if I may be allowed to express an opinion, it might well be because there would be commercial-in-confidence matters involved in their submissions, in consideration of them. I imagine there would be a great deal of sensitivity around that. Trevor, do you want to comment?

Mr Lovelle—I think that is probably the answer. There are probably contractual arrangements that need to remain confidential.

Senator JOHNSTON—Were you aware that, to enter the bulletin board, certain terms and conditions were required for release and discharge of upstream supplies of gas in order to participate on the bulletin board, in terms of liability?

Mr Lovelle—Our understanding of the bulletin board was that it was a voluntary platform, so those that did participate would have been made aware of the terms and conditions in order to participate. As Mr Pearson has explained, in our view, it was an opportunity to provide transparency for available supplies.

Senator JOHNSTON—Were you aware of the terms and conditions for participation?

Mr Lovelle—I attended a briefing that was given by the independent market operator the day before the board was launched, so I am familiar with them. I could not recite to you every term and condition. I am unaware of them.

Senator JOHNSTON—We have heard that one particular person took legal advice and said that he could not participate because they released the provider from future liability by participation.

Mr Lovelle—I am not aware of that detail.

Senator JOHNSTON—You said it took five days, Mr Pearson, for government to engage with the chambers. What was the explanation for the delay of five days, and was it at your behest that government engaged, in fact?

Mr Pearson—I am not in a position to comment on the motivation of government in terms of the timing and nature of its response. I do know, though—and, yes, I can answer part of your question—that we did look to engage with government and sought information, as I am sure a

lot of other bodies and individual companies were doing. It was made clear by government that they saw value in the chamber's participation. They saw that we did have a critical and important role to play, and I certainly appreciated that invitation.

Senator JOHNSTON—Yes, but five days: we have got no gas in the system; we have got industry users. You must have been screaming at them to say, 'Let's do something. Let's have some sort of system.' And it took five days.

Mr Pearson—I would suggest that one of the lessons that has been learnt from the incident is that it was not widely enough appreciated in government—and even in parts of industry—the extent to which there were significant vulnerabilities in the system. Sometimes I guess it is only when something goes out, crashes, that people suddenly realise just what the impact is.

Senator JOHNSTON—When did those policy priorities come out? You said at an early stage, but I think it was some time after the five days.

Mr Pearson—We received an invitation on the Friday, which, if I can just think back, would be 6 June. The incident took place on 3 June. We received an invitation on 6 June to attend a meeting convened by the Premier on the following Sunday morning, which was 8 June, so there was definitely a sense of urgency about, and we of course were willing to participate. And, I am sorry, would you mind repeating that question.

Senator JOHNSTON—The five policy priorities.

Mr Pearson—Yes.

Senator JOHNSTON—When were they enunciated?

Mr Pearson—Those issues were first discussed, to my knowledge, at the meeting convened by the Premier on the Sunday, and then they were discussed at length and decided at the first meeting of the Gas Supply Coordination Committee which took place on the Monday after that Sunday, so that would have been 9 June. No, the next day. After the Sunday meeting. On the seventh day.

Senator JOHNSTON—You say in your submission that there is a requirement to undertake a review of the government's management response to the crisis and, indeed, may I say the submission does not go into great detail on this. What areas of management response require review and why would you make such a claim?

Mr Pearson—My experience before joining the Chamber of Commerce and Industry was in the oil and gas industry, and my experience from that environment is that whenever there is an incident of any description, a disruption of normal business, normal service, organisations review the causes of that, the way in which the response was managed, and identify what lessons can be learnt in order to mitigate the risks of the incident occurring again and, if it does, how it is to be managed. That is where I am coming from on that. I see that as good practice, best practice, and I look to see that done.

Senator JOHNSTON—But if the response was adequate, satisfactory, perfect in every way, you would not be writing that in your submission, surely?

Mr Pearson—I would include that in a position in any event, but I hope I have already conveyed my view that—

Senator JOHNSTON—No. I am concerned that you have put in there that there needs to be a review of the government's response but you are not willing to tell me why you have put that in there, other than to say, 'We'd do that in any event.' The fact is, government's response was either adequate or inadequate, and if it was inadequate you would say that it needed to be reviewed. I am interested in why you would take the committee's time to attract them to having a review or assessment of the government's response if it was adequate. Obviously the inference is that it is inadequate. I would like you to tell me why you want a review of government's response. What are the problems that initiated that to go into your submission?

Mr Pearson—Firstly, if I may, I will repeat that, in the event of any incident occurring, I would expect a review to take place because nothing is ever done perfectly. I have already mentioned the view that communication by the government in terms of encouraging conservation, particularly by households, could have been more effective. I think that that effort could have started sooner and could have been maintained at a higher level for longer. I think that is very important. I think it would have been important for more and clearer feedback to be given to households as well as to the industry as to exactly how demand was being modified by individuals and industry's energy conservation efforts in order to provide a feedback loop. I see that as a fairly basic principle of communication. It is one that I would have liked to have seen adopted more fully and it was something certainly that our chamber worked closely with the government to try and encourage, and we did ourselves. I think also that extends to information going to the market, and we have already talked a bit about the bulletin board. That was part of providing more information into the market to enable, as we said at the time, businesses to make better-informed decisions as to what kinds of planning or mitigating measures they need to take, knowing whether or not this crisis would extend for weeks or months and how it would affect them, particularly including what kind of gas or other energy availability they would have. So they would be the observations I would like to make in that regard.

I have already touched on the fact that I think it caught a number of people—not just in government but also in industry—by surprise as to the impact, and I think that, in terms of the lessons learned, I would like to see the state being better prepared so that if something like this were to happen again, on the day that it happened we would have that first meeting of relevant stakeholders being convened, and I would see that as good crisis management practice.

Senator JOHNSTON—You have said \$2.4 billion. The Treasurer says \$1.8 billion. Why is there such a large discrepancy?

Mr Lovelle—I understand it is just a difference of calculating methods.

Senator JOHNSTON—Tell us about your method.

Mr Lovelle—I am probably not the best one to describe our method, I am not the economist, but I understand that there is a difference in determining the cost, which might explain why there

is a difference between our number and the state government's. You would have to ask the state government how they arrived at their position. Ours is done through our survey, where we asked respondents to tell us the impact, and then we would use a process of extrapolation to arrive at that number.

Senator EGGLESTON—I would like to pick up a couple of points you have made—first of all, the need for a state energy strategy—but firstly, however, the fact that this is actually the third episode where we have had reduced gas supply from the Dampier. There was one in 2004 and one earlier this year. Are you surprised that there wasn't a contingency plan in place, apparently, to deal with a crisis like this—a reduction in gas supply from the Dampier Archipelago?

Mr Pearson—The short answer is yes. My chamber has been calling for the development of a state energy strategy for several years now. In early 2007 we submitted to the government and the public a paper entitled 'Meeting the future gas needs of Western Australia' that went to some of these issues. We also recognise that it is not just about gas, although our energy network in the state is very dependent on it. There is no real problem in principle in that, except we do have very limited—in fact, two—sources of gas supply. In our view, a state energy strategy would include consideration of liquids, coal and also alternative energy sources, and we also, at the cost of some controversy, have said that the state should be ready for a calm and rational debate about whether or not nuclear could play a role in a future energy supply network.

Senator EGGLESTON—I must say I agree with all of those comments. I think it is very important that we do have a state energy strategy because we are very heavily dependent at the moment on gas, and so we need to think of other means of supplying energy, in emergencies in particular. But coming back to this issue of the contingency plan or the need for one, would you support the present state government calling a conference of interested parties, including bodies like yourself, to put together a contingency plan for any future emergency such as this and the management of it?

Mr Pearson—Yes. I have suggested to government that there are a number of ways in which these issues might be addressed, recognising the commercial sensitivity of some of the questions involved. I acknowledge that part of the consideration of what lessons could be learnt may need to be conducted, in effect, in Canberra—in camera, or perhaps—

Senator EGGLESTON—Not in Canberra!

Mr Pearson—No, certainly not in Canberra, although, given the national importance and significance of the state economy, I would argue that this is an issue of national significance. There are ways of doing these things and there are ways of getting the relevant information. My view, based on my experience in the industry, is that we should be encouraging as much input as possible from well-informed people, particularly while the experience is still fresh and the lessons are still fresh, and that we should collect that information. My chamber is not interested in pointing fingers or apportioning blame or applauding. My chamber is simply interested in securing reliable, safe, competitively priced energy for our members into the future.

Senator EGGLESTON—Yes, I think that is a very good position to be coming from, because obviously that is something we need to do in the interests of industry and domestic consumers in Western Australia.

Senator BUSHBY—I note that you mention that you have been calling for a state energy strategy for some time, so would it be fair to say that you brought the need for such a strategy to the attention of the government prior to Varanus?

Mr Lovelle—Yes.

Senator BUSHBY—In what context have you brought it to their attention?

Mr Lovelle—When we responded to the January incident, we noted that there was no overarching state energy policy and again called on government to develop that process. I would add that there was a response from government supporting that view, and in fact we were invited to start working on such a document, together with the Chamber of Minerals and Energy, and I suspect other stakeholders were also invited.

Senator BUSHBY—The January incident was the first time you brought it to the attention of the government or had you raised it earlier than that?

Mr Lovelle—We had raised it with them in discussions prior, but formally this was the first time.

Senator BUSHBY—You have given us quite a concise summary of what you would like to see out of it, but in one word would it be ‘security’?

Mr Lovelle—Diversification, then security.

Senator BUSHBY—Diversification. So you would have ultimately security of energy supply.

Mr Lovelle—Yes.

Senator BUSHBY—Given the January incident and the earlier incident, and also what happened at Longford in Victoria a few years ago, would it be reasonable to expect that a responsible government should have been thinking about these things anyway?

Mr Pearson—My view is that security of energy supply is a critical element of a modern economy and a responsible government would be thinking about those things. My colleague Mr Lovelle has indicated that the government had in fact, before Varanus occurred, invited us to offer some views as to that. That is a process that we are involved in. It started a bit later than we wanted it to, because we were engaged in dealing with the implications of Varanus.

Senator BUSHBY—You note in your survey that we have discussed briefly today that you think the cost to business and industry during June and July was \$2.4 billion. Do you have any estimates or calculations of what you think the overall cost will be by the time we actually get back to full energy supply?

Mr Pearson—At the moment, we do not. The most recent information is that which I mentioned earlier orally—our most recent survey. At the time that we released the \$2.4 billion estimate, we were estimating that, if the shortages were maintained, as they were then being experienced, through to December, a likely impact largely in terms of lost production could be measured at over \$6 billion. But I am not able to say now confidently that that figure will be accurate. We do not have an accurate estimate at this stage, but we certainly would stand by that estimate of \$2.4 billion. I have already mentioned that the sample of our membership that we have surveyed most recently indicates an average impact to date of \$1.1 million per firm.

Senator BUSHBY—That figure, according to you, sir, is based on lost turnover, but of course there are a lot of other costs arising out of this that will flow through business. They include employment and closure of businesses, which have impacts on family businesses et cetera. Do you have any individual examples or are you aware of members who have put off staff, or where there have been small businesses that have closed as a direct result of the crisis?

Mr Pearson—Yes. We have evidence through our survey, although the information was given to us on a confidential basis, for understandable reasons. We have information certainly about stand-downs of workforces, either partial or fully, turning off production, in effect; planned maintenance being brought forward early to try and take advantage of the forced shutdown. They are just a few examples. So the short answer to your question is yes.

Senator BUSHBY—You also earlier mentioned loss of market share. But I guess there are loss of markets altogether in some cases for some businesses. There may have been lost opportunities for expanding or taking up new opportunities as a result of this.

Mr Pearson—I think it is important to recognise that this incident took place at a time when the state economy is growing at an unprecedented rate, so we might never be able to get a fully accurate estimate of what potential we have lost from that.

Senator BUSHBY—Given all of that—and in a way this is what we have been talking about—how could some of those costs been avoided if there actually was in place a state energy strategy that included appropriate crisis management plans? What are the lessons specifically to be learnt? Have you had feedback from your members saying that they were not happy with this or were not happy with that or, ‘This could have been done better’? What are the lessons that have come out of this?

Mr Pearson—Apart from the things that I have already mentioned, there has certainly been continuing pressure from our membership for the development of one thing, and that is a comprehensive state energy strategy which will include contingency plans. I think what the business community is looking for is a much clearer understanding of: what is the current state of the network? What are the plans to develop the energy network? What is future demand forecast to be, and how will that be met? How much margin for error is there in that? What are the commercial opportunities involved?

I would like to stress here that, without pre-empting what those lessons learned might be—because one of the reasons we want to bring the relevant stakeholders together is to get the advantage of their perspectives, and I certainly for one do not claim to have all of those answers—one aspect that has been recognised is that, in Western Australia over many years now,

the government approvals processes required to be gone through in order to receive permission in effect from the government to develop a project, whether it be an energy production project or an energy-consuming project, have become more lengthy, more duplicated, more time-consuming. Not that there ever is a silver bullet, but that is a consistent theme in comments made to me by my membership, and that is, if we could do something to streamline the approvals processes in this state, then we would be more likely to see discovered sources of energy turned into produced energy more quickly, and we would be more likely to see major demand points, major demand projects, turned from idea into reality. Then you would have, in effect, that virtual circle because as demand for energy in the state increases so the private sector will find energy to supply that demand at a competitive price. That is the way the market will work. But there is a key role, I think—and my members are saying—for government here in this state, and that is to facilitate rather than obstruct supply and demand being able to meet each other.

Senator BUSHBY—In terms of prices, have any of your members raised issues regarding post-explosion gas prices and how that relates to any price contracts that they may have had in place, which presumably were suspended during the period of the crisis? How is that playing out now as gas comes back on, in terms of the gas prices, and does that relate to the contracts that they had in place prior to the explosion?

Mr Pearson—I am not privy to the contracts or the details which you are referring to with individual companies. I do know that some companies were, let's say, surprised, unhappy, at the rise in prices of energy. That was simply a product of a disruption to a market, with less supply, and demand staying the same, chasing that reduced supply. Inevitably, one of the responses that happens in a free market is that price goes up. Some people made a decision not to pay those prices, as I understand it, and therefore not to receive that energy; others made the decision to pay those higher prices and receive that energy.

We also know of cases where others had contracts for supply of gas, for supply of energy, which were uninterruptible and which had a higher value, a premium, for buying that uninterruptibility, and they were not adversely affected by the shortage of gas. This is my understanding: I cannot give you specific details from particular companies and transactions.

Senator PRATT—Mr Pearson, you noted the vulnerability of the current energy network. Could you comment on issues of diversity of gas supply. Do you think that is something that needs to be addressed in the future so that there is greater competition amongst the suppliers within gas markets?

Mr Pearson—I think that Western Australia is blessed with significant hydrocarbon resources and there is no doubt that there is a great deal of money being invested by the private sector at the moment in exploring for and attempting to commercialise those gas resources. I would say that anything that government can do at a state or national level to facilitate that, to encourage that, should be done. I also recognise that there are efforts being made, not just with our offshore gas resources but our onshore gas resources, to prospect for and develop those gas resources. So the potential for an increase in the number of supply sources of gas into the state's energy network is real but, as I mentioned before, I think approval processes have been part of the problem, both onshore and offshore.

I also know that new ways—new for Western Australia—of approaching this issue are being adopted in the market. At the risk of identifying particular individual companies, I know for example that some energy consumers are looking to venture with energy explorers and producers to secure energy supplies. That is one of the ways in which a market will respond to a particular challenge.

Senator PRATT—That is a good point to lead on to my next question. I suppose it is notable that Alinta was privatised some time ago but really retained its identity as a monopoly, a private monopoly, and there has not historically been a great deal of competition. Really, your comments indicate that that is something that is only just emerging in the market and has been unaddressed probably for some time.

Mr Pearson—Generally speaking, I suppose you know that the chamber is very much an advocate of greater competition and free enterprise, and that is what we would like to see develop further in this particular sector of the state's economy.

Senator PRATT—I wondered if you might comment on capacity constraints on the concept of a second pipeline in terms of infrastructure, if that is something that you think in the future would get legs, or is that something that really needs to be seen in the context of an overall strategy as to what kind of infrastructure we might be relying on in the future?

Mr Pearson—We take the view that they are really commercial decisions. The evidence given before by the DomGas group probably covered off that issue fairly well. We would note that the Varanus issue was not to do with pipeline capacity. It was a processing failure, so we have really been focusing on responding to that.

Senator BUSHBY—Mr Pearson, you have identified problems in the approvals process and you pass comments that the government should be facilitating, not obstructing. That discussion has been around now for probably the best part of five or six years in this state and has become more alarming in the last two or three. What are the particular problems that your members face in the approvals process—not the generality we have been discussing—and what do you mean by 'facilitate, not obstruct'? That is very strong language you have used.

Mr Pearson—If I could answer the second point first, I think that there is a sense in the business community that, because of a lack of coordination between government agencies, each of whom are responsible for different aspects of what in total are a very large number of approvals—and we have members developing major projects who have mentioned to us numbers well in excess of a thousand, even thousands, of separate approvals that need to be secured—the net effect is a perception that development is being obstructed, is being stymied, is being delayed, rather than being facilitated. I acknowledge that successive governments in Western Australia have publicly adopted, we could say, a pro-development stance and have reinforced the importance, for example, of the resources and energy industry in this state and, more importantly, the importance of the economy continuing to grow, but there is a gap I think, and there has been for some time, between that rhetoric of government and the reality that my members experience on the ground.

Moving to the first part of your question: better coordination between agencies who have individual responsibility for aspects of an approval process; identification and removal of

duplications in the process where, in effect, companies have to get the same kind of approval with the same effect from more than one part of government and the different parts of governments do not appear to be coordinating with each other. Recognising the priority that should be attached to protection and preservation of the environment, I think there is a perception that, in some cases, well-intentioned legislation and regulation may in fact have had unintentional consequences in terms of trapping and delaying development where there is no demonstrable negative impact. Well-intentioned regulation may in fact stymie that development, protecting something that is already adequately protected by another piece of legislation. There are a number of examples. One could probably write a treatise on the issue, because the body of experience in this state in terms of frustrating approvals processes is quite lengthy.

Senator BUSHBY—I have one final question that flows from that. I note, from a range of other matters, that both South Australia and Queensland are developing their mining exploration, extraction and production industries at a rate of knots. Large sites are being approved and developed very quickly, to the extent that South Australia is now on the world stage. Are the things you refer to—the approvals process problems, facilitation not obstruction, the things that derive from that—getting to the stage that they are making this state a laggard as opposed to being a leader in minerals, oil and gas exploration and production?

Mr Pearson—The Fraser Institute is an internationally respected body based in Canada which, on an annual basis, does a survey of the attractiveness for investment in the mining industry of jurisdictions around the world, and it has shown that Western Australia has now slipped behind not just South Australia and Queensland but also the Northern Territory as a preferred destination for investment in exploration in the resources sector. We are also now rated below countries such as Ghana, Chile, Botswana and Mexico as a preferred destination for investment in the mining sector. I am talking about Western Australia now.

CHAIR—Wages are a bit higher here.

Mr Pearson—This survey looks at the policy mix which governs investments in exploration in the resources sector. So while, as you suggest, wages might be an aspect of the economic environment in which investors contemplate investing, that is just one element of the broader policy mix that people are contemplating.

Senator ADAMS—Thank you for your submission. Coming back to Western Australia and the local impact on the south-west businesses, do you have many members from the south-west?

Mr Lovelle—We do. Mr Pearson talked about the industry associations group that we got together at the request of government. We included the Bunbury Chamber of Commerce and Industry in that group, so we were getting information from that source on the impact of the gas outage on those industries.

Senator ADAMS—What support did the chamber, in conjunction with the Bunbury chamber, give to those businesses?

Mr Lovelle—We were able to communicate to government straightaway the impact of the outage. We actually did bring in a federal agency, Centrelink. We did provide advice to that

chamber that there was a facility available to assist businesses that were going through a hard time with their employees.

Senator ADAMS—We have had evidence about Centrelink which we will be discussing tomorrow in Bunbury. Unfortunately Centrelink, because of their long process, were not able really to help these people in the short term. There are some huge problems down there. Have you any idea of the number of redundancies that were associated with this crisis?

Mr Lovelle—No, I do not.

Mr Pearson—If I may add to that reply, I imagine that the relevant federal, and perhaps state government agencies, would know, because I know that the state government established a recovery committee which was in part charged to look at issues like the relationship with Centrelink and collect data on stand-downs and redundancies, as I understand it.

Senator ADAMS—So your organisation is really focused more on the metropolitan area rather than on the south-west.

Mr Pearson—No, it would not be correct to suggest that, because the chamber represents businesses across Western Australia, and we recognise that impacts from the crisis were felt from the Pilbara down to the south-west. I acknowledge that there were particular impacts in the south-west, as I understand it, probably because some of the gas consumers there were significant employers and were hard-hit. Also, there were a number of companies in the Pilbara, for example, which basically shut down and, in at least one case that I am aware of, are still shut down. Our concern was very much to do what we could to advocate on behalf of industry across the state but, as Mr Lovelle has said, we have involved in those industry association meetings with government from an early stage the chief of the Bunbury Chamber of Commerce who, in my observation, was a very powerful and effective advocate for his region's interests, and I know also, for example, that government at ministerial level convened at least one consultative session down at Bunbury to address the issues being experienced down in the south-west.

CHAIR—Mr Pearson, in your submission you indicate the communication that took place and you spoke about it in your verbal submissions here. There has been some sort of questioning that would lead to the view that the government was incompetent in its response. I have heard nothing from you today or in your submission that would say the state government was incompetent in its approach to the gas crisis.

Mr Pearson—I would not describe the response as being incompetent, in my observation, although I have drawn attention today to some of the areas in which I think performance could have been improved and why we need to learn lessons. In my observation, once the extent of the crisis and its consequences began to be appreciated, government officials worked long and hard, including into the evenings and including with representatives of my organisation, to identify appropriate response mechanisms. If government was not as fully effective in some areas—for example, in its communication efforts—in its response to the crisis in the days and weeks and months that have followed, I think those are areas that should be examined with an eye to improving performance next time around. Let's learn the lessons, rather than let's worry too much about who did not do what and why.

CHAIR—What you are talking about is a standard operating procedure when you are faced with an uncertain position or an incident or a crisis. You then look at what you need to develop. You have indicated that the state government had already started talking about that prior to this incident.

Mr Pearson—What the state government had started to do was that it had invited us to provide comment to it on the development of a state energy policy. That is what it had done.

CHAIR—On the issue of the contracts, there has been evidence given to the committee that companies were basically forced to make a choice: to give up their legal rights for compensation or access the bulletin board. What is your broad view on this? Should there be a position where a company in a very powerful position can demand that another company give up its legal rights, as the gas suppliers were in this situation?

Mr Pearson—Our focus was very much on the provision of as much information, as much transparency, as possible to the marketplace so that consumers and suppliers of gas, and energy more generally, could make the best-informed decisions possible on a commercial basis about the way to go forward. I cannot comment on individual contractual issues.

CHAIR—I am not asking you to do that. I am asking you for a general view about whether the ACCI supports a proposition that a company in a very powerful, privileged position can demand that other companies give up their legal rights to access gas. Is that a proposition you support?

Mr Pearson—If I can just correct you: I am representing the Chamber of Commerce and Industry of Western Australia, not the national body. The general principle is that the free market should be allowed to operate wherever possible, and I am simply not in a position to comment on the detailed workings of the bulletin board and the positions adopted by particular players in that particular market. I cannot offer a comment on that, I am sorry.

CHAIR—What checks and balances should a state government put in place to make sure that the operation of the free market does not turn into price gouging in a situation like this? What specific things should a state government do to protect not only small business but the consumer?

Mr Pearson—I would suggest that that whole question is precisely one of the issues that should be investigated when the lessons learned are considered from the way in which the response to this crisis was managed. That should include the operation of the bulletin board and the consequences of that.

CHAIR—But you have never thought about it? You have never thought about that issue?

Mr Pearson—That is something that we would be very pleased to offer an opinion on when we have considered the issue, once we have more facts on the table.

CHAIR—But what I am asking you is: have you not considered that as an issue?

Mr Pearson—Our in-principle position would be that, wherever possible, government should facilitate a free-market response to a challenge of this nature. The bulletin board, as I understand it—

CHAIR—No, that is not what I am asking you. I am not asking you about the bulletin board. I am asking you about the principle of a company gouging other companies, demanding certain obligations or the giving up of rights by another company, under the name of the market. That is not the market, is it?

Mr Pearson—My understanding is that there are strong laws in Australia that govern such behaviour and I would look to those laws to be applied. If a company had a view that it had been unfairly treated in the market, then it has a legal redress which it should look to. My understanding is that, in the wake of the crisis, there are a number of insurance claims that are being considered and the possibility of legal action. But that is something that I understand just generally.

CHAIR—Would your organisation be assisting any member who takes a claim, an action on this issue?

Mr Pearson—That is not part of our charter.

CHAIR—Thanks very much, Mr Pearson.

Mr Pearson—Thank you.

CHAIR—Thanks for your submission. Thanks, Mr Lovelle.

Mr Lovelle—Thank you.

Proceedings suspended from 10.55 am to 11.03 am

OTTAVIANO, Dr Michael Edward, Managing Director, Carnegie Corporation

CHAIR—I welcome the representative from Carnegie Corporation. Dr Ottaviano, would you like to give an opening statement?

Dr Ottaviano—Sure. I am the Managing Director and Chief Executive Officer of Carnegie Corporation. Carnegie Corporation is an ASX listed clean technology developer, based in Perth. We are about a \$100 million market cap company. We employ about 25 staff locally in Western Australia. The most mature of our clean technologies is wave energy and I am talking today really about the role that wave energy can be playing in Australia and Western Australia's energy mix going forward.

CHAIR—Would you like to expand on that?

Dr Ottaviano—I think you all have a copy of this in front of you. I will just talk through page by page, if you like. Stop me if I am not making sense. 'Carnegie overview', the first page there, provides a bit of background. That is what I have just covered. The only point I may have missed is the bottom point, which is the interest that is being shown in wave energy globally. This is an example of that in the sense that our Northern Hemisphere partner in this project is EDF, which is the world's largest power company. It is a former French owned monopoly power company which has now expanded.

Over the page, just to contextualise, are some activities that have occurred in the last few months. The pertinent points there are that we currently have a wave energy pilot plant operating at Fremantle. We have just been awarded our first commercial licence and lease in Western Australia, off Albany, which is a particularly good site for wave energy but also has other advantages such as being connected back into the SWIS down there as well.

CHAIR—Sorry, connected into what?

Dr Ottaviano—Connected into the South West Interconnected System, so into the power grid here in Western Australia. We have also recently been short-listed for a power supply contract to the second desalination plant here in Western Australia, for 24 per cent of that power, which equates to five megawatts. Today I am going to talk about two things: the resource and the technology and how we harness that.

The next slide here is the global wave resource. It has a couple of numbers on that page. One is from the Carbon Trust, which is a UK based organisation which has estimated the global wave energy to be two terawatts, or roughly twice what the world currently consumes in energy. Carnegie calculated last year how much energy is in Australia. In a deep water sense—100 metres or more depth—there is something like 500,000 megawatts, roughly 10 times our current installed capacity, so it is a globally distributed, vast resource which is currently totally untapped.

If you turn over a page there is an image of real data from January this year. The origin of wave energy is in fact large storms that generate the swell a long way off the coast. It is not tidal.

We are not talking about the moon and lifting oceans up and down; it is actually swell energy. When you go to the beach and the wave hits you, that is the energy we are talking about. We look to catch that before the wave breaks, further offshore.

This shows yellow splotches around the global map there. As you can see at the bottom, they correlate to a wave height of eight to nine metres. They are large waves that correlate with those large storms, which is the source of the energy which is then reporting that to shore. You can see that, in the Northern Hemisphere, the west coast of the US and the west coast of Europe are the areas where those large storms tend to start and therefore where the energy gets reported to shore. There is no mistake why most of the technology development, the interest in wave energy to date, has occurred in Western Europe in particular. The UK government has spent over \$100 million trying to harness its wave energy resource.

The Portuguese and Norwegian governments are very active. They both have feed-in tariffs specifically targeting wave energy. If Carnegie were to build a wave farm in Portugal, it could get something like \$350 per megawatt hour for its power that it put back into the grid. That is seven times what we can get in Australia.

What is interesting, as you can see, is that in the Southern Hemisphere there are also those yellow storms. If you turn the page, we go to real data from July. This is now our winter. We just saw our summer. You can see that those storms in the Southern Hemisphere have intensified but they have disappeared in the Northern Hemisphere. That is a really important point. The difference between the Northern and Southern Hemispheres from a wave resource point of view is that the Southern Hemisphere is not landlocked. You have the circumpolar current constantly circulating the Antarctic, which means you constantly have storms being generated, generating swell and reporting that to shore. You do not have that in the Northern Hemisphere.

From a practical point of view what that means is that the wave resource in the Southern Hemisphere is constant whereas in the Northern Hemisphere it is more intermittent. There has been a perception, I think, about wave energy that it is an intermittent source of energy and that has primarily been driven from a Northern Hemisphere perspective, but the reality is that in Australia we are incredibly fortunate. We have a constant source of energy. We also have a very long coastline exposed to that energy.

If you turn the next page, Carnegie has recently commissioned the same organisation that the UK government commissioned to do a report on its wave energy resource, to do a report on Australia's wave energy resource.

So the UK government some years ago commissioned this report, which showed it had about 5,000 megawatts of shallow water wave energy resource. It had never been done in Australia and it seemed to be an aberration here, so we recently commissioned RPS MetOcean to do the same study here. That 5,000-megawatt resource number in the UK correlates with our 170,000-megawatt number here, so we have got a massive resource in comparison to the UK—about 30 times the size of the resource—yet we have actually been outspent from the government point of view about 20 times to one. The UK government spent \$20 to every \$1 that the Australian government spent on trying to harness its wave energy resource, despite having a resource that is one-thirtieth the size.

This then breaks down state by state the size of that resource and the shallow water resource, which means 25 metres—which is where our technology operates—is about 70,000 megawatts in Western Australia. It is a mammoth resource. It can, again, power Western Australia twice over even when you then discount back to how much of that is really economically extractable, for which we use a number of about 10 per cent. There is no question about the scale of the resource.

The next question is: how reliable is it? If you turn over to the next page, which is a map of Australia with a whole series of charts around the coast, this talks about how reliable is the resource. Carnegie's wave energy technology operates down to a one-metre swell, so it will generate power in a one-metre swell. Therefore, the question is: how often do you get a one-metre swell and how often can you be generating power?

What you can see from a selection of sites around the country is that you are getting a one-metre swell for at least 90 per cent of the time and, in some cases, you are getting it for a lot more than that. At Albany where our first site is, it is in fact 100 per cent of the time, so you have a resource availability of 100 per cent and that really goes to then the baseload nature of the resource. This is a genuine fossil fuel competitor resource. Irrespective of what technology you use to harness it, the resource demands attention.

The next page is a couple of examples of some of the efforts that companies have made to harness this resource. All these particular ideas here in front of us have come out of the UK. Again, that goes back to the fact that that is where most of the attention to this has been given. People were not interested in wave energy in the mid-seventies, during the oil crisis, and this is really where the world has developed to.

Each of these three approaches is basically very similar and represents more than roughly 3,000 patents for wave energy technology that are out there, so a lot of people have thought about it. They almost without exception are all like this. They are all floating power stations. They all are large steel structures that sit a long way offshore that bob up and down. They use the kinetic energy in the ocean—that up and down movement—to spin a turbine or to move a linear generator to generate electrons basically, and then they have high-voltage cables that bring that power back to shore. That has been the approach today. We feel that is an overcomplicated approach. Probably the worst place you could imagine in the world to have a power station is in the ocean floating a long way offshore where it is difficult to access, deploy, to maintain the components to bring the power back to shore. It is a fundamentally challenging situation. It is not impossible, but it is difficult.

If you turn the page, there is a conceptual schematic of what Carnegie's wave technology is and how it goes about harnessing the energy. This slide here, the one that is labelled 'CETO', is the name of the technology. Ceto, by the way, is a mythical Greek sea goddess. That is the origin of the name. The technology is the bit on the left-hand side of that schematic. It is the red buoy and then the vertical cylindrical pump that sits beneath it.

There is no power-generating equipment offshore at all. All it is is a pumping system. The buoy is picked up and pushed down by the swell in the ocean, which drives a piston inside the pump, which delivers high-pressure sea water ashore. Onshore you then have a standard hydro-electric turbine. So you use the offshore component to pump water ashore to spin a turbine

onshore. The advantage of that is that all your power is onshore and it is easy to access, deploy, maintain, and it is off-the-shelf equipment.

I invite you all at any point now or in the future to come down and view the turbine that we currently have in operation at Fremantle. It is purchased from a Swiss manufacturing company who makes them for run-of-river hydro projects, so it is a standard bit of equipment, and running pipe back out to the sea floor is also standard. The only bit of technical novelty, if you like, is the buoy and the pump, which is what we have been developing for about 10 years.

If you turn the page, that is the development history of the project. I should add that, apart from having the power generation onshore that is easy to access, the other incredible advantage is that we are bringing ashore high-pressure sea water, which is exactly what a desalination plant needs. You can take that salt out of the water when it comes ashore and you can have zero-emission desalinated fresh water.

Carnegie's wave technology is not only a zero-emission power producer, it is also the only seawater zero-emission desalination technology in the world. We have been producing both power and water at Fremantle now for some time. The first time we produced it was 2006. You can see the history of the project there. We are now entering into the final stage, which is the commercial demonstration of the project. The Albany site was one of the first major milestones. We now actually have a project to deploy this technology. Our aim is to have power into the grid by 2011.

Senator MARK BISHOP—That will be a pilot program, will it?

Dr Ottaviano—No, the pilot program is currently operational at Fremantle. This will actually be a commercial project. The aim is to build a 50-megawatt power station. 50 megawatts is enough for 30,000 or 40,000 households. It is an industrial-scale project. It will be the world's largest wave farm. It will be done in two stages; five megawatts going to 50 megawatts. As soon as we have done five megawatts—that is the commercial industrial-scale proof of concept, or demonstration if you like—that will be the trigger for us to roll this out around the state, the country and the world.

We are in active and relatively advanced conversations with the South Australian and Victorian governments about projects there, and also with the New Zealand government, the Chilean government—Chile has got a fantastic wave resource with a very high power price—and every island community in the world which is short of power and water and has an abundance of waves. We had the Deputy Prime Minister of Mauritius down at our facility a couple of weeks ago to view the site.

Senator MARK BISHOP—Is 50 megawatts the optimally efficient scale plant?

Dr Ottaviano—It is about right. The break-even is probably somewhere between 20 and 30 megawatts, but it is slightly site specific. It depends on the conditions at the site, but at 50 megawatts you are guaranteed to be commercially viable, which is why we have picked that. The Albany site will in fact allow us a scale well beyond that—probably somewhere in the order of 250 to 300 megawatts ultimately—but one of the advantages of the technology is that it is

incrementally scalable and each of the units is 200 kilowatts. We can easily get to 50 megawatts and then simply deploy more units as we grow the facility down there.

Senator MARK BISHOP—Does your marginal rate return increase as you go up the scale?

Dr Ottaviano—Absolutely.

Senator MARK BISHOP—It does not peak out and then boil down?

Dr Ottaviano—No. The big advantage, obviously, is that, like any renewable, you have zero fuel cost. The units themselves are designed to be mass-producible and that is the real big advantage of this particular approach. As you probably know, Australia has been a pretty tough place to be a renewable energy developer, going back 10 years. It has been almost impossible to try and compete or raise money, and we have had to raise money offshore for that reason, but it has made us very focused on developing a fossil fuel competitive technology.

Certainly by the time we have between 50 and 100 megawatts in-store capacity in and operating, we will be at the point where we will be gas-cost competitive. We will start at the price of wind initially, that first project. The first 50 megawatts will be generating about the cost of wind, but once we have got scale and once we have got the units being mass-produced, we will come down to about the cost of gas. That is in about five years time. That has always been the aim: to produce a baseload renewable technology which can be fossil fuel competitive from the cost point of view.

Senator ADAMS—Where is the Albany site?

Dr Ottaviano—Torbay. Do you know Torbay?

Senator ADAMS—Yes.

Dr Ottaviano—It is directly adjacent to the wind farm. The reason why we picked that as an ideal site is because it has got power infrastructure running right down to the coast already because of the wind farm, and that is a replicable model around the world. Wherever you have got a coastal wind farm, there is typically a power cable that runs down to the coast, and you can then build a wave farm offshore and tap into it if the capacity is there.

CHAIR—Mr Ottaviano, I used to work in the coal-fired power industry—

Dr Ottaviano—Sure, as did a lot of my guys.

CHAIR—at Liddell power station. The units there are 500 megawatts.

Dr Ottaviano—Yes.

CHAIR—The units that were built across in Bayswater were 600 megawatts.

Dr Ottaviano—Yes.

CHAIR—So four times 660 megawatts is what you are putting in, in a modern coal-fired power station.

Dr Ottaviano—Sure, yes.

CHAIR—I am not talking about the greenhouse gas emissions.

Dr Ottaviano—No.

CHAIR—I am talking about energy output. So you would need at least 10 of your units to equal one coal-fired power unit. Your costing is done on the basis that you could produce 500 megawatts at the equivalent of coal-fired power stations in, what, 10 to 12 years time?

Dr Ottaviano—Yes. You have gone to the heart of what is a fundamental problem with coal-fired power stations, which is that they are only economical when you are producing them in large scale. They are also, therefore, not adjustable in any sort of increment beneath 200, 300, 400, 500 megawatts. They are either on or they are off at that scale. One of the big advantages of an approach that uses a scalable but smaller system is that you can therefore turn units on and off much more easily and cope with intermediate peaking and the full peak.

This will be one of the few mass-producible power station technologies in the world, irrespective of whether it is renewable or fossil fuel powered. So, for us, the more units we have, the larger the scale—the closer we get to 500,000 megawatts in storm capacity around Australia, around the world—the cheaper this will become. So within five to 10 years it will be gas competitive. Beyond that is probably coal, certainly helped by the fact that coal, presumably, will also be getting more expensive during that period as well.

CHAIR—One of the critiques I have heard about coal-fired power stations is the distance from the consumer and the loss through transmission lines. This seems to overcome that, as long as you are close to a city that is based on the shore.

Dr Ottaviano—Yes.

CHAIR—Which is pretty much the style of Australia.

Dr Ottaviano—Exactly. More than 60 per cent of Australians live within about 50 kilometres of the coast, so one of the fundamental advantages is that certainly we overcome a lot of those transmission problems. A lot of people criticise geothermal for having that problem. Once you have got scale behind geothermal that problem will disappear as well. We can afford to deploy smaller plant because we certainly do not have the same transmission issues and costs associated with it.

Senator EGGLESTON—Wilson Tuckey would tell you that you could overcome the transmission problems by using DC transmission lines.

Dr Ottaviano—Absolutely. He is partially right, yes.

Senator EGGLESTON—Partially right.

Dr Ottaviano—Yes. No, you can. It certainly helps. It is still an expense.

Senator EGGLESTON—Because you can transmit over long distances.

Dr Ottaviano—You can indeed. To try and change the whole of our power transmission infrastructure to DC is a fundamental problem, which I am sure any infrastructure owner will tell you. It is certainly not impossible. You still need to be transmitting that power and building infrastructure to do that, but if you can co-locate much closer to the power source, you are always going to be better off, whether it is AC or DC.

Senator EGGLESTON—One of the problems with wind power is that the wind is intermittent and so it is not a reliable, constant source to use for baseload power. Is that a problem with wave power? Do you have a constant production of power, or is there an intermittent nature of production?

Dr Ottaviano—There will be a variable nature of production with wave, but it will always be constant. For example, at the Albany site you have got a wave resource, according to the report, of 100 per cent availability of a one-metre wave. Because the Carnegie wave technology produces power at a metre wave, that means it will be producing 100 per cent of the time, minus any downtime for plant—the usual reliability of plant.

What will happen is that you will produce more on a larger wave and slightly less on a smaller wave: it will vary with the results. But one of the fortunate things about wave versus other forms like wind is that it tends to vary over a much longer period of time. It is much more predictable. Whereas wind tends to be on and off, with wave you have three or four days notice because, again, thinking of where the energy comes from, it is 100 kilometres offshore from large storms. So you can monitor that energy as it comes to shore and know how much you are going to be dispatching in three or four days time.

Senator EGGLESTON—Is there an established wave power station anywhere in the world?

Dr Ottaviano—No. Some of those other images I showed you in there are of people trying to complete commercial ones at the moment.

Senator LUDLAM—I would like to go back to where you were before, Chair, talking about the difference with coal-fired plants only coming in large. Because we are here today to discuss vulnerability of supply, what is the difference between 500 megawatts of coal in one rock or 500 megawatts distributed at 10 power stations up the coast, in terms of vulnerability?

Dr Ottaviano—There are two ways to look at it. You can have your 500 megawatts in ten 50-megawatt power stations along the coast. Certainly you have got a more diversified energy source that way. If you lost a power transmission line at one site you have still got your 450 elsewhere.

The other way to look at is that you can still have your 500 megawatts at one site and there are going to be economies of scale, like there is with a coal-fired power station, and building out your 500 megawatts at a single site. But it is not a single boiler supplying those 400 or 500 megawatts; it is, in our case, roughly five units per megawatt. You are talking 2½ thousand

individual units then. So if you lose one unit you have lost one 2½-thousandth of your power supply, which is a massive advantage.

The other advantage that we have, of course, is that we have got two products as well, so we can be producing water during times of low power demand and producing all power during times of high power demand. So you might produce power all day and then water all night: you have got an inherent flexibility built into it.

Senator LUDLAM—But it is oversimplifying to suggest that having a large number of small generators makes us less vulnerable to supply disruptions than a small number of large generators?

Dr Ottaviano—That is a fair comment. If you take that to the extreme—and this is nothing to do with wave now—a fully distributed model where every household has its own power generator is obviously much more secure than a single centralised point of source. I do not think we will ever get to that, but certainly somewhere between the two gives you a huge advantage in terms of energy security.

Senator PRATT—I was interested in your comments about becoming competitive with gas in cost. I wondered if that was factoring in a carbon price. Was that with or without carbon?

Dr Ottaviano—No, that is purely on the cost of generation. That is not factoring in any other mechanisms on top of that.

Senator PRATT—So a carbon price might make that further—

Dr Ottaviano—That would enhance it further. Absolutely.

Senator PRATT—I suppose the other advantage is that your product is not likely to explode either, is it?

Dr Ottaviano—No, that is true. There has never been a wave explosion that I know of. But we should not dismiss the challenges of developing from waves as well—the extreme events—so you would need to have a system designed to cope with those situations.

Senator PRATT—On a more serious note, in that context, what does government need to learn to be able to regulate industries where it does not have much knowledge of the technology? For example, you have got an emerging technical knowledge within the industry itself.

Dr Ottaviano—Yes.

Senator PRATT—But then you also need regulatory bodies that understand the technology to create accountability so that we do not have these kinds of risks in the system. What do we need to do in terms of building up the long-term body of knowledge within government on these new and emerging industries?

Dr Ottaviano—There are two main issues I see as an emerging renewable energy technology developer when interacting with government. One is that currently there is no mechanism by

which you can apply for a wave energy licence or lease in Australia. We are probably 10 years behind the rest of the world. You can currently do that in the UK and the US. That has been a barrier.

The reason why a lot of overseas wave companies have not entered the Australian market is because they see that there is no easy means for them to do so. We, in a way, are pioneering that space by being granted this first wave licence and lease in Western Australia. We have negotiated with Australian government under another mechanism and therefore we have carried the load and the cost for doing that, but it would certainly make life easier for a mechanism to be in place.

The other fundamental challenge when you are developing an emerging technology—in this case emerging renewable technology—is entering the market the first time when there is still technology risk associated with your product. No financier will lend you money to build a power station for the very first time. So, even though we might start at the cost of wind generation—and you can go to the bank and borrow money for a wind farm today—you cannot go to the bank and borrow money for a wave farm.

That is really the role that I see government has to play—to help with a one-off mechanism by which it allows a new technology to enter the marketplace. Once it is in, it should not need any more help because it should be then standing on its own feet and proven. But without that initial mechanism, you will never get those new technologies entering the market; they simply will not be able to compete.

CHAIR—Mr Ottaviano, I am very conscious of the time and I am also very conscious of the importance of your submission in terms of a real alternative to the reliance on gas. It may be that we will seek from you some further information on the modelling for not only the efficiency of the operation but the financial effectiveness and the practicality of it. So we may ask you for more information.

Dr Ottaviano—I am happy to provide that. Absolutely.

CHAIR—Thanks very much for your very interesting submission to the inquiry today.

Dr Ottaviano—Thanks for your time.

[11.29 am]

WILLS, Dr Raymond Thomas, Chief Executive, Western Australian Sustainable Energy Association Inc.

CHAIR—I welcome Dr Wills from the Western Australian Sustainable Energy Association. Would you like to make an opening statement?

Dr Wills—Thank you. For the information of the committee, for background, we are the industry chamber in Western Australia supporting and advocating for sustainable energy outcomes for the state. In terms of equivalent state bodies, we are probably the largest state body of our kind in Australia.

There is a national body called the Clean Energy Council which has a similar but, in our view, more narrow role. We are a much more diversified group of businesses that not only includes sustainable energy companies who are involved in either energy efficiency or renewable energy generation but also a range of customers who are busy acquiring those services.

For example, some of our members include Carnegie Corporation, who have just left, and a range of other renewable energy companies such as Pacific Hydro, Solahart, Alinta and BP with their solar factory in Sydney, but also a range of customers like Rio Tinto, BHP and Fortescue Metals Group who are all involved in increasing the sustainability of their own operations through more energy-efficient practices and also through the development of energy efficiency and renewable energy sources.

One other example I will offer is WorleyParsons who, in a consortium with many of our members, are developing plans for \$34 billion worth of solar thermal energy generation around Australia, two of which are mooted for Western Australia: one for the Pilbara and one for Geraldton. As a broad picture, that is what we are. I am fond of saying, 'We've got everybody from architects to aardvarks.' Everybody asks what the aardvark is. Really, it is anybody that is interested in sustainable energy outcomes and a more sustainable environment for Western Australia and Australia.

CHAIR—Thanks, Dr Wills. In the context of the situation we find ourselves in in Western Australia, how soon do you think it would be feasible for alternative energy to make a significant contribution to power supply in Western Australia?

Dr Wills—One of the key issues in the Western Australian market for energy is the peakiness of our demand. We have a high demand during the daytime and a lot of that demand can easily be met through particularly solar production, which obviously is suited to daytime production. Solar photovoltaic and current technologies on solar thermal can all address the issue of peak load during the day. If you address that peak load through the day, gas production and gas-fired power stations are peak generators, so we could be taking the pressure off that gas load as a part of that process.

Dr Ottaviano made other key points about renewable energy generation: distributed generation is part of the characteristic of renewable energy and this provides a diversified supply. It provides a secure, distributed supply and it overcomes a lot of the weakness of nodal production of energy that is much more characteristic of Western Australian and Australian production of energy.

CHAIR—What do you think would be a reasonable, practical time frame to make that significant contribution you are talking about?

Dr Wills—I will answer in two parts. In the first instance, we have missed opportunities to create it in the past. Germany, California and other places have already embraced solar technologies in particular, and we have seen massive rollout in those places of solar technology. If you amass all of the solar that has been rolled out in Western Australia, it is slightly over one megawatt of power so far. Australia, and Western Australia in particular, is the Middle East for renewable energy. If you look at a solar distributor map for the world, you will discover that Australia has the greatest share of solar energy of any continent in the world. If you compare it to Germany, you would wonder why they are doing it there and why we are not doing it here. So there are those missed opportunities.

In terms of what we can roll out, it is now construction time. We can build solar thermal today. WorleyParsons, for example, with their consortium partners, already have plans for it. Australia missed opportunities with the development of David Mills's technology in Ausra. He moved to California and established a solar thermal production factory in California that we could have had in Australia, if we were embracing these technologies five years ago.

Your question, though, was, 'What can we do in the future?' In reality, particularly with the impetus for a 20 per cent renewable energy target by 2020, the key challenge for us now is resourcing the logistics of people, the logistics of projects and the logistics of financing for making sure that these things happen. How quickly can we build a solar thermal factory, solar thermal power generation system? Within a few years if we simply turn the sod.

How quickly can we distribute solar PV across rooftops, across small to medium enterprises and develop large solar thermal and solar PV installations? It is just a matter of ordering the kit that is out on the market at the moment. An interesting side note, which is perhaps unfortunate from the Spanish point of view but fortunate from ours, is that as of 1 October, Spain has reduced its consumption of solar PV. It has one of the largest uptakes of solar PV in Europe after Germany and as of 1 October they have met some of their quotas, so the solar PV market in the next couple of months should get remarkably cheaper. It is an ideal time to start.

Senator LUDLAM—This may be similar to the question that we asked Michael before: what is it about distributed generation that makes renewables more reliable than centralised fossil?

Dr Wills—There are a few keys to it. One is in terms of security of supply. I draw analogies to rainwater tanks. The question is why, in managing water, would we want to put a rainwater tank on the side of the home? One reason may be that it provides a local source of water. Another logical one is that it provides a secure water source for that particular home. If we have something go wrong with our water supply system, with a 10,000-litre water tank on the side, we can guarantee that we have water supply as part of that house. Distributed energy generation is

the same. One of the logical things is that, if something happens to disrupt energy supplies and we do have distributed generation on rooftops in homes, then it can provide a security of supply in those areas.

The other part of your question is one of reliability. The largest concern we will have is if the sun does not come up tomorrow. It will come up tomorrow. We will have solar production particularly in Australia where we have the best solar resources.

CHAIR—It did not come up this morning!

Dr Wills—It did, but it just did not seem that way. But there are opportunities for production in that. I take your point that sometimes it does not seem that way. It is similar with the technologies that Dr Ottaviano was describing, with wave technology: waves at one metre in swell size are not particularly noticeable at sea. If you are out to sea fishing, you would not notice that. But if you were having a wave machine underneath, producing energy from it, it would be entirely consistent, reliable and valuable. The wave technology, I think, is an exceptional example, particularly because of the numbers that Dr Ottaviano was talking about: 85 per cent of Australians live within 100 kilometres of the coast, and most of our urban expansion is along the coast

For us to take advantage of those wave resources where those communities need energy and they need water, with the sorts of technologies that were being described to you, there are clear opportunities for integrating those responses. One of those added values of renewable energy in this situation is that it has multiple outcomes, such as obtaining water and energy from it. You can also get multiple outcomes for communities because distributed generation means that those energy generation facilities are in the communities that need to use that energy.

The advantage of that is that there are jobs in those communities, there is distributed revenue in those communities as a consequence and, rather than having a single node of production where all money flows to pay for what that energy production is, you get distributed end generation that also distributes that income generation to the communities that consume the product. In terms of regional communities, particularly wheat belt communities—for example, in Western Australia, and the same is true across regional Australia—the opportunities to have renewable energy generation distributed through those areas are creating more sustainable communities because of the higher employment factors that they also create.

Distributed grids provide more reliable, higher quality energy supplies. There are enormous advantages with distributed grids, and one is that there is an improvement in the quality of power on that grid. If you have nodal distribution and pumping through long wires, when you get to the end of the wire, the quality of the power at that end is diminished. You get fringe-of-grid problems. Distributed generation starts to overcome some of those issues.

I am aware of, for example, a wire-pulling factory in Narrogin that several years ago shut down because they had 10 brownouts in a year and they simply could not sustain that. They moved to Bunbury and moved their staff to Bunbury—a staff of 12—to continue that operation. Distributed generation would have avoided the problem.

Senator LUDLAM—I realise time is short, but could you sketch what kind of policy support the industry needs to get on its feet.

Dr Wills—I think one of the keys, as Dr Ottaviano outlined, is the issue of new start-up technologies being supported through both federal and state government processes. I am a supporter of free markets and I think that the ideal solution should be a free-market one. But in the instance of renewable energy, there is a reason why we do not want to wait for that, and that is because we have other imperatives that are also influencing our decision on the uptake of reduced emissions, energy reduction, and on the issue of responding to climate change and to reducing greenhouse gas emissions.

Within that context, the reason why we need to step beyond free-market solutions is to actually bootstrap this stuff and get it happening quickly. The logical way to do that is obviously with government support and with initiatives that might be through public-private partnerships or some other mechanism. But, nevertheless, I think there is a very specific role for government. It is really no different to the beginning of last century when governments were involved in the creation of our current energy generation infrastructure. We are actually at that same point now, because what we are doing is changing our energy generation paradigm.

In the last century we needed to build the wires, we needed to build the power stations, and largely that was done by government. We now have some unproven technologies that financial institutions, especially in the current climate, are not prepared to step towards, and the only way to do that is, I think, through partnership with government.

I will also highlight a second really important point about renewables that Dr Ottaviano referred to, and that is the question of power pricing. One of the key advantages of renewables is that you know what your energy price will be in 20 years time because the sun will continue to come up, the waves will continue to wash on our shores and the wind will continue to blow past us. The cost of that energy source will not change. Sure, there will be maintenance costs, staffing costs, there will be other things that do add some inflationary pressures to that energy generation, but the reality is that we will still know the price of the source of the energy itself, and it is free—well, up until the point that we probably need to start thinking about royalties on renewable energy sources, but that is perhaps a discussion for a different time.

Senator LUDLAM—Thank you, Dr Wills.

Senator PRATT—Dr Wills, in the context of what you were saying about the need for government support and investment, I would suppose that, in any case, if we are looking at diversifying supply by something like a second pipeline, that would be a proposition that the government needs to consider anyway, so we are not necessarily looking at no cost outcome in terms of diversifying supplies from other sources either, are we?

Dr Wills—No. Picking on the example of the pipeline, even that is an opportunity for renewable energy inputs. That pipeline has pumping stations, and currently those pumping stations use the gas that is in the pipeline to create the pressure to pump the gas further along the pipeline, so it depletes and uses that resource. If we can combine that with a hybrid technology of solar thermal and gas, we would be increasing gas supplies within it. In terms of replicating

the infrastructure, though, that is also a decision that we have to make at this point, and make those investments.

Senator PRATT—But, for example, if we had three options—a second pipeline, gas closer to the south-west, or looking at renewable energy, all of which would take substantial investment—how would renewable energy stack up against those proposals?

Dr Wills—Again, it is the challenge of a new technology. The challenge is that we have not built many of these things yet. Technically, they are not that challenging; theoretically, they are well established. But we have not built them yet, and that is the risk that the banks are not prepared to step towards. Banks are very comfortable with risk management in dealing with conventional technology where they know what the conventional returns will be.

Senator PRATT—Pipelines do not necessarily seem such a good investment at all times either.

Dr Wills—No, although they are a solid investment, and certainly many of the investment companies will tell you that an eight to nine per cent return on a piece of infrastructure is a pretty solid return.

Senator PRATT—Thank you.

Senator EGGLESTON—Dr Wills, you talk about California developing solar power units there. How developed is the solar power industry in California and is it, for example, providing baseload power to any communities in California?

Dr Wills—The solar thermal industry is just about to commission their first 500-megawatt power station, so it is yet to be commissioned on the grid, but the plans are, out of 120 gigawatts of generation in California, by 2030 to have 60 gigawatts of solar thermal generation. They are the plans that are being rolled out in California.

Senator EGGLESTON—So that is 50 per cent.

Dr Wills—Fifty per cent with solar thermal by 2030. The jolly green Governor is really pushing this along with legislative support, and particularly government support, for this technology as he tries to change that process.

Senator EGGLESTON—What part of California is the solar power unit in? Is it in the south, which is a bit like the north of WA?

Dr Wills—I must confess that I am not aware of the geography.

Senator JOHNSTON—It is in the Mojave Desert, isn't it, Dr Wills?

Dr Wills—The Californian plants, yes, that is right.

Senator JOHNSTON—It has got a gas and nuclear baseload. That is why they can tap onto nuclear with molten salt and all of the things that they are developing: they have got a very solid baseload.

Dr Wills—They have got a very solid baseload, but the key is that solar thermal, as we are developing it now, is a new technology that includes thermal storage as a part of the process. That is the nub of the issue for all renewables: it is a storage issue. The moment we crack the back of storage, we will improve outputs from renewable energy. It will also improve outputs from conventional energy. If we can throw storage, for example, onto a coal-fired power station, we will actually reduce the emissions from that coal-fired power station as well because we will not have to fluctuate it. We will build it at 80 per cent capacity and run it flat out all the time and, overnight, instead of worrying about turning it down a bit, we will throw it into a thermal storage device and produce it. So storage is valuable for the whole of the energy industry. It is a key issue.

Senator MARK BISHOP—Did you say that in 2030 California wants to have 50 per cent of its power from—**Dr Wills**—There are plans for 60 gigawatts of solar thermal generation for California by 2030.

Senator MARK BISHOP—Do you say that is government policy?

Dr Wills—No, it is a mix of policy. I apologise, I forget the actual target that California have, but it is a fairly aggressive one. I believe that they are trying to reduce emissions by 80 per cent.

Senator MARK BISHOP—They are also building dozens of huge LNG plants and importing gas from around the world, aren't they? That has been a live debate in this country for the last three years—whether BHP can build those huge plants off—was it San Francisco?

Dr Wills—Building a single plant off the coast I think is fair, yes.

Senator BUSHBY—I am curious about the solar thermal power plant in California. What area do they have to measure carbon physically, in terms of land, to generate that quantity—

Dr Wills—I will refer to the WorleyParsons plan for their 250-megawatt power station that they are planning for the Pilbara, which is, from memory, 2½ square kilometres of array for a 250-megawatt power plant.

CHAIR—Thanks very much, Dr Wills for your submission today. We appreciate you being here.

Dr Wills—Thank you.

[11.48 am]

COWIE, Miss Amanda Anna Jayne, Marketing Team Leader, Sustainable Energy Now Inc.

DICKINSON, Mr Christopher Ross, Acting Secretary, Sustainable Energy Now Inc.

GATES, Mr Stephen Malcolm, Chair, Sustainable Energy Now Inc.

WARDEN, Mr Gary John, Member, Sustainable Energy Now Inc.

WARDEN, Mrs Toni-Marie Ramplin, Member, Sustainable Energy Now Inc.

WILKES, Mr Paul Graeme, Vice Chair, Sustainable Energy Now Inc.

CHAIR—I welcome the representatives from Sustainable Energy Now. Mr Gates, would you like to make a verbal submission to the committee?

Mr Gates—Yes. Thank you for allowing us to appear. Paul Wilkes will be doing the presentation for you with a summary of our submission.

Mr Wilkes—Good morning everyone, and thank you very much for the invitation to come and present to you. I will tell you a little bit about SEN before we get into the main technical stuff. SEN—Sustainable Energy Now Inc.—is a volunteer group of professional scientists, engineers, computer people and other like-minded people who are very passionate about renewables. We have been going for a little over a year now. A lot of our spare time volunteer activity is to research renewable energy and to produce a computer simulation of what is available and possible here in WA, initially, and then obviously to educate, so we give lots of talks, and we have quite a vigorous website on the go. So I think it is very neat that our talk actually follows on from the Carnegie presentation and the WASEA presentation you have just heard.

Slides were then shown—

Mr Wilkes—We produce six or seven slides now, just as a brief overview, to focus the discussion this morning. This is, I think, reasonably self-explanatory, but if you look at the outline first, this is what I want to try and cover—some in more detail than others—and it is for you to come back with questions.

First of all, what is the challenge? The challenge is pretty obvious. The Varanus Island gas explosion has really focused our attention on our vulnerability in having two few supplies, in the wrong places sometimes, for the energy we so much need in WA, and the challenge is what to do to replace that and to come up with something more sensible and sustainable.

Second, I want to briefly recap on the tremendous amount of renewable energy we actually have available in WA and some of the technologies that we have to harness that, and some of

those you have heard about this morning. There will be something about costs, and we will be reporting on some of the work done by other financial consultants; something about time frames; and, furthermore, where do we go from here?

Moving to the next slide, the Varanus Island gas explosion has clearly demonstrated the danger that we face in WA of being dependent on so few energy sources, and the clear need to diversify. Secondly, WA has a fantastic endowment of renewable energy sources. Biomass is a fairly small one, possibly. These are listed alphabetically, not in order of importance. Geothermal: we have our share of hot rocks here. We also have hot water, sun—we are one of the sunniest places in the world. You have heard about waves this morning from Dr Ottaviano. We are also incredibly well endowed with wind power. So we have all the resources that we need, and one of the surprises for this group when we started our research last year was to find out how well endowed we are here in WA. I do not think many people actually realise how well WA is endowed—and the rest of the country, too, for that matter.

If we then were to rapidly adopt renewable energy sources, we bring diversity, we bring improved energy security and we greatly reduce our greenhouse gas impact. WA in fact has a greenhouse gas footprint, for all of us, of about 34 tonnes per person per year of CO₂ equivalent. That is a huge number. The Australian average is 28 or so, but Western Australians, partly by virtue of our small population and partly because of the activities we carry out here, are actually the worst emitters per capital in the country. Finally, just on the submission highlights: renewable energy is rapidly becoming cost competitive.

If we move over to the next picture, ‘Naturally available energy resources and the SEN project’, this shows in the lower part some of the energy resources we have available. If we start at the bottom left, this is a picture of interpolated temperatures at five kilometres depth below the surface. I should say that this should not really be a continuous map because we only have information, particularly, where the hydrocarbon explorers have done temperature measurements. There are large parts of the state and the country that just have not been covered. But the red areas here are the inferred deep hot rocks, at about five kilometres depth, of 200 degrees Centigrade or more. The major activity in geothermal in this country at the moment, as you probably know, is in the Cooper Basin, with Geodynamics, in the north-east part of South Australia, where they are currently drilling to four and five kilometres, and they have already said that they are sitting on a resource of 10,000 megawatts in that one field alone. That is three times the peak energy consumption of WA.

If you move across, next, to the wind speed overlay, you can see the increasing colours, through to the deep blue in the bottom south-west. These are winds typically of the order of seven metres per second, so again we are well endowed with strong winds. Solar overlays is the next one. It is not a very clear diagram, I am sorry. I can probably provide you with a better diagram than that one. Basically, the sun is particularly strong in the northern part of WA and less strong as we move towards the south-west, but as a state we are incredibly well endowed with solar radiation.

Dr Ottaviano spoke earlier about wave energy, and you can see from the bottom right on this diagram that basically the southern half of Australia is all amenable to implementation of wave power, from about Shark Bay southwards in WA, around to an equivalent place by Brisbane on the east coast of Australia. So we have a fantastic opportunity to tap into wave power. The main

point, if you have learnt nothing else from what we say this morning, is that we are incredibly well endowed with what we have by way of naturally available energy resources.

I will say a little bit about the SEN project. What we are doing is taking in real-time or near real-time information on sun, on winds, on waves et cetera, and combining that with what we know about the hot rocks et cetera, to simulate what we can actually put in place if we have the political will and the means to do so—power stations wherever needed around the state. The idea is to produce what we call virtual renewable energy power stations and show them on Google Earth, which is what this top right-hand section is. It is showing a particular wind farm here in its real extent.

If we move to the next one, these are some of the available technologies. You have already heard about the Carnegie sea trial system that is at the top left in this diagram. At the bottom left of this diagram is a parabolic trough system for solar thermal. This is not the WorleyParsons one, this is another one. In the middle at the bottom here is another solar power station hooked into a coal-fired power station in New South Wales. At the top middle is a wind farm. This is the largest wind farm, I think, in the Southern Hemisphere. This is one that has been planned for Victoria. It is 329 megawatts; that is a pretty large wind farm. At the top right is a diagram showing how hot rocks work. You pump water down to interact with the hot granite at three to five kilometres depth, you get hot water back, you drive turbines, you recirculate the water and so on. It is an incredibly neat way of doing things. At the bottom right, we also have more photovoltaic systems in the pipeline. We have lots of technologies at different stages of development and implementation, and you have heard a bit about that this morning from the previous two speakers.

What is going to make this all work? We move now to costs. Obviously, you do not want to do something if it is not cost effective to do so. This top diagram has come from Geodynamics, the people in geothermal, and this shows that geothermal is likely to be cost effective with coal, with nuclear, with gas et cetera. You also see at the top right, in this green section, an idea of the costs of some of the renewables, and this is without saying much about carbon pricing et cetera. There is some allowance for that in this diagram, but these dotted lines that appear on, say, coal and gas are an allowance for eventual carbon pricing in the future.

The bottom graph, the one showing some financial modelling by McLennan Magasanik Associates for the Renewable Energy Generators of Australia, shows what the modelled pricing is for different forms of renewable energy, and this shows that geothermal is likely to be the cheapest of these. I did not include in this brief overview, but it is in the main document, a comparison of renewables with the non-renewable sources.

Going back to my original headings, the time frame is obviously very important, and there is quite a lot about the time frames in our main document. We have actually put some time frames in there that we have been told about or that are in the literature from the different suppliers.

Finally, where to from here? There is a clear need to reduce our greenhouse gas emissions. This is in the news every day. It is really important. This is a way that we can actually help to do that: by diversifying our power supplies and by using renewables. We have lots available. We have lots of energy available to harness. It is just a matter of finding out the way to actually do this. This is, I think, a matter of political will, it is a matter of the right sorts of financial

arrangements, and it is a matter of getting on with the job. I will stop at that point and invite questions that, between us, we will field as necessary.

CHAIR—Thanks, Mr Wilkes. Thanks, Mr Gates.

Senator LUDLAM—What are the key attributes of a distribution and generation system that would prevent this kind of episode occurring?

Mr Gates—First of all, the more diversified, obviously, that an energy system is, the more resilient it would be if any one part of it were to go out. The US military, back when they were inventing the internet, realised how useful a network was in terms of making it resilient, so it is a similar analogy to renewables and distributed energy. I know Ray Wills and Michael Ottaviano made those points, too. If you were to look at a scenario for renewable energy, you might put solar thermal plants up in the sunny dry areas—desert type areas. You would put obviously wave energy along the coastline. Wind could be inland, as well as along the coast.

The coast is generally a better resource, but certainly even inland that would provide additional income for farmers and rural industries, jobs, that type of thing. Solar PV, of course, could be put right into the grid from upon rooftops and, yes, PV does not necessarily produce energy at all times but it actually does coincide very well with the energy demand, particularly in the summer, which is the peak demand on the SWIS system. There is a fair amount of gain in terms of fewer losses in the system because you are generating electricity right where it is needed and, of course, less cost in terms of infrastructure and that type of thing, to distribute it.

To make a more local point, Western Power is interested in increasing generation from the coal-fired power station down at Collie and that needs to now be brought up to Perth. Their first proposal was that it would go into bushland that is a state forest, so there is a real issue with the kind of distribution from a concentrated source. If we were to distribute that generation within the city and from other outlying areas, we could avoid some of those problems. That is about all I have.

Senator LUDLAM—I have not had time to look through the more detailed submission yet, but you mentioned time scale. Really, what is feasible in Western Australia? How long?

Mr Wilkes—We can come on board with these progressively. The Carnegie estimate this morning of, I think, 2011—power going into the grid in Albany—I think is perfectly feasible. WorleyParsons I guess are in the driving seat with the solar thermal. They are ready to go now. They are at a pretty advanced state. They gave a presentation last Friday lunchtime to the WASEA group. They are basically waiting to go, and they are talking about 34 power stations across the country by about 2020.

Mr Gates—Which would be 40 per cent of the 2020 renewable energy target.

Mr Wilkes—In terms of geothermal, Geodynamics in South Australia are putting power into Innamincka, which is the nearby township, by 2010—that is the year after next—and then to scale up progressively to, eventually, 500-megawatt units, to as high as we need to go. That particular one is rather remote obviously, so they have the tyranny of distance and the cost of

transmission lines from where they are at Habanero, Cooper Basin, into the grid, but I think they are sitting on a large enough source that they can actually wear that cost.

Progressively from here on we do not have the long delays we have with nuclear. I listened to a talk recently from a French lawyer who had been involved with nuclear power in France and one of the things he said, amongst others, was that they have to allow a five-year period for public debate any time they have a new nuclear power station in France. That is before they do any building at all. We cannot afford that sort of delay. We need to get on with reducing our greenhouse impact. We need to get on with alternative ways of generating energy et cetera. We just do not have that sort of luxury of time. We need to get on with it, and we have many of the ingredients right now with us.

Mr Gates—Can I just add, on Carnegie—the wave energy—they are saying that by 2020 they could have two to three gigawatts worth of power generation, and it is largely dependent on a bit of a kick from the government in terms of funds to get a new technology like that, and assistance in terms of access to the grid and various other regulatory impediments. Given that the SWIS demand right now is an average of 2.6 gigawatts, peaking to just over four, we could potentially have the majority of our energy coming from a baseload wave energy source.

CHAIR—Mr Gates, firstly I am a bit surprised to see my old workplace, Liddell power station, in an environmentally sustainable submission. It is very good, actually. But every time I hear Senator Ludlam talk about this, and when I hear these submissions today, I think, ‘Why are we not picking this up?’ What are the market impediments? Given that we have got this mindset that it must be a market-driven approach and this is so good in terms of its potential, why is the market standing off this approach? Can you explain that to us?

Mr Gates—If we go back a little way, there was a question earlier asked: what is the proven record of solar thermal? In fact, in southern California, Southern California Edison out at Daggett, Barstow, has been operating a plant since the 1980s. They have, I believe, 18 years of experience with that. Southern California Edison has actually been using it with, I believe, 98-plus per cent availability and they are very happy with it. That is where WorleyParsons’ technology has come from and that is what they are proposing to bring to Australia in this 8.8 gigawatts of generation, which is \$34 billion in their estimate. There is a lot of proven record of that.

There are a couple of problems here in Australia. We had a very low mandatory renewable energy target in the prior 11 years. We have also had a very low cost of generation. Because California’s costs are a little higher, that probably makes it more attractive over there, but of course now we are looking at the issues of the costs that have always been externalised, such as the carbon cost and other environmental problems. Coal mining in Collie is going to be taking a lot of water out of the Yarragadee aquifer, for example, because they have to dewater the mines.

Getting back on track, the other impediments according to Western Power, who talked to us on Monday at the Renewable City forum, are the infrastructure issues. It is an old system; it is not able to flow energy both ways. Things like intelligent grid, smart metering and things that allow feed-in tariffs to work mean that, if you generate electricity, first of all you can keep track of whether it is going in or out of a household and, also, having a decent feed-in tariff like Germany has with their solar PV system has made a huge difference in investment, because people can

actually see a payback period that is very reasonable. I think a lot of the additional cost that people look at with PV can be offset by the fact that you save on certain infrastructure costs and maintenance and that type of thing.

Senator ADAMS—I note in your submission that you have got the integrated wood processing plant at Narrogin featuring there.

Mr Gates—Yes.

Senator ADAMS—A number of mallee trees, of course, are now being grown up in the mid-west.

Mr Gates—Yes.

Senator ADAMS—Hopefully in a sustainable area. Could you just outline the future of those plants.

Mr Gates—Yes, that is a good question. I happen to have accidentally had a conversation with somebody who has been deeply involved with that and I would have to ask him if he is happy for me to quote his name. The process has been proven and all that, but the problem at the moment is just one of technology in terms of harvesting the oil mallee. Once that is achieved with a machine that can do it at a certain rate, and economically, then I believe they are happy to proceed with it.

Miss Cowie—There is a plan to install 10 five-megawatt plants in the region there. The initial one is for a five-megawatt plant, and of course the benefits of the oil mallee are the by-products that are good for agriculture and helping with the salinity problem, so Western Power are intending to install 10 five-megawatt biomass plants.

Mr Gates—In wheat belt areas, yes.

Senator ADAMS—So as far as carbon credits, is the fact that these trees can be coppiced going to be another plus for that industry?

Mr Gates—Yes, that is so. It draws out carbon over time. It is carbon positive.

Miss Cowie—They say it is carbon negative because there is some release.

Mr Gates—Sorry, carbon negative, yes.

Miss Cowie—It is carbon neutral because it draws the carbon out as the trees are growing and then it releases some carbon back during the gasification process to generate the electricity. However, there are other benefits of the activated charcoal once the burning process is complete, which is good for agriculture. But the carbon in during growing and the carbon out during processing is equal, therefore it is not adding to—

Mr Gates—The oil mallee is a tuber, essentially, and what remains underground which is not coppiced is a fantastic carbon sink. I believe they have examples of those tubers being 6,000 years old.

Senator MARK BISHOP—How much mallee is up there in the wheat belt?

Mr Gates—It was there originally, but the proposal for integrated wood processing is that about 15 per cent of the farmland could be used in windrows to grow the mallee.

Senator MARK BISHOP—They are going to plant them?

Mr Gates—That is right. Yes, it would have to be done on a sustainable basis. As Amanda mentioned, the beauty of the activated carbon that results from the gasification process, which then is burned to drive turbines, is that that is not just a carbon capture but also a nutrient-capturing device. You can put it back into the soil and it captures nutrients and improves the soil quality as well.

Senator MARK BISHOP—How long to grow the mallee?

Mr Gates—They coppice them about every three years, plus or minus a couple of years.

Senator MARK BISHOP—To maturity in three years?

Mr Gates—To the point where they can coppice it, yes. On a two- to three-year cycle they would.

Senator ADAMS—Yes, they prune it and then it keeps growing, so it is something that will keep going. That was why I was asking about the carbon credits and as to how that would work.

Mr Gates—A large proportion of the plant is underground. The mallee roots that you have seen and maybe chucked on a fire: some of you might be burning 6,000-year-old carbon. It has a lot of benefits. The only thing is that it is probably limited on a scale of utility generation to not a huge amount relative to wind, wave and solar. Those are massive resources.

Miss Cowie—If I may go back to the chair's first question as to why we are not using renewables, it is because of infrastructure and institutionalised behaviour. We have moved away from having distributed power generation through Fremantle and East Perth. We have been moving more towards a centralised generation via coal, a mass-produced baseload because it is pumping out electricity continuously and we have adapted to that type of generation.

Perhaps the explosion at Varanus Island has identified a weakness in that particular system and the leadership needs to change so that we can move back towards a distributed system so that we have more security; more reliability; the many benefits that can come from the renewable energy, including reducing CO₂ emissions, generating revenues and incomes for regional areas; more secure systems; guaranteed costs of generation going into the future; not being reliant on the free market in terms of source fuels; not being subjected to those kinds of risks in the future. So why aren't we doing it? It is because we have become institutionalised into this being the

way we do it, so we just accept it. Leadership needs to start asking, 'Is this the right way? Should we be continuing?'

Mr Dickinson—There is something I would like to add that is also pertinent to that. One of the most common misconceptions is that, if we were to go over to fully sustainable energy, then BHP Billiton, Woodside Petroleum and so on would have to close their doors and sack everyone. That is completely untrue. In actual fact, while we would not have a fossil fuels industry any more, fossil hydrocarbons would still be a major resource for this state. We would still need coal and oil.

There would still be oil rigs and we would still need LPG because hydrocarbons are useful for so much more than just burning. All the tyres on your cars, the asphalt on your roads, a large amount of the fertiliser used in crops, all of the plastic around us, all of these come from various transformations of oil, coal and gas.

We would not be talking about the end of these industries but a transformation of them. They will get out of the fuel industry, but they would still be in the plastics, coal, fertiliser and other industries and, as the world economy grows, the demand for plastics and so on would only increase. There would a momentary dip and then they would be off and still growing, so going over to sustainable energy is the best way to secure our current resource industries and prolong them into the future.

It is almost inevitable that, if we keep on going and burn all of the oil that we can feasibly get, and all of the coal, future generations—and I am talking about 20 or 30 years from now—will be cursing us for having burned such an incredibly valuable resource when it could be going towards the economy then. So, yes, it is not a case of shutting down all of our resource industries. It is a way of safeguarding them but using them in a way that is environmentally sustainable.

Miss Cowie—Sustainable energy leads to sustainable economy.

Senator PRATT—We have had some discussion about the kind of time frame for renewable energy substantially reducing our reliance on things like the Dampier to Bunbury pipeline. What do we need to do to accelerate that?

Miss Cowie—Could I start by referring you to page 11 of the main submission. That has a brief outline of some of the time frames it would take to install the technologies, but that is with already having the infrastructure in place. Having the policy and support, as Ray Wills mentioned, the in-government partnerships—and partnerships are very important—to get the infrastructure in place and make it accessible to renewable generators would be one of the challenges. Possibly to assist generators get the funding that they need: having a feed-in tariff would guarantee the income, which would make them a less risky option for finance companies to invest in so that they can get the start-up and get going and start building our industry of the future.

Senator PRATT—I appreciate the logic of feed-in tariffs. Further to that, when we are looking at Western Australia, which has big, heavy industry that relies on solid energy supply, how do we get the renewable energy industry to form the kinds of reliable partnerships so that

that heavy industry is looking to renewable energy? Things like feed-in tariffs are only ever going to be a marginal part of our overall consumption. We certainly cannot have feed-in tariffs supporting that level of energy consumption.

Mr Gates—That is a good question and that is one of the reasons WorleyParsons has come in on the joint venture with BHP and some of the other oil and resource companies. They see having their own generation in their local area, which is perfect up in the Pilbara, as a fantastic synergy. They are fully behind it and willing to do it as it is, right now. They believe they can also make their supplies more secure.

Can I just go back to the other impediments? One was that essentially the price of coal- or fossil-generated electricity is not reflective of actual cost. We see that with the issues that Verve Energy has in terms of balancing its books. Doug Aberle of Western Power was talking on Monday at the Renewable City conference and he said, ‘Coal is just too cheap,’ and that it has been held artificially low since 1991. I am aware that at least for the last nine years the government has just put a cap on, so we do not see the true cost of coal, yet renewables have to compete on their own merit. It is not an equal, level playing field.

Mrs Warden—It is about time the state did a proper review of the wholesale electricity market and how it is faring. We know that ERA constantly asks for submissions and comes up with that, but do we need a body to physically look at that away from those industries to assess whether it is delivering what it is supposed to do and what the impacts of that are on renewable energy providers establishing themselves in the market?

CHAIR—Thanks very much for you and your team coming here this morning. It has all been extremely interesting and we hope to include some of the issues that you have raised in our report.

Proceedings suspended from 12.21 pm to 12.57 pm

DUNCAN, Mr Ian Stewart, Economist, Western Australian Local Government Association

LANE, Mr John, Emergency Management Coordinator, Western Australian Local Government Association

CHAIR—I declare open this session of the inquiry into the matters relating to the gas explosion at Varanus Island, Western Australia. I welcome the Western Australian Local Government Association as witnesses. Would you like to make an opening statement?

Mr Duncan—Yes. By way of introduction, to ensure everybody is familiar with who we are, while there is an independent membership based organisation, we represent the interests and support the interests of the 139 local governments in Western Australia and the two local governments in the Indian Ocean territories. Essentially our business is to provide a voice for the 1,400 elected members, the 12,000 employees of local governments, along with the two million or so people that they serve.

I would certainly like to thank you, on the record today, for the opportunity to make a contribution to this inquiry, and we do look forward to a valuable outcome for Western Australia and Australia.

What I thought we would do today, if it is appropriate, is to talk about a number of points under four key headings: firstly, the responses of local government to the gas supply shortage; secondly, the impact of those responses on the sector and on the community; thirdly, John will talk particularly about our experiences in being involved in the management of the response to the situation; and, finally, some suggestions for the future, based on our experience since the incident occurred in early June. Is that okay with the way you would like to handle this?

CHAIR—Yes.

Mr Duncan—Perhaps it is appropriate to say at this time: please interrupt with any questions as we go through, or at the end.

CHAIR—I will chair the meeting. I was only joking!

Mr Duncan—In terms of the response of local government, along with businesses and householders in Western Australia, local government sought to respond in the most appropriate fashion to the reduced supply of energy and particularly the reduced supply of natural gas. So, in response to a public request from the state government to reduce energy use, the Local Government Association distributed an information sheet to all local governments—what we would call an info page—during June and we highlighted the actions that should be considered, because they were quite specific to different local governments, in order to reduce their overall energy consumption.

It is worth noting that local governments individually are generally not large energy users, but collectively represent a reasonably significant energy consumer. In the short term, where practical, councils took those relatively simple actions of reducing lighting levels, reducing

heating in offices, turning off water features; those types of things that generally had a small impact on employees and had a small impact on services delivered to the community.

As the weeks unfolded some additional measures were taken and service delivery to the communities was impacted as a direct result. WALGA undertook a survey of 45 local governments in the third week of June which showed that 78 per cent of the local governments had reduced the water and/or air temperatures in their municipal swimming pools and a few had closed part or all of the facilities. Most of the balance of those pools not represented there in that 78 per cent were either seasonally closed, geothermally heated or unheated.

Sixty-nine per cent of local governments indicated that the planned construction and maintenance activities were being quite seriously affected by the gas shortages. In most cases this was a shortage of asphalt. In a few cases it was concrete products and the lack of specific items that was delaying the programs. It is worth noting that two local governments have reported cases of people being injured as a result of road repair activities being left unfinished at that point in time. So those are essentially the responses of the local government sector that we noted during the June period.

In terms of the impact of those things on the community and the employees, 20 per cent of local governments reported that they had reduced casual staff in recreation facilities and a further 11 per cent reported that staff had taken leave or been redirected to other areas of council business. Eighteen per cent of local governments indicated that the use of their recreational facilities had decreased, presumably as a result of colder water and colder air temperatures, but we do not have the evidence to verify that.

Local governments were and remain concerned about the impact of the gas shortage, particularly on businesses and households within their communities. There were undoubtedly some additional costs incurred by local governments, and hence their ratepayers, as a result of reduced turnover at aquatic and other recreational facilities. There were also undoubtedly significant additional costs incurred through the delaying and rescheduling of construction and maintenance activities.

Having said that, quantifying those sorts of losses is quite difficult. But, bearing in mind that the turnover of the local government sector in Western Australia is around \$2 billion, even if you assume that it is only a small proportion of one per cent of that annual turnover, it represents a significant sum of money. From the local government sector's perspective, potentially more important are the consequences of reduced service delivery to the communities. In terms of crisis management, I will hand over to John.

Mr Lane—WALGA accepted an invitation to participate in the Gas Supply Disruption Recovery Committee convened by the Western Australian government Department of the Premier and Cabinet. I will point out that the Department of the Premier and Cabinet is the hazard management agency for recovery in Western Australia. We think that this is a sound initiative and we believe that we contributed effectively to the operations of that committee. It is worthwhile highlighting, and considering, that the State Emergency Management Committee, which is the governing body for emergency management in Western Australia, had approved state emergency management plans, known as Westplans, and specifically a fuel shortage emergency plan, but this plan appears not to have been implemented in this instance.

We suggest that using formal, prepared and tested emergency management plans is appropriate in emergency situations. This plan is currently being reviewed by the Department of Consumer and Employment Protection, as that department is the nominated hazard management agency for that plan.

Westplan Recovery is another state emergency management plan that is available for recovery committees during this process. Westplan Recovery sets out responsibilities for the recovery services subcommittee for state-level recovery operations, as was the case here. The subplan provides for a nominated membership of 12 organisations, but in this instance the recovery committee consisted of 21 attendees. It was our observation, being part of that committee, while we are a member of the structured subcommittee, that 21 attendees at that particular committee tended to be fairly overbearing at times. There was quite a bit of indecision as to what direction to take. At one stage, a recommendation by FESA that we split into subgroups, as is decreed under Westplan Recovery, tended to be glossed over. Basically what we are saying is that, where the Westplans are in place and well tested within the state, that they be followed.

Local governments sought to respond appropriately to the gas shortage, both in their own operations and through leadership and the capacity they exercise in local communities. There was a difficulty in obtaining clear information regarding community benefits of the reduced gas or emergency for use in this difficult task. Expressed pragmatically, local governments needed to determine whether the gas made available as a result of actions they could take would lead to a net benefit to their community.

Some feedback was provided to business and households indicating that gas and electricity consumption had been reduced, but this was not expressed in terms of the number of laundry services or timber mills or asphalt plants that were enabled to stay online as a result of what the community was doing.

The largest single energy use in the local government sector is for street lighting. Street lighting is organised and paid for by local governments, but operated by Synergy. In general, street lighting services were not changed in response to the gas shortage. We say that the street lighting was not taken offline. Lack of information and potentially a lack of control to be able to change the configuration at short notice means that the opportunity to reduce usage in this way was not fully explored.

In conclusion, as a representative body of the local government sector, we believe that there is evidence that the household, business and government sectors in Western Australia are prepared to work together to minimise the impact of any emergency. Local governments acted in good faith, making decisions assessed to be in the best interests of the wider community, given very little information.

We would urge the committee to recommend that emergency management plans be reviewed and, if unsuitable, revised and used if an analogous situation arises in the future. We would also urge the government to work with the relevant commercial entities to enable the provision of accurate information concerning gas supply and demand so that the community can respond appropriately. That concludes our evidence to this committee.

CHAIR—Thank you, Mr Lane. Thank you, Mr Duncan. Could one of you comment on the view that was taken by the Chamber of Commerce and Industry that the emergency plans should not be implemented and that the resolution to the crisis was on a market based approach. That is what government adopted and that was the appropriate way forward.

Mr Lane—Having sat on the recovery committee, there were two approaches being taken. On one hand, there was the approach that they were responding to the emergency instead of recovering from it. So the two approaches—response and recovery—were both going on in that committee at the same time. Recovery committee is basically taking a lead role in recovery and not actually responding to, that is the role of other agencies responding to those types of emergencies, so there was a little bit of a blur there.

Whether it was appropriate or not, I cannot really comment. I have not sufficient information to say whether that was the correct action or not. What normally occurs is that the minister responsible would declare a state of emergency and then the emergency management arrangements would be put into place by the hazard management agencies, whoever they would be.

CHAIR—So you are still saying that, from the local government position, there should have been a state of emergency declared.

Mr Lane—I think so, yes, depending on the level—

CHAIR—What difference would that have made?

Mr Lane—If a state of emergency is made, the emergency has to be at such a level—at no stage did we really have a good clear understanding of the holistic impact.

CHAIR—What does that mean?

Mr Lane—It means that there was not enough information coming to the recovery committee to say what the holistic impact was likely to be.

CHAIR—And declaring a state of emergency, providing government with special powers, would have been the way to deal with this?

Mr Lane—Probably not, no; not at this stage, no.

CHAIR—What are you saying? I am confused in terms of your response, to be honest.

Mr Duncan—I do not think that the two points of view are necessarily mutually exclusive, in the sense that a state of emergency or a market based solution are necessarily opposite responses. Even as we sit here today, several months after the major part of the incident, it remains unclear as to whether this was an emergency from that point of view or not an emergency. On the one hand people in households, the business sector and the local government sector were being asked to respond in a way as if it were an emergency, and yet on the other hand some of the behaviours were inconsistent with that. Therefore, it is very difficult to sit here even at this point in time and say, ‘Yes, an emergency should have been declared,’ or, ‘No, an emergency shouldn’t have been

declared,' because the responses available and the impact of those responses to us remain unclear.

CHAIR—I cannot understand. I think yours is the only submission that has said there should have been a state of emergency declared. That means significant and quite detailed government intervention in the market. Is that what you are seeking? You want government to intervene in the operation of the market in circumstances like the gas crisis in Western Australia?

Mr Duncan—On the basis of the limited information that we were being provided with, in terms of the sorts of responses that people were being asked to make, that would seem to be an appropriate level of response, bearing in mind that the market solution, as I recall it, was not effectively implemented for quite some period of time after the initial response was requested.

CHAIR—Looking at your submission and the effects and the actions taken by local government, you would not really describe it as an emergency situation. It would be more a situation that you would rather not have had, that caused great disruption, but not an emergency surely. Local government did not feel that you were in an emergency situation.

Mr Duncan—That is correct. Local government did not feel and did not behave as if it were an emergency situation, yet at the same time we were trying to be responsive to a lot of public domain information which was saying, 'Behave and respond as if this were an emergency,' and that is exactly the conundrum that we are trying to express here—that either it was an emergency and you should behave as if it were an emergency, or it was not and you should not behave as if it were, rather than some kind of a mix or dilemma between the two.

Senator JOHNSTON—You have made a comment in your submission:

This committee was considered a worthwhile undertaking ...

and that is the Gas Supply Disruption Recovery Committee. You said it was worthwhile, and yet you also say:

... its impact on decision-making at the local level was limited.

It is either worthwhile or it is not, from my point of view.

CHAIR—I am confused again.

Senator JOHNSTON—Can you just take that a bit further and tell me whether you think it was rather more a superficial exercise of a bit of a get-together so that we can all tell each other our problems or whether it actually achieved anything at a level that you could relate to.

Mr Duncan—I think our view would be that it achieved some degree of dialogue, a marginal degree of improved understanding of the situation, an awareness of the situation that others were trying to respond to, but it never gained the status of managing an emergency and therefore it never, within the sorts of spheres that we operate in, drove decision making in an emergency type of mindset.

Senator JOHNSTON—So it was therapeutic, information provided, but it never actually got the rubber to the road.

Mr Duncan—I think that would be a reasonable perspective of the local government sector, yes.

Senator JOHNSTON—You also say that there was an:

... arbitrary process for determining which gas users would receive supplies at any point in time.

Can you give us some examples of what you mean by ‘arbitrary process’ and what concerned you to put that in your submission? It is only a relatively brief submission but you have succinctly said, ‘This process left us with a question mark.’ I take it that is what you are saying.

Mr Duncan—Yes. The instances that we were responding to in that very short statement were not quite anecdotal but limited in terms of the numbers of occasions that I can point to, but a number of local governments, for example, received letters from their gas suppliers advising them that they would be ‘cut off tomorrow’ and to take actions forthwith. They were quite firmly worded letters. It was, in our view, within the contractual rights of the supplier to issue those letters, so we do not have any qualms with them from that point of view, but they appeared to some local governments and did not appear over the boundary, so people were quite unsure of the basis for them.

Senator JOHNSTON—To this day, do you have any explanation for them?

Mr Duncan—No, I do not.

Senator JOHNSTON—Could it be that they were Apache clients on the one hand and North West Shelf Gas on the other?

Mr Duncan—No, I believe that they were Alinta clients in all cases.

Senator JOHNSTON—They were all Alinta?

Mr Duncan—I think they were Alinta, yes.

Senator JOHNSTON—So across the boundary, you have one local authority getting its gas with no problems; the other one was told, ‘No, nothing for you.’

Mr Duncan—Yes.

Senator JOHNSTON—And, to this day, you have had no explanation as to what that was all about: who made the determination; who was the person who made the decision?

Mr Duncan—As I understand it, in some of those cases a letter was received advising that the gas would be terminated and then it was not.

Senator JOHNSTON—Were you given instructions to participate in the bulletin board? If you had gas allotted and you did not use it, were you given instructions to remit it back to the bulletin board?

Mr Duncan—I do not think any local governments—

Senator JOHNSTON—Participated.

Mr Duncan—They did not participate and I do not think their consumption would have mattered anyway.

Senator PRATT—As a follow-up to that, do you know if those local governments were paying the same contracted price for their gas? Perhaps Alinta's decisions were based on who was paying the highest premium for their product at the time. Was there any evidence of that? You don't know?

Mr Duncan—I do not know.

Senator EGGLESTON—I have a simple question for you. How could it have been done differently? What would you have liked to have seen?

Mr Duncan—At the end of the day, our bottom line probably is around information. Local governments were trying to make decisions from a reasonably broad perspective and saying, 'Should we take very strong action and close some facilities here? Is that in the best interests of the community, or doesn't it make any difference in aggregate?' In terms of their leadership role within the community, how proactive should we be within our community in trying to drive behavioural change at a household level? What difference does it make? Even as we sit here today, that remains somewhat unclear—whether that would have resulted in major changes in the implications for business in Western Australia or it would not have made any difference.

CHAIR—I think it is quite clear, actually.

Senator PRATT—In the context of intervening or not intervening, in the case of saying, 'Okay, we've got to let the market decide,' there was a lot of power under AlintaGas control. You are left with the situation where government is trying to, as a matter of goodwill and leadership, work with those stakeholders to deliver the best outcomes that it can negotiate but not using those emergency powers. Had those emergency powers been used, surely there could have been other unforeseen circumstances that might have exacerbated some of the issues. It is hard to judge whether it was the right call one way or the other. How would you surmise those issues?

Mr Duncan—I do think that it remains very hard to call. I do not see that the use of emergency powers by government, for example, would necessarily have precluded the use of a market based solution to allocate gas. I do not see that those two things are necessarily opposing solutions.

I am not saying that the market based solution was inappropriate. What I am questioning is whether that sat nicely alongside the call to small business—and essentially in the use of energy, local government is actually quite small business—and households in terms of their behavioural

responses and whether, again, that would have made any difference to the high-profile businesses that a number of our members are very conscious of the consequences on, in terms of the ability to run timber businesses and laundries and all of those sorts of things, which are ratepayers and constituents for a number of our members, or all of them.

Senator PRATT—On a more positive note, local government is often at the forefront of matters in a more general sense to reduce energy consumption and conserve energy. Do you think there are any lessons to be learned from this particular incident about times and points at which we are unnecessarily consuming energy and where some of our consumption is probably unnecessarily high?

Mr Duncan—With any of these cases you can look around and say people have gone about reducing what they have perceived to be unnecessary background lighting, for example. Having made that decision, if you believe it is unnecessary, why turn it back on?

Senator PRATT—We have all turned our lights back on. That is right.

Mr Duncan—Having said that—again, I make it as an anecdotal point—there is some anecdotal feedback that you have perhaps senior members of our community sitting in houses that are then unheated because they think they are doing the right thing and, as a consequence, increasing the burden on the HACS scheme and those sorts of things, but maybe are not making any difference. We have not necessarily made the maximum usage of the opportunity to lead the community forward in terms of overall energy usage as a result of this, but it has got a bit mired in whether this was an emergency or not an emergency.

Senator ADAMS—I am sure it was an emergency at Varanus Island when it happened.

Mr Duncan—Absolutely.

Senator ADAMS—Having been there, I would not like to have been there when it blew up. You mentioned about the survey of 45 local governments. How did you choose which local governments you were going to survey?

Mr Lane—We surveyed all 139 local governments and 45 of those chose to respond.

Senator ADAMS—I did not hear that.

Mr Lane—So it is of those 45 local governments that the percentages were taken.

Senator ADAMS—What area of Western Australia would you consider, outside the metropolitan area, has suffered the most with this?

Mr Duncan—From the local government perspective directly, I do not think that you can pick out any particular area. I guess it was the major metropolitan facilities primarily that were affected—for example, the major metropolitan aquatic facilities. But throughout the south-west a number of them were also affected. So, no, I do not think we could say geographically there was any particular split.

Senator ADAMS—We are going to Bunbury tomorrow and we have had a number of submissions from the south-west. They certainly appear to be one of the areas that was very heavily hit.

Mr Duncan—From a business perspective, I would say that is true.

Senator ADAMS—That is right.

Mr Duncan—From a local government perspective, I am not sure that is true.

Senator ADAMS—Yes, but local government, they are all your constituents.

Mr Duncan—Absolutely.

Senator ADAMS—I come from a rural area and I rely on my local government very strongly, so that was the reason I asked the question. I would like you to focus more on your south-west local governments. What responses did you have from surveys in that area?

Mr Lane—Mostly I think it was the recreational facilities again, as we have highlighted, and roadworks. They were the basic disruptions to local government processes.

Senator ADAMS—So nobody in laundry, hospitality—any of those industries—trying to get you to help them, seeing that you were on the committee and in a position to perhaps do something for them.

Mr Duncan—Basically those were reported through the recovery committee, through the hospitality industry association. But none of our feedback resulted in anything that indicated local government had been represented by those industries, or that those industries had been affected and reported that to local government.

Senator ADAMS—So they did not come back to you for help?

Mr Duncan—No.

Mr Lane—Not in those early stages.

Senator BUSHBY—To follow up from that, your submission is almost entirely focused on local government and the services that they directly deliver and how energy impacted on those services. Senator Adams was just raising issues about the effect on the local community. As I understand it, when you surveyed your members, nothing came back. Was that about what they may have done to assist, at a local government level, with the impact in their local communities, or was that to do with the questions that you asked in the survey?

Mr Duncan—Both, is the short answer to your question. We asked primarily specific questions around what I would describe as the business of local government; so the delivery of services that local governments provide. Having said that, I am looking at the responses here. There were a couple of responses under the more generic things. Two local governments in

particular highlighted the impact on industry and local jobs. I am sure that tomorrow when you are in Bunbury you will hear those responses directly.

Senator BUSHBY—So those local governments are in that area?

Mr Duncan—Yes, they are.

Senator BUSHBY—No feedback from any of your members about the effect on projects that were on their books that they were looking at approving—for example, planning purposes and things like that—or other aspects that might have affected local businesses or local communities; things that were in the pipeline that this had an effect on, or they were forced to close down?

Mr Duncan—No.

Senator ADAMS—Would we be able to have a copy of the survey that you sent out, please?

Mr Duncan—Yes.

CHAIR—Could you also advise us of the methodology used to develop that survey.

Mr Duncan—Fine. We will provide something in writing, if that is appropriate.

CHAIR—I want to go back to the Gas Supply Disruption Committee. You have raised some concerns about its operation. You were a member of the committee.

Mr Lane—Yes.

CHAIR—Did you raise these issues directly at the committee?

Mr Lane—That was rather hard. There was a lot of business. FESA did actually raise that—

CHAIR—No, I am not asking about anybody else, I am asking about you.

Mr Lane—No, we did not raise it.

CHAIR—Why not?

Mr Lane—Did not think it appropriate at the time. There was a lot of business being done at that stage.

CHAIR—So you have got a fundamental problem with how the committee is operating, you are a member of the committee, and you stay dumb. You stay quiet. You say nothing. How is that properly representing your constituency?

Mr Lane—It is probably not representing the constituency properly.

CHAIR—Or is this more likely to be in hindsight, you have thought how—

Mr Lane—It is hindsight, yes.

CHAIR—So it is hindsight.

Mr Lane—I have had some time to think about it and, yes, there was probably a better way of doing it.

CHAIR—That contextualises your concerns, and that is fine. Are you aware of the decisions made by the state government in terms of prioritising the allocation of gas?

Mr Duncan—No, not apart from what is in the public domain.

CHAIR—You did indicate that you were concerned that there was not enough communication, yet the local government minister put a press release out and you, as the association, did not read that press release or understand—

Mr Duncan—Sorry, I said we were aware of what is in the public domain. That does not answer the question about the detail of the allocation of gas.

CHAIR—What was in the public domain?

Mr Duncan—In terms of the prioritisation?

CHAIR—Yes.

Mr Duncan—There were two things that I recall. Initially an allocation was made on a daily basis to various businesses that had their gas supply curtailed. Subsequently, a bulletin board was established, which was enabling organisations to buy and sell gas that was either surplus to their requirements or needed that was not otherwise allocated.

CHAIR—There was a broader decision by government to try and handle the crisis at the macro level. You are not aware of that?

Mr Duncan—I am trying to understand what you are referring to.

CHAIR—There were five points laid out about how gas should be allocated, made public by the local government minister. You don't know those five points?

Mr Duncan—Not off the top of my head, no.

CHAIR—Can I remind you of them?

Mr Duncan—Please do.

CHAIR—The state government, in conjunction with various other industry groups, said that, firstly, energy infrastructure should be the priority, to try and maintain as much power as possible to the community; secondly, essential services; thirdly, essential supply to residential

customers; fourthly, industries providing essential goods and perishable goods; and fifthly, for other industries, efforts will be made to maximise supply. Does that seem like a reasonable position from government?

Mr Duncan—Yes.

CHAIR—Mr Duncan, thanks very much. Thanks, Mr Lane.

[1.32 pm]

LOCK, Mr David Alexander, Chairman, Food Industry Association of Western Australia Inc.

CHAIR—I welcome Mr Lock from the Food Industry Association of Western Australia. Could you make any opening statement that you feel is appropriate.

Mr Lock—Certainly. I thought I should briefly summarise what the Food Industry Association is and what its role during the gas crisis was. The Food Industry Association represents the food and beverage industry in Western Australia. It has membership representing about 75 per cent of the industry and is Western Australia's peak industry body for the food and beverage industry. It was set up about 12 months ago. It represents the processing sector in food and beverage, so it is post farm gate.

Our role during the height of the crisis was really to try and provide information to our members via website and phone support. We had meetings with state government where we were able to organise that. We were able to meet with the Minister for Agriculture and Food. We were unable to meet with the Premier. We held briefing sessions for our membership in conjunction with the Department of Agriculture and Food. We liaised with Alinta and its working group, and we provided feedback to the government on the bulletin board program that they established.

The Food Industry Association's view is that the state government is responsible for the reliable and economic provision of essential utilities, including gas, to food and beverage and other industries. It controls that supply through the issue of licences and therefore it is ultimately responsible for the risk management and contingency plans required to ensure secure supply is maintained; therefore, in our view, is ultimately responsible for the impacts on business.

The economic impact, in our view, of the crisis is very difficult to ascertain. We have not conducted a survey and our membership are reluctant to put their hands up too high because they are concerned about their relationships with other sectors of government and do not want to point the finger too hard, so it is difficult to quantify. However, the food industry is highly dependent on natural gas and its by-products, such as carbon dioxide.

The costs to the food and beverage industry included reduced productivity, where businesses were unable to operate full time; increased costs, where they were able to supply secure alternative supply or alternative fuel but at significantly increased cost; loss of sales and the potential loss of customers and markets, particularly export markets; stock losses, where inventory was unable to be used and it is a product that deteriorates quickly and stock was unable to be processed in time; and capex, capital expenditure, where businesses did spend money to try and change their plant to allow it to run on a different and more expensive fuel.

One of the companies impacted is Harvey, and I notice in the food industry report that it says Harvey Beef is the only beef abattoir in Western Australia. It is not, but it is probably the most significant. Harvey was down to, at times, a 30 per cent reduction in their throughput, which was very difficult for them, with live animals coming through the flow.

Dorsogna, a smallgoods company in Western Australia, were only getting up to 12 hours notice of either a cutback or an increase in supply of their gas, and so scheduling the volume of product coming in—it is a fresh product and it has to be processed daily—and scheduling their labour and other costs was very difficult.

Linley Valley Pork, which is a pork abattoir, needed CO₂ in order to stun pigs and had very significant animal welfare issues because, as you may know, pigs are a throughput commodity. If they are not taken off farm when they are ready, there is nowhere for them to go. They need to be processed. Vesco, which used to be called Kailis and France Foods, had to shut down for a week or more because it had not any supply.

I will now deal with some of the headings in the committee's request. Contracts forced on business: we are aware of some instances where gas was procured by customers by signing contracts with other suppliers. Clearly the customers were not in the best negotiating position. They were in despair, and we understand that there are contracts that have been signed that are uneconomic, or worse contracts than would have been signed in a fairer negotiating position, and there are some that are ongoing. For example, the CO₂ supply was secured by either bringing it in from overseas or from interstate, but at significantly higher cost, and that cost is continuing with, yet, no idea of when that cost may return to where it was.

The adequacy of the state government's response: from our perspective, the state government said it was not their issue to be involved in the allocation of gas. They were prepared to issue guidelines as to the order in which it should be allocated but they were not going to step in and allocate it. It was made more complicated because there was more than one supplier and both suppliers were affected unequally. Synergy customers were almost unaffected and Alinta customers were almost universally affected, so it did happen to matter which supplier was providing the gas, and the state government chose not to get involved in that allocation.

They did form an early coordination committee, but they formed it very rapidly, without, in my view, sufficient representation by industry, and in fact the food and beverage industry was not specifically represented, although CCI was there and there was some flow-on representation through CCI. And the achievement of that committee? There was very little apparent achievement.

On the question of adequacy of supply to Western Australia generally, that is not something that I can comment on, but I would think that some sort of risk assessment and scientific view or engineering view of what can be done to reduce the risk of a single pipeline should be done.

As to the question of whether alternative energy was available and applicable, many plants cannot switch over to different energy supplies. Some can, some can move from gas to diesel, but most cannot. The Gas Bulletin Board appeared to lead to profiteering, and the level of uncertainty in the marketplace meant that very few companies were prepared to say, 'We have surplus gas. We'll trade it,' because it was too unclear whether they would still have surplus gas tomorrow. Everything was very short term, so decision making was extremely difficult.

On the question of whether storage is a feasible alternative, I have no idea, but again that is a question that a feasibility study should determine—whether that is an appropriate risk mitigation in the future. On the release of information, there was not very much information. There was a

lot of speculation. There was some information on the department of energy website but it was very difficult for even those companies who were most affected to find out, more than 12 hours in advance, what would happen with their plant. Some of those customers were Challenge Dairy, where they had 100,000 litres of milk and they did not know if they would have enough gas to process the milk, and, as I mentioned Harvey and Dorsogna: large processing plants that could not make any form of plan. These companies all have product that comes out fresh and cannot sit around for a week waiting for the supply. Our recommendation would be that a survey is worth doing and the state government should fund or organise that.

CHAIR—Thank you, Mr Lock. I must say that your submission is quite strident compared to other submissions that we have received from industry groups here today.

Mr Lock—Yes.

CHAIR—I suppose that is understandable, given that manufacturing, and food manufacturing, was particularly hard hit.

Mr Lock—Yes.

CHAIR—But your analysis of the government's response does not gel with other industry groups' submissions and evidence here today. For instance, the Chamber of Commerce and Industry of Western Australia said they worked collaboratively with the state government and they were given the opportunity to advise government on the circumstances facing business. Are you a member of CCI or are some of your individual companies members of CCI?

Mr Lock—Certainly. The company that I am CEO of is a member, and many of the Food Industry Association members are also members of CCI.

CHAIR—So you have got no criticism of CCI at all?

Mr Lock—I have no criticism of CCI's involvement with the state government, but the CCI represents an extremely broad sector of industry and, whilst they do have a food committee, our view is that food and beverage was not well represented across the broad spectrum that CCI were representing.

CHAIR—We have had other evidence that some of these groups got too big.

Mr Lock—For the committee?

CHAIR—Yes, some of the forums got too big. If you had every vested interest, every concerned employer, every business that was in trouble attending, you could not hire a sports field big enough.

Mr Lock—I agree.

CHAIR—There must be some delineation of who attends and whether there is a collective and representational voice. Don't you agree?

Mr Lock—I do agree with that. How do you select that? One of the ways would be to look at the various government departments or ministers that they have and, as there is a Minister for Agriculture and Food, you would expect agriculture and food to be represented.

CHAIR—You put forward the position that it is a state government responsibility for supply and risk management.

Mr Lock—Yes.

CHAIR—The energy industry in Western Australia is a privately run industry.

Mr Lock—Yes.

CHAIR—For the state government to accept that responsibility, they would need to legislate for government intervention in the market and in the operation of firms. Do you support that?

Mr Lock—It is a very difficult question. In the government's position, I would have to be in their shoes. However, the supply of utilities has not always been in the private sector. The government has chosen over time to move utilities into the private sector, and not all of them have moved. So I think that with respect to energy, yes, they do have a responsibility. How do they achieve that and what was the best way for them, in hindsight, to have managed this problem is not an easy question to answer. But standing on the sidelines and saying, 'Let the participants sort it out,' was not good enough.

CHAIR—You argue that the government's response was poor.

Mr Lock—Yes.

CHAIR—Inadequate and uncoordinated. There has been no evidence to this committee that that was the case—absolutely none. There is no evidence. If you have got evidence of that, you put it forward.

Mr Lock—As to evidence of an uncoordinated response, there was very little response, in reality. The government sat to the side. It ran a website. It issued some guidelines and it did not get involved. So you could argue that it actually was not a disorganised response at all: it was no response. That is our concern.

Senator JOHNSTON—I will take up the issues raised by the chair. This is the nub of what the inquiry is seeking to get to, because your very forthright submission, Mr Lock—which I am very pleased to receive and read—is one that I should commence by saying: you understand that were there to be any retribution on the matters that you have raised, you should bring them back to the committee by correspondence, if you feel as if the capacity for you to speak freely has caused you any future problems.

CHAIR—Just before you go on, do you feel as if you are under pressure?

Mr Lock—No. I am here representing the Food Industry Association and have no qualms about what I say.

CHAIR—That is good.

Senator JOHNSTON—Thank you. The Premier's office was approached, you say—and that is mentioned twice in the submission that the association has put in.

Mr Lock—Yes.

Senator JOHNSTON—You seem to suggest that not only were your offers to assist and approaches seeking information refused but that there was a deliberate suppression of information from that quarter. Is that accurate?

Mr Lock—Yes. I am a non-executive chair, so the day-to-day involvement in the communication with the Premier's department was handled by the CEO and her staff. But, yes, that is certainly the feedback that I get, notwithstanding a number of attempts to meet with the Premier and to be part of a coordinated response and to be able to point out quite clearly where the areas of need were. One of the five points that the government prioritised was essential services, and many of the food industries fitted into essential services. Thereafter, information was difficult to obtain.

Senator JOHNSTON—You say that the situation was poorly handled by the state government at the time. You say there was an absence of a workable outcome oriented crisis incident management plan.

Mr Lock—Yes.

Senator JOHNSTON—Just give me a perception of what you would have thought was the starting point for such a response.

Mr Lock—For such a plan?

Senator JOHNSTON—Yes.

Mr Lock—Given that there was still plenty of gas coming into Western Australia, coming into Perth and into industry, a starting point would be to say, 'How do we equitably allocate that according to the criteria?'

Senator JOHNSTON—The five criteria that were enunciated.

Mr Lock—Correct.

Senator JOHNSTON—Yes.

Mr Lock—According to the government's five guidelines for allocation, which were guidelines and nothing more; but to take the 70 per cent of gas that was still available and, together with industry and other bodies, agree on what was essential and what was not. There will always be people that would be very upset by that. There will be many industries that would be financially severely impacted but are not essential services. The flow-on from that is how do

you compensate them? I assume that that is why the government did not do that, because the compensation becomes difficult to measure and certainly large.

Senator JOHNSTON—So are you saying that they did not get their hands dirty because of the liability issues attaching?

Mr Lock—I suspect so, yes.

Senator JOHNSTON—Do you have anything to support that feeling, that contention?

Mr Lock—No, there is nothing.

Senator JOHNSTON—You went on to say:

... and a lack of meaningful and relevant incident communication.

Mr Lock—Yes.

Senator JOHNSTON—What would you have liked to have seen?

Mr Lock—From a public perspective, the whole issue has been very much shrouded in secrecy, again probably from a liability point of view, either from the operator or the supplier, and the risk of the force majeure either being declared or not being declared and the implications of that. A much more up-front communication with all sectors of the public would have helped people to understand what is happening, why it has happened and how long it is going to continue. It has been very difficult to get a handle on when this will be over.

Senator JOHNSTON—On page 4 of your submission you say:

At the time of the incident WA businesses that were advised by Alinta to reduce or cut their gas usage completely were told that they could approach Synergy to enter into a new gas supply contract. At this time Synergy, a State Government owned entity, could redistribute apparent 'spare gas' to new customers under new contracts, reportedly at substantially higher prices and for periods of 2 to 3 years.

Do you suggest in that paragraph that there was an attempt by the state owned utility retailer—

Mr Lock—Yes, by the retailer.

Senator JOHNSTON—to enhance its commercial position by virtue of the incident?

Mr Lock—Yes. There were a number of areas where there was opportunity for businesses to take profit, and that was one. How widespread that was, I do not know.

Senator JOHNSTON—But you cite this particular example:

... Synergy, a State Government owned entity, could redistribute apparent 'spare gas' to new customers under new contracts, reportedly at substantially higher prices and for periods—

or terms expanding out well over the estimated expected time of the disruption.

Mr Lock—Correct.

Senator JOHNSTON—Can you give us a little bit more evidence with respect to that. Why do you make that allegation?

Mr Lock—We have had members who have said that that is what has happened to them. So in order to secure gas, which was essential for their businesses, they quickly went to Synergy, which was unaffected by the supply crisis, and signed new contracts.

Senator JOHNSTON—So Synergy were effectively taking advantage of the vulnerability of businesses to enhance their commercial position by writing two- to three-year contracts at inflated prices?

Mr Lock—That is what we understand.

Senator PRATT—Clearly, the issues you have highlighted to the committee today are a manifestation of the fact that there simply was not enough gas to go around. To that extent, many of the problems you have highlighted were inevitable.

Mr Lock—Sure.

Senator PRATT—I want to cut to the issue of food security and the issue of how well your sector fared in terms of there needing to be a market response and whether you might have been more severely affected had the emergency plans been put in place, because there would have been a clearer delineation between essential and non-essential food services.

Mr Lock—Yes.

Senator PRATT—Do you think that that is the case? Were at least some companies able to stay functioning when they might have been cut loose entirely had a state of emergency been declared?

Mr Lock—No question. Those companies who were customers of Synergy were able to continue to operate. Some of those companies would have been essential services, others would not. An intervention by the government in defining what was essential and what was not would have seen some of those customers lose their gas supply, or have it reduced, to their detriment.

Senator PRATT—Hypothetically, had the gas explosion hit the North West Shelf ventures versus Varanus and we had lost 70 per cent of our gas supply, such a scenario would have been inevitable.

Mr Lock—Yes.

Senator PRATT—Is there a threshold mark as to at which point that decision needed to be made?

Mr Lock—There probably is. I do not know what that threshold is, whether it is 30, 50 or 70 per cent. I am really not in a position to comment on it. But, yes, you are right. If it is a five per cent reduction then it does not require intervention and at some point greater than that it does.

Senator PRATT—Clearly, the food industry has a high reliance on gas as opposed to just electricity. We have had quite a discussion at the Senate committee this morning about diversifying electricity sources, but do you feel that the pipeline will be vulnerable at some point in the future, in the sense that that gas is coming from a single source?

Mr Lock—Yes. WA is exposed and any industry that relies on gas in its processing is therefore exposed. With a single producer or a single pipeline, yes, they clearly are at risk. How much redundancy you build into a system is something for others to determine, but I do think it needs some work by the state government to now say, ‘Here is the level of risk that we can live with and here is the protection that we need to put in to manage that risk.’

Senator PRATT—What kind of input would you like to have into something like that? If you were to mitigate against that risk entirely, you would be duplicating a large investment, which would clearly flow through to gas prices. Is there an acceptance in the industry that a reliance on a single source in this sense might give you some cost-benefit in terms of price, but carries with it that risk of unreliability?

Mr Lock—There certainly is now a very clear view that the supply of gas is not something that can be taken for granted. Up until now it has been. There is no question that people installed gas in their plant because it was the most efficient and did not spend the extra money to put alternative fuel sources in. The impact of that going forward is that companies investing in WA will think about that. That will be one of their criteria as to whether they invest here or not. Companies expanding will look at their capital to see how exposed they are to that single source. I am sure it will have a long and ongoing impact.

Senator BUSHBY—Thank you, Mr Lock, for your evidence today. Your submission is very frank and full and, at the risk of disagreeing with the chair, I do not think it is actually at all inconsistent with the evidence we have had this morning. It certainly goes further than the evidence we have had—

CHAIR—Well, we will have our disagreement!

Senator BUSHBY—but I would categorise the evidence we have received this morning as far more diplomatic than, as opposed to being different from, that which you have said today. It was also suggested earlier today, probably in a question, that it would be unreasonable to expect a government to have anticipated the need to plan for an event such as we saw in June, but in view of the previous two disruptions to gas supply—one earlier this year and also the explosion at the Longford gas plant some years ago—would you agree that it would be unreasonable to have a management plan in place for such an event, particularly given the reliance of this state on gas?

Mr Lock—Not at all. It is essential. In our business we rank our risks from high to low, based on the likelihood of occurrence and impact if they do occur. The state needs to do the same sorts of things. With gas there is a low likelihood of occurrence but a massive impact when it does

occur. Yes, it should be in their risk matrix and they should have a plan to deal with it when it occurs.

Senator BUSHBY—What sorts of measures do you think you could include in such a plan that might have averted some of the impacts that we saw out of this crisis?

Mr Lock—Without dealing with how you would avoid the explosion, because I have no comments there—

Senator BUSHBY—No. Given that the explosion happened, how could you have actually set up a plan that might have made things work a bit smoother?

Mr Lock—I think it was unfair for some customers to be unaffected and for others to be severely affected, even though the company I run was unaffected because we were a Synergy customer. I do not think that is fair in a situation like this, when everybody was being asked to bear the pain. The Premier was on TV saying, ‘Turn off your heaters. It’s the middle of winter, but put a jumper on.’ So it was expected to be a shared pain, but it was not, and that is where it should have been more equitable.

Senator BUSHBY—And, by planning ahead for these sorts of things, you can work out how you might deal with that to make it more equitable rather than trying to do it by the seat of your pants once it has happened and ending up with a very ad hoc distribution method.

Mr Lock—That is right, whether that requires legislation, or whatever it requires, for the government to be able to step in and take some control so that (a) there is no profiteering and (b) there is allocation where it is required.

Senator BUSHBY—We have talked about the prices. We have discussed how Synergy was offering contracts for periods longer than the expected period of the problem and at higher prices. In recent weeks, as things have settled down a bit, what has the experience been of your members who did not sign up to those Synergy contracts? Are they getting back onto contracts at prices that compare with the prices pre explosion?

Mr Lock—I think those companies who did not move just remained on their old contracts with reduced supply and my understanding is that, whilst supply is returning to normality, it is still uncertain and they still are told, ‘Well, you won’t have gas tomorrow,’ and it is, again, very short term.

Senator BUSHBY—Is that still a 4 pm type thing?

Mr Lock—Correct, yes.

Senator BUSHBY—So it makes it very hard to plan anything, really.

Mr Lock—That is right.

Senator BUSHBY—If you have truckloads of pigs coming in, you need to deal with them and you do not have anywhere to store them, and you think you have got gas and then you find you do not—

Mr Lock—It is impossible. What that has led to is that people have used gas when they did not have allocations and then whatever enforcement penalty happens down the track they are prepared to face later.

Senator BUSHBY—Which is not good either.

Mr Lock—No.

Senator BUSHBY—As a follow-up to that, you note also in your submission in terms of Synergy:

Although such contracts are confidential, WA businesses have offered to provide copies of these contracts to the inquiry upon request ...

Mr Lock—Yes.

Senator BUSHBY—Is it possible to get copies of those contracts, or some of them?

Mr Lock—I believe so.

Senator BUSHBY—Can I lodge that request with you?

Mr Lock—Yes.

Senator BUSHBY—So could you see whether we can get copies of them for the benefit of the inquiry, with names excised?

Mr Lock—Yes, I can arrange that, and have it sent through the same—

Senator BUSHBY—Send it through to the secretariat.

Mr Lock—Okay.

Senator BUSHBY—Thank you.

Senator ADAMS—Thank you for your submission. Having been a farmer, I would like to ask a few questions about the livestock issues that came up because of this crisis. How many people that you know of lost their jobs or were made redundant or had to stand down while the problem was on?

Mr Lock—I do not know any numbers of people that were stood down. Anybody from WA will know of the very tight employment situation we have here. Employers are extremely reluctant to let go of any workers. I think what most employers did was to send people on annual

leave, but there were certainly businesses that had employees there because they did not know whether they would have gas the next day or not, so they did need the labour. They paid for it whether or not they had the gas to operate. I think the loss of employment was relatively low.

Senator ADAMS—In what area of the state would you say your members were the worst affected?

Mr Lock—Most of our members are in the Perth metro area and close to Perth, so for our membership that was where there was probably the greatest impact, but certainly we have membership right throughout Western Australia, in dairy, wine, all of those sorts of industries, and all of those were affected. Wherever the food industry is was impacted, but most of the processing sector is close to Perth.

Senator ADAMS—I notice in your submission you have spoken about the liquid CO₂ for the pigs. Has the ammonia production started again or not?

Mr Lock—I do not think so, but I am not a hundred per cent certain. The abattoir is getting CO₂ but is still paying the penalty rate, so they are paying an extra \$10,000 a month to obtain their supply.

Senator ADAMS—What about the beef industry here? I note that you said that there had been quite an impact on the WA cattle industry and on exports. Has that started to settle down again?

Mr Lock—Yes.

Senator ADAMS—Were they Synergy customers?

Mr Lock—No, they were Alinta customers. I believe they are back up to full production. That is my understanding.

Senator ADAMS—You said that the CCI was representing you on the committee. Did they really understand the ramifications for your industry?

Mr Lock—In our view, no, which is why we so strongly feel that we should have been there to represent the food and beverage industry. We communicated with CCI, but it was a small part of their broader interest.

Senator EGGLESTON—Following on that question from Senator Adams, I suppose there is an acuteness about your needs which is different to any other industry, and the failure to understand that obviously disadvantaged you.

Mr Lock—Yes.

Senator EGGLESTON—The whole issue, essentially, is that this is all based on a market sort of model, and I wonder if other industries of any kind might also have been in the same position as you, in that the immediacy of their needs was not necessarily understood through that market model. Could you suggest any others that might have been affected?

Mr Lock—Pharmaceuticals would be the only one that comes to mind. If we think about products that are time and temperature sensitive, pharmaceuticals and food are the two that are most impacted by shelf life and temperature. Food has the added complication that the animals are alive to a certain point and in pigs and chickens you cannot turn off the tap. You can put cattle and sheep in a field, but the others are intensive livestock where there is nowhere to put them.

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.

Mr Lock—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.

Senator EGGLESTON—Exactly, and within that model in any case, even though the needs may not have been as acute as yours, there would have been losers within that broader model.

Mr Lock—Certainly. Within our membership there would have been losers, and more broadly.

CHAIR—Mr Lock, you have not mentioned Apache Energy, but you have been very critical of the state government. Has Apache Energy got no responsibility in this whatsoever?

Mr Lock—Of course it does.

CHAIR—Why isn't it in your submission?

Mr Lock—An oversight probably, or not an oversight, but a focus on the state government's responsibility rather than a focus on—

Senator BUSHBY—Maybe a focus on the terms of reference.

Mr Lock—Yes.

CHAIR—You say you did raise with CCI your concerns.

Mr Lock—Yes.

CHAIR—So basically you are saying that CCI didn't adequately represent your concerns?

Mr Lock—Correct. At the very first meeting, CCI attended without any communication with us, so they did not take any view of the food and beverage industry. At the second and subsequent meeting we communicated with CCI. But, yes, our view is that they did not strongly enough represent our industry.

CHAIR—You indicated that the industry took the gas supply for granted.

Mr Lock—Prior to the incident?

CHAIR—Yes, prior to Varanus Island. You then said government should have prepared a risk matrix to deal with the problems. Doesn't industry have a responsibility as well as government to develop these risk matrices; and you did not develop them for your industry? I am trying to get a bit of balance in this, you know.

Mr Lock—Whilst we would undertake a risk matrix, if we did one now it would include gas supply. Industry, including our industry, assumed that water, gas and electricity are givens. They are there and, as long as you can afford to pay for them, then you have them as a resource.

CHAIR—But that is no longer the mindset, is it?

Mr Lock—Certainly no longer.

CHAIR—I just have to move through because we are nearly out of time. You argue that government should take responsibility for supplying gas and basically pick winners. Government says, 'Gas will go here.' If the government adopts that responsibility, would that then mean that government would have a legal liability for those who were not the winners in that approach?

Mr Lock—I suspect, as I said to one of the senators earlier, that that is why they did not: because they are likely to. They are likely to then have some economic consequence as a result of their decision making.

CHAIR—Don't you think, then, that that is the proper thing for the state government to do: protect the taxpayer and the broader community and not to accept the liability for an explosion in a privately owned gas plant?

Mr Lock—If there is no way of mitigating their legal liability; and presumably that is the decision that they reached and hence decided to not get involved.

CHAIR—So it is a logical decision?

Mr Lock—Yes, I accept it is a logical decision. I think it did not achieve the outcomes for the state that were necessary, but it is a logical decision.

CHAIR—Thank you, Mr Lock. Thanks very much for your evidence here today.

[2.13 pm]

HOWARD-SMITH, Mr Reginald James, Chief Executive, The Chamber of Minerals and Energy of Western Australia

CHAIR—Welcome to the inquiry, Mr Howard-Smith. Would you like to give any opening statement that you believe necessary?

Mr Howard-Smith—Indeed. The chamber has made a brief written submission, so perhaps I will pick out a couple of key points. Then I will be more than happy to take questions. The Chamber of Minerals and Energy was involved in discussions with the government from the outset of this issue. Having said that, we were intimately following the issue from the day that the explosion occurred, for perhaps obvious reasons. Not only are the members of the Chamber of Minerals and Energy major producers of energy but also major consumers of energy throughout the state. Having said that, we were invited to participate in the Premier's meeting of Sunday, 8 June, approximately a week after the event. It became quite apparent on the Friday, in the lead-up to the weekend, that there would be a long-term, serious impact resulting from the explosion.

The chamber was on two committees and one working party. It was on what was known as the Gas Supply Coordination Committee, the Gas Supply Disruption Recovery Group and, as a working party from that second group, a Communications Working Party. It remained involved in all three throughout the course of the issue.

As we have observed, government and industry worked cooperatively to minimise the disruption. When you have lost 30 per cent of your gas, the consequences are going to be very significant. Having been in just that situation, the immediate focus of government and industry obviously came at mitigating the consequences, finding alternative supplies, substitution, providing some guidance on allocation et cetera. From the outset, once you have an event of that nature, the consequences are going to be significant.

I have no criticism of the Gas Supply Coordination Committee. I think there are some suggestions that we would make of how a committee of that nature could work better and perhaps have a better redundancy situation. It put significant pressure on key individuals. There are comments one would make about the Gas Supply Disruption Recovery Group. I think that some parties that were part of that were clearly well organised, others less organised, and I think there are some observations that can be made about how that could be improved if there were a major incident in Western Australia.

Having said that, the economic impact of the incident was significant. I do not know if we will really know what that has been. I am aware of various estimates. The CCI no doubt have tabled some figures. The state Treasury has estimates as to reduction in growth. A lot of that reduction in growth, though not all of it, would fall onto the resource sector. We were impacted in the industry through curtailed production et cetera, but the losses will be ongoing. They are still occurring through increased prices and they will be significant.

Disruption was caused across the state. For those connected to pipelines, regardless of whether it was the Dampier to Bunbury pipeline or the Kalgoorlie pipeline, there was immediate impact. The Varanus supply from the two joint ventures was essentially industrial supply in a lot of instances, so that is where the impact was felt. If there was a section of the state most severely impacted up, and it is all relative, it would be the south-west. The impact in the south-west was in part the resource sector but it was much broader than that and it was both gas supply and electricity cost. Those issues are related, but some industries were impacted not necessarily by gas but by significantly increased electricity costs.

Perhaps if I stop at that point with two observations: we have expressed the view that the learnings out of this incident need to be well documented and understood so that we can ensure that we do not repeat some of the issues of the past. More importantly, we need to look to the future to ensure that we can avert, as far as possible, the consequences that we have faced since early June.

CHAIR—Thanks, Mr Howard-Smith. You indicate in your submission that you do not want to talk about individual contractual arrangements that arose from the gas crisis, but I would like to ask you in general, without going to any individual situation, whether you think it is appropriate that companies should use the situation of having gas supply to ensure that other companies give way on their legal rights to redress against a company. What do you feel about that in a general proposition?

Mr Howard-Smith—If I have understood the question, should companies forgo a legal right of—

CHAIR—Their legal rights to get gas supply.

Mr Howard-Smith—Companies clearly have contracts for gas supply. I think the primacy of those contracts needs to be protected first and foremost. Having said that, I think there was an understanding amongst even those companies that had a contract for supply, even if it was partial, that there was significant impact throughout the economy.

CHAIR—If that is the case, how do you feel about companies demanding that, for supply to continue, companies have to give up their legal rights?

Mr Howard-Smith—As a principle, I would oppose that. I think again the primacy of a contract is one of those principles of not only our economy but our society, and that is extremely important. Having said that, when you are looking at a total gas supply of approximately 1,000 terajoules a day and then losing 350 terajoules, a lot of the impacts on industry that I think still feels aggrieved—and that includes some of our members—the gas supply for those is relatively small. Perhaps it was 15 terajoules out of that supply. That question has exercised our minds as to whether there could have been some assistance given to what was an important part of the economy, but a relatively small part.

CHAIR—What is your view on government intervention in that crisis to basically determine where gas is allocated and to control contracts?

Mr Howard-Smith—I think that is fraught with danger. Indeed our view that we expressed at the time was that the market should prevail, and I mention that contracts should remain intact. I think the preference for the market prevailing, even though there are consequences and they are in the form of cost increases, overwhelmingly is a better option than having intervention in the marketplace.

CHAIR—If there is no intervention and the outcome of the no intervention is that there is price gouging on the basis of some evidence we have received, how do we stop the price gouging in a situation where the state's interest is under real pressure because of a crisis?

Mr Howard-Smith—I will contradict myself in the knowledge that I have contradicted myself, and I go back to what I mentioned a moment ago. The supply to, I think, the aggrieved section of the business community is relatively small. I mentioned the figure of 15 terajoules. It may be larger; it may be up to 18—somewhere between 12 and 18. Notwithstanding the comments I have made, and they are certainly the guiding principles upon which the chamber operates, we did express a view privately to the government that there perhaps was scope in that case for some limited intervention to ensure that small business, particularly in the south-west in the integrated grid, did have access to gas. That is a contradiction to our overall principle, but I do not think it undermines the overall principle that the market should prevail.

CHAIR—I am not going to the issue of having access to gas. I am going to the issue of having access to gas at a reasonable price, a price that reflects the market even in a stressed time. The evidence we have is that there was gouging. That is the issue, not whether they should have access to gas or not. How do you stop gouging without government intervention?

Mr Howard-Smith—It is very interesting. We sought to obtain advice and we sought legal advice on the issue of whether there was price gouging. I must say that we never received any evidence. In part that evidence may not have been forthcoming because of confidentiality of contracts, and we are a policy organisation. We do not go into the commercial arrangements, but we did seek to receive any information and provide legal advice where our members believed that there was price gouging, and that was not forthcoming. I think there were significant increases and, when you have 30 per cent of the gas supply or thereabouts that is no longer available for a short period of time, you are going to have increases in price.

That price would head towards the price of diesel, as a generalisation, because that was the substitute. That is just the market operating. I do not know if there was price gouging. There were certainly price increases, but I have not seen any evidence of price gouging.

CHAIR—The two propositions are price gouging and, secondly, forcing companies to relinquish their legal rights.

Mr Howard-Smith—Yes.

CHAIR—Have you given any more thought to that since this crisis? That must have come back to you as being an issue, because it has been significantly an issue before this committee. If there are economic impacts, these are economic impacts on individual companies and the employees of these companies because of price gouging, and not being able to recover any loss

because you are forced on a contractual basis to give up your rights. That does not seem to me to be fair.

Mr Howard-Smith—Even companies that could substitute—and that was not everybody that was impacted—still had significant price increases. They had to go out and purchase diesel, for example, as the alternative fuel, and realistically that was the only alternative fuel available; not to the power generators, but to certainly my members. That was the situation which they would have preferred not to have had, there is no doubt about that. We certainly expressed the view to the government that, at least in theory—and how you make this work effectively without invoking emergency legislation is something that we have not looked closely at—there was an argument for very small partial intervention to secure a supply for a very small amount of gas.

CHAIR—But you said that last time.

Mr Howard-Smith—Yes, indeed.

CHAIR—You keep dodging the question about the individual companies' legal rights. This is the first time I have heard of this on such a scale, and it is only in Western Australia I have heard this: companies are being told, 'If you want continued supply, you must give up your rights to sue the supplier.'

Mr Howard-Smith—That is not a position we would support.

CHAIR—Okay, thanks, Mr Howard-Smith.

Senator JOHNSTON—I am very much obliged to you making the comment that you would not support it. One of the problems I see here is that the CCI and the CME both participated, not as oversight peak bodies for their respective constituents but actually participated in the management of the response of this crisis. Surely you acknowledge that there is a conflict of interest there. Whilst participating in the response, you have emasculated your oversight capacity to argue for the best interests of your constituency because you were part of trying to help them. Isn't that the problem?

Mr Howard-Smith—No, I do not think it is, with due respect. The primary focus of the committee that was arguably the more active of the two committees, the Gas Supply Coordination Committee, was finding alternative supplies. In the early days they were supplies of diesel. I see no conflict—

Senator JOHNSTON—Whose idea was it for you to participate in the various committees that were formed in response to this? Did you seek to be on them or were you invited by the Premier or the Governor?

Mr Howard-Smith—I hesitate, because thinking back to that meeting on the 8th, I think I was probably invited to be—

Senator JOHNSTON—I think you were invited.

Mr Howard-Smith—I was probably invited, thinking it through.

Senator JOHNSTON—Yes.

Mr Howard-Smith—That is the genuine situation, I believe, yes.

Senator JOHNSTON—With the benefit of hindsight, now four months afterwards, would you have accepted that invitation knowing what we know?

Mr Howard-Smith—Yes.

Senator BUSHBY—Thank you, Mr Howard-Smith. I am interested in understanding the allocation process as it still stands in terms of who gets gas and at what prices. We have heard evidence today that there is a significant lack of equity in the distribution in the sense that some businesses—you used the south-west as an example yourself—particularly those in the south-west, sometimes have been told that they have none and others have been told—businesses next door or local governments next door to another local government—that they have full allocation. We have heard a lot of evidence today that it is the market determining this; it is a market process rather than intervention. How is that being determined? On what basis are the decisions for allocations being made?

Mr Howard-Smith—The honest answer is that I do not know how the allocations are being made by the providers of energy. I simply do not know. I am not privy to that information.

Senator BUSHBY—Hopefully we will get somebody before us that can answer the question.

Senator PRATT—We can ask Alinta and Synergy.

Senator BUSHBY—Yes.

Mr Howard-Smith—I think Alinta and Synergy are the two that obviously can respond that.

Senator BUSHBY—We will move on then. Sixty per cent of the supply has apparently been restored, from what we have heard. Has 60 per cent of the supply been restored to the south-west?

Mr Howard-Smith—I am not sure what percentage of the supply has been restored to the south-west. I do not know.

Senator BUSHBY—Is Apache on track to get back to 100 per cent by December 2008?

Mr Howard-Smith—I read what is released and what is put on the website.

Senator BUSHBY—Is Apache one of your members?

Mr Howard-Smith—No, they are not.

Senator BUSHBY—Who does the Chamber of Minerals and Energy represent? Who are your members?

Mr Howard-Smith—Our membership is probably around 90 to 95 per cent of the producers in mining, as well as oil and gas. Woodside, for example, is a member, also Shell and Chevron, but Apache is not a member. We have significant membership in that area.

Senator BUSHBY—Theoretically it could be, but it is not.

Mr Howard-Smith—That is correct.

Senator BUSHBY—You may not know the answer to this. If full production does return as at December 2008, will all previous purchasers prior to the explosion be likely to be recommissioned with their full allocation and at similar prices to pre explosion?

Mr Howard-Smith—I am not avoiding that question. I am simply not privy to that information.

Senator BUSHBY—You mention in your submission under the heading of ‘Government response’ that you made the observation that resources allocated to assist by the government were:

... very limited, with staff appearing to work very long hours with limited provision for redundancy coverage.

Do you think that the response would have been improved and that the impact on Western Australians would have been lessened if there were greater resources devoted to assist?

Mr Howard-Smith—I think that group continued to work effectively, notwithstanding the pressure put on people. But it is a genuine concern. My background, for example, in the resource sector is that you build in that redundancy. I saw people that were pushed to the limits. I have no evidence of mistakes or anything of that nature, but it is a position where they needed greater resources. Where one got those greater resources from in a situation like we faced is not so easy to respond to, but it is needed.

Senator BUSHBY—It was a fairly large crisis in the context of Western Australia.

Mr Howard-Smith—Absolutely.

Senator BUSHBY—And you would think that, if the resources were needed, a government would find them.

Mr Howard-Smith—It was not just a matter of people: it was people with the required knowledge. That is the issue. In a broader policy context, the public sector capacity in Western Australia is a genuine concern of industry, so it is not specific to this area. As I say, it is not just people, it is people with the required knowledge that is the critical issue.

Senator PRATT—Mr Howard-Smith, was the CME happy generally with the decision not to invoke emergency powers?

Mr Howard-Smith—Yes.

Senator PRATT—I want to ask about some things you said in your submission regarding one source of supply, emergency storage and alternative sources. You note the need to diversify energy supply through renewable energy, but that might take some of the pressure off in terms of diversity for the domestic market, and individual CME members might try and bring in renewable energy individually into some of their projects. Is it true to say, however, that really the majority of members would remain reliant on gas and coal for energy supply, whether it is through electricity or, I suppose, their own on-site generation?

Mr Howard-Smith—For the foreseeable future, yes. There is obviously a lot of not only interest but genuine investment in alternative forms of energy, but I think that for the foreseeable future that is absolutely correct.

Senator PRATT—How does that relate to the issue of there being a single pipeline? Clearly, it is a big investment to duplicate or to try and find alternative sources. Is it simply a matter of industry having to live with the risk and to make the assessment about really having to live with that single source for the time being?

Mr Howard-Smith—I think there will be a number of responses coming out of this issue. I do not know if the issue of the pipeline, though, is as critical as some other factors.

Senator PRATT—Such as?

Mr Howard-Smith—My understanding is that, within the next year and a bit, 94 per cent of that pipeline will be duplicated to Perth. The experience around parts of the world, where pipelines are interfered with on a regular basis, is that they are relatively easy to fix, if there is a particular incident. That is not to diminish the severity of any impact. But I do not think that the pipeline itself, the physical structure, is the major issue. As I say, there will be duplication to most of it, at least to Perth, in the very near future in any case. The sourcing of additional supply sources is probably, on the scale of priorities, a greater priority, and we would certainly encourage companies to pursue, and there are of course some that are being pursued.

Senator PRATT—In that sense, for example, had it been the North West Shelf that went down, it would have been impossible not to have had a state of emergency declared—those emergency powers, I am sorry, invoked.

Mr Howard-Smith—That is a fair assumption.

Senator PRATT—So really we need to look at splitting up and diversifying those gas suppliers to that pipeline. That is part of the future direction you would be—

Mr Howard-Smith—I believe that is part of it. I do not think there is a silver bullet. There are a number of issues that need to be looked at, and one of those would be diversity of supply.

Senator EGGLESTON—Mr Howard-Smith, we have sat here today listening to a whole lot of evidence from different people, some of whom have been satisfied with the government's response, some of whom have not. We have heard arguments about whether a state of emergency should have been called or whether this market force model should have been left to do what it has done. How this crisis has been managed is obviously a matter about which there is no

common view at this stage, and yet this is the third episode in which the gas supply from Dampier to Perth has been interrupted since 2004. 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—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.

Senator EGGLESTON—It is very much in particular a Western Australian problem, though, isn't it? No other state has the kind of dependence that we do on a source of energy that, as we have said, has been interrupted three times in the last five years.

Mr Howard-Smith—That is true. We had another interruption earlier this year for a number of days. Again, I repeat: we need diversity of supply; we need to look at alternatives. In addition to having that vision about our infrastructure, we need to have an energy policy.

Senator EGGLESTON—Yes.

Mr Howard-Smith—My organisation has been jumping up and down for a number of years about energy policy. The previous state government in its last six months started to ask questions about the components of an energy policy and what it would look like. Certainly one of our positions for the new government is that it should have not only a vision for the state on infrastructure, but an energy policy, and that needs to be a diversified energy policy.

Senator EGGLESTON—Thank you. Maybe it is something you could take the lead in sort of sponsoring.

Mr Howard-Smith—Hopefully, we are doing that. We are certainly raising it with the new government.

CHAIR—We can't have industry leading the government here, surely!

Senator ADAMS—Thank you for your submissions. Looking at the alternative sources that you have spoken about in your submission, how much longer do we rely on the mothballed coal-fired capacity as a backup?

Mr Howard-Smith—We had an unusual circumstance in that it was necessary to call on Muja A and B, which were mothballed. I do not think we or anybody else expected those to come back into commission, because at the same time as you had this gas outage, you also had significant generating capacity offline needing to be maintained. The call on energy is greater in summer than winter, so it is the time that you do maintenance. There were also, my understanding is, significant other outages which were happening at the same time. We were lucky to be able to—or the government was able to—start Muja A and B. In the normal course of events, that would not be desirable. They are not the most efficient, for a start. Apart from that, they are relatively high, in my understanding, from a pollution point of view, and neither of those aspects are desirable. But thankfully in the crisis they were able to be recommenced. There were a whole set of circumstances which one hopes not to be repeated, but we do have to put in plans to try and make sure we do not get back into that position.

Senator ADAMS—In your opinion, they really need to be kept on stand-by just in case again?

Mr Howard-Smith—Hopefully, there will be other alternatives. Muja A and B probably ought to be kept on stand-by for the short term, but I do not think it is desirable to rely upon them for the reasons I mentioned—their inefficiency and, because they are old technology, they are relatively high when it comes to greenhouse emissions.

Senator ADAMS—Just one other question on redundancies and people actually leaving employment because of the crisis. As far as your industry or your members go, did you lose many people?

Mr Howard-Smith—No. I think it happened at a time when the industry was very buoyant. In the media the terminology used was a ‘stand-down’, but that was not in the traditional industrial relations sense of a stand-down. People were either working in other locations or going on leave. In the regional sector, by and large they were not adversely impacted. We certainly surveyed the membership to find evidence of people being stood down, in the traditional IR sense of the word, and there really was not any evidence to suggest that was happening within the regional sector.

CHAIR—Mr Howard-Smith, you indicated that your view was that the government bureaucracy worked effectively and there were no mistakes, but you did say there was a shortage of a broad base of skills.

Mr Howard-Smith—Yes.

CHAIR—That is not unusual in Western Australia, is it?

Mr Howard-Smith—No, it is not.

CHAIR—And I am sure that it would not just be government that would be finding it difficult to find skilled people in specific areas.

Mr Howard-Smith—That is true, but the regional sector, for example, practises emergency response very regularly and it is down to a fine art and hopefully never needs to be used, and you build in that redundancy capacity. They are very familiar with that.

CHAIR—What happened at Varanus Island?

Mr Howard-Smith—I think that is quite different. In all seriousness, that is quite different. That is quite different to the emergency response. I am talking about the response: people working around the clock. That is quite different to the actual explosion, I would suggest.

CHAIR—On the issue of the skill base in government and the skill shortage, it is about time we did recognise that some of the public servants and the advisers really worked hard, worked around the clock, and put a huge commitment of their time and energy into trying to help in this time of crisis. Wouldn't that be the case?

Mr Howard-Smith—I believe that is absolutely the case. I would be concerned if another group had to go through a similar exercise.

CHAIR—Yes.

Mr Howard-Smith—My comments are concerned with their welfare, not criticism of the individuals.

CHAIR—That is good. The last issue: are you considering, as a wash-up of this crisis, having a policy debate within your organisation about your view on contracts and your members' view on forcing other companies to give up their legal rights? Would that be an appropriate policy debate within your organisation?

Mr Howard-Smith—I am more than happy to discuss those issues, but my initial response is that, once you start interfering with contracts, you really start impacting upon lots of other considerations, including the confidence in not only our economy but the type of society we have. I think they are very significant issues, but I do not dismiss obviously having a discussion about those points. I think that is a sensible path.

CHAIR—Maybe some time in the future you can advise us of the outcome of your deliberations.

Mr Howard-Smith—Indeed.

CHAIR—Thank you very much, Mr Howard-Smith.

Mr Howard-Smith—Thank you.

Proceedings suspended from 2.47 pm to 2.58 pm

ELLIS, Mr Stedman, Deputy Director General Resources, Department of Industry and Resources

STEVENS, Mr Mark, Department of Industry and Resources

COURT, Mr Michael John, Acting Executive Director, Economic, Department of Treasury and Finance

CUSWORTH, Ms Nicola Claire, Director, Economic Policy, Department of Treasury and Finance

LAYMAN, Mr Bruce Dean, Assistant Director, Economic Policy, Department of Treasury and Finance

BANKS, Mr Jason, Coordinator of Energy, Office of Energy

CUSTODIO, Mr Rolando, Director, Industry and Community, Office of Energy

ELIOT, Mr Stephen, Director, Markets and Regulatory Policy, Office of Energy

CHAIR—I call this meeting of the subcommittee of the Senate Standing Committee on Economics to order. Before we recommence proceedings, I would like to remind witnesses that the Senate has resolved that an officer of a department of a Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. I welcome the representatives of the departments and ask if any officers wish to make an opening statement.

Mr Banks—I would like to make a short one, given the committee has not had the benefit of a submission.

Mr Ellis—Likewise, Chair, I would like to make a short opening statement.

Mr Banks—The Office of Energy performed a number of roles in response to the Varanus Island incident, including intelligence gathering on the assessment of the impact of the incident, preparation of briefings for government, convening of an industry committee, development and implementation of a public communication strategy including daily preparation of public updates through the internet and fielding of public inquiries, and contracting of the independent market operator to establish a gas bulletin board.

Important to the overall management of the event has been the coordination and information sharing between key stakeholders in the energy industry. The first two days of the incident involved intelligence gathering and establishment of communication lines with key stakeholders to ascertain the impact and magnitude of the disruption. The office released its first public

update on 4 June. These are available from our web. On 5 June, the office convened a meeting of key energy sector stakeholders. The purpose of this meeting was to ensure that all parties were best prepared to manage what appeared at that stage to be an extended outage and disruption of gas supply.

The Office of Energy assisted in convening the meeting of 8 June between the previous Premier and key industry stakeholders and provided briefings on the impact of the incident and potential mitigation measures. The outcome of this meeting was the establishment of a Gas Supply Coordination Committee of which I am the chair. The coordination committee was established to assist the state to identify and manage the potential impacts of the gas supply disruption on the Western Australian community, in particular operation on energy supply levels and the implementation of the previous government's five-point plan in response to the incident.

The committee consists of the Office of Energy, the Minister for Energy's office, the Office of the Premier, Department of Premier and Cabinet, the Department of Industry and Resources, the Government Media Office, the Chamber of Commerce and Industry, the Chamber of Minerals and Energy, Alinta, the Dampier to Bunbury Pipeline, Verve Energy and Western Power system management and Synergy.

The previous government's five-point plan involved accessing gas from the North West Shelf and other suppliers, accessing energy from other sources to free up gas such as displacing gas from power generation with distillate fuel, encouraging gas and electricity customers not to waste energy, working with industry to shift demand to low-peak times and ensuring that diesel was available to replace natural gas where possible. The office convened the first meeting of the Gas Supply Coordination Committee on Monday, 9 June with the key output of that meeting being an agreed set of guiding principles for the allocation of available energy.

The agreed priority order for the allocation was (1) energy infrastructure, (2) essential services, (3) supply to residential customers, (4) industries providing essential goods and services to the community and (5) all other industries. This list was published and was used as a guide for suppliers of energy in terms of their allocation. Following that, there were regular meetings of the committee as we worked through the five-point plan. Thank you.

CHAIR—Thank you. Mr Ellis, you wanted to make a statement?

Mr Ellis—Thank you. The department's primary role in relation to the gas crisis has been in its regulation of the upstream petroleum industry in Western Australia, so I will concentrate my opening remarks on that role. I do note that the department has wider responsibilities in relation to the state's energy security. I will touch on those briefly.

The department is responsible for the regulation of the safety and integrity of facilities at Varanus Island under powers of the WA Petroleum Pipelines Act. The department has a service level agreement with the National Offshore Petroleum Authority for regulatory services on the island. A safety case approach, which has been introduced nationally in the upstream petroleum industry, is the basis for the regulation. The safety case is based on the premise that the ongoing management of safety is the responsibility of the operator, not the regulator.

Our regulatory activity is focused on providing assurance that operators have identified the risks and put in place appropriate measures to control these risks. We do this through a program of audits and inspections which are undertaken for us by the National Offshore Petroleum Safety Authority.

In addition, operators are required to provide our department an independent validation that their facilities are fit for purpose at the time that licences are issued or renewed. In the case of Varanus Island, the last independent validation of those facilities was provided in 2007.

If I can touch briefly on the department's specific response to the incident at Varanus Island, it has been twofold. Firstly, it has been to conduct an investigation to determine the causes of the incident. Secondly, it has been to facilitate a timely and safe repair and restart of the facilities at Varanus Island to put that gas supply back into the system.

The investigation has been complex and technical in nature. It has been undertaken by a team comprising two officers of the National Offshore Petroleum Safety Authority and one department officer who has the necessary powers under the Petroleum Pipelines Act. That investigation commenced on 4 June, the day after the fire on the island, and was expected to take at least three months.

The investigation is ongoing, though NOPSAs has delivered an interim report to the department on 30 September; so on Tuesday of this week. The department is currently reviewing that interim report in order to confirm that its findings are unlikely to significantly change with the resolution in due course of the outstanding elements of the investigation. That interim report has also been referred to the State Solicitor's Office. Public release of that report will be a decision by the Minister for Mines and Petroleum.

The other aspect of the department's activities in relation to this crisis, as I mentioned, was the establishment of another team of NOPSAs and department officers to review the proposed process to restart the facility. We put in place procedures for the demolition and removal of the damaged infrastructure such that each stage of the restart was overseen by a team and supported by third party validation. This approach allowed partial resumption of gas supplies to occur on 6 August, with gas now being produced at about two-thirds capacity and full capacity expected by December this year.

In closing, I would say that our department is now reviewing the interim report received to determine whether any additional measures should be applied to Apache's operation of these facilities. It has previously requested all operators of pipelines in the state with shore crossings to review their safety and integrity procedures and provide a report to the department. Those reports have been received and are being reviewed.

Finally I would say that, while my remarks have concentrated on our regulatory responsibility, the department does have responsibilities which are germane to the other elements of the terms of reference of this committee in terms of its role in development of undeveloped gas reserves through retention lease decisions, promotion of alternative energy resources through geothermal, tight gas and research and development activities, and fundamentally working with project developers to identify and facilitate approvals. Thank you, Chair.

CHAIR—Thank you. Treasury, do you have a statement?

Mr Court—Thank you. The department's role in the gas crisis has mainly been in relation to our core role in terms of monitoring current economic conditions and forecasting. In terms of the gas supply disruption, we have undertaken some research into the impact that might have on economic conditions. That research and advice has been published in two areas: a media release by the Treasurer on 25 July and the *Pre-election financial projections statement*. That research has found that 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, which is in relative terms still quite strong economic growth. We are happy to provide any further information on that commodity work that we have undertaken.

CHAIR—Thank you. Mr Banks, there have been several submissions to the inquiry looking at the effectiveness of the government's response. One of the main criticisms was that significant minority groups within industry had no voice with government and had difficulty talking to government. This is the food industry.

Mr Banks—Right.

CHAIR—Could you explain to the committee how the Office of Energy and the government established the coordination committee and how you determined who should be on that committee.

Mr Banks—Yes. The coordination committee was primarily established as a largely operational committee, dealing with the nuts and bolts and information exchange relevant to the management of the energy sector. So it was not a broader committee covering the broader downstream impacts. There was an industry recovery group that was formed which was dealing with the broader social impacts associated with the incident.

CHAIR—Was industry involved in putting the five-point plan together?

Mr Banks—The five-point plan was an outcome of the Premier's meeting with the key industry players from the energy sector: gas, electricity, and also the liquid fuel sectors.

Senator JOHNSTON—Of all of the attendees and witnesses that are here, who was actually involved in the response? Who played a role in the three committees; the Gas Supply Coordination Committee, the Gas Supply Disruption Recovery Group and the Communications Working Party? Who here was on that? Mr Banks, obviously you were chairman of one of them.

Mr Banks—Yes.

Senator JOHNSTON—Was anybody else involved?

Mr Ellis—Senator Johnston, I attended several meetings of the committee. The department was represented by an officer at the meetings of the committees.

Senator JOHNSTON—Mr Banks, what was the genesis of these committees? Where did the concept of these committees come from?

Mr Banks—We called a meeting of key industry stakeholders in advance of this committee being—

Senator JOHNSTON—That was the Sunday morning meeting?

Mr Banks—No, that was before that. It was on the 5th.

Senator JOHNSTON—On the 5th?

Mr Banks—Yes.

Senator JOHNSTON—So the event was on the 3rd. By the 5th you had called a meeting of key industry stakeholders. Who were they?

Mr Banks—They were actually energy operators. It was Alinta, Dampier Bunbury Pipeline, the Goldfields Gas Pipeline, North West Shelf, Apache, Verve.

Mr Custodio—CCI and CME.

Mr Banks—They were not at that first one.

Senator JOHNSTON—They might have been at the Sunday meeting.

Mr Banks—They were not at the first meeting. So the group that was born out of that was a wider group which had the industry representation in there from CME and CCI.

Senator JOHNSTON—So we had this first meeting on the 5th.

Mr Banks—Yes.

Senator JOHNSTON—Whose idea was it to call a meeting of those people?

Mr Banks—Mine.

Senator JOHNSTON—How did you go about summoning them together?

Mr Banks—We had been in contact with most of those parties from the afternoon of the 3rd. So having heard of the event occurring, we had already been in telephone contact, and there were more telephone contacts during the day of the 4th. I thought it was appropriate to call them together on the 5th because at that stage it was starting to appear as though we were obviously facing a protracted duration outage and I wanted to try and get them all on a common understanding of the challenge ahead.

Senator JOHNSTON—So from the 5th, we then called the meeting on the Sunday morning.

Mr Banks—Yes.

Senator JOHNSTON—Whose idea was the Sunday morning meeting?

Mr Banks—That was out of the Premier's office.

Senator JOHNSTON—Who chose the invitees to that meeting?

Mr Banks—I had input into that, as did the Premier's office, but that was a far broader group, including people from the liquid fuel industry, as well as the mining sector.

Senator JOHNSTON—So you and the Premier's office formulated the invitation list to the Sunday morning meeting?

Mr Banks—That is correct.

Senator JOHNSTON—Where did the overall strategy to formulate the three committees come from?

Mr Banks—That came out of the Premier's office.

Senator JOHNSTON—The five-point plan was published when?

Mr Banks—I believe that was released following the Sunday meeting.

Senator JOHNSTON—Following the Sunday meeting?

Mr Banks—Yes. I believe there was a media release at that time.

Senator JOHNSTON—So that would have been, what, about the 7th?

Mr Banks—The 8th.

Senator JOHNSTON—Who drafted the five-point plan? What was its genesis? Where did it come from?

Mr Banks—I provided a detailed briefing to the Premier and his office, and the media release would have been drafted by the Premier's office.

Senator JOHNSTON—So you were providing practical input, but the Premier's office was managing the events—the publication of the material?

Mr Banks—Yes.

Senator JOHNSTON—Are you aware of it being fairly common for a number of witnesses to say that there was a dearth of information to business following the event—in other words, the response lacked detail, was vague about certain aspects and they could not get any proper

information from government with respect to questions they were asking? Are you aware of that?

CHAIR—To clarify that, that was not across all—

Senator JOHNSTON—No, not all, but some.

Mr Banks—I have read the submissions. I am aware of those concerns.

Senator JOHNSTON—Do you accept that?

Mr Banks—As I say, from my office's perspective, we were providing public updates from the 4th.

Senator JOHNSTON—What were the constraints that you were confronting with respect to releasing information to the public domain?

Mr Banks—I was making those decisions myself.

Senator JOHNSTON—I am sure you were. What were the constraints that were happening upon your decision making as to releasing information to the public domain?

Mr Banks—I am sorry, I am not quite following your question.

Senator JOHNSTON—Were there aspects of commercial-in-confidence?

Mr Banks—Sorry, yes.

Senator JOHNSTON—Take me through them.

Mr Banks—We had a very good response from industry and they provided us very good information, but much of it was subject to commercial confidentiality concerns, which were raised with us. So we kept that in confidence and the information we were releasing was at a more aggregated general level.

Senator JOHNSTON—At what point did you obtain legal advice with respect to the liability issues?

Mr Banks—The liability issues?

Senator JOHNSTON—The liability issues as to the failure to meet contractual obligations.

Mr Banks—At no point.

Senator JOHNSTON—At no point.

Mr Banks—Sorry, can I just clarify?

Senator JOHNSTON—Sure.

Mr Banks—Legal liability in terms of energy suppliers not meeting contractual obligations to customers?

Senator JOHNSTON—Or government liability, or any liability flowing from the incident on 3 June.

Mr Banks—I have never formally sought advice in regard to liability.

Senator JOHNSTON—So there was nothing, save for the commercial-in-confidence aspects, that you were alerted to by the players—by the stakeholders—in this at that point? There was nothing other than that to constrain you from releasing information into the public domain?

Mr Banks—Not that I was aware of.

Senator JOHNSTON—So how would it be that businesses did not have any real idea as to the duration of this? You have already said it was going to be several months. I think you said three months at a minimum. Why is it that businesses did not have any of this information?

Mr Banks—That information was made available once Apache had made that assessment.

Senator JOHNSTON—So you are saying that all the information that should have been in the public domain, save for commercial-in-confidence, was in the public domain?

Mr Banks—From my perspective, yes.

Senator JOHNSTON—What about from anybody else's perspective? Were you at any stage told not to release information?

Mr Banks—No.

Senator JOHNSTON—By anybody?

Mr Banks—No.

Senator JOHNSTON—Save for the commercial-in-confidence material.

Mr Banks—Yes.

Senator JOHNSTON—Were you consulted with respect to all of the press releases from the Premier's office?

Mr Banks—No. Not that I know of, no.

Senator JOHNSTON—So there were press releases being made on this subject that you were not consulted about?

Mr Banks—Yes, I should have clarified that. Not that I am aware of.

Senator JOHNSTON—So you think you were consulted on all press releases?

Mr Banks—Yes. I am not aware of press releases being made—

Senator JOHNSTON—Without your knowledge.

Mr Banks—But, to be frank, I actually was not tracking the Premier's press releases. So there is some risk that—

CHAIR—You had other important issues!

Mr Banks—Sorry, yes. I was not tracking the Premier's media releases, so it is really hard for me to say with certainty whether or not I was consulted on a particular media release.

Senator JOHNSTON—The Premier has chosen the participants in these three committees. The then Premier had a hand in the management of the response to this incident. Am I right? His office is orchestrating the response.

Mr Banks—His office was involved in the coordination committee. It was represented on the coordination committee.

Senator JOHNSTON—Are you aware that some businesses could not get access to the Premier or to his office over this incident?

Mr Banks—No, I am not aware of that.

Senator JOHNSTON—Were you aware that Synergy ultimately was in fact rewriting two- and three-year term contracts arising from the incident with people who were not previously customers or who could not access gas but, to get Synergy gas, were being asked to write new contracts at substantially increased prices?

Mr Banks—I was aware that Synergy was making gas supplies available to customers.

Senator JOHNSTON—Were you aware that they were extending the contract out over two to three years and asking customers to sign up for two to three years on prices that were over and above what they would have paid prior to the incident?

Mr Banks—I was not aware of the terms. Sorry, perhaps refer it to Mr Eliot, because he had a more direct involvement in that aspect.

Mr Eliot—The terms and conditions that Synergy placed on customers that came to them requesting supply were set by Synergy. Synergy did so on a commercial basis, based on the terms of the gas that they had available to them to sell. I am not aware that they did anything beyond that.

Senator JOHNSTON—So you are saying they simply went on a pure supply and demand basis to those who needed gas from them and they had some gas. In other words, they took advantage of the situation.

Mr Eliot—No.

Senator JOHNSTON—On a commercial basis, that is.

Mr Eliot—They charged prices for a two-year contract, if that is what they were offering, based on the terms of the gas that they had available to sell.

Senator JOHNSTON—Why would they offer a two-year contract when the crisis or the constraints on gas supplies only lasted three to six months? Why would they do that? Any explanation for that?

Mr Eliot—Synergy is a gas retailer and would have an interest in obtaining customers on a long-term basis.

Senator JOHNSTON—So they were taking advantage of a vulnerability in the gas market in Western Australia?

Mr Eliot—No, they were—

CHAIR—I must say I am a bit concerned about this line of questioning to a public servant. The public servant is not an employee of Synergy. Unless the public servant has been involved in determining the contracts, then I think this is an unfair approach to questioning. I am happy for the public servants to answer questions on their role, but certainly not to be cross-examined on Synergy unless you have got specific knowledge of what has happened.

Senator JOHNSTON—Let's move on to the movement by Synergy from gas to distillate. Are you aware of the facts and figures surrounding energy generation by Synergy using gas?

Mr Eliot—Verve is the generator.

Mr Banks—It would have been Verve.

Senator JOHNSTON—Sorry, by Verve.

Mr Banks—We have had input on that information. I do not have it to hand.

Senator JOHNSTON—Just tell us. Verve had the capacity to move from gas and free up significant amounts of gas—

Mr Banks—Yes.

Senator JOHNSTON—at a penalty cost rather than going to higher priced diesel. Is that correct?

Mr Banks—That is correct.

Senator JOHNSTON—Tell us what you know about when they made the transition and what efforts they made to release gas.

Mr Banks—One of the issues around the initial incident was the fact that one of the major coal-fired power stations in the south-west, Collie power station, was off, so during the initial phase of the incident Verge was actually consuming a lot of liquids just to maintain electricity supplies. Following that, once they restored that unit and got more coal units available, they were in a position to be able to offer gas at distillate prices, but the distillate price is about \$35 a gigajoule, and I am not aware of anyone taking up that opportunity.

Senator JOHNSTON—Just clarify that for me. They eventually did free up some gas, but the gas was at a price that was then the market in Western Australia, which was a very high price.

Mr Banks—Yes.

Senator JOHNSTON—Could they have moved to distillate earlier if there had been a government intervention?

Mr Banks—They were using distillate quite heavily from the initial outset.

Senator JOHNSTON—And gas.

Mr Banks—And gas.

Senator JOHNSTON—Yes, and they could have increased their distillate usage and freed up gas at an earlier point, could they not?

Mr Banks—No. My understanding is they needed to get additional coal units on before they were in a position to do that and then once they were in a position to do that, they made that available, I understand by the bulletin board.

Senator JOHNSTON—When was that? By the bulletin board, which was, what, mid to late July?

Mr Banks—Yes, it would have been around mid to late July.

Senator JOHNSTON—So for about six weeks there was no movement away from gas. They waited until they could get the coal station online from Collie.

Mr Banks—Yes. They were using a lot of distillate at that time.

Senator JOHNSTON—Yes, but are you saying they had no capacity to use more distillate?

Mr Banks—That is my understanding.

Senator JOHNSTON—And what is the basis of your understanding?

Mr Banks—From discussions with Verve.

Senator JOHNSTON—They said they could not or would not use any more distillate because of?

Mr Banks—There is an issue in the replenish rate of distillate. The electricity system was being managed to make sure that we did not have interruption to electricity supplies, because the last thing we wanted to do was compound the situation.

Senator JOHNSTON—There was what sort of problem? A replenishment rate?

Mr Banks—Yes, how fast you can actually get distillate trucked around to power stations; or, also, using their existing stocks. So whilst the coal units were off—and this was in, you might recall, some of the discussions from the coordination committee—certainly system management had a concern that we cautiously manage the use of distillate until such time as distillate stocks were replenished, following the fact that a high degree of distillate had been used in the initial phase of the incident.

Senator JOHNSTON—Just pause there.

Mr Banks—Yes.

Senator JOHNSTON—So we did actually use a lot of distillate in the initial phase to make up for the shortfall in gas?

Mr Banks—And the fact the coal unit was off.

Senator JOHNSTON—The answer to that question is yes, we did use a lot of distillate?

Mr Banks—No. From my perspective or in my view it was more about the fact that the coal unit had come off.

Mr Custodio—There were a number of coal power stations that we understood were out at that time and therefore could not be brought in immediately, so they had to use distillate.

Senator JOHNSTON—That is right, so we did actually use distillate to fulfil the shortfall of gas at an early stage in the crisis.

Mr Custodio—Up to a certain limit, in terms of capacity, plus we understood the replacement issue was one of the issues, but they had to manage to ensure that those power stations could continue to contribute until such time as the coal plants were back.

Senator JOHNSTON—We could not truck sufficient quantities or tonnes of diesel to the power stations to burn. Is that the replenishment issue?

Mr Custodio—It was one of the issues. Getting additional supply from overseas—

Mr Banks—Imports.

Mr Custodio—Imports.

Senator JOHNSTON—Was the minister aware of the problem, to your knowledge? Did you tell him that we needed more diesel? What are the options you gave him?

Mr Banks—The minister's office was represented on the coordination committee and would have been aware of those discussions. I am not convinced of what benefit additional diesel would have provided in the initial stages because of the fact that we did not have the coal capacity available, so it was not until the later stages, where the coal plant had been returned, that we would be able to contemplate the issue of distillate trading out for gas.

Senator JOHNSTON—You said you have had a replenishment issue. That was the principal reason why the distillate was not being used. But it was used initially.

Mr Custodio—Plus at the time the capacity was minimal.

Senator JOHNSTON—Yes. It was initially used.

Mr Custodio—In terms of the generation of capacity, as well.

Senator JOHNSTON—Just explain that to us, because it is very important. I want to know whether distillate was a viable alternative option in the generation of energy for Western Australia that was taken up, for reasons known only to the government, or maybe to you. That is the question.

Mr Custodio—In terms of the ultimate answer to this question—and it is a question that I think has to be put—in terms of the total capabilities of plants at particular times, at that time very clearly there was a second-level capacity, distillate burning capacity, as well as coal, and it was a question of trying to balance it out.

Senator JOHNSTON—It was a commercial matter for them.

Mr Custodio—It was a question, as I understood, to balance whatever fuel they had to ensure that there was sufficient capability to supply in the long term. That went on for quite some time. They had coal plants out and they had to bring them back. It is total operational planning from their perspective.

Senator BUSHBY—I might give Mr Banks a short break and ask Treasury officials a couple of questions. You mentioned that your estimate of the cost of the event to Western Australian GSP was about \$2.7 billion.

Mr Layman—Two billion dollars.

Senator BUSHBY—That is over what period?

Mr Layman—The \$2 billion was calculated over two quarters, but essentially it was over the last month of 2007-08 and the first few months of 2008-09.

Senator BUSHBY—So that has not taken into account any ongoing effect? It is just for that period.

Mr Layman—Just for that period.

Senator BUSHBY—It would not necessarily fully reflect the 2008-09 year effect on GSP.

Mr Layman—Probably not the full effect. We expect that, once the gas supply is fully restored—

Senator BUSHBY—Which will not happen until December of this year.

Mr Layman—Until December. So the second half of 2008-09, we would expect economic growth to be probably a little bit faster than it would have been because things will bounce back. How that will balance out for the whole of 2008-09, we are not quite sure yet.

Senator BUSHBY—You presumably did some modelling. Is that correct?

Mr Layman—Yes.

Senator BUSHBY—Was it some econometric modelling based on models that you already have, or did you develop a special model for it?

Mr Layman—Yes, it is an economic model. It is not an econometric model as such. The model used is called MMRF—the Monash Multi-Regional Forecasting model. That is a fairly detailed industry model of other state and national economies; fairly widely used. For example, Professor Garnaut's modelling that he released a couple of days ago was all done on the MMRF, on climate change. Commonwealth Treasury is using that model for a similar purpose. The Productivity Commission used that model for the National Reform Agenda modelling a couple of years ago. It is a well-regarded and well-known model.

Senator BUSHBY—To what extent does that modelling take into account the actual experience of businesses in an event like this?

Mr Layman—It does go down to a detailed industry level; it is a model of industry aggregates. So while we could give you a figure for GSP and we can tell you what we think will happen to certain industries based on the structure of that model, it cannot predict what will happen in an individual firm.

Senator BUSHBY—We heard this morning from the Chamber of Commerce and Industry that there is one business that they are aware of that has probably suffered a \$50 million loss as a result of this, and the average was \$1.01 million per business—something like that. I will come to their estimate in a minute. Looking at those sorts of figures, using your modelling, there is no way that they can be fed in. Your modelling is basically theoretical based on past experience.

Mr Layman—Based on past experience and the relationships we think will hold when you apply these sorts of shocks to them. In terms of what you are getting, it will not give you a distributional impact.

Senator BUSHBY—Is it based on first round effects or does it include second and third rounds?

Mr Layman—It includes second and third round.

Senator BUSHBY—It does include second and third round effects. It does not indicate where it is likely to hit hardest, any particular industries, or whether they will break even or whatever?

Mr Layman—It will tell you what industries are the most affected. It will tell you the regions where those industries are affected, so we could give you some regional breakdown.

Senator BUSHBY—If you could supply that to the committee, that would be appreciated.

Mr Layman—Most of that was fairly much what you would expect. The industries that were worst affected were the energy intensive mineral processing industries—alumina, nickel, mineral sands; those kinds of industries. That is fairly obvious. Some of the tourism industries were badly affected; food, drink and tobacco, and also wood and paper products. You can probably think of a couple of other examples. It is pretty much what you would expect in terms of the industry impacts. Even though it takes into account second and third round impacts, it really is that big first round impact that dominates. In terms of the regions, you really look at which regions have got those industries, and the south-west has the biggest share, with alumina and mineral sands. That was the worst affected area. Other than that, the incident itself had a fairly large economic impact on the Pilbara. There were also businesses in the goldfields, and obviously a lot in the Perth statistical area. There are bananas up north, Neerabup and those sorts of places. It was fairly widely distributed, but the south-west was quite a fair way in front in terms of regional impacts.

Senator BUSHBY—That is based on the modelling.

Mr Layman—Yes.

Senator BUSHBY—I think that is probably all I need to ask you. I will come back to Mr Banks or Mr Ellis. This first question is probably for Mr Banks. Were there any recommendations made to the then government for any actions to help address the impact, which were not accepted by the government? I am not asking you to tell me what those recommendations were. Did you make recommendations to the government that were not accepted?

Mr Banks—Not that I am aware of.

Senator BUSHBY—Were you working under any instructions or restrictions placed upon you by the government that limited in any way the options available to you to address the issue?

Mr Banks—No.

Senator BUSHBY—How is gas allocated now? We have heard evidence today that there are still businesses out there that get told late in the afternoon what their allocation will be for the following day. What is your understanding of how that process works?

Mr Banks—I assume you are referring to customers of AlintaGas.

Senator BUSHBY—Yes.

Mr Banks—Alinta is responsible for the allocation of gas to its gas customers.

Senator BUSHBY—Does the government take any interest in how that allocation process works—the equity of it?

Mr Banks—No. We are not oversighting that process.

Senator BUSHBY—Have you had any oversight of that process since June?

Mr Banks—No.

Senator BUSHBY—We heard this afternoon from the Local Government Association who said that some councils have been informed that they have no allocation and the council next to them has been given its full allocation; similarly we have heard about businesses that have had a 100 per cent cut on short notice. It seems to be very ad hoc. Given the importance of energy to many of these businesses, and even local governments, do you think it is a good thing for the allocation of energy to be that ad hoc in these circumstances?

Mr Banks—I do not think it is a good thing.

Senator BUSHBY—Is it something that the government could involve itself in and improve the process?

Mr Banks—In my view, they are commercial matters between Alinta and their customers. We certainly do not have visibility or purview of the different contractual entitlements that customers of Alinta may have, so I cannot really comment on whether they are ad hoc or not. I would assume that Alinta is allocating gas in accordance with its contractual obligations.

Senator BUSHBY—What is the basic charter of the Office of Energy? What is your ultimate charter? What are you trying to achieve as an office?

Mr Banks—We are trying to have a policy framework which provides a reliable and secure supply of energy to Western Australians.

Senator BUSHBY—That is exactly what I thought your charter would be. In the case where you have got businesses and even local governments being told the day before that they might not have energy for the next day, does not that fall right into the middle of your charter of providing secure energy to Western Australians?

Mr Banks—If Alinta does not have certainty on the gas that it is going to have available until a day ahead then it has probably got little choice but to put those types of arrangements in place.

Senator BUSHBY—That seems to me to be something that the Office of Energy should be looking into. Obviously there is a set of circumstances that is before Western Australians now. Looking forward, do you think it would be a good thing to put in place a policy or a strategy so that, if something like this happens in future, it would make it more likely that the security of energy supply that your basic charter requires you to look to deliver would actually be delivered for these small businesses so that they know they are going to get power, or at least a ration or an amount of it?

CHAIR—Senator Bushby, I am concerned that we are straying into policy issues for government here. I am happy for you to pursue this line of questioning but I think it has to be on the operational issues and the responses from the department as distinct from a policy position for government.

Senator BUSHBY—Okay.

CHAIR—These public servants should not be put in that position.

Senator BUSHBY—I will move on. To the best of your knowledge are we on track for 100 per cent gas supply being restored for December 2008?

Mr Ellis—Yes, to the best of the Department of Industry and Resources' knowledge Apache is on track to achieve or beat that forecast.

Senator BUSHBY—You are taking a fairly keen interest in those matters?

Mr Ellis—Yes.

Senator BUSHBY—I imagine you would be. Once 100 per cent is up and running, do you have any assurances that all the customers as at the beginning of June of this year will be back on contract with similar quantities of gas at similar prices?

Mr Ellis—Certainly from a Department of Industry and Resources point of view that is not an area that we have any role in or perspective on.

Senator BUSHBY—And no assurances have been sought from appropriate parties in that respect?

Mr Ellis—Certainly the focus of our activities on Varanus Island when we restarted the facilities was to ensure that it is safe and timely.

Senator BUSHBY—What about you, Mr Banks? Have you sought any assurances in respect of security of supply for customers once 100 per cent is up and running in terms of what they were accessing and the prices at which they were accessing it prior to the explosion?

Mr Banks—No.

Senator EGGLESTON—I was interested in that issue, too, of restoration of 100 per cent supply. The loss of Varanus I think was 350 terajoules a day. Is that not the case? They had resumed a supply of 200 terajoules per day on 15 August, with a full return expected in December to 350 terajoules. This is in a chart from the department. At the end of June, additional gas production from the North West Shelf increased, contributing a total additional gas supply of 150 terajoules a day, so in fact the 350 terajoules was restored from around mid-August. Is that not the case, in terms of supply of gas? It is your chart.

Mr Banks—Yes, it is my chart. The North West Shelf is advising us that it decreased its production to around 100 additional terajoules.

Senator EGGLESTON—They have decreased it?

Mr Banks—Yes.

Senator EGGLESTON—So there is still a deficit there, but you have just told Senator Bushby that you expected full supply to be in place in December.

Mr Banks—That is from the Varanus plant.

Senator EGGLESTON—So we still have a deficit situation. Is that what you are saying?

Mr Banks—That is correct.

Senator EGGLESTON—Senator Bushby asked you the question about costs. Another item on your chart here says:

... there should be sufficient energy to support full industrial and commercial needs.

Then it says:

However, the additional energy being supplied is likely to cost significantly more than under normal arrangements.

Can you explain why that is the case.

Mr Banks—Certainly that comment is partly having regard to the fact that, if distillate was used to displace gas, there would be a significant additional cost associated with doing so.

Senator EGGLESTON—Is this on an ongoing basis, though, after December? Are the customers, the clients, going to find that the cost of the energy they receive is higher if the gas supply is back to normal? They will not actually be going back to square one; they will be incurring higher costs for the gas. Is that not the case?

Mr Banks—That will depend on their contractual entitlements and the duration of their individual contracts.

Senator EGGLESTON—It will, but that is an answer which ignores the fact that they really will not be going back to the pre-explosion costs. Is that not true?

CHAIR—Senator Eggleston, again I do not think the public servants are in a position to comment on the operation of the market in that sort of detail. That is a matter for the suppliers and the customers. I would rather we asked questions about the departments and their response, not what any private company is doing.

Senator EGGLESTON—Thank you, Chair. I accept your advice on that matter. Going to another issue, was the government ever approached about developing energy security or a contingency plan to manage any disruption to the state's energy supply? And, if so, what were the details of those discussions? Have you had discussions about a contingency plan? This is the third time the gas supply has been interrupted. Total silence. That must mean you have not and you have never thought about—

CHAIR—Again, I just think you should let the witness think about your question.

Senator EGGLESTON—It is a pretty simple question, and there was dead silence, and glances between various bureaucrats.

CHAIR—Do you want to repeat the question and we will try again?

Senator EGGLESTON—Essentially, it boils down to whether or not the government or the department was ever approached about developing a plan to ensure energy security or a contingency plan to manage any disruption to the state's energy supply and, if so, what are the details, if you could provide them in a general way, or was there no such plan in place? This is the third time we have seen the gas supply from the Burrup Peninsula interrupted.

Mr Banks—Yes.

Senator EGGLESTON—And one would have thought the state government or the department might have devoted some thought to developing a contingency plan to deal with any future disruption to those gas supplies. Do you have such a plan?

Mr Ellis—This will go in part to the question you are asking: from a Department of Industry and Resources point of view, while we have not sought to develop a contingency plan of the kind you have mentioned, the interruptions to gas supply and our own forecasting of supply and demand in the state have meant that the department has put extra effort in putting forward to government recommendations for steps that would strengthen energy security. Those range from the acreage releases which have occurred in the past 12 months around geothermal energy in the state to heavy promotion of tight gas resources that are onshore in Western Australia to alternative energy. So, as well as the work we have done to negotiate with LNG project proponents for domestic gas offshore—while it does not go directly to your question, 'Was there a contingency plan?'—there was a response to the fragility or the vulnerability of the state's heavy reliance on singular sources of supply for energy.

Mr Banks—There have been previous proposals in regard to things such as additional gas storage at Mondarra north of Perth and the Dongara gas fields. There has been some

development of those. They have not progressed to a scale which would constitute a full contingency for the event that occurred.

Senator EGGLESTON—I think we could draw from that that really we have not developed any broad contingency plan to maintain energy supplies, could we not?

Mr Banks—There is not sufficient contingency to deal with the type of event that Varanus Island was.

Senator EGGLESTON—And has occurred three times in the last four or five years.

Mr Banks—An event of the scale of Varanus, I would suggest, has not.

Senator EGGLESTON—Nevertheless, we have had interruptions in the gas supply.

Senator JOHNSTON—You have had a whole town blacked out. What more do you want?

CHAIR—Come on. One at a time. Behave yourself.

Senator EGGLESTON—I am just surprised that, given the fact that we have had this gas supply interrupted three times, the department has not developed a plan to manage the consequences of such an interruption, big or small, given that Varanus is a very large event; which you do not have to comment on. The other thing is that, during the crisis, the government was advocating that residential gas users reduce their gas use. Could you advise us of the details of that campaign and tell us what it cost?

Mr Banks—It was a print, radio and television campaign and the budget for it was in the order of \$950,000 and I believe it went close to fully expending its budget.

Senator EGGLESTON—That is interesting. Could you tell me what percentage of gas is used by domestic consumers?

Mr Banks—It is only a relatively small per cent. It is around three to four per cent of the total gas consumption in the state. However, as a portion of Alinta's portfolio—and the Alinta customers were being seriously affected by the disruption—it is a significantly larger quantity. The thinking there was that any gas saving out of the Alinta portfolio would increase the ability of Alinta to allocate gas to its other customers that were subject to disruption.

Senator EGGLESTON—I understand it is just 2.3 per cent and it does seem to me that it is rather a large amount of money to spend on a small sector of the market. Encouraging people not to use their heaters and so on is almost irrelevant to the broader matter of the interruption of gas supply, is it not?

Mr Banks—I would suggest not from Alinta's perspective because, as I say, it is a relatively significant portion of their portfolio. A lot of Alinta's customers in the south-west were being adversely affected and we were in the winter period, so the demand over that period is higher than it is over the year.

Senator PRATT—I wondered if, Mr Eliot, you might highlight for us the regulatory constraint you operate under in terms of, for example, being able to direct companies like Synergy and Alinta in relation to these matters. I note, for example, that the decision was made not to invoke emergency powers. I imagine that, had they been invoked, you would have had some greater power with respect to that. We have had some questioning about price gouging et cetera. Could you just highlight for us the regulatory framework you operate within that sets those limits for you.

Mr Eliot—The government sets tariffs for small-use customers which determine prices for residences in both gas and electricity but, as for directing what they do on a contractual basis, the government has no ability to direct Alinta. We do not own the company. As far as Synergy is concerned, it is run by its board of directors and its company, and is left to do so. So, while the minister does have the ability to direct Synergy to do things, the general process is to leave the corporation to be run by the corporation. Outside of that, the government has the ability, in instances where it declares a state of emergency, to direct companies, including Alinta, to direct gas to specific customers.

Senator PRATT—Is it true to say that, notwithstanding the fact that Synergy is government owned, it is difficult for the minister to direct the board—generally that is at arm's length—and it does operate as an independent corporate entity?

Mr Eliot—That is correct.

Senator PRATT—It was alleged that there has not been enough contingency planning in relation to long-term energy supplies. Is it true to say, though, that the government has been quite active in this area with a view in the past to things like the process of disaggregation, which was about broadening out the energy market so that some of these issues could be solved by the market in the future? Could you tell us a little bit about that process, please.

Mr Banks—Can I just clarify that. You would like me to tell you about the government's reforms in the energy sector, the disaggregation?

Senator PRATT—Yes, the process of disaggregation. We know that there are limited inputs in terms of limited energy suppliers and that there is constraint, therefore, in terms of the number of suppliers. Previously, as government monopolies, it was difficult to bring new players in, but there was a reform agenda required in order to be able to solve these issues in the future. Is that true?

Mr Banks—Certainly the reforms that the government has put in place have seen a large amount of private sector investment in different power generation options across both renewable and traditional technologies. Mr Ellis outlined some of the work that has been going on in terms of trying to diversify the upstream gas supply in recognition of the fact that it increases the security of supply if we can increase the diversity of the supply sources.

Senator PRATT—What was the previous constraint while that was all under a government monopoly?

Mr Banks—It was probably largely about an innovation issue in terms of bringing new players to the marketplace that provide innovative solutions for energy supplies.

Senator PRATT—Thank you.

CHAIR—Mr Banks, I want to come back to this issue of a contingency plan and get a bit of history to contextualise where we are at the moment. As I understand it, decades ago contingency plans for power supply were built into the power stations that were built. The contingency was that you built extra power stations to ensure supply. Is that your understanding of how it operated before privatisation?

Mr Banks—In regard to power generation, that is still the case. The Independent Market Operator operates a process that ensures that there is an adequate reserve of generation capacity available to the market in the south-west.

CHAIR—So gas is inherently more unreliable than coal production in terms of reliability, it seems to me, given what we have seen in the last period in Western Australia.

Mr Banks—The gas supply chain in Western Australia is a function of what it is. It is dominated by two major players with the North West Shelf and Apache. That makes it susceptible to large, single-point failures, unlike electricity generation where you could have a single generator failure and it might not necessarily have an adverse effect on the system. You have a failure of one of those gas producers and it has a significant impact on the gas market.

CHAIR—Has industry or the North West Shelf or Apache Energy approached your department to say, ‘We need a contingency plan. We are concerned we may lose 30 per cent of our capacity’?

Mr Banks—No.

CHAIR—To develop a contingency plan to provide 30 per cent extra power supply within Western Australia would be quite expensive?

Mr Banks—It would be.

CHAIR—What would be the practical steps that would need to be taken to build a contingency plan to make sure you get no power cuts? What would that be?

Mr Banks—In regard to gas, staying with the 30 per cent loss of the gas?

CHAIR—Yes.

Mr Banks—There are a range of options that could be considered. Some of them have strengths and weaknesses. One that comes to mind is the use of a gas storage facility somewhere closer to Perth. You would need a large reservoir to be able to store the quantity of gas that would be required to sustain a 30 per cent reduction in gas supply for the whole state for at least two months. There would be a significant cost involved and there would be significant costs in

actually filling the facility with gas and carrying that gas, the point being that the gas cannot be utilised on a daily basis.

It effectively has to be a redundancy. It has to sit there and be available for a contingency which is a one-in-thirty-year event. So you have a large carrying cost in terms of the capital tied up in having that type of resource stored. Other options have been proposed as well—for example, an offshore LNG receipt terminal.

But, again, you would need ships that effectively are idle, because if they are integrated into the market and used on a daily basis, if you have an event like this they will not be there to provide additional supplies, they will only be part of the integrated daily usage.

CHAIR—So if we moved to a contingency plan that said more pipelines, more storage, alternative energy, it is all at a significant cost?

Mr Banks—That is correct.

CHAIR—That cost would then affect profitability in the industry, wouldn't it?

Mr Banks—It would. To date that has largely been left to the decision making of the players in the sector, so there are some industries that do provide their own contingency plans in terms of backup supplies, but they do so through their own commercial decisions rather than necessarily a central decision from anyone else.

CHAIR—So if the public are owners of power generation completely in Western Australia, the public would have to fund the cost of contingency plans or extra capacity?

Mr Banks—That would be a decision for government but, in my view, if you were going to fund that through gas tariffs, there would be a significant increase in the gas tariff.

CHAIR—Has there been any analysis within government as to the cost of providing contingency, or any discussions with industry on this issue of contingency?

Mr Custodio—The previous government did ask the office, just prior to the election, to conduct a review looking into those sorts of contingencies.

CHAIR—Has that review been completed?

Mr Custodio—It was done prior to the election. So whether that is endorsed in terms of terms of reference, we are still confirming whether we will go ahead with that.

CHAIR—So the new government has not made any decision as to whether it will analyse contingency requirements for power generation and supply within Western Australia?

Mr Custodio—We are seeking endorsement of the terms of reference.

CHAIR—You have asked government to endorse the terms of reference so that you can continue an analysis of contingency?

Mr Custodio—Yes, there is advice given to government on endorsement of those terms of reference.

CHAIR—How long has that been with the new government?

Mr Custodio—Just recently.

CHAIR—You would expect a quick turnaround on that?

Mr Custodio—I do not know.

CHAIR—You do not know?

Mr Custodio—No.

CHAIR—Thanks very much to all of the public servants who have come along today. We understand that you have gone through quite a difficult time and we appreciate the work that you did over that period in relation to the gas crisis.

[4.04 pm]

LOGAN, Mr Francis, (Private capacity)

CHAIR—For the record, could I indicate that the witness and I have been friends and work colleagues for many years and that has been a situation that continues up until now. We are not work colleagues, but we are still friends and we have been colleagues in the past. Mr Logan, could you make any opening statement that you wish to bring to the committee.

Mr Logan—I am the member for Cockburn and I am currently the shadow minister for water, industrial relations and consumer affairs in Western Australia. Ostensibly, the opening statement deals with some of the issues that are highlighted in what the inquiry is looking at, but also primarily the issues that have been asked by the committee in section b. of the inquiry. I know you know these things and I am probably repeating what other people have already told you today, but I will just go through them quickly.

The gas system in Western Australia, as you know, is a private operation, the DBNGP and the distribution system having been sold off by the Court Liberal government in the 1990s. All gas in the system has been forward sold under contract. There is no spare gas in the system unless customers decide to make some of that available.

The government in Western Australia, even today, has limited powers in respect to the private gas system; hence, the response to the Varanus Island gas shortage was based on putting in place a market based solution, led by government, in a collaborative approach with industry and the general public. The response was created and agreed to by the Premier's coordination committee immediately after the situation was under control in Varanus.

I would like to point out to you something which you may not be aware of, because I do not think, from the submissions I have read, that this was referred to and I am not too sure whether people have referred to it today for you, and that is who that collaborative team were that basically addressed the gas shortage. They were called together by the Premier on Sunday, 9 June, and that is the team that continued on acting to address issues as they arose during the gas shortage.

From Alcoa there was the managing director, Alan Cransberg; Victor Browner, who is the general manager of Alinta Sales; Tim Wall, the managing director of Apache; Murray Durham, who is the director of oil and gas marketing for Apache; Peter Metcalfe, who is the communications and external affairs manager for BP; Colin Martin, who is the vice-president of gas for BHP; Philip Amos, the national manager of direct sales for Caltex; James Pearson, the chief executive of the Chamber of Commerce and Industry; Reg Howard-Smith, the chief executive of the Chamber of Minerals and Energy; Stuart Hohnen, the executive chairman of the Dampier to Bunbury Pipeline Group; Mark Cooper, who is the general manager, commercial, of the DBNGP; Ron Mayne, the transport services manager for Epic Energy; Eric Ripper, the Deputy Premier; David King, the general manager of the Goldfields Gas Transmission Pipeline; Mike Laughton-Smith, who is the general manager of generation and technical for Horizon Power; Allan Dawson, who is the chief executive officer of the Independent Market Operator,

which operates the electricity market in Western Australia; myself as Minister for Energy at the time; Jason Banks, whom you have just heard from, who is the coordinator of energy from the Office of Energy; Gordon Rule, who is the general manager of the North West Shelf group; Jack Sato from Rio Tinto; Chris Gunner, who is the chief operating officer of Shell; Jim Mitchell, the chief executive officer of Synergy; Ken Brown, general manager of systems management for Western Power; Shirley In't Veld, managing director of Verve Energy; and Pat Donovan, general manager of gas distribution.

As you can see, there was a significantly powerful team that covered upstream supply, transmission of gas, downstream distribution, the control and delivery of diesel—hence the fuel companies that were in there—and the Chamber of Commerce and Industry, dealing with industry generally, both large and small; and the Chamber of Mines and Energy, dealing with all miners.

So basically what we wanted to do was have a spread of people across the economy of Western Australia who could come together and act, in a collaborative approach with the government, to address the situation.

That group endorsed a priority allocation of available energy. I would like to table a copy of this from the Gas Supply Coordination Committee, which is dated 12 June 2008. I believe your offsider has got those. If you go beyond the recommendations to the guiding principles for the allocation of available energy, you will see that it says:

The State Government will take a leadership and coordination role aimed at:

- accessing gas from the North-West Shelf and other small gas suppliers;

That is increasing whatever gas we can get available from those companies who have not been affected by the explosion.

- accessing energy from other sources to free-up gas;

That is basically demand management of existing industry to see whether they can wind back production in order to free up gas or, in particular with Verve Energy, to move as much of their generation capacity onto coal and onto diesel in order to free up gas and make that gas available to companies that need it.

- encouraging gas and electricity customers not to waste energy;

That is, again, a demand management initiative.

- working with industry to shift demand to low peak times; and

- ensuring diesel is available to replace natural gas where possible.

The second dot point sets out what are the key priorities for the government and what are the key priorities for the collaborative approach. That was:

The following principles are for the priority allocation of limited energy sources.

1. protect the health, safety and property of the community;
2. minimise broad community disruption; and
3. minimise economic impact.

You can see at the bottom of that page there, Mr Chair, that there are five points: 'Energy infrastructure', 'Essential services', 'Essential supply to residential customers', 'Industries providing essential goods and services to the WA community' and 'For all other industries'. That was the priority for the allocation of available energy. This document was the guiding document for the collaborative approach that industry and government took in dealing with this issue and making whatever gas was available to those people who needed it.

CHAIR—Just before you go on, could I, just for the other senators, mark this document FL1 in case you want to refer back to it.

Mr Logan—So they are the guiding principles for dealing with the issue. Of course, the question that you have raised, Senator, is: did it work? You are dealing with the criticism about whether it worked or not. Woodside, as an operator of the North West Shelf system, increased production, and the gas flow in the pipelines, which had previously dropped to 650 terajoules per day as a result of the gas explosion, with the increased production from Woodside then climbed back up to 750 terajoules and then later on it climbed up higher than that. Remember, the total volume of gas coming down the pipeline is about 1,000 terajoules a day. We had dropped to 650. Woodside picked that back up to 750 terajoules and then got higher later on.

Verge Energy workers excelled themselves by putting in round-the-clock shifts to bring back the biggest coal-fired power stations on line, with Muja, Collie A and Kwinana B units generating. This released from Verve Energy up to 100 terajoules of gas into the system for on-sale to industry and distribution to industry. Obviously there was very significant concern about diesel. Given that we were shifting so much power and industrial production from gas onto diesel, there was concern about the actual stocks of diesel, but the fuel companies worked extremely well with government, sourcing tankers that were en route to other places around the world and diverting them to Western Australia and making road haulage tankers available to be able to continue stock supply at various power stations around the south-west.

Demand management from industry and households was magnificent, and the public of Western Australia has to be congratulated on the effort they put in throughout this whole issue. There was a real sense of working together to overcome the situation facing the state. Clearly, the communications that we had in place for both the public and industry were working properly, as electricity consumption fell consistently. From 18 June until 1 August, 28,858 fewer megawatt hours were used than expected. That showed a dramatic response by both households and businesses to the requests and the call for energy savings.

Gas consumption also reduced over this period but it was to a much lesser extent than electricity because there were cold days during that period of the gas shortage and, of course, we expected people to keep their heaters on to stay warm in their own households. The need for

assistance to those impacted by the gas shortage is where you have heard—and you will hear, when you visit Bunbury—a significant number of complaints. From statistical evidence that was gathered, it was lower than expected and much lower than the figures initially thrown up by media hysteria surrounding the explosion on 3 June. From 9 June until gas resumption by Apache on 6 August, Centrelink had received 101 inquiries from people whose employment had been affected by the gas disruption. Fifty-six of those resulted in claims for the Newstart allowance or equivalent unemployment benefits.

There are a number of issues that came out of this incident which allows you to contemplate and think about how things could be done better. One of the issues, particularly for the federal government, is how it deals with contractors in a situation like this. You will hear from a number of companies in Bunbury, quite rightly, that they would not have gone to Centrelink seeking unemployment benefits, and those that did actually were rejected because they are contractors and therefore they were not entitled to the Centrelink payments.

That is one of the issues that came out of this incident and I am sure it will be one of the issues that will be raised with you tomorrow in the south-west. There were a number of contractors in the south-west who were affected by this who are incidental to the gas issue—that is, log haulers in the south-west, because the production processors had closed down. They were not delivering logs to the production processors; therefore, they were laid off and were unable to get Centrelink payments because they were contractors.

We had a significant number and a variety of hotlines set up to deal with the complaints and issues of people who were affected by the gas shortage: wage hotlines, gas disruption hotlines, employment related hotlines, small business hotlines. The gas disruption hotline, for example, over that period of time that I just referred to, 9 June until 6 August, which was primarily the whole of the incident, had received 71 calls over that period. Twenty were employment related, 28 were non-employment-related and 23 were wrong numbers or hang-ups.

The demand on government resources, whether federal or state, for those impacted by the gas shortage directly as employees was significantly lower than we initially expected. Nevertheless, there were still many people who were either stood down or who had shorter working hours. That is not to say that they were terminated, because the numbers of terminations are probably the ones that you have here, but, in terms of the numbers that were affected, there were more than that because they were either stood down for a period of time or were on shorter working hours.

One of the other issues raised in point b. is sources of gas supply in WA. One of the statements made in the question raised is about one source of supply. There are in fact four sources of supply of gas in Western Australia. There is the North West Shelf point of supply; there is the Varanus Island point of supply, which is an Apache joint venture; there is BHP Billiton with the Tubridgi field; and there is ARC Energy in the fields in and around Dongara. To break that up, North West Shelf and Apache, of course, provide 95 per cent of gas into the system. BHP Billiton and ARC Energy provide only five per cent.

In terms of solutions to and upcoming domestic developments arising in the future for sources of supply of gas—and that is one of the points that you have raised as a committee—can I just point out to you that BHP is now working to bring on the Macedon field. There are some

technical and registry difficulties to overcome in terms of gas specs, but those issues are nearly resolved. Gas is planned for 2011-12. Apache-Santos is currently building the Devil Creek onshore domestic gas train between Onslaw and Dampier and that will provide significant large volumes of gas planned for 2010.

Chevron has announced that they will be building a domestic gas plant ahead of their LNG facilities for the Wheatstone field. This is planned for approximately 2012 or later, but the volumes of gas from Wheatstone will be very large indeed. They are also planning for a domestic gas plant alongside the Gorgon LNG facility on Barrow Island. Woodside has also announced that it will be supplying domestic gas from its Pluto operations, in addition to LNG, and that is planned for 2011. If all those plants go ahead as planned, WA will have seven different points of supply for domestic gas around 2012, and nine different points of supply of gas by 2014, and that does provide extensive coverage should there be an incident of the type that occurred on Varanus Island.

Also, there are drilling programs under way in the mid-west and in the Busselton region for tight gas. That is a geological structure which does not allow the gas to freely escape after drilling. The volumes of tight gas in the two regions north and south of Perth are significant; notionally, around 12 trillion cubic feet. If the geological problems facing the explorers are overcome, the security and competition of the gas market in WA will be resolved to a significant degree, and I put it to you that the explorers for the tight gas should be encouraged and assisted both by the state and federal government: through royalty concessions, I believe, in the state area and through funding for the geological sites of geological science support for that exploration through the federal government.

On the issue raised in point b. about the alternative energy supplies in WA, since 2005, 12 new power stations have either been built or are in the process of being built in Western Australia. Those power stations are coal, gas, wind, and there will be one that is solar. They have been committed to and they will be built very shortly.

The objective, of course, with energy security is to have a diversity of fuel mix, a portfolio of different energy solutions. Renewables, for example, should not be really more than 20 per cent of that entire mix, particularly if the renewables are wind or solar. But, as we have seen through this issue, gas is needed. It is far more than just being an energy. It is used significantly in manufacturing and mineral processing and, whilst we might look at alternative sources of supply, for those companies dramatically affected by this gas shortage, you cannot replace that with wind or solar or coal or the generation of electricity. It is just impossible. In most cases it is for the process of heating and burning minerals. It is mainly in heating processes, whether it is in laundries or in brick kilns or things like that. It is a heating process where the gas is used, and that cannot be replaced with electricity.

A point also raised by the committee is gas storage. Storage of gas in depleted reserves around the Perth Basin is now being done already by Verve Energy, who are using the reserves in the Mondarra basin near Dongara for storage. ARC Energy, who operates those fields up there, is also drilling and undertaking geological tests to expand storage capacity and, despite what may become of these investigations, storage facilities are not going to be able to overcome the shortages of the size experienced by the Varanus gas incident where we lost 350 terajoules. The

volume of gas needed to be stored to overcome that is just far too big. You would need exactly the same size of deposit that we got it out of, and that is just unavailable.

The final point in point b. is delays and refusals to release documents. As you know, at present NOPSA—the National Offshore Petroleum Safety Authority—is still finalising its report into the Varanus Island explosion. They are doing this under the regulatory powers of the Petroleum Pipelines Act 1969 and also under their own powers. The questions asked, allegations made, particularly about inspections of pipelines, and documents demanded, I put to the committee, would have undermined the investigation, and that was the strong advice that I received from the department itself, and I believe that was confirmed by the state solicitors. For example, you do not start releasing information during the investigation of an air crash, nor do the police start releasing documents when they are halfway through an investigation or part of the way through an investigation into incidents or explosions that may not be of this nature.

It just does not happen, and this is no different, though through FOI—and there were a number of FOI applications put in—all relevant information was supplied to both the opposition at the time and the media in terms of what documents they needed. But in terms of documents that related specifically to the work that was being undertaken by NOPSA and that may well have skewed the outcome of this investigation, we did not release those documents and we were advised not to release them for obvious reasons. Thank you, Mr Chair.

CHAIR—Thanks, 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.

Mr Logan—Sure, and that is a perception that is held by a number of people. I think those people who are closer to the incident, particularly industry, and some significant large industry players in Western Australia, know that was not the case. Look at the way in which we approached the issue. There are the gas and electricity emergency orders that are always sitting there should there be a catastrophe in terms of electricity or gas—that is, a Longford type incident where you lose all of your gas supply or a Moomba type incident, and I am not sure of the full extent of Moomba, but I believe that was a fairly extensive loss of gas to the system in South Australia. Those emergency orders, particularly for gas under the Energy Coordination Act, primarily deal with a collapse of the system where the gas system gets depressurised, because that is very dangerous for householders. They may turn on their appliances and they explode, so you cannot allow that to happen, and that was one of the guiding principles for this issue.

Remember, you can only issue those gas and electricity emergency orders if there is a likelihood of a collapse or depressurisation of the gas system, which was not the case; we only lost a third of the gas in this instance. But before you issue any orders, the first thing you have to

do is get people who are likely to be affected or who can have an impact on addressing the situation, get as many of them as possible together, to work in a collaborative manner. That is what those gas emergency orders ask you to do. They say it is far better to work in a collaborative manner than to have the government standing there issuing orders to people; and that is what was done. That is what was done. That is the reason why I read out the list of names to you as senators: to give you an idea of the types of people that we had sitting around the table working with government to come up with a response, and the response was 'a priority for the allocation of gas'.

CHAIR—Obviously industry were well cared for. What about the public involvement? How did you relate to them?

Mr Logan—The explosion happened on 3 June. Before the end of that week, before the Sunday, there were already adverts going out, informing the general public of what had occurred and asking them to make a contribution by reducing their energy consumption, both electricity and gas. You might say, 'Electricity wasn't affected. Why were people asked to reduce their electricity consumption?' Alinta is a major user of gas. It is not only the monopoly supplier of gas in Western Australia but it is also a major generator and, because it lost virtually all its gas to its power stations, it then had to lean back on the government generator Verve in order to provide electricity under their contracts. Therefore, the system itself was under pressure, simply because Alinta did not have gas to run their power stations, so we were asking people to reduce their electricity consumption because we did not want an electricity outage problem as well as a gas outage problem.

The general public responded unbelievably—unbelievably—and so did very many groups. The Property Council, for example, when people were complaining about their lights that were out in Perth overnight in the offices, responded by ensuring that those lights were turned off, and it was a significant saving, simply as a result of the building owners responding to adverts and initiatives that the government put out there. In fact, on many of the buildings around Perth you could see copies of the adverts that the government had put out, explaining to people why the various lights were out on various floors of their buildings. The message did get out there.

The issue really is to small business—small to medium sized business—who felt that they were not being communicated with directly by government. As I said in the opening statement, this is a private system. They would have to have spoken in the first instance to their supplier of gas and, when they did, as you will find out tomorrow—and I can address some of those issues through the questioning—people were upset about the way in which their supplier was dealing with them. We were encouraging people to go on websites. There was a daily update of what was happening with the gas issue through the Office of Energy website. Alinta itself also had a website dedicated to the gas outage and what people could do about it, and who to contact. Of course, we had various hotlines in place, which we were advertising on radio, TV, newspapers, to ensure that people had someone to go to, to talk to.

Senator JOHNSTON—Thanks, Mr Logan for coming along. It is very good of you to attend this inquiry. If there was price gouging with respect to gas as a result of the events of 3 June on Varanus Island, would you be concerned about that?

Mr Logan—Yes, of course I would. Both I and the Premier made that clear when we were questioned.

Senator JOHNSTON—Why would you be concerned?

Mr Logan—Because obviously people would be taking advantage of the situation. There were a number of statements made about price gouging at the time, as you may remember, Senator Johnston. In fact, Woodside as a major supplier got quite upset about accusations levelled at them—that they, too, were involved in some form of price gouging. That led to Woodside taking back extra gas that it did supply to customers at basically \$10.50 a gigajoule, and then went to auction, in order to avoid any complaint about price gouging. I might add, though, that the price at auction went up as high as \$16.50 a gigajoule, and prior to the gas explosion, the last trades which I am aware of—the commercial negotiations—were, I believe, \$8.50 a gigajoule.

So you can see that the supply of wholesale gas was going up, and you could see this in the Gas Bulletin Board that we set up in order to try and help smaller companies get access to gas. When you see some of the prices of that gas, it was up to \$27 a gigajoule.

Senator JOHNSTON—Price gouging.

Mr Logan—That is exactly the same price it cost Verve Energy to be able to burn diesel.

Senator JOHNSTON—So you double it.

Mr Logan—Yes. You know at the time how much diesel was then and how much it is now. If you are taking your power station off coal and off gas and burning diesel and exchanging it for gas and making that gas available, you need to be compensated for that. That is basically the equivalent price to do that.

Senator JOHNSTON—What safeguards did you put in place to make sure there was no price gouging?

Mr Logan—We did not put safeguards in place to ensure there was no price gouging. There was no evidence of price gouging. Certainly people raised those issues, similarly to the way in which you have raised them today. You look at the price of \$27 a gigajoule and then you immediately think there might be price gouging. There is a reason for it, and you will find that Verve will probably put that to you.

Senator JOHNSTON—The three principal players—Alinta, Verve and Synergy—all function on a commercial model. Is that correct?

Mr Logan—Yes, that is correct.

Senator JOHNSTON—Who are the owners of Verve and Synergy?

Mr Logan—The state government.

Senator JOHNSTON—So we have the state government standing back and letting the market play this out, whilst being the principal beneficiary in the rise in the price of gas.

Mr Logan—That is not true. That is not true at all. I have explained—

Senator JOHNSTON—That is just a perspective. I am happy for you to argue it.

Mr Logan—Sure. That is a perception that goes back to your original statement about price gouging.

Senator JOHNSTON—Well, tripling the price is not price gouging?

Mr Logan—As I pointed out to you, if you were running a business and somebody came to you and asked you—which we did: we, as the government, asked the government owned entities—to actually make available to industry as much as possible of that gas that you had bought at a much cheaper price and, instead, you were then asked to burn a very expensive fuel, you would expect to be paid the price of that expensive fuel. That is what occurred.

Senator JOHNSTON—Verve loses \$1 million a week, doesn't it?

Mr Logan—Verve loses money because the price of electricity does not cover its costs.

Senator JOHNSTON—Already it is not operating on a commercial model, and yet when it came to this incident you wanted to revert to the commercial model because there was money to be made. It mitigated the million dollar loss per week, didn't it?

Mr Logan—Under the act, Verve Energy and all of the utilities, have to act in a commercial way.

Senator JOHNSTON—Losing a million dollars a week is not commercial, surely.

Mr Logan—They have to act under the act, Senator, in a commercial way, and their board requires them to act in a commercial way. As minister, I had no powers to be able to direct them in an uncommercial way.

Senator JOHNSTON—You said that 100 terajoules were freed up when you went to Collie production. When did the Collie power stations come online?

Mr Logan—One came online towards the end of July and the others then started to come online at the beginning of August.

Senator JOHNSTON—Are you aware of when the decision was taken to bring them back online?

Mr Logan—During this meeting of those 24 people.

Senator JOHNSTON—On the Sunday morning.

Mr Logan—On the Sunday morning, immediately after the explosion, this issue came up.

Senator JOHNSTON—You say that it took eight weeks to bring those Collie power stations back online.

Mr Logan—That is correct.

Senator JOHNSTON—Do you know the cost to Verve of bringing them back online?

Mr Logan—Senator, you know exactly what was wrong with them.

Senator JOHNSTON—I am sorry, you have to—

Mr Logan—I will tell you what was wrong with them. Muja A, for example, which was operating fine after the explosion, dropped a turbine. It dropped a turbine blade. That is not the sort of thing that you can then just get off a shelf and put it in. You have to actually stop that power station, strip the whole thing down, take the whole turbine section out, and then that turbine blade had to be flown in from Germany. So Muja A, which is the biggest power station on the system, after the explosion, unfortunately for us, actually dropped a turbine blade. That was one of the reasons why the other power station was out. It was out for normal major maintenance purposes, as was Kwinana B.

Senator JOHNSTON—So you have no idea of the cost of bringing these power stations back online, but it was borne by Verve?

Mr Logan—Correct.

Senator JOHNSTON—When they were brought back online, the cost of diesel to them, which they were burning to make up for or mitigate the loss of gas, was substantially rejected; in other words, they moved to coal instead of diesel.

Mr Logan—They were still burning diesel. In a power station, when you crush the coal and fire it into the power station, you can either use diesel or you can use gas, as a combination of firing it into the power station. They were asked—not directed; they were asked—to make sure they used as much diesel as possible, and they were doing that.

Senator JOHNSTON—What safeguards did you put in place to ensure that they in fact did that?

Mr Logan—Because I asked them to do it and they were—

Senator JOHNSTON—They told you they were doing it?

Mr Logan—They were giving that committee, that was ongoing, regular updates of exactly what they were doing. In fact, I visited the Kwinana power station. I went and visited both Collie and Kwinana power stations during this incident in order to thank those workers and encourage them to do their utmost to get those power stations back online as quickly as possible. Having an

engineering background, as you know I have, and having visited the Kwinana power station, you could see that it was going to take a long time to put that very large power unit back together.

Senator JOHNSTON—Why did you want to source overseas tankers of diesel?

Mr Logan—Because there was a fear that we would be running short of diesel. There was a concern raised that the—

Senator JOHNSTON—Who raised the concern?

Mr Logan—The companies themselves.

Senator JOHNSTON—Verve?

Mr Logan—No, the supply companies. BP and Caltex raised those concerns themselves, as did Alcoa, Verve and all the companies that were using diesel. They wanted to ensure they kept up production.

Senator JOHNSTON—How many tankers did you get?

Mr Logan—I am not too sure about how many were provided, but BP and Caltex were able to divert tankers to Western Australia. If you remember, one of the issues that came up at the time relating to diesel was the possibility of even using diesel that may be stored federally, at the naval base at Garden Island. The Premier spoke to the Prime Minister about the possibility of using that diesel as a backup. That never eventuated and we did not need to access that diesel because the companies were able to supply it.

Senator JOHNSTON—I thought there was a release of diesel from the defence base in Stirling.

Mr Logan—Not to my knowledge there was not.

Senator BUSHBY—You mentioned the long list of entities that were included in your coordination committee, and I agree with you that—to use your term—it was a very powerful committee. In amongst that list was the CCI, but it does not seem to have an overly large representation of customers, if at all, particularly small business and residential customers. It primarily seems to be the sellers rather than customers. Was there any consideration given to actually including representation for customers?

Mr Logan—A number of these people are customers, but very large customers.

Senator BUSHBY—Yes.

Mr Logan—As you would be aware.

Senator BUSHBY—But the small business end is really what I am concerned about.

Mr Logan—Not really, because what we were trying to do was have on the committee those people who could actually take actions to ensure that the maximum amount of gas was available to those small customers.

Senator BUSHBY—So you were not particularly concerned at that point about the impact on small business?

Mr Logan—That was not becoming very clear at that point in time, but as the shortage went on that obviously grew; not only did it impact on companies who were users of gas but it had a multiplier effect, as you would be aware.

Senator BUSHBY—Yes.

Mr Logan—Hotels and contract trucking companies and the like.

Senator BUSHBY—As you became aware that small business was being impacted—arguably disproportionately—was any decision made to change the way you approached issues or the coordination of the matter to try and alleviate the impact on small business?

Mr Logan—That is why, when the Independent Market Operator brought, very early on, the concept of a Gas Bulletin Board to me, I encouraged them to develop it as quickly as possible, which they did, and we endorsed it and we took it to that group; ran it past that group to see whether they would agree with it, because ultimately it would not work unless they agreed.

Senator BUSHBY—Yes.

Mr Logan—And we put that Gas Bulletin Board in place. As you know, a Gas Bulletin Board has been introduced federally now and operating from 1 July. The WA Gas Bulletin Board was up and running before that, as you know, and it was primarily aimed at getting small to mid sized companies access to gas, which they were arguing was not being made available to them from their normal supplier Alinta.

Senator BUSHBY—But the minimum purchase of that, certainly initially, was more than a lot of small businesses would be able to actually deal with.

Mr Logan—Yes, that is right. It was not only the price of gas, but there was also a transportation component as well. As I have indicated to you, in Western Australia you have a monopoly control of the distribution of gas. Despite it being privatised in the mid-nineties and, despite it being an open market, no other retailer has ever stepped into the market to set up shop in WA. So we still have a monopoly control of the network.

It is not as if a company can simply buy gas and transport it through their network. They have got to have approval and they will be charged for the transportation costs. That was virtually nonexistent prior to this incident. The creation of the Gas Bulletin Board has now made that possible. The bulletin board continues on today.

To pick up the point of the very small businesses, we realised that the actual amount that we had set for trading of gas was too high and therefore—again, because of the feedback that we

got—we set up a secondary bulletin board that allowed much smaller volumes of gas to be traded.

Senator BUSHBY—The initial minimum purchase was 0.5—

Mr Logan—TJ.

Senator BUSHBY—TJ?

Mr Logan—Yes.

Senator BUSHBY—How much smaller was the—

Mr Logan—It went down to 0.1.

Senator BUSHBY—So one-fifth that size.

Mr Logan—That would have virtually covered most businesses in Western Australia that were using gas for their heating purposes.

Senator BUSHBY—We have heard that the quantity of gas going through the bulletin board is actually quite small.

Mr Logan—Yes.

Senator BUSHBY—Whereas I imagine the amount of gas that is used by small business is a reasonable proportion of the overall amount, which suggests that not many small businesses are using the bulletin board.

Mr Logan—We did not expect a huge number to take it up.

Senator BUSHBY—It is really at the edge or the extreme that they use—

Mr Logan—Companies had to make a financial decision, and many did. They said, ‘Which is the safest economic path for us? Is it better for us to actually stand people down and ride this issue out, or is it better for us to actually buy gas, even though it would be at inflated prices, and attempt to pass that price on to my customer, or wear that increased price?’

Senator BUSHBY—One of the things that concerns me most about what I have heard is the ad hoc nature of the allocation of gas across the board.

Mr Logan—Yes.

Senator BUSHBY—I am a big supporter of the market. Where you have a huge supply shock like this, sometimes you need to have a little bit more control over how the market works and intervention to guide it.

Mr Logan—Yes.

CHAIR—Not like that, though.

Senator BUSHBY—Absolutely. When you have got a big supply shock you need—and we are big supporters of government.

CHAIR—You shock me!

Senator BUSHBY—Did the government consider taking a little bit more of an interventionist role? I know that there are some limitations on what you can do without actually using the emergency orders.

Mr Logan—Yes.

Senator BUSHBY—But once you use the emergency orders, you have a degree of flexibility as to how far you go then.

Mr Logan—Yes.

Senator BUSHBY—So you can still combine some greater degree of intervention with the market. Did you consider using it to effectively, for want of a better way of putting it, implement a ration type situation—as I understand, some businesses or even local governments have been told that on some days they get none—to keep the businesses going or the economy going at the different levels?

Mr Logan—That gives you some idea of the feedback that we were getting. That was raised continually with us and raised with me personally. For example, I went out to Prime Laundry to gauge the problem out there. I personally spoke to many small businesses on the phone about the impact that it was having on them, and they repeated a number of the issues that you have raised today.

The reason why I said those things in my opening statement was because the gas is forward; it is already sold. All the gas in the pipeline is already sold. For the government to intervene—which is what people were asking for—and allocate that gas, even if you were to try to do it under the emergency powers—which we could not; the emergency powers do not allow us to do those things—somebody else would miss out. Remember, this is gas that is all contracted and, as Senator Johnston would know, for a government to jump in to break up a contract between two parties and take that gas and allocate it to another party is a recipe for disaster. We are literally unable to do that.

There are some lessons that I have learnt out of this—and this goes to the point that you are raising. There were many criticisms about Alinta not telling customers what gas supply they were getting the following day. One of the things I believe should be looked at and examined by the government coming out of that is visibility of the supply of gas. That could be included, as you indicated, under those emergency powers. In the Gas Bulletin Board that is in place federally now, there is visibility about the volume of gas that goes through the pipes in the eastern network. That is not in the bulletin board over here because it was developed on the run.

If the bulletin board is to stay in place in Western Australia, that is the sort of thing that should be put in it, because we need to know, for example, that the gas coming down the Dampier to Bunbury pipeline is going to those customers that need it or that it is contracted to, because there were allegations of gas hoarding in the pipeline itself, in the major Dampier to Bunbury pipeline. We had no visibility of that and we had no legal way of being able to examine it.

Similarly, on the distribution network, because of the impact on small businesses not being able to know whether they could operate the following day, if we were able to have legislative powers or regulatory powers to test Alinta and the volume that it is providing through that distribution network, we would have far greater visibility for the consumers themselves, downstream consumers, and advice.

Senator BUSHBY—I have no argument with that. Exactly. That would be a worthwhile way of looking at it. Some things to some extent looking forward are—

Mr Logan—Yes. Those are the things that I learnt as a minister that we just did not have available to us.

Senator ADAMS—I have a question on livestock and the problems associated with the abattoirs and the lack of gas in the south-west. Did the minister for agriculture raise the issue with you?

Mr Logan—He did. He raised it with myself and the Premier, and with the committee.

Senator ADAMS—What was the result of that discussion?

Mr Logan—Effectively, that we were doing everything we could through asking companies that could supply gas—whether it was Alinta, Synergy or Verve or other major consumers of gas—if they could release gas and make it available to those abattoirs.

Senator ADAMS—The submission from the Food Industry Association stated that Harvey Beef had to close their abattoir down. Coming from a farming background, I know how difficult it is because you have your stock ready to go, they are carted there, and then what happens? The issue was also raised for pigs, which are very difficult to maintain; also chickens. With your beef you can maintain them for a little while. These industries have suffered very badly and lost some of their very good workers through stopping their operations.

Mr Logan—Yes. Honestly, it was amazing to see the extent that gas impacts on our economy. Gas has a role to play in virtually every part of our economy, far more than what people think. For example, with pigs, as you say, CO₂ production from CSBP was stopped because they did not have enough gas available for that particular product line, and therefore stopped CO₂ production used for the gassing and killing of pigs. That was a major problem. With the livestock, the cattle, we were advised by the industry and by the abattoirs that the season for cattle and also for sheep was coming up. If that outage had gone on longer than 6 August, it would have had major ramifications for that industry.

I had spoken personally on many occasions with the minister for energy, and I spoke to companies like Synergy, to talk to the minister for energy to see whether they could find gas somewhere and make it available for his constituents basically.

Senator ADAMS—The food and beverage group were concerned that they were represented by CCI.

Mr Logan—Yes.

Senator ADAMS—But the message just did not seem to be getting through that way.

Mr Logan—It was getting through. They certainly had a champion in the minister for agriculture.

Senator ADAMS—They did that way, but not through their actual industry body, which seems to be a little difficult. They will probably be a lot wiser now, but it was a question that I really wanted answered—whether you were informed by the minister for agriculture.

Mr Logan—Absolutely. The pig incident was critical because of the number that were arriving continually, and their ability to actually hold that number.

Senator ADAMS—That is the problem: once you have got a pig up to what you are going to sell it for as pork or bacon, you cannot really play around with that for very long. I note here in their submission that they are still having to pay enormous amounts of money to have the CO₂ brought in from other states.

Mr Logan—Brought in from the eastern states, that is right. The answer was because CSBP had basically turned down or even I think had not produced CO₂ whatsoever, or nitrogen.

Senator PRATT—Mr Logan, you have outlined in your evidence a number of the constraints on your capacity to intervene because of the legal framework in Western Australia, both in the market and in government owned corporations. Could you give us the overall framework of that, as opposed to the particular places where it exists.

Mr Logan—In terms of—sorry?

Senator PRATT—The constraint on your capacity to intervene as minister to direct the markets: could you outline the framework of why that is the case.

Mr Logan—As I pointed out in my opening statement, the upstream suppliers are obviously private companies and a significant number of them are foreign owned companies in the upstream supply of gas to Western Australia. They primarily take most of their gas out of the north-west area. The Dampier to Bunbury pipeline itself was state owned. That was sold in the 1990s and is a privately owned company, which is a joint venture of a number of companies and organisations. The Goldfields Gas transport pipeline was a privately built pipeline after the construction of the Dampier to Bunbury pipeline, and the Parmelia pipeline which comes from Dongara down to Perth was built by WAPA, I believe, many years ago and was always a private pipeline, and has been operating ever since like that.

The distribution system itself, which was Alinta, prior to that a gas company owned by the state government, was sold off again in the 1990s. So from the wellhead to the home, the entire system is privately owned and, as I indicated, the gas in that system is all contracted, so the government has really no powers to be able to intervene. It does, of course, regulate.

Senator PRATT—What is the extent of the capacity of the government to regulate and influence the kinds of factors that were in play? It would appear limited.

Mr Logan—That is correct. The regulation goes to economic regulation and access to the gas pipeline through the Economic Regulation Authority. Any disputes about the cost of transportation of gas and whose gas it goes to the Gas Disputes Arbitrator, which is also a state owned and funded regulator. The Department of Consumer and Employment Protection, under an MOU to the Department of Industry and Resources at present, but eventually they will take over legislative control, regulates the safety of those pipelines and the distribution system itself.

The capability of government to be able to intervene in a situation of this nature, as I highlighted, is limited to a catastrophic situation. A government could step in and take control and direct where production goes only under the Energy Coordination Act, under the gas emergencies powers. That is where the system is facing collapse; a depressurisation. That is the extent of government's powers.

Senator EGGLESTON—Mr Logan, there is an issue that has been raised several times here today, and that is the question of whether or not there should have been a contingency plan to deal with the potential gas supply interruptions, given that this is in fact the third time, I believe, since 2004 that the gas supply from Dampier has been interrupted. 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—Certainly I would agree with the last point that you made about energy security. There is a National Energy Security Plan currently under development by the federal government. It is one that I would certainly argue should cover Western Australia to a far greater extent. 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, 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. It is also an economic issue for industry, which is primarily in the south-west.

Therefore 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. Therefore, the energy security plan that is being developed federally should, I think, go further than simply border security and national security issues relating to energy infrastructure around the country and dig down to critical issues such as we faced here in Western Australia. So in that respect, yes, I do believe a national energy security plan would have major benefit for Western Australia.

Senator EGGLESTON—The first point about a contingency plan for a disruption in the supply: would you agree that it is rather surprising, given the history, that we did not have a plan in place?

Mr Logan—If you look at the incidents themselves, there was the incident in January where gas was out for five days because of a fire on one of the LNG trains in North West Shelf. That was dealt with because of the volume of gas that is in the pipeline. We were able to get through that issue. The pipeline itself, apart from being a transportation vehicle, is also a storage vehicle, so the volume of gas in that pipeline helps in any short-term displacement.

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.

In developing contingency systems for that—I can say once in 25 years, but it is the first time ever and Apache and its predecessors have been using Varanus and Barrow Island for up to 40 years—what sort of contingency system would you put in place? What expense is associated with that contingency system and will it get support from all the players in the market, because someone at the end of the day has to pick up the cost? There have been proposals raised about a secondary pipeline. It has been raised in submissions to you, that secondary pipeline. That is about \$2 billion plus for the construction of a new pipeline of 1,500 kilometres. There have been proposals for the construction of an LNG terminal in Kwinana, so that gas can be brought down to Kwinana and stored there further for a contingency. You will be looking at anywhere from \$1.8 billion upwards, because you have to have cryogenic storage facilities. You have to have that system integrated with the current gas distribution system, you have to have regasification facilities and you have to have cryogenic unloading facilities as well. These have been put in place around the world. They are very expensive and someone has to pay for it.

CHAIR—Mr Logan, I am aware you have given us an hour of your time, but I want to finish on one last question about this capacity to mitigate against another problem. Woodside made a profit of \$1.1 billion in six months. The figures you are talking about are not figures that the industry could not afford, if it were a determined, collective position to build in more safeguards for the Western Australian consumers. Would there be any point in the new government talking to the industry about their capacity, along with government, to try to build some extra capacity or safeguards into the system? It seems to me that there is a lot of money in Western Australia and there is no use having a lot of money if you have to close your industry down on a regular basis.

Mr Logan—I would encourage the current state government to do that, but I do not think they would get a very warm reception from the upstream players. They see themselves in a completely different market. They do supply domestic gas and they are the major suppliers of domestic gas but, as you know, they are focusing on LNG exports as the prime income driver for their operations. They are responsible to shareholders and I do not think those boards would take kindly to any proposal put before them to spend money on building domestic gas operations.

Mr Chair, could I ask the committee if they would accept a late submission from me personally, a more detailed submission? As you know, at the time when submissions were closed, we seemed to be tied up here in Western Australia doing something else. So if I could, I will provide that submission to the committee as a late submission. But in that, I will raise the

issues about diversification of gas supply. An upstream player would say exactly this to the new government: 'Why would you want us to invest in those significant systems when there are going to be far more supplies come onstream in two to three years time?'

From a security point of view, and this goes back to the point that Senator Eggleston raised, there are things that both the state and federal governments could do to improve the security situation. One has been raised in some submissions, retention leases: offshore retention leases which are jointly managed by the state and federal governments. In Canada, where companies sit on retention leases, there is a withholding penalty. If it is analysed and agreed that that gas is now economically available to develop and those companies do not go ahead and develop that gas, there is a withholding payment that goes up in cost or penalty the longer you sit on it, in order to encourage the market to develop that gas. Those are the sorts of things that we should be looking at here in Australia to encourage diversity of supply and the redundancy that we are looking for in any future gas shortage.

CHAIR—Can I join Senator Johnston in thanking you for participating. I am sure that is on behalf of all the senators. You have been very patient, you have outlined the issues from your perspective in my view extremely well, and we really do appreciate you taking the time to come along. Thanks very much.

Mr Logan—Thanks for that, Chair.

CHAIR—On that basis, I declare this meeting of the Senate Standing Committee on Economics closed, and to reconvene tomorrow in Bunbury.

Subcommittee adjourned at 5.11 pm