

BUNBURY WELLINGTON ECONOMIC ALLIANCE

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
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Canberra ACT 2600
Australia

13 Sept 2008

BWEA Submission into matters relating to the gas explosion at Varanus Island, Western Australia

The Bunbury Wellington Economic Alliance is an economic development partnership of the six local government authorities based in the sub-region of Bunbury Wellington (City of Bunbury and the Shires of Capel, Collie, Dardanup, Donnybrook/Balingup and Harvey) and the 25 largest employers in the region including BHP -Worsley, Alcoa, Griffin Coal, Premier Coal, Millennium and Cable Sands

BWEA would like to make the following submission relating to the impact of the Varanus Island Gas Explosion to the Senate Economics Committee.

ECONOMIC IMPACT

- The shutdown on Varanus Island follows the January shutdown of the North-West Shelf project. The loss then of almost two-thirds of the state's gas supply ignited a security of supply debate which was unresolved by the time the second gas shortage occurred. The Senate Committee needs to address this issue of security and diversity of supply.
- Most of the 380 terajoules of gas produced on Varanus Island was distributed via the 1600-kilometre Dampier to Bunbury pipeline. With Bunbury being the end of the line major users such as Alcoa, Millennium, BHP, Iluka, Laminex, Wespine, Harvey Beef and Verve were heavily impacted (40% of the total volume of gas goes into the South West mineral and timber processing industries.
- 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.
- Although the Varanus Island incident stopped less than 40% of total gas supply to WA, many industrial users in the SW were cut by over 90%. This inequity in allocation was not transparent.
- The skills shortage meant that most industries have been reluctant to lay off staff during the period of the gas shortages which resulted in additional financial costs being born by the impacted companies.

- A local survey of BWEAs 25 industry members identified that total staff stood down or placed on leave for more than 1 week within the local total population of 80,000 exceeded 2000 workers.
- Most businesses reliant on gas supplies resumed partial operations after the first four weeks by purchasing gas via the auction system at up to 10 x their normal contracted costs. Other industries switched to alternative energy sources such as distillate and LPG. The allocation uncertainty of gas continued through August..
- Exports from the SW business were lost, and the recovery of these customers may be difficult.
- Long term costs are most likely to be reflected in the reluctance of new companies to establish in the South West of Western Australia or expand existing production until they were confident that the security of gas supply is improved. New companies will face increased costs of projects due to the need to install alternative fuel systems to mitigate the energy uncertainty for business continuity.
- SW Industries are likely to see increased Business Continuity insurance premiums.

GOVERNMENT MANAGEMENT

- The State Government failed to have a management plan in place to deal with a major disruption to the gas supply. This is unacceptable considering the earlier January incident and the ongoing national focus on the risks to major infrastructure of a potential terrorism attack.
 - The State Government failed to quickly communicate the likely impact of the incident to industry or to provide best and worst case scenarios to allow industry to plan ahead.
 - 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.
 - The State Government failed to provide leadership, instead it attempted to hand over the decision making process to a mix of industry bodies, some of which were dominated by companies linked to the oil and gas industry, and which had a likely conflict of interest to the stated aim of ensuring a fair and equitable distribution of gas.
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- Government Ministers refused for over 3 weeks to visit the South West to assess the impact of the crisis or to meet with key industry leaders.
 - The State Government failed to establish a timely secondary market to cater for such a gas crisis and has made no effort to review the effectiveness of this market.
 - State Government ran a limited public relations campaign that failed to emphasize the importance of the public reducing energy usage or outlining the links between domestic electricity and gas usage.
 - Neither Federal or State governments used their trade offices to assist exporters affected by the stoppage.

- Living assistance (Centrelink) to people temporarily suspended during the gas crisis was 'by the book', meaning many had to rely on savings to get through.

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