

The Senate

Standing Committee on Economics

Matters relating to the gas explosion
at Varanus Island, Western Australia

December 2008

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ISBN 978-1-74229-002-7

Senate Standing Committee on Economics

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TABLE OF CONTENTS

Membership of Committee	iii
CHAPTER 1	1
Background to the Inquiry	
Referral and terms of reference	1
Conduct of the inquiry	1
Outline of the report	2
The explosions on Varanus Island	2
CHAPTER 2	5
Economic Impact	
The macroeconomic impact	5
The economic impact on industries	8
The regional impact	11
CHAPTER 3	13
Government Response	
Immediate response	13
Emergency powers and plans	13
Contingency planning	16
Consultation with industry	19
Government involvement in the allocation of available energy	24
Energy saving measures	26
Gas Bulletin Board	28
Government hotlines	32
The role of Commonwealth Government agencies	32
CHAPTER 4	35
Response by the energy industry	
An overview of the structure of the Western Australian energy industry	35
Deployment of alternative conventional power sources	38
Contractual arrangements and prices charged by energy retailers	39
Industry involvement in the allocation of available energy	42

CHAPTER 5	45
Energy security and diversifying sources of energy in Western Australia	
Energy security strategy	45
Diversifying sources of gas and energy	46
Alternative and renewable energy sources	48
Committee view	50
CHAPTER 6	51
Conclusions and Recommendations	
Conclusions	51
Recommendations	52
COALITION SENATORS' DISSENTING REPORT	55
Government Response to the Crisis	55
The Role of Minister Logan	58
Energy Security	60
Impact on Business	61
Impact on the South West	62
Operation of the Bulletin Board	65
Price Rises	66
Why Did Gas Supply Problems Continue Past August?	67
Conclusion	68
APPENDIX 1	71
Submissions Received	
APPENDIX 2	73
Public Hearings and Witnesses	
APPENDIX 3	77
Abbreviations	

CHAPTER 1

Background to the Inquiry

Referral and terms of reference

1.1 On 28 August 2008, the Senate referred the following matters to the Standing Committee on Economics for inquiry and report:

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

1.2 Initially the report was due by 14 October 2008. However the Senate subsequently agreed to extensions of the reporting date to 3 December 2008.

Conduct of the inquiry

1.3 The committee advertised the inquiry nationally and posted details about the inquiry on its website. In addition, it wrote to over 35 organisations advising them of the inquiry and inviting them to make submissions.

1.4 The committee received 32 submissions to the inquiry. These are listed at Appendix 1, and are available at the committee's website http://www.aph.gov.au/senate_economics/.

1.5 Five public hearings were held in Perth (2 October 2008), Bunbury (3 October 2008) and Canberra (28 and 29 October and 26 November 2008). Witnesses appearing at these hearings are listed in Appendix 2.

1.6 The committee thanks all those who participated in the inquiry.

Outline of the report

1.7 Chapter 1 provides a brief overview of the conduct of the inquiry and details of the actual incident that occurred on Varanus Island on 3 June 2008.

1.8 Chapter 2 discusses the economic impact of the incident. An overview of the macroeconomic impact and impact on particular industries and regions is provided.

1.9 Chapter 3 examines the government response to the incident. The use of emergency powers, contingency planning (including the feasibility of some suggested contingency options), the government's consultation strategies, government involvement in the allocation of available energy, energy saving measures, the Gas Bulletin Board, government hotlines, and the role of Commonwealth Government agencies are discussed.

1.10 Chapter 4 examines the response by the energy industry to the incident. The chapter begins with an overview of the structure of the Western Australian energy industry and then considers the deployment of alternative conventional power sources, contractual arrangements and prices charged by energy retailers after the incident, and industry involvement in the allocation of available energy.

1.11 Chapter 5 examines the development of an energy security strategy and options for diversifying sources of energy in Western Australia, including the potential for increased use of alternative and renewable energy sources.

1.12 Chapter 6 outlines the committee's conclusions and recommendations.

The explosions on Varanus Island

1.13 On the afternoon of 3 June 2008 a series of explosions followed by fires occurred at gas production facilities on Varanus Island, 100 kilometres west of Karratha and Dampier. There were no injuries or fatalities as a result of the explosions and fires, but approximately 30 per cent of Western Australia's gas supply (~350 terajoules per day) was lost. A report from the National Offshore Petroleum Safety Authority to the Western Australian government found that the cause of the explosions was the rupture of a corroded pipe.¹

1 National Offshore Petroleum Safety Authority, *Final Report of the Findings of the investigation into the Pipe Rupture and Fire Incident on 3 June 2008 at the Facilities Operated by Apache Energy Ltd on Varanus Island*, October 2008.

1.14 The oil and gas production facilities on Varanus Island are owned by Apache Energy. Partial production was resumed in early August, and by early October it was up to two-thirds of previous production but full production is not expected to resume until December 2008.²

1.15 As noted above, the terms of reference for this inquiry direct the committee to examine the economic impact and government response subsequent to the explosions, not the causes of the explosions.

2 Mr Stephen Eliot, Western Australian Office of Energy, *Proof Committee Hansard*, 2 October 2008, p. 110. This timetable was generally accepted by other witnesses.

CHAPTER 2

Economic Impact

The macroeconomic impact

2.1 The Varanus Island incident caused significant disruption to economic activity in Western Australia causing interruption to both gas and electricity supplies. As the explosion occurred in June, and gas supplies are expected to be fully restored in December, the impact would have been concentrated in the June and September quarters of 2008, with a smaller effect on the level of output in the December quarter. The impact on economic growth in the year 2008-09 will depend on the extent to which the impact on output is only temporary. (Firms who responded by bringing forward maintenance and annual leave may have higher output in late 2008 and early 2009 than if the incident had not occurred.) The Western Australian Treasury is optimistic on this, telling the committee:

...the second half of 2008-09, we would expect economic growth to be probably a little bit faster than it would have been because things will bounce back.¹

2.2 The macroeconomic impact will never be precisely known. The simultaneous impact of the global financial crisis makes it harder to attribute any economic slowdown observed in WA to the impact of the explosion. The committee has seen a number of estimates of how much the explosions weakened economic activity.

2.3 At the hearing in Perth in early October, the Western Australian Treasury told the committee they stood by their estimates from August.² These were as follows:

The June 2008 disruption in gas supplies...is expected to cost the Western Australian economy around \$2 billion in Gross State Product (GSP) terms, with roughly half of this impact in each of the June and September quarters of 2008. This translates to approximately a 0.5 percentage point reduction in estimated GSP growth in 2007-08, from 7.5% at budget-time to 7.0%.

Forecast growth in GSP in 2008-09 remains unchanged at 6.25%, although this growth will occur off a lower base as a result of the gas supply disruption (the level of economic activity for 2008-09 will be 0.2% lower than forecast at budget-time). Importantly, the impact of the disruption is expected to be temporary, evidenced by the recent return of a third of the lost production, with forecast growth in 2009-10 revised upwards to 6.25%

1 Mr Bruce Layman, Assistant Director, Economic Policy, Western Australian Department of Treasury and Finance, *Proof Committee Hansard*, 2 October 2008, p. 121.

2 Mr Michael Court, Acting Executive Director, Economic, Western Australian Department of Treasury and Finance, *Proof Committee Hansard*, 2 October 2008, p. 111.

(from 5.75% at budget-time) to account for the expected rebound from the domestic gas supply disruption.³

2.4 The then Western Australian Treasurer felt in July that 'while there is no doubt that the incident at Varanus has caused significant disruptions to particular firms, the overall health of the economy is expected to come through this disruption well.'⁴

2.5 The Reserve Bank of Australia estimated that:

Overall, the disruption is expected to result in a temporary reduction in national GDP growth of around ¼ percentage point, spread across the June and September quarters.⁵

2.6 As GDP is around a trillion dollars, a ¼ percentage point represents about \$2½ billion, so the Reserve Bank estimate is broadly consistent with that of the Western Australian Treasury.

2.7 The Chamber of Commerce and Industry of Western Australia (CCIWA) also gave estimates of the impact:

A CCI survey of WA industry estimated the gas crisis has cost business and industry \$2.4 billion in lost turnover during June and July alone...and it is likely that the flow-on effects will continue to impact the economy for some time... Some 16.6 percent of respondents indicated that their business had been directly affected by the outage, while a further 33.2 percent had been indirectly affected. Of those businesses impacted by the gas outage, their production declined by an average 30.6 percent.⁶

2.8 A much smaller impact is estimated by the Australian Attorney-General's Department and Geoscience Australia using the Critical Infrastructure Protection Modelling and Analysis Program (CIPMA) and a general equilibrium model from Monash University known as 'TERM ('The Enormous Regional Model'). They concluded:

...the impact on the Western Australian gross state product is approximately just over \$120 million in the period 2008-12. At the national level, the GDP loss from the incident is almost \$300 million or 0.03% of GDP in this period... The effects of the event appear to 'wash out' of the economy within the two years. The key message from this CIPMA analysis

3 Western Australian Department of Treasury and Finance, *2008-09 Pre-Election Financial Projections Statement, August 2008*, p. 23.

4 Hon Eric Ripper MLA, Treasurer of Western Australia, 'Economic growth expected to stabilise after gas disruption', Media Statement, 24 July 2008.

5 Reserve Bank of Australia, *Statement on Monetary Policy*, August 2008, p. 26.

6 Chamber of Commerce and Industry Western Australia, *Submission 16*, p. 2. Note that the CCI figure for lost *turnover* cannot be compared with the estimates of lost *gross state product*, which as a 'value-added' concept will necessarily be smaller.

is that the fast response and injection of investment funds rapidly returns the economy in all regions to the business as usual path.⁷

2.9 As well as methodological differences, the CIPMA team explain their smaller estimate by the fact that they are using more recent data and the economy has recovered more quickly than earlier expected.⁸

2.10 Real household consumption expenditure in Western Australia slowed significantly in the June quarter. But given that it still increased slightly in WA, whereas it fell in New South Wales, Victoria and the Australian Capital Territory, it is hard to say how much of the slowing in consumption was due to the Varanus island incident rather than national (or global) factors.⁹ September quarter data will not be available until 3 December. The monthly trend increases in nominal retail sales in WA held up quite well in the September quarter,¹⁰ which augers well for an increase in real consumption.

2.11 Real private sector gross fixed capital expenditure (i.e. investment) was very strong in Western Australia in the June quarter. On the other hand, there was a fall in imports. While weaker imports would often be interpreted as a sign of weaker domestic demand, it is implausible that the gas disruption starting in early June could have affected imports this quickly. Export volumes also fell in WA in the June quarter. As with consumption, the picture will become clearer once the September quarter data are released on 3 December.¹¹

2.12 There is no sign of a large impact on employment in Western Australia, which grew in June, July and August after a flat period in the early months of 2008. Employment in WA fell slightly in September but then grew again in October, to reach 4 per cent higher than in May. The unemployment rate declined from 3.6 per cent in May to 2.7 per cent in August and 2.2 per cent in October. This is consistent with the view expressed by business to the committee:

The skills shortage meant that most industries have been reluctant to lay off staff during the period of the gas shortages...¹²

I think the loss of employment was relatively low.¹³

7 Attorney-General's Department and Geoscience Australia, *Varanus Island Incident: Economy Wide Impact and Supply Chain Analysis*, November 2008, pp 4–5.

8 Attorney-General's Department and Geoscience Australia, *Varanus Island Incident: Economy Wide Impact and Supply Chain Analysis*, November 2008, p. 5.

9 Data from Australian Bureau of Statistics, *Australian National Accounts: National Income, Expenditure and Production*, June 2008, Cat. no. 5206.0.

10 Australian Bureau of Statistics, *Retail Trade Trends*, September 2008, Cat. no. 8501.0

11 Data in this paragraph from Australian Bureau of Statistics, *Australian National Accounts: National Income, Expenditure and Production*, June 2008, Cat. no. 5206.0. Exports and imports data only refer to international trade, not exports to and imports from other states in Australia.

12 Bunbury Wellington Economic Alliance, *Submission 2*, p. 1.

We certainly surveyed the membership to find evidence of people being stood down...and there really was not any evidence to suggest that was happening...¹⁴

2.13 However, while few workers have lost their jobs, it was reported that some have been stood down or required to take annual leave at times not to their convenience.¹⁵ It was suggested that around 2 000 workers may have been affected in the Bunbury region.¹⁶

The economic impact on industries

2.14 A model used by the Western Australian Treasury suggested:

The industries that were worst affected were the energy intensive mineral processing industries—alumina, nickel, mineral sands; those kinds of industries...Some of the tourism industries were badly affected; food, drink and tobacco, and also wood and paper products...Even though it [the model] takes into account second and third round impacts, it really is that big first round impact that dominates.¹⁷

Manufacturing

2.15 The CCIWA suggested that 'businesses operating in the manufacturing industry were hit hardest...'¹⁸

2.16 Chemical production, such as ammonium nitrate, was particularly affected, with some plants forced to close. A major food manufacturer, Vesco Foods, closed for a week.¹⁹ It was reported that brick kilns were closed down for a period, with a flow-on to construction.²⁰ Bottling operations were disrupted by a shortage of CO₂. It was reported that some Western Australian businesses with national operations replaced local product with product from the eastern states.²¹

13 Mr David Lock, Food Industry Association of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 95.

14 Mr Reginald Howard-Smith, Chamber of Minerals and Energy of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 106.

15 Chamber of Commerce and Industry Western Australia, *Submission 16*, p. 3.

16 Bunbury Wellington Economic Alliance, *Submission 2*, p. 2.

17 Mr Bruce Layman, Assistant Director, Economic Policy, Western Australian Department of Treasury and Finance, *Proof Committee Hansard*, 2 October 2008, p. 122.

18 Chamber of Commerce and Industry Western Australia, *Submission 16*, p. 4.

19 Food Industry Association of Western Australia, *Submission 24*, p. 2.

20 *West Australian*, 9 June 2008, p. 1; *Manjimup-Bridgetown Times*, 18 June 2008.

21 Food Industry Association of Western Australia, *Submission 24*, p. 2.

Tourism

2.17 Hotels reported that they faced difficulty getting clean linen as commercial laundries had their supply of gas cut.²² Responses included cutting back on use of linen (e.g. tablecloths) and using guest laundries within hotels to wash sheets. As gas started to become available, prices charged by commercial laundries were temporarily higher than usual. During this period hotels generally absorbed these costs rather than attempting to pass them on.²³

2.18 Some swimming pools and saunas were forced to lower temperatures, or in some cases close, and a fifth of local governments reported reducing casual staff in recreational facilities.²⁴ Tap beer was affected by CO₂ shortages.

2.19 The impact on hotels became an especially crucial issue due to the Australian Tourism Exchange being held in Perth from 14 to 20 June 2008 with over 2 000 international delegates. This raised concerns over reputational risk. However, in the event, the delegates seemed understanding of the need for some restrictions and there were no complaints.²⁵

2.20 The Australian Hotels Association (Western Australia) is particularly concerned about 'the long term effect of customer dissatisfaction, lost business and revenue opportunities and damaged business reputations'.²⁶ However, while they came close, no hotels turned away customers as a result of the gas shortage and there appear to have been no job losses at hotels or restaurants.²⁷ The majority of hotels responding to a survey said that 'customers were satisfied that the hotels were doing the best that they could'.²⁸

22 Lighthouse Beach Resort, *Submission 3*, p. 1; Western Australia Chamber of Commerce and Industry, *Submission 16*, p. 3; Tourism Western Australia, *Submission 22*, p. 1.

23 Ms Jennifer Duffecy, Tourism Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 6.

24 Mr Ian Duncan, Western Australian Local Government Association, *Proof Committee Hansard*, 2 October 2008, p. 74; Australian Hotels Association (Western Australia), *Submission 21*, p. 1.

25 Ms Jennifer Duffecy, Tourism Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 3.

26 Australian Hotels Association (Western Australia), *Submission 21*, p. 3. They reported that 68 per cent of hotels had received complaints, of which 40 per cent were blaming the hotel and its staff.

27 Ms Jennifer Duffecy, Tourism Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 9; Mr Brockschlager, Australian Hotels Association, *Proof Committee Hansard*, 2 October 2008, p. 18.

28 Ms Jennifer Duffecy, Tourism Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 5.

2.21 By the time of the committee's hearings in early October, the situation in the tourism industry was back to normal.²⁹ One benefit that arose from the shortage was that some hotels realised that there were cost savings and environmental benefits in using less linen where possible.

Mining

2.22 Some mines had to cut production due to lack of power.³⁰ According to CCIWA:

Almost 19 percent of mining sector respondents have been directly affected by the gas crisis, while a further 41 percent have been indirectly affected. On average, production among these affected businesses has declined by 26 percent.³¹

2.23 It was reported that other mining operations were disrupted by a shortage of sulphuric acid used to clean ore, or a shortage of explosives³² and the some producers brought forward maintenance.

Insurance

2.24 The Insurance Council of Australia told the committee that the impact on the insurance industry had been relatively modest:

At the present time [late October]—and I should stress that claims will continue to come in for some time—the aggregate of claims made to the general insurance industry is \$75 million. That is perhaps a smaller figure than the media have led others to believe...Seventy-five million dollars as an aggregate loss is very small if you compare this to, for example, the Longford gas disruption in Victoria some years ago.³³

2.25 The relatively small impact reflected most companies choosing not to take out business disruption insurance and in some cases policies only allowing a claim if gas supply was totally cut off rather than just reduced or subject to high deductibles.³⁴

Rural industries

2.26 Farmers were affected as fertiliser became scarce or more expensive.³⁵ It was reported that abattoirs were affected by a shortage of liquid CO₂ used for killing

29 Ms Jennifer Duffecy, Tourism Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 8.

30 Newcrest Mining, *Submission 14*, p. 1.

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

32 *Manjimup-Bridgetown Times*, 18 June 2008.

33 Mr Karl Sullivan, *Proof Committee Hansard*, 28 October 2008, pp 2–3.

34 Mr Karl Sullivan, *Proof Committee Hansard*, 28 October 2008, pp 4–6.

pigs.³⁶ Vineyards were affected by a shortage of CO₂ for their bottling runs.³⁷ Logging operations, and associated transport companies, were disrupted as mills were forced to close.³⁸

Construction

2.27 Construction and maintenance activities were impeded by a shortage of asphalt.³⁹

Retailers

2.28 Food retailers normally selling to workers in some of the above industries who had been stood down, were indirectly affected.⁴⁰ Some shopping malls shut lifts and turned off lights to conserve energy.

Research

2.29 Research into carbon capture at Curtin University was disrupted by a shortage of dry ice, which could jeopardise its ongoing funding.⁴¹

The regional impact

2.30 Views differed about which regions of Western Australia were the most affected, although the majority view seems to be the south west:

...the failure of the marketplace to provide adequate supplies for industry was stark and caused great expense and dislocation to the south west business community and industry in particular.⁴²

Disruption was caused across the state...If there was a section of the state most severely impacted up, and it is all relative, it would be the south west.⁴³

35 Manjimup Chamber of Commerce and Industry, *Submission 4*, p. 1; Mr Kim Marino, *Submission 13*, p. 1.

36 *Farm Weekly*, 19 June 2008, pp 3–4.

37 Manjimup Chamber of Commerce and Industry, *Submission 4*, p. 1.

38 Plantation Logging Co., *Submission 7*, p. 1; Premin Holdings, *Submission 9*; M & T Cutts Haulage, *Submission 19*, p. 2.

39 Mr Ian Duncan, Western Australian Local Government Association, *Proof Committee Hansard*, 2 October 2008, p. 74.

40 Capel Takeaway, *Submission 11*, p. 1.

41 Professor Robert Amin, *Submission 1*, p. 1.

42 Mr Allan Birrell, Bunbury Chamber of Commerce and Industries, *Proof Committee Hansard*, 3 October 2008, p. 23.

43 Mr Reg Howard-Smith, Chamber of Minerals and Energy of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 99.

...the goldfields would have been more impacted, proportionately, than the south west.⁴⁴

...impacts from the crisis were felt from the Pilbara down to the south west. I acknowledge that there were particular impacts in the south west...probably because some of the gas consumers there were significant employers and were hard-hit. Also, there were a number of companies in the Pilbara, for example, which basically shut down and, in at least one case that I am aware of, are still shut down.⁴⁵

From the local government perspective directly, I do not think that you can pick out any particular area.⁴⁶

Larger residential and light industry distribution [most affected by the crisis] includes the Bunbury, Busselton, Geraldton and Perth regions...⁴⁷

2.31 A model used by the Western Australian Treasury suggested that given which industries were most affected:

... you really look at which regions have got those industries, and the south west has the biggest share, with alumina and mineral sands. That was the worst affected area. Other than that, the incident itself had a fairly large economic impact on the Pilbara. There were also businesses in the goldfields, and obviously a lot in the Perth statistical area. There are bananas up north... It was fairly widely distributed, but the south west was quite a fair way in front in terms of regional impacts.⁴⁸

2.32 The Insurance Council, when asked the source of most claims, replied:

...predominantly from a mixture of businesses and commercial operations in the south west part of the state and around Perth. There are a reasonable proportion of claims in there from mining operations and manufacturing operations.⁴⁹

44 Mr Stuart Hohnen, DomGas Alliance, *Proof Committee Hansard*, 2 October 2008, p. 27.

45 Mr James Pearson, Chamber of Commerce and Industry of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 46.

46 Mr Ian Duncan, Western Australian Local Government Association, *Proof Committee Hansard*, 2 October 2008, p. 80.

47 Attorney-General's Department and Geoscience Australia, *Varanus Island Incident: Economy Wide Impact and Supply Chain Analysis*, November 2008, p. 6.

48 Mr Bruce Layman, Assistant Director, Economic Policy, Western Australian Department of Treasury and Finance, *Proof Committee Hansard*, 2 October 2008, p. 122.

49 Mr Karl Sullivan, Insurance Council of Australia, *Proof Committee Hansard*, 28 October 2008, p. 2.

CHAPTER 3

Government Response

Immediate response

3.1 The Western Australian Government established a five point plan after the Premier met with industry leaders on the Sunday after the explosions. The Coordinator of Energy, Mr Jason Banks, outlined the government's response in the immediate aftermath of the incident:

The first two days of the incident involved intelligence gathering and establishment of communication lines with key stakeholders to ascertain the impact and magnitude of the disruption...

The Office of Energy assisted in convening the meeting of 8 June between the previous Premier and key industry stakeholders...The outcome of this meeting was the establishment of a Gas Supply Coordination Committee¹... to assist the state to identify and manage the potential impacts of the gas supply disruption on the Western Australian community, in particular operation on energy supply levels and the implementation of the previous government's five-point plan in response to the incident.

The five-point plan involved accessing gas from the North West Shelf and other suppliers, accessing energy from other sources to free up gas such as displacing gas from power generation with distillate fuel, encouraging gas and electricity customers not to waste energy, working with industry to shift demand to low-peak times and ensuring that diesel was available to replace natural gas where possible. The office convened the first meeting of the Gas Supply Coordination Committee on Monday, 9 June with the key output of that meeting being an agreed set of guiding principles for the allocation of available energy.²

Emergency powers and plans

3.2 Without declaring an emergency, there are limits to the extent to which the government can intervene in commercial arrangements.

3.3 A minority view was that the government should invoke emergency powers. However in general those witnesses who supported this position seemed unaware of

1 Members of the Coordination Committee were the Office of Energy, the Minister for Energy's office, the Office of the Premier, Department of Premier and Cabinet, the Department of Industry and Resources, the Government Media Office, the Chamber of Commerce and Industry, the Chamber of Minerals and Energy, Alinta, the Dampier to Bunbury Pipeline, Verve Energy and Western Power system management and Synergy.

2 Mr Jason Banks, Office of Energy, *Proof Committee Hansard*, 2 October 2008, pp 108–109.

the limitations that apply to the invocation of emergency powers or the potential litigation that may result if such action had been taken by the state government. However most witnesses seemed supportive of the decision not to invoke emergency powers.

We strongly endorse the government's decision, which was taken at an early stage, not to intervene in gas production and delivery arrangements by invoking emergency powers and instead allowing, to the extent possible, market forces to resolve issues which arose as a consequence of the incident.³

Industry and the Chamber were supportive of the State Government's preferred strategy of not invoking emergency powers but of seeking voluntary contributions to a managed outcome.⁴

... our view that we expressed at the time was that the market should prevail, and I mention that contracts should remain intact. I think the preference for the market prevailing, even though there are consequences and they are in the form of cost increases, overwhelmingly is a better option than having intervention in the marketplace.⁵

There is a point at which emergency powers become relevant. I do not think emergency powers were appropriate in this particular situation...⁶

3.4 Other witnesses such as the Food Industry Association of Western Australia argued that the government should have had plans to 'step in and take some control so that (a) there is no profiteering and (b) there is allocation where it is required.'⁷

Emergencies under the Energy Coordination Act 1994 (WA)

3.5 There are specific provisions under the *Energy Coordination Act 1994 (WA)* relating to gas supply system emergencies. If a state of emergency exists in relation to the gas supply system the Minister is able to make emergency orders under the Act.

3.6 In relation to these emergency powers, the former Minister for Energy, Hon Fran Logan MLA, told the committee that:

...you can only issue those gas and electricity emergency orders if there is a likelihood of a collapse or depressurisation of the gas system, which was not the case; we only lost a third of the gas in this instance. But before you issue any orders, the first thing you have to do is get people who are likely

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

4 Chamber of Minerals and Energy of Western Australia, *Submission 17*, p. 1.

5 Mr Reg Howard-Smith, Chamber of Minerals and Energy of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 100.

6 Mr Stuart Hohnen, DomGas Alliance, *Proof Committee Hansard*, 2 October 2008, p. 33.

7 Mr David Lock, Food Industry Association of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 93.

to be affected or who can have an impact on addressing the situation, get as many of them as possible together, to work in a collaborative manner. That is what those gas emergency orders ask you to do. They say it is far better to work in a collaborative manner than to have the government standing there issuing orders to people; and that is what was done. That is what was done.⁸

For the government to intervene—which is what people were asking for—and allocate that gas, even if you were to try to do it under the emergency powers...somebody else would miss out. Remember, this is gas that is all contracted and...for a government to jump in to break up a contract between two parties and take that gas and allocate it to another party is a recipe for disaster.⁹

Emergencies under the Emergency Management Act 2005 (WA)

3.7 More general emergency powers can be invoked under the *Emergency Management Act 2005* (WA). Emergency powers under the Act apply when an 'emergency situation' (declared by a Hazard Management Agency, such as the Department of Consumer and Employment Protection) or a 'state of emergency' (declared by the Minister for Emergency Services) occur.¹⁰

3.8 The legislation requires the establishment of State emergency management policies and plans in relation to all hazards. An emergency management plan for fuel shortage emergencies was approved by the State Emergency Management Committee on 31 January 2006.¹¹ It appears that this plan was not implemented after the Varanus Island incident.¹² The Western Australian Local Government Association suggested that the state emergency management plan for fuel shortage emergencies 'be revised and used to determine the priorities for allocation of limited gas'.¹³ The committee notes that the plan is currently being reviewed.¹⁴

8 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, pp 137–8.

9 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 145.

10 Fire and Emergency Services Authority of Western Australia, *Emergency Management Act 2005 Frequently Asked Questions*, <http://www.fesa.wa.gov.au/internet/upload/shared/docs/EMActFAQsMar06.pdf>.

11 Fire and Emergency Services Authority of Western Australia, *State Emergency Management Plans (WESTPLAN)*, <http://www.fesa.wa.gov.au/internet/?MenuID=297>.

12 Mr John Lane, Western Australian Local Government Association, *Proof Committee Hansard*, 2 October 2008, p. 74.

13 Western Australian Local Government Association, *Submission 8*, p. 2.

14 Fire and Emergency Services Authority of Western Australia, *State Emergency Management Plans (WESTPLAN)*, <http://www.fesa.wa.gov.au/internet/?MenuID=297>.

Committee view

3.9 The committee recognises that some businesses were severely affected by the disruption to their gas supplies following the Varanus Island incident. However, the committee believes that given the circumstances of the incident where there was no collapse or depressurisation of the gas system (only 30 per cent of Western Australia's gas supply was disrupted), and the consequences of forcing unaffected energy suppliers to break contracts and arbitrarily taking gas away from one user to give to another, the government had limited capacity to invoke emergency powers. In the circumstances the steps taken by the state government were appropriate.

Contingency planning

3.10 The government was criticised by some witnesses for lacking a contingency plan or strategic reserve:

Why is there no contingency plan for infrastructure assets vital to industry in this state?¹⁵

This potential of emergency storage facilities of gas has not been examined or debated widely as evidenced by the State Government's ineffectiveness during the crisis. This is a contingency action the State Government could have implemented in response to the crisis...¹⁶

The Food Industry Association's view is that the state government is responsible for the reliable and economic provision of essential utilities, including gas, to food and beverage and other industries. It controls that supply through the issue of licences and therefore it is ultimately responsible for the risk management and contingency plans required to ensure secure supply is maintained...¹⁷

The Western Australian State Government needs to ensure that a reliable, secondary, replacement supply of energy is constructed and able to be brought online in case of a similar emergency.¹⁸

There needs to be a LPG receiving, storage and distribution centre in Perth (or preferably the south west) that can compete with the natural gas pipeline for customers, and provide its own distribution system to reduce reliance on the pipeline.¹⁹

3.11 The committee was informed that some gas is already being stored in depleted reserves around the Perth basin. However it was suggested that 'storage facilities are not going to be able to overcome the shortages of the size experienced by the Varanus

15 Piacentini & Son, *Submission 12*, p. 1.

16 Food Industry Association of Western Australia, *Submission 24*, p. 6.

17 Mr David Lock, Food Industry Association of Western Australia, *Proof Committee Hansard*, p. 85.

18 Australian Hotels Association (Western Australia), *Submission 21*, p. 6.

19 Mr David Smith, Mayor of Bunbury, *Submission 23*, p. 1.

Island gas incident...²⁰ In outlining the option of a gas storage facility near Perth the Office of Energy told the committee:

You would need a large reservoir to be able to store the quantity of gas that would be required to sustain a 30 per cent reduction in gas supply for the whole state for at least two months. There would be a significant cost involved and there would be significant costs in actually filling the facility with gas and carrying that gas, the point being that the gas cannot be utilised on a daily basis. It effectively has to be a redundancy. It has to sit there and be available for a contingency which is a one-in-thirty-year event. So you have a large carrying cost in terms of the capital tied up in having that type of resource stored.²¹

3.12 The Office of Energy suggested that another possible contingency option would be the development of an offshore LNG receival terminal so that LNG could be delivered by ship directly to the Perth basin:

Other options have been proposed as well—for example, an offshore LNG receival terminal. But, again, you would need ships that effectively are idle, because if they are integrated into the market and used on a daily basis, if you have an event like this they will not be there to provide additional supplies, they will only be part of the integrated daily usage.²²

3.13 The former Minister for Energy, Hon Fran Logan MLA, suggested that such a facility would cost at least \$1.8 billion:

...because you have to have cryogenic storage facilities. You have to have that system integrated with the current gas distribution system, you have to have regasification facilities and you have to have cryogenic unloading facilities as well. These have been put in place around the world. They are very expensive and someone has to pay for it.²³

3.14 Similarly, on the question of constructing a regasification terminal the Commonwealth Department of Resources, Energy and Tourism told the committee that the challenge would be in the cost of building such a facility.²⁴

3.15 Mr Logan suggested that the given the significant cost of developing such contingencies any proposal would require 'support from all the players in the market, because someone at the end of the day has to pick up the cost'.²⁵

20 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 135.

21 Mr Jason Banks, Office of Energy, *Proof Committee Hansard*, 2 October 2008, pp 129–130.

22 Mr Jason Banks, Office of Energy, *Proof Committee Hansard*, 2 October 2008, p. 130.

23 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 149.

24 Mr Martin Squire, Department of Resources, Energy and Tourism, *Proof Committee Hansard*, 28 October 2008, p. 19.

25 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 149.

3.16 He further suggested that such support would probably not be forthcoming:

They do supply domestic gas and they are the major suppliers of domestic gas but, as you know, they are focusing on LNG exports as the prime income driver for their operations. They are responsible to shareholders and I do not think those boards would take kindly to any proposal put before them to spend money on building domestic gas operations.²⁶

3.17 The Chamber of Minerals and Energy told the committee that 'emergency storage of a sufficient volume to be meaningful (i.e. beyond a few days) is both technically and environmentally challenging and may not be economically feasible.'²⁷

3.18 The committee was informed that just prior to the election the former government asked the Office of Energy to conduct a review looking into these sorts of contingencies.²⁸ This was announced as an expansion of the review that was being conducted by the Office of Energy into the circumstances surrounding the incident where gas supplies from the North West Shelf Joint Venture's Karratha gas plant were cut for several days in January 2008. The new government has now been provided advice regarding the endorsement of terms of reference for the inquiry.²⁹

Committee view

3.19 Given the importance of gas supplies to the Western Australian economy it is appropriate that the initiative of the former government to commence the development of an energy security plan should be continued by the newly elected state government. The energy security plan should include a thorough review of possible contingency options. The committee therefore notes the announcement of the review into gas security announced by the Western Australian Government on 6 August 2008. This review should be conducted in coordination with the broader review of energy security detailed in Chapter 5 and the National Energy Security Assessment currently being conducted by the Commonwealth Department of Resources, Energy and Tourism.

3.20 The committee does however note that any contingency option that would be of sufficient scope to mitigate significantly the impact of a gas shortage on the scale of that experience after the Varanus Island incident would be very expensive and could present significant technical and environmental challenges.

26 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 149.

27 Chamber of Minerals and Energy of Western Australia, *Submission 17*, p. 4.

28 See also Hon Alan Carpenter MLA, Premier, and Hon Fran Logan MLA, Minister for Energy, *Media statement: Government orders review into gas security*, 6 August 2008, <http://www.mediastatements.wa.gov.au/Pages/Results.aspx?ItemId=130664&search=varanus&admin=&minister=&portfolio=®ion>.

29 Mr Rolando Custodio, Office of Energy, *Proof Committee Hansard*, 2 October 2008, pp 130–131.

Consultation with industry

3.21 The Chamber of Commerce and Industry of Western Australia (CCIWA) described the Government's consultation with industry:

In terms of the communications effort, the government did engage my chamber and the Chamber of Minerals and Energy directly, and it was clear that the government looked to our chambers to play an important role in facilitating communication in both directions—between the government and industry.³⁰

3.22 Some subsidiary business groups did not feel this adequately represented their perspectives:

...food and beverage was not well represented across the broad spectrum that CCI were representing...we should have been there to represent the food and beverage industry. We communicated with CCI, but it was a small part of their broader interest...they did not strongly enough represent our industry.³¹

I think it is fair to say that CCIWA have a different view of the world. They have a view that is more aligned to the major corporate structure in this state.³²

3.23 There was also criticism about a perceived lack of openness by the government. A survey of hoteliers found that 87 per cent were dissatisfied 'with the government's failure to release key documents and facts pertaining to the Varanus Island explosion.'³³ The Food Industry Association of Western Australia (FIA) explained that they:

...made requests for information during the crisis from the Office of Energy, the Department of Agriculture and Food, the Minister for Agriculture and Food and the Premier. Industry and business wanted to gain clarity about the status of the crisis situation, the expected outlook, potential ways to effectively manage and improve the situation, the long term impact, and assurances that similar situations can be avoided and better managed in the future by effective and efficient planning. The lack of provision of this information on request was not explained or declared as confidential..³⁴

30 Mr James Pearson, Chamber of Commerce and Industry of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 36.

31 Mr David Lock, Food Industry Association of Western Australia, *Proof Committee Hansard*, 2 October 2008, pp 85, 95 and 96.

32 Mr Allan Birrell, Bunbury Chamber of Commerce and Industries, *Proof Committee Hansard*, 3 October 2008, p. 24.

33 Australian Hotels Association (Western Australia), *Submission 21*, p. 5.

34 Food Industry Association of Western Australia, *Submission 24*, p. 6.

3.24 Although the FIA did note that 'the Minister for Agriculture and Food was available to meet and discuss the industries and business concerns, but his office's ability to assist was of limited use...'³⁵

3.25 Similarly, the Bunbury Chamber of Commerce and Industries reported being able to speak directly to the minister:

Yes, we had access directly to the minister for energy on two occasions through our local members. I think we were given a fair hearing but there was in my view an underlying concern that the domestic market in Perth had to be protected.³⁶

3.26 Mr Jason Banks, from the Office of Energy, explained that some information was commercial-in-confidence and therefore could not be released:

We had a very good response from industry and they provided us very good information, but much of it was subject to commercial confidentiality concerns, which were raised with us. So we kept that in confidence and the information we were releasing was at a more aggregated general level.

...from my office's perspective, we were providing public updates from the 4th.³⁷

3.27 There was also concern among businesses that they were not informed about the expected duration of the gas shortage following the incident. The Office of Energy explained that information about the duration of the disruption was made available once Apache had made the appropriate assessment.³⁸

3.28 The former Minister for Energy, Hon Fran Logan MLA, acknowledged that small to medium sized businesses felt that they were not being communicated with directly by government. Although he pointed out that the gas supply system in Western Australia is a private system and:

They would have to have spoken in the first instance to their supplier of gas and, when they did, as you will find out tomorrow—and I can address some of those issues through the questioning—people were upset about the way in which their supplier was dealing with them. We were encouraging people to go on websites. There was a daily update of what was happening with the gas issue through the Office of Energy website. Alinta itself also had a website dedicated to the gas outage and what people could do about it, and who to contact. Of course, we had various hotlines in place, which we were

35 Food Industry Association of Western Australia, *Submission 24*, p. 6.

36 Mr Allan Birrell, Bunbury Chamber of Commerce and Industries, *Proof Committee Hansard*, 3 October 2008, p. 25.

37 Mr Jason Banks, Office of Energy, *Proof Committee Hansard*, 2 October 2008, p. 114.

38 Mr Jason Banks, Office of Energy, *Proof Committee Hansard*, 2 October 2008, p. 115.

advertising on radio, TV, newspapers, to ensure that people had someone to go to, to talk to.³⁹

3.29 On the question of releasing documents relating to the National Offshore Petroleum Safety Authority (NOPSA) investigation into the causes of the explosion, Mr Logan told the committee that while it would not have been appropriate to release documents that related specifically to NOPSA's investigation because it would have undermined their investigation:

The questions asked, allegations made, particularly about inspections of pipelines, and documents demanded, would have undermined the investigation, and that was the strong advice that I received from the department itself, and I believe that was confirmed by the state solicitors. For example, you do not start releasing information during the investigation of an air crash, nor do the police start releasing documents when they are halfway through an investigation or part of the way through an investigation into incidents or explosions that may not be of this nature. It just does not happen, and this is no different, though through FOI—and there were a number of FOI applications put in—all relevant information was supplied to both the opposition at the time and the media in terms of what documents they needed. But in terms of documents that related specifically to the work that was being undertaken by NOPSA and that may well have skewed the outcome of this investigation, we did not release those documents and we were advised not to release them for obvious reasons.⁴⁰

Gas Supply Coordination Committee and Gas Supply Disruption Recovery Committee

3.30 Soon after the explosions on Varanus Island the government set up two committees – the Gas Supply Coordination Committee and the Gas Supply Disruption Recovery Committee. In essence the Coordination Committee was responsible for dealing with energy supply issues and met on regular occasions to work through the five-point plan which was designed to minimise the impact of the incident.⁴¹ The membership and remit of the Coordination Committee is discussed at paragraph 3.1.

3.31 A communications subcommittee of the Coordination Committee was also established 'in order to maintain consistency of messages to the public, industry and other government agencies'. Membership of the subcommittee included government

39 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 138.

40 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 137.

41 As noted in paragraph 3.1, the five-point plan involved accessing gas from the North West Shelf and other suppliers, accessing energy from other sources to free up gas such as displacing gas from power generation with distillate fuel, encouraging gas and electricity customers not to waste energy, working with industry to shift demand to low-peak times and ensuring that diesel was available to replace natural gas where possible.

departments, electricity utilities, Alinta, the CCIWA, the CME and a media company, Marketforce.⁴²

3.32 With regard to the Gas Supply Disruption Recovery Committee, the then Premier outlined its membership and remit in state parliament on 12 June 2008:

Of course, we are dealing not just with the restoration of energy supplies; the issue is broader than that. Our other key priority is to deal with the fallout from the disruption to gas supplies; that is, the economic, social and employment consequences of that disruption...I have instructed the Director General of the Department of the Premier and Cabinet, Mr Mal Wauchope, the most senior public servant in the state, to bring together a high-powered team to coordinate our response to the economic and social impacts of this event. The group is holding its first meeting as we speak. The group will meet as often as required and will report to me, other relevant ministers and the Gas Supply Coordination Committee...The aim of the [Gas Supply Disruption Recovery Committee]⁴³ is to support industry, businesses, services and communities that have been affected by the gas supply disruption, so that they can return as quickly as possible to normal function. In particular, I want the team to focus on industry concerns about the impact of the gas shortage, such as the shutdown and closure of some businesses; concerns about the potential for job losses and flow-on effects for businesses and the community; the effect on essential services, including food supplies and hospitals; and the effect on future economic growth and the mining industry.⁴⁴

3.33 The Chief Executive of the Chamber of Minerals and Energy of Western Australia told the committee:

I have no criticism of the Gas Supply Coordination Committee. I think there are some suggestions that we would make of how a committee of that nature could work better and perhaps have a better redundancy situation. It put significant pressure on key individuals. There are comments one would make about the Gas Supply Disruption Recovery Group. I think that some parties that were part of that were clearly well organised, others less organised, and I think there are some observations that can be made about

42 Hon Fran Logan MLA, *Submission 31*, pp 3–4.

43 Membership of the Gas Supply Disruption Recovery Committee included representatives from the Western Australian Treasury, the Department of Industry and Resources, the Department of Health, the Department of Agriculture and Food, the Department for Communities, the Small Business Development Corporation, relevant commonwealth agencies such as Centrelink and the Department of Education, Employment and Workplace Relations, and a number of peak industry bodies such as the Chamber of Commerce and Industry of Western Australia, the Chamber of Minerals and Energy of Western Australia, the Western Australian Meat Industry Authority and the Western Australian Local Government Association.

44 Hon Alan Carpenter MLA, Premier, *Western Australian Legislative Assembly Hansard*, 12 June 2008, pp 3781–3782.

how that could be improved if there were a major incident in Western Australia.⁴⁵

3.34 Mr Stuart Hohnen, Chairman of the DomGas Alliance, told the committee that:

having started with the premise that the government determined that they wanted to deal with it, to the extent possible, through market mechanisms, I think the [coordination] committee operated quite effectively.⁴⁶

3.35 The Food Industry Association of Western Australia was critical of both committees:

The State Government has reinstated two committees in response to the crisis: (1) Gas Supply Coordination Committee dealing with the priority allocation of gas and (2) a Recovery Committee. At the first committee, the food and beverage industry appeared to be unrepresented. The responsibility of this committee was unclear or no noticeable actions were taken and/or communicated to the wider business community. This Committee appeared to have determined a priority order of gas allocation as published on its internet site, however this priority was not enforced with any authority and seemed to have been the sole responsibility of Alinta, whose gas supply was severely decimated. The question can be raised what was the actual function, impact and achievement of this committee? For the Recovery Committee – no apparent action, outcomes have been reported/or communicated. As with the first committee the effectiveness should be questioned.⁴⁷

3.36 In response to questions about the membership of the Coordination Committee and in particular the apparent lack of representation of small customers, Mr Logan told the committee that:

...what we were trying to do was have on the committee those people who could actually take actions to ensure that the maximum amount of gas was available to those small customers.⁴⁸

3.37 In its submission the Western Australian Local Government Association (WALGA) informed the committee that it accepted an invitation to participate in the Gas Supply Disruption Recovery Committee:

This committee met on three occasions and provided two way communications through daily email updates between meetings. This

45 Mr Reginald Howard-Smith, Chamber of Minerals and Energy of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 98.

46 Mr Stuart Hohnen, DomGas Alliance, *Proof Committee Hansard*, 2 October 2008, p. 29.

47 Food Industry Association of Western Australia, *Submission 24*, p. 5.

48 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 143.

committee was considered a worthwhile undertaking by local governments, although its impact on decision-making at the local level was limited.⁴⁹

3.38 At the hearing WALGA expanded on what they thought the Recovery Committee achieved:

I think our view would be that it achieved some degree of dialogue, a marginal degree of improved understanding of the situation, an awareness of the situation that others were trying to respond to, but it never gained the status of managing an emergency and therefore it never, within the sorts of spheres that we operate in, drove decision making in an emergency type of mindset.⁵⁰

3.39 WALGA representatives noted that these observations were with the benefit of hindsight and they raised no objections at the time.⁵¹

Committee view

3.40 The committee recognises that some small and medium-sized businesses felt that they were not being communicated with directly by the government during the gas shortage. However, the committee notes that the gas system in Western Australia is privatised and therefore information about the operations of the system beyond a more aggregated general level is subject to commercial confidentiality concerns which limited the government's ability to provide specific information to businesses. In relation to non commercial in confidence information the committee believes that processes should be put in place to enhance transparency and information for the public.

3.41 With regard to the release of documents relating to the NOPSA investigation into the causes of the explosions, the committee notes that the former government received advice from the relevant department and the State Solicitor's Office that releasing certain information would undermine NOPSA's investigation. The committee also notes that the only documents that were not released were those that related specifically to the work that was being undertaken by NOPSA.

Government involvement in the allocation of available energy

3.42 With a privatised gas market based on contractual obligations and limited capacity for government intervention the government had little option but to operate within a market based approach in response to the gas shortage. The government therefore adopted a collaborative approach to the allocation of available energy after the initial priority order had been determined.

49 Western Australian Local Government Association, *Submission 8*, p. 2.

50 Mr John Lane, Western Australian Local Government Association, *Proof Committee Hansard*, 2 October 2008, p. 77.

51 Mr John Lane, Western Australian Local Government Association, *Proof Committee Hansard*, 2 October 2008, pp 82–83.

3.43 On 9 June, the Gas Supply Coordination Committee agreed on a set of guiding principles for the allocation of available energy. The Office of Energy explained that the priority order was based on the need to protect the health, safety and property of the community, minimise broad community disruption and minimise economic impact.⁵² The guiding principles were published and they were used as a guide for suppliers of energy in terms of their allocation.⁵³ The Office of Energy outlined the priority schedule as follows:

1. Energy infrastructure is to be given top priority to maintain the State's capability to supply gas and electricity to users.
2. Essential Services are defined as those critical services that have the potential to seriously impact on the health and safety of the community and include essential public transport and communications.
3. Essential Supply to Residential Customers will minimise the potential for health impacts and disruption to the community. Consumers are encouraged to reduce energy consumption.
4. Industries providing essential goods and services to the WA community will have a higher priority in the allocation of energy than those that do not. This is to minimise disruption to the community and recognise the important services that these industries provide.
5. For all other industries, every effort will be made to maximise the availability of supply, recognising their importance to the State and National economy.⁵⁴

3.44 The Office of Energy noted that the priority schedule would not override contractual arrangements, that in assessing allocation to industries consideration would be given as to whether they have alternative supplies, and that there are physical limitations to the operations of the gas and electricity supply system which would impact on the application of the schedule.⁵⁵

3.45 The committee heard that there was some criticism of the overall priority schedule:

52 Hon Margaret Quirk MLA, Minister for Small Business, 'Minister urges small business to "tighten belt" on energy use', Media Statement, 10 June 2008.

53 Mr Jason Banks, Office of Energy, *Proof Committee Hansard*, 2 October 2008, p. 109.

54 Office of Energy, *Gas Supply Coordination Committee*, http://www.energy.wa.gov.au/2/3251/64/gas_supply_coor.pm.

55 Office of Energy, *Gas Supply Coordination Committee*, http://www.energy.wa.gov.au/2/3251/64/gas_supply_coor.pm.

It is also our view that the priority structure developed by the Office of Energy was flawed and more consideration of the needs of industry was required.⁵⁶

Industry was given the lowest priority by the government in the gas allocation policy, and there was no consideration of gas rationing to non essential domestic users.⁵⁷

A more equitable system would have been for all parties affected by the explosion to have their gas allocation reduced by 30%.⁵⁸

Committee view

3.46 The priority schedule for the allocation of available energy developed by the Gas Supply Coordination Committee was designed to minimise broad community disruption and economic impact by allocating available energy to energy infrastructure in the first instance, followed by:

- critical health and safety services, including public transport and communications;
- residential customers;
- industries providing essential goods and services; and
- other industries.

3.47 The committee believes that this broad priority schedule was sensible and appropriate in the circumstances following the Varanus Island incident. In particular, the committee agrees that supply of energy to residential customers was crucial to ensure that negative health impacts were minimised, particularly as the incident occurred in winter.

3.48 There was also criticism about how available energy was allocated and distributed by the retailer, Alinta. This is discussed in Chapter 4.

Energy saving measures

3.49 Some witnesses suggested that not enough was done to reduce household usage of energy:

...more could have been done at an earlier stage in terms of encouraging the household sector to adopt energy conservation efforts.⁵⁹

56 Mr Allan Birrell, Bunbury Chamber of Commerce and Industries, *Proof Committee Hansard*, 3 October 2008, p. 23.

57 Bunbury Wellington Economic Alliance, *Submission 2*, p. 2.

58 Lighthouse Beach Resort, *Submission 3*, p. 2.

59 Mr James Pearson, Chamber of Commerce and Industry of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 36.

It is our strong view that not enough was done early enough to encourage the domestic market to decrease their use of energy. A significant decrease in domestic demand would have led directly to a valuable increase in available supplies to the commercial and industrial market...⁶⁰

3.50 The government did however issue press releases from 8 June and the Premier appeared on television urging households and businesses to use less energy. About \$950 000 was spent encouraging households to use less energy.⁶¹ The Government also highlighted that gas is used to produce electricity so it would not help to simply replace one with the other.⁶² In late June it was reported that five per cent reductions in energy use were being recorded at peak morning and evening times.⁶³

3.51 The former Minister for Energy, Hon Fran Logan MLA, noted that:

Demand management from industry and households was magnificent. There was a real sense of working together to overcome the situation facing the State. Clearly our communications to the public and industry were working properly as electricity consumption fell consistently. From 18th June until 1st August, 28,858 fewer megawatt hours were used than expected, showing a dramatic response by both households and business to the call for energy savings. Gas consumption was also reduced over this period, but to a much lesser extent, due to some very cold days during the period.⁶⁴

3.52 On the other hand, it was also suggested that this emphasis on households reducing consumption was misplaced as they only directly account for around three to five per cent of overall gas consumption. However, the Coordinator of Energy told the committee that 'as a portion of Alinta's portfolio—and the Alinta customers were being seriously affected by the disruption—it is a significantly larger quantity.' He argued that the rationale behind the energy saving campaign was that any gas saving out of the Alinta portfolio would increase the ability of Alinta to allocate gas to its other customers that were subject to disruption.⁶⁵ The Chairman of the DomGas Alliance, Mr Stuart Hohnen also considered that the energy saving campaign was important, particularly because of the amount of gas that is used to generate electricity in Western Australia and the timing of the incident:

60 Mr Allan Birrell, Bunbury Chamber of Commerce and Industries, *Proof Committee Hansard*, 3 October 2008, p. 23.

61 Mr Jason Banks, Coordinator of Energy, *Proof Committee Hansard*, 2 October 2008, p. 127.

62 Hon Margaret Quirk MLA, Minister for Small Business, 'Minister urges small business to "tighten belt" on energy use', Media Statement, 10 June 2008.

63 Hon Fran Logan MLA, Minister for Energy, 'Daily updates of energy use', Media Statement, 25 June 2008.

64 Hon Fran Logan MLA, *Submission 31*, p. 5.

65 Mr Jason Banks, Coordinator of Energy, *Proof Committee Hansard*, 2 October 2008, p. 127.

...there is a much bigger proportion of gas that flows into electricity and that electricity is then used by household consumers, so it is householders' savings in electricity that become more significant than savings in gas, but I might also say that that five per cent is an annual average, and home heating causes that to spike considerably more than five per cent during the winter months. So, given that this Varanus incident happened during winter, a call for householders to reduce their gas consumption and electricity consumption was relevant.⁶⁶

Committee view

3.53 The evidence presented to the committee demonstrated that there was a need to encourage residential users to minimise their energy consumption during the disruption. The committee notes that the government publicly called for a reduction in residential energy usage from 8 June, and developed a print, radio and television campaign along those lines. Suggestions that the government had not done enough to reduce household energy use were inconsistent with evidence presented to the inquiry and unfounded.

Gas Bulletin Board

3.54 On 2 July 2008 the government announced that it would set up an email-based secondary market for gas, known as the Gas Bulletin Board (GBB). The bulletin board was designed to make it easier for businesses to get access to gas by allowing gas users and producers to make trades, facilitated by the Independent Market Operator (IMO). The Energy Minister at the time noted the despite the gas shortage 'there are still days when some gas is available for spot sale. The bulletin board will provide a forum for this gas to be sold.'⁶⁷ The GBB commenced operations on 3 July 2008. As a result of the partial resumption of gas supplies from Varanus Island, and no gas being offered for sale on the GBB since 29 August 2008, the IMO recommended to the Office of Energy that the GBB be closed down. This recommendation was accepted and the GBB ceased operation on Monday 13 October 2008.⁶⁸

3.55 Three sellers of gas offered gas for sale on the GBB during its operation. A total of 532.5 terajoules of gas was offered for sale at prices ranging from \$10.00 to \$35.00 per gigajoule. Nine registered traders were successfully matched as buyers on the GBB and all successful matches were priced between \$15.50 and \$18.50 per gigajoule. A total of 47.8 terajoules was traded. The IMO states that 'while trading volumes on the GBB were significant, given the limited operating duration, it

66 Mr Stuart Hohnen, DomGas Alliance, *Proof Committee Hansard*, 2 October 2008, p. 25.

67 Hon Francis Logan MLA, Minister for Energy, 'New online "bulletin board" for gas sales', Media Statement, 2 July 2008.

68 Independent Market Operator, *Gas Bulletin Board Report*, <http://www.imowa.com.au/Attachments/GasBulletinBoard/GasBulletinBoardFinalReport.pdf>.

appeared that a number of gas traders, once introduced through a GBB match, continued to trade bilaterally outside of the GBB.⁶⁹

3.56 The IMO outlined a number of impediments to trade on the GBB that they became aware of during its operation. They included:

- The ability to negotiate commercially acceptable gas transport agreements.
- The logistics of arranging transport on the Dampier to Bunbury Natural Gas Pipeline and the Metro distribution network. This raised concerns for gas traders matched in initial trading on the GBB, however once the various contracting parties established procedures and protocols for GBB trades it became less of an issue.
- A restriction on the ability of some gas users, under the terms of their gas supply contracts, to on-sell surplus gas to other parties. This provision limited the amount of gas traded on the GBB.
- Competition concerns which prevented a major gas industry participant from aggregating their customer's gas supply requirements and buying from the GBB on their behalf.
- Once the partial supplies of gas from Varanus Island resumed, the IMO became aware that transport arrangements were withdrawn for gas traders connected to the Metro distribution network. This significantly reduced the number of potential traders on the GBB.⁷⁰

3.57 However, despite these impediments the IMO viewed the GBB as a success for the following reasons:

- The GBB provided transparent trade data, including pricing information, which allowed Western Australian gas users to evaluate the cost of securing gas supplies. This information was published on the IMO website.
- The IMO received a great deal of cooperation from the gas traders, gas pipeline owners and the Office of Energy during the design and implementation of the GBB.
- Despite the limited time the GBB operated, with 27 registered traders, 14 active traders, and trading volumes of 47.8 TJs this initiative could only be viewed as a success.

The GBB demonstrated that a formal regulated gas market could be successfully implemented in Western Australia.⁷¹

69 Independent Market Operator, *Gas Bulletin Board Report*, <http://www.imowa.com.au/Attachments/GasBulletinBoard/GasBulletinBoardFinalReport.pdf>.

70 Independent Market Operator, *Gas Bulletin Board Report*, <http://www.imowa.com.au/Attachments/GasBulletinBoard/GasBulletinBoardFinalReport.pdf>.

71 Independent Market Operator, *Gas Bulletin Board Report*, <http://www.imowa.com.au/Attachments/GasBulletinBoard/GasBulletinBoardFinalReport.pdf>.

3.58 The IMO told the committee that 'a gas bulletin board or some sort of transparent market for gas in Western Australia would be quite a significant asset to Western Australia and its industry. The transparency of price and an understanding of the supply and demand parameters under which the gas market functions would be of huge benefit economically to Western Australia's economy.'⁷² The Economic Regulation Authority also expressed support for such an initiative.⁷³

3.59 Some witnesses, such as the Chamber of Commerce and Industry of Western Australia (CCIWA), also regarded the GBB as a useful initiative. Mr James Pearson, CCIWA's Chief Executive, told the committee that the CCIWA had encouraged the government to establish the GBB 'in order to add more transparency into the market and provide more information about what supply was there and what demand was there and, indirectly, to help set a price for that.'⁷⁴

3.60 Initially the minimum purchase through the GBB was 0.5 terajoules and this appeared to be too large for some very small businesses:

To pick up the point of the very small businesses, we realised that the actual amount that we had set for trading of gas was too high and therefore—again, because of the feedback that we got—we set up a secondary bulletin board that allowed much smaller volumes of gas to be traded.⁷⁵

3.61 The minimum purchase through the secondary board was 0.1 terajoules. In his submission, the former Minister for Energy, Hon Fran Logan MLA, told the committee that 'these trade would normally not even have been considered, given the low volumes demanded and the cost of transportation to the premises.'⁷⁶

3.62 Other witnesses, such as the Food Industry Association of Western Australia, suggested that the GBB 'appeared to lead to profiteering'.⁷⁷ This allegation is considered in Chapter 4.

3.63 The Australian Petroleum Production and Exploration Association called for measures to establish a more competitive market for gas in Western Australia:

Encouraging development of a 'spot' market in Western Australia by establishing a gas market bulletin board will increase opportunities for gas

72 Mr Allan Dawson, Independent Market Operator, *Proof Committee Hansard*, 26 November 2008, pp 7–8.

73 Mr Peter Kolf, Economic Regulation Authority, *Proof Committee Hansard*, 26 November 2008, p. 8.

74 Mr James Pearson, Chamber of Commerce and Industry of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 37.

75 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, pp 143–144.

76 Hon Fran Logan MLA, *Submission 31*, p. 6.

77 Mr David Lock, Food Industry Association of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 86.

trading and result in market growth and more competition. APPEA welcomed the State Government announcements of an online bulletin board for gas sales as an important step forward in facilitating trade in natural gas in Western Australia. This system closely resembles the National Gas Market Bulletin Board that came into effect in all States except Western Australia on 1 July this year. One important feature of the national scheme that has not been adopted in WA is the provision of information on pipeline capacity and flows. Transparency in gas transportation is as essential to a fair and effectively functioning gas market as transparency in gas production and gas use.⁷⁸

3.64 Mr Logan explained that information on pipeline capacity and flows was not included as part of the Western Australia GBB due to the short timeframe in which it was developed. He did, however, agree that if the GBB were to stay in place information on pipeline capacity and flows should be included:

If the bulletin board is to stay in place in Western Australia, that is the sort of thing that should be put in it, because we need to know, for example, that the gas coming down the Dampier to Bunbury pipeline is going to those customers that need it or that it is contracted to, because there were allegations of gas hoarding in the pipeline itself, in the major Dampier to Bunbury pipeline. We had no visibility of that and we had no legal way of being able to examine it.⁷⁹

3.65 Mr Logan also suggested that if the Office of Energy was given the power to examine in detail the transportation figures from the DBNGP and the GGP and therefore be able to see the volumes of gas coming down the pipelines (and their final destination), advice on maximising gas demand management becomes easier and accusations of gas hoarding or unfair consumption practices can be clarified.⁸⁰

Committee view

3.66 The committee notes that the introduction of the Gas Bulletin Board (GBB) was generally welcomed by industry representatives and allowed for some gas to be supplied to businesses affected by the gas shortage. The GBB also demonstrated that a formal regulated gas market could be successfully implemented in Western Australia.

3.67 It was suggested to the committee that the establishment of a permanent GBB in Western Australia would increase opportunities for gas trading and could therefore result in market growth and more competition. The committee notes that the National Gas Market Bulletin Board includes the provision of information on pipeline capacity and flows.⁸¹ Evidence was provided to the committee suggesting that this should be

78 Australian Petroleum Production and Exploration Association, *Submission 26*, p. 4.

79 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 146.

80 Hon Fran Logan MLA, *Submission 31*, p. 6.

81 Further information about the National Gas Market Bulletin Board can be found at <http://www.gasbb.com.au/>.

included in any future permanent Western Australian GBB to increase transparency in gas transportation.

Government hotlines

3.68 The government established several hotlines to assist people affected by the gas shortage. At the hearing Mr Logan informed the committee that:

We had a significant number and a variety of hotlines set up to deal with the complaints and issues of people who were affected by the gas shortage: wage hotlines, gas disruption hotlines, employment related hotlines, small business hotlines. The gas disruption hotline, for example, over that period of time that I just referred to, 9 June until 6 August, which was primarily the whole of the incident, had received 71 calls over that period. Twenty were employment related, 28 were non-employment-related and 23 were wrong numbers or hang-ups.

The demand on government resources, whether federal or state, for those impacted by the gas shortage directly as employees was significantly lower than we initially expected.

3.69 With regard to the small business hotline, the Minister for Small Business at the time noted that a number of businesses had scaled back operations and that many small businesses would be affected by increased costs passed on by suppliers and a drop in consumer spending. The Minister encouraged small business owners affected by the incident to take advantage of the hotline which would be operated through the Small Business Development Corporation which 'has a team of experienced business advisers who can assist small business operators to deal with these situations.'⁸²

The role of Commonwealth Government agencies

3.70 In the weeks after the explosion the Commonwealth Government undertook a number of initiatives to try to minimise the impact of the explosion.

Defence

3.71 The Minister for Defence agreed to surrender an order of six megalitres of diesel for the Royal Australian Navy, which allowed the BP refinery at Kwinana to concentrate on bolstering diesel supplies for Western Australian industry. The Minister also advised that he would consider releasing additional diesel from strategic reserves if required.⁸³ In the end the release of additional diesel from these reserves was not required as companies were able to supply it.⁸⁴

82 Hon Margaret Quirk MLA, Minister for Small Business, 'Minister urges small business to use hotline service', Media Statement, 17 June 2008.

83 The Hon Martin Ferguson MP, Minister for Resources and Energy, *House of Representatives Hansard*, 16 June 2008, pp 4855–4858.

84 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 142.

Critical Infrastructure Protection Modelling and Analysis Program

3.72 The Department of Resources, Energy and Tourism (DRET) made a formal request to the Attorney-General's Department for the Critical Infrastructure Protection Modelling and Analysis Program (CIPMA) team to undertake some modelling and analysis on the economic impact of the Varanus Island disruption. The analysis was undertaken by Geoscience Australia and a report on the disruption was delivered to DRET on 3 October.⁸⁵ A summary of the report was provided to the committee and is discussed in Chapter 2.

Gas Supply Disruption Recovery Committee

3.73 Several commonwealth agencies, including the Australian Bureau of Statistics, Centrelink and the Department of Education, Employment and Workplace Relations were members of the Gas Supply Disruption Recovery Committee. As noted in paragraph 3.32 above, the aim of the Recovery Committee was to support industry, businesses, services and communities that have been affected by the gas supply disruption, so that they can return as quickly as possible to normal function.

3.74 The Australian Bureau of Statistics was also a member of the Recovery Committee and they offered assistance to the government in relation to measuring the economic impact of the gas supply disruption.⁸⁶

Centrelink

3.75 JobSearch support through Centrelink was made available for those who were directly affected by the incident.⁸⁷ However, the number of workers approaching Centrelink was much less than the impression given by some media reports:

From 9 June until gas resumption by Apache on 6 August, Centrelink had received 101 inquiries from people whose employment had been affected by the gas disruption. Fifty-six of those resulted in claims for the Newstart allowance or equivalent unemployment benefits.⁸⁸

3.76 The committee heard from one business that Centrelink were quick to offer support:

Within a day or so of the crisis we had had contact from the local Centrelink office, who were offering assistance should redundancies or

85 Mr Michael Jerks, Attorney-General's Department, *Proof Committee Hansard*, 28 October 2008, p. 11.

86 Australian Bureau of Statistics, *1304.5 – Stats Talk WA, Sep 2008*, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/7d12b0f6763c78caca257061001cc588/dbcaaaeecccd1718ca25729e000a177c!OpenDocument>.

87 The Hon Martin Ferguson MP, Minister for Resources and Energy, *House of Representatives Hansard*, 16 June 2008, pp 4855–4858.

88 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 135.

layoffs be necessary. We did not get to that stage but the offer was there from the Centrelink office which we appreciated.⁸⁹

3.77 As noted in Chapter 2, the committee received evidence from several contractors in the south west who were severely affected by the gas shortage.⁹⁰ It was reported that Centrelink are limited in the assistance they can provide to independent contractors.⁹¹ The former Minister for Energy, Hon Fran Logan MLA, suggested that this could be an area for improvement in the future:

One of the issues, particularly for the federal government, is how it deals with contractors in a situation like this. You will hear from a number of companies in Bunbury, quite rightly, that they would not have gone to Centrelink seeking unemployment benefits, and those that did actually were rejected because they are contractors and therefore they were not entitled to the Centrelink payments. That is one of the issues that came out of this incident and I am sure it will be one of the issues that will be raised with you tomorrow in the south west. There were a number of contractors in the south west who were affected by this who are incidental to the gas issue—that is, log haulers in the south west, because the production processors had closed down. They were not delivering logs to the production processors; therefore, they were laid off and were unable to get Centrelink payments because they were contractors.⁹²

Commonwealth liquid fuel emergency powers

3.78 The Commonwealth Government can also invoke emergency powers in the event of a liquid fuel supply emergency; however it would only be invoked when there was a liquid fuel emergency that crossed state borders.⁹³

Committee view

3.79 While the direct consequences of the explosions on Varanus Island were largely limited to Western Australia, the Commonwealth Government acted promptly to provide significant logistical and practical support to the former Western Australian government and the community. The question on what assistance Centrelink should provide to independent contractors in the case of such incidents is complex, nevertheless this should be examined by the Department of Human Services with a view to ensuring prompt and effective advice and support is available to citizens affected by incidents such as the Varanus Island gas explosion.

89 Mr John Tombleson, Piacentini & Son, *Proof Committee Hansard*, 3 October 2008, p. 3.

90 Plantation Logging Co., *Submission 7*; Premin Holdings, *Submission 9*; M & T Cutts Haulage, *Submission 19*.

91 Mr Preston Gardiner, Premin Holdings, *Proof Committee Hansard*, 3 October 2008; Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 135.

92 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 135.

93 Mr John Griffiths, Department of Resources, Energy and Tourism, *Proof Committee Hansard*, 28 October 2008, p. 14.

CHAPTER 4

Response by the energy industry

4.1 A variety of views about how effectively the energy industry responded to the incident were put to the committee.

An overview of the structure of the Western Australian energy industry

4.2 Even though the explosions and fires on Varanus Island only directly affected gas production facilities it is necessary to consider the structure of both the gas and electricity markets in assessing the impact of the incident. Over 60 per cent of electricity in Western Australia is produced by gas fired engines so any interruption to gas supplies invariably has consequences for the production of electricity.¹

Electricity

4.3 The structure of the Western Australian energy market has undergone dramatic change in recent years. In 2006 the Western Power Corporation was restructured into four separate state-owned corporations – Synergy, Horizon Power, Verve Energy and Western Power.²

4.4 Synergy is Western Australia's largest energy retailer with approximately 970 000 electricity customers. Synergy is responsible for the sale of electricity within the South West Interconnected System (SWIS) – an area bounded by Kalbarri to the north, Kalgoorlie to the east and Albany to the south. Synergy is currently only a small player in the gas market with about three per cent of the overall market. Synergy's customers were unaffected by the incident.³

4.5 Horizon Power is responsible for the generation, transport and sale of electricity in areas outside the SWIS and therefore operates in the Pilbara, Kimberley and Gascoyne regions and the southern goldfields around Esperance.⁴

4.6 Verve Energy generates 75 per cent of the energy produced in the SWIS. Verve Energy owns and operates four major power stations – Kwinana, Cockburn, Pinjar and Muja, while a fifth at Collie is owned by Verve, but operated by a private company.⁵

1 Mr James Mitchell, Synergy, *Proof Committee Hansard*, 29 October 2008, p. 3.

2 Office of Energy, *Overview*, <http://www.energy.wa.gov.au/2/2063/64/overview.pm>.

3 Mr James Mitchell, Synergy, *Proof Committee Hansard*, 29 October 2008, p. 3; Office of Energy, *Overview*, <http://www.energy.wa.gov.au/2/2063/64/overview.pm>.

4 Horizon Power, *Annual Report 2007*, p. 3; Office of Energy, *Overview*, <http://www.energy.wa.gov.au/2/2063/64/overview.pm>.

5 Verve Energy, *Annual Report 2006-2007*, p. 3.

4.7 Western Power is responsible for operating, maintaining and expanding the electrical transmission and distribution network in the SWIS.⁶

4.8 A number of private companies throughout Western Australia also generate electricity, although many do so primarily to supply their own mining or other operations. In 2004 private generation accounted for approximately 45 per cent of total electricity generation capacity. Synergy and Horizon Power remain the major supplies of electricity to the residential and commercial markets.⁷

Gas

4.9 Gas demand in Western Australia is dominated by industrial usage and power generation. Five large customers – Alcoa, Alinta, BHP Billiton, Burrup Fertilisers and Verve Energy – account for 90 per cent of gas consumption in Western Australia.⁸

Gas retailer

4.10 Alinta, owned by Babcock & Brown Power, is the major supplier of natural gas to residential and commercial customers in the south west of Western Australia, supplying approximately 570 000 customers. Alinta also supplies electricity to around 1600 commercial and industrial customers. Half of Alinta's gas supplies for its residential and commercial customers and for its two cogeneration electricity generators are normally supplied from the Varanus Island terminal. Alinta's earnings in 2007-08 were cut by approximately \$11 million as a result of the Varanus Island incident. Alinta established a steering committee to manage the impact of the incident and as a result of the incident:

- Alinta purchased more expensive power from the market, replacing power normally sourced from Alinta's Pinjarra plants affected by gas curtailments;
- Alinta purchased more expensive gas from non-Varanus sources; and
- Gas sales to commercial and industrial customers were lower than expected for the year.⁹

Gas producers

4.11 The North West Shelf Venture (NWSV) produces natural gas for the domestic market in Western Australia, and exports liquefied natural gas to Japan and condensate, crude oil and liquefied petroleum gas to international markets. The

6 Office of Energy, *Overview*, <http://www.energy.wa.gov.au/2/2063/64/overview.pm>.

7 Office of Energy, *Overview*, <http://www.energy.wa.gov.au/2/2063/64/overview.pm>.

8 Australian Petroleum Production and Exploration Association, *The Western Australian Gas Market*, http://www.appea.com.au/content/pdfs_docs_xls/NewsMedia/APPEAMediaReleases/domestic_gas_fact_sheet_-_july_2007.pdf, p. 3.

9 Babcock & Brown Power, *Annual Report 2008*, pp 23 & 55.

NWSV comprises BP Developments Australia Ltd, Chevron Australia Pty Ltd, Japan Australia LNG (MIMI) Pty Ltd, Shell Development (Australia) Ltd, BHP Petroleum (North West Shelf) Pty Ltd and Woodside Energy Ltd. Woodside is the operator of the NWSV.¹⁰ The NWSV is Western Australia's largest single producer of gas for the domestic market providing about 65 per cent of total State production.¹¹

4.12 Apache Energy is the Australian operating subsidiary of Apache Corporation. It is the second largest producer of both oil and gas in the offshore Carnarvon Basin in Western Australia. Its primary production hub is on Varanus Island, and it provides over 30 per cent of Western Australia's domestic natural gas supply.¹²

4.13 BHP Billiton's Tubridgi field and the ARC Energy fields around Dongara provide about five per cent.¹³

Gas transporters

4.14 The Dampier to Bunbury Natural Gas Pipeline (DBNGP), owned by the Dampier Bunbury Pipeline Group, is the only natural gas pipeline connecting the Carnarvon Basin on Western Australia's north west shelf with industrial, commercial and residential customers in Perth and the surrounding region. The pipeline runs from the Burrup Peninsula, near Dampier, to Bunbury in south west WA and is connected to the production facilities on Varanus Island.

4.15 The pipeline was built by the State Energy Commission of Western Australia, with the support of Alcoa, in the mid-1980s. In 1998 the Western Australia Government sold the pipeline to Epic Energy, and in October 2004 the pipeline was purchased by a consortium comprising Diversified Utilities & Energy Trusts, Alcoa and Alinta. In August 2007 Alinta's 20 per cent share was purchased by Babcock & Brown Infrastructure.

4.16 Since December 2006 the DBNGP has been interconnected with the Goldfields Gas Pipeline (GGP) allowing gas suppliers to deliver gas to customers along the GGP via the DBNGP. The GGP transports gas from the North West Shelf area to customers in the Pilbara and eastern goldfields regions.¹⁴

4.17 Other major natural gas transmission pipelines include the

10 North West Shelf Gas, *About NWSG*, <http://www.nwsg.com.au/sp-frameset.html?about/nwsg.html>.

11 Woodside, *North West Shelf Venture*, <http://www.woodside.com.au/Our+Business/Production/Australia/North+West+Shelf/>.

12 Apache Energy, *Welcome*, <http://www.apache-energy.com.au/>.

13 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 135.

14 Dampier Bunbury Pipeline, *DBP and pipeline information*, <http://www.dbp.net.au/about/>.

- Parmelia Pipeline, which transports gas from various fields in the Perth Basin to customers in the south west;
- Pilbara Energy Pipeline, which transports gas from the North West Shelf area to Port Hedland;
- Kambalda to Esperance Gas Pipeline;
- Mid West Pipeline; and
- Telfer Gas Pipeline.¹⁵

4.18 All gas delivered into the pipeline systems is already owned through long and short term contracts. This means that there is no spare gas in the system waiting to be bought or be made available should there be a sudden shortage. Therefore there is no gas available for trading unless a customer chooses to make some of their contracted supply available.¹⁶

Deployment of alternative conventional power sources

4.19 As noted in Chapter 3, one of the Western Australian Government's aims in trying to manage the impact of the incident was to access energy from other sources to free-up gas.¹⁷

Coal

4.20 Several of Verve Energy's coal-fired power stations were rushed back into service from maintenance or decommissioning thereby freeing up some gas used to fuel gas fired power stations. Mr Logan told the committee that:

Verge Energy workers excelled themselves by putting in round-the-clock shifts to bring back the biggest coal-fired power stations on line, with Muja, Collie A and Kwinana B units generating. This released from Verve Energy up to 100 terajoules of gas into the system for on-sale to industry and distribution to industry.¹⁸

Diesel

4.21 Verve Energy and other businesses also switched to using other fuels such as diesel to free-up gas:

Obviously there was very significant concern about diesel. Given that we were shifting so much power and industrial production from gas onto diesel, there was concern about the actual stocks of diesel, but the fuel companies worked extremely well with government, sourcing tankers that

15 Office of Energy, *Overview*, <http://www.energy.wa.gov.au/2/2063/64/overview.pm>.

16 Hon Fran Logan MLA, *Submission 31*, p. 1.

17 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 133.

18 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 134.

were en route to other places around the world and diverting them to Western Australia and making road haulage tankers available to be able to continue stock supply at various power stations around the south west.¹⁹

Contractual arrangements and prices charged by energy retailers

Liability waiver agreements

4.22 The committee heard allegations that in order to secure energy supplies during the shortage a number of businesses signed confidentiality and liability waiver agreements:

I was also told that business people felt they could not talk openly or fairly at times and that the signing of confidentiality and waiver agreements was also an issue.²⁰

4.23 Synergy was asked at a hearing whether they ever sought, or considered seeking, an indemnity from litigation for damages as part of their contractual arrangements. Synergy responded that they had never sought such indemnities in their contracts. When Synergy's Managing Director was asked why anyone would have to seek an indemnity when Synergy did not, he responded: 'There are certain things I heard third-hand in the market which disappointed me.'²¹

Prices charged by energy retailers and length of supply contracts

4.24 The spot price of gas and electricity rose after the Varanus Island incident. Some witnesses saw price rises as a normal market response, and pointed out that in some cases firms had had the option of paying more to guarantee supply:

I do know that some companies were, let's say, surprised, unhappy, at the rise in prices of energy. That was simply a product of a disruption to a market, with less supply, and demand staying the same, chasing that reduced supply. Inevitably, one of the responses that happens in a free market is that price goes up. Some people made a decision not to pay those prices, as I understand it, and therefore not to receive that energy; others made the decision to pay those higher prices and receive that energy. We also know of cases where others had contracts for supply of gas, for supply of energy, which were uninterruptible and which had a higher value, a premium, for buying that uninterruptibility, and they were not adversely affected by the shortage of gas.²²

We sought to obtain advice and we sought legal advice on the issue of whether there was price gouging. I must say that we never received any

19 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 134.

20 Ms Nola Marino MP, *Proof Committee Hansard*, 3 October 2008, p. 50.

21 Mr James Mitchell, Synergy, *Proof Committee Hansard*, 29 October 2008, pp 16–17.

22 Mr James Pearson, Chamber of Commerce and Industry of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 43.

evidence. In part that evidence may not have been forthcoming because of confidentiality of contracts, and we are a policy organisation...I think there were significant increases and, when you have 30 per cent of the gas supply or thereabouts that is no longer available for a short period of time, you are going to have increases in price. That price would head towards the price of diesel, as a generalisation, because that was the substitute. That is just the market operating.²³

When you have got a situation where there is a shortage of any commodity I guess it is not unreasonable to expect the price to go up. That would be a way of allocating scarce supplies.²⁴

4.25 However, there were also claims that price rises may have gone beyond this. The Mayor of Bunbury commented:

Alinta in particular were completely independent of Government so there was no transparency or accountability for what they were doing. What is apparent is that they substantially increased the cost of what they were supplying, but whether they were price gouging, or their customers were independently bidding up the price could not be identified.²⁵

They obviously know in retrospect what prices they were actually charging customers during the early stages and later stages of the crisis as compared to what they were charging in terms of the diesel comparison—was it simply a diesel comparison or was it something more than that? They are the only ones who have that information, apart from the companies, and whether the companies are prepared to share it with you I do not know.²⁶

4.26 Similarly, in its submission the Food Industry Association of Western Australia suggested that:

Synergy, a State Government owned entity, could redistribute apparent 'spare gas' to new customers under new contracts, reportedly at substantially higher prices and for periods of 2 to 3 years.²⁷

4.27 However, the former Minister for Energy, Hon Fran Logan MLA, told the committee that 'there was no evidence of price gouging' and that energy costs had increased due to more expensive diesel being used to replace gas usage where possible.²⁸

23 Mr Reg Howard-Smith, Chamber of Minerals and Energy of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 100.

24 Mr John Griffiths, Department of Resources, Energy and Tourism, *Proof Committee Hansard*, 28 October 2008, p. 19.

25 Mayor of Bunbury, *Submission 23*, p. 2.

26 Mr David Smith, Mayor of Bunbury, *Proof Committee Hansard*, 3 October 2008, p. 16.

27 Food Industry Association of Western Australia, *Submission 24*, p. 4.

28 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, pp 139–140.

4.28 In relation to the electricity market, the Independent Market Operator also suggested that higher costs were due to the increased use of liquids in power generation:

Given the fact that our market participants were burning considerable amounts of liquid, diesel and oil, to service the load...those higher prices that you saw were not unexpected. They were largely driven by the high cost of generating using liquids rather than our usual base, which is coal and gas. To put that into perspective, prior to Varanus Island occurring, the average weekday contribution by liquid generators was around one per cent. So we moved from one per cent of the market being serviced by liquid-diesel and oil-to 31 per cent in the weeks after Varanus Island.²⁹

4.29 Synergy strongly rejected the accusation of gouging or improper conduct:

Synergy's gas pricing approach for long-term retail customer contracts remained unchanged throughout the Varanus Island gas explosion and following that and it continues to apply today. During June and July Synergy started contracts with 25 customers on two- to three-year contracts honouring contractual commitment offerings that we had made pre Varanus Island with respect to both price and term. We had set aside that gas and where we were able to honour those offerings this pricing was based on our 6 May gas price. We were able to assist five Alinta customers who had either declined our offer previously or sought our offer subsequent to the Varanus Island gas explosion...All but one of those customers had been in negotiation with Synergy and seeking long-term contracts prior to the Varanus Island gas explosion. The remaining 20 customers were Synergy customers being renewed or customers out of contract.

Synergy did not change its price on contract offers on legal advice that it should not seek to take the benefit of the crisis to steal Alinta's customers nor induce them to breach their contract with the other retailer. We honoured all price offers that were offered pre Varanus Island, which were based on the gas price at 6 May, 28 days before Varanus Island. In fact, we did not increase our gas price until 7 July, some 36 days after Varanus Island, and hence we were able to assist the Alinta customers with previous gas pricing...

In summary, Synergy refutes any suggestion that it acted improperly following the Varanus Island gas explosion and that it undertook any form of price gouging.³⁰

4.30 Synergy also told the committee that they sought to assist customers that required gas for shorter periods during the gas shortage:

29 Mr Allan Dawson, Independent Market Operator, *Proof Committee Hansard*, 26 November 2008, p. 5

30 Mr James Mitchell, Synergy, *Proof Committee Hansard*, 29 October 2008, pp 3–5.

Synergy was the only party to sell gas on the Gas Bulletin Board. We had assisted some who wanted supply for one to four weeks through that and subsequent offerings.³¹

4.31 These trades were at the market price applicable at the time:

Trades on the GBB were at higher prices than the market standard two and three year contracts due to a number of factors, including the fact that the price of the gas source for supply was higher and to the nature of the contracts. They were short term contracts at spot prices and with unknown counter-parties.

Synergy undertook 63 trades with ten customers via the GBB and subsequent bilateral trades. The average price of these trades was reflective of the current market price and was approximately 50 per cent of the diesel substitute price.

Synergy refutes any suggestion it has priced customers at the diesel substitute price.³²

Committee view

4.32 The committee is concerned about allegations raised during the inquiry relating to contractual arrangements and prices charged by energy retailers during the gas shortage.

4.33 From the totality of information provided to the committee, there was no evidence that Synergy acted improperly in its response to the shortage. Synergy cooperated with the committee and provided extensive and detailed evidence in relation to their actions during the crisis including details of contracts.

4.34 However, the committee did not receive evidence from the gas and electricity retailer, Alinta, during the inquiry. Alinta declined the committee's invitation to attend a hearing of the committee on the grounds of their contractual obligations not to disclose confidential information. The committee believes that allegations relating to the contractual arrangements, including liability waiver agreements, and prices charged by Alinta to both its gas and electricity customers during the shortage could have been dealt with in a similar manner to Synergy and the committee regrets the lack of co-operation from Alinta.

Industry involvement in the allocation of available energy

4.35 As noted in Chapter 3, due to the privatised gas market in Western Australia the government was required to adopt a market-based response to the gas shortage and therefore had only an indirect role in the allocation of available energy after the initial priority order had been determined.

31 Mr James Mitchell, Synergy, *Proof Committee Hansard*, 29 October 2008, p. 5.

32 Synergy, *Submission 29*, p. 8.

4.36 There was criticism of how available energy was allocated by Alinta:

Major users were initially offered a one model fits all rationed supply of 24hrs on 24hrs off with 12 hours notice. This failed to take into account the needs of heavy industrial users who required a minimum of 2-7 days supply to turn on and off kilns.³³

...a number of local governments, for example, received letters from their gas suppliers advising them that they would be 'cut off tomorrow' and to take actions forthwith. They were quite firmly worded letters. It was, in our view, within the contractual rights of the supplier to issue those letters, so we do not have any qualms with them from that point of view, but they appeared to some local governments and did not appear over the boundary, so people were quite unsure of the basis for them...

...I believe that they were Alinta clients in all cases...

...in some of those cases a letter was received advising that the gas would be terminated and then it was not.³⁴

I think it is important to understand how they did make the allocations of gas, how they did decide who got gas, when and for how long. One of the issues was that businesses would be told at five o'clock in the afternoon that they would get so many gigalitres of gas tomorrow for so many hours. In a lot of cases it took them perhaps two days to ramp the plant up to the temperature or the operating level they needed to actually start. The point was made a number of times that a lot of industries would prefer to get less gas more often, rather than a lot of gas in very short bursts. But when we were asking those questions of Alinta they were unable to give us any of that information.³⁵

4.37 In a media update issued on 2 July 2008 Alinta outlined some reasons for the difficulty in giving businesses advanced warning of outages:

Energy availability varies daily according to a number of factors, including the weather and residential demand. Consequently, if residential demand increases there will be less gas available to industry. At this time we can only allocate on a daily basis, but we are working hard to provide businesses most affected with as much information as is available so they can plan in advance.³⁶

33 Bunbury Wellington Economic Alliance, *Submission 2*, p. 1.

34 Mr Ian Duncan, Western Australian Local Government Association, *Proof Committee Hansard*, 2 October 2008, p. 78.

35 Mr Allan Birrell, Bunbury Chamber of Commerce and Industries, *Proof Committee Hansard*, 3 October 2008, p. 28.

36 Alinta, *Draft Media Update: Domestic Gas Supply, 2 July 2008, 4.30pm WST*, http://www.alintacustomer.com.au/varanus/pdf/Alinta_Media_Update_-_02_July_2008_4.30pm_WST.pdf.

4.38 The former Minister for Energy, Hon Fran Logan MLA, also noted that significant disquiet was raised, particularly by small customers, about the method Alinta used for the distribution of gas to its customers. Mr Logan informed the committee that:

The matter was raised with Alinta on a number of occasions and we were told that all available gas was distributed in a fair and reasonable manner. There are, however, no legislative means of being able to qualify or investigate these statements and so they had to be accepted on face value.³⁷

4.39 Mr Logan suggested that more powers should be given to the Office of Energy to demand greater transparency from Alinta. In his submission he stated that the Office of Energy:

...should be able to see, with all the right commercial confidentiality provisions in place, how much gas is being bought and distributed each day by the retailer, so that complaints by smaller consumers of being overlooked or unfairly treated, can be clarified.³⁸

Committee view

4.40 The committee received a substantial amount of evidence criticising the process used by Alinta to allocate available gas to industrial and commercial customers. The committee notes that energy availability would vary depending on a variety of factors, including weather and residential demand, and this would present some difficulties in allocating gas on a firm basis.

4.41 However, given the volume of evidence received by the committee relating to the allocation of available gas, the committee considers that the process used by Alinta to allocate gas during the shortage requires further investigation so that appropriate lessons can be learned for the future.

4.42 The committee also believes that greater transparency in how gas is distributed is required so that the government is able to verify how much gas is being bought and distributed each day by gas retailers. The government would therefore be able to examine complaints from small customers relating to their gas supply.

37 Hon Fran Logan MLA, *Submission 31*, pp 6–7.

38 Hon Fran Logan MLA, *Submission 31*, p. 6.

CHAPTER 5

Energy security and diversifying sources of energy in Western Australia

5.1 This chapter discusses energy security in Western Australia, including some possible options for diversifying sources of energy. As noted above, around 95 per cent of Western Australia's domestic gas supply is supplied from two sources in the north west of the state. Gas from the Varanus Island terminal is transported along the Goldfields Gas Pipeline and the Dampier to Bunbury Natural Gas Pipeline which extends almost 1600km from the Pilbara region to the main population centres in the south west of Western Australia. Furthermore, over 60 per cent of electricity in Western Australia is produced by gas fired engines so any interruption to these gas supplies invariably has consequences for the production of electricity.

Energy security strategy

5.2 Witnesses such as the Chamber of Commerce and Industry of Western Australia and DomGas Alliance suggested that a broad-based energy security strategy is required in Western Australia and CCIWA noted that they had formally raised the need for such a strategy with the Government early in 2008. The Government supported that view and invited relevant stakeholders to start working on the strategy.¹

5.3 The Department of Industry and Resources informed the Committee that interruptions to gas supply and the Department's own forecasting of supply and demand has meant that the Department:

... has put extra effort in putting forward to government recommendations for steps that would strengthen energy security. Those range from the acreage releases which have occurred in the past 12 months around geothermal energy in the state to heavy promotion of tight gas resources that are onshore in Western Australia to alternative energy. So, as well as the work we have done to negotiate with LNG project proponents for domestic gas offshore...there was a response to the fragility or the vulnerability of the state's heavy reliance on singular sources of supply for energy.²

1 Chamber of Commerce and Industry of Western Australia, *Proof Committee Hansard*, 2 October 2008, pp 40–41.

2 Mr Stedman Ellis, Department of Industry and Resources, *Proof Committee Hansard*, 2 October 2008, p. 126.

5.4 The DomGas Alliance suggested that any energy security strategy be underpinned by a domestic reservation policy whereby gas is reserved to secure long-term domestic gas supply.³

5.5 Mr James Pearson from the CCIWA suggested that the work being undertaken by the Australian Department of Resources, Energy and Tourism on identifying key strategic energy security issues as part of its National Energy Security Assessment 'provides an opportunity for some dovetailing'.⁴ The National Energy Security Assessment aims to identify key strategic energy security issues in the liquid fuels, natural gas and electricity sectors currently, and those likely to influence the level of energy security in 5 years (2013), 10 years (2018) and 15 years (2023).⁵

5.6 The former Minister for Energy, Hon Fran Logan MLA, also suggested that the National Energy Security Assessment could cover Western Australia to a greater extent:

When I was minister for energy I raised that with the minister for energy Martin Ferguson and suggested that the issue of security of domestic gas in Western Australia, given the nature of the system here in WA where you have effectively two 1,500-kilometre pipelines bringing gas, 95 per cent of it from the north west. It is a strategic issue. It is also an economic issue for industry, which is primarily in the south west.

Therefore it is not like the eastern states, where there is an integrated state system which primarily comes out of Moomba, Victoria and Queensland and where, if there is a catastrophe in one state, it can be supplied from another state or from another hub. We do not have that luxury here in Western Australia. Therefore, the energy security plan that is being developed federally should, I think, go further than simply border security and national security issues relating to energy infrastructure around the country and dig down to critical issues such as we faced here in Western Australia. So in that respect, yes, I do believe a national energy security plan would have major benefit for Western Australia.⁶

Diversifying sources of gas and energy

5.7 A number of submissions suggested that in order to improve energy security Western Australia should have more diversified sources of gas and energy:

3 DomGas Alliance, *Submission 20*, pp 8 & 14.

4 Mr James Pearson, Chamber of Commerce and Industry of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 35.

5 Department of Resources, Energy and Tourism, *National Energy Security Assessment*, http://www.ret.gov.au/energy/energy_security/national_energy_security_assessment/Pages/NationalEnergySecurityAssessment.aspx.

6 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 148.

There are some key issues, such as a lack of diversity in the state's energy supply, which the incident has highlighted.⁷

The incident underlines the need for greater diversity of supply sources...⁸

The accident at Varanus Island in June 2008...has brought into focus Western Australia's reliance on a small number of gas suppliers and the need to encourage greater diversity in all aspects of the domestic energy market.⁹

...relying on few centralised sources for critical energy supply provides poor energy security.¹⁰

5.8 The Premier at the time argued that Western Australia had been well served by the Government's efforts to diversify energy supplies:

We currently have two major suppliers of gas and that number will increase in years to come... In addition, we have major coal reserves in the State's south, a growing fleet of wind farms, a rapidly growing renewable energy sector and the ability to switch between gas, coal and diesel when that becomes necessary... We are also encouraging more gas production activity closer to Perth and actively pursuing geothermal energy options.¹¹

5.9 Furthermore, the former Minister for Energy, Hon Fran Logan MLA, noted that more sources of supply of gas are currently being developed:

...BHP is now working to bring on the Macedon field. There are some technical and registry difficulties to overcome in terms of gas specs, but those issues are nearly resolved. Gas is planned for 2011-12. Apache-Santos is currently building the Devil Creek onshore domestic gas train between Onslow and Dampier and that will provide significant large volumes of gas planned for 2010. Chevron has announced that they will be building a domestic gas plant ahead of their LNG facilities for the Wheatstone field. This is planned for approximately 2012 or later, but the volumes of gas from Wheatstone will be very large indeed. They are also planning for a domestic gas plant alongside the Gorgon LNG facility on Barrow Island. Woodside has also announced that it will be supplying domestic gas from its Pluto operations, in addition to LNG, and that is planned for 2011. If all those plants go ahead as planned, WA will have seven different points of supply for domestic gas around 2012, and nine different points of supply of gas by 2014, and that does provide extensive

7 Mr James Pearson, Chamber of Commerce and Industry of Western Australia, *Proof Committee Hansard*, 2 October 2008, p. 35.

8 DomGas Alliance, *Submission 20*, p. 2.

9 Australian Petroleum Production and Exploration Association, *Submission 26*, p. 1.

10 Sustainable Energy Now, *Submission 27*, p. 1.

11 Hon Alan Carpenter MLA, Premier of Western Australia, *Media statement: Government orders review into gas security*, Media Statement, 6 August 2008.

coverage should there be an incident of the type that occurred on Varanus Island.¹²

5.10 Mr Logan also told the committee that there are drilling programs underway in 'tight gas' reservoirs in the mid-west and Busselton regions. Tight gas refers to gas that is difficult to extract because it is found in rocks with low permeability, needing specialised techniques and equipment for extraction.¹³ Mr Logan informed the committee that:

The volumes of tight gas in the two regions north and south of Perth are significant; notionally, around 12 trillion cubic feet. If the geological problems facing the explorers are overcome, the security and competition of the gas market in WA will be resolved to a significant degree, and I put it to you that the explorers for the tight gas should be encouraged and assisted both by the state and federal government: through royalty concessions, I believe, in the state area and through funding for the geological sites of geological science support for that exploration through the federal government.¹⁴

5.11 In its submission, the Australian Petroleum Production and Exploration Association suggested that a policy similar to one introduced in South Australia in 2004 to encourage exploration expenditure (initially costing \$22.5 million over five years) could be applied in Western Australia to encourage the development of tight gas and other smaller onshore gas fields and geothermal projects.¹⁵ The DomGas Alliance is also supportive of efforts to promote the development of tight gas reservoirs and noted in its submission that tight gas accounts for around 30 per cent of total gas production in the United States.¹⁶

Alternative and renewable energy sources

5.12 A number of witnesses explained that increased use of renewable energy technologies would not only have desirable environmental outcomes but also provide a more diversified source of energy less vulnerable to disruptions.

5.13 Wave energy was advocated by the Carnegie Corporation. They aim to be making a significant contribution to the grid by 2011. They argued that wave power was a reliable source and scalable, and in Western Australia could provide substantial amounts of base-load power.¹⁷ A pilot plant is operating in Fremantle. Wave-based

12 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, pp 135–136.

13 Department of Industry and Resources, *Tight gas workshop to explore alternative energy sources*, http://www.doir.wa.gov.au/4868_5936.aspx.

14 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 136.

15 Australian Petroleum Production and Exploration Association, *Submission 26*, p. 2.

16 DomGas Alliance, *Submission 20*, p. 13.

17 Dr Michael Ottaviano, Carnegie Corporation, *Proof Committee Hansard*, 2 October 2008, pp 49–53.

power-generating stations can be dotted around the coastline. Not only does this mean that power has to be transported shorter distances, a plant failure would only have local consequences.

5.14 On solar power, Dr Ray Wills from the Western Australian Sustainable Energy Association told the committee that:

One of the key issues in the Western Australian market for energy is the peakiness of our demand. We have a high demand during the daytime and a lot of that demand can easily be met through particularly solar production, which obviously is suited to daytime production. Solar photovoltaic and current technologies on solar thermal can all address the issue of peak load during the day. If you address that peak load through the day, gas production and gas-fired power stations are peak generators, so we could be taking the pressure off that gas load as a part of that process.¹⁸

5.15 Evidence was provided to the committee that Western Australia also has significant geothermal and wind resources.¹⁹

5.16 A major impediment to the expansion of wave and other renewable power is the difficulty in getting finance for new technologies.²⁰ The global credit crisis may exacerbate this problem as lenders become more cautious.

5.17 It was suggested that a further advantage of renewable energy sources is that they provide much greater certainty around future energy costs. Dr Wills informed the committee that:

One of the key advantages of renewables is that you know what your energy price will be in 20 years time because the sun will continue to come up, the waves will continue to wash on our shores and the wind will continue to blow past us. The cost of that energy source will not change. Sure, there will be maintenance costs, staffing costs, there will be other things that do add some inflationary pressures to that energy generation, but the reality is that we will still know the price of the source of the energy itself...²¹

5.18 There was support for new energy sources from some local business representatives:

18 Dr Ray Wills, Western Australian Sustainable Energy Association, *Proof Committee Hansard*, 2 October 2008, p. 58.

19 Mr Paul Wilkes, Sustainable Energy Now, *Proof Committee Hansard*, 2 October 2008, pp 64–6; *Submission 27*.

20 Dr Michael Ottaviano, Carnegie Corporation, *Proof Committee Hansard*, 2 October 2008 and Dr Ray Wills, Western Australian Sustainable Energy Association, *Proof Committee Hansard*, 2 October 2008, p. 61.

21 Dr Ray Wills, Western Australian Sustainable Energy Association, *Proof Committee Hansard*, 2 October 2008, p. 61.

Investigation into alternative sources such as wave power and wind generation is very important... especially for regional areas like ours where we are very short of major infrastructure.²²

5.19 On the other hand, witnesses involved in the gas industry saw only a limited role for alternative energy sources:

Renewable energies can play a role but I do not see them making a substantial impact on our current energy situation in Western Australia.²³

5.20 The committee was also told that in industries that use gas as part of a heating process, such as the manufacturing, minerals processing, laundry and brick kiln industries, gas cannot be replaced with electricity.²⁴

Committee view

5.21 With its dependence on gas for industry and the production of electricity, and not being linked to the national electricity grid, Western Australia is particularly vulnerable to disruptions to gas supplies. The Varanus Island incident has highlighted this vulnerability. In this context it is particularly important for Western Australia to develop a comprehensive, long-term energy security strategy. The committee notes the work that both the Commonwealth and Western Australian governments have already done in this area.

5.22 In considering ways of improving energy security in Western Australia, the development of expensive contingency options, such as gas storage facilities or a LNG receival terminal in the Perth basin, does not seem the best response. An alternative would be to encourage the development of smaller-scale alternative energy and gas sources, located close to population centres.

5.23 While renewable energy sources cannot completely replace the need for gas, a significantly increased use of these sources would substantially enhance the diversity of energy sources in Western Australia. Furthermore, renewable energy sources will become more competitive once a form of carbon pricing or taxing is introduced, removing or reducing the implicit subsidy to fossil fuels.

22 Mrs Louise Kingston, Manjimup Chamber of Commerce and Industry, *Proof Committee Hansard*, 3 October 2008, p. 36.

23 Mr Stuart Hohnen, DomGas Alliance, *Proof Committee Hansard*, 2 October 2008, p. 30.

24 Hon Fran Logan MLA, *Proof Committee Hansard*, 2 October 2008, p. 136.

CHAPTER 6

Conclusions and Recommendations

Conclusions

Impact of the Varanus Island Gas Explosion

6.1 There is no doubt that the Western Australian community faced significant problems as a result of the gas explosion. Business and industry experienced significant loss and industry failed to meet production targets due to the lack of gas supplies.

6.2 However the committee found there was no evidence as to a large impact on employment in Western Australia. This is consistent with the view expressed by business to the committee. However, while few workers have lost their jobs, it was reported that some have been stood down or required to take annual leave at times not to their convenience.

6.3 It is the committee's view that due to reliance of the community and industry in the south west of Western Australia on the Varanus Island gas facility that there was a disproportionate disruption to that part of Western Australia. Evidence was received from individuals who experienced significant dislocation to the extent that their businesses were faced with closure.

Contractual Arrangements and Supply

6.4 Based on the evidence received by the committee, no definitive conclusion can be reached in relation to the nature of contractual arrangements forced on business and industry during the gas crisis, or their status since the resumption of gas supplies from Varanus Island. A definitive conclusion was not possible due to the decision by Alinta not to appear and provide evidence to the committee. Notwithstanding this, the committee has no evidence that price gouging or unfair contracts were a feature of the market during the crisis. There is no doubt that some witnesses have a strong perception of market abuse and unconscionable conduct by market participants.

Government Response

6.5 The committee believes that the former Western Australian government responded in an adequate manner to the crisis and their management of the crisis was professional and effective. There was no evidence that the former state government acted in an improper manner or refused to release relevant facts and documents.

Energy Security

6.6 Energy supplies in Western Australia are prone to serious dislocation due to the lack of a mature, diverse and competitive market. This situation, coupled with

limited supply capabilities, leaves the Western Australian community and industry prone to severe dislocation as a result of plant or pipeline failure.

6.7 The reliance on limited sources of gas production and supply for the domestic market is a significant impediment to the continuity of supply of energy for Western Australian consumers and industry.

6.8 There is no short-term capacity to provide significant amounts of reliable and affordable supplies of alternative energy sufficient to mitigate against a similar crisis if another major gas failure is experienced.

6.9 The feasibility of developing emergency storage facilities of gas in depleted reservoirs or other repositories is limited and would not result in continuity of supply during a similar crisis.

Recommendations

6.10 The committee provides the following recommendations:

Recommendation 1

State Government crisis coordination

6.11 **The Western Australian Government should convene a forum comprised of gas producers, suppliers, power companies, industry groups, media outlets and community representatives to discuss and develop a range of standardised emergency response measures in the event that another gas crisis is experienced in Western Australia.**

6.12 **The forum should examine initiatives, including but not limited to, providing increased transparency and improved communication during periods of disruption to gas supply. Improved communication from government to the community and industry groups to their members would assist in the dissemination of timely and relevant information to the public and industry throughout Western Australia. In addition an analysis of the feasibility of improved contingency planning by government and the market should be undertaken.**

6.13 **The forum should also discuss the operation of the Gas Supply Coordination Committee and the Gas Supply Disruption Recovery Committee and whether there are improvements that can be made to the operation of these committees if another gas crisis eventuates. An assessment should be made of the Office of Energy priority schedule for gas supply and, whether, in hindsight, any improvements or modifications should be made to the schedule.**

Recommendation 2

Emergency powers and the market

6.14 The Western Australian Government should conduct an internal analysis of the effectiveness and appropriateness of the legislative framework to deal with periods of energy crisis in Western Australia. Issues such as the government's capacity to invoke emergency powers in the public interest and the effectiveness of government intervention in a market-based industry should be analysed. In particular the response to emergencies under the Energy Coordination Act 1994 (WA) and the emergencies under the Emergency Management Act 2005 (WA) legislation should be assessed for their appropriateness following the experience of the Varanus Island gas explosion crisis.

Recommendation 3

Energy security plan

6.15 The Western Australian Government should conduct, as soon as practicable, the review of gas security announced on 6 August 2008. The review should be conducted in coordination with the Commonwealth's National Energy Security Assessment currently being conducted by the Commonwealth Department of Resources, Energy and Tourism.

Recommendation 4

Increasing competition in the Western Australian energy markets

6.16 To support increased competition and provide the community with improved information the Western Australian Government should establish a permanent gas bulletin board. Any permanent gas bulletin board should include the provision of information on pipeline capacity and flows to increase the transparency of the gas market in Western Australia. The committee also recommends that the state government explore options to provide the Office of Energy with powers to examine and publish transportation figures from the Dampier Bunbury Natural Gas Pipeline and the Goldfields Gas Pipeline.

6.17 The Western Australian Government should actively engage with the alternative energy industry in Western Australia in order to progress energy diversification through increased alternative energy capacity.

6.18 The Western Australian Government should also examine whether the current market-based approach to energy supply is providing sufficient information, openness and competition to Western Australian consumers.

Recommendation 5

Short-term contractual arrangements during a period of crisis

6.19 The Western Australian Government should commence discussions with energy suppliers on the need to balance the market approach with community and industry needs during a period of gas shortage. In particular, the need for improved transparency and accountability from the gas and energy industry during periods of crisis should be addressed. Given the perception of "price gouging" and unfair contracts it is in the interest of the industry and the government to examine increased transparency and accountability during periods of energy supply crisis.

Recommendation 6

Contractors

6.20 The committee received evidence from several contractors in the south west who were severely affected by the gas shortage. It was reported that Centrelink are limited in the assistance they can provide to independent contractors. The Department of Human Services should undertake an investigation of these concerns.

Senator Annette Hurley
Chair

COALITION SENATORS' DISSENTING REPORT

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

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

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

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

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

Government Response to the Crisis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

* Of electricity

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

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

The Role of Minister Logan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Energy Security

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

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

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

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

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

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

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

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

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

Impact on Business

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

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

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

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

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

Impact on the South West

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

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

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

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

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

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

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

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

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

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

1.35 According to David Smith from the City of Bunbury:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operation of the Bulletin Board

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

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

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

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

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

Senator JOHNSTON - "Why would you say that?"

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

...

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

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

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

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

Price Rises

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

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

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

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

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

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

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

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

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

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

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

Why Did Gas Supply Problems Continue Past August?

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

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

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

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

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

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

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

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

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

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

Conclusion

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

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

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

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

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

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

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

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

Recommendation

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

**Senator Alan Eggleston
Deputy Chair**

Senator Judith Adams

Senator David Bushby

Senator the Hon David Johnston

Senator Barnaby Joyce

APPENDIX 1

Submissions Received

Submission Number	Submitter
1	Professor Robert Amin, Woodside Research Facility, Curtin University of Technology
2	Bunbury Wellington Economic Alliance
3	Lighthouse Beach Resort
4	Manjimup Chamber of Commerce and Industry
5	CONFIDENTIAL
6	Prime Laundry
7	Plantation Logging Co.
8	Western Australian Local Government Association
9	Premin Holdings
10	CONFIDENTIAL
11	Capel Takeaway
12	Piacentini & Son
13	Mr Kim Marino
14	Newcrest Mining Limited
15	CONFIDENTIAL
16	Chamber of Commerce and Industry of Western Australia
17	Chamber of Minerals and Energy of Western Australia
18	Dynea Australia
19	M & T Cutts Haulage
20	DomGas Alliance
21	Australian Hotels Association (Western Australia)
22	Tourism Western Australia
23	City of Bunbury
24	Food Industry Association of Western Australia
25	CONFIDENTIAL
26	Australian Petroleum Production and Exploration Association
27	Sustainable Energy Now
28	Australian Pipeline Industry Association
29	Synergy
30	Santos Ltd
31	Hon Francis Logan MLA
32	Economic Regulation Authority, Western Australia

Additional Information Received

- Received on 10 October 2008, from Tourism Western Australia. '*Survey Reports*', additional information requested by committee;
- Received on 24 October 2008, from Western Australian Local Government Association (WALGA). Answers to Questions taken on notice in Perth on 2 October 2008;
- Received on 2 December 2008, from Geoscience Australia. Answers to Questions taken on Notice on 28 October 2008.

TABLED DOCUMENTS

- 2 OCTOBER 2008, PERTH WA:
 - Hon Francis Logan MLA, '*Gas Supply Coordination Committee; Agenda Paper – 4.1; Priority Allocation of Available Energy; Meeting Date Thursday 12 June 2008*'.

APPENDIX 2

Public Hearings and Witnesses

PERTH, THURSDAY 2 OCTOBER 2008

- BANKS, Mr Jason, Coordinator of Energy, Office of Energy
- BROCKSCHLAGER, Mr Paul, General Manager, Parliamentary and Corporate Affairs, Australian Hotels Association (Western Australia)
- COURT, Mr Michael John, Acting Executive Director, Economic, Department of Treasury and Finance
- COWIE, Miss Amanda Anna Jayne, Marketing Team Leader, Sustainable Energy Now Inc.
- CUSTODIO, Mr Rolando, Director, Industry and Community, Office of Energy
- CUSWORTH, Ms Nicola Claire, Director, Economic Policy, Department of Treasury and Finance
- DICKINSON, Mr Christopher Ross, Acting Secretary, Sustainable Energy Now Inc.
- DUFFECY, Ms Jennifer, Acting Chief Executive Officer, Tourism Western Australia
- DUNCAN, Mr Ian Stewart, Economist, Western Australian Local Government Association
- ELIOT, Mr Stephen, Director, Markets and Regulatory Policy, Office of Energy
- ELLIS, Mr Stedman, Deputy Director General Resources, Department of Industry and Resources
- GATES, Mr Stephen Malcolm, Chair, Sustainable Energy Now Inc.
- GOH, Mr Gavin, Executive Officer, DomGas Alliance
- HOHNEN, Mr Stuart, Chairman, DomGas Alliance
- HOWARD-SMITH, Mr Reginald James, Chief Executive, The Chamber of Minerals and Energy of Western Australia

- LANE, Mr John, Emergency Management Coordinator,
Western Australian Local Government Association
- LAYMAN, Mr Bruce Dean, Assistant Director,
Economic Policy, Department of Treasury and Finance
- LOCK, Mr David Alexander, Chairman,
Food Industry Association of Western Australia Inc.
- LOGAN, Mr Francis
- LOVELLE, Mr Trevor, Executive Director,
Industry Policy, Chamber of Commerce and Industry of Western Australia
- LOWE, Ms Renata, Acting Executive Director,
Industry Development, Tourism Western Australia
- OTTAVIANO, Dr Michael Edward, Managing Director,
Carnegie Corporation
- PEARSON, Mr James, Chief Executive,
Chamber of Commerce and Industry of Western Australia
- STEVENS, Mr Mark,
Department of Industry and Resources
- WARDEN, Mr Gary John, Member,
Sustainable Energy Now Inc.
- WARDEN, Mrs Toni-Marie Ramplin, Member,
Sustainable Energy Now Inc.
- WILKES, Mr Paul Graeme, Vice Chair,
Sustainable Energy Now Inc.
- WILLS, Dr Raymond Thomas, Chief Executive,
Western Australian Sustainable Energy Association Inc

BUNBURY, FRIDAY 3 OCTOBER 2008

- BIRRELL, Mr Robert Allan, Chief Executive Officer, Bunbury Chamber of Commerce and Industries
- GARDINER, Mr Preston Graham, Managing Director, Premin Holdings
- KINGSTON, Mrs Louise, Committee Member, Manjimup Chamber of Commerce and Industry
- MARINO, Ms Nola Bethwyn, Member for Forrest, Commonwealth Parliament
- MOYLE, Mrs Rose, Administration Officer, Manjimup Chamber of Commerce and Industry
- SCOLARO, Mr John, Director, Harvey Fresh (1994) Ltd
- SMITH, Mayor David Lawrence, City of Bunbury
- TOMBLESON, Mr John Laurance, Group Commercial Manager, Piacentini and Son Pty Ltd

CANBERRA, TUESDAY 28 OCTOBER 2008

- GRIFFITHS, Mr John, General Manager, Energy Security Branch, Energy and Environment Division, Department of Resources, Energy and Tourism
- HAY, Mr Russell James, Project Leader, Critical Infrastructure Project, Geoscience Australia
- JERKS, Mr Michael, Assistant Secretary, Critical Infrastructure Protection Branch, Attorney-General's Department
- SCOFIELD, Mr Nicholas, General Manager, Corporate Affairs, Allianz Australia
- SQUIRE, Mr Martin, Acting General Manager, Offshore Resources Branch, Department of Resources, Energy and Tourism
- SULLIVAN, Mr Karl, General Manager Policy, Risk and Disaster Planning Directorate, Insurance Council of Australia
- WATERS, Mr Denis Robert, Senior Economist, Geoscience Australia

CANBERRA, WEDNESDAY 29 OCTOBER 2008

- ADAMS, Mr Simon, Senior Legal Counsel,
Electricity Retail Corporation trading as Synergy
- MITCHELL, Mr James, Managing Director,
Electricity Retail Corporation trading as Synergy

CANBERRA, WEDNESDAY 26 NOVEMBER 2008

- BROWN, Mr Chris, Acting Assistant Director,
Electricity Market Surveillance, Economic Regulation Authority, Western
Australia
- DAWSON, Mr Allan, Chief Executive Officer,
Independent Market Operator, Western Australia
- KOLF, Mr Peter, General Manager,
Economic Regulation Authority, Western Australia
- PULLELLA, Mr Robert, Executive Director,
Competition, Markets and Electricity, Economic Regulation Authority, Western
Australia.

APPENDIX 3

Abbreviations

CCIWA	Chamber of Commerce and Industry of Western Australia
CIPMA	Critical Infrastructure Protection Modelling and Analysis Program
CME	Chamber of Minerals and Energy of Western Australia
DBNGP	Dampier to Bunbury Natural Gas Pipeline
FIA	Food Industry Association of Western Australia
GBB	gas bulletin board
GDP	gross domestic product
GSP	gross state product
IMO	Independent Market Operator
LNG	liquefied natural gas
LPG	liquefied petroleum gas
NOPSA	National Offshore Petroleum Safety Authority
NWSV	North West Shelf Venture
SWIS	South West Interconnected System
TERM	The Enormous Regional Model
WA	Western Australia
WALGA	Western Australian Local Government Association

