



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

STANDING COMMITTEE ON ECONOMICS

(Subcommittee)

**Reference: Gas explosion at Varanus Island, Western Australia**

FRIDAY, 3 OCTOBER 2008

BUNBURY

BY AUTHORITY OF THE SENATE



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**SENATE STANDING COMMITTEE ON  
ECONOMICS**

**Friday, 3 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, Bishop, Bushby, Cameron 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 9.01 am**

**ACTING 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 second public hearing of this 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 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 a 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.

[9.04 am]

**TOMBLESON, Mr John Laurance, Group Commercial Manager, Piacentini and Son Pty Ltd**

**ACTING CHAIR**—I welcome a representative from Piacentini and Son. Do you wish to make an opening statement?

**Mr Tombleson**—I have prepared a brief opening statement. My areas of responsibility include contracts and client relations, accounting functions, financing, human resource management and payroll. Piacentini and Son is a privately owned family business based here in Bunbury in the south-west. We provide earth moving and mining services predominantly to the mineral sands industry. We have revenue of approximately \$217 million per annum and currently employ 813 people at operations across Australia including Queensland, New South Wales and Western Australia.

We are based in Bunbury, as I said, and we contribute significantly to the employment and business activities in this region. Key issues currently facing our business include margin pressures resulting from labour shortages, fuel costs and rising interest rates and the Aussie dollar. I mention this because labour became the key issue for us when this crisis impacted our business. To combat our labour issues we have in the order of 50 apprentices in the trades, 45 457 temporary visa employees and up to 150 trainee mobile plant operators at any one time. When this crisis impacted our business, our immediate reaction was to try and retain our employees because getting them back again when the crisis was over was going to be the key focus of our business.

I will outline the impact in relation to our key clients in WA that were directly affected by the gas crisis. Iluka Resources issued force majeure notices on three of our key contracts in Western Australia. That resulted in the immediate shutdown of their drying kilns and immediate shutdown of our workforce involved in the mining side of the operation. Doral Minerals Sands have been impacted by intermittent closure of mining activities. They were waiting on daily gas allocations. Because of the size of their operations they were not eligible for the bulletin board system that was put in place by the WA government, so they had daily shuts on a day's notice and that impacted our business. Tiwest Joint Venture were threatened with a temporary shut due to lack of gas; they worked around that. They had 36 hours notice to provide a diesel swap to Verve Energy, and we facilitated that swap on their behalf. There were two diesel swaps—one of 735,000 litres and the other of 1.155 million litres. We were able to do, to enable their continued operations, due to our longstanding relationship with BP Australia. The other key client of ours in WA that was directly affected was Bemax Resources. Our involvement with them is in overburden removal, which was not affected by this crisis.

The motivation for our submission to the inquiry was a desire to ensure that all measures are taken to prevent this type of disruption in the future. We also wanted to see some representation at this hearing by a business in the south-west. Our business continues to survive. We were fortunate that we were not locked in on the supply side of our business arrangements. We are a longstanding business and we have long-term arrangements with our key suppliers. We were



fortunate when this crisis impacted us on 3 June that our suppliers were willing to negotiate with us to drop key expenditure. Moving forward, however, the force majeure notices still remain in place for three key contracts. Those operations have largely returned to normal as of the last few weeks, but those notices remain in place and we are subject to further interruptions if our clients are interrupted.

Key issues for us and for this inquiry are that contingencies should be in place to protect domestic supply in crisis or emergency situations and there should be a mechanism of government support. In this case, and specifically in our case, business was trying to support employees. Government could have provided more support for the businesses that were affected in that area. In terms of our desired outcomes, infrastructure is required to be in place to redirect export resources to domestic supply. It was apparent to us that the export supply of gas continued at a time when the domestic supply needed it and there were obviously infrastructure reasons and commercial reasons why that could not happen.

There is a requirement for critical spares to be maintained. Our understanding is that the long time frame and the uncertainty in getting the gas supply back on line was largely as a result of critical spares and the time to manufacture those critical spares. We would also like to see a mechanism for business to maintain employees in a period of crisis like this. Whether that is in the form of subsidies or assistance in maintaining labour levels, I am not sure what the answers could be.

Finally, I would like to make three key acknowledgements. I would like to acknowledge the efforts of our key clients in managing our workload through the crisis. They all attempted to reschedule workloads where possible. Bunbury Chamber of Commerce and Industries was a very good conduit for us by keeping us informed about what the Western Australia government was doing and keeping us involved with what time frames might have been possible. I acknowledge the office of Nola Marino in coordinating a response from Centrelink. Within a day or so of the crisis we had had contact from the local Centrelink office, who were offering assistance should redundancies or lay offs be necessary. We did not get to that stage but the offer was there from the Centrelink office, which we appreciated.

**ACTING CHAIR**—Thank you very much, Mr Tombleson, and we appreciate you taking the time to come to the inquiry. We obviously do not understand all of the problems you have faced but it is good to hear some of the issues that you have raised here this morning. On the issue of contingency, obviously if there was a contingency plan you would not be here as it would be in place. What would be the contingencies required in the south-west to maintain supply in a similar situation in the future? What would be required?

**Mr Tombleson**—I think they are the two issues that I have mentioned. The two issues being, first, critical spares. In a critical supply environment like the gas there should have been a requirement on the company to maintain sufficient critical spares. The second one is to do with the export of gas and whether that could have been repurchased back by customers in Western Australia. I am not suggesting that gas scheduled for export should be given back to the customers in Western Australia, but there did not appear to be a mechanism where Western Australian customers could purchase back that export gas.

**ACTING CHAIR**—I am not sure what you have looked but let me deal with the issues briefly. On the question of spares, this committee has not received any evidence on the extent of the damage at Varanus Island as it is not part of our terms of reference. From what I have seen and from what I have heard anecdotally it was not simply a matter of spares being available. This was a massive explosion and a massive destruction of plant and equipment. Even if you had spares for key parts there the infrastructure surrounding the key parts seems to me to have been destroyed. Even though I accept the proposition you are putting that spare parts should be available, how do you have a contingency for such a massive explosion and destruction of mechanical infrastructure?

**Mr Tombleson**—My understanding, which comes from what was reported in the press and from the CCI, was that the long lead times were items like valves, and the piping and so on to repair the infrastructure was reasonably readily available. It was the valves that were a long lead item and they were talking six months lead item on those valves.

**ACTING CHAIR**—So if there was an additional cost to the company to maintain these spare parts, should the company accept that cost or should the consumers accept the extra cost for maintaining these extra facilities and spare parts?

**Mr Tombleson**—My personal view is that the government would put requirements in place for the company that is exporting the resources of Western Australia, and one of those requirements would be that they should be able to maintain a certain level of critical spares to help ensure—not fully ensure, but help ensure—supply.

**ACTING CHAIR**—Should the government be in a position to disrupt a contract between an overseas corporation or company and Apache or North West Shelf? Should the government be able to move in and simply say ‘You cannot fulfil that contract. You must put the gas back into Australia’?

**Mr Tombleson**—Yes, I think they should.

**ACTING CHAIR**—How do you think they should go about doing that?

**Mr Tombleson**—Normal commercial contractual arrangements allow for those sorts of things to be in place. The normal contractual terms that I am aware of say things like ‘If you will not do this, this and this, then we will do it and charge you for that service.’

**Senator ADAMS**—Thank you for your submission and for appearing today. I think it is very important that we have local businesses appearing and giving evidence about their situations. Yesterday in Perth we heard from a number of the representative bodies, but for this committee to actually get the grassroots impact is very important.

I want to start with the issue of people. Coming from a rural area myself, I know how hard it is to retain labour, and it is so important that we have businesses able to employ people and retain them in the area. From your submission you have just described what happened during the problem time. Could you give us an idea about how you are restructured now, how many of your people are still with you and how many you have lost?

**Mr Tombleson**—In the mining industry at the moment there is a very large turnover of people, so I do not have information on the ‘same people’ situation. But our workforce for this past 12-month period peaked in March at 863 full-time employees. In late May, prior to the gas crisis, our employee numbers were at 817. By the end of July our numbers had dropped to 730—a 10 per cent drop in our workforce. Through efforts to find additional work, we have now built that number back up to 813 as of last pay day. We are now back to similar levels of employee numbers that we had prior to the gas situation in June.

**Senator ADAMS**—That is hopeful; it is good. I would like to discuss the bulletin board with you. You made a comment that Iluka was not eligible to obtain gas from the bulletin board. Could you—

**Mr Tombleson**—Doral Mineral Sands were not eligible for it.

**Senator ADAMS**—All right. Would you like to explain why.

**Mr Tombleson**—My understanding is their usage and the size of their operations fell below the cut-off limit for the bulletin board. The bulletin board kicked in at a certain level of consumption and they fell below that level. That is my understanding of why they were outside of that system.

**Senator ADAMS**—So what did they do to keep their operation going?

**Mr Tombleson**—They continued to negotiate with their supplier and they were able to get a daily allocation on a daily basis. By 4 pm each day they would get a phone call about whether or not they had gas for the next day. I am not aware of who their gas supplier was.

**Senator ADAMS**—As far as the bulletin board is concerned, have you had any experience yourself? Did you have to go there or did any of your clients actually use it?

**Mr Tombleson**—I understand that Iluka Resources secured their gas from the bulletin board system or from one of the auction systems. But we did not have a need to go to that system ourselves directly.

**Senator ADAMS**—On the subject of the contingency plan, yesterday in Perth the matter was raised as to what could be done to prevent the problems that arose from this explosion—and hopefully it will not happen again. What would your idea be of how you could deal with it, probably even down from here to the south-west? How could things be done a lot better than they were for you to be able to keep your businesses going?

**Mr Tombleson**—I do not think I have anything further to add there other than a couple of ideas to do with the export of gas and whether some of that could have been repurchased for domestic consumption, and the ensuring of the critical spares issue to make sure when a crisis does happen that we are back on line as quickly as possible.

**Senator ADAMS**—You made a comment about having a mechanism for government support. Would you like to expand on that?

**Mr Tombleson**—I do not have any developed views on that. We had a direct impact on 450 of our employees in Western Australia whereby their incomes were slashed because we went from working an average of 50-60 hours a week to 38-40 hours a week. Their incomes were slashed, they then had trouble with their mortgage and family commitments and that then led them to look for other employment. The fact that there was uncertainty over the time frame and that this was going to continue to impact on industry in general and on our business meant that people were looking for other opportunities for no other reason than their family budgets were affected dramatically by the crisis. A couple of the banks stepped in to offer assistance in refinancing. That was not, in my view, particularly well known. Those sorts of things could have helped out particularly with the people with mortgage pressures. Whether it be a stay of payments for a period of time, or refinancing arrangements or whether it be Centrelink benefits that could kick into top up the shortfall for those employees that were affected, I guess those sorts of issues are for the committee to consider.

**Senator ADAMS**—As a company what was the process you used with communication to government about the problems that you had? Could you explain from your company's perspective of where you went to get help?

**Mr Tombleson**—It was largely driven by a bit of panic at the time. We were fortunate in that we were able to access our local members—both Nola at a federal level and John Castrilli at a state level. We were also able to access very quickly the chamber of commerce locally, who were a good source of information flowing from the state government. We found that we were able to get what information was available fairly quickly and in a timely manner. The uncertainty over how long the situation was going to continue was the big issue at that time, but I am not sure that there was anyone else who could have helped us.

**Senator PRATT**—Mr Tombleson, congratulations on your submission, which very articulately outlines the scale of the impact at a very meaningful level for the committee. With respect to the information provided, you have outlined the impact of the uncertainty of the time frame. Do you believe at any point that there was information they should have been passing on that people should have known about, or was it simply that no-one knew the answers to those questions? Was there a disconnect in the information provided?

**Mr Tombleson**—I believe that, with the access we had to Nola Marino's office, John Castrilli and the Chamber of Commerce and Industries locally, we received good, timely information without any disconnect to it.

**Senator PRATT**—You have outlined in your submission the supply of alternative energy and clearly that is something you participated in by helping to make diesel available. Have you any suggestions about how that could have been better coordinated in terms of its timeliness? Did you know quickly that this would be a contribution that you could make by bringing that diesel into play or was that something that took time?

**Mr Tombleson**—No, that is something that became known to us fairly immediately. We have a very longstanding relationship with BP Australia. Our diesel allocation is in excess of 40 million litres per annum. In the crisis situation where the diesel was not going to be any good to us—it is not a take-or-pay allocation, it is just a projected forecast allocation from BP—we were

able to negotiate with BP on behalf of some of our key clients that this allocation could be available if they could use it to alleviate the problems.

**Senator PRATT**—So the use of diesel pretty quickly emerged as a contribution to making a difference to the extent of the crisis. If that something you think should be recognised upfront by government and energy providers in seeking to manage any similar issues, should they emerge, in the future?

**Mr Tombleson**—One of the big challenges for BP Australia was that they were getting requests for large volumes of diesel from many customers, and I know that at the same time Caltex and Shell were getting those requests. There were a lot of issues surrounding diesel getting ordered by BP and a ship coming, and another ship was bringing the same volume of diesel. When you approach a fuel company to buy diesel from them and you have put out three quotes to three different suppliers, they are all trying to source the same diesel. That created a problem in that no-one knew if they were supplying the same diesel three times or supplying the diesel only once. That became a major issue, I know, for BP Australia in terms of coordination. Because the ships of course take some time to get here, it became a major issue for them in coordinating that and knowing that they had the supply and the customers to take those volumes.

**Senator PRATT**—So putting crisis arrangements in place with BP in the future and making sure there are some standing arrangements to manage those issues might be something this committee could look at.

**Mr Tombleson**—The major fuel suppliers together, yes.

**Senator BUSHBY**—You mentioned there was no information disconnect, but you also say in your submission that the uncertainty surrounding the time frame and the disruption caused you some issues in terms of forward planning. If you had known the time lines as they have turned out—with an anticipated gas load back at 100 per cent in December this year—what would you have been able to do that was different that would have delivered better outcomes?

**Mr Tombleson**—We would have had more certainty in our communication with our employees. Our communications to our employees were very much around: ‘We’re going to drop the hours. We don’t know how long it’s going to last. You need to do the best thing for you. We need to do the best thing for us and for our clients.’ I think if we had had some idea around timing we could have provided more certainty to our 450 employees, who were hugely impacted in their take-home pay. They would have known that in 60 days or 30 days or 90 days we expected things to be back to normal, and that would have given them the opportunity to plan for the impact on them and to take some evasive action, if you like.

**Senator BUSHBY**—It would have made it a lot easier for them at a personal level as well.

**Mr Tombleson**—Yes, absolutely.

**Senator BUSHBY**—You mentioned that you are back up to similar employee numbers now to what you had before, but you have done that by changing the mix of clients. The clients that you lost business through as a result of this: are they back at the same level of the work with you as before or are they still way down on what they were?

**Mr Tombleson**—Some of the clients are at a reduced level, but that is the planned level that they were going to be at, broadly speaking. There are changes to mine plans all the time—our clients change their mine plans. From what I understand, the levels of activity across those clients that were directly affected is broadly in line with what they would have planned to be at at this time.

**Senator BUSHBY**—Given the explosion?

**Mr Tombleson**—Even given the explosion; so the impact, as of now, has largely diminished for our clients.

**Senator BUSHBY**—How does the percentage of the work that you get from those clients you named relate in terms of your business—are they a smaller percentage now than they were?

**Mr Tombleson**—They are a slightly smaller percentage now, yes, because we sought extra work. We have managed to secure additional work.

**Senator BUSHBY**—So overall the amount of work you do is higher, if they are just back at where they were planning on being.

**Mr Tombleson**—They are back to where they planned to be. They actually were planning a drop-off in the level of their activities in this period—August, September, and October—and there is then a ramp-up during the summer months in the south-west, when operations are more efficient in the drier weather there.

**Senator BUSHBY**—The next bit I would love to explore for ages but I am not going to be able to so I have to get to the point. Are you aware of the terms under which the clients you deal with have received the gas? Do you know whether they have been able to renegotiate their supply contracts on similar terms to what they had before the explosion in terms of the amount of supply and the cost?

**Mr Tombleson**—No, I am not aware of the commercial arrangements that our clients have. I am aware that as well as the force majeure that Iluka Resources placed on us, they still have force majeure notices from Alinta Gas. So they still have restrictions in place.

**ACTING CHAIR**—Sorry, we are really on a tight time frame and I have extended it a bit because your evidence was going to the relevant issues. Thank you very much for appearing. Your evidence has been very helpful and we appreciate you coming here today. I now welcome Mayor David Smith from the City of Bunbury.

[9.31 am]

**SMITH, Mayor David Lawrence, City of Bunbury; and Private Capacity**

**Councillor Smith**—Thank you, on behalf of the City of Bunbury and the other three local authorities that comprise our city—Capel, Dardanup and Harvey—for coming to Bunbury for these hearings.

**ACTING CHAIR**—Mr Smith, before you commence could I just clarify one issue? Is your submission a personal submission or is it on behalf of the City of Bunbury?

**Councillor Smith**—It is partly personal and partly on behalf of the city. It is obviously written on City of Bunbury letterhead but it is written in my capacity as the mayor of the city, not the executive. I am not sure how relevant is what I am going to say but I quickly want to tell you something about Bunbury and the south-west. Bunbury is a city, if you look up the statistics, of 32,000. We long ago outgrew our boundaries and the urban area, which is generally called Bunbury, has now spread out into the shires of Capel, Dardanup and Harvey. They contribute another 28,000 people to the urban area of Bunbury so the population of the urban area of Bunbury is 60,000. The population in the rural areas of those shires adds another 20,000 or so to the shopping centre.

We are part of what is called the Wellington district in Western Australia. Collie and Donnybrook-Balingup are the other two shires that comprise the Wellington district. We are in the top three growth areas in Australia in terms of regional growth. Along with Hervey Bay and Mandurah, we have been in the top three for the last three years. Effectively about 2,000 people move to greater Bunbury every year, which is more than move to Geelong, Bendigo or Ballarat by way of comparison. Part of our strength is the diversity of our economy. The biggest limb of our economy is minerals in terms of mining and mineral processing and power generation through the coal produced at Collie. As a minerals' region we produce something like 15 per cent of the state's mineral wealth. Most of that is alumina but it also includes mineral sands and coal, gold and spodumene, silica and silica sand.

At the time that this explosion happened there was extreme labour shortages in WA and that included Bunbury. Everyone competed for their employees against the number of projects in the north and new projects like the gold mine at Boddington in the south-west, which is a \$2 billion project, and the pending expansion of Worsley Alumina which is a \$1.6 billion project. One of the major concerns when this explosion took place was businesses securing their workforce. They were very frightened that, if they allowed annual leave or put off any of their workforce because of the problems caused by the explosion, those people would quickly move off to either another industry in the south-west or, more likely, to the north-west and become one of the fly-in fly-out population. Bunbury already has a reasonably large fly-out population because of our proximity to Perth. We have a local airport and an airport at Busselton that is used for fly-in fly-out.

When the explosion happened and it became obvious that there were going to be major impacts locally, I was invited to a meeting of the major local industries. I expected initially that

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

But what surprised me more was, firstly, a lack of information about precisely what the impact would be on Western Australia as a whole, or on the south-west in particular, how much of the gas was no longer coming down the pipeline, whether or not any of the alternative suppliers of that gas were going to increase their production to supplement what was coming down, how that gas was being redistributed and what the system of allocation would be for the various people around the table. It also surprised me that major companies were being asked to explain in front of all the other major companies in the region, and people like me who had no direct interest in their business, what their problems and issues were. It just was not a good forum in terms of what was being asked of the companies or in terms of any explanation as to what the planning for the event was.

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

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

All of that to me just seemed, from a public interest viewpoint, out of character for what I would have expected. I would have expected that everyone knew there was only one pipeline and in terms of planning the energy mix for Western Australia generally, and Perth and the south-west in particular, there would have been an enormous amount of preplanning—whether it was Apache, or Woodside or the pipeline operators themselves who had problems—and there would have been emergency plans and all those philosophical issues about how you would develop a market—whether it would be a free market, who would take control of the situation



and what information would become available—would have been determined in advance, but it was not.

From the point of view of the region where coal production is an important part of the mix, we of course were doing a bit of ‘we told you so’ because there had been a heavy move from power generation from coal to power generation from gas and people like ALCOA and others were being encouraged to effectively become their own generators using gas. Verve itself was increasingly using gas as a source of production for electricity. It just illustrates the importance of identifying the mix.

One of the issues that I think needs to be considered is whether LPG ought to be part of that mix. I appreciate that you cannot build an LPG plant reception and distribution system on the basis of an event like this, but it seems to me that we ought to at least be doing the maths on whether we could have utilised that. If LPG was part of the mix—obviously the LPG that we export goes through a distribution point and is re-converted for use—I cannot understand why it would be unprofitable to do so as an alternative. More importantly, it also illustrates the importance of maintaining coal as part of the generation process—notwithstanding climate change, which we are all concerned about—in terms of looking at the possibility of coal gas being used as part of the supply system.

The other aspect that worried me at the first and second meetings was the comments from one company in particular. It was a mineral sands company that is involved in beneficiation of the mineral sands into synthetic rutile and they use gas as a heating mechanism to do that. They were saying in effect that they could not find out from day to day what their supply would be. Effectively, they were being telephoned, almost after hours on the day before they needed the supply, to be told what their supply for the next day would be. That was just impossible in terms of their capacity to get staff, the firing up time required and not being certain about whether they would continue to have it available on the day after. It seemed to me that in those very early stages the whole system was pretty chaotic.

In relation to the explosion itself I cannot offer anything. Everyone hears all sorts of rumours about lack of maintenance, thinness of metal and things actually going in the reverse process to that required. But, in terms of the public reports that were available, I was surprised that the inspection mechanisms and the way in which they were audited and monitored struck you as being a bit haphazard in a way. Again, because of the importance of those suppliers—whether it is Apache, but certainly in the case of Woodside—one would have expected that given its importance to the state there would be some role for, say, the regulator in those circumstances to actually engage people who could properly do the maintenance checks and other inspections that would be required, and that there would be an auditing of that.

I am not saying the government was guilty on that; I am a supporter of the previous government. But if that was done then if there was a problem it would be brought to the notice of the supplier and orders would be issued to that supplier to change the way in which they were doing it relatively quickly. That should not be being left to a department responsible to a minister. It would be better, in my view, if that was done through a regulator. We have a regulator for the price of the gas. It seems sensible to me that one of their roles ought to be some inspectorial capacity in relation to maintenance, which presumably is a component of the pricing structure which they have to consider in any event.

**ACTING CHAIR**—Thank you, Mr Smith. I might pull you up there because time is running out for senators to ask questions. Can I just say that you have raised some wider philosophical issues in your submission—that is, the role of the market and the market based approach and whether the market is an appropriate way to deliver an essential service. I think that is fundamentally what you are saying.

**Councillor Smith**—Yes.

**ACTING CHAIR**—To some extent that debate has been lost over the last 10 or 15 years. The power industry has been privatised; it is a market based industry that we are faced with. Evidence yesterday from the former minister, Fran Logan, outlined many of the answers to the questions that you are raising today in terms of the limitation that government now has to intervene in the operation of the market and contractual obligations. So at this stage I do not know that we can do other than take on board that philosophical point of view you have put, which is important in an ongoing debate in the community. I just want to let you know there are clear limitations.

**Councillor Smith**—Chair, I would just note that I am not talking about the lost battle in relation to the system itself. But I do not think the issue has been addressed of who takes responsibility when a crisis develops. And it ought not be a philosophical answer about whether it is market or otherwise; it ought to be what is in the best public interest. I think that debate needs to be had afresh because it is a consequence of the privatisation.

**ACTING CHAIR**—Yes. Senator Adams.

**Senator ADAMS**—It is good to see you again, Mayor Smith. I note that we have a submission from the Bunbury Wellington Economic Alliance, of which the City of Bunbury is a member. Are you prepared to answer questions on their submission as well?

**Councillor Smith**—I am.

**Senator ADAMS**—Good. As Bunbury and its catchment area is so reliant on the Dampier to Bunbury gas pipeline, did the city or the wider group, the Bunbury Wellington Economic Alliance, have any contingency plan of their own if something went wrong?

**Councillor Smith**—No. I think we had presumed that other people would do it. One of the issues that is related to that is that Perth is rapidly running out of industrial land and we have got major industrial parks being developed at Kemerton, Preston, Coolangatta, Shotts and Collie. We are concerned about the adequacy of the pipeline to meet that future supply. Certainly we support the extension to Albany, but that obviously increases the draw on what is currently our pipeline. In terms of the alliance itself doing any preplanning, it is not that sort of alliance. It is really about talking to industry, finding out what we need to do to support them, encouraging new industry and looking at the economic infrastructure, including power generation and gas supply, to ensure that our industrial growth continues.

**Senator ADAMS**—Well, in the future, will it be something you will actually have a plan for?

**Councillor Smith**—Yes. These things always prompt you. We had a tornado here four years ago that did significant damage. The City of Bunbury has now become the leader in terms of emergency planning and recovery from emergencies in Australia, or most people use it as a model, because of the work that we have done. I am sure the alliance is going to devote some of its future attention to this issue.

**Senator ADAMS**—That is good to hear. The Bunbury to Albany pipeline will certainly enhance Bunbury as a result of the smaller towns in the region having access to that gas.

**Councillor Smith**—Yes, all those towns are important to us. It is an important project in itself in terms of its cost—it is a local construction job. All we want to be sure about is that people are bearing in mind the demand on that pipeline and its capacity.

**ACTING CHAIR**—Do you have one more question, Senator Adams?

**Senator ADAMS**—I have quite a few more.

**ACTING CHAIR**—I am sorry; you cannot do quite a few because other senators must get an opportunity.

**Senator ADAMS**—All right. Mr Smith, one comment in your submission says that you are worried about the extreme reluctance on the part of the various chambers and other industry bodies to allow the government to take on a role as the allocator of the gas. Could you expand on that?

**Councillor Smith**—When you have a reduced supply to the extent that we have and when you have industries experiencing the problem of the community at large needing electricity and gas for their own uses, I would have thought that someone would decide in advance, resolve that philosophical question and have a plan that is acceptable to everybody as to how it would work in terms of allocation. The secondary market that was developed a month or so after the explosion occurred was used only minimally and there was a minimal amount of gas available. Obviously it was the bidding or Alinta's own decisions that were being made, and you could not get any information as to the basis upon which those allocations were being made. I think there needs to be a preplan for if this ever reoccurred—for instance, if it was Woodside that went down rather than Apache—and how we would manage that. We now have to make sure that we have put into our overall energy planning an acknowledgement that these sorts of things can happen. People presumably tended to pooh-pooh these things and say they would never happen.

**Senator BUSHBY**—Mr Smith, it is a pleasure to see you here today. One of the major problems, from your evidence today and the evidence we received yesterday, is how the gas was allocated and the basis on which that was done. Unlike the chair, I am a strong supporter of the market system in terms of actually delivering essential services such as this—

**ACTING CHAIR**—Pardon?

**Senator BUSHBY**—but I am also a strong believer that there is a key role for a government to play in ensuring that there is fair competition in all markets. When you have a massive supply site shock like we had in this particular case, it seems to me to be a legitimate role of

government to ensure that where you basically have oligopolistic supplies of gas the allocation is done in a way that is fair and takes account of the needs and the concerns of all people who may be at the other end of it. Given all of that and given your evidence, how do you think that the gas should have been allocated? What process should have been followed?

**Councillor Smith**—I think ‘transparency and accountability’ says it all. You have to know what is available and what the proposals are from various interest groups for its allocation and then you have got to have some criteria, which I think should be identified in advance of the explosion, on why the allocations are going to be made. You have critical industry, emergency services and a basic domestic supply that have to be maintained. With what is left you have to have some transparent and accountable process of being able to bid for what is available if it becomes a market system at that stage. There are some industries that are so important to local regional economies that you would not like to see them having to be part of that bidding process. They need to be identified in advance of the problem, not after the problem arises.

**Senator MARK BISHOP**—Mr Smith, did I hear you say at the beginning of your submission that the two meetings you attended: firstly, were reasonably well attended, secondly, had a large component of significant businesses in attendance, thirdly, had both local government and state government representation and—the key thing I want you to address—had a dominant flavour of all of those persons, groups, businesses and whatever wanting to have a market based solution to the allocation of gas in the time of shortage?

**Councillor Smith**—I am not saying all. I think the chambers generally, and certainly the chamber of mines and the state chamber, seemed to be taking that view. I do want to pay credit to the local chamber, which is the largest regional chamber in Australia, for the role they played in trying to at least get those meetings set up. What worried me most about those meetings was that, to me, they just seemed to be the government trying to get information from the industries around the table. The philosophical view was expressed incidentally.

**Senator MARK BISHOP**—But that is the philosophical view. Was that the dominant flavour of those in attendance at the meetings representing the different interests?

**Councillor Smith**—No-one took it up as a debate, including me, because we did not think that was the most important issue before us. As to whether it was the dominant view or whether it was simply the view of the representatives who were there who were expressing that view, no-one took a vote and I would not like to say what it was.

**Senator MARK BISHOP**—But a contrary view was not expressed?

**Councillor Smith**—No.

**Senator MARK BISHOP**—Okay, that is fine. I should remind the committee that Mr Smith has had significant experience both in cabinet and at a senior level in government in previous years—

**Councillor Smith**—What I regard as a past life, Senator.

**Senator MARK BISHOP**—It was a past life—and there were some times of crisis in that time as well. So you have had experience at a senior level.

**Councillor Smith**—Yes.

**Senator MARK BISHOP**—If you were analysing the role of the government at the time, in particular of the minister who was in charge, do you have any comments you would draw to our attention based upon your practical experience at a very senior level for a very long time?

**Councillor Smith**—I do not want to make any personal comment about the individual minister. Firstly, I do not think he can be solely blamed for what happened. These events are obviously part of a long history that resulted in the explosion. But it really did seem to me that the minister did not appear to be taking control of the situation. I am a long way away from the action these days, but it seemed to me that he was visiting sites and doing those sorts of things but in terms of having a broad overview, where he was quickly able to define the issues and resolved them, I do not think that was happening.

**Senator MARK BISHOP**—In terms of the—

**ACTING CHAIR**—Mark, we have to move on to questions from Senator Pratt.

**Senator MARK BISHOP**—I have one question flowing on from that answer.

**ACTING CHAIR**—Just do that quickly then.

**Senator MARK BISHOP**—I was not particularly looking for praise or criticism of the minister. I was looking for an objective assessment of his role and the role of the government because you have made some quite critical comments. Based on your experience at a senior level, I was looking for some advice you might be able to give.

**Councillor Smith**—The only advice that I can offer is that these sorts of things ought to be the subject of preplanning. You did not have to be a rocket scientist to work out that, with a single pipeline and two major suppliers for that pipeline, there was the potential for this sort of thing to happen. In my view there ought to have been some tried and tested emergency plans which had been referred to industry, and industry and the community generally ought to have been involved in that preplanning, as you would for any other emergency in your community.

**Senator MARK BISHOP**—Thank you.

**Senator PRATT**—Mr Smith, your submission raises some concerns with regard to pricing transparency for Alinta and, to some extent, Synergy. I note that as part of the price increases in order to offset the use of gas, people were in effect paying diesel prices for gas because that was feeding in to replace the gas fuel. But what questions do you think we as a committee should be putting to Alinta and perhaps Synergy as corporations to make those pricing issues transparent and accountable? It is clear to me that there perhaps might be some concerns there, notwithstanding the issue about the pricing of diesel.

**Councillor Smith**—They obviously know in retrospect what prices they were actually charging customers during the early stages and later stages of the crisis as compared to what they were charging in terms of the diesel comparison—was it simply a diesel comparison or was it something more than that? They are the only ones who have that information, apart from the companies, and whether the companies are prepared to share it with you I do not know.

**Senator PRATT**—And perhaps also the length of the contracts that people were being asked to sign.

**Councillor Smith**—I am only aware of those Synergy comments that appear to have been made yesterday. If Synergy had surplus gas and they used it to sign up new customers on a long-term basis using the crisis as a basis for determining the price, that of course would be of concern to anyone.

**Senator PRATT**—Thank you.

**Senator ADAMS**—Having heard the evidence in Perth yesterday from the representative bodies and coming from a rural background, do you believe that the metropolitan area representation really understood how serious this crisis was and how it affected Bunbury and its surrounding areas?

**Councillor Smith**—I do not think they really and truly comprehended how important companies, who were impacted upon in the greater Bunbury area, are to our local economy, or what an enormous disaster it would have been if that had been Woodside rather than Apache and if the Apache problem had continued for longer than it did. Apart from the actual direct employment the loss of skilled labour by our major companies is a major problem. They spent enormous amounts of money in training, recruiting and developing employment relationships. If you have a big mortgage and are suddenly put back onto ordinary hours, you start thinking about the attractions of earning another \$20,000 or \$30,000 in the north rather than staying in the south.

**ACTING CHAIR**—Thank you, Mr Smith, for your time this morning. I now welcome Mr Preston Gardiner from Premin Holdings and invite you to make an opening statement.

[10.02 am]

**GARDINER, Mr Preston Graham, Managing Director, Premin Holdings**

**Mr Gardiner**—Premin Holdings trades as two companies. We have Gardiner Mechanical Services and Donnybrook Logging Services. Donnybrook Logging was established two years ago when I was a contract maintenance supervisor in the north of the state in the eastern goldfields for some major earth-moving contractors. Gardiner Mechanical has been trading for nearly eight years. Before the gas crisis we had a significant amount of work coming in on the books. As far as the mechanical side goes, because of the gas hold up, our clients were not getting their gear serviced. They do not want to spend the money that they had budgeted to spend on their gear. A lot of that machinery is still sitting in Perth doing nothing. They do not intend to put it to work until things improve not only now, probably because of the gas, but with the whole economic situation across the globe. With our logging business, that was the main concern that we had.

We started two years ago as a subcontract operator to a local company, Plantation Logging. We were mainly engaged in pine cartage. In the last two years there has been substantial growth within the industry. Our prime contractor actually encouraged me and another operator here with us to improve our gear and make it more economical and viable to run—which we did. The majority of contractors are capitalised on a lot of equipment and from the recent turnover that we were experiencing, things were looking very, very promising. The future was looking very good.

Normally, prior to the end of the financial year every year we experience a little bit of a downturn in the pine industry due to the mills' excess stockpiles, but it is only a 10 to 20 per cent, sometimes 40 per cent, reduction—probably a little bit more this year because there was a bit of a housing shortage. But they all said that, come July, things would be back on track. Then we had this. The kilns of our main mill that we supply and cart wood for are still not drying the wood quickly enough for us to supply it. There is a stockpile there currently that, even if they do get a full supply of gas in December, it is probably going to take them up to two months to alleviate. As a subcontractor to the prime contractors, we are the first off and the last back on.

I have had a truck parked up since July. That driver was with us for over 2½ years and he has now moved his wife and family to the north-west, to Karratha, simply because in mid-July, after the explosion, we did not know where we were heading. The government made an announcement that the gas was all good a month or six weeks ago, before the election. To this day, our trucks still have not moved. Six weeks ago, we were looking at investing in other gear, but now it has got to the point where we have exhausted just about all our resources to do contracts in other transport areas. It is starting to get very disheartening. Last year I purchased \$250,000 worth of state-of-the-art fold-up trailers. With that unit, when things were good, we had a 30 per cent increase in our turnover and a 30 per cent reduction in our operating costs. It was proving to be a very profitable unit. That unit is currently working at cost. If we blow a tyre or something else goes wrong with that truck, I will have to actually go into my investment to pay for it.

My driver has been doing probably only 40 hours a week. Yesterday he gave me his notice. He is going north because he cannot afford to even pay his mortgage on 40 hours a week—and we pay exceptionally good wages. We cannot find MC truck drivers or mechanics. I even have mechanics now wanting to go up north. If this continues into February, I do not know what we will get, but I am seriously considering putting our business on the market and shutting the doors. At present, that would be at a loss of six employees, when we were looking at employing up to another 10 over the next 12 months. That is not going to happen. I built this business up from scratch. I am 38 years old. It looks like, if we do have to shut the doors and shut down our gear, we will not be able to sell it and I will have to go and do another 10 years, as I did previously, working away from my family. My young bloke, who is six years old, spent the first four years of his life virtually without his father around. It is very disheartening.

**ACTING CHAIR**—Mr Gardiner, you are not an economist; you are a small business person—

**Mr Gardiner**—If I had a crystal ball, I would not be here doing this. I would not be here today. But this is getting serious. Our overdrafts are stretched to the limit. I have an associate here, and he is in the same situation. I have had to go in for contracts where we put ourselves into debt for up to \$2 million or \$3 million, take our own contracts on and run the risk of having to make it happen in five years. If we cannot get the support from our financial institutions, we are going to have no choice but to shut our doors. And, when we shut our doors, with the equipment that we currently own, which we still have a lot of money invested in, we are going to be lucky just to be able to pay back what we owe the banks. We do not need help in three, four or six months time; we are in a situation where that gas is not going to happen. These mills are not going to get a full supply until the end of the year. Well, come the end of the year, it is just going to be too late. A lot of small operators are just going to fold up. Already there are operators who have got out of the industry.

**ACTING CHAIR**—Is there no-one who can tell you with any certainty when that mill is going to be—

**Mr Gardiner**—No-one has given us any certainty. We have been left hanging out on a limb. We have no information. Nola Marino's office is the only source of information we have had. Even before the state election I contacted local MPs—the MP for Collie and the MP for Capel—and the MP for Capel was the only one that helped. We tried to source as much information as we could. The only way we could do it, in the end, was through Nola Marino's office.

**ACTING CHAIR**—You are not an economist, so I do not know whether you will be able to make this judgement, but you did say there were two major issues affecting your business: one was the international economic situation and the other was the gas. What is the one that is causing you—

**Mr Gardiner**—The gas is the biggest issue. Since the gas our operation has gone down, even during the months around July when we are normally at 80 per cent capacity and have budgeted for those couple of months when we know that we are going to have a quiet time. We were told before the gas explosion that our quotas were going to get, not severely, cut back. Most of the operators had budgeted so that we could do our maintenance in that period. But since then we have not been able to go back to work. At this time of the year we are normally at 100 per cent



operation. We cannot find enough gear or enough people to do the job. My turnover normally at this time of year, just out of the logging side, is \$80,000 a month. Currently we are at \$20,000. I have to make my repayments and pay my drivers. I have had to pay my drivers for days that they do not work so that they get enough money to make their repayments on their houses so that they do not lose their houses. It is not just myself that I am concerned about here, I am concerned about (1) my fellow associates and (2) my employees. My employees are more important to me than the assets that I own; they have young families too.

**Senator ADAMS**—Mr Gardiner, thank you very much for coming today. This sort of evidence is exactly what the committee needs to really get the message across about the severity of a business like yours. It is really good of you and your associate to come, so thank you very much for that. Something that was raised yesterday about the subbies and contractors and Centrelink: have any of your contractors—

**Mr Gardiner**—No, no-one has given us any advice; no-one has offered any help to us and no-one has offered anything to us. We have been left out. A lot of people have been given information direct but, as a subcontractor, we have been told nothing. We have had to go and find our own information of what we can do. I am actually going to go and approach Centrelink this afternoon on behalf of my employees to see what assistance we can give them.

**Senator ADAMS**—That was the question and we were told—

**Mr Gardiner**—Six weeks before the state election, all of a sudden it was announced that it was back to 75 per cent on line. That is all well and good for the city but down here we are still on 25 per cent. Our mills are converted to diesel and oil but that capacity is only up to, say, 40 per cent efficiency for their kilns. There is still a stockpile out there of over 40,000 tonnes sitting on the side of the mill waiting to go through. It is far from over for us. Trucks have been exhausted and the pine industry has been exhausted. Everyone has had to move in and the contractors have tried to help us as best they can. Like my associate here, Maurice, they try to keep our trucks moving so we have just enough to get by, but it is still not enough. We cannot keep surviving when we are only working at 40 per cent production capacity.

**Senator ADAMS**—Once you have been to Centrelink would you be able to provide an A4 page dot point to the committee—

**Mr Gardiner**—Or email.

**Senator ADAMS**—as to the result of your inquiries?

**Mr Gardiner**—This is the sort of thing that none of us have been informed about.

**Senator ADAMS**—We would really like to know what—

**Mr Gardiner**—We need whatever information we can get to pass onto our employees.

**Senator ADAMS**—And we would like the information you get from Centrelink given back to the committee.

**Mr Gardiner**—This is the thing though—it is all well and good for an employee because we can easily dismiss them and they can go and get their thing, but it is the business owner that is still carrying the debt. Where does it leave us? How is it going to help us? What is out there for us business owners? These people will not give us the advice. We are ones carrying the debt. We are not talking of little debts here. Some operators have equipment and debts of up to a quarter of a million dollars. Not only that, we have a lot of other things too. It used to be only 30 per cent of our turnover, which is the way we used to try to structure our debt, but at the moment that debt is sitting up around 50 to 60 per cent of our turnover, plus we have to make wages. How do we fix it?

**Senator MARK BISHOP**—I have a question that deals with the lack of gas supply and the wood not being dried. I understand why there is no capacity to haul, but can you answer a couple of questions. Has there been no capacity in your business to shift to other forms of haulage in the south-west?

**Mr Gardiner**—Yes, we have. I have—

**Senator MARK BISHOP**—Secondly, is it not a short-term option to follow some of your employees up north and chase up work in terms of haulage up there.

**Mr Gardiner**—We currently are, but the bulk of our trucks are specifically built as log trucks, or they are dedicated to this industry. I have got one unit that cost \$350,000 and for me to convert that and chase other haulage work I would have to fork out probably \$50,000 or \$60,000 to convert the truck over. On the other hand, to chase other haulage work we need to find trailers. I have been searching high and low for them, but when we go to our financial institutions the turnover that we are making at the moment ain't enough and a lot of the work that we are going to do is unsecured work. So who is going to finance us? Who is going to finance me to go and purchase another \$200,000 set of trailers to go and do something that I might only get three or four months work out of? And then, if the industry does turn around, I have got \$200,000 worth of trailers that I am having to make repayments on sitting in my back yard doing nothing. You can understand my point, can't you?

**Senator MARK BISHOP**—I do.

**Mr Gardiner**—That is \$4,500 a month in repayments. I do not just pluck \$4,500 a month out of my back pocket—

**Senator MARK BISHOP**—Right. You have answered the question.

**Mr Gardiner**—but I wish I could.

**Senator BUSHBY**—Thank you, Mr Gardiner, for coming along today and presenting what I guess is the human face of the consequences of this disaster. It is important for us to hear that. Your submission says that you are losing between \$50,000 and \$60,000 a month.

**Mr Gardiner**—To be correct, it is \$2,500 a day.

**Senator BUSHBY**—That is not sustainable for any length of time and I can see why—

**Mr Gardiner**—How long do I have to sustain that for?

**Senator BUSHBY**—Exactly. That is right. I take your point.

**Mr Gardiner**—And it is no fault of my own.

**Senator BUSHBY**—Absolutely. And we have heard in response to Senator Bishop's question and in other things that you said before that you have been doing everything you possibly can to try to stem the flow of money out of your pocket.

**Mr Gardiner**—I have got to let my people go, and when things pick up, if I get them back—what do I do when I face that problem?

**Senator BUSHBY**—What I am interested in is what could be done to actually help you. You have talked about financial assistance. I think you need immediate help.

**Mr Gardiner**—Yes.

**Senator BUSHBY**—Just using you as an example, when we have drought circumstances, with farmers we have a declaration of exceptional circumstances and assistance is given, which might be interest payment assistance or others ways that they can actually help small businesses, which farms are, to deal with the exceptional circumstances they face. I would think that what we have in WA are exceptional circumstances. Do you think that something like that would be an appropriate way of dealing with the challenges you face.

**Mr Gardiner**—Definitely. Quite a few years ago submissions were made by various timber companies in the south-west to both federal and state governments to try to improve and enhance their businesses. This is what stage we are at. If this continues we have got to either try to improve and enhance our business or shut the doors of our business. In regard to improving and enhancing our businesses, we are now in a situation where a lot of my associates and I are financially drained because we have been trying to carry it while hoping that things would get better, which they are not at the moment because of the lack of gas—and we have been informed that it does not look promising until February for us. So we are in a situation now where we need help immediately so that we can move on and look at other areas we can move our businesses into or look at other areas where we can finance.

There are tenders coming up. There were FPC, Forestry Products Commission, tenders coming up, but for me to hop into those contracts—and I have actually submitted a tender on that—I have got to come up with \$3 million just to purchase the equipment. Then I have got to wait 60 days to get paid. So in the end I have got to put myself out nearly \$300,000 or \$400,000 again to try to recover a debt.

The timber industry was helped out by the state government when Geoff Gallop first got elected as a Labor Party Premier. There were some substantial handouts to people who were in the hardwood industry to move on. Maybe this is what has to happen at the moment. Similar circumstances have to be applied not just to the major contractors—for example, Pine Hauliers, Plantation Logging, Waughs and those sorts of people—but to encourage people like me now. We know the situation; let's move on. There are a number of companies at the moment that are

about to put up some substantial blue gum tenders. People like us would like to have the opportunity to tender on those so that we do not have to shut our business doors, we can employ another five or six people and we can get back on where we left off.

**ACTING CHAIR**—Thanks very much, Mr Gardiner, for your evidence here this morning. I think you have outlined, as has been said, the human face of this crisis. We appreciate you taking the time with your associates to come here today.

**Mr Gardiner**—Thank you.

[10.21 am]

**BIRRELL, Mr Robert Allan, Chief Executive Officer, Bunbury Chamber of Commerce and Industries**

**ACTING CHAIR**—Welcome. I invite you to make an opening statement.

**Mr Birrell**—I would like to thank you for opportunity of presenting this outline of our views of the gas disruption. The Bunbury Chamber of Commerce and Industries represent over 800 local businesses and we count amongst our membership most of the larger companies that were directly affected by the disruption to gas supplies following the explosion at Varanus Island. In the period following the gas disruption we sat on an industries representative board that was convened by CCIWA and provided feedback to government on the effects of the gas shortage to our region. It is clear that the main issues related to: (1) the distribution of limited gas supplies, (2) access to accurate information relating to supply and (3) the lack of urgency to consider the business supply issues.

It is clear that the emergency distribution plan that swung into action once the extent of the problem became evident was heavily skewed towards maintaining the metropolitan domestic gas supply. This was achieved at the expense of industry and had a disproportionate effect on business activities in the south-west. It was clearly a priority of the Office of Energy to ensure metropolitan domestic customers were not disadvantaged. Supplies available to industry were entirely dependent on allowances being made for domestic use. It is our strong view that not enough was done early enough to encourage the domestic market to decrease their use of energy. A significant decrease in domestic demand would have led directly to a valuable increase in available supplies to the commercial and industrial market. It is also our view that the priority structure developed by the Office of Energy was flawed and more consideration of the needs of industry was required.

Once the gas disruption was in place it was extremely difficult for industry to receive any accurate information regarding supply—either quantity or timing of supply. It seemed that both industry and government were unable to source accurate information from the suppliers. It was extremely frustrating for industry to not be able to make informed decisions regarding production or required staffing levels. Lack of accurate information inevitably led to suspicion that some larger business activities were receiving preferential treatment at the expense of smaller business operations. The market was left to operate independently. And, left to its own devices, the market failed to deliver equity of supply to the business community.

In normal circumstances we would argue strongly against any government interference in the marketplace. However, in this instance the failure of the marketplace to provide adequate supplies for industry was stark and caused great expense and dislocation to the south-west business community and industry in particular. A concern voiced by many in the south-west business community was that the plight of our business community was not immediately seen as a priority by government or the gas supply industry. It was many weeks before some efforts to provide additional gas supplies through the creation of a secondary market were considered, and when the gas bulletin board initiative was outlined initially, the minimum levels for participation

were set at a level that precluded all but larger operations from participating. In our view, that was symptomatic of the lack of real consideration of the industry groups affected by the crisis. It is our hope that a full review of the aftermath of the Varanus Island incident will lead to a more balanced approach to the distribution of energy in times of significant disruption and that south-west industry will receive a level of support that reflects our region's importance to the state and national economy.

**ACTING CHAIR**—Thanks, Mr Birrell. It is interesting that you said that there was a failure of the marketplace and that there needs to be more consideration for industry. Some of the submissions we have received have been that industry solely were consulted by government, that mainly industry were brought into the operational review of what was happening and that the community were left to one side. What the issues are really depend on where you are standing, and I fully understand where you are coming from. Were you aware of the decision the government made in terms of allocation?

**Mr Birrell**—Yes, and the peak body for industry in the state, CCIWA, were very strongly opposed to any suggestion of government interference in the market. We chose to differ because we saw the effects at a local level—at the smaller end of the industrial spectrum, if you like—that that particular decision was having. We understand there are enormous implications for any government interference in the market. We understand that, once the government interferes, the whole market can be distorted. But we also understand and have had first-hand experience of the market operating independently, operating in a distorted marketplace and being unable to deliver what was required for local industry.

**ACTING CHAIR**—You say that there needs to be a more balanced approach. If we were faced with Varanus Island happening again—and hopefully that will not be the situation—apart from having this more balanced approach, what physical infrastructure do you think needs to be put in place to minimise the effect on the south-west?

**Mr Birrell**—I am reluctant to suggest that multiple pipelines be built or that significant physical infrastructure be put into place. I understand that the economic cost of that would be extremely high, and that would need to be balanced against the likelihood of such an event happening again. I think there was scope within the existing supply that we had to use the gas available more wisely and that the distribution of that gas could have been handled more effectively. At the end of the day, we could spend a billion dollars in duplicating a pipeline or perhaps establishing an offloading facility for liquefied natural gas. The concern, obviously, would be who would pay for that—would industry pay for that or would government pay for that? In these uncertain times I suppose it is difficult to argue that industry could afford to pay for it. It is a matter of balance. I can imagine whether government would see it as their role to pay for that duplication in infrastructure.

**Senator ADAMS**—We had your parent body give evidence yesterday. Coming from the Great Southern, I certainly questioned them on the impact of the south-west and your problems. Do you really feel that they have got the message? From the evidence I received yesterday, I do not think they really understand the problem that was down here.

**Mr Birrell**—I think it is fair to say that CCIWA have a different view of the world. They have a view that is more aligned to the major corporate structure in this state. We have always seen it

as our role to represent the smaller industry groupings, and we put our case very forcefully at the meetings that we had with CCI in Perth. During this issue, we travelled to Perth every week and met with the committee that was providing information. But I think it is fair to say that we were not able to change the view of CCI in terms of the important structural concerns we had on supply and control of the market.

**Senator ADAMS**—Did you have any access to any of the government ministers as the South West CCI, rather than through your parent body?

**Mr Birrell**—Yes, we had access directly to the minister for energy on two occasions through our local members. I think that we were given a fair hearing, but there was in my view an underlying concern that the domestic market in Perth had to be protected. That was perhaps the second or third priority after emergency services, but certainly well before the needs and the concerns of the commercial and industrial sector.

**Senator ADAMS**—How closely did you work with the City of Bunbury? They had a comment in their submission that:

... there appeared to be extreme reluctance on the part of the various Chambers and other industry bodies, to allow “the Government” to take on the role of an allocator ...

I dare say they were looking at the parent body and not at what you were trying to do here.

**Mr Birrell**—Yes. And we did keep the city closely informed of our position. We work generally very closely with the city.

**Senator ADAMS**—Good. I just wanted clarification of that.

**Senator MARK BISHOP**—Mr Birrell, why do you put the argument that you believe that the limited supply of available gas was skewed to domestic interests in the city of Perth as opposed to interests outside the city of Perth? Why do you put that proposition?

**Mr Birrell**—It was made abundantly clear to us at every meeting we attended at which the Office of Energy and Alinta were present that their first priority was the domestic market and that the supply of gas from Alinta to industry was totally dependent on the estimated demand by the metropolitan domestic sector.

**Senator MARK BISHOP**—How do you define the ‘domestic market’—as just Perth and immediate suburbs or all consumers in the state?

**Mr Birrell**—All consumers. In the structure of WA obviously the vast majority of those are in the metropolitan area, but it is the whole of the domestic market.

**Senator MARK BISHOP**—And that was a call of the state government?

**Mr Birrell**—Yes. The first meeting we had with the industry reference group was provided with a list of the priorities that the Office of Energy had established in terms of their view of importance for supply. At the top obviously was, from memory, ‘emergency’, ‘hospitals’—

**Senator MARK BISHOP**—We have the list here.

**Mr Birrell**—Domestic supply was high on the list and industry was well down the pecking order.

**Senator MARK BISHOP**—Did you object that non-city interests appeared to be disadvantaged by that priority?

**Mr Birrell**—Absolutely.

**Senator MARK BISHOP**—What was the response?

**Mr Birrell**—The response was that Alinta were working as best they could with the supplies they had, but it was made very clear to us at all times that the Office of Energy would not compromise domestic supplies.

**Senator MARK BISHOP**—You say the priority structure developed by the department of energy was flawed. Firstly, how was it flawed, from your perspective, and, secondly, how can it be improved into the future so this apparent discrimination might not be a feature?

**Mr Birrell**—I think that we need to look at protecting some level of industry. The point was made early on by people in the south-west that they felt that most people would prefer to be cold and employed rather than warm and unemployed. I think that is a particularly salient point. Most people were concerned about their jobs, not about how warm they were. My understanding is that, when the Longford episode in Victoria happened, the government there did make special allowances for industry to keep operating when there was the significant shortage of gas in the Victorian market. It is our view that industry needs to have strong consideration when there is disruption of supply, because it is absolutely critical for our industry, especially in the south-west, to keep working. We had numbers of our industry groups who were struggling to keep production up. If they were not able to keep production up, overseas orders were at stake. Once supply is compromised then long-term contractual arrangements are compromised, so it has the capacity to really strike at the heart of the south-west industrial base. It is, in our view, absolutely fundamental that the supply of energy must be guaranteed as best possible and that whatever steps are necessary to guarantee that supply must be considered in the event of another similar occurrence.

**Senator BUSHBY**—Mr Birrell, I note your comment, in the context of the allocation of the gas in particular, that you acknowledge that once government interferes in a market it can cause distortions. I contend, and I suspect you would agree with me, that a 30 per cent overnight reduction in the gas supply combined with oligopolies in that supply chain leads to massive distortion in itself which has the potential to have significant adverse and perverse outcomes and that there may well be an obligation on government at that point to effectively be the lesser of two evils: to come in and distort the market to try and distort it back to where it should be. Do you agree with that contention?

**Mr Birrell**—I do agree with that.



**Senator BUSHBY**—One of the issues that has come out of the last two days of hearings is the need for a crisis management plan and the apparent absence of one. Yesterday I asked the Office of Energy what their charter was. They told me words to the effect of it being, in short, the security of energy supply for Western Australians. I then tried to ask questions to ascertain whether they thought that, in the context of a crisis like the one we had, ensuring that continuity of supply to businesses, particularly in the south-west, was a relevant aspect of that charter. The officer looked very confused, as if he did not really understand what I was asking. What are your comments on that? Do you believe, given their basic charter, that the Office of Energy should have been pursuing those interests?

**Mr Birrell**—I very strongly believe that that should have been the case. In their defence, I suppose, was that the scope and the size of this disruption was something that has never been faced before in this state, and I think it highlighted the shortcomings in the emergency planning structures. This has highlighted very strongly that we need to do more work and the government needs to have more structured plans in place to protect industry. We speak from a very parochial view, and I make no apology for that. I think that it is our responsibility in representing the local business community to stand up strongly for our local business community, and if that is at the expense, to some extent, of local domestic consumption then I think that is justified. We felt that the government should have acted sooner to encourage domestic customers to drop their use of energy—not just gas but all energy—because as electricity usage dropped then obviously the demand on gas for the power stations would drop as well. That was not done nearly strongly or consistently enough, in our view. That could very well have freed up a significant amount of gas for industry.

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

**Mr Birrell**—Without doubt.

**Senator BUSHBY**—You have mentioned the preference for ensuring security of supply to the metro market. Do you think the fact that we were in a pre-election climate had anything to do with that?

**Mr Birrell**—It is hard to say whether the election was in the then Premier's mind at the time. It was a little before the very early election was called. I would not have thought that that came into it. To me, it came through as a natural political response to look after the domestic market.

**Senator PRATT**—It was pretty cold, too, at that time. Mr Birrell, I want to ask you about the perceived bias between small and large business and the link, I suppose, between small business and those that are likely to be carrying high levels of personal debt. This was highlighted in evidence from the previous witness. Do you have anything in particular you would like to say about that?

**Mr Birrell**—I think the tragedy of this particular event in the south-west was that a significant number of contractors were affected and continue to be affected very, very badly. The

contractors tend to be the people less able to cope with these sorts of disruptions to their business. We know that there have been a lot of contractors, especially in the timber industry, who have been very badly affected. The business community and industry in the south-west was hit on two fronts: first, loss of production and, secondly, fairly significant capital cost as they struggled to change the structure of their operations to take alternate fuels. But they are certainly more able to cope with those sorts of demands than the contract type of businesses, and there are a lot of contractors that are reliant on industry in the south-west.

**Senator PRATT**—In terms of the kinds of businesses that had more reliable supplies of gas made available to them and the impact on contractors, often that was a flow-on effect as opposed to whether that gas was being made available to a small or a large business. Is that correct?

**Mr Birrell**—That is true. One of the big issues was a lack of transparency. No-one was really sure where people were getting their gas from. So the large operators like Alcoa and Worsley continued, with some small effect on their operations, but it was not widely understood how they could keep operating when gas to everyone else was being choked and limited. I think that lack of transparency in the market was very unsettling for the business community. We had Alinta sit at our table to discuss issues at least three times and they were basically unable to discuss anything regarding supply to any of their customers on the grounds of commercial-in-confidence. Quite often the first thing they said when they sat down was: ‘We are answer any question, as long as it is not related to supply.’

**Senator PRATT**—What questions would you like us to put to Alinta?

**Mr Birrell**—I think it is important to understand how they did make the allocations of gas, how they did decide who got gas, when and for how long. One of the issues was that businesses would be told at five o’clock in the afternoon that they would get so many gigalitres of gas tomorrow for so many hours. In a lot of cases it took them perhaps two days to ramp the plant up to the temperature or the operating level they needed to actually start. The point was made a number of times that a lot of industries would prefer to get less gas more often, rather than a lot of gas in very short bursts. But when we were asking those questions of Alinta they were unable to give us any of that information.

**Senator PRATT**—Thank you.

**ACTING CHAIR**—Mr Birrell, you raise some very complex and very interesting issues. The more I listen here this morning, the more I come to the view that the south-west has been disproportionately affected, and, even though that disproportionate effect has been significant, you say that it has not been catered for in the broad response. I think that is where you are coming from.

**Mr Birrell**—Yes.

**ACTING CHAIR**—And there needs to be a more targeted response. For instance, would you argue that special legislation should be put in place to allow the government in the future to intervene in the market in circumstances like those you have faced here?

**Mr Birrell**—When there is such a disruption to the market and the market is distorted to the extent that it has been, there is definitely room for government intervention.

**ACTING CHAIR**—Have you given any thought to how you would measure when the government should act?

**Mr Birrell**—No, I have not. But there must be a measure of how the market is operating and, as soon as the market ceases to operate in an orderly fashion—how that would be judged is something I have not given consideration to, but I would imagine it would be possible to make that determination—the government could well step in to ensure that the distribution of energy was done fairly and equitably.

**ACTING CHAIR**—The lag effects of this crisis are much greater in the south-west than they are in the rest of the state.

**Mr Birrell**—Yes.

**ACTING CHAIR**—Would you still say there is a crisis for many companies and the community in the south-west?

**Mr Birrell**—I think it would be fair to say that the crisis now, for the majority of people, is past. I am not trying to downplay the—

**ACTING CHAIR**—Not for some of our witnesses this morning.

**Mr Birrell**—No, and I am not trying to downplay the fact that a lot of smaller businesses are still suffering. But a lot of the industrial companies that were very badly affected have been able to make changes to their operations and are ticking along, if you like, at a reasonable level.

**ACTING CHAIR**—Have you met or made any moves to meet the new state government and the Premier to discuss these concerns on behalf of the community here, given there are these ongoing issues?

**Mr Birrell**—We have not had any meetings as yet, but we have made representations to various ministers to meet with them, and this would be high on the list of items that we would wish to talk with them about.

**Senator MARK BISHOP**—Mr Birrell, hearing your responses to the chair—correct me if I am wrong—I am really hearing you say, firstly, you want a different set of priorities and, secondly, you want to have real input into the determination of those priorities as they affect the community down here. Is that an accurate summary of your position?

**Mr Birrell**—I think it is important that the voice of industry in the south-west is heard when changes are being considered and structures are being put in place to protect industry in the south-west. One of the things that we felt particularly concerned about was that it was difficult to get our voice heard. In the end, I think by sheer persistence, we did, but it was not a natural reaction for the government or the Office of Energy to consider industry in the south-west as one

of the first priorities. That, to me, was a disappointing response, given the vast wealth and the importance of this region to the state and to the nation.

**Senator ADAMS**—Something we have not touched on is that Bunbury is a tourist town. Could you give us a quick overview of how tourism in Bunbury and its catchment was affected by the crisis?

**Mr Birrell**—It was affected in a similar way to Perth and the rest of the state. There was no gas available for the local laundry here. Most operators here coped by changing sheets once over the period of a stay instead every day. It was difficult for the local laundry. They really struggled. They were part of the prime group. The local operators, I think it would be fair to say, made do with the lower level of service, and I do not think it directly affected the amount of tourism. We were lucky, in a way, that it hit at a time that was not our peak tourism season.

**ACTING CHAIR**—Would you agree with me if I put forward the proposition that your energy industry in Western Australia is inherently unstable, if it goes down with an explosion in one plant and that causes such devastating effects?

**Mr Birrell**—There are a couple of issues that make it inherently unstable, I believe. One is the fact that we are physically two or three thousand kilometres away from our main energy source. The answer to the problem in the longer term is to find a similar energy source in the south-west. There are gas fields down here which are commercially unviable at the moment but which, over time with new technology, could well become viable. I think it is a reflection of the size of the state and the physical nature of our location.

**ACTING CHAIR**—Has the chamber looked at any alternative energy sources that may be available, such as wave or—what was the other alternative energy source that we heard about yesterday, Senator Adams?

**Senator ADAMS**—The mallee integrated—

**ACTING CHAIR**—Yes, the mallee 50-megawatt stations. Has there been any consideration of these? They come closer to the community.

**Mr Birrell**—I think the reality on all of those alternative energy sources is that none of them can produce the base power load that is required. One of the things that has happened because of this event is that a number of local businesses that were totally reliant on gas have now made a commercial decision to invest in capital to change that. Therefore, we will be less reliant on gas in the future. So if there is a very expensive silver lining to a very dark cloud, it is that these companies are now more able to survive a significant event of this sort. We were totally exposed when it happened.

**ACTING CHAIR**—Would your organisation support intervention by the government onto existing contracts between the gas companies and their customers if it meant the continuation of supply to the south-west? Would your organisation support an indemnity to the state government if the state government did intervene to continue supply to the south-west? These are fundamental issues to contract relationships.

**Mr Birrell**—My understanding is that once the crisis hit and the gas was disrupted force majeure was declared, and I understand that under those circumstances the contracts are set to one side. It is not true?

**Senator PRATT**—No.

**Mr Birrell**—Right. We would certainly support—

**Senator MARK BISHOP**—The standard of priorities is subject to existing contracts being maintained.

**Mr Birrell**—Right. We would support the government acting in that manner. We believe that the importance of the continuation of industrial operation would override concerns about short-term contractual problems.

**ACTING CHAIR**—Mr Birrell, thanks very much for your patience and your submission here today. I thought it was very interesting. Thanks for your contribution.

**Mr Birrell**—Thanks very much. From the organisation's point of view, I thank you for the opportunity.

**Proceedings suspended from 10.55 am to 11.06 am**

**KINGSTON, Mrs Louise, Committee Member, Manjimup Chamber of Commerce and Industry**

**MOYLE, Mrs Rose, Administration Officer, Manjimup Chamber of Commerce and Industry**

**ACTING CHAIR**—Welcome. I invite you to make an opening statement.

**Mrs Moyle**—Thank you. I will do a brief start and then hand over to Louise. The Manjimup Chamber of Commerce and Industry is a small chamber that is operated by volunteers. We have a good representation in our membership; it is varied and covers a lot of industry. Manjimup is a small town about 3½ hours drive south of Perth and it relies on primary industry and timber. We do not have a direct gas supply down there—the gas pipeline finishes here in Bunbury. We did not see an immediate effect but the secondary, flow-on effect that has shown up now is having a big impact on businesses—and they are all small businesses. It is very difficult for them to follow through, and we will go through that a bit more. We are here basically to be a voice for the small businesses that have been affected in our region and to talk about how they have been affected. As previous speakers have said, it is going to take a long time before it turns around, if it does.

**Mrs Kingston**—I manage the small business centre, the BEC, in Manjimup. Apart from the Manjimup shire, I also cover Bridgetown, Boyup Brook and Nannup. During the crisis I had some information that came down through the Small Business Development Corporation—I do not know if that has been mentioned in any of the previous hearings—and I sent that out to businesses on my database. I have about a thousand businesses on my database, and we have about 2,110 businesses in those four shires. The immediate reaction, as per previous comments by Mr Gardiner, was primarily from contractors. A lot of them cart chips to the softwood industry down here and also logs. They also cart for food industries in Perth which were directly affected, Smith's Snackfoods being one of them. We have Bendotti Exporters down there who provide potatoes for Smith's Snackfoods. They were significantly affected: for about six weeks their orders were cancelled, and that also led to a deterioration in their potato produce as well.

Another industry that was severely affected was one that supplies barley to a malter in Perth, Kirin's, which uses gas in their process. They went from between three and five road trains per day to nothing, and that continued for a significant amount of time. They also had a full-time contractor who ran two trucks, one for them and the one for the softwood logging industry. His business stopped overnight and has not resumed. So there are some significant effects.

One of the other industries I have not heard mentioned this morning is the wine industry. We have Fonty's Pool Wines in Manjimup, who require significant amounts of CO<sub>2</sub>. That has been severely interrupted. They have had to rely on outside contractors. It has increased their costs of production enormously.

The other people are coming into their season now. They cannot actually estimate what the impact is going to be. If it is not reinstated in a short space of time there could be a significant flow-on effect to those smaller wine operators as well.

Following on from that, we also have Blackwood Timbers. Interestingly we heard about the cessation of logging in old-growth forests down there. This fellow actually got out of old-growth logging early on when he could see the writing on the wall and got into softwood, and got no payout from the payout system whatsoever. His busiest month was May, when he had too many orders to handle. Then with the gas crisis his orders were cancelled and he actually closed last week because of no work. He has at present only one week's work. There is a flow-on effect of that to the mechanical repair businesses in the area as well because now nobody is doing anything but essential repairs. We have seen in just the last month a significant downturn in that sector of the industry as well.

Into the future it appears that our area is probably going to be fairly impacted a lot further on than the initial problems with it. It is interesting too that you raised earlier the point about other sources of energy. We at present have a biomass plant being proposed for our area. And, interestingly, the nay-sayers actually suggested that LNG might be an alternative source, rather than a biomass plant. So we are pretty keen to get that biomass plant happening as quickly as we can and also to prove to other areas—as you said about the oil mallee—that it can be, on a smaller scale, an effective means of alternative and renewable energy.

**ACTING CHAIR**—The issue of contractors comes up on a regular basis. It seems to me that the effect on workers on a contractual basis is almost immediate because they cannot fall back on annual leave or they are not in an organisation that is big enough to be able to do planned maintenance. So that form of contractual relationship kicks in as a negative immediately in a situation like this. Are there lots of contract workers in your area?

**Mrs Kingston**—Yes, we do have a significant number of road haulage contractors. We still have quite a number of contractors who cart other things—general freight—and there definitely was an effect on that as well with the rise in the cost of diesel. That has also on-flowed to the price of groceries in the supermarket. In our area, where we are still recovering from a major industry disruption with the restructure of the timber industry and we are on a lot lower wages, we are finding it to be a lot harder to retain people down there. Those contractors working in the transport industry are a major mainstay to our economy. As I was saying, the initial impact was reasonably insignificant, but it may now flow on and we may not see the full impact of that for another three or six months.

**Senator ADAMS**—Thank you for your submission and for coming along to let us know about the real grassroots areas, especially with Manjimup in the catchment for the south-west as a smaller town's evidence. Mrs Kingston, did you send a survey out to all those businesses.

**Mrs Kingston**—Yes.

**Senator ADAMS**—Could we have a copy of the survey—the questions asked and the responses?

**Mrs Kingston**—Yes, sure. I did not get the responses. It was a call to action for them to contact the Small Business Development Corporation in Perth, so it did not actually come back through me.

**Senator ADAMS**—Could you track that down and see what their responses were as well, if possible?

**Mrs Kingston**—Yes.

**Senator ADAMS**—Would you send that to the secretariat.

**Mrs Kingston**—Yes.

**Senator ADAMS**—You talked about the biomass plant, and then there was the idea of the Bunbury to Albany gas pipeline. That would go through Manjimup. Are you supportive of that?

**Mrs Moyle**—Yes, to have alternative energy has always got to be a benefit to our area. Currently, our power comes from Collie, but there are always power breakdowns in one form or other, whether it is due to weather or storms. But our businesses down there, especially Bendotti, the exporters of WA chips that Mrs Kingston was talking about, regularly have to throw out lots of product due to the fact that they lost power. It is a fresh food. If it is not treated immediately it has to be discarded. We need a reliable power source down there. It is an ongoing issue. We are sort of hoping that with biomass or gas we might be able to get a more reliable power source.

**Senator ADAMS**—The other thing I would like to talk about is Centrelink. In regard to Centrelink and Manjimup and the contractors, there has been a problem with contractors not actually being eligible under the Centrelink rules. Have you had any problems with that? Have people come back to you on how they have dealt with—

**Mrs Moyle**—No, I have not had first-hand information. I can talk from personal experience a few years back. My husband was retrenched because the company he was working with down there closed and there were very strict guidelines before you started getting money. Basically, if you are a person who has been a little bit frugal and actually saved some money, until you use your cash reserves they do not want to even look at you. If you are earning a small amount of money, they just do not want to know because the limits are so low. In the end I said to this guy, ‘I just want a health care card just to get lower cost medicine,’ but because I was working part-time they just would not look at me. I do not think the rules have changed much now. It is very difficult and for Mr Gardiner, who owns equipment and infrastructure, his assets are probably too high. He personally would probably not even get a foot in the door. So it becomes difficult. He has that commitment—he has assets but he does not have a cash income to live from week to week. That is not current now, but it is something that I have experienced in the past.

**Senator ADAMS**—Are you having any flow-on as far as employment is concerned in the area with population shift?

**Mrs Moyle**—Probably in as much as more people are going for fly-in/fly-out in that situation. Mrs Kingston would probably have more of an idea than me.

**Mrs Kingston**—We have a significant amount of trouble down there in retaining people in our area. First, we struggle for facilities, infrastructure and light industrial areas—Pemberton does not even have a light industrial area—so it is very hard to attract people to even go and live down there. The other issue is that due to restructure of the timber industry and our loss of an



industry base we also struggle to maintain a reasonable charge-out rate. We are some considerable amount below any of the surrounding areas like Bunbury, Albany, Esperance, Geraldton and such places. We just cannot afford to pay the guys a decent wage anyway. Obviously the transport industry was a good way that they could earn a reasonable amount of money. They work very long hours but they get to come home to their families reasonably often. If there is going to be a significant disruption to that then we will see an enormous loss of people from our area.

**Senator BUSHBY**—Thank you for coming along today. As I said to Mr Gardiner when he gave evidence, it is I think important that the committee hears evidence about the impact that this is having at a personal level and the impact that it actually has on people. Yesterday we heard evidence from Treasury, which dealt with their modelling and the overall global figure that they thought it might cost for the June and July, and maybe August, period, which was something in the vicinity of \$2 billion. But that is just a figure. When we actually hear evidence from people as to how it is actually affecting them, I think it really drives home the need for action. On that, and tying in to Treasury's quotes yesterday, you mentioned that with mechanical repairs, I think it was, only in the last month has it become apparent what effect is happening in that industry. I think that that is another example where the chamber of commerce and Treasury both did their figures on the basis of the two months around the time of the explosion. But obviously it is having impacts that are delayed and are not becoming apparent until much later, like the mechanical repairs industry in your area. I believe that that is the first time we have heard evidence of a delayed effect happening. Treasury's view was that there was a major impact at the time, but it would drop off dramatically. Quite clearly the evidence you have given us today is important in highlighting the fact that there are new effects coming that have not been taken account of yet.

**ACTING CHAIR**—That must have been the model we used.

**Senator BUSHBY**—That is right! I think you and I can both agree that their modelling does not take account of the realities that people actually face. The only questions I have for you are: what would you have liked to have seen done differently and what do you think could be done now to address the issues that we have?

**Mrs Kingston**—It was interesting to listen to Allan Birrell talk about the meetings earlier. I said to Rose, 'Were you aware of any of these meetings at all?' and she said, 'No.' I do not believe any of the businesses I spoke to yesterday were aware of any medium to go and talk to bar my contact with them with that survey. We had an interesting situation going into the election as well, because we had a change of boundaries. We lost our sitting member, Paul Omodei, and we had a brand new Liberal candidate, who was our shire president, come in. Also, we had to learn about our new national representative. So there was a lot more focus on who was going to win the election rather than on what the effects of this gas crisis were going to be.

Obviously, from a more strategic level, I am flabbergasted that a business of that size did not have an adequate risk management plan. I am flabbergasted by the evidence that has been presented on the deterioration of the equipment—the level it was allowed to deteriorate to for a major supplier. I question the role of WorkSafe.

**ACTING CHAIR**—Mrs Kingston, you should not take that evidence as factual, because that inquiry is continuing and we are not dealing with that situation.

**Mrs Kingston**—That is just my observation. I am sorry. I should have made that clear. Also, the scrutiny WorkSafe imposes on small business is rigorous. It is very, very difficult for small business to comply with all regulations required these days, and yet it appears that a business of that size may not be subject to the same level of scrutiny.

**Senator PRATT**—I was interested to note your comments about alternative energy suppliers. We had quite a bit of evidence to the committee yesterday regarding that. It is not something that has been highlighted to a significant extent here this morning. I want to ask you about Manjimup. It sounds like it is quite vulnerable to power outages because of where the power comes in and goes out from. Do you believe the south-west would benefit to a significant extent from distributed generation where you would have a variety of generation points around the south-west grid?

**Mrs Kingston**—Absolutely. Investigation into alternative sources such as wave power and wind generation is very important going into the future, especially for regional areas like ours where we are very short of major infrastructure.

**Senator PRATT**—Particularly for a community like Manjimup, would you see that there be employment opportunities that would help the local economy diversify?

**Mrs Kingston**—Absolutely. We are an area that is just waiting to be discovered. Manjimup is the major industrial hub of the area. We have plentiful land and water—one of the few places in Australia that still has enough. I think we have 40 per cent of the state's potable water. The number of opportunities that are available in our area is just enormous.

**ACTING CHAIR**—I will come back to the issue of the practical implications in your area and the need for better communication. If you could write the communication strategy, what would be your priorities? It may not be fair to ask you this question, but I am just trying to get a practical view of how you feel you could be better communicated with in a situation like this.

**Mrs Kingston**—I suppose it is an absolute bugbear of mine because I went through the restructure of the timber industry and watched decisions being placed upon us without any consultation or any strategy in any way, shape or form. From that perspective, community consultation is always very important. I would imagine as we have three chambers in our area—one in Pemberton, one in Manjimup and one in Bridgetown—that there should have been at least some communication between the state government and our chamber presidents. That does not appear to have happened. I am not sure what communication happened at a local government level or whether they were contacted, but I imagine they would have fed that information on to me and Rose if that had happened. From that perspective, I suppose at least targeting the key stakeholders in the area would have been a good place to start.

**ACTING CHAIR**—When you say consultation between the state government and the local community you are not saying the minister or the Premier—

**Mrs Kingston**—Oh, no.

**ACTING CHAIR**—You are just saying maybe an officer from a department should come along and brief you.

**Mrs Kingston**—Yes, absolutely.

**Mrs Moyle**—Yes.

**ACTING CHAIR**—What responsibility do you see the CCI having in terms of its communications strategy, not just through to big business but to small business?

**Mrs Kingston**—As in?

**ACTING CHAIR**—The Chamber of Commerce and Industry were included in that peak communication body with the Premier, the department and the minister—

**Mrs Kingston**—As in the CCIWA?

**ACTING CHAIR**—Yes—and also other industry organisations. I suppose you have got to have a pyramid approach because you cannot pack everybody into that meeting. It is about how you get from the top of that pyramid to the bottom of the pyramid and keep the communications going effectively. What role could industry play? We get lots of criticism of government and we forget from time to time we are talking about privatised industry and the industry must have some responsibility as well. Have you any views on how industry could help communicate?

**Mrs Kingston**—No.

**Mrs Moyle**—It is just difficult. We are a small area and we were not impacted necessarily directly in the initial explosion. Sometimes you get the feeling—maybe we are a little bit paranoid—that you get left behind. You are a smaller area, you do not have the big industries, so you feel that you get left behind. You ring Perth and say you are from Manjimup and they think you say Mandurah, which is half an hour down the road. Out of sight of the metropolitan area, you get the feeling that you do not exist. I think that is a frustration you feel at times, and not just with government but across the board.

**ACTING CHAIR**—Well, Mrs Moyle and Mrs Kingston, I can assure you that you have not been left behind today. It was your own initiative to come here and we thank you very much for that.

**Senator ADAMS**—I have a question on local government. Were they aware of your submission and your coming to this committee?

**Mrs Kingston**—They should have been. They are on my database and I send out all the information to them. Just as a matter of interest, we have 18 per cent rateable land so our shire struggles to manage. The budget they put forward the other night was for \$17½ million. We have 8,024 square kilometres to manage and most of that is state forest, so their ability to be effective in many areas is fairly limited.

**Senator ADAMS**—Have they done anything, community-wise, about alerting people to the issues that you have raised?

**Mrs Moyle**—Not that we are aware of, no.

**Mrs Kingston**—No.

**Senator ADAMS**—So, when you go back, will you go and perhaps present to local government and see if you can get them to do that?

**Mrs Moyle**—Yes.

**Mrs Kingston**—Yes. I am part of several committees, one with the shire, and we also have an economic alliance, the Warren Blackwood Economic Alliance, down there. It has a new executive officer who just started last week and I briefed him yesterday. I will now go back and brief him, and I am hoping he will be able to take some of my role away from me.

**ACTING CHAIR**—Once again, thank you very much. We appreciate you taking the time to come here and advise us of the situation you face.

**Mrs Kingston**—Thank you very much.

[11.29 am]

**SCOLARO, Mr John, Director, Harvey Fresh (1994) Ltd**

**ACTING CHAIR**—Welcome and thank you for appearing. Do you have anything to say about the capacity in which you appear today? Is there an opening statement you wish to make?

**Mr Scolaro**—I am a director of Harvey Fresh. We are a fruit juice and dairy company located in Harvey. We have two plants in Harvey—a juice plant and a dairy plant—that more or less adjoin each other. We have two gas supplies at those two plants—one in each. We have been buying gas from Alinta for probably 20 years. Our recent contract with Alinta was coming to an end, as it does every couple of years, in July of this year. In about March or February we had an approach from Synergy to see if we were interested in getting gas supplied from Synergy. We welcomed this. It is of course great to see competition. Synergy came up with a proposal that we thought would be quite attractive, but it turned out it was a bit more expensive than what we were paying. But I guess you would have to assume that that was going to be correct anyway because of rising energy prices, so we came to grips with that.

We did the right thing and went back to Alinta to say, ‘What can you offer?’ Given that our contracts were coming up—this was in February or March—Alinta came up with the same price. We were a little disappointed in that, so we bided our time. We had the Synergy salesperson contacting us regularly, quite keen to get the business. We were not fussed either way; whether we went to Synergy or Alinta, we looked for the best price, but they were basically the same.

The rep happened to be going on holidays in early or mid-June, and just before he left he rang and said, ‘Have you made your decision? I wouldn’t mind going on my holiday knowing that we’ve got the contract.’ I said, ‘We still have till 1 July or 30 June before our Alinta contract finishes, so we’ll leave it until you get back. When you get back we’ll make our decision.’ He was okay with that. In the meantime, we had the explosion at Varanus. We went about our daily business as usual. No-one contacted us to say that our gas supply was at risk. We made a few very low key inquiries ourselves. There did not seem to be a problem despite what was going on in the news. I also asked other gas takers in the area and in Perth how they were finding the experience. Some were better than others.

Towards the second week of June we decided that we should contact Alinta directly to make sure that everything was okay. We were told by the rep at Alinta, who happened to be on holidays in Canada, ‘I’ll be back on Monday, but for the time being you’re okay.’ This was Wednesday or Thursday of the week before he came back. He came back on the Monday, which I think was 17 June, and gave us a phone call. He said, ‘We’ve got no gas for you tomorrow, so we’re going to cut off your gas supply as of tomorrow.’ As far as gas is concerned, our plant obviously relies on it. We do not have alternative energy sources. The gas is required to run boilers. Our juice plant is not so critical in that juice processing and manufacture, while on a daily basis, can be postponed for three, four or five days—even a week. The bulk of our juice requirements for gas are in what we call concentrate products. That plant can be turned off for as long as a month.

On the dairy side of things, it is a daily product. At that time, we were collecting some 150,000 litres of milk a day. That is a perishable product, so if you do not pasteurise it within two or three days of receiving it then you have problems. Bear in mind that you only have so much storage and you are collecting the milk daily. It is not a tap that you can turn off. Cows produce milk every day and you are obliged to pick up the milk from your farm suppliers. So it was quite critical; we needed the gas for our dairy.

I got on the phone to our representative at Alinta and said: 'I understand the situation and companies all around are reducing their take to mitigate the situation.' We offered to do the same by closing down our gas boiler at the juice factory, which takes up more of the supply than the dairy. We would have cut down to probably 40 per cent to 45 per cent of our normal supply. But the response came back, 'No, you can't have any gas at all; your gas is cut off.' At the same time, the representative knew that we had been talking to Synergy. He also knew that Synergy had a supply of gas that they could allocate to us. He suggested that I take that offer up.

We then ran off to Synergy. Synergy indeed had a supply for us. Unfortunately, the price offer that they had made us in March, which we were still discussing among ourselves, was not longer current. It was \$9.80 a gigajoule, from memory, and then there was the daily supply charge. The offer in June, which was 3½ months later, was \$11.87 a gigajoule, which was a bit disappointing. But we did not have much choice.

The worst part about it was that we still had a contract, albeit with two weeks to go, with Alinta. Even though we had that contract still to run, according to them we could get no gas from them. They were extremely emphatic. The words were, 'John, I don't have any gas for you.' Those were the words. The fact that we had a contract—with only two weeks on it to go—did not seem to mean much.

Synergy said: 'Yes, we'll supply the gas. You've got to sign a two-year contract and the price is \$11.87.' That is about nine to 10 per cent more than what we would have paid under the March contract and certainly a lot more than what we were paying—probably more like 20 per cent more than what we were paying.

Unfortunately, it did not stop there. It turned out that there was a bit of confusion about what Synergy had proposed for us. They did not realise that we had two gas supply points. They thought that we only had one. So they had only quoted us on supplying for the juice factory. We then said that we will take that and transfer it to the dairy. The reply was: 'Unfortunately, Mr Scolaro, it's not that easy. There are all sorts of problems with supply points.'

To cut a long story short, we had to effectively enter into another contract for the supply for the dairy. That contract would come out of an even further back supply, which meant that the price went up again. The price for the dairy ended up at about \$13 a gigajoule, whereas for the juice it was around \$12. The offer from Synergy in March was around \$9.80, as I said. When we averaged it out between the two supply points, we ended up paying about 15 per cent more than the March figure and about 20 per cent more than what we were currently paying.

The next problem we had, which was extremely frustrating, is that Synergy then required us to sign the agreement and an engagement that we could contract with them. The only way that we could do that was to state that we were out of contract with anybody else—in other words, that

we had no contract with anyone else. That put us in a fairly difficult position, because theoretically we were in contract with Alinta but Alinta was breaking its contract and saying that they did not have any gas for us. I took that to mean that it was a breach of contract, even though it was not stated in writing.

We said to Synergy, ‘Yes, we will contract with you and yes we can contract with you.’ We put that in writing. It then was revealed to us that it takes five days for suppliers to take on board a new customer from an existing supplier. That is to do with new rules from an organisation with the acronym REMCO—I am not sure what it stands for. It was told to me, but I cannot recall it—and the Office of Energy. REMCO is federal; the Office of Energy is state. We were that in an effort to protect customers this five-day cooling off period was insisted on. I do not know if it is correct that it was there to protect the customer. I guess it is like a cooling off period in any contract. Before supply starts, a five-day period has to ensue after the signing of the contract. Then supply starts. We said, ‘We can dispense with the cooling off period,’ and we were told that we did not have a choice; it has to exist.

I was in a situation in which Alinta was supplying no gas to us, according to the representative; Synergy would love to supply us gas, albeit it at a higher price, but could not do so for another five days; and I was getting 150,000 litres of milk into my factory which needed to be processed. If it is not processed, the milk then has to be rejected. Farmers still have to be paid; we have our contracts with them. More importantly, it produces an environmental nightmare. You can imagine getting 150,000 litres of milk every day for five days, which is towards three-quarters of a million litres of milk. What do you do with it? How do you deal with it? There are all sorts of things that you can think of, but they all take time. You cannot just ring up another factory and say, ‘Here, take my milk today.’ What about their milk?

Somehow through the grace of God we managed to get through it. The five-day period was reduced through efforts on everybody’s part. We got it down to three days. Fortunately, Alinta continued to supply us. But we were hanging on by a thread of breath. Tuesday was the next day, and the gas was not turned off. Wednesday, it was not turned off. By Thursday, Synergy was supplying us. That is my story. We now have a two-year contract with Synergy and no contract with Alinta and we are paying about \$150,000 a year more for our gas than we were six months ago.

**ACTING CHAIR**—For your two-year contract, would you have expected some price escalation given that most consumers are facing increases in energy prices?

**Mr Scolaro**—Yes, I would have.

**ACTING CHAIR**—How much more do you think that this contract has cost you over the normal escalation?

**Mr Scolaro**—We estimated it at \$120,000 a year. That is not to say that it would not have cost us \$120,000 had the explosion not have happened, because we did procrastinate in accepting the offer from Synergy, although we still had two weeks to go before our contract with Alinta expired. While there are certain benefits in doing things well ahead of time, there are also benefits in doing things at the last minute. We had every intention, of course, to have a contract secured with either supplier.

**ACTING CHAIR**—Sometimes it is good to do it at the last minute.

**Mr Scolaro**—Yes. In this case, we got caught out because the gas supplies got cut off because of the disaster. Obviously, we did not envisage that. Had we known, we would have taken up the offer that was made to us in March.

**ACTING CHAIR**—Obviously you feel quite strongly about making an appearance here. You do not feel under any pressure about making your appearance?

**Mr Scolaro**—No. It is nothing personal. We have a very good relationship with both companies, and I am sure that they would encourage me to state what I have stated today.

**Senator CAMERON**—To be honest, I want to thank you for doing this because there has been a real reluctance by companies to come forward and provide the sort of information that you are providing. How did you feel? Did you feel that you were in a very unfair bargaining position with Alinta?

**Mr Scolaro**—I was disappointed with Alinta telling us, with a very perishable product like milk, that our gas was being cut off the next day. Maybe they did not appreciate the necessity of gas to keep milk from going off. You might ask what one has got to do with the other. You need gas to heat the water to be put through your pasteuriser to pasteurise your milk. So I was disappointed that we were told that something as critical as gas would not be supplied. But I was even more disappointed that, after having been told that, we still went for three days receiving gas from Alinta. You might say, 'Lucky you!. Why should you complain?' I am not complaining but it was interesting to hear them say very emphatically that we would not get gas tomorrow and yet we did.

**Senator ADAMS**—I refer to the overall communication. If you had not been trying to deal with a contract would they have advised you? Was the first advice that you got just that you were going to lose your gas tomorrow? Was that the first thing that you got once the explosion had happened?

**Mr Scolaro**—Yes, definitely. We actually made the first call. As I said, we had made some very low level general inquiries with some peer companies in the area and also in Perth, just to see what the general feeling was. Some were under severe pressure and others seemed not to be. That was odd in itself. I guess there is a reason for that but I do not know what it is. We had received nothing from Alinta in the way of cutting our supply or that there could be problems coming up. Caution got the better of our production director, Laurie Sorgiovanni, and he decided to make a call. There is that old saying, 'Let sleeping dogs lie'. So you think that as soon as you ring Alinta naturally they are going to say, 'Here's one that we can cut and get some benefit out of with the crisis going on.' But not to ring them would have been probably worse, so we called them. As for the contact that we had in Alinta, the gentleman was, as I said, overseas. I guess it was a bit difficult for him to make any judgements while he was away. He said, 'Look, things are all right right now. I'll see you on Monday. I'll give you a call on Monday.' And he did. He called to say that we were going to have our gas cut.

**Senator ADAMS**—What happened with the other companies that you have communicated with, the ones that were supplied by Alinta?



**Mr Scolaro**—They were not all supplied by Alinta. One in particular that was supplied by Alinta was under a severe shortage.

**Senator ADAMS**—But were they notified though? What I am trying to get at is the process that Alinta used to notify its clients.

**Mr Scolaro**—Yes, they were, but I do not know whether that was because they made the call on day one. We could be criticised for having made it so long afterwards. Perhaps that got us in the position that we were in. Maybe it was our fault—I do not know. While gas was coming in and we had a contract we decided otherwise. I had no reason to think that we should not get supplied. I had heard generally that out in the community many businesses had had their supply curtailed, and we were prepared for that because, as I said earlier, we could turn off our boiler at the juice factory and cut our supply by 60 per cent. That is an offer that I made to Alinta when they eventually rang us on that Monday. I said, ‘Look, we’ll cut our supply by 60 per cent.’ Our contact said, ‘John, I wish I could accommodate you but I just do not have any gas for you.’

**Senator ADAMS**—Taking your area of Harvey, are other companies still having problems or is it back to business as usual?

**Mr Scolaro**—The companies that I know of in Harvey are not having problems. I believe there is a company further south from us that is still using diesel plants. It is another dairy. But that belief is only as recent as probably four weeks ago so whether or not they have now switched back over to gas I do not know.

**Senator ADAMS**—And you are back to business as usual?

**Mr Scolaro**—We were back to business as usual by the end of that week. For some reason unbeknown to me—and I am sure there is a very good explanation for it—Synergy did have a supply of gas. I forget the figure but they had 100 terajoules or something like that available. They thought we needed 20. They did not realise that we had another plant that takes gas. They are more or less right next door to each other.

**Senator ADAMS**—So you are back to normal with both?

**Mr Scolaro**—Yes, we are. There is no problem now. The only consequence is that we are paying more for the gas. But to come back to your point, yes, I did expect to pay more for it on the next round of contracts and I budgeted in about 100 grand more. But it is actually now another \$50,000 to \$60,000 on top of that again per year.

**Senator PRATT**—I want to ask a question about the issue of food security. I note that in a crisis like this one perhaps there was not an overwhelming huge risk to food security in terms of Western Australians having access to food. However, perhaps there is something from this crisis that needs to be learned if, for example, it had been the North West Shelf, with a scale like that, that went up as opposed to Varanus. Would it seem to you that something like food security would need to go up the hierarchy of needs in terms of the industries to which gas is released in a crisis like that?

**Mr Scolaro**—Yes, absolutely. I do not know what kinds of criteria were set by the various suppliers; I have got no idea. Like everybody else, you hear stories that certain companies that perhaps did not need gas were supplied with gas and others that needed it were not. There is the example of our plant. We were quite comfortable with closing down our juice plant even for a month or two months as long as our dairy could keep going.

**Senator PRATT**—So in any future crisis management strategy as to a severe energy shortage keeping staple food products safe for Western Australians is clearly something that should be factored into the plans?

**Mr Scolaro**—It certainly would not be at the top of the chain. Obviously, hospitals and similar sorts of services need to be kept up. Food supply is essential. If you are just talking about gas, there are always other ways around it. There are other energy sources that you would bring in—diesel plants and what not. But if you are talking about any sort of public supply, I agree with you that food companies should be fairly high on the list.

**Senator PRATT**—I want to ask about the pretty extraordinary circumstances that you explained as to the cooling-off period. Do you know the origins of that particular contractual requirement? Is it a legal requirement or is it a company policy as far as you are aware?

**Mr Scolaro**—I understand it is a legislative requirement.

**Senator PRATT**—So clearly from that point of view that might be something that this committee should look at in the sense that a cooling-off period in a contract for what is an essential service that you are without would seem fairly extraordinary. Perhaps we might look at trying to get to the bottom of that particular legal question.

**Mr Scolaro**—That is a very good point. The cooling-off period is obviously there for the benefit of the customer, and I can see great benefit in it. But that is generally restricted to domestic arrangements. Say I contract with a supply company to buy a fridge and two days later I realise that I cannot afford it and I should not be buying it. Well, there is a cooling-off period so I can go back and say, ‘Look, I’ve changed my mind.’ If you are a big company you do not need that sort of protection, I would have thought.

**Senator PRATT**—You were able to lock in supply by signing a new contract during the crisis. Clearly that meant you did not need to resort to things like purchasing gas off the bulletin board.

**Mr Scolaro**—We had considered it. We were told we were not getting supply so, yes, we considered it. Fortunately, we did not need to do it.

**Senator PRATT**—So to some extent you were lucky that you were at the point that your contract was expiring, which meant you were able to shift away from Alinta. Had you been locked into a contract with Alinta and been without supply, do you think that is what you would have had to do?

**Mr Scolaro**—No. I never tested this to any extent but my view is that, whether we had two weeks to go or still the two years to go, we had a contract with Alinta, and I am disappointed that

they did not honour it—although I can understand why they did not. When we were told that we were not getting gas tomorrow, we were no longer in contract with Alinta: that was my review. I have not taken any illegal opinion on that, but that was my view.

**Senator PRATT**—Okay. Thank you.

**Senator BUSHBY**—I am also interested in the cooling-down period. Your understanding is that that is a legislative requirement?

**Mr Scolaro**—That is what was conveyed to me, yes.

**Senator BUSHBY**—But you managed to negotiate it down to three days. Was that through the Office of Energy or with their—

**Mr Scolaro**—It was through some great effort on the part of Synergy, which I admire them for. They did their very best to speed it up. It was basically an application by them to waive the period altogether, but it took three days to get there. So it is not that they reduced it from five days to three days; they—

**Senator BUSHBY**—They basically went to whoever administers that regulation or the law—

**Mr Scolaro**—And effectively waived it.

**Senator BUSHBY**—Okay, that is good.

**Mr Scolaro**—But it took three days.

**Senator BUSHBY**—Do you think that, in the circumstances you and everybody else in WA were facing, a general waiver of that might have been a good idea?

**Mr Scolaro**—Yes, absolutely—although I do not know that there would be too many companies in that situation. Synergy were probably only talking to a handful of companies. But, yes, that would be a great initiative.

**Senator BUSHBY**—For those companies that did have the need to change and that had the opportunity, having to go through what you had to go through in exceptional circumstances was probably not an appropriate thing.

**Mr Scolaro**—It was excruciating.

**Senator BUSHBY**—Understanding that there are benefits for consumers, in these circumstances those benefits often get outweighed.

**Mr Scolaro**—It is an excellent idea.

**Senator BUSHBY**—Does the contract that you did negotiate include any scope for a reduction in price once 100 per cent of gas comes back on board?

**Mr Scolaro**—We canvassed that idea quite heavily with Synergy. They were quite open to putting in a rise-and-fall clause or a review clause, but stated quite categorically that if it was a review clause then it would be up and down, so we would probably be paying more for our gas. I daresay that they are right.

**Senator BUSHBY**—A calculated risk, in that sense.

**Mr Scolaro**—Yes. So what we compromised with, and it is one of those warm fuzzy things more than a legally black-and-white thing, was inserting a clause that said that after six months both parties agree to come back to the table and discuss—and that is the word that is used: discuss—the price that the customer is paying.

**Senator BUSHBY**—You have that term in your contract?

**Mr Scolaro**—Yes, they agreed to write that in. But any lawyer will tell you that it means nothing.

**Senator BUSHBY**—You will find out after six months, I guess. The quantity that was made available to you was enough for both your plants?

**Mr Scolaro**—Yes, it was.

**Senator BUSHBY**—Do you think the higher price that was negotiated as part of that contract, compared to what you were offered just a month or so earlier—

**Mr Scolaro**—Three months earlier.

**Senator BUSHBY**—Yes, but it was still on the table a month earlier or even probably a couple of weeks earlier—

**Mr Scolaro**—No, they gave us that offer in March and it was a 30-day offer, but we kept talking, discussing, and verbally they were extending it—

**Senator BUSHBY**—So your understanding was that it was still on the table?

**Mr Scolaro**—Yes, I would have expected to negotiate that price.

**Senator BUSHBY**—Do you think the higher price is evidence that Synergy had higher costs of obtaining gas after the explosion or do you think they were looking more to the market and saying, ‘We’ve got a product that is in demand and there is limited supply so we’ll add a little bit to the price to reflect that’?

**Mr Scolaro**—I have got no way of telling whether that happened or not.

**Senator BUSHBY**—There was no representation made to you as to why the price was higher?

**Mr Scolaro**—Yes, there was. The representation was that it was out of an allocation that they themselves had applied for only a few weeks prior, that the price that they procured that allocation for—and it was a large allocation—was market price and that they were passing on that market price to us. They apologised and said, ‘Unfortunately, the allocation that we were going to give you on the March offer has been fully taken up, because you did not accept it.’ I tried to say we were still negotiating. He said, ‘Well, you did not accept it, so the next application is a higher price and now it is going to cost you a little bit more.’ He was very apologetic, very nice. There was no thuggery or anything like that. That was the explanation given. It is plausible. It is coincidental that it happened at a time when gas was in short supply, so a cynic might say, as we did, ‘You are screwing us over,’ and they would say, ‘No, no; we are definitely not.’

**Senator BUSHBY**—What is your belief?

**Mr Scolaro**—What is my belief? I would say it is—

**Senator BUSHBY**—Is it the cynical approach that you just mentioned?

**Mr Scolaro**—I would say it is a bit of both. In business there is no such thing as a fixed price. You have a margin you can play with. Sure, you have your costs. Even if they did secure the gas at a higher price than what was available to us in March, that is not to say they could not have messed around with their margins a bit and said, ‘We’ll give it to you at the same price.’ No-one is out there as Father Christmas, but in times when everyone is tightening their belt it is difficult for a company like ours to pass on cost increases. I will not be able to pass on this gas increase to my customers. I cannot do it. But it seems that when suppliers are a small number of players—whether they be a monopoly, a duopoly or whatever you like to call it—the margins are fairly well protected, and I think that people just accept that. They do not like it but they accept it. If Alinta or Synergy experience an increase in costs then they have to make a decision as to whether they reduce their margin and try to deliver a cost-effective product or whether they put the margin fully on to it.

**Senator BUSHBY**—Thank you for that. I have one final question. I note that you said you continued to use gas from Alinta despite the fact that they had quite emphatically told you that you were not going to get any. Did that come through and you just kept using it? There was no communication from Alinta saying that they had some and they were allowing you to use it?

**Mr Scolaro**—I have to say to you I find the whole retail concept of energy and competition a little bit bizarre, because the energy comes through the same infrastructure. We are going to be facing the same thing with electricity in a couple of weeks time when our Electricity supply comes up. Alinta is actually chasing us to supply us with electricity. I might end up buying electricity from Alinta and gas from Synergy. It seems bizarre. The reality is that the gas, whether it comes from Alinta or from Synergy, is the same molecules coming into a factory. My guess is that Synergy and Alinta probably kept talking to each other.

**Senator BUSHBY**—We heard some evidence yesterday from somebody who suggested that there were penalties for people who used gas when they did not have allocations.

**Mr Scolaro**—Yes.

**Senator BUSHBY**—I did not hear very much about that, but basically some businesses chose to do that and wear the penalty rather than live without gas. That is not something that you were aware of? Since then nobody has suggested to you that you were using gas you should not have?

**Mr Scolaro**—I cannot recall. I did say to Alinta, ‘Are you going to cut our supply off?’ He said, ‘I don’t have any gas for you.’ I said, ‘Does that mean that the gas won’t flow through the meter?’ I think he said, ‘We’ll eventually turn it off, but when we have told you not to take it you will pay a penalty price for it.’ I cannot recall it 100 per cent but I think that is what he said.

**ACTING CHAIR**—Mr Scolaro, I am interested to hear you say that you had no idea how the criteria for delivering gas throughout the community during the crisis was developed. Are you a member of an employer organisation?

**Mr Scolaro**—CCI.

**ACTING CHAIR**—Did you have any information from CCI about what was happening?

**Mr Scolaro**—In all fairness to CCI or anyone else that we are members of, I have got to say that we probably did. But often the communication goes to a different part of our structure, so it might have gone down to the plant operators in Harvey. There may have been something come to me. I did not see anything myself.

**ACTING CHAIR**—Did you ever go onto the Office of Energy’s website?

**Mr Scolaro**—No, I did not.

**ACTING CHAIR**—Did anyone from your company?

**Mr Scolaro**—As I said, I made general enquiries when I heard of the explosion, the problem and the shortage, but we really did not do anything proactive until we made the phone call to Alinta and got their phone call the following Monday. At that point there was not a great deal of time to delve into that.

**ACTING CHAIR**—In finishing, can I take you through some of the decisions government and business made collectively about how this should operate. As we are advised, three principles were established at the start of the crisis. The first principle was: during the crisis, protect the health, safety and prosperity of the community. The second was: minimise broad community disruption, and the third was: minimise economic impact. Any fair minded person would say they are three principles that nobody could really argue with.

**Mr Scolaro**—Yes. Senator Pratt’s comments about food being up there on the list are very relevant.

**ACTING CHAIR**—This is what I am coming to now. They were the three principles. There were another five points established that said, firstly, that energy infrastructure was to be given top priority—that is, maintaining the power supplies that we had to supply community and business. Essential services, such as the health and safety of the community and essential public transport and communications, were the second tier. The third tier was essential supply to

residential customers to minimise the potential for health impacts. The fourth tier was that industries providing essential goods and services to the Western Australian community would have higher priority in allocation of energy than those that did not—and this was public from about 10 June. There was a fifth, which said all other industries would get access depending on availability. If you were providing an essential good or service and you knew that that was the situation and you could argue that point, according to this that would have given you some priority in the pecking order for access to gas.

**Mr Scolaro**—When I was told by Alinta, ‘We don’t have any gas for you’, my comment was: ‘We can reduce by 60 per cent. I know many other companies are cutting by 30 per cent and still getting supplied.’ He said, ‘I don’t have any gas for you’, and my answer was: ‘How are households getting their gas if you don’t have any gas?’ He was saying, ‘I don’t have any gas’—full stop. I guess he was meaning also: no gas for you.

**ACTING CHAIR**—No gas within those parameters. That is very hard.

**Mr Scolaro**—Yes, of course. His answer was: ‘Even if you cut by 60 per cent, whatever we give you, that 40 per cent is going to come out of the allocation for household residents.’ He was in a difficult position. It was, I think, the night before the then Premier made a statement on the news. It was pre-empted that householders would be guaranteed their supplies, and I think that is probably what put the wind up Alinta to say, ‘Let’s cut everything else off.’ So whilst we might have been up there in the pecking order, I do not think we would have been anywhere near enough up there to have any relevance. That is my gut feeling.

**ACTING CHAIR**—Thank you very much for your evidence today. We appreciate you coming along and being frank about this situation. I wish there were more like you.

**Mr Scolaro**—I hope it does not hold me in bad stead.

**ACTING CHAIR**—Let me make this clear: you cannot be disadvantaged by your appearance here, and if there is any evidence of that you should notify this committee immediately.

**Mr Scolaro**—Thank you.

**ACTING CHAIR**—I am not saying you will be. I am not trying to pre-empt anything.

**Mr Scolaro**—I am sure I will not be.

[12.09 pm]

**MARINO, Ms Nola Bethwyn, Member for Forrest, Commonwealth Parliament, Private Capacity**

**ACTING CHAIR**—I now call Ms Nola Marino MP. Before you start, I indicate that we intend to have your evidence on the record for some 20 minutes or however long it takes; we will go into an in camera session following that. Do you wish to present an opening statement or provide any additional information regarding the capacity in which you appear today?

**Ms Marino**—I am the House of Representatives member for Forrest in this area of the south-west. The first thing I have to say is that I cannot thank you enough for coming here. As you have heard today, one of the difficulties that was felt by all of the businesses, particularly the small businesses and contractors, was that no-one was listening. One of the difficulties I have had as a federal member was getting that message through at all levels. The fact that you are here reflects the fact that we were at least successful in getting through the message of how critical the south-west is and how disproportionately badly it was affected during this period. Thank you for however far you have come; I really appreciate it. I know the industries that are here appreciate the fact that we at a federal level are taking notice of what is going on in the south-west.

I will give you a little bit of background. You have a significant submission from me. It details the timeline. I did that so that you would understand from a south-west perspective the process that these small businesses went through in this particular crisis. We have heard a fair bit from different speakers today. This south-west region is not only an economic powerhouse but also the food bowl. The food security issue is critical. The south-west has a really diverse regional economy. We have not only those significant mineral deposits that are constantly overlooked but also rich hardwood forests, fertile soils for agriculture and substantial manufacturing, retail, construction, tourism and fishing industries. The gross regional product is often underestimated for this region, and it exceeds \$9 billion. The mining industry is the largest sector and is a leading world producer of alumina and mineral sands. The south-west also supports dairy, beef, fruit, vegetable and wine industries, all of which were affected.

There is very little that moves in Western Australia that does not move on the back of a truck, so the transport industry was significantly impacted. We have thousands of businesses throughout the south-west across all of the sectors that I have just mentioned, but my presentation is probably most particularly about small to medium businesses, the subcontractors and the employees that have been affected and often overlooked throughout this process. They were basically left on their own. That was the message that I needed you to get. These individuals—the subcontractors, the independent contractors—were gone from day one. There was virtually no information and no help for these people. They have felt and continue to feel this significantly.

It is clearly evidenced by the number of businesses that contacted me in absolute desperation. I went out seeking them once I heard that there was a problem, but when I got hold of them they were desperate. They had been left in the dark and were not getting any assistance or



information, whether it was from government departments, gas suppliers or whomever. They then had to go out to try to find their own gas supply. They were scrambling in the dark. The management of the crisis has clearly failed the south-west. I think that is a lesson that we must take out of this. I got this message on a daily basis while I was here. There was no help available for those south-west small businesses and subcontractors, and this was the reason that the businesses came to me. They were not getting the help they needed.

As you know, over 40 per cent of the gas that came from Varanus was used in the south-west, so the disproportionate effect is very physical. I had one major business where part of the reason they provided a confidential submission was the number of businesses that spoke to me on a purely confidential basis. They are businesses that have agreements or ongoing issues with governments of the day irrespective of whom they are. As you noted, there are those who are not here. I had one major business who paid people to go to Perth and walk in doors, in that first two weeks, literally begging for gas. They would have paid anything for it at that point, given the impact on their business, but they could not buy it for love or money. They were refused the opportunity to buy gas at that point.

When the daily lottery for gas began, it was only sufficient to run a small proportion of one of their two plants, so they were basically limping along. They put in place an eight-week staff management plan; they brought forward their maintenance; they did anything they could. As you have heard, we have a skill shortage in this region. They did everything they could to keep their people, given that some of the operators in two businesses I spoke to take five to six months to train. Given what is happening in the mining sector, that skill and often the intellectual property were critical to these businesses being able to go forward, even though they are still under constraints now. They literally could not afford to lose these people, plus they have such a significant attachment to very good staff—and they are good staff. They wanted to keep them and they were prepared to absorb the cost of keeping those staff on at very low, if any, production levels. This same business, to give their staff something to do and to try to manage this issue, chose to convert one part of their business, just a small part, to diesel. That cost them over \$1 million. So there is not just one single layer of cost in this; there are a multitude of layers, and it is ongoing. That was another cost to this business.

The good thing is that, by and large, businesses and employees work together. We have heard from Piacentini's about the impact on those people. I heard of four operators in another business who were quite critical personnel who did move on with the mining sector because they needed certainty. We are talking about people here—people with mortgages; people who need to feed their families and get by. So they had to make a decision because there was no certainty. No-one could say how long this was going to last or how long they were not going to have work or have limited hours. There was no certainty for anyone or any business.

From day one right until now, they have basically been on their own. Gas is not back to full capacity in the south-west. That is a wrong assumption. I was out talking to an oil re-refiner and he is being contacted now by businesses who have been told that they will not get energy supplies going forward once we move into summer because they will be directed into state energy supplies. So they are looking for alternatives now. Again, there are ongoing costs, and 25 per cent of the businesses could not convert. They had no choice. There is a whole layer of cost in there for business and for the workers.

What we have heard, and I think this is one of the critical things, is the lack of transparency. We have heard this over and over and there is no doubt that that was the case. No-one was told who got gas, how much and where it was going. It was an issue that I was asked about constantly—'Who is actually getting the gas? How much are they getting and why am I missing out?' or 'Why I am being rationed? Who else is being rationed?' The lack of transparency caused huge unrest in this region. The perception was that some people were getting gas—'Why am I not amongst the chosen few?' The lack of transparency created some real issues. There was a perception in the south-west that the daily gas lottery basically favoured some businesses over others, and we still do not know who received and is receiving regular gas supplies or which businesses did not and are not. Really, now we do not know whether all south-west businesses are receiving their full gas supply and when full supplies will be returned. We were told that they should be back by December. We now hear that it could be February. There is still a great deal of uncertainty. If you look at the requirement on the energy sector over summer, those businesses could be in a position of needing alternatives over the summer period should the full supplies from Varanus not be available. Then again there are questions: 'At what price?' and 'Are you in a position to convert if you need to?'

We had another issue with abattoirs. As I said, farmers have been affected, horticulture and viticulture. On the day of the gas explosion, whole cows were selling for \$2.60 at the local abattoirs. They then had to cut back production, so the price went to \$2.40. It is down to \$2.30 and holding at that level. A number of groups out there are asking, 'Will prices come back when the crisis is over and by how much?' So there are also some ongoing concerns about prices in the longer term.

There is also the question: will the gas supply be diverted to supply additional energy needs over the summer periods and what will the ongoing cost be to the south-west businesses of sourcing that alternative energy? We need to know which businesses are going to be affected—and they need to know—and what additional costs will be visited on those businesses and, again, what assistance can we provide to those businesses should this continue through to February? A number of businesses are not here today, and I think you, Mr Chairman, touched on those who were reluctant to come here, and I have dealt with a number of those. As you understand, irrespective of the government of the day they have ongoing arrangements that they are concerned about. I was also told that business people felt they could not talk openly or fairly at times and that the signing of confidentiality and waiver agreements was also an issue. We have heard reports that natural gas could be selling for up to 70 per cent more than what it was before the explosion and that gas prices are essentially no longer competitive with coal.

One of the interesting things that we will need to look at is whether gas prices will return, in a proportionment sense, to what they were in the pre-explosion period and, if not, in percentage terms what will the general increase be. Is there an 'opportunity' amount in there and who will oversee that matter?

There needs to be an acknowledgement of the losses to the total industry sector, as well as the losses suffered by the community. I touched in my submission to you on the social costs. That is not well understood, but someone from a small community like my own well understands the knock-on effects to the community of every dollar that goes out of the business sector and out of the wage packets of employees. I wonder whether there will be any form of compensation or assistance to business. I seriously do not believe that there was practical assistance offered by the

state Labor government at the time. One company which was attempting to obtain a timescale on the gas restrictions, as well as seeking to have regular allocations of gas across the timelines, could not get any information. How long will this last, within reason; can we plan? The answer is we do not know.

I was also told that the federal government could have assisted. I had meetings, as you know, with Martin Ferguson's department, FaHCSIA and others, in Canberra. For the federal government to intervene the state would have had to have made a request. The request was not made. This was the third energy outage in four years, as I am sure you have been told. There was a power outage in 2004 and a problem with Woodside in 2008. There has not been an emergency energy management plan in place. I understand that the state government memo in 2003 raised concerns about this.

I have one other point. I am not sure who you heard from yesterday, but Mr Geoff Hay, head of the critical infrastructure protection unit—the one that sits beneath the Premier's department—has been called to give evidence. Mr Hay, as head of the critical infrastructure protection unit, is responsible for ensuring critical infrastructure facilities have business continuity plans in place. These are effectively risk management plans for critical state infrastructure and services like gas, which we find such a necessity.

I am concerned about whether NOPSA or DoIR had a business continuity plan in place for Varanus Island's operations, given its importance to energy supplies in this state. As I say, over 40 per cent of that supply comes down to my electorate in the south-west. I ask you to take into account and attempt, if you can, to evaluate the additional cost to businesses of purchasing alternative fuels, a huge additional cost to business. One resource-processing company was paying \$4.50 for gas but then needed to pay \$36 for alternative fuel to get the equivalent amount of energy. That added significant cost to their production of pigment.

A cost that I would also like you to consider is the additional cost of recommissioning the decommissioned power stations that were brought in to work over this period. Sporting groups, community service organisations—all of the groups that normally receive very good support from small business, regional businesses and larger businesses have all been impacted here, as has tourism. It has had an effect on people and families. We heard Senator Bushby speak about exceptional circumstances. When I listen to my transport people, we certainly need to come up with some answers here. I am pleased to take questions.

**ACTING CHAIR**—I would propose that the committee move into camera to hear your evidence on those other issues that you want to raise. On that basis I indicate to the public who are here that you will have to vacate the room. After this in camera evidence, the committee will be closed for the day and we will not be taking any more evidence. On behalf of the committee and all senators here, thank you for your interest, for bringing your stories here and for indicating to this committee the problems that the south-west in particular has faced over this period. At this stage, the committee will move into camera and I ask the public to vacate.

Ms Marino, before we go to your evidence that you want to give in camera, can I just take you to this point on the need for a business continuity plan for Varanus. How do you develop a business plan that says the plant is going to blow up and that production will basically stop?

**Ms Marino**—It is about risk management, isn't it? It is what do you do 'if'? One thing that I understand was recommended by that unit was that a valve, a spare part, be made available. Admittedly, I have heard you say previously that nothing could deal with the actual explosion and the loss of the two pipelines, and that is a fair call. But I think it is about how quickly you can get the plant back on board. What do you need to do that? I think that type of contingency plan is not only about the plant itself but about what alternatives you can then bring on board: the 'how to'—in that event, what do you put in place on day 1; also, what information processes? But, in a physical sense, what is the gear that you might need and how quickly can you source it? What do you need to have on hand so that you limit any down time that you would have? It is a risk management plan that also encompasses alternatives. How do you manage the loss?

**ACTING CHAIR**—Is that a government responsibility or a business responsibility?

**Ms Marino**—I think it is a combination of both. As a state, and perhaps even in a federal sense, we have critical infrastructure across Australia, so we need to know in major outages how we manage this. I think we need plans in place so that when it does happen, there is a plan that deals with it within reason and we can actually do what needs to be done as quickly, effectively and practically as we can. I understand there was a need for an \$8 million valve, effectively a spare part, to be available in the event of a problem. That was one of the issues that came up when the group inspected that site. That was one of the recommendations. I also understand in commercial terms the cost of having an \$8 million piece of equipment on hand 'in case of'. But when you look at it in the context of what has happened here in the form of risk management, it is a calculated risk and certainly a way of managing this type of issue. I think the business continuity plan is not only one for the specific location; it is also part of the broader state and essentially a federal assessment of critical infrastructure.

*Evidence was then taken in camera*

**Subcommittee adjourned at 12.53 pm**