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SENATE

SELECT COMMITTEE ON SOCIO-ECONOMIC
CONSEQUENCES OF THE NATIONAL COMPETITION
POLICY

**Reference: Socio-Economic Consequences of the National
Competition Policy**

FRIDAY, 19 NOVEMBER 1999

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SENATE
SELECT COMMITTEE ON THE SOCIO-ECONOMIC CONSEQUENCES OF THE
NATIONAL COMPETITION POLICY

Friday, 19 November 1999

Members: Senator Quirke (*Chair*), Senators Brown, Coonan, Lightfoot, McGauran, Mackay and Murray

Senators in attendance: Senators Lightfoot, Murray and Quirke

Terms of reference for the inquiry:

To inquire into and report on the National Competition Policy, including:

- (a) its socio-economic consequences, including benefits and costs, on:
 - (i) unemployment,
 - (ii) changed working conditions,
 - (iii) social welfare,
 - (iv) equity,
 - (v) social dislocation, and
 - (vi) environmental impacts;
- (b) the impact on urban and rural and regional communities;
- (c) its relationship with other micro-economic reform policies; and
- (d) clarification of the definition of public interest and its role in the National Competition process.

WITNESSES

EISZELE, Mr David Russell, Managing Director, Western Power Corporation . . . 960

GILL, Dr James Ian, Managing Director, Water Corporation 944

HARMAN, Dr Frank James, Senior Lecturer, Economics, Murdoch University . . . 975

MARGETTS, Ms Diane Elizabeth (Private capacity) 986

**NINKOV, Mr Nenad, General Manager, Corporate Strategy, Western Power
Corporation 960**

**WERNER, Mr Lloyd Glyndon, Manager, Pricing and Agreements, Water
Corporation 944**

WILLIAMS, Mr Peter Bernard, General Manager, Commercial, Water Corporation 944

Committee met at 11.52 a.m.

CHAIR—I welcome everyone to the public hearing of the Senate Select Committee on the Socioeconomic Consequences of the National Competition Policy. The terms of reference agreed by the Senate require the committee to inquire into and report on the national competition policy including: (a) its socioeconomic consequences, including benefits and costs to unemployment, to working conditions, to social welfare, to equity, social dislocation and the environment; (b) its impact on urban, rural and regional communities; (c) its relationship with other microeconomic reform policies; and (d) clarification of the definition of public interest.

The committee is required to present its report on or by the last sitting day of December 1999. Before we commence taking evidence, let me place on the record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence which is given before it. Parliamentary privilege, for those who have not appeared before a committee before, means special rights and immunities attached to parliament or its members and others necessary for the discharge of the functions of the parliament without obstruction and without fear of prosecution. Any act by any person which operates to the disadvantage of a witness on account of evidence given by him or her before a Senate committee or any other committee of the Senate is treated as a breach of privilege and so you are accordingly protected.

[11.54 a.m.]

WOOD, Mr Peter, Derby Hydro Power Pty Ltd

CHAIR—I now welcome Mr Peter Wood. We do prefer all evidence to the committee to be given in public but should you, at any stage, wish to give part of your evidence or answers to specific questions in private, you may apply to do so and the committee will consider your request. I now invite you to make a brief opening statement and, at the conclusion of your remarks, will invite committee members to ask you questions.

Mr Wood—Good morning. I am a director of Tidal Energy Australia Pty Ltd, the promoter of the Derby hydro project. I appreciate this opportunity to address the committee. Earlier this week I gave evidence to the Standing Committee on Primary Industry and Regional Services, chaired by Fran Bailey. That committee visited Derby and Broome on 15 November 1999 and inspected the tidal power site. My evidence is based at the project level. It relates to my experience in trying to develop the tidal energy proposal, which must meet commercial objectives for the electricity supply, but it has many broader benefits to the environment and to the socioeconomic life of the West Kimberley region.

First, let me briefly describe the nature of our proposals. The West Kimberley is a remote region where electricity supply for Broome, Derby, Fitzroy Crossing and many Aboriginal communities is provided by isolated generating stations. Power is expensive to generate and the supply is unreliable. The Kimberley coastline, with its 10-metre tidal range and many inlets and bays, is a world class location for tidal power generation. Tidal Energy Australia Pty Ltd proposed a 48-megawatt tidal station to the north of Derby. A barrage will be built across the mouths of two creeks of Doctors Creek. The west arm will be impounded as a high reservoir and the east arm will drain at each low tide. Water will flow continuously from the high reservoir into the low basin by a turbine channel. The tidal output will be continuous, and this is a world first.

To capture a sufficient market, the proposal includes the provision of a 500-kilometre power grid linking the tidal power station to Derby, Broome and Fitzroy Crossing, and also to a large lead zinc mine at Pillara. The transmission system will be fully integrated and will include backup generation for emergencies and during neap tides. Further information can be obtained from a brochure and briefing document which I will supply to the committee secretary.

CHAIR—Thank you very much.

Mr Wood—I wish now to outline the process of electricity procurement for the West Kimberley. In 1996, Tidal Energy Australia signed a heads of agreement with Western Power Corporation for the supply of power through tidal energy. This allowed Tidal Energy Australia to raise venture capital to complete the necessary design and approvals. However, in June 1998, the Minister for Energy released a new policy for electricity supply in remote areas to encourage private generation and increase competition. Subsequently, tenders were sought by state government for the West Kimberley region and a preferred supplier has now been identified. The preferred supplier proposes to generate electricity at isolated power stations by liquefied natural gas trucked from the Pilbara.

Senator LIGHTFOOT—How far is that, Peter?

Mr Wood—It's about 1000 kilometres.

CHAIR—Thank you.

Mr Wood—The tidal power proposal is held in reserve and will be compared with the LNG option before a final decision is made by state cabinet. The tender selection process is geared to a narrow, short-term economic rationale. It makes reference to environmental and regional benefits but no weighting has been published and we see little evidence that these matters have been treated seriously.

The tidal power project brings many potential benefits: (1) a clean renewable source of power, reducing greenhouse gas emissions by 200,000 tons per annum; (2) provides a regional transmission network, bringing reliable power to existing towns and remote Aboriginal communities and to new and existing resource projects; (3) it creates a 12 square kilometre tidal lake suitable for recreational fishing, tour boats and aquaculture; (4) tourism will be increased, causing an additional demand for 300 hotel rooms in Derby and Broome; (5) regional development will be encouraged, including the creation of 500 locally based permanent jobs.

Over the long term, tidal power will be cheaper than fossil fuel and is guaranteed to reduce in real terms. The West Kimberley community, including potential contestable customers, recognises these benefits. When tidal power was placed on the reserve list it caused an extraordinary public response. A poll in Derby showed 96 per cent of the population were in favour of the tidal power proposal. A fighting fund of over \$16,000 was raised by the residents of Derby and, for the first time in its history, Derby had a street parade attended by over 1,000 residents calling for the reinstatement of the tidal power scheme. The message from the residents is clear. They are not solely concerned about electricity costs. Instead, they are seeking a whole of government approach to the provision of regional services, rather than a narrowly based decision. They are concerned about quality of life and a future for their children.

I attach a booklet prepared by the local community. This was given to members of the state cabinet when it recently held its meeting in Derby. The title, Power Proposal, would be a landmark renewable project demonstrating Australia's commitment to greenhouse gas abatement. It has caught the imagination of the Kimberley community, who see it as a catalyst for regional development and job creation. These matters require serious consideration. They have not been given due weighting in the single bottom-line procurement process of the Minister for Energy.

CHAIR—I wonder, can you just give us a little more information about the project, Mr Wood. You're going to build barrages across a couple of tidal creeks and this will trap how much water?

Mr Wood—It will trap many millions of gallons of water. It will trap into the high basin a lake of perhaps eight metres in depth, on average, covering 12 square kilometres, so it's a

huge lake of water. The other basin, the low basin, is bigger in capacity but would be deliberately kept empty of water; at each low tide the water would drain out of that system.

CHAIR—What you are going to do with this, then, is presumably run the sea water through turbines?

Mr Wood—Yes. We cut a channel between the basins. The high basin is topped up on each tide. The low basin is drained out on each low tide. The high basin is always about five metres higher than the low basin. So we cut a channel, and the channel starts to run like a river of sea water. It's running at 500 cubic metres a second. Let me express it in a different way: every second 500 tonnes of water will drop five metres. It's like a huge waterfall of power. We put the turbines in that waterfall of power and that would generate 48 megawatts. We could actually generate more power, up to 80 megawatts, but there is no demand for electricity in that region yet. As the region expands and grows, we can then put in more turbines and supply more clean power for the region.

CHAIR—When you do this, there must be a down time when the tide is reaching high tide. Is that right?

Mr Wood—There is no problem during the normal spring cycle. I should say that tides work by the moon and the sun and as long as we have a moon rising, we have got lunar power, and this is what we're tapping. For 12 days in each fortnight we have spring tides in that area where there is adequate power in the tides. For two days a fortnight we have neap tides where the tidal amplitude diminishes. We will still have a difference in height between the two basins and that difference in height happens day and night, 365 days a year.

CHAIR—Sure, I accept that.

Mr Wood—For that two-day period we would need to supplement demand and we're proposing to do that by putting in thermal generation at Broome and at Pillara, which are the extremities of our transmission line. I have a diagram which illustrates the regional picture.

CHAIR—That will be very difficult for *Hansard*.

Mr Wood—I could perhaps describe it verbally while pointing to it.

CHAIR—I think you will have to do that, or give them a copy.

Mr Wood—Yes. This region is very remote. Derby sits in the middle of the region and 200 kilometres to the south-west is the town of Broome and we're proposing to serve Broome with a transmission system. At Broome we would put in thermal generation. It would be LPG generation in our proposal. That generation would help us over the two-day neap period. It would also be available if this line was lost because of a cyclone or a lightning storm. Then Broome would have adequate power, 100 per cent cover.

CHAIR—Just before you go any further, the reason I raised that question was not the fact that the tides will vary with the seasons, but the tide comes in everywhere else in the world twice a day, so I presume it does the same there.

Mr Wood—Yes, twice a day.

CHAIR—But once it is high tide you are not going to have the five-metre fall, are you, to the lower—

Mr Wood—Yes.

CHAIR—You will?

Mr Wood—Yes. I must show you on the diagram.

CHAIR—I see. So it is totally enclosed?

Mr Wood—Yes. We have a barrage across the mouth of the two creeks. The tide rises in King Sound by 10 metres. Towards the top of that tide, the tide then exceeds the level in the high basin and it flows in and tops up that high basin which is then impounded. Then you see the reverse happening with the low basin which is drained out six hours later at the next low tide.

CHAIR—So it is a continuous flow of water from the highest to the lowest.

Mr Wood—A continuous flow of water down the turbine channel.

CHAIR—Okay. My last question on this is what about corrosion and that sort of thing? Sea water is immensely corrosive, particularly in the warmer regions of Australia.

Mr Wood—Yes. The French—who do not have anything like the water temperatures that we would have at Derby—built a tidal power station which opened in 1963. It has been running—

CHAIR—This is the one in Brest.

Mr Wood—At La Rance on the Brittany coastline. That project had special protection for the metal surfaces that come in contact with the ocean. I attended a convention at La Rance when the scheme had been operating 25 years. There are 24 turbines—a huge project. They dewatered one of the turbines, they scraped off a ton of mud and barnacles and underneath all the barnacles you could see the original polishing marks of the bronze blades. They were in perfect condition. So techniques are available to treat the metal to give protection in salt water.

CHAIR—How do you get on with the power authorities here in Western Australia?

Mr Wood—We have had close working relationship.

CHAIR—Are they welcoming you with open arms?

Mr Wood—Yes. As I said in my evidence, we started off with heads of agreement with Western Power. That was taken over by an energy procurement process which is now

favouring a gas option. Yes, we had good relationships with Western Power, but have been caught up in a competitive process.

CHAIR—So when you say you are caught up in a competitive process, that means your project may go down the tubes.

Mr Wood—Yes, absolutely.

CHAIR—Hence why you are here today.

Mr Wood—If we do not win this tender then this project would disappear for perhaps 50 years.

CHAIR—So the tender is to supply power to Broome, Derby and those communities there, either by this means or by natural gas or by whatever else?

Mr Wood—Yes.

CHAIR—Who is dealing with the tender? Who opens the tender and makes a decision?

Mr Wood—The tenders are reviewed by a committee set up by the Minister for Energy, Colin Barnett. That committee involves people from Western Power and the Office of Energy, so it is within Colin Barnett's department that that committee is operating. We have been placed on a reserve list which means that we cannot have a debriefing on this project. There has been lots of misinformation in the media about our project, that it is unstable, unreliable and so on. We are not able to counter those because we are in a reserve position in the tender.

CHAIR—How big is the lake system?

Mr Wood—The high basin, which will become a permanent lake, is about 15 kilometres long.

CHAIR—So it is a fair area.

Mr Wood—It is a huge area. That lake goes from the mouth of these creeks right to the edge of the town of Derby. What is proposed is that within that lake of water we would have aquaculture which would create employment for local Aboriginals. We have a proponent willing to build that aquaculture project. It would enable tour boats to go from Derby down a crocodile infested creek to look at the world's only tidal power station that can generate continuously. It becomes a very exciting tourist potential.

CHAIR—I was wanting to go and have a look at this until you mentioned crocodiles!

Mr Wood—You are all right in an aircraft, Senator.

CHAIR—I think it probably will be one very high up, actually. I was just going to ask my friend Senator Lightfoot about going up there, but I did not know crocodiles were that far south. It just shows my ignorance. I am a southerner, I am afraid, Mr Wood.

Senator LIGHTFOOT—We can get you a crocodile proof boat.

CHAIR—Yes, it is called a 270, I think. I have a fear about being chomped by crocodiles.

Mr Wood—Two weeks ago we took Minister Wilson Tuckey on to the site by helicopter and landed on the site with a film crew and we spent half the time looking over our shoulder—

CHAIR—For the crocodiles.

Mr Wood—but the results of that filming will be broadcast this coming Sunday on Landline on the ABC.

CHAIR—I must have a look at that program.

Mr Wood—Yes, 12 noon on Sunday.

CHAIR—It is a very exciting program.

Senator LIGHTFOOT—Mr Wood, I had the privilege of going to the island a month or so ago in a helicopter, too. It was a small mustering helicopter with no doors on it, and that was an experience in itself. But I was surprised to see that there is very little vegetation on the island at all. It is a mud island, in effect.

Mr Wood—Yes.

Senator LIGHTFOOT—It is flat.

Mr Wood—Yes.

Senator LIGHTFOOT—I had a look over it and, as far as I was able to see, there is no animal or bird life on the island. There is some worry about the mangroves. Now, there is no question that—if I could use the old expression—in order to make an omelette you need to crack some eggs.

Mr Wood—Yes.

Senator LIGHTFOOT—Would you tell the committee how many hectares of mangroves you are going to reclaim and how many are going to benefit from it in terms of the same measurements?

Mr Wood—Yes. Again, I will refer to a diagram, but I will describe it verbally. You mentioned the island and in actual fact it is not an island, it is a promontory. It is at the end of this promontory that we will be building the dams.

Senator LIGHTFOOT—It is referred to as Doctors Creek Island, I think, is it not?

Mr Wood—Yes, but in actual fact it is a promontory.

Senator LIGHTFOOT—You are quite right, it is almost a peninsula or a promontory, yes.

Mr Wood—The impact on mangroves is not around that island. Again, you are quite right, the island is mudflats, no mangroves to speak of in that area, but because we will be keeping the water level low in that low basin, the mangroves that exist all the way along that basin would be starved of water. We are looking at the potential loss of 1,500 hectares, but the water level in that basin would find a new tide level. The new tide level would be at the bed of the creek and what we see in the bed of the creek is that we would have just perfect opportunities for mangroves to re-establish themselves. Our experts calculate that we would lose 1,500 hectares but we would gain 2,300 so there will be a net increase in mangroves.

Some people have asked, ‘Will mangroves regrow?’ and what we have done in this series of photographs is time-elapsed aerial photography. There is a gap of 10 years between these three photographs. On those photographs, for example, you see some mud forming and 10 years later it is an island covered in mangroves. That island is about half a kilometre long, it is not a small island, but 10 years later it is a huge island, thicker, bigger. In another 10 years that island might disappear again. This is how the creek system is forming and reforming all the time.

Senator LIGHTFOOT—You mentioned tourism in France. Can you tell the committee how many tourist visitors there are on an average year?

Mr Wood—Yes, about half a million visitors to the tidal plant at La Rance, which is a very impressive place to visit. If you are travelling from St Malo to Dinan you are on a dual carriageway with the ocean on one side and an inlet on the other side—a large inlet. You pass over it on a dual carriageway and lo and behold you have passed through a major power station—240 megawatts—and you do not know it is there. It is hidden under the dual carriageway, so all the turbines, the gates, are all sunk deep below that. But there is a visitor centre and it is extremely impressive to see that site.

ACTING CHAIR (Senator Lightfoot)—There are no CO₂ emissions or any other emissions from a tidal power station, are there?

Mr Wood—No, it is benign environmentally. There are no emissions at all. In the tendering process we put to the state government we even looked at how many emissions we would cause through the construction of steel and concrete to build the thing and how we would offset that over the years of operation. We would operate with a design life of 120 years. Once this is built it would have a life of 120 years.

ACTING CHAIR—I should have asked you in my previous question: is it a big revenue earner for that particular area for the French?

Mr Wood—Any renewable project is expensive to build and cheap to run. The French paid off the debt on that project perhaps 20 years ago. It is now producing the cheapest power in France. Most of the French grid is nuclear power. It undercuts nuclear power by perhaps 25 per cent of the cost of nuclear power.

ACTING CHAIR—Could you tell the committee the unit cost or the kilowatt cost of that.

Mr Wood—Of the French station? It is in francs. It would be, I think, of the order of between 1c and 2c per kilowatt hour.

ACTING CHAIR—Is that 1c or 2c Australian?

Mr Wood—Yes.

ACTING CHAIR—That is unbelievable. That is very good.

Mr Wood—Because your debt is paid off and you have no fuel to buy.

ACTING CHAIR—Yes.

Mr Wood—The fuel is nature's free energy that comes in each day.

ACTING CHAIR—Yes. Could you give the committee a comparison of the cost of power in Derby at the moment per unit or per kilowatt hour?

Mr Wood—Yes. The cost in Derby at the moment through diesel generation with Western Power's plant is about 28c per kilowatt hour. Our proposal is that we have pitched a level which we think is a policy level. We understand that the residents of Derby pay 12¾c. Above that is the community service obligation and it requires a subsidy from the state. That subsidy between 12¾c and 28c is about \$11 million a year for that West Kimberley region. So the state taxpayer is subsidising that region. We feel that we should remove the subsidy for all time, so we have pitched a level at 12c a kilowatt hour, just slightly below the community service level obligation.

We feel that price is cheaper than any fossil fuel option but it requires help from government. What we are looking for from government is a kick-start. It would be in the form of a fully repayable loan. That loan we would repay in perhaps 20 years. We would like that loan to be paid into a renewable energy trust, like the Heritage Trust, at Commonwealth level. It would go into a renewable energy trust which would be available for future renewable energy projects, be they solar, wind, hydrogen or whatever. Every renewable project needs this kick-start. If we are going to make inroads into the renewable energy program then I think we have to do it through that process.

Western Power is at 28c. We are offering it at 12c. Our 12c we can guarantee will reduce in real terms and that the proposal we have put in our tender is to reduce at 10 per cent of CPI for the next 25 years.

ACTING CHAIR—And you are not asking a subsidy on the use of the power, which is ongoing now for the government of Western Australia; you are asking for a properly structured loan that would be paid back in full, and you would not then require, other than that, any subsidy whatsoever on the power. In other words, the 12c a kilowatt hour, or the unit cost that you would charge the public, would be at a retail price.

Mr Wood—Yes.

ACTING CHAIR—It would be sufficient to cover all your costs, including the repayment back to the government over a 20-year period. Is that correct?

Mr Wood—That is correct.

ACTING CHAIR—What about the contribution that tourists would make to your project. Have you taken into consideration any revenue that would be ongoing with respect to the tourists, or is that something that you have left in abeyance?

Mr Wood—No, one of the documents that I passed to the committee secretary is a study by a group called Economic Research Associates. This a group that advises the state government on the state's economic model. It uses various multipliers, so if you create one primary industry job, how many subsidiary jobs does that create? This study has not looked at the 500-kilometre transmission grid that we are providing. That is a huge piece of infrastructure. It has ignored that and looked at the impacts of aquaculture and tourism in that area. That study shows that it could provide up to 500 locally based jobs. These are not fly in, fly out jobs, these are jobs for people who will be servicing hotels, assisting in aquaculture; jobs for local people to be trained.

ACTING CHAIR—Before you go on, is there a high unemployment level in Derby?

Mr Wood—This question was asked by Fran Bailey to the shire president earlier this week. His answer was, 'If you look at the pure unemployment figures it doesn't look too bad.' Eleven per cent I think was the figure he quoted. 'However,' he said, 'half the population of Derby is Aboriginal and many Aboriginals are on community development programs, and in effect it is a Work for the Dole kind of project and the people who are on Work for the Dole are not included in the unemployment figures, so the true unemployment figure is perhaps 35 per cent.' Those were the figures used by the shire president.

ACTING CHAIR—Yes. I interrupted you. With respect to the ancillary benefits of this, you might care to go on from there.

Mr Wood—Yes. The studies by Economic Research Associates was suggesting 500 jobs. They also looked at the impact of this on Commonwealth taxes, state revenues, income to the local business community, and a figure of \$32 million has been identified. The \$32 million has been identified as the NPV—the net present value—of these associated

developments. It is not to do with that transmission line, it is really to do with the lake, the tourism, the fishing and so on.

ACTING CHAIR—And that has not been factored into the monetary benefit. Just let me recap on the direct benefit from the power station itself without any tourism, aquaculture or anything else that could be created as a result of this. The government now pays \$11 million a year straight out of central revenue as a subsidy to the suppliers of electricity in the Kimberley, as a direct subsidy to the people that use it.

Mr Wood—Yes.

ACTING CHAIR—You are saying that your 12c a kilowatt hour or a unit is pitched below that which is actually charged by the consumers, which is about half its actual cost.

Mr Wood—Yes.

ACTING CHAIR—You can generate enough revenue from that 12c a kilowatt hour to pay back the government loan, which I think I saw was about \$120 million.

Mr Wood—\$120 million, yes.

ACTING CHAIR—As well as gradually reduce the cost per kilowatt hour for the consumer. Is that correct?

Mr Wood—In real terms.

ACTING CHAIR—In real terms, yes.

Mr Wood—We built in an inflation factor.

ACTING CHAIR—Yes. If there is zero inflation you are still going to reduce it in nominal terms.

Mr Wood—Yes, by 10 per cent.

ACTING CHAIR—That seems like a pretty good deal to the government to me. Just let me get on to the cost of the power station, that \$360 million, \$240 million of which you are going to fund internally. There is an immense amount of equity. You are looking at two-thirds self funding, one-third debt.

Mr Wood—Yes.

ACTING CHAIR—That is not a bad ratio. But the cost of a 50-megawatt or 49-megawatt power station at \$360 million is a fairly significant cost when you look at it in per megawatt terms. A 750-megawatt power station recently has been built. It is a base load coal-fired power station, only expected to last for 25 years. It is worth about \$750 million, so it is a million dollars per megawatt.

Mr Wood—Per megawatt, yes.

ACTING CHAIR—What you are saying is that even though you are going to pay initially, your capital cost of establishing this is about \$70 million per megawatt or is that \$7 million per megawatt.

Mr Wood—\$7 million, yes.

ACTING CHAIR—Why isn't it that you could increase the cost of the power station by putting say a hundred megawatts there that would only cost you an insignificant amount compared with the initial cost of \$360 million? So it is not going to cost you \$720 million to establish 100 megawatts. The cost would be not insignificant but much less than that. Why isn't it that you will do that? I understand that you do not have the users, but sometimes it is a chicken and egg situation and you do not know which is going to come first. You put it there, and maybe it is going to be used.

Mr Wood—Let me tell you what our design entails. First of all, the \$360 million includes a requirement by the tendering process to build brand new thermal power stations at Derby, Fitzroy and Broome. If we could make use of Western Power's existing facilities that could save say \$40 million off that cost.

ACTING CHAIR—Could I just clear up, for the sake of people who are going to read the *Hansard*, when you say 'thermal' you do not mean the New Zealand type where you put a bore down in the ground.

Mr Wood—No, using a fossil fuel.

ACTING CHAIR—That is right, using a fossil fuels, nothing to do with vulcanology.

Mr Wood—Some may be diesel, some may be LPG or LNG—so different fuels.

ACTING CHAIR—Yes. Please go on.

Mr Wood—So if we did not have to replace the existing power stations—and some of them we do not even need, and in that sense the work scope is too ambitious—we could delete totally a power generating facility at Broome and Fitzroy. The key feature in our \$360 million capital cost is that we are looking to the future. In our structures we have adopted a modular design and we will be putting concrete structures in to expand the capacity from 48 megawatts to about 80 megawatts. If you start do your sums again now on 80 megawatts, that would be the size of the power station, we think, in about 20 years' time.

ACTING CHAIR—How much do you envisage that that second module would cost per megawatt, or altogether, if you wish—whichever figure you care to give.

Mr Wood—Yes, we are perhaps talking say \$50 million or \$60 million added into the contract to create these structures. We will find a temporary use for those structures. We will put gates in them to allow better water interchange. Eventually we will replace those gates with turbines, but then we have got a tiny incremental cost for the cost of the turbine which

might be, let's say, \$20 million. We can increase the capacity by say 10 megawatts. So it becomes much cheaper.

ACTING CHAIR—It drops dramatically per megawatt, doesn't it?

Mr Wood—It drops dramatically. And the difference between us and a coal-fired station is that tidal power does not have to buy fuel each year. The coal-fired station has got to buy coal each year to survive.

ACTING CHAIR—Yes.

Mr Wood—So all we are concerned with is the repayment of the debt. We have done a lot of work in looking at ways in which we can structure that financial debt. Those ways include leverage leasing, because we can lease the turbines and that takes the cost of turbines off the balance sheet directly, and we can lease the transmission system, so that takes it off the balance sheet. We are then left with perhaps a core debt equity of about \$100 million, and we are very confident that we can raise the debt equity on that remaining section.

ACTING CHAIR—So the debt equity ratio is about 3½ to one.

Mr Wood—On the \$100 million of debt equity we would expect it to be possibly fifty-fifty. We would be looking at raising at least \$50 million equity and perhaps \$50 million of debt, of that order. We are working with the ANZ Bank, who are going to be our arrangers of finance, and they are confident the project can be funded.

ACTING CHAIR—What is the cost of power that is derived from the Argyle Dam project where there is a smaller 30-megawatts, I think, of hydro power? Could you tell the committee that cost?

Mr Wood—I am not aware of that cost. It is a confidential matter between Pacific Hydro, who are the operators of that dam, and Western Power. My guess is that it would be of the order of between 7c and 9c, something like that; significantly cheaper than the cost we are offering. The reason for that really is that Argyle Dam was built for another purpose and there was a hole in that dam, in which they put turbines. They did not have to build all the civil structures. They took advantage of an existing dam structure and then they had to provide the transmission system.

ACTING CHAIR—So the cost of the dam wall is not amortised or paid for by the consumers, the consumers just pay for the infrastructure and capital costs of the infrastructure necessary to fill those round holes up with hydro turbines.

Mr Wood—That is my understanding of Argyle. But we are having to start from scratch, we are creating the barrage structures and the transmission system.

ACTING CHAIR—You are creating your own dam wall.

Mr Wood—We have got to create our own dam wall. The problem is, if the region was twice as big or four times as big in terms of demand, we could go for the optimal system

now. We are having to build a system which can cope with increasing growth but at day one it is suboptimal.

Senator MURRAY—Mr Wood, why does this matter concern a committee looking into national competition policy?

Mr Wood—My understanding of national competition policy is it is looking at economics, the bottom line, without paying full regard to all the social and other benefits that might accrue with the project. It seems to me that we may have two proposals which are being considered by the Minister for Energy which may be roughly on par. We are in a reserve so we cannot be much disadvantaged compared to the one that is the preferred tenderer. They are coming along together. Here we have 96 per cent of the community saying, 'We want tidal power because it brings all sorts of additional benefits to us,' and it is those benefits which I believe are not being built into the assessment.

Senator MURRAY—The committee has heard a fair bit of evidence that the public interest test which was established under the legislation is not being considered in full, and essentially that evidence makes the same point you are making, because the public interest in fact requires broader than the economic considerations to be taken into account. It specifically mentions social and environmental factors.

Mr Wood—Yes.

Senator MURRAY—Is it your submission therefore that the state government so far has acted improperly by failing to take into account their full responsibilities as signatories to the National Competition Policy?

Mr Wood—I believe that the state government have not paid full regard to the environmental benefits and the social and economic benefits that are associated with this project. That is my belief. But as a reserve tendered, I have not been given any debriefing on that tendering process. The tendering process listed environment, social benefit, economic growth in the region, as assessment issues, but I do not know if they were given a tiny weighting or a big weighting. My suspicion is that they have undervalued those issues.

Senator MURRAY—The minister concerned has direct ministerial responsibility for the AlintaGas Corporation and for Western Power. That is so, isn't it?

Mr Wood—Yes.

Senator MURRAY—Do you think that results in a conflict of interest when he has to consider alternative power sources which may in fact reduce options and reduce potential economic opportunities for institutions or corporations to which he has not only a responsibility but a great deal of policy attachment?

Mr Wood—The minister's portfolio does include renewable energy so the minister could, within his portfolio, say, 'I have looked at renewable energy, I have looked at gas and I have looked at electricity options.' So I think the conflict of interest in theory should not apply. However, the gas industry is a very powerful lobby industry. We are a tiny company

by comparison. One suspects that those influences are affecting decisions in this state. The issue that I would make and the local community in Derby would make is that really the decision, if placed with the Minister for Energy, is placing it in too narrow a base. The Minister for Energy cannot properly talk about regional development, tourism impacts. They are in the portfolio of other ministers in the state government. The environment portfolio is clearly affected by this proposal.

We have made comparisons between our project and that of the other competitors. We have done this quite deliberately. We have huge savings of greenhouse emissions compared with LPG and LNG options, which are not dissimilar from diesel in terms of their emission potential if one looks at the whole cycle of fuel from its extraction from the ground to its burning at a power station. Looking at the full fuel cycle, which is the proper equation, we have huge benefits. The figure I quote in my evidence of 200,000 tonnes of CO₂ equivalent a year applies whether it is LNG, LPG or diesel.

Senator MURRAY—The minister concerned has had this job for a number of years, hasn't he?

Mr Wood—Yes, he has.

Senator MURRAY—And would therefore be very experienced in coal and gas—conventional—power systems?

Mr Wood—Yes.

Senator MURRAY—Do you know whether he is experienced in renewable energy systems?

Mr Wood—During his period of office the Ord hydro scheme was developed. There was work done on photovoltaics at Kalbarri. But the state has a dearth of renewable projects. If one looks at the energy generated and provided by Western Power, less than one per cent of its energy is from renewable energy.

Senator MURRAY—So comparatively speaking he lacks experience?

Mr Wood—Yes.

Senator MURRAY—Regarding the tender process, who opens the tenders, who examines them?

Mr Wood—The tenders were opened by a committee appointed by the Minister for Energy. That committee comprises officials from the Office of Energy and Western Power.

Senator MURRAY—So it comprises persons whose conflict of interest is clearly established by virtue of the fact that they have responsibility for and attachment to other power systems.

Mr Wood—Yes. All of the people in that selection process are ultimately responsible to the Minister for Energy—the two sections of his domain, if you like.

Senator MURRAY—If another plank of competition policy is independent, objective appraisal on a fair and informed basis, you are suggesting to this committee that the way in which the tender process is constructed, the people who manage it, and the way in which it is opened and adjudicated does not meet the tests of independence, objectivity or fairness?

Mr Wood—Yes, that is my view. If Tidal Power had not been one of the bidders and the basis was purely a choice between, let's say, LPG and LNG, it would be purely an energy matter. But I think the very introduction of a renewable project with spin-off benefits for the region has created a major question mark in that selection process. I know that the chairman of the Kimberley Development Commission, Peter McCumstie, made representations that the region should be represented on that assessment panel, and that request was rejected. His presence would have ensured the broader view being taken in that process.

Senator MURRAY—Well, perhaps that, but perhaps it would just introduce yet another bias. Really, the real problem is that you do not have an arm's-length process.

Mr Wood—Yes, absolutely.

Senator MURRAY—Have you acquainted the National Competition Council with your views and your perspective?

Mr Wood—No, I have not.

Senator MURRAY—Why not?

Mr Wood—I suppose I was expecting to see justice done and a full recognition of the issues. I mentioned in my evidence that before this tendering process started I already had a heads of agreement with Western Power to provide the energy for that region. I was persuaded to tear up that heads of agreement because I was assured at that time that full recognition would be given to environmental, social and regional benefits, and that this would be put fairly into that tendering process. Evidence suggests now that I was perhaps wrong in tearing up that heads of agreement.

Senator MURRAY—Are you aware that the NCC have the power to make recommendations not to make payments to any state which fails to fulfil its competition policy requirements?

Mr Wood—I was not aware of that. That is not my field.

Senator MURRAY—It would seem to me, listening to your presentation, that if due process is not followed you have two options. You either have the legal option to have it overturned on the grounds of bias, or you have the financial option, which is to go through the NCC.

Mr Wood—Yes.

Senator MURRAY—Before we get to that, have you been able to persuade the federal government that your project should be evaluated on equal terms with the other tenderers?

Mr Wood—We have had many discussions at federal government level, both at official level and with elected members. We feel we have persuaded the Commonwealth government that this is a landmark renewable project which does justice to Australia's commitment to greenhouse gas abatement, and we see a very strong body of support from the Commonwealth government. Essentially, the issue of power procurement has been treated as a state matter. It has been created as a tendering situation within the Minister for Energy's office. We have requested the Minister for Energy to join with us in an approach to Canberra to look for Commonwealth funding. The Minister for Energy has steadfastly said that he is in the middle of a tendering process and cannot be seen to be favouring one tenderer against another tenderer. So no discussions have taken place between the proponent and the state with the Commonwealth government.

When we met Minister Minchin, the first question he asked of us was, 'I can see the proponents here. Where is the state government? Why aren't they represented in your discussions with us?' We said, 'Well, we've invited them, we've tried to bring them along, but there is this steadfast refusal not to open those negotiations.'

Senator MURRAY—In terms of National Competition Policy, whilst the federal government has a coordinating and facilitating role in energy matters, primarily it too regards energy decisions as a state and not a federal matter.

Mr Wood—Yes.

Senator MURRAY—I do not think I can take it much further, Mr Chairman.

ACTING CHAIR—I think that was very good. I do not have any more questions, Mr Wood. Is there anything else you would like to say before we adjourn for a short lunch break?

Mr Wood—Just wish us luck, I think. We find now that this project has a life of its own. When you go into Broome or Derby you are immediately confronted with placards. Fran Bailey, who flew over the site, saw written into the mud by a grader, 'Derby supports tidal power.' That community feeling is really I think at the heart of what your committee's inquiry is all about. It is looking at a competition policy which seems to be giving the wrong answer as far as the local community is concerned, and they just cannot understand it.

Senator MURRAY—It might be that the minister is not carrying out the dictates of competition policy.

Mr Wood—It may well be, yes.

ACTING CHAIR—We certainly wish you luck, Mr Wood, and if you think that the committee needs more advice from you, or you need to give more evidence to the committee, please feel free to submit it, and it will be considered.

Mr Wood—Thank you very much.

Proceedings suspended from 12.47 p.m. to 1.16 p.m.

CHAIR—I welcome everyone to this public hearing of the Senate Select Committee on the Socioeconomic Consequences of the National Competition Policy. The terms of reference as agreed by the Senate require the committee to inquire into and report on national competition policy, including (a) its socioeconomic consequences, including benefits and costs to unemployment, working conditions, social welfare, equity, social dislocation and environment; (b) its impact on urban and rural and regional communities; (c) its relationship with other microeconomic reform policies; and (d) clarification of the definition of public interest. The committee is required to present its report on or by the last sitting day of December 1999.

Before we commence taking evidence, let me place on the record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence which is given before it. Parliamentary privilege, for those who have not appeared before a committee before, means special rights and immunities attached to parliament or its members and others necessary for the discharge of the functions of the parliament without obstruction and without fear of prosecution. Any act by any person which operates to the disadvantage of a witness on account of evidence given by him or her before a Senate committee or any other committee of the Senate is treated as a breach of privilege and so you are accordingly protected.

[1.17 p.m.]

GILL, Dr James Ian, Managing Director, Water Corporation

WERNER, Mr Lloyd Glyndon, Manager, Pricing and Agreements, Water Corporation

WILLIAMS, Mr Peter Bernard, General Manager, Commercial, Water Corporation

CHAIR—Welcome. We do prefer all evidence to the committee to be given in public, but should you at any stage wish to give part of your evidence or answers to specific questions in private you may apply to do so and the committee will consider your request. I now invite you to make a brief opening statement and at the conclusion of your remarks I will invite committee members to ask you questions.

Dr Gill—Thank you, Chairman. We were keen to meet with you today, because we read the *Hansard* of your meeting on 17 August at which you were addressed by some representatives of Goldfields Utilities Ltd and we felt that their comments were incorrect and perhaps somewhat misleading, and we were anxious to come here and put the situation as we see it. I would like to start by linking our statement to National Competition Policy. Under National Competition Policy, in fact, the water industry in this state was restructured. A lot of work was done in 1995 resulting, from January 1996, in the separation out of roles which had hitherto all been under the same organisation called the Water Authority of Western Australia. The roles that have now been separated out are, firstly, the commercial role and that is the Water Corporation. That is our organisation's role.

Secondly, there is a separate body called the Water and Rivers Commission, which manages water and the environment and provides allocations to would-be users of it. Thirdly, there is an economic regulator, the Office of Water Regulation, which grants licences and advises the minister. The Water Corporation is, therefore, very much a private company. It is governed by a board of directors who act under the Corporations Law and are individually liable for the performance or otherwise of the corporation. It is not an instrument of government social or economic policy. The government can influence the corporation and its directions by two mechanisms. One is direct subsidies for tasks we perform or services we provide. The second is by explicit direction and there is a formal procedure for those directions. They must be tabled in parliament and they occur rather rarely.

So we are completely independent of any role of being a social or economic instrument of government. It is important to make that clear, because the implications of the statements of the representatives of Goldfields Utilities Ltd were that we were a government funded body, coming in and being anticompetitive, effectively, trying to exclude others from looking at alternative options for supplying water, in this case to the goldfields region of Western Australia. Our position was never—and was never intended to be—anticompetitive. In fact, our position is that all options ought to be looked at. It is an important region of the state. We are the existing water supplier. In fact, we supply something like a quarter of the water to that area because a lot of it comes from hypersaline underground sources and it is six times as salty as sea water. The area has expanding future water demands and we believe that all options ought to be looked at.

We would contend that it is they in fact who were attempting to prevent competition. They were making strong representations to members of Western Australia's cabinet endeavouring to obtain an exclusive mandate to examine options for water supply to the Goldfields for a period of time—six months, perhaps up to 18 months or two years; that was not clear. They were endeavouring to obtain this exclusive mandate and to have us prevented from proceeding with some feasibility studies, which we in fact had mooted before they entered the scene. So, in other words, we were in favour of all options being studied and examined and may the best win, and we were quite against exclusive mandates being provided to any particular party. We were pro-competition, if you like, and we saw them as being against it.

There was certainly no intention that anything we came up with would require government subsidy. In fact, we would not necessarily be the financier or the sole financier behind it. We would bring in private equity to that. Our study began about two years ago when there was a bit of a water crisis in Kalgoorlie. Demand shot up far higher than it could have been predicted. We had done some good work in the Kwinana industrial zone south of Perth in terms of studying customers' demands, looking at demands for different qualities of water, from better than potable water standards right through to waste water effluent, and trying to optimise flows of water in that region. We applied the same philosophy to Kalgoorlie starting two years ago and it was that initiative—Kalgoorlie Water Link, we called it—that led to an increase in interest by other parties, including GUL representatives, in looking at different options. So that is the background to it.

Our position, resulting from National Competition Policy or the implementation of it here, is that we are independent of government in our agendas and financing and so on, and the framework is open for others to compete. What we are arguing really is that that framework should be allowed to operate unfettered, that all parties should be allowed to compete and that there should be no exclusive mandates, especially not exclusive mandates awarded without competitive processes leading to them. Perhaps that is sufficient for an opening statement.

CHAIR—Do either of the other gentlemen want to say anything?

Mr Williams—I will add that the water industry in Western Australia operates under a licensing regime by the Office of Water Regulation, which Dr Gill has mentioned, and to date 30 licences have been issued by the Office of Water Regulation to parties other than the Water Corporation. The Water Corporation has one licence and 29 have been issued. That covers both water and waste water services throughout the state.

Senator LIGHTFOOT—Dr Gill, you said you felt the comments made effectively under parliamentary privilege by two people from GUL were misleading and somewhat incorrect. What were those comments? A precis will do.

Dr Gill—Particularly the comments that we were endeavouring to prevent competition; that we were a government owned, government supported organisation, going in there and—

Senator LIGHTFOOT—You are not suggesting you are not, are you?

Dr Gill—We are certainly government owned but, as I explained, we are not government supported, unless there is a specific subsidy to us. In this case there was never any suggestion of an explicit subsidy to the Water Corporation to get us to go in there and, by dint of some advantage of government ownership, wipe out any likely competition. That was never intended at all.

Senator LIGHTFOOT—But there is a subsidy, quite a heavy subsidy, on the Mundaring pipeline.

Dr Gill—There is a very heavy subsidy to rural water supplies.

Senator LIGHTFOOT—Yes. Who subsidises that?

Dr Gill—It is the state government, certainly.

Senator LIGHTFOOT—Is that subsidy paid into the Water Corporation?

Dr Gill—Yes.

Senator LIGHTFOOT—So in effect the government does subsidise the Water Corporation.

Dr Gill—It subsidises specified rural tasks, yes, but this particular project, if it comes to pass, would have to stand on its own two feet.

Senator LIGHTFOOT—Do you mean the Esperance proposal?

Dr Gill—An Esperance to Kalgoorlie seawater pipeline, which is what we were proposing, would have to stand on its own two feet. We would not necessarily own all of it. We might not own any of it, I suppose, in the end. But the intention was that it be purely a commercial venture, ring-fenced and not subsidised.

Senator LIGHTFOOT—What sort of subsidy is paid, in fractional terms, for the consumers of water in Kalgoorlie; not necessarily the mines that consume large quantities and pay a large amount of money for that pleasure?

Mr Werner—The cost of providing water is of the order of \$3.80—\$4 per kilolitre.

Senator LIGHTFOOT—Yes.

Mr Werner—The residential customers in Kalgoorlie pay the same price as the people in Perth for most of their water.

Dr Gill—So they would typically be paying 70c or 80c—that kind of thing—per kilolitre.

Mr Werner—It starts off at 30-something cents, and then moves up from there, so for their initial consumption they are very heavily subsidised and then the subsidy drops off as

consumption grows. So it really depends on what they pay. The small mining companies who pay the by-law charge—not the large mining companies—pay in the order of \$1.40 or something for that water. If they use less than 50 kilolitres a day, they are very heavily subsidised for their water supply.

Senator LIGHTFOOT—So the consumer in Kalgoorlie is subsidised.

Mr Werner—Yes.

Senator LIGHTFOOT—The farmers along the way on the pipeline are subsidised. The mining companies, both major and smaller, are subsidised.

Mr Werner—No, the major mining companies, the ones that use more than 50 kilolitres a day, and industrial customers who use more than 50 kilolitres a day, are not subsidised for their water supply anywhere in Western Australia. We calculate the cost of providing the service to a particular location and the charges are based on those costs.

Senator LIGHTFOOT—And what do you call the pipeline? Has that been written off in terms of costs or does your cost include the cost of the pipeline and the maintenance of the pipeline as well?

Mr Werner—The cost of the pipeline is taken into account by looking at the cost of augmentation, so we are not looking at what it costs to put the existing pipeline in, it is the cost of upgrading pump stations, duplicating sections of pipe so we can get more water along there, and that is what the charge is based on.

Senator LIGHTFOOT—And you have contingencies set aside from the cost of selling the water that is used to replace pumps, upgrade pumps, repair pipes and so on, or do you look to government—

Mr Werner—No, for the large customers their charge pays for their contribution for upgrading the pipeline. The charges are also for a specific period of time, normally 45 years, so the actual eventual replacement does not need to be built into their charges. They pay a capital charge up-front for a 45-year water supply.

Senator LIGHTFOOT—So that capital charge up-front is for headworks?

Mr Werner—It is sometimes called headworks but it is essentially for providing the capacity to deliver whatever volume of water per day that they—

Senator LIGHTFOOT—Is that ever reimbursed, the headworks costs?

Mr Werner—In the past it was not. The policy now is that it is a water entitlement and it can be transferred from one operation to another operation, so there is not a sense that if a mine closes down they lose that.

Senator LIGHTFOOT—How long ago was that fairly significant decision made?

Mr Werner—It basically was associated with the BHP-DRI plant.

Senator LIGHTFOOT—Do you mean the one in the Pilbara?

Mr Werner—In the Pilbara. They had significant water entitlements that they wanted to move from a couple of their operations there that were spare capacity.

Senator LIGHTFOOT—You have used that same principle in the goldfields, have you, on the Mundaring pipeline?

Mr Werner—We do use that, yes.

Senator LIGHTFOOT—You do use that. How long ago was it that you did that?

Mr Werner—It is the same period of time that it is dated from.

Senator LIGHTFOOT—Three, four, five years?

Mr Werner—It would be five years, probably, yes.

Senator LIGHTFOOT—With the proposal to take a pipeline from Esperance to Kalgoorlie and beyond, how far does ‘beyond’ go? Is it proposed to go to Anaconda, up in that area?

Mr Williams—It depends very much on the type of water that is going to be delivered.

Senator LIGHTFOOT—You mean whether it is potable or salt?

Mr Williams—Whether it is potable or whether it is seawater or a combination or somewhere in between, and therefore that depends on the market. The feasibility work that we did on the seawater pipeline in conjunction with industry indicated that there was sufficient market in Kalgoorlie to justify a pipeline to Kalgoorlie only.

Senator LIGHTFOOT—Was that a salt water or seawater or potable?

Mr Williams—Seawater, because what they are looking at is replacing the hypersaline water. In other words, they are not looking to substitute the potable water that we may supply them from Mundaring through the goldfields system but they are looking to replace their hypersaline water sources which have a life of approximately 20 to 30 years, depending on where they are located. So seawater for them in terms of their process is actually more environmentally sound for them rather than the hypersaline water. We believe there is sufficient market in Kalgoorlie to support a pipeline there. What that would then allow is augmentation, different spots for small desalinated units to come in and either augment towns or Kalgoorlie, if we needed to, for peak supplies. So it gives the best of all worlds.

If the customers decided that they wanted desalinated water and they were prepared to pay, then you could certainly desalinate it at Esperance if the resources and infrastructure were available. Certainly with the work we have done in the northern goldfields, where there

is significant hypersaline water already being extracted, and the potential upgrades of some of the major nickel mines, then there will be a significant volume of new water required. Again the question comes down as to the quality of water that is needed for the nickel processors, and each of the nickel processors has slightly different water requirements. The goldminers are quite happy with the lower quality water and do not necessarily want to pay a premium for high-class water for their process operations, so there are a number of combinations.

We have also looked at a pre-feasibility study to bring water from the sea at Geraldton and some of the other sources that are possible there across to the northern goldfields. At the present moment we have got a fair idea of how water could be supplied but at the end of the day they are industrial customers and the demand in the market will very much depend on their appetite for buying water at a certain price as an alternative to pulling hypersaline water out of their existing water sources.

Senator LIGHTFOOT—That is from the paleo-channels?

Mr Williams—From the paleo-channels.

Senator LIGHTFOOT—What of the cost, using, say, half a billion dollars, to take a seawater or a potable water pipeline there? Where does that half a billion dollars come from? Does that come out of central revenue? Is that a loan from the government? Do you raise that raising your water tariffs throughout the state? How do you raise a significant amount of money like that? Do you take it on the international money market, for instance?

Mr Williams—Our initial indications and the work that we did on the pre-feasibility study for the seawater pipeline from Esperance to Kalgoorlie was on the basis of third-party debt and third-party equity. The capital cost is in the order of \$150 million to \$170 million, because it is essentially a pipeline. The market and the price that ultimately is paid by the customers would have determined the way we could finance that but we were looking at third party equity and third party debt essentially to fund it.

Senator LIGHTFOOT—And government guarantee?

Mr Williams—That was not contemplated.

Senator LIGHTFOOT—If that was not contemplated, being a wholly owned government subsidiary, notwithstanding it is corporatised, the government is in effect guaranteeing it, notwithstanding if it is formal or not. Is that correct?

Mr Williams—No. We have not progressed it at this stage but we considered that it would be an initiative of the private sector and we certainly might put some equity in, as any other equity investor may well do, and it would be ring-fenced from the rest of the operations.

Senator LIGHTFOOT—So the initiative would not be one of a complete government or the Water Corporation initiative; it would be something that you would contribute to rather than initiate?

Mr Williams—Yes, that was the way we saw it. We have long-term expertise in transportation of water over long distances, being able to optimise pumping and pipe sizes, being able to operate and maintain systems, because we are actually in the area, and being able to manage the customer network and distribution requirements, so we see ourselves as having services to offer to the private sector in that regard. With Water Link, the industry indicated an appetite for seawater versus desalination, and we were prepared to help facilitate that but we were not prepared to fund the feasibility study ourselves, on our own. We had actually the parties, three mining companies, who were prepared to contribute to a detailed feasibility study in order to see if this would be viable.

Senator LIGHTFOOT—Given the concern that is raised in Western Australia about the salt problem we have, particularly in the wheat belt of Western Australia, how do you propose to get the environmentalists to sign off on this? It seems to me to be something of a dichotomy, where you have one group of Western Australians trying to get rid of salt and you are going to bring salt water back in.

Dr Gill—Certainly some of the mining company technical people have had things to say about this. The biggest danger in Western Australia is salt coming from underground to the surface. That is what has caused the salinity problems throughout the wheat belt, and the devastation. First of all, the goldfields is not actually a particularly salt affected area. It has always had salt there, salt lakes and so on, but it is not a major, growing problem. But the greatest amount of salt associated with the water supply is in fact the exploitation of these hypersaline channels, because they are typically six times as salty. You are bringing this stuff from underground and it ends up on the surface. It may end up in tailings dams and therefore somewhat encapsulated, but for a given volume of water you end up with a lot more salt to get rid of from hypersaline sources than you would from seawater.

Senator LIGHTFOOT—But, Dr Gill, you propose to emulate that, albeit with a lower grade of salt. Isn't that fair comment?

Dr Gill—Yes. Well, the mining industry is going to do it anyway. The mining industry is going to be bringing salt to the surface and as long as it is managed responsibly—as it can be and would be—there is no greater problem with seawater.

Senator LIGHTFOOT—Are you aware of some credibility given to the hypothesis—I suppose I could put it that way; it is certainly not a scientific fact—that the reduction in the level of the fossil seawater, hypersaline or supersaline paleo-channels is in turn being filled with potable underground water—that is, that the underground water in some of the basins or a basin? I am not sure whether there is one or several of them. From Wiluna down to, say, Sandstone across to Leonora has been lowered, and there does not appear to be a scientific reason why that should be lowered, except to say that it may have found its way down into the vacuum created by the reduction of the paleo-channels, which I understand also is running very short of the coverable paleo-channelled water.

Mr Williams—No. The three of us are not aware of that particular detail.

Dr Gill—It is plausible, it deserves investigation, but we had not been aware of that. I guess if there is some truth behind that, then I guess that lends weight to the argument to bring in alternative sources.

Senator LIGHTFOOT—Just let me ask one more question, not because I am running out of things to ask—it is an exceedingly interesting subject—but I have got to defer to my colleagues who are very interested in the subject as well. With the proposed pipeline—and I am talking National Competition Policy here—is it possible that you would bring the pipeline along the government owned easement that exists now with the railway? By doing that would that necessarily lock out any competition who had to find an easement through the vagaries of crown land, station country, Aboriginal lease land, private sector land, conditional purchase land and so on—so that you would not have those hurdles to jump?

Dr Gill—It is not possible that we could, by using the railway reserve, lock out anybody else. In fact, the railway reserves are quite wide. They were built for the days of steam locomotives when big areas had to be cleared to stop the bush from catching on fire from sparks, so there is actually a great deal of land in those.

Senator LIGHTFOOT—So you are saying that is your preferred route but there is also plenty of room there for other pipelines? Is that what you are saying?

Mr Williams—At this stage the work that we have done is on a pre-feasibility basis. We were not actually looking at a lot of specific feasibility work about location, route, a lot of the detailed environmental work which would be covered in a full feasibility study. What we were interested in at the time, because the mining community indicated that they would like to look at the viability of alternative water sources, was a very quick assessment of how long the pipeline was likely to be, what size was it likely to be, what combination of pumps, what were the power requirements, and we could put an order of magnitude of cost on that. We could then work out various demand scenarios and put a unit price for water. The work that we had done in conjunction with industry was really at a pre-feasibility stage. The next stage was to actually do the detailed feasibility study when those sort of things would have been looked at in some detail.

Senator LIGHTFOOT—Dr Gill and gentlemen, thank you.

Senator MURRAY—Dr Gill, have you met Mr Daws and Mr Thomson?

Dr Gill—Yes, I have.

Senator MURRAY—When you established that you differed from their views on this matter did you write to them and illustrate in what way you disagreed and what your views were, or did the corporation do so?

Dr Gill—I do not believe we wrote to them. Certainly we have spoken with them. Peter, perhaps you can elaborate on that.

Mr Williams—Do you mean after the *Hansard* was produced?

Senator MURRAY—Yes.

Mr Williams—Yes, we did through our lawyers write to them and indicate to them that what they had indicated, as reported in the *Hansard*, was not correct and we left it at that.

Senator MURRAY—Why didn't you write to them first? Why did you go straight to the lawyers?

Mr Williams—We have had many discussions with the two gentlemen concerned at various ministerial meetings, various meetings within the corporation, various meetings with the chairman. We have on all occasions pointed out our thoughts, our indications, to help where we can. We have indicated information pertaining to how we might be able to assist them, at what price we might be able to buy water. They continued, in various public forums, to use information that is not correct and misrepresents the position. We have had many occasions where we have done that and basically indicated to them that they have not been correct. We find that they persist.

Senator MURRAY—All these many occasions: are they recorded in writing at all?

Mr Williams—There are several letters on file. Way back, 18 months ago, we said that in one of their first information memorandums the information they had put about the Water Corporation was incorrect. That is one of the letters that we did send to them some 18 months ago. I am not aware that minutes were taken of various other meetings.

Senator MURRAY—You would expect that these committees quite often have witnesses who contest arguments. You only have to have an industrial relations hearing and hear from employers or unions and you get that experience. But it is very unusual for one witness to send a lawyer's letter to another. Did your lawyer advise you of the potentiality for being in contempt of the Senate?

Mr Williams—The letter was drafted by the lawyers on the basis that parliamentary privilege was certainly available to the members that had been speaking before it.

Senator MURRAY—But did they indicate that the course of action you were taking could still result in you being in contempt of the Senate?

Mr Williams—No.

Senator MURRAY—You might need to have a conversation with your lawyers. Are you aware that any action taken against a witness may be treated as a contempt of the Senate if the Senate considers that the witness's evidence is the real target of the action? In other words, regardless of something that is subsequently said outside of parliamentary privilege, if the two are so obviously linked you could be in contempt of the Senate.

Mr Werner—The answer is no.

CHAIR—Can I come in on that, now that that line of questioning has started, and supply you gentlemen with some correspondence here. You might want to take a minute or

two to have a look at it. There should be another copy here somewhere. There are three gentlemen here. I do not know whether it affects all three of you. Just take a minute to have a look at that now that Senator Murray has started this. I have some duties, as chair of this committee, in respect to this—

Senator MURRAY—That is why I deferred to you and then you gave me—

CHAIR—You don't mind?

Senator MURRAY—I had deferred to you earlier.

CHAIR—So have a look at this. There are three pieces of correspondence here. One is a letter to the secretary of this committee, Mr Nugent, from Harry Evans in respect to parliamentary privilege, which you would be wise to send to your lawyers.

Senator MURRAY—Mr Evans is the Clerk of the Senate.

CHAIR—The other one is a letter from your solicitors to witnesses before this committee and, the other one is a letter from Goldfields Utilities Ltd in respect of how they referred the matter to us. In fact, we will formally table this correspondence if other senators agree with that.

Senator MURRAY—Agreed.

CHAIR—Can we proceed?

Dr Gill—Yes.

CHAIR—There are a number of issues about this. The obvious one is the legal letter that has come from Freehill Hollingdale and Page to Goldfields Utilities. I suppose the first question I ought to ask you is: are you satisfied here so far this afternoon that you have been able to put your side of the case to the committee?

Dr Gill—Yes.

CHAIR—So you are satisfied with the evidence you have given. If there are any issues you believe have not been addressed then you realise you can send written submissions to the committee after this day? Because I want to make it crystal clear that this sort of activity of getting the lawyer onto the case is something that I take very seriously—I think Senator Murray does as well and I am sure Senator Lightfoot and every other senator does. In here is an implied threat to these people because of evidence that they gave to this committee and I think where it is concerned it is probably already a matter of a breach of privilege.

It may well be wise for you to have a look and in fact to take legal advice on that point. I will not be, at this stage, proceeding myself to refer it to a privileges committee, but I am only one of 76 senators. There are others who could take a very different view of this. This was an exercise that may well have come out of frustration you have with these people, but I am not going to have witnesses threatened before a committee which I chair, and this is a

direct threat. Now let us just deal with a few of these things here. You employed these solicitors. These are your normal solicitors. Is that right?

Dr Gill—Yes.

CHAIR—Whose decision was it to do that? Who decided to call in the solicitors?

Dr Gill—It was ours jointly.

CHAIR—Did you take it to the board?

Dr Gill—No.

CHAIR—Did you take it to your minister? Because I know you are telling me you are a public corporation that has a board, but you must have a minister who is responsible for this, somebody who is a shareholder in this organisation.

Dr Gill—No, we did not.

CHAIR—Does your minister know about this?

Dr Gill—He certainly did not know about it at the time it was happening.

CHAIR—So you two made this decision on your own. You called in the lawyers. What did it cost you to get these people to look at it, do you know?

Dr Gill—No, I do not.

CHAIR—I would not mind that being taken on notice. I would like to know how much this was.

Dr Gill—They are our solicitors, so they do a great deal of work for us on a number of fronts, including contract matters.

CHAIR—Presumably you put them on a retainer. Was this the result of the retainer or was this a specific project that they would bill you for?

Mr Williams—It is probably a specific project they would bill us for because we asked them to have a look at *Hansard* in regard to the comments made and to give us advice in that regard.

CHAIR—I must say you have probably done your dough, if that is the case. I would like to know how much it is, because any solicitor who writes a letter like this could themselves be here for contempt. I must say I was very pleased to hear that you were coming here today, because it saved me the trouble of going around to get a subpoena and calling the committee together. I was actually thinking seriously of getting hold of the lawyers as well and advising the Legal Services Commission over here, because anyone with any legal understanding would understand how parliamentary privilege works. Quite frankly,

I think these people here have given you very bad advice in sending the letter to this individual.

If you had all these other occasions, I suppose you could have gone down this road there, but I would also suggest to you—not now as the chair of this committee but as just an ordinary citizen—that people take a very dim view of public corporations or any corporation going around using their muscle to lean on individuals. Sometimes you have to cop what is said out there in the public domain or do what you have done here today; that is, come in here and make sure that you have your side of the case. That is why I asked you, before I started all this, whether you were satisfied that you got your side of the case over and you understand that there are ways in which you can in fact deal with that.

For the sake of these proceedings here this afternoon it is probably appropriate for me to go over to you in a minute and you can have your side of this, or I suppose you can reserve your options if you want to. But it needs to be made clear that if there is any furtherance of these sorts of actions I will take a very different view and I am sure the other 75 senators would have that view. I will go over to you.

Dr Gill—If I may, Chairman, I would just like to say that we very much regret this situation and we will certainly be discussing it with our solicitors and taking it up with them immediately. It certainly was not a situation that we had intended.

Senator MURRAY—Just for the record, I had deliberately deferred to you because I thought we should get this out of the way.

CHAIR—That is fine.

Senator MURRAY—Then when you gave it back to me I thought I would lead it in.

Dr Gill—Thank you for that.

Senator MURRAY—If we can return to the substantive issue: at the heart of the opportunities for the Kalgoorlie goldfields area, because of the existing infrastructure, is the opportunity to establish one of the few real possible inland industrial sites in Australia. That can happen because there are infrastructures there, including good skills—there are very many trained and capable people there—and, of course, the provision of cheap power. The missing ingredient is indeed water, and therefore the competitive opportunities which are offered by you and anybody else who might wish to provide water are key. I think at the heart of government policy, both under the previous government and this government, was the view that as far as possible, in issues of competition, competitive neutrality should prevail. In other words, all things being equal, it is above board and there are no hidden subsidies and hidden support mechanisms which can and do apply with government's own instrumentalities or utilities.

That is a fairly long lead-in but the question is this: do you think you are able to satisfy the committee that your proposals, your feasibilities, generally do stand on their own; that there is no real cross-subsidisation, apart from the natural ones, because you already have your own infrastructure? You have your head office and your resources and your backup and

so on. Is it your evidence to us that there is a genuine level playing field between yourselves and any private sector people who may wish to compete for the provision of potable or industrial standard water in that part of the world?

Dr Gill—Yes, it certainly is. Our preliminary feasibility studies indicated, on the basis of surveys of the customers, that our proposal was potentially viable and that would have been further confirmed by subsequent feasibility studies which have not proceeded but to which major customers were intending to contribute. It most certainly would not have gone ahead if it had not been entirely commercially viable on its own. Our board would have insisted on that. Any public accountability measures, including the Auditor-General, would scrutinise those sorts of arrangements. If it was not going to stand up commercially then as far as we are concerned it would not have happened. It would not have been competitive and would not have happened.

Senator MURRAY—Explain to me how the tender process would operate. Would it be a goldfields authority of some kind, either the regional development authority or the local government people, or would it be the state government who would control the tender process?

Dr Gill—I am sorry, a tender process?

Senator MURRAY—Maybe I do not understand enough about it, but let us assume that the local government authority in conjunction with a regional development authority and the state government believe that it is appropriate to try and bring in water to encourage development to the area. Once that happens you have to have a situation where you get tendering under way. Who manages the tender process? Is it the people in Kalgoorlie or is it the state government?

Dr Gill—If it was a situation as you have described whereby various government organisations had decided to call expressions of interest for an additional water supply of certain quality to the goldfields, that would be done by different government departments, probably including the Office of Water Regulation, which is the independent regulator. We would find ourselves, under that scenario, in the situation of a bidder against any other bidder. If we were to get the job, or our consortium were to get the job, then there would be another competitive process to provide the infrastructure.

Senator MURRAY—I want to put this into context for you so you understand why I have asked the question the way I have. Behind National Competition Policy is the view that tendering processes should be independent, objective and properly evaluated against a number of criteria, economic, social and environmental. An earlier witness on the Derby Tidal Power project had indicated that the tendering process was not of that kind; namely, that the persons who managed the tendering process were in fact people who were also involved in administering or interacting with the coal and natural gas power organisations, they were bureaucrats who dealt with other forms of power, and you also had a minister whose prime responsibilities are fossil fuel power stations and, although he has renewable energy under his portfolio, you can see where most of his experience and so on would have been.

Really the context in which I ask this is in the process of evaluating the viability of, say, private sector people such as Messrs Daws and Thomson or you or whoever else might bid to provide potable water to that region. Would the people who make the decision be independent of the Water Corporation or of the bureaucracy which deals with the Water Corporation?

Dr Gill—It is a bit of a hypothetical situation but I think in this case the government had not put in place a mechanism; it was a question of a number of different groups, gold being one and our own potential consortium being another, and possibly others, actually looking at the feasibility of something. It would ultimately, from our point of view, have been a decision of the customers in the area. If the market was there, if our project was the most attractive, then we would have built it, given certain customer commitments. There was not necessarily government involved. There was no subsidy involved in this; therefore there did not need to be a—

Senator MURRAY—But surely the customers would or should under National Competition Policy have the option of taking from a private provider if they wished, if the price was better or if the service was better.

Mr Williams—That is entirely correct. This is processed water that we are talking about that the companies self-source and self-pump. The Water Corporation supplies less than 25 per cent of the water that goes into the Kalgoorlie region. The rest the individual mining companies do themselves. When they want to pool their water sources, their water infrastructure is a matter for them. They can make decisions about who they buy that water from, where they actually extract it from and whether they want to get it from the sea, et cetera. That would be entirely their prerogative. It is a question of whether they then are willing to underwrite the costs for a third party to provide it.

All we were looking at was the ability to look at alternatives. The industry had asked us to look at alternatives to the hypersaline water. It was an industry decision. Whether the industry themselves wanted to run a tender—like any major resource company who comes up and sets out its resource project, it invites tenders from the private sector for the construction of their plant or the construction of their haul roads or the construction of their mine or whatever. Water would have been no different.

Senator MURRAY—Would you allow access to your infrastructure? This is an issue, for instance, that departments have to deal with through telecommunications, as you know, to allow other carriers access to the national carrier.

Mr Williams—We have a strong track record in assisting in the development of industry through an access pricing regime on our infrastructure.

Senator MURRAY—So if they decided to do it through a private bidder because the price was better, you would allow access obviously on commercial rates through your system.

Dr Gill—Definitely.

Senator MURRAY—I assume you are supportive, in the decision making process, of any process which is independent, objective and arms length.

Dr Gill—Yes, completely supportive.

CHAIR—Let me just get a feel for how you set things up over here in Western Australia. You people are responsible for the general distribution of water down the pipeline to Kalgoorlie. You look after the reservoirs here in Perth?

Dr Gill—Yes.

CHAIR—That comes under your auspices.

Dr Gill—That is right.

CHAIR—Do you worry about waste disposal of water?

Dr Gill—Yes, we do.

CHAIR—So that is your thing as well.

Mr Williams—No, in Kalgoorlie the Waste Disposal West distribution system is run by the City of Kalgoorlie.

CHAIR—Right.

Mr Williams—As I mentioned earlier, the Office of Water Regulation has issued 30 licences to people providing water and waste water services. They depend very much on geographical situations, et cetera. We are not the exclusive provider.

CHAIR—So how does this process work? Say in one of the towns—Broome or one of the other places that I have never been to—there is a contract out for the supply of water for a town or something like that. Is that then determined by government as to who gets the licence to provide the water there? How is it done?

Mr Williams—We have operating areas under our licence. Outside of the operating areas the Office of Water Regulation can call for expressions of interest, and they have done so. Dalyellup, which is south of Bunbury, is not in our licence area, nor is it in the Bunbury Water Board's licence area. AQWEST, which is the name of their company, runs the water services for Bunbury. We run the waste water services. Dalyellup is a new subdivision south of that and the Office of Water Regulation encouraged the developers to call for tenders and evaluated and selected the preferred tender. That has happened in a number of other areas around the state. So there is a process within the various acts that control water in this state to allow that to happen.

CHAIR—So you have a licence to provide water presumably to the Perth metropolitan area and those surrounding districts, and that is yours in perpetuity, no-one else can come in and compete with that?

Mr Williams—Our operating licence is for 25 years in those areas. Under that licence there are provisions for excision so that the minister, based on advice of the coordinator—which is independent of the Water Corporation—can excise those areas out. It is interesting to note that the Water Corporation actually supplies less than half the water that is used in Perth. The rest of it is self-sourced and self-supplied by industry or householders and that is nothing to do with the Water Corporation. Our licence is for potable water and obviously the distribution systems we have there, because we are making significant investments in the water industry. All licence holders have the same terms and conditions.

CHAIR—The Perth sewage system is yours as well?

Mr Williams—Perth sewerage is.

CHAIR—Thank you very much, gentlemen. We have to move on. If there are any issues you have not raised here, please feel free to write to us. Do it before the last sitting day in December because that is when we are all getting off this committee and going off for Christmas.

Dr Gill—Thank you for your advice on the issue of contempt, Chairman. It certainly is not a situation that we intended and it is a situation we regret.

CHAIR—Thank you very much.

[2.12 p.m.]

EISZELE, Mr David Russell, Managing Director, Western Power Corporation

NINKOV, Mr Nenad, General Manager, Corporate Strategy, Western Power Corporation

CHAIR—I now welcome Mr David Eiszele and Mr Nenad Ninkov. We do prefer all evidence to be given in public but should you at any stage wish to give part of your evidence or answers to specific questions in private, you may apply to do so and the committee will consider your request. I now invite you to make a brief opening statement and at the conclusion of your remarks I will invite committee members to ask you questions.

Mr Eiszele—Thank you, Senator Quirke. I had come prepared to give an overhead presentation. What I suggest is that I just give you these brief copies. They are in overhead form. I think I can save a lot of time by just—

Senator MURRAY—I move that they be accepted by the committee.

CHAIR—Thank you, Senator Murray. Is that seconded?

Senator LIGHTFOOT—Yes.

CHAIR—There being no opposition, the documents are accepted.

Mr Eiszele—Thank you. I quickly want to give an overview of the company and touch mainly on Regional Power business because that is the one that is mostly impacted by community obligations in the state. I will talk about open access, where we have got to in respect of the wires business having open access, CSOs as they apply to Western Power, and the impact on competition. The first overhead is just a few facts and figures about the company. We are an integrated utility. We are a generator, transmitter and retailer of electricity. We have about 2,700 people. We cover the whole state of Western Australia, with a bit over 3,000 megawatts of installed capacity. We are corporatised and government owned. We pay tax equivalent payments and dividends to the government. Under our legislation we are required to act in a commercial way and to continue to maximise the value of the business to the owner.

Senator MURRAY—Just in market share terms, what percentage of Australia's national production is your megawatt production?

Mr Eiszele—The national is close to 50,000 so we are three-fifths—what is that?—six per cent? We are not big operators on the Australian scene.

CHAIR—So you produce, what, 3,000 megawatts?

Mr Eiszele—A bit over 3,000 megawatts. Our largest unit is the Collie unit that has just been installed. That is 300 megawatts. The next units down below that are 200 megawatts.

Senator MURRAY—Can you explain to me why it would be that Western Australia's market share is so much lower? On average Western Australia is a 10 per cent state; pretty well it has 10 per cent of most things.

Mr Eiszele—I think the next slide will probably show you. In Western Australia we only supply 60 per cent of the electricity generated in the state. The rest is provided by a private means. Some of that is sold to the market as IPPs and some of it for their own use. Alcoa, Worsley, the mining companies in the Pilbara, they build their own power plants on their facilities for their own purposes. That is why it is a little bit lower.

Senator MURRAY—And is that typical of the other states?

Mr Eiszele—There is a little bit in Victoria with Alcoa, with the Mount Henry aluminium smelter power station, and some parts of Queensland but, no, I think we are probably a little bit different to the other states.

Senator MURRAY—So this is atypical?

Mr Eiszele—Yes, mainly because of the way Western Australia has developed to being a resourced based state. When they were building their facilities the government did not have the facilities to support them so they put them in themselves. They are quite happy, I think, with that arrangement. As I just mentioned, 60 per cent is what we supply, 40 per cent is private. There is a map there. I will just take you to the map, Chairman.

CHAIR—Just before you do, what is IPP?

Mr Eiszele—Independent power producers.

CHAIR—Which page do you want us on?

Mr Eiszele—Just the map. The south-west system down here which is coloured in blue is the south-west integrated system. That is where the 3,000 megawatts generally is for our system. There is a small integrated system up there in the Pilbara, coloured green, and all the rest are isolated systems which we call our Regional Power systems. They are the ones which have very small diesel power stations operating for small communities. That is why the Western Australian energy scene is quite different to the other states.

CHAIR—What is the total megawattage of the whole of Western Australia?

Mr Ninkov—About 5½ thousand.

Mr Eiszele—About 5½, yes.

CHAIR—So 10 per cent of the national grid?

Senator LIGHTFOOT—And we are really just below 10 per cent of the population.

CHAIR—We are about eight and a bit per cent of the population and we produce only 1,700 megawatts in South Australia—four per cent.

Mr Eiszle—No, you used to. I think you used to be up in the mid two thousands. The figures you are seeing now have been broken up, but ETSA was about the same size as we were up until a few years ago.

CHAIR—I beg to differ. They produce 1,700 megawatts and they buy in about 350 on the interconnect from Victoria.

Mr Eiszle—My figures might be a bit out of date.

CHAIR—I used to be the shadow minister for this stuff.

Mr Eiszle—The next page is really just to give you an idea of the business unit earnings before interest and tax, amongst the different ring-fenced units. The one at the end in red is a regional which is where we are in a loss-making situation. That is the one which I want to talk about.

CHAIR—That is the CSO stuff?

Mr Eiszle—In our view it should be CSO stuff but it is not. It is not at this stage. Looking at the breakdown of sales into Regional Power, 44 per cent would be domestic customers, 43 per cent commercial and 13 per cent would be supply to government. The next graph gives you an indication that both the domestic and commercial sectors are loss making but we do make a profit on the government sector because government policy agreed many years ago that they would pay cost of supply charges. So there is an N2 tariff for example and government departments are required to pay the full cost.

CHAIR—So what is your charge for a kilowatt here in Perth?

Mr Ninkov—For a domestic customer, 12.75. That is standardised.

Mr Eiszle—It is a uniform tariff.

CHAIR—That is about the national average.

Mr Eiszle—It is high.

Mr Ninkov—It is high but there are peculiar reasons.

CHAIR—But from looking at this, what you are telling me is it costs you about 25c to produce that kilowatt.

Mr Eiszle—This is regional. I have not concentrated on the bulk, which is the switch system. My understanding in preparing for today was to really focus on the regional areas. It is the regional areas where it costs us 24c to 30c to produce a kilowatt of energy. We sell it for around about 13c so there is a substantial loss in our regional areas in the order of \$25

million before financing and tax. I will skip over the initiatives and take you to the Regional Power cost elements.

The element I wanted to bring to your attention here is that when the federal government increased the excise on light fuel oil, that had a substantial impact on us. Twenty-five per cent of our costs is a tax that goes to the federal government for regional areas. That was brought in to bring light fuel oil into line with distillate because, I believe, some pleasure boat operators in Queensland were getting round the system. When that came in that had a significant impact. That added about \$18 million to our costs and for the last four years we have been paying that as an additional tax to the federal government. You can see that it is a substantial part of our total costs.

CHAIR—This is what makes diesel generation dear, is it?

Mr Eiszzele—Diesel generation is dear because of the fuel costs. We were able to do it a bit cheaper because we were using light fuel in those days. When the government put the same excise on light fuel as it did on distillate, it brought it back to the level. Using distillate for fuel generation is very dear. It costs you close to 20c a unit for fuel only, before you even put your power station in and the wires business. We sell it under a uniform tariff across the state for 12½c to 13c. So that is a significant legacy we do have here in Western Australia. That is not always recognised and that is why our prices are a little bit higher. We have to cross-subsidise that out of the metropolitan area. We have the uniform tariff, so that is cross-subsidised back by the main business.

Senator MURRAY—What is O&M?

Mr Eiszzele—Operations and maintenance costs.

Senator LIGHTFOOT—You do not show any power stations at Warburton or Wingellina or Warakun?

Mr Eiszzele—No. Those Aboriginal villages are basically federal government funded and the state government helps maintain them, but we are not involved in those.

Senator LIGHTFOOT—Western Power is not involved?

Mr Eiszzele—No. Going back a few years ago we used to do the operation and maintenance of those facilities.

Senator LIGHTFOOT—But you do not even do that now?

Mr Eiszzele—No, on a contract to the federal government, but it has been two years now since we did that. They went to tender for project management and supply of those services and we were not successful. It is not work that we have got that much expertise in. There are a lot of local smaller companies who do it much better and cheaper than we can.

The next one I was going to touch on was open access, Chairman. The government here are bringing open access to the wires. This is our main high-voltage transmission lines and

the distribution wires which basically access most of the commercial and regional customers. That started in January 1997. It has been a staged process. The big step forward is next January when one-megawatt customers and above are able to choose their source of supply. That will be about 30 per cent of our total revenue or about \$400 million which would be available to competition from 1 January. I say 1 January but negotiations of course have been going on, are in progress now, so leading up to that time.

CHAIR—That is one megawatt over a 12-month period?

Mr Eiszele—That is one megawatt demand at any time. We only have about 120 megawatt customers. A hospital would take three or four megawatts. Some of those multistorey buildings are close to a megawatt. But it is only 120 customers, thirty per cent of our sales. The way that works is that the government publishes the tariffs that apply to anybody using that wires business. So, for example, an IPP in Kalgoorlie knows how much it is going to cost him to use our wire systems to transport his electricity to his customers. To date we have lost one customer, which is the Perth airports. An IPP has won that customer away from us but we are expecting to lose more in this next round.

In respect of community service obligations, the state government provides us with a CSO of about \$33 million. That covers rebates that are provided to pensioners. Our charges consist of a supply charge, which is a fixed charge plus an energy charge. The government policy is that people who are pensioners, who have health certificates, can apply and be exempted under that rebate. So we administer that process but the government refunds that. In respect of the losses in Regional Power, though, Western Power completely covers those losses. There is no subsidy at all from the state government.

From our point of view, our assessment of the competition and impacts on the energy industry, right round the country it certainly has a big impact in driving up the inefficiencies in the utilities and has had substantial benefits in reducing costs right across the country. Customers, I think, are appreciating having a choice of products, services, and certainly having a choice of suppliers. The open access principles we are applying here are that the investment decisions we make have to be on commercial lines. They have to be able to stand the test of meeting hurdle rates like any other investment. The way in which the government has set the prices for open access has been on a cost-reflective basis; in other words, saying what the real cost is of having those facilities in place and what it costs to transport the electricity over them. I will stop there, Chairman, and allow for questions.

Senator MURRAY—Mr Eiszele, one of the core considerations that the committee has had to deal with is that, although competition policy actually requires governments and the National Competition Council to take into account economic and social and environmental considerations—in other words, take a broad view—quite often decisions are taken on a narrow view, just in terms of economic considerations. One of the key issues that your industry has to face is of course the great concern by the Commonwealth government, by state governments, by world governments, about emissions and emission standards, and electricity as a power generation is a major contributor to emissions. Because of your resources and your infrastructure you can in fact take the lead with renewable energy technology and I am aware, I think, you have a facility for solar power in Kalbarri.

Mr Eiszele—Yes—wind farms.

Senator MURRAY—Wind farms down at Esperance and that way and so on.

Mr Eiszele—Yes.

Senator MURRAY—Do you think governments are paying lip service to your environmental effort? In other words, do they look solely at your economics and not really at what you can contribute at the environmental and social level?

Mr Eiszele—Can I answer that in two ways. At the state level the government here has been very supportive indeed of things we have been able to do in the renewable energy area, and they would encourage us to do more. But in taking an approach to putting renewables in, first of all we wanted to get a portfolio of renewables so that we have opportunities to understand how the various technologies do apply, and so do not just put all our eggs in one basket. We have tried to diversify into wind, solar and biomass. We have attempted, though, to put projects in that are close to commercial. We have attempted to always make our investments in areas where we are close to being commercial, and wind is very much one of those. So the state government is very supportive. My board is very supportive.

We are currently investigating a proposed major wind farm for Albany of 20 megawatts, which would be a very big farm compared with the two-megawatt one in Esperance. The board is basically considering that at this stage.

Senator MURRAY—But can I just get you to frame your answer around competition policy. You know that state governments have to review industries and whether competition policy is required for the Competition Council, or at times the Competition Council will initiate stuff. I appreciate that governments have been supportive in those areas but with regard to appraising the fulfilment of competition policy, do they place enough emphasis, if you like, on efforts in that direction, or do you find that in National Competition Policy reviews it is kind of left aside and the sole attention is on price?

Mr Eiszele—In general I would have to say it is the latter. We in the Western Australian energy market have not been subject to substantial review by NCC at this time. What we have put into place here is an open access regime, and it is really only in its early days and it is only just starting to operate. The NCC is basically taking a watching brief. But can I answer your question in another way in respect of the National Competition Policy. My concerns would be about maybe a silo approach to energy policy by the federal government. Let me explain it in this way. What we have is a very strong economic growth in this country. We are talking about a four per cent increase in economic growth which is going to drive population growth and it is going to drive more use of energy. Also we have put in a national market that has driven down the cost of electricity significantly, and made industry and boards very aware of their bottom line performance about putting more investment into those facilities. That, I think, is a danger.

But the other policy approach the federal government is following is in respect of the environment. It is basically saying, say, in the case of mandated renewables, ‘We’re going to make these mandatory on industry. We’re going to put a surcharge on industry to bring

renewables in.’ So my concern is that it is the silo effect of policy that is not being integrated across federal government. We can really shoot ourselves in the foot as a country if we are not very careful about some of these taxes and surcharges that we are putting on industry that are going to impact on the competitiveness of the country. That is my overall comment.

Then if you look at the environment area and look at greenhouse in particular, we were the first company in Western Australia to sign up for the voluntary Greenhouse Challenge Program. That program has developed and has brought five to six million tonnes of CO₂ reduction on a voluntary basis to date for the cost of about \$400 million investment by industry, done voluntarily across the country. Mandated renewables will produce you about the same degree of CO₂ reduction but at a cost of six times that. You are talking about \$3 billion to \$4 billion, and it is mandated, it is being imposed on industry. If we could work much closer together I think we will be able to satisfy those environmental imperatives. We have to reduce greenhouse gases but we have to do it in a cost-effective way.

Senator MURRAY—Behind my questioning is a perception which may be wrong. My perception is that existing power providers with their infrastructural costs bedded in and well distributed across their operations are probably better able to quickly take up the challenge surrounding the greenhouse gas problem, and are able to develop the alternative technologies, including fossil fuel technologies, to assist in that area. If the attention of the NCC and state and federal governments, when they talk about competition, is solely on price, then it is relatively easy for a lean and mean cutthroat competitor to come and knock you about, but that competitor may be paying relatively little attention to renewable energy and the greenhouse gas problem. I think your description of these policy divisions and the silo effect, as you describe them, is helpful because what I am really arguing is that perhaps some leniency is best offered to state power corporations if other policy considerations deserve earlier priority.

Mr Eiszele—Yes, I understand where you are coming from.

Senator MURRAY—I want to know whether you regard that as just an easy cop-out for whoever is the big player—which in this case is you—or whether that has validity as a viewpoint.

Mr Ninkov—It is illuminating to in some ways watch the trends that have occurred on the east coast and I think we have the advantage now in the west of watching, to some degree. As David said, we have two lines of activity in what I would call alternative energies. One is the research side and one is the actual demonstration of projects, and David has talked about those. We have also been active in the research side through our involvement in the CRC for Renewable Energy, and in our investment in a company called Ceramic Fuel Cells in Victoria. We are an investor in Ceramic Fuel Cells and we own about five per cent of the company. It is developing fuel cells based on solid oxide fuel cells. What is interesting is that, when you do get in a cutthroat business, immediately companies will withdraw if they have to fight basically on a commodity basis out of research projects in alternative energy. I think that is basically what is happening in Ceramic Fuel Cells where we have had a dilution of interest in that project where big old power utilities or the new companies that have taken over will not invest any more money in that alternative

technology, even though that is probably one of the leaders in the world in the development of fuel cells.

The applies to the CRC for Renewable Energy as well, where essentially there are only two utilities in Australia in that CRC and most probably only one active member in that CRC. What we have tried to do, and we have had encouragement from our board, is to continue in the alternative energies and spend some money to develop those new technologies. To some degree that is also a protective measure because, if you believe we are going to move to a sort of distributed generation technology type future, then it is also risk initiative for us. So we invest some money in those, where most probably if we fight straight on price we could stop all our investments in all the renewables and alternative energy technologies.

Senator MURRAY—I look at your stats this way: it seems to me—and I would like you to correct me if I am wrong—that in Western Australia 40 per cent of the power provision is private but a hundred per cent just about of the effort on emissions, on greenhouse gases, on renewable technologies, both research and application, is from you.

Mr Eiszele—Yes, I accept that.

Senator MURRAY—And yet it is you, not the private sector, who are under the whip from National Competition Policy. The heart of my question is whether the problem is a matter of insufficient weighting to environmental factors in the public interest test which attaches to evaluation of these things.

Mr Eiszele—It is an extremely hard question to answer. Your statement is completely right in that we do carry a hundred per cent of the effort in the renewables in this state in the electricity sector. When we are competing against the IPPs in the marketplace, we are at a disadvantage to them, not so much because of the renewables—because it is not a big item—but we are penalised by the uniform tariff and the subsidies we have to have from metropolitan to country that IPPs do not have. So we are at a significant disadvantage in the marketplace in competing with those APPs on the burden we carry in respect of CSOs. Under competition policy, the policy is quite clear that those CSOs, or those extra costs, should be identified and separated out. That actually has not happened here yet.

Mr Ninkov—Let me just answer your question another way or just add to the answer. If the federal government and the state government believe that greenhouse emissions reductions are important and are a priority for Australia and Western Australia and they should be given priority in energy policy, then the answer to your question is yes.

Mr Eiszele—Or sufficient weighting.

Mr Ninkov—That is right—then the answer to your question is yes.

ACTING CHAIR—Mr Eiszele, regarding the recent completion of the major power station in Western Australia, the base load coal-fired power station at Collie, in retrospect, while it was not an unnecessary power station, was it unnecessary that it should have been using coal? With the benefit of hindsight, would it have been better to use gas?

Mr Eiszele—No, definitely coal was the right decision.

ACTING CHAIR—Why?

Mr Eiszele—On the basis that when you are designing a power system you basically design it, again, from a cost point of view, from a systems operation point of view and from a strategic point of view. In respect of costs, coal is the cheapest producer of electricity. It is high capital but its fuel is lower cost so coal is still the cheapest producer of electricity. Gas is coming up the stream fast as we are getting a more efficient gas turbine plant. The system is that you need certain types of plant for base load, certain types of plant for immediate load, and some for peaking load. For base load plant, most systems will say, where there is a choice, you go with coal because it is the cheapest and you run it 24 hours a day. For intermediate you get some coal, some gas, and for peaking certainly gas, because you're only bringing it on for a few hours a day and, although your fuel costs are high, that is your cheapest way of producing peaking electricity.

But the fundamental thing that I would look at when we are designing and making decisions of this nature is that you do not put all your eggs in one basket. What you need is a mixture of fuel sources, and depending on the location of power plant—

ACTING CHAIR—Approximating fuel source?

Mr Eiszele—Approximating fuel source for—coal, of course, is the cheapest if you get close. But if you look at the risk to Perth—if Collie, for example, had gone with gas—if 50 per cent of your plant is gas-fired and 50 per cent is coal-fired, what happens if your gas pipeline goes out? If your pipeline is out for a week, at best you can supply what you can from the coal-fired power plant to your load in the south-west. That is what I mean from a strategic point of view: you must look at areas as to how you are going to continue to supply your customers even if you have a major disaster.

ACTING CHAIR—But couldn't the same thing be applied to the base load coal-fired power station that was recently commissioned; that you have too many eggs in the basket down there at Collie?

Mr Eiszele—No, we have got—

ACTING CHAIR—Too many black eggs in the form of coal.

Mr Eiszele—Yes, because the coal is there and that is the cheapest place so you put the power plants surrounding there. What we now actually have is I think 60 per cent of the energy coming from coal and 40 per cent from gas, but when you operate the plant about 70 per cent comes from coal on cost measures.

Senator LIGHTFOOT—Yes. Let me ask you a simple question. The very existence of the Senate select committee is to inquire into National Competition: given that, say, nuclear power is a clean, efficient, cheap source of power—

Mr Eiszele—Given all of that.

Senator LIGHTFOOT—given that Australia is a signatory to the Non-Proliferation Treaty through the International Atomic Energy Agency, if we were to abide by national competition, what is to stop someone like the United States or Canada or France or Sweden or the UK or Japan, who are all expert for decades in running nuclear power plants, applying to put nuclear power plants in Australia based on its efficiencies and the fact that it has very limited greenhouse gas emissions and those other things that I mentioned?

Mr Eiszele—Basically, the things which will stop it is that you need to have, in Australia, the legislation, the regulations in place that would apply to a nuclear power plant. Nobody can actually get a licence to design and install a power plant of any sort without meeting the licence requirements of that particular state and, in my experience—I got involved with this a little bit back in the 1970s—it would be a significant task to actually design and put in place the legislation and regulations to allow nuclear power to operate in this country.

Senator LIGHTFOOT—But wouldn't it be in contravention of the National Competition Policy that a licence should be refused?

Mr Eiszele—I would not have thought so. I would have thought it is back with the individual state governments and, in turn, also the federal government would get involved in regulations of this nature.

Senator LIGHTFOOT—Yes.

Mr Eiszele—It is whether or not you want that type of production in this country and I think governments have got every right to say yes or no.

Senator LIGHTFOOT—I think Senator Murray mentioned earlier when you were not here that there is a process where the federal government can withhold funds to a state, for instance, if it is not complying with the National Competition Policy. I just use the extreme example of nuclear power where it operates efficiently in France—79 per cent, I think, of power is nuclear. Fifty per cent is nuclear in Sweden—

Mr Eiszele—Yes, it is.

Senator LIGHTFOOT—a country which we claim to somewhat emulate here in our social largesse. Britain has had it for nearly 50 years, 19 per cent of America's power is nuclear, and so on.

Mr Eiszele—If I could just add, Senator: I do not have any personal problems with nuclear power if it is installed in the right way, in the right conditions, but what I am saying is that because Australia does not have it at this stage it would be an horrendous task to put the legislation and regulations in place.

Senator LIGHTFOOT—Yes. Well, that was the easy question, Mr Eiszele. I am just going to go on now to, say, Kalgoorlie where there is some competition, we are pleased to see, between a gas-fired power station that is—significantly—owned by Normandy Poseidon,

and Western Power, which has much more of the distribution over the grid in Kalgoorlie. The cost of power in Kalgoorlie is subsidised to domestic users. Is that correct?

Mr Eiszele—The uniform tariff applies right throughout the state.

Senator LIGHTFOOT—Which is another way of saying yes, it is subsidised.

Mr Eiszele—Yes, but no difference to Kalgoorlie as distinct from Broome, Derby, or anybody else. That uniform tariff applies right throughout the state.

Senator LIGHTFOOT—What about Esperance, for instance?

Mr Eiszele—Yes, Esperance gets the same in respect to residential customers.

Senator LIGHTFOOT—Let me shift on then to commercial users and industrial users of power in Kalgoorlie. Does Western Power subsidise any commercial or industrial users of Western Power in, around or abutting Kalgoorlie?

Mr Eiszele—Kalgoorlie? No.

Senator LIGHTFOOT—Is there any place that Western Power subsidises commercial or industrial use of power?

Mr Eiszele—There are some places where we sell on the margin, yes.

Senator LIGHTFOOT—Would you care to mention those places?

Mr Eiszele—Could I do that in confidence because those are commercial contracts that I believe are—

Senator LIGHTFOOT—If it is commercial-in-confidence I am not going to ask to close the doors and ask everyone to leave—

Mr Eiszele—No.

Senator LIGHTFOOT—but the fact is there are areas where that is done. Why is that done?

Mr Eiszele—Mainly they are contracts that were entered into a long time ago and there is history to them; they were done in assisting governments or governments causing assistance to industries to get established.

Senator LIGHTFOOT—Given today's change of climate with respect to competition, do you think that that contravenes the very basis of national competition, that it locks out, that it inhibits at the very least—or prohibits—competition in those areas?

Mr Eiszele—It certainly does not prohibit competition, Senator, because I do not think anybody would supply it at these costs. I mean, that customer is getting a very good deal. It is not anticompetitive. It is not locking anybody else out.

Senator LIGHTFOOT—Do you make money on the Muja to Kalgoorlie power?

Mr Eiszele—Yes.

Senator LIGHTFOOT—What sort of leakage is there from the powerline between Muja and Kalgoorlie?

Mr Eiszele—Much less now than it used to be. There used to be fairly high losses. When we were operating at about 150 megawatts maximum, line losses were up around 25 per cent, which is quite significant.

Senator LIGHTFOOT—So a quarter of it was lost?

Mr Eiszele—Yes. But now that Transalta are established, the load we supply in Kalgoorlie is down to about 50 or 60 megawatts—the line losses have come down significantly—and I do not know the actual figure but it is significantly lower now than it was before.

Senator LIGHTFOOT—So the metropolitan area must have then been subsidising the Muja line electricity quite considerably when it was losing 25 per cent or a quarter of its power?

Mr Eiszele—No, not subsidising. When that line was first built there was a surcharge that applied to customers on that line.

Senator LIGHTFOOT—There was a surcharge and headworks costs if people wanted to use it?

Mr Eiszele—Not to my knowledge, no.

Senator LIGHTFOOT—Would Western Power deliberately have a policy in Kalgoorlie of lowering headworks charges in order to get a big customer like a mine? Would you be prepared to go out and supply a significant amount of those headwork charges in order to get the customer?

Mr Eiszele—No. The policies are established for headworks charges and supply extension, and it is quite clear policy.

Senator LIGHTFOOT—Did Western Power lower its tariff, lower its unit cost, in order to lock out competition, say Normandy Poseidon?

Mr Eiszele—No, but we do meet—

Senator LIGHTFOOT—What do you mean no, that you do?

Mr Eiszele—No, sorry, I will not—we do not have tariffs in those areas any more now.

Senator LIGHTFOOT—But you have a unit cost of electricity?

Mr Eiszele—Yes.

Senator LIGHTFOOT—That is how you are able to measure your—

Mr Eiszele—We know how much it costs to generate, to transmit, to distribute and to retail, yes.

Senator LIGHTFOOT—Yes, and you have a unit cost, say, based on a kilowatt hour use?

Mr Eiszele—Average costs across the system, yes.

Senator LIGHTFOOT—I am not talking about the average cost across the system or across the state; I am talking about now commercial or industrial use of your power. Where at one time you would have charged, as you were a monopoly, significant headworks—

Mr Eiszele—No, our position in respect of headworks has not changed.

Mr Ninkov—Perhaps I should explain. I do not know if you are using the same terminology. For example, in the water industry, headworks charges relate all the way back to the dam. In our industry, when we talk about supply extensions, all it means is the extension of the line from the edge, let us say, of a transformer to a mine site. So we charge the cost of building that line to the customer. He pays the full cost.

Senator LIGHTFOOT—Yes, that is right.

Mr Ninkov—That is the same whether we do it or somebody else does it.

Senator LIGHTFOOT—But if you, say, put in a 20-kilometre line, three phase, the end user literally at the end of the line would pay the whole cost of whatever that was. You may win a bit, you may lose a bit, but overall you are telling the committee that those charges are what it costs. You do not lose money on them. Is that correct?

Mr Eiszele—That is correct.

Senator LIGHTFOOT—You do not make money on them, if you average them out. Is that correct?

Mr Eiszele—That is right. If someone else comes along later on, those costs are readjusted.

Senator LIGHTFOOT—That was my next question. What happens if you, say, have half a million dollars worth of costs on running a three-phase line to a mine and someone

discovers a gold deposit or a mine between the source and the end user? Do you reimburse the end user for 50 per cent of that, or does he lose that completely?

Mr Eiszele—No, it depends on how long the line has been built, but it is a commercial decision.

Senator LIGHTFOOT—Would that commercial decision be based on trying to win a customer? In other words, you have the bloke at the end of the line and he signed your contract so he must have been happy; if you wanted to get the new customer you could say, ‘Well, look, you can just lock onto that, and whatever it costs you from the line to your mine, that’s the cost, and you won’t have to take into consideration the cost of the original line.’

Mr Eiszele—Not on my understanding of the way it works. I do not do these things day to day myself.

Senator LIGHTFOOT—But that is not the way you do it?

Mr Eiszele—No. Our policy is such that you do a reasonable commercial deal between the two parties. In fact, a good example is BHP. They paid the whole charges for the line and the substation to supply them. That mine has now closed down. We are now proposing to supply others. We are going back and talking to BHP about compensating them for their investment in that substation. That was written into the original contract.

Senator LIGHTFOOT—Given the thrust of National Competition Policy, would you think that would be improper for Western Power to make an offer for Normandy Poseidon’s facilities in Kalgoorlie?

Mr Eiszele—To buy them out, you mean?

Senator LIGHTFOOT—Yes.

Mr Eiszele—I would say yes.

Senator LIGHTFOOT—Yes. That would not be something you would do?

Mr Eiszele—My minister would not allow me to do it. But, no, our board would not be involved in it either.

Senator LIGHTFOOT—I appreciate your answers, and thank you very much indeed.

CHAIR—Thank you. We had some evidence this morning from the tidal power proposal up at Broome and Derby.

Mr Eiszele—Yes.

CHAIR—Who is feeding Broome and Derby now with electricity?

Mr Eiszele—We are, from diesel power stations.

CHAIR—There is some process up there, is there, to change that?

Mr Eiszele—Yes. What has happened is that, because we have got these big losses in regional power, the state government has said, ‘Look, let’s go on a region by region basis’—and the first one they have done is Broome-Derby—‘and call for expressions of interest from private industry to see if they can do it cheaper.’ There has been a committee consisting of the Office of Energy, chaired by Des Kelly, and I myself sit on that committee in tandem—and those proposals are coming up to the decision-making stage. The preferred bidder at this stage is Energy Equities, Woodside’s proposal for LNG.

CHAIR—They are going to fire it with liquefied natural gas?

Mr Eiszele—That is correct, yes. They are basically going to transport it into LNG power stations at Broome and Derby. So we would then close down our power station operations.

CHAIR—You have not competed in this process?

Mr Eiszele—No, we are completely out of it.

CHAIR—You are out of it. Thank you very much, gentlemen, for your information. Thank you for coming along.

[3.01 p.m.]

HARMAN, Dr Frank James, Senior Lecturer, Economics, Murdoch University

CHAIR—I now welcome Mr Frank Harman. We do prefer all evidence to the committee to be given in public, but should you at any stage wish to give part of your evidence or answers to specific questions in private you may apply to do so and the committee will consider your request. I now invite you to make a brief opening statement and at the conclusion of your remarks I will invite committee members to ask you questions.

Dr Harman—Thank you, Senator. I am here as senior lecturer in economics at Murdoch University. I prepared a paper for the recent conference of economists, which I would like to think of as a first step in reviewing the impact of National Competition Policy on the structure and conduct of the public utilities in Western Australia—specifically Western Power, AlintaGas, the Water Corporation and Westrail. This is ongoing work. I have got a number of students looking at some of these aspects in more detail, so I expect this process to continue over time. But what I point out in this paper is that many aspects of National Competition Policy were under way in certain parts of the public utilities in Western Australia anyway, particularly in the gas sector.

The initiatives which we now see coming from National Competition Policy probably would have happened anyway in Western Australia because of external pressures coming in on the decision-making processes within government that were forcing them to change the role and behaviour of the old State Energy Commission of Western Australia. So we did have under way a number of processes that were leading to the restructuring of particularly the energy utilities. What I also argue, however, in this paper is that insofar as National Competition Policy is currently being applied in Western Australia, we have stalled. We have got to a certain stage, but we do not seem to be going much further.

The reasons I have indicated for this are, firstly, the state government's interest in the revenue gains from privatisation, rather than the restructuring of the public enterprises to achieve economic efficiency gains. In addition, for the public enterprises that are not being privatised, the state government wants to maintain political control over their behaviour and, in particular, control over their pricing policies. Western Australia also has a distrust of regulators based in the eastern states, and that has led to some differences in the way in which the regulatory structures that have been put in place in Western Australia are actually formed. Furthermore, Western Australia lacks the external pressure that other Australian states have under National Competition Policy that comes from competition between states. In the areas that we are looking at here, there is no prospect of another state supplying gas, electricity or water into Western Australia, so we are not exposed to that sort of threat.

The conclusions I make in the paper are that the state government has adopted the National Competition Policy agenda to the extent that it has corporatised the utilities. However, I qualify that by saying that I am not at all convinced that that corporatisation has led to the right amount of separation between the commercial activities of the utilities and the political objectives of government. I point to the fact that ex-ministers of the government are appointed to the boards of these corporatised entities and it seems to me that is still bringing a strong political influence into the corporatised entities.

In fact, at the end of the paper I have some quotes from the Chairman of the Water Corporation, in which he sets out his views about the role of the Water Corporation. He said that ‘in Western Australia the corporatised utilities and other service providers have an important responsibility where the regional and economic development of the state is concerned.’ I have tried to capture a number of other comments there. The view the Chairman of the Water Corporation has is that he definitely sees the Water Corporation carrying out social and political objectives of the state government.

The state government has imposed competitive neutrality in its utilities. It has introduced open access regimes for electricity, natural gas and rail tracks, but not water, and it has taken regulatory activities out of the utilities in the form of the Water and Rivers Commission, the Office of Energy, the Office of Gas Regulation and so on, and has created separate or, at least as I argue, the appearance of separate regulatory bodies. Despite those gains, however, I argue that the state government has been unwilling to carry out the degree of structural separation which National Competition Policy envisages and, in particular, in the case of electricity, the separation of generation from the natural monopoly components of transmission and distribution.

Rather than undertake separation, the state government has opted for so-called ring-fencing or Chinese walls and I have the view that is no solution to the problems that integrated utility operations present. It has introduced a multiplicity of regulators, so we have a separate regulator for the water industry and a separate regulator for the gas industry. We do not really have a regulator for the electricity industry. The open access regime is—I would go so far as to say—unregulated, even though there is a system of regulations. It is proposed to have a rail regulator. So we have a multiplicity of regulators, all operating in a different framework and, I would argue, open to capture on the part of the industries they regulate.

The government has also failed to use what I call asymmetric regulation to improve the competitive position of new entrants into what should be competitive industries. The Commonwealth government used asymmetric regulation when it obliged Telstra not to lower its communications tariffs in the face of Optus trying to have a share of the communications market, otherwise predatory pricing by the dominant firm would have meant that Optus would never have gained a share of the market. In Western Australia the situation with respect to Western Power has been that every new independent power generation project, with the exception of the Kalgoorlie one—and here I am talking about the Mission-BP generation process at Kwinana refinery.

Senator LIGHTFOOT—That is the cogeneration?

Dr Harman—Yes. The TiWest project and the Worsley project and the Windimurra project are all situations in which, yes, there is a private component to the power generation, but Western Power is buying all of the surplus power; in other words, the conditions for the creation of a competitive electricity market are not being founded because Western Power stands as the buyer of all surplus power.

Senator MURRAY—By all or by practice?

Dr Harman—Just by the deal that they do—‘Have us participate in the process and you don’t have to worry about selling surplus power because we’ll buy it from you.’ That is the arrangement. It has preferred to maintain cabinet controls over utility prices and policies. It has shown a desire to maintain those utilities as instruments of economic development policies and social welfare policies. A reflection of that is that, as we have heard this today, it has maintained substantial cross-subsidies in utility pricing arrangements, and it has accepted revenue maximisation as the goal in its privatisation program. They are the critical views I have of the way in which the state government has gone about the application of National Competition Policy in those utility areas.

Senator LIGHTFOOT—I want to start with your statement that governments—and that means of course their utilities-cum-corporations—have a responsibility to regional areas. They have got a social responsibility, to some degree. You have said words to that effect, I think. Was that right, or am I misquoting you?

Dr Harman—No, I think governments have a responsibility to regional areas. I have no problem about that. The crucial issue is the way in which that responsibility is carried out. Using utilities to carry out that responsibility in a way which excludes others from doing things like providing power is where I think the problem is.

Senator LIGHTFOOT—Yes, that is where I was getting to. We have had some evidence that that not only happens in power; it happens with water, it happens with transport and it happens with rail. It appears the end result of that—and this is strictly my interpretation and I have no evidence to this effect—is that competition is simply not happening because the newly corporatised utilities are in fact using taxpayers’ funds in order to eliminate competition. Have you had evidence of that?

Dr Harman—To be fair to the utility in this particular regard, they have had the uniform tariff policy in electricity foisted on them in the past. You are right in the sense that that means the residents of those 29 independent generation distribution systems—Esperance and so on—are receiving electricity at approximately half the price that it costs Western Power to supply, so it means that no-one else could establish a competitive electricity supply sector in those towns. If you go to Wiluna, Meekatharra or Esperance, you cannot do it. Now, to give them credit, the utility is saying, ‘Well, can we do something about the costs to us of supplying electricity at that uniform tariff? Can we reduce the costs of supply?’ and they are doing that through the competitive tendering process which we have heard about in the context of the tidal power. But that is not using competition, competing sources where customers have a choice of supplier.

Senator LIGHTFOOT—That is my point.

Dr Harman—It is not using that as the method to bring about efficiency in those areas.

Senator LIGHTFOOT—What do you believe would be the difference between the antitrust laws as they apply in the United States and the laws here which we are still in the evolutionary process of establishing? What is the major difference?

Dr Harman—The major difference is that a greater number of activities are made illegal, as they say. If you are spotted or caught doing something, then it is illegal. What we do in Australia is this process of authorisation. There are lots of practices which would never stand up in the United States and would be illegal, but in the Australian context we have said, ‘Let’s go behind these practices and see whether there’s some public interest in maintaining them,’ and that is what the Australian Competition and Consumer Commission carries out. Where it comes to a view that they are appropriate, it authorises their behaviour, even though it is fundamentally anticompetitive.

The most obvious case that we see in Western Australia at the moment is the authorisation which allowed the participants in the North West Shelf gas project to sell all of their gas as one. Even though each of them takes output under the formal agreement of that project, each of them takes output, there is an agreement they will sell it as a single entity, so they do not compete with each other for the sale of gas.

Senator LIGHTFOOT—But that is a little different because of the domestic market. The domestic market is minuscule compared to the actual export of that gas overseas. Is that correct?

Dr Harman—Yes, that is correct. But as I point out in this paper here, the problem we are going to have if we ever want a competitive gas market in Western Australia is that that North West Shelf joint venture has about 90 per cent of the gas reserves, so if we are ever going to have a gas market that is competitive we have got to do something about who has the gas. We do not want to be driven to the circumstances that occurred in the United Kingdom with the dominance of British Gas in the gas supply system. When they saw these problems emerging they said, ‘Right, you have got to give some of your reserves away.’ They said, ‘That’s it, you’ve got to hand them out because we want to create a competitive gas market.’ So we do have problems and it is not just in the utility areas that those problems exist. It goes back into those fundamental supply areas. It is a similar issue is with water. There are not many competitive sources of water to have a competitive water industry.

Senator LIGHTFOOT—Should water or the use of water be user pays entirely? Or because we have become accustomed to it—it is almost a cultural thing that Australians have access to cheap water and as much of it as they want to use—should we not be paying for it but see it is a government responsibility?

Dr Harman—I think we are paying for those past policies in the way we have misused water and the consequence that has had for the environment. Underpricing water means that it is overused. People use it in ways that are not efficient, not economical. Push up the price and people will find more efficient ways. That is what this trading in water entitlements is supposedly all about, to try and shift water out of inefficient uses—that is where it started, at low prices—and push it into more efficient uses. So we are going to push up the price of water in that tradeable water entitlements regime anyway. For domestic consumers, yes, the bulk of potable water goes on domestic gardens.

Senator LIGHTFOOT—Let me get back on to power generation, which I have an avid interest in for some reason. I do not know why, but it does influence my life and it influences everyone's life.

Dr Harman—Yes.

Senator LIGHTFOOT—I visited several nuclear power plants and other power plants around the world, some massive coal-fired power plants in South Africa, et cetera. In the United States I went to one called Calvert Cliffs. They are two 1,000 megawatt plants. Again, they could not have the same builders of these plants. One was built by GEC and one was built by Westinghouse. They supplied power to the Baltimore Gas and Electric Co. grid but they cannot own the power grid, nor can the Baltimore Gas and Electric Co. grid own the power stations; that is antitrust, and they are prohibited from doing that. We are not prohibited from doing it here, and that is my first question—why? And how beneficial would it be to us in Australia? It also struck me as rather odd that the Baltimore Gas and Electric Co. grid could have the distribution for both gas and electricity.

Dr Harman—The National Competition Policy has exactly that view in mind, that there should be a complete structural ownership separation between generation, transmission, distribution and sale.

Senator LIGHTFOOT—When will that happen, Dr Harman?

Dr Harman—If you were in the position of, say, David Eiszele, what would your view be? It would be, 'I don't want this to happen and I will put every obstacle in the way of it happening.' As you know, I am sure, from the Kalgoorlie experience the private power station in Kalgoorlie has not succeeded in finding one customer in the Kalgoorlie region for third-party sales. Its only customer is Perth airport. A whole series of technical obstacles were put up by Western Power in terms of the switching, and that delayed the whole process of that private power producer finding a market.

Senator LIGHTFOOT—Sorry to interrupt you, but in the lingua franca of Kalgoorlie that was described to me as a rort, the fact that Normandy Poseidon's gas-fired turbine, even though it was competitively priced, could not find outlets.

Dr Harman—There were two reasons. First off, it could not offer electricity to anybody on a firm basis, because Western Power were putting up those obstacles to their power going into Western Power's distribution system. It got to the farcical stage of them threatening to build their own distribution system; in other words, their own parallel system of poles to carry the electricity to customers.

Senator LIGHTFOOT—Isn't that anticompetitive? It seems to me to be blatant.

Dr Harman—But that is what you would expect a monopolist who has a position to try to do, to deter entry by competitors.

Senator LIGHTFOOT—What part should the federal government play to break that unholy monopoly that it has?

Dr Harman—I could be corrected on this but I do understand that the Kalgoorlie private power station has taken legal action against Western Power because of those circumstances. The ACCC did intervene on another deal which was the AlintaGas deal with the King Stream Iron and Steel project. Again, the circumstances of that were that it put a leaked memo from AlintaGas in the hands of someone who understood what it was all about, who gave it to the ACCC for the ACCC to then come in. The point I make here, my worry, is that Western Australia is a bit far away from Canberra. Where we have those regulatory bodies in the Commonwealth government their focus is not on Western Australia—there are big issues, I am sure, in Sydney, Melbourne and so on—so we tend to get a bit overlooked but the problems are nevertheless here.

If I could make a point, by the way, just for your interest on power stations, I am sure you are aware that 10 years ago I was the Chairman of the Power Options Review Committee which looked at this question of—as it was then—the next power station for Western Australia. No-one ever challenged our findings that a gas-fired power station would produce electricity 2c a kilowatt hour cheaper than a coal-fired power station. Furthermore, the question of security about—

Senator LIGHTFOOT—Pardon me interrupting you again. That seems to be in direct conflict with the evidence of Mr Eiszle.

Dr Harman—Exactly, and that is why I wanted to make the point.

Senator LIGHTFOOT—Thank you. I appreciate that, but it is rather defensive of me indirectly.

Dr Harman—The other point is that on a security issue a gas turbine is no more than a jet engine on the ground. It does not need natural gas to run. If the gas pipeline was cut, you just pour kerosene into it. Liquid fuels are an alternative to natural gas in gas turbines. They are more expensive, I agree, but if you are simply looking at a temporary break in a pipeline or a disruption on a production platform—and I agree those things can happen—there are other insurance measures you can take. Up in Dongera we have a lot of exhausted gas reservoirs. In the United States gas storage is a big business, mainly to serve peak demands for gas. We could always invest in gas storage on an emergency basis, so I do not accept the arguments.

Furthermore, if I can make this final point, how can a utility talk about its contribution to greenhouse gas in terms of its renewable energy activities and at the same time contemplate building a coal-fired power station whose infrastructure is geared to adding in another 300 megawatt unit at some point in the future? The chimney at Collie has two pipes going up it, one for the existing power station and the other one for the next coal-fired power station. If you go down there and look at it, all the ground is cleared where the boilers will go in. The minister himself indicated that he had a timetable in which at some point the second stage of the Collie power station would be built.

Senator LIGHTFOOT—Just on that point, are you aware of any developed country that is proceeding with a coal-fired power station?

Dr Harman—What about Queensland? The latest news out of Queensland is that they are proceeding with coal-fired power stations.

Senator LIGHTFOOT—I meant outside Australia.

Dr Harman—No. I can understand there are areas of the world in which natural gas is not a feasible power station fuel. Coal is a relatively abundant fuel and in those circumstances power producers will go for coal.

Senator LIGHTFOOT—Just in defence of Queensland, Dr Harman, Queensland has black coal of high calorific value and low ash, low nasties like sulphur. You could not say the same thing about Collie coal. It is poor, it is friable, it deteriorates on the surface, it is wet. It costs a lot more money to mine. You can ship coal from Burrum Basin over here to Western Australia more cheaply than you can mine Collie coal. What is the mentality behind a power station here for a high cost electricity?

Dr Harman—As you indicated this morning, if you were working on a figure of a million dollars per megawatt, the 300 megawatt power station at Collie cost \$600 million. That's \$2 million per megawatt, and that is before you add interest due on construction, which is another \$200 million. So in my view—of course I have certain views on this—the coal-fired power station at Collie is a financial disaster which will be worn by electricity consumers in Western Australia.

Senator LIGHTFOOT—What would it take to invoke the ACCC to force Western Power to separate its distribution and its generation of electricity?

Dr Harman—It would be a question of pressure on the government. It is not Western Power, it is the state government that makes those sort of decisions. It is under the legislation of the state government. It is entirely the prerogative of the state government. If the NCC was to say, 'We think that future payments under the competition policy agreements are conditional upon separation,' then it probably would happen.

Senator LIGHTFOOT—Dr Harman, I would like to stay all day and question you. You have not got the time and I will defer to my colleagues. I am very selfish when it comes to talking about this.

Senator MURRAY—Mr Harman, what we are dealing with here with your discourse—and it is really helpful—is the question of full costing and full pricing. Let me tell you what I mean by that. Full costing has emerged—although it has not been described this way—in this committee inquiry as being the effect of competition policy when you take in the total cost of a competition policy decision in terms of social and environmental as well as economic factors. So the question of how regional and rural towns benefit or do not benefit from competition policy has to take in the consequential effects of that. Full pricing is at the other end of the scale but also needs to take into effect the full prices to the community that need to be recovered.

So in your case, the coal-fired power station, the full price is the cost of emissions which the state has to wear, the cost of pollution, the real cost of using carbon fuels. It seems to

me that National Competition Policy has primarily focused on normal, historical, traditional pricing methods. I would like a response to this because if electricity, as an example, was fully priced as to the total real cost of the provision of that power, you would find coal becoming very unsatisfactory economically and other forms of fuel becoming much more satisfactory. Don't you think that before we can start to work out what price Esperance should bear, with a generational mix of its power, versus say Perth, we have to develop a full pricing understanding and approach?

Dr Harman—Yes. This is standard economic analysis in all energy type courses and so on. It goes by the slogan 'Internalise the externalities.' I am sure you have heard that expression. That is not necessarily an aspect of competition policy. I think competition policy has to be reinforced by other policy frameworks, and that is where environment policy should come in. It should be the environment policy that says, 'You have to put your prices, and the prices you charge your consumers should reflect not just the cost to the utility but what are the particular costs that your particular generation or your transmission processes impose on the society.' There is a good example that I am sure, Senator Lightfoot, you are familiar with where the state government forced Western Mining to install a desulphurisation plant in Kalgoorlie. Kalgoorlie accounted for something like 25 per cent of Australia's sulfur dioxide emissions and people came to the view—

Senator LIGHTFOOT—That was from the nickel smelting.

Dr Harman—Yes, and the gold-roasters as well.

Senator LIGHTFOOT—Yes.

Dr Harman—The state government came to the view that they would tell Western Mining that they had to spend \$200 million fixing that problem up. So that is the scope for environment policy, and competition policy should work in conjunction with environment policy. I do not think we should load everything into competition policy. It is a necessary aspect to it—getting prices right is exactly what you are talking about—but we need input from the environmental policy area to get that side of it correct.

Senator LIGHTFOOT—Are you saying that was wrong, that Western Mining should have spent—

Dr Harman—No, what I am saying is that is what environmental policy is all about.

Senator LIGHTFOOT—That was for a series of scrubbers, was it, to clean those up during their emission stage?

Dr Harman—Yes, to take the sulfur out. It was just fortuitous that the nickel laterite operators came along and took the sulfuric acid that was the output of it; otherwise Western Mining would have been lumped with a lot of sulfuric acid.

Senator MURRAY—But my question is really this: because that full pricing policy does not exist, that is why it is possible for state government in WA or Queensland to make the decisions that they have and they will on coal-fired stations. As a decision, it is dictated by

social considerations—I am certain it would be so in Queensland and it was here—such as the presence of large numbers of unionists attached to the coal mining industry in both states and the large investments which were there in terms of production of coal. The combination of labour and capital interests, if you like, distorted a pricing decision.

Dr Harman—Exactly, and from all the discussions today that suggests that governments do not do a very good job picking power stations. That is I think what comes out of this, that perhaps the way we have gone about this business of establishing power stations that has this heavy government involvement in which a lot of issues that are not strictly associated with generation as such come into it, as you suggest—and these include employment, trade union pressure and so on—are the issues driving the decisions on power stations. If we come back to my own experiences with the power station debate earlier this decade, if we had a competitive electricity market, the coal-fired power station at Collie would never have been built—in other words, if we had said, ‘Government’s pulling out of making decisions about power stations. It’s going to go out to a tender process which is independent of the existing supplier’—the former SECWA in that case.

Senator MURRAY—These are two branches of economics. Developmental economics says, ‘Get the lowest price you can. That is a generator of jobs, productivity, efficiency and all that sort of thing.’ Sustainable economics says, ‘That is all very well but there are long-term costs which will result from that; therefore you are better off doing full pricing.’ The consequence of that is that in Australia the price of electricity, of water in particular, and possibly of things like transport, would go up, not down.

Dr Harman—Yes. And let me suggest, Senator, that it would be easier for governments to implement full cost pricing if the electricity generation sector was in private hands. If you implement full cost pricing while the electricity sector is in government hands, government has to bear the political heat of raising power prices.

Senator MURRAY—But isn’t the question of public versus private hands related to the monopoly issue? As you rightly pointed out, there need not be monopoly components in generation but there are monopoly components in transmission. It is similar to the debate about roads: no road can be publicly owned but the users of it are private. It is not necessary, is it, to take the view that the whole of something needs to be private or the whole of something needs to be public?

Dr Harman—No. Quite. In fact there are very good arguments in certain circumstances—and I think this is the current debate about rail privatisation in Western Australia—in which that natural monopoly component may be better in government hands than in private hands.

Senator MURRAY—Yes. What I am searching for with these questions is: isn’t the solution for governments themselves to set up the appropriate independent structures so that their natural political inclination to interfere is limited or adjusted by independent or objective or properly managed processes to provide full costing or provide proper environmental analysis, or to provide a proper consideration of competing environmental, social and economic views? And that has not happened in Western Australia.

Dr Harman—No, because the problem in Western Australia is that the utility has a very direct role in all the decision-making processes. The Office of Energy, for example, is purely advisory to the minister. It has no executive power whatsoever—this again is a point—although it looks as though, from the perspective of National Competition Policy, the right institutions have been put in place. Institutions have been put in place but they do not have the power to carry out what the objectives should be. That is why I am suggesting if we had an office of energy one of their roles would be examining exactly that question: what is the real cost of supplying different generation possibilities in Western Australia?

Senator MURRAY—On a full pricing basis.

Dr Harman—Yes, on a full cost basis.

CHAIR—Let us just go through a bit of this. What has happened over here is that power has been corporatised but not broken up into distribution and generation arms.

Dr Harman—That is right. In fact I would argue that the power of the utility has been further entrenched through its participation in all of these private generation schemes, the cogeneration schemes that are listed in the paper here. Cogeneration is the way to go in a number of industrial processes. People want to generate their own electricity and use the waste heat in the industrial process. It just turns out that those two needs do not match the power output of the gas turbine, hence they have surplus power to sell. Ideally, that surplus power would go into a competitive electricity market. Someone would bid for it, there would be competition for it, and it would be sold via open access to the transmission and distribution system.

Western Power comes along and says, ‘We’ll buy the power from you. Even though you’re generating power for your own purposes, not only will we buy the power from you; we can offer you backup. If your gas turbine breaks down we’ll give you backup for the whole thing.’ So even though it looks as though independent power producers are being established, because we have privately owned gas turbines in those cogeneration projects, Western Power is still firmly entrenched in the whole process.

CHAIR—You would expect that because they are a near monopoly?

Dr Harman—Yes.

CHAIR—Is it the government’s intention here to keep electricity in public hands?

Dr Harman—From the public statements of the minister, yes. I have some quotes in this paper here where he points out that in his view Western Power is an important instrument for state development policy, hence will not be selling it.

CHAIR—What dividends does it pay to government?

Dr Harman—I could not give you the figure.

CHAIR—Any idea what it is valued at?

Dr Harman—No. I am sure David Eiszele would have been able to tell you all that.

CHAIR—I should have asked him.

Dr Harman—Yes. But it does pay dividends under the competitive neutrality. It always paid five per cent of its sales anyway to the state government. They just switched out of a five per cent regime to a dividend regime.

CHAIR—Do you think, just looking at the whole thing, that it has become almost a hybrid; it is trapped somewhere between a wholly government owned enterprise and one which has been taken to the auction block and sold off to the private sector?

Dr Harman—No. While it looks as though things like open access and so on—the ingredients of national competition—have been put in place, the judgment has to be on the basis of results, not structure. As David Eiszele said, there are very few people using the open access regime for electricity. It has been more of a success in the Dampier-Bunbury natural gas transmission pipeline. The sale of that has meant that the new owner has an incentive to pump as much gas through that as possible because the new owner has no interest in gas production or no interest in gas sales, so the new owner does not want to use that. When you come to things like the proposed AlintaGas privatisation, the state government is proposing to sell both the gas contracts part of AlintaGas and the gas distribution system. Again, that is contrary to the spirit of National Competition Policy, because if I own the distribution system and I am the dominant gas seller, I will try every method possible to make sure my competitors do not get into my distribution system, even if open access is formally in place.

CHAIR—Thank you very much.

[3.44 p.m.]

MARGETTS, Ms Diane Elizabeth (Private capacity)

CHAIR—I now welcome Dee Margetts. We do prefer all evidence to the committee to be given in public but should you at any stage wish to give part of your evidence or answers to specific questions in private you may apply to do so and the committee will consider your request. I now invite you to make a brief opening statement and at the conclusion of your remarks we will invite committee members to ask you questions.

Ms Margetts—Thank you and, once again, I do appreciate the opportunity. From being on the other side of the table I guess sometimes it was interesting because I knew that there were elements that I was learning about competition policy myself which did not necessarily come out in the questions and answers, so in some pathetic little way I am hoping to do that today. These might be things that everybody knows already but they also might be things that hopefully might spark some other directions or some other angles on the issue.

Competition policy is not something that people can easily understand, and I am sure most people have come to that conclusion already. Because it is so large it is not the kind of issue that is normally dealt with in newspaper reports. I know of a number of journalists, for instance, who have started writing or wanted to write detailed stories and actually their editors did not understand it or perhaps chopped it for various reasons. But the reality is that it is not an issue that has actually been widely debated and yet we know it is an issue which is highly contentious.

The Queensland election, to many people's surprise, ended up being almost like a community thumbs down on the impacts of competition policy. The last federal election showed particularly large impacts or, I guess, commentary from the community on competition policy and the Victoria election likewise. So these things are not going to go away.

My understanding, from what I have seen with National Competition Policy, is that competition policy itself was not something that we invented in Australia. There are countries throughout the world—and, for instance, the OECD—which have developed various forms of competition policy. The interesting thing that I have discovered, though, is that although there is the push for a convergence in competition policy that goes along with the push for world globalised free trade, there are differences. One of the things that I have discovered is that there is an assumption that the new competition policy is including antimerger provisions, legislation to avoid the abuse of market power and antimonopoly and so on legislation.

Australia has had the Trade Practices Act since 1974 but nothing much changed in the Trade Practices Act in relation to monopolies, mergers and so on with the recent changes. So the reality is that people do not see a specific change in the way, say, big businesses operate. What they have seen a change in is the way government is treated as an entity and also all elements of government and also the way particular community sectors are being treated.

On various occasions we have heard that people are concerned about what they see as abuse of market power—say, from the supermarket chains, from the banks—that they can see emerging and often treating their customers as if they were extraneous. Because they had so much market power they did not seem to need to compete or to get the local domestic patronage. I think that is a key. It is not that those things were required under National Competition Policy. That is not what I am asking.

For us to understand the anger within the Australian community, I think we have to see what is happening in areas like the banking sector and the supermarket chains and compare that to what is happening to many of the areas within society and in particular within rural and regional Australia, where changes are happening; the lack of understanding but also the speed of change when people can look around and see that this thing called National Competition Policy is not affecting what they see as the ability of big business to abuse their market power. Whereas a farmer in a cooperative is seen to be a threat to competition, I imagine the average person who is having to change the way they sell wheat or to change the way they are marketing potatoes is rather perplexed as to why Woolworths and Coles can perhaps go in and operate in a way that can push out their local small business and mean that they may not have a shop any more in the end. So they can see that competition policy, although it is meant to treat everyone equally, seems to be specifically geared towards some sectors.

I went back and had a look at the original Hilmer report, and perhaps one of the clues is from the executive summary where it is mentioned that there were three sectors which were actually being targeted. One was the utilities, another was the professions and the third one was certain parts of the rural sector. I should be able to find it. I am sorry. Having come straight from the airport I might not be able to put my hand on that. It is actually in the initial executive overview of the Hilmer report.

So right from the beginning you get the idea that the legislation in the way we put it together in Australia had certain things in mind. There were certain sectors which were being targeted. But it was argued that for costs and other reasons you put together a policy which has a broad-brush effect that supposedly treats everyone equally. I would argue that, in effect, was not well thought out because it assumed that the Pareto optimum actually existed, that markets operated perfectly and that those that did not were the exception. Of course we all know that markets do not operate perfectly and that we should not argue for the exception. We should actually build in policies that realise that we are operating within a real world.

I believe that what happened is that when the legislation was initially put together it was put together in order to target certain groups but it threw this very wide net which ended up pulling in or affecting a great many people but, at the same time, the net was not wide enough that it actually touched much in the way of the big business or the corporate sector. My particular interest in my research has been to look at some examples of legislation in Western Australia, to see particular examples where large development projects have been supported by a state agreement act between the government and the development project, how they survive in the light of competition policy, because here we have a situation where we have more state agreement acts than any other state.

We have something like 64 current state agreement acts, most of them managed by the Department of Resources Development. There have been over 100 over time and they have generally come through right from early in the century, but you can plot them over the years. They have come at a recent, relatively regular basis, but they tend to be the bureaucracy negotiating to get projects and often it tends to be whatever it takes to get those projects in. There is plenty of literature to indicate that it is, at best, a zero sum game in terms of offering subsidies. The normal way of the state agreement acts is they include royalty subsidies, maybe tax subsidies, cheaper loans.

There can be assistance with infrastructure, land available at either peppercorn or free and perhaps one particular issue is that you have the state offering to a proponent that they will also get and keep the land at unimproved rate values. So that a local shire, for instance, who wants a project, believing they are going to get benefits from that project ends up—if they get the project—getting no particular revenue from it but perhaps extra services required. I find that a bit of anomaly and so, of course, does the Western Australian Municipal Association, that a state government can negotiate and expropriate then their future earnings without them being a party to the agreement.

There are a number of these acts, as I say. They have gone over several decades and there are some very recent ones which are particularly concerning to the community. I have just been up in Geraldton today, and one which still remains a particular concern is the mid-west iron and steel agreement at Oakajee. In anybody's calculation it would be difficult, if not impossible, to ever see a government getting a return for the revenue that is being either spent or forgone on that project. The project seems to be having trouble getting finance and has been for some time. There are things like rail infrastructure, port infrastructure. There was some controversy about the price of gas and the mine approvals, the project approvals, special assistance with environmental approvals and so on.

At the same time members of the community believed that the project, if you look at it in total, is not in the public interest, so that even if, say, the project broke even, if you added in the level of public subsidy and forgone revenue, the project would not go ahead. The proponents themselves have said the project would not go ahead without the addition of the government assistance. But the community is saying there are other prices as well, there are other costs: the potential threat to their marine environment which in the cost-benefit analysis which was done on behalf of the proponent was not added in; the other environmental threats, the threats to tourism and other industries and potential employment creation effects.

I believe that public interest test has not been done to any real effect but you would think that these kind of acts, these major development acts in which there are meant to be some benefits for the state—often there is supposed to be downstream processing, there are meant to be ironclad agreements about value added or local employment. The proponents do not always have to stick to those. In the case, for instance, of the Woodchipping Act in Western Australia, the proponent never did. It is perhaps fortunate but the Woodchipping State Agreement Act was meant to provide downstream processing for a pulp mill. That never happened but the agreement stayed and so did the benefits. To many people these agreements seemed to be unaccountable, anticompetitive and, if anything is reviewed under competition policy, it should be these kind of acts.

I got quite excited when I thought there would be a review process and one would think there was going to be something happening. We heard that the Western Australian government was not keen for state agreement acts to be reviewed but the National Competition Council said, 'Yes, we should' to a review. The problem with that is that right from Hilmer and right from the documents or the statements we see in the OECD about competition policy they say that such things as reviews should be open, accountable and, where possible, have full community consultation.

The statement agreement act review—some of you may have been in the committee when I asked questions—could not find out when it was to be completed, could not find out whether it had been completed, and nobody that I know of has seen the review. All that has happened that I know of is that some groups like the Western Australian Municipal Association have been advised of the outcome. There was a brief mention of it in the National Competition Council annual report and that is it. So you have a situation where—

Senator MURRAY—Who did the review?

Ms Margetts—ACIL Economics, the same people who, apart from anything else, were involved in the waterfront consultancies over east. They are a big consultancy. But more worrying is that ACIL Economics were also the consultants who have been employed by Bunnings in Western Australia. I believe they have used them on several occasions but the most recent time ACIL were used was to write a consultancy report arguing successfully that they should get even higher royalty discounts for their woodchips. You had a situation where the same consultancy which had argued for greater subsidy under state agreement acts were also the consultants who were chosen by the Department of Resources Development to review these acts, the report of which nobody has seen and nobody knows the reasons, so it is not transparent and it is not accountable in that sense. Only three acts were chosen, plus the North West Shelf act, which was thrown in. We have no idea why those acts were chosen. Apparently it was the National Competition Council.

I have questions and answers that Greens MLC Giz Watson asked of the relevant minister. We asked first of all how the acts were chosen. They said the National Competition Council chose them. Who chose them out of 64? Nobody knows—or I do not. Secondly, who was advised that the process of review was taking place? The answer to that question was that the parties to the agreement were advised—that is, the state government and the proponents. Okay, next question: who was invited to provide submissions? The answer again was the parties to the agreement, the proponent and the state government.

You have the Department of Resources Development in charge of the review for their own acts. This is their own empire. They are in charge of the review and they only tell the parties to the agreement and they only invite the parties to the agreement to write submissions. Now, I could give you a list of state agreement acts in Western Australia, like uranium mining, woodchipping, Kemerton, the OPG State Agreement Act, Shark Bay Salt. I could give you a range of state agreements where there are serious issues of public interest that have been expressed by communities, where local businesses could give you chapter and verse about anticompetitive elements. It may well be true that in a number of state agreement acts people could successfully argue that the balance of public interest means that

they are still acceptable under National Competition Policy guidelines. What is not clear is whether there has ever been a process where this kind of analysis has taken place.

Here we have a situation where we have existing, new and still to be negotiated state agreement acts, we have had a review process and nobody that I know of actually knows how it took place, and the report has never been released. I have no idea why that is, but even the state government in several reports in Western Australia—and that includes a report from the Western Australian Government, Financial assistance to industry, report No. 31 in 1996—has argued, and I believe quite cogently, that if there is major public resource going into any particular projects, there should be no reason why you should have a veil of secrecy over the details of arrangements of major public subsidies to industry. There are ways of protecting commercial sensitivities but, where there is public money involved, it is very hard to say that this should not be out in the light of day.

I think there is a crisis of public confidence for National Competition Policy. The crisis, I think, is a result of the fact that people are not silly. They can see that it is not being applied evenly, that it is being targeted at specific groups. Those groups do include professions, and you have groups like the National Competition Council who are suddenly becoming experts in engineering and medicine and a whole range of professions in order to specifically deal with what they believe is an inequity within professions, but it ends up being a ham-fisted approach which has the potential—and I think we are seeing it—to hurt a number of people and do a lot of damage on the way.

I think it needs serious rethinking. I think it goes beyond simply the fact that either people do not understand it or it is not being applied correctly. It is quite clear that the states were given a fairly free hand in the way they administered it. It is quite clear that the issues like competitive neutrality are not well understood; each state has a different way of applying it. But my understanding is that there is no rigorous theoretical basis, apart from basic classical economics, to back up the theory of competitive neutrality and the way it has been applied.

In summary, in Australia we have done what has been done in a lot of countries. We have gone along with the idea of a competition policy. It has gone in a specific direction, appearing to throw a wide net but actually missing whole sections of the corporate and large business sector. It has hurt a number of people in the community and it has distressed a number of people in the community, and those people are going to continue to be distressed unless people can stand back and see that maybe there have been massive errors in the way the whole thing has been put together. It has been ham-fisted, it is unwieldy, and it seems to be quite unaccountable, the way it has been put together.

I would like you to fire questions at me because, having just come from a flight, I am probably not as clear as I would have liked to have been and I would rather perhaps respond.

CHAIR—I will do a bit of that to begin with. We are a bit limited with time. We have a bit of flexibility but not a lot. The public interest test is one of the things that we have to look at on this committee. What are your views about how that has been conducted so far? Do you think the public interest test has in fact been a success as part of the National Competition Policy?

Ms Margetts—If I take the example of the one I am looking at in detail, which is the public interest test in relation to state agreement acts in Western Australia, where the review was going to take place—a review of major pieces of legislation which are a big part of the way the economy operates in Western Australia—I would say it has been a total failure. The very fact that even Graeme Samuel says that ideally it should be open, accountable and involve community consultation means that everything it is supposed to be it is not. I think the issue is also that those things that are being tacked on for the ability to argue for exemption should actually have been built into the model. Market failures are not the exception; they are the rule, and environmental and social externalities are not. I believe the reversal of the onus so that the community has to argue for those externalities is very unfair. It is putting huge costs, uncertainty and anger into the community, because any model should have been able to build those kinds of costs into the equation.

The fact that environmental policies can be taken into consideration does not factor into the fact that externalities which cause pollution, social harm or environmental harm already, in economic theory, should have been built in. Even environmental economics from the rationalist approach says that the market works when you factor those in before you start, not try to argue at the end that this is some exception you should make, so the communities are behind the eight ball to start with because they are dealing with bodies whose ability to understand or factor in a lot of those issues we have no idea of.

CHAIR—You mentioned the Victorian election, just in passing, very early in your address. There is no doubt that people in the bush are angry. They have articulated this in several areas: Western Australia, Victoria, Queensland, at the National Competition Policy. How much is National Competition Policy and how much are all the other things that have come on—I think I used the analogy once when you were on the committee—the same wave? For instance, the bank closures are a big issue and the downsizing of government is a big issue, neither of which are to do with the National Competition Policy as such. Would you like to comment on that?

Ms Margetts—It is true that the bank closures are not required under National Competition Policy. Part of the downsizing of government is to try to make government more efficient and to increase Australia's international competitiveness. So people do see that lumped into the same bag, and some of the reductions in government—the number of employees in services—are actually related to National Competition Policy, as government is required to compete for the provision of the services that governments have been used to competing for. So some of it is related to National Competition Policy, and the idea of competitive neutrality means that more and more of the government sector is being pulled into that.

Ironically, at the same time we are finding that schools and university sectors are being told they have to get into the commercial sector, and as soon as the schools and educational institutions get into the commercial sector then they are dragged into the ambit of competition policy. It is a no-win situation for a number of schools. I saw one example in Western Australia where a school was told they needed to raise some money. They sold an oval for less than its commercial value, for a supposedly good purpose, and then they had their funding cut by that amount, so they have been beaten on the head in both senses. Having been drawn into that commercial sector they then come under the ambit. Anything

they then are involved with in raising some of their own funds puts them under the gaze of competition policy.

Part of the anger, I think, was that people then saw that drawing the community and the government sector into the commercial sector more and more meant that if we did get into such things as a multilateral agreement on investment, those sectors which have in very recent times been brought into the commercial sector would then be open for overseas investment access. You can see that there are a number of issues that angered people.

In relation to the banking and supermarkets issue, whilst it is not in a sense required under National Competition Policy, I think part of that anger is that communities in lots of ways are being asked to change. A farmer is supposed to be able to negotiate fairly with Woolworths or Coles or one of the big sectors. A wheat farmer is supposed to be able to negotiate fairly with Japan or whomever. We all know that it is a nonsense to suggest that a farmer has the same market or bargaining power as a huge conglomerate and yet they can see the large conglomerates screwing down what they see as very unfair deals with the rural community. They are, to me, some of the connections. Although they are not required under competition policy, they see around them people whom they see abusing their market power, whether it is the banks or the petrol stations or the supermarket chains or what have you.

They see also, as consumers, that they do not necessarily have the benefits. I was amazed by that report. I hope there are some major changes when the final report—

Senator MURRAY—For Hansard, you had better tell me which report.

Ms Margetts—The report was the Productivity Commission's *Impact of competition policy reforms on rural and regional Australia*. They made an attempt to look at the impacts on rural and regional Australia, but I am sure you have all noticed that the dates only go up to 1996. First of all they say, 'Well, these dates don't really apply for competition policy but we're going to do our analysis based on them anyway.' So here you have a situation where they have the years, with the numbers of people, the incomes, the consumer behaviour and so on, going up to 1996, and National Competition Policy, as we all know, did not actually bite until some time later. They have done their entire analysis on years which are entirely irrelevant to the implications of the policy. They are saying, 'Oh well, it's wrong for people to say the bad things associated with competition policy are associated with competition policy,' but they are doing an entire analysis based on statistics which are totally irrelevant to their argument.

It seems to me that all the decision makers have to actually stop telling people that they just do not know what they are talking about and actually start to find out whether, even as consumers, people in Australia are getting a better deal. I have been talking to people in Geraldton today and I said, 'Look, what are the things you are finding? What about prices?' Of course in rural and regional Australia they are not necessarily getting a better deal on prices. People like Terry Dwyer in his paper to the RIRDC have argued that a lot of the input prices for the rural sector have actually increased as a result of competition policy and related issues.

So the rural sector is not necessarily becoming more competitive as a result of National Competition Policy but a lot of the availability and prices of goods and services are sometimes going up. Some things are going down but others are going up. And it is not just price. If what we are doing is pushing the margins down for the economy as a whole, as if we are all competing on the international market, as consumers you will find less availability, small shops going out of business, less range, price, service. So as consumers, that study has never been done. We heard that the Australian Consumers Association did not have the resource to do it; we heard that neither the National Competition Council nor the ACCC felt it was their role to do a full consumer survey. You would think that one of the major goals of competition policy is to benefit consumers and we do not even know that.

Senator MURRAY—In company balance sheets, to make people wake up to value, they make sure they give a value to intangibles—mastheads and brand names. In New Zealand when they created a national balance sheet they gave a value to their forests. To get carbon trading on the map, you have to give a value to it. Is one of the problems with competition policy that there is no numerical weighting given to environmental, social and economic components of the public interest test, with the consequence that the ideology of whoever is doing the assessment influences the value judgment that emerges because they are not giving appropriate numerical weightings or according appropriate numerical weightings to their decisions?

Ms Margetts—I think you are right. I think what has happened is that the price, in a limited sense, or not so much even the price, but the profitability to industry, has been seen as the major goal and those other issues which do affect the viability from the community's point of view have been seen as something that gets argued later. That is very difficult, because putting the arguments together is expensive to start with. But, yes, if those resource values were in there to start with, the whole equation would look different. Terry Dwyer, as I mentioned, in the RIRDC reports also argued that the value of land is not counted properly as a factor of production. So it seems that competition policy has tended to concentrate on the productivities of labour and capital.

Senator MURRAY—Isn't that the second follow-on? The shortcoming in the legislation and the way in which the whole thing is designed is that it is not a precondition that full pricing should be established; in other words, not just base economic pricing but a full pricing consideration which includes externality costs.

Ms Margetts—That is right because, if we are relying for instance on environment policy, that is very limited as to what can be argued. It is about environment versus the economy. But if the pricing and value of commodities, resources, clean water, clean air and non-renewable resources were added in, then the whole decision to start with would have been different. I think you are right.

Senator MURRAY—If you take your three sectors, an examination of utilities in terms of pricing potential cannot be considered without attention to environmental externalities. The rural sector, which was one of your three—you had rural, professions and utilities—cannot be considered without a value being given to social considerations. Would you agree with that?

Ms Margetts—Absolutely. And if, in the end what is meant for all of that is to try to make all of those sectors more internationally competitive, I think we missed out a lot. We missed out on the fact that the internationally competitive component of our economy is about 10 per cent of our economy. So we are actually doing something to get some sectors more competitive for 10 per cent of the economy, but we have actually put a model together which may affect the opportunities of the other 90 per cent of the economy to work out reasonable outcomes in industry policies.

Can I mention what Frank Harmon said? I would have to disagree, in relation to utilities, that the best way to do that is to break it into private entities, because with least cost planning, if you are going to build in the full costs of energy decisions, you need to have the ability to make decisions across the energy sector and once you have divided your energy into bits and sold off the bits, it becomes quite difficult. Governments then have a hands-off approach. It seems to me least cost planning for energy, which is exactly that—what costs the taxpayer least and the consumer least—is more difficult than ever if it is broken up into these sectors which do not have any connection with each other except to compete, to sell more.

Senator MURRAY—All right, last question from me because unfortunately I have to go. Isn't the other problem that competition policy is regarded as a failure if prices go up and yet the consequence of full cost pricing and of reform should in fact be an adjustment of price levels whereby some prices will go down and others will go up to properly reflect social, environmental and economic costs?

Ms Margetts—You are right. There are definitely some areas where we have undervalued resources—there is no doubt about that. However, it could be argued that the outcome and the way implementation is taking place—for instance, on the water reforms in Western Australia and other states—might mean for us that we do not have a fruit and vegetable industry any more. Albany and Margaret River in the south-west might end up being reliant on imported flown-in vegetables from other countries. Now, the energetics and the sheer lunacy of that as a policy just staggers belief. So we might think we are doing the right thing but going about things in such a ham-fisted way that we end up with a problem that is much bigger than the one we started with. I think that kind of thing needs urgent and clear review.

CHAIR—There are a couple of issues that I want to raise with you. In 1974 the Trade Practices Act had a fairly substantial impact on the economy, albeit it did not lead to the public resistance that National Competition Policy did when it came in in 1994 and 1995. In your view, are there any redeeming qualities at all in the extension of the Trade Practices Act—which, in essence, was the plan—to the government sectors in this country?

Ms Margetts—That is a difficult question to answer. The reason it is a difficult question to answer is because, from all I have heard so far, I have not been able to find out what the stated goals of the competition policy were. It is like you are shifting goalposts. When you say, 'Were they about consumer benefits?' 'No, that's not what we meant.' 'Is it just about increasing the productivity for business?' 'No, that's not it. It's not about competition for competition's sake.' So in order for me or anyone else to say whether competition policy has reached its goals or been effective and in what areas, it would be very useful if we knew

what was being aimed for. But, although there has been a whole lot of stuff about saying, ‘This is not competition for competition’s sake,’ it is hard not to reach that conclusion in the way the implementation is taking place.

We realise there are a whole range of reasons people can ask for exceptions, but the reality is you have to have the resources and the knowledge to know how to go about doing that and, in many cases, states either have not been or have used excuses for doing other things. But the reality is that things have happened which have had major impacts—and sometimes irreversible impact—and that is very sad. I guess for a number of people, especially in urban areas, some things have got cheaper, but I would have to say, if you look at school cleaning, for instance, the accountability of the cleaners is not what it used to be. You have, maybe, lower costs, but you also have less cleaning done and the wages and conditions of the people being employed—sometimes the same people—going down. So the actual worker is having a harder time, the school is often cleaned at a much lower standard and the profit is simply going into sometimes very large conglomerates. You have to wonder what we have achieved in all of that when we are not getting a better outcome and it may cost as much, or we have other social issues involved with hospitals or schools or whatever not being cleaned to the standard they should.

CHAIR—Do you think that competition per se—the achieving of competition in areas where there was no competition before—is basically a laudable goal, or do you think that there were very good reasons why competition was not envisaged in these areas for all of the generations of human existence until this one?

Ms Margetts—Many people who have given evidence so far, including the Chamber of Commerce, make a statement clearly that it is not an issue of who owns the entity; it is how that entity is managed, whether it is effective, efficient and achieves its goals. I would have to agree with that. Unfortunately, the way competition policy has been structured, in many cases the requirement, for instance, for competitive neutrality means it becomes almost impossible for governments to continue providing the services that they have before. In the end, the people we are probably not asking are the people getting the services. Do they have to wait longer on the phone? Do they like not being able to speak to a real person? Do they like going into a bank where there are no people, it is just an empty shell? In most cases people will say no, but they do realise there are other benefits.

In the case of international competitive banking, most people—domestic customers—feel that they are irrelevant to the system, they are not important; they are not part of the wheels any more. If we end up with chemists, for instance, in supermarkets, many people are worried about the impact on service if that happens. Many people see that other people are making decisions for them and a sense of community and loss of control with community is a cost. There certainly are some price benefits. What I am concerned about is that those price benefits have been gained at the expense of much other damage, and we have to take that damage as real damage, not just something we will get over until we get more price benefits. We have to deal with those things that are causing the problem and be prepared to go back and revise the legislation. It is not just a matter of tweaking at the edges. I think we have to go back and look at the way the legislation has been—

CHAIR—How do we achieve that process? Do you think the basic reviewing mechanisms are now in place, or do you think they are all deficient?

Ms Margetts—I am sure if I presented something like that to Frank he would probably be very annoyed with me for suggesting that was an analysis of competition policy. So if that is the kind of review that we are relying on, we are in trouble. This committee is providing another level of review. The states are doing some of their own reviews, but some of the states have gone to ground. They were part of the original agreement and now they are finding it is not what they thought it would be or that they do not want to implement some sections, they do want to implement other sections, and it is all very uneven. It seems to me you have got to have some means of going back to square one.

What we have found out from questions and answers is that nobody wants to take responsibility and that means you do have to at some stage go back to the legislation and find out what needs to be done; insist that we go back and find out and stress what the goals were or what the goals should be. If we are not reaching those goals or if we are causing damage in sectors which were not meant to be damaged or which the community does not believe ought to be damaged, then we have to see about how to address that.

CHAIR—Thank you, Dee. That concludes the committee's proceedings. On behalf of the committee I thank all witnesses who have given evidence for their participation here today.

Committee adjourned at 4.27 p.m.

