

SYNERGY AND VERVE ENERGY — RE-MERGER

Motion

MR W.J. JOHNSTON (Cannington) [4.02 pm]: I move —

That this house condemns the Premier and the Liberal state government for deciding to amalgamate Verve and Synergy without having a plan for any of the consequences of this decision.

In speaking to this motion, it is worthwhile looking at a number of issues. In my capacity as shadow Minister for Energy I meet with a number of organisations in government. Since the new Minister for Energy came into office, I have met with the Economic Regulation Authority, the Independent Market Operator, Horizon Power, Western Power and Synergy. I am awaiting my briefing from Verve and the Public Utilities Office. There are so many people talking in the market; we all know the simple fact is that there was no consultation by the government prior to the decision by cabinet to amalgamate Verve and Synergy. We also know that at the end of last year the former Minister for Energy set up a committee to deal with matters in the energy market arising from the strategic energy initiative. I make the aside that the strategic energy initiative was the biggest waste of time since the formation of self-government in Western Australia. It really was a complete wasted effort. It did not provide any direction for the future of this state. It did not provide any plan for the future; it was a complete waste of time. But it did set up a committee to look at matters including the Chamber of Commerce and Industry of Western Australia, consumer representatives and a range of other people. We know that that committee never met from the time of the election until the decision was made by cabinet to amalgamate Verve and Synergy. We also know that there was no consultation by anyone in government with any other player in the industry. We know those things to be true. In fact, the rumour around the bureaucracy in Western Australia and around the market in the energy sector is that the minister did not know about it until he walked into the cabinet room and found the cabinet submission sitting on his desk!

Acknowledging cabinet confidentiality, I asked the minister on what date he first saw the cabinet submission. Of course the date a cabinet submission is seen cannot possibly be covered by cabinet confidentiality because it does not relate to the deliberations of cabinet. The minister refused to answer my question. We all know why—he is embarrassed by the fact he did not have anything to do with the cabinet submission. I asked the Minister for Energy if he had anything to do with the cabinet submission, and again he said it was covered by cabinet confidentiality. Other ministers have answered those types of questions in the past. The fact he chose not to answer that simple question speaks volumes. I asked the Minister for Energy if the Public Utilities Office, the instrumentality created to advise the minister on energy policy, had anything to do with it. Again he refused to say whether it had anything to do with the cabinet submission, because we know the truth is that it did not.

The observation was made that the minister, in his capacity as Minister for Finance, had been pushed out the window by the Treasurer on the \$527 million tax slug. This time it is not the Treasurer pushing the Minister for Energy out the window, it is the Premier. The Premier has gone on for years and years about his obsession with microeconomic reform in the energy sector and his avid opposition to the idea that free enterprise is a response that works in the energy sector as it does in so many other parts of the Western Australian economy. On 10 April 2013, the Premier put out a media statement headed “Changes to machinery of Government”. He announced in it that Verve and Synergy would be amalgamated. He made a series of comments in his media release. I went back to the Premier and asked, for each claim, what was the basis of his claim. He refused to answer me. He refuses to explain why he makes these assertions. The Premier said in his media release —

“For example, both Verve and Synergy negotiated domestic gas supply contracts with the Gorgon project which resulted in a higher overall gas price compared with the price that could have been achieved from one gas contract negotiation,” ...

That is a very interesting observation. Last year I asked the former Minister for Energy about that contract because he had excitedly announced that contract when it was signed. There was no indication at the time that the former minister supported the signing of that contract. It is interesting, too, that that contract was approved by cabinet. If those contracts were so bad that they were going to lead to higher gas prices for Western Australians, why did cabinet approve the contract? The reasoning behind those comments by the Premier is bizarre. The fact he will not explain them shows that he knows they are bizarre.

The Premier also talked about the shortcomings in the existing electricity market. I asked him what those shortcomings in the electricity market were but he would not answer that either. The problem here is that it is not about shortcomings in the electricity market; it is about shortcomings in the desire of the Premier to control the energy system in Western Australia. It is an old-fashioned Stalinist approach to energy policy. He wants to be the commissar of energy in Western Australia so that companies wanting to set up projects in this state will have to come to him to get his say-so about what they will do for the energy sector. The Premier also said that there was a lack of planning. I will quote his words —

... had also resulted in a lack of longer-term planning of electricity market requirements, including energy security.

So I asked the Premier, “Was that a job that the former Minister for Energy, Hon Peter Collier, was required to perform; and, if it was, why was it not done?” Again, I got a non-answer back from the Premier. This is the problem. Somebody was responsible for energy planning in Western Australia prior to the announcement on 10 April that Verve and Synergy would be re-formed, and that was the Minister for Energy. The problem is this narrow-minded concept that only a government instrumentality can deliver energy supplies for Western Australia. I make the point that during the time when there was a more open market in Western Australia, we saw two coal-fired power stations built in Collie and a number of gas plants—both high-efficiency gas plants, which are normally called combined-cycle gas plants, and peaking plants—built. The good thing about that was that the financial risk of those plants was not taken by the taxpayer. When I sit down, the minister will get up and say, “Well, actually, Synergy has contracts with some of those private power providers; therefore Synergy is bearing the risk.” If that is going to be his argument, merging Verve and Synergy does not change that, because each power station will have to have somebody taking their offtake, and that risk is the same whether the power station is owned by the private sector or the public sector.

The good thing about the innovation that is generated by allowing private sector investment in power stations is that, firstly, we can get new technology. The Alinta gas cogeneration plants at Alcoa are an example of that. Those plants could have been built at any time until the disaggregation, but the reason they were built only when the disaggregation occurred was that that was the first time there were incentives in the market to make the private sector risk its capital. The second thing is that the private sector will build a larger plant than is needed just to meet the minimum requirements of any particular contract, because that will give it options for supplying other players in the market. There is a deregulated system for large consumers, so it can play into that market. It might take some market risk for the future by building excess capacity so that it can have it ready if things change in the future.

On 10 April, the minister put out a media release headed “Major reform for State’s energy sector”. The release states —

Making the announcement today, Premier Colin Barnett said the changes to Verve and Synergy would deliver improved efficiencies in electricity delivery.

There was an obvious question to ask the minister after that, so I just asked him a simple question, and it was surprising that I could not get a simple answer; in fact, I could not get any answer. I asked the minister —

I refer to the Minister’s media release ... will the Minister please detail the specific dollar savings that it is planned will result from the Government’s restructure of Verve and Synergy for each year as below:

Then I set out the various years —

- (a) 2013–2014;
- (b) 2014–2015;
- (c) 2015–2016; and
- (d) 2016–2017?

Let us make this clear. The minister said in his media release that bringing Verve and Synergy together is about improved efficiencies in electricity delivery. One would think that out of those efficiencies there might be cost savings. What is the answer from the minister? He said —

Details of these savings will be provided after the two entities are merged.

What was the government’s business case for merging them if it does not know what the savings are? I also asked —

I refer to the Minister’s media release dated 10 April headed ... and I ask:

- (a) will the Minister please detail the specific dollar savings that it is planned will result from the Government’s restructure of Verve and Synergy ...

And I asked about the same years. The minister’s answer was —

I received a briefing on 20 March 2013 which reflected the comments made in Parliament —

That is the wrong answer. There we go. I will use that answer later.

We had a debate in this chamber a little while ago. I moved an amendment to the Address-in-Reply regarding the question of Verve and Synergy. In the discussion, the minister said —

The then Labor government, of course, made a couple of serious errors. ... it failed, primarily, to make sure that the regulated price to retail equalled the cost.

That was his claim. That was the fault of disaggregation, because at the point of disaggregation the retail price was not cost reflective. So I asked —

- (a) does the price of electricity charged by Synergy in accordance with the A1 —

The ordinary tariff —

as at 1 May 2013 tariff equal the cost of producing electricity;

The minister's answer was, "No." I asked —

- (b) if no, is it the policy of the Barnett Liberal Government to charge a full cost-reflective tariff for the Synergy A1 tariff;

The minister's answer was —

- (b) The Government's goal over the longer term is for the price consumers pay for electricity to equal the cost of supplying it while managing the effect of cost increases on vulnerable households.

But the minister's new world is going to start on 1 July and be complete on 1 January, and on neither day will there be cost-reflective tariffs. I do not understand the minister. Perhaps he can explain the absolute and obvious rubbish that is stated here. How can he criticise a system and say it is a failure so abject that he cannot continue with the system because he does not have cost-reflective tariffs? However, on the day on which the minister's new nirvana of an electricity system in Western Australia starts, there will not be cost-reflective tariffs. I also asked the minister another question. I said —

- (c) does the price of electricity charged by Horizon in accordance with the A1 as at 1 May 2013 tariff equal the cost of producing electricity;

His answer was, "No." Of course it does not.

Mr F.M. Logan: It never will.

Mr W.J. JOHNSTON: It never will, as the member says.

I then asked a subsequent question, which was —

- (d) if no, is it the policy of the Barnett Liberal Government to charge a full cost-reflective tariff for the Horizon A1 tariff?

What did the minister tell me? He answered —

- (d) The Government supports the uniform tariff policy that residential electricity consumers supplied by Horizon Power should pay the same for their electricity as households on the South West Interconnected System.

That is not a surprise. That is the Labor Party's position. He is continuing with what we wanted to do in government, because, of course, Horizon Power, as the member for Cockburn interjected quite rightly, is almost never going to be able to charge a cost-reflective price. It is strange, is it not, that this great travesty of electricity policy of the Labor government, when carried out by the Liberal government, suddenly becomes okay? Some people might call that hypocrisy. I do not know what you would call it, Madam Acting Speaker, but that is what some people might call it when a person says one thing and does another. I also asked the minister —

- (a) on what date does the Minister plan to have Verve and Synergy operating as one legal entity;

He said —

- (a) 1 January 2014.

Then I asked —

- (b) on that date, will residential electricity consumers be paying for the full cost of generating and distributing electricity?

He said, "No." What was a great fault for the Labor Party is being adopted, continued, absorbed and taken on board, and it becomes the minister's policy. Is it not amazing, when the member had to leave the rarefied atmosphere in which he once was and get on with doing some work, that these great things disappeared out the side?

On 17 April 2013, the minister said in the house —

So when we came into power in 2008–09, Verve was insolvent.

I asked the minister —

- (a) when the Minister was appointed as Minister for Energy, did he receive a briefing note from the Public Utilities Office, and if yes:
 - (i) on what date did he receive this document; and
 - (ii) did this briefing note include any matters relating to the solvency of Verve Energy;

I then asked whether he had received the same information from Verve, and he answered as follows —

I received a briefing on 20 March 2013 which reflected the comments made in Parliament on the date the Member cites.

He then went on about why I could not have it. I will make a point to the minister so that there is no misunderstanding. Funnily enough, it is not particularly hard. I looked up the annual report of Verve Energy, and what did I find? On 30 June 2008, a couple of months before the Liberal government came into office, the net assets of Verve Energy were \$478.075 million. That is not insolvent; it is a net asset of more than \$400 million. That is the truth. The minister said that he was quoting a briefing, as he said —

I received a briefing ... which reflected the comments made in Parliament on the date the Member cites.

That briefing was 155 per cent wrong because at 30 June, Verve had assets of more than \$400 million. In his media release the minister said —

“This merger is the first step in the process to put in place an efficient energy market that delivers cost-effective, reliable and safe energy for all West Australians,”

I asked a pretty simple question of the minister on that because it sort of looked for another question —

I refer to the Minister’s media release ... and I ask:

- (a) does the Government have a fully developed plan to deal with all the issues that arise from the merging of Verve and Synergy;

What was the minister’s answer? He said —

The announcement of 10 April 2013 reflects the policy decision made by Government. Detailed work to implement this policy is underway.

As at 11 June there was no plan. The government announced the decision to amalgamate these two entities—\$1 billion of state government assets and what is the plan? Surely to God the government was not putting it together without a plan, but that is exactly what the minister has done.

I also asked the minister —

if no to (a):

- (i) was the decision to merge Verve and Synergy made pursuant to a decision of Cabinet;

He answered —

All major Government policy decisions are pursuant to a decision of Cabinet.

Then I asked —

is it the policy of the current State Government to merge valuable State-owned assets without a comprehensive plan?

He said no, but that is exactly what he has done. He told us he does not have a plan; he does not know what he is going to do; he does not have any sort of pathway forward for the industry. But he said that the government was not going to amalgamate billion-dollar assets without a plan. That is exactly what the minister has done. To come in and say that somehow or another that is not happening is a travesty; it is wrong. The minister also said in his media release —

“The State Government will also, in consultation with industry, review the market rules and the functioning and design of the Western Australian Wholesale Energy Market as well as the role of the Independent Market Operator ... to identify and address existing deficiencies in the market.

That is a direct quote. In *The West Australian* of 11 April 2013, the minister is quoted as saying that the question is: “What kind of market structure and incentives three, four or five years down the track will there be to encourage providers not only to build and sell power to Synergy, but to take more of the market risk?” We can

see from *The West Australian* that he said this is part of what he is doing. He is quoted in the newspaper of 11 April as saying what the question is. I thought I would help him and ask him that question, so I asked him: what kind of market structure incentives will there be on 1 July 2013 to encourage private investors to not only build and sell to Synergy but also take more of the market risk? That is the exact question he is quoted in the newspaper of 11 April as saying was the real question. So what is his answer? It was —

Restructuring of the market rules to address the identified deficiencies and to accommodate the operation of a single state owned electricity generator and retailer is being progressed. Industry will be consulted during this process.

He posed the question. He said, “This is the question.” The only thing is that, despite his quarter of a million dollar salary, he cannot answer it. I thought, “Oh, well, maybe he knows about the future; maybe 1 July 2013 is too soon. He has been minister for only a short while. He has made the biggest decision in nearly a decade of Western Australia’s electricity market without any plan or consultation, but maybe I am asking something too soon.” So I asked him the exact same question, but this time about 1 July 2014. His answer is —

A market structure which takes into account the operation of a single Government owned electricity generator and retailer is being developed.

He does not have a plan but he has made the decision to do it. Maybe that was too soon; maybe the problem was that I was being unfair to him, and 2014, which is next year, is too soon. Maybe he has a plan for further on. So I asked him about 2015 and I got the exact same answer. I asked about 2016 and I got the same answer. I asked about 2017 and I got the same answer. I thought that we should maybe go out five years because the minister had said, “Three, four or five years down the track”. Maybe one and two years were too soon. I asked him the question with respect to July 2018 and I got the same answer. If that is the question, how come he cannot answer his own question? The minister is getting paid for this; I am only the shadow. What is it about the minister that says it is okay to amalgamate a billion dollars worth of government assets and affect several billion dollars of private investment and not answer a simple question about the market rules?

Let us go back to what happened when we were in government. When we were in government, the former Minister for Energy, Hon Eric Ripper, commissioned the energy reform task force, which had senior people on the committee and which worked in detail with industry participants to make sure that people in the sector would be satisfied with the quality of the report. The task force worked with industry to come up with a plan. It developed a plan and pointed out where the holes were and suggested a pathway for filling in the holes. Legislation was passed and after the legislation was passed, a range of instrumentalities were created. They acted and then the disaggregation was implemented. Now we are doing it the other way around. We are re-amalgamating everything and then doing the plan. It is crazy. No sensible person in the universe would conduct government affairs in the way this minister is doing. The minister might want to blame the Premier, and that would be great because I reckon we would get a headline in tomorrow’s newspaper. But I do not think that is what he will do. If that is not what he will do, he has to take responsibility for the fact that he has failed in this area every step of the way.

The minister talked about the future. So I asked —

Is there a plan for the future generational needs of Western Australia?

Remember, the Premier said that was one of the problems. In his media release, the Premier said there was no plan. The government had been here for only five years. Minister Collier was pretty useless, but maybe he prepared a bit of a plan; maybe the new minister did something, so I asked whether there was a plan for the future generational—it should be generation—needs of Western Australia. His answer was —

A coordinated and detailed plan for the future generation needs of Western Australia will be developed in conjunction with the creation of a single state owned electricity generator and retailer and the restructuring of market rules.

This is not a government that knows what it is doing.

During question time on 17 April, in a supplementary question, I asked the Premier for the examples of the additional costs to be taken out of the system, and he talked about the Independent Market Operator. The Premier said the IMO was involved in only two per cent of the electricity market. I asked how that figure of two per cent was calculated and which part of the electricity market that represents. The minister’s answer to that question on notice on 11 June 2013 was —

This question needs to be asked of the Premier.

That is fair enough. The second part of the answer was —

Not applicable.

That was interesting. I then asked in a question on notice on the same day —

will the Independent Market Operator be retained in the Minister's plans for the Western Australian electricity market after the merger of Synergy and Verve;

The Premier said the IMO is an example of the excessive costs built into the system—perhaps the IMO is going. Nobody knows because there is no plan, but I did ask that. When I asked if it will be retained the minister said yes. The Premier said that that is one of those excessive costs created under the market reforms of the former Labor government, but it will be retained. I am waiting with bated breath for the minister's answer to a question I asked him when he said that there was a billion dollars' worth of savings.

On 10 April 2013 the Minister for Energy released a media statement that states —

During its first term, the Liberal National Government made incremental improvements to the structure of the market and these changes reduced the cost to the State by approximately \$1 billion.

I have asked the minister what those incremental changes were and how much did each one save. I am waiting with bated breath for that answer. It is a credit to this minister that he has reduced these savings from the \$1.5 billion, that used to be said by the former Minister for Energy, Hon Peter Collier, to only \$1 billion, but the Hon Peter Collier said that is what I was told by the Office of Energy. It would be interesting to hear what this minister says about that \$1 billion.

In a question on notice answered on 11 June 2013, I also asked —

does the Government intend to quit the generation of electricity;

The answer from the Minister for Energy's reply was —

Not in the immediate future

That is fair enough. It was not the Labor government's plan to quit in the foreseeable future. However, on 11 April the minister was quoted in the newspaper as saying that he wanted the government to quit generation of electricity. I also asked, in that same question on notice on 11 June —

why is the Minister quoted in *The West Australian* dated 11 April 2013 saying that he did think that the Government would slowly exit generation?

His answer was —

State owned electricity generation assets have finite lives and over time older assets will be phased out of service.

Mr F.M. Logan: Unless it is Muja AB

Mr W.J. JOHNSTON: Yes—unless it is Muja AB. What a ridiculous answer by the minister. The former Labor government was criticised for this policy. It was criticised for imposing a cap on Verve. It was criticised for saying that Verve would quit generation. It was told that it was undermining the value of Verve. What a ridiculous answer! In fact, during the election campaign I gave an interview, unlike the former Minister for Energy, Hon Peter Collier, who refused to speak to *The West Australian* and refused to debate with me, and in my comments to *The West Australian* I said that a re-elected Labor government would reimpose the cap and it would not allow Verve to build new plant with either renewable or fossil fuel. The Premier went to Collie during the election campaign and criticised me for saying that. He criticised for me for having the same policy that the current minister has—that over time the government should quit generation by not replacing plant as it wears out.

There is also the embarrassment that is the Muja AB scandal—a scandal based on dishonesty. The Premier stood outside the cabinet room in May 2009 and said that the Muja AB refurbishment would be done without any taxpayer money. Members now know that through guaranteed debts and direct input it has spent \$250 million of taxpayers' money on a plant that does not work. What a stupid decision by the Liberal government! It is an indefensible position. The defence given by the current minister is that it seemed like a good idea at the time. It did not seem like a good idea at the time and that is why the Labor Party opposed the decision. That is also why the Labor Party opposed the decision to lift the cap on Verve. By the way, Muja could not fit into the cap; the cap had to be temporarily lifted, as the former minister acknowledged, and that cap was temporarily lifted for 10 to 15 years, which sounds pretty permanent to me. Now the minister says that his policy is the Labor Party's policy from the 2013 election. If it is the Labor Party's policy in regeneration, why is time being wasted putting the two entities together?

I turn now to another issue. The minister likes to talk about risks. He likes to say there needs to be a balance sheet standing between the risks of the market and the taxpayer. I make the point: the Muja debacle, the scandal,

shows that is impossible. Risks just happen. Those risks can be mitigated if the private sector takes a larger share of the generation activity.

Mr F.M. Logan: Or you understand the scope of your works in the first place.

Mr W.J. JOHNSTON: That is right. The member for Cockburn should not forget that I followed up on the Muja scandal because the workers rang me and told me that the plant was stuffed, to use a technical term. They told me that the reason they did the test on the boiler in July was not because management initiated it, but because the workers said that the plant would not work. So they tested it and it blew up. It is ridiculous that the government did not know that the boilers were corroded. It was 47 years old. Of course it was corroded. The HR Holden would be corroded if it was stuck in hot water for 47 years, which is exactly what happened with that boiler. A high pressure boiler produces steam and the boiler corrodes. I am not an engineer, but even I understand that. Even the little drip pipe on the bottom of a hot water service gets corroded. So does a high pressure steam facility after being in use for 47 years. It is bizarre that the government would spend all that money on a project without a proper engineering analysis.

The Muja scandal shows that risk cannot be avoided except by deregulation. Verve will have risks if it is playing in the market, but a decision has to be made in the interest of consumers of Western Australia and not the desire of the Premier to build monuments. It is ridiculous that some big fat dividend should come out of Verve because that is the only way to build hospitals. That is not true. The mess at Muja shows that it is not true. The way to get a return for the Western Australian economy is to have a strong economy. The way to have a strong economy is to have a good price for energy. A good price for energy is achieved through market discipline. I have always said that individuals sitting in houses throughout the suburbs and towns of Western Australia want a relationship with the government. That is why the Labor Party supports the continued operation of a government entity in the energy system; but if the private sector is prepared to pick up some risk, let it do it. The minister knows that putting Verve and Synergy back together scares away private investors. He knows this because he was told that at a breakfast the other day by industry participants. I have seen him at enough events being told that.

The Institute of Energy also told the minister about those problems at a lunch; everybody is telling the government what the problem is. The problem is that when the big retailer and the big generator are put in one room, they will favour themselves, particularly when the government says the issue is the value of the asset and the return on the asset. That means consumers do not get a look in. The reason the market that we developed in the last decade worked and delivered for Western Australians is that it unleashed for people the opportunity for innovation.

It is interesting, too, that the minister keeps telling us that there needs to be insurance between taxpayers and the market. On 18 April he said that Synergy had a profit of \$14 million and sales of \$2 billion. I asked the minister—I am a cheeky bugger!—in question on notice 248 —

- (a) who informed the Minister of this information ...

His answer was —

- (a) The Minister receives advice from a variety of sources, upon which comments made in this house on 18 April 2013 were based.

Then I asked —

- (b) has the Minister read the 2011–2012 Synergy Annual Report ...
- (c) is the Minister aware that this report includes a *Statement of Comprehensive Income* ...
- (d) is the Minister aware that this statement notes that *Profit Before Income Tax Equivalent Expense* was \$120,969,000;
- (e) is the Minister aware that this report ... includes a *Statement of Financial Position* as at 30 June 2012;
- (f) is the Minister aware that this Statement reports that Synergy's net assets were \$359,378,000;

His answer to all that was yes. Then the last part of my question starts with “is” but it should be “if the Minister is”, and reads —

- (g) is the Minister aware of these matters, does he still maintain that Synergy has a profit of \$14 million and sales of \$2 billion, but no assets, and if not, when will he ... correct the record of the Parliament?

This is a great *Hansard*. You will love this one, member for Cockburn. The minister says —

- (g) Yes, comments made on 18 April 2013 by myself related not to the figures and data available in the Synergy 2011/12 annual report. The comments made were in relation to more current data available to Government, ...

I had also asked, as I always do whenever I can, what the update was of the financial forecast. The minister told me that it was \$20 million, which is still more than \$12 million. Then he goes on —

... however I note even these figures were indicative as we have not reached the end of the financial year.

That is true. It continues —

As such, the comments made by myself on 18 April 2013 are subject to change upon the publication of Synergy's annual report for the 2012/13 reporting period. In relation to comments I made regarding Synergy's assets, I maintain that Synergy —

Get this one —

owns no tangible or individually saleable assets. Whilst it is true that Synergy lists assets in its audited financial statements, these line items refer to computer systems and hardware, which Synergy requires to service its customers. Unlike other assets, such as individually saleable power stations, land and other tangible assets, Synergy's assets would only be of value if considered to be part of Synergy's total assets, liabilities and operations. I believe that having now clarified the context in which my comments on 18 April 2013 were made, all members can agree I was correct when I referred to Synergy as owning no assets.

In other words, it does not matter that there is actually \$359 million worth of assets; because the minister says they are not assets, they are not! Do members see; it is a perfect system? Of course one of the difficulties in debating current government members is that it is like debating with a Cheshire cat: things only mean whatever they say. Of course the problem then is tomorrow when they say something different and we say, "But yesterday you said that", they will say, "No, you don't understand." They just re-interpret things. Muja power station was going to be delivered 100 per cent with private funding; now it is with \$250 million of taxpayers' money, and they say, "Well, you don't understand. That's not what that comment meant." Never explain and never, never admit!

It is also interesting to note what the minister said in his media release of 10 April 2013 —

"We cannot maintain the status quo any longer.

That is in respect of the energy market. Of course he is right. He is 100 per cent right. The idea that the energy market created by disaggregation was immutable and was never going to change simply means that the minister has never read anything about what happened. Everybody knew that it was a step in a process. It was public knowledge. The minister said it in the chamber.

Mr F.M. Logan: There were dates set down.

Mr W.J. JOHNSTON: As the member for Cockburn, a former Minister for Energy himself, makes clear, dates were set out for further advances. Again, in the lead-up to the 2013 election, I made it clear that a re-elected Labor government would have held an inquiry to decide on the next steps in the market. We did not need a root-and-branch review; just a bit of a check under the hood about the next steps.

I was interested to note on Saturday that the minister put out a media release saying that the most recent Economic Regulation Authority report was a vindication of the government's plan. That is rubbish! It is just not true. The idea that the capacity-credit system was immutable is nonsense; it is just not true.

The Acting Speaker looks a bit quizzical about the idea of a capacity-credit market. It does not matter; it is just a particular aspect of the market in which people are paid to be ready to do something at a future date. It is one of the reasons the Muja project has cost us so much: the proponents were paid to be ready when they were not ready and they have had to give back that money. They have commitments to be ready at the end of this year and at the end of next year as well, and if they write off the project, they will have to pay back that money in the future. I think they have a \$3 million bank guarantee with the Independent Market Operator for capacity credits for next summer, and they also have capacity credits for the summer after that. It will be interesting to see whether the minister writes that off, as that will be one of the costs he has to bear. It is not just about getting the plant to work, which is one cost he will have if he goes ahead, but also if he writes it off, he has to pay those capacity credits for the next two summers. We have always said that there could be adjustments in the market, which is the exact reason for the rules-based market system. That is why we have the ERA. That is why we have the IMO. That is the purpose of these instrumentalities—so that we can adjust things as we go.

I make the point that the cost of electricity in the wholesale spot market has fallen by 50 per cent since disaggregation. That is the bulk cost that the big companies trade between each other or that some people use for spot activity in their business. There has been a 50 per cent reduction since the introduction of the market. It has worked. It is exactly what we said would happen, and it has happened. I do not understand why the government thinks it is a bad idea to have a market that works and delivers lower prices. Let us not forget that the price people pay in their home is decided by the Premier of the state of Western Australia; it is not related to the cost of operating the energy system.

In the first two and a half years of the Barnett government, between 2008 and 2013, the Treasurer and former member for Bateman, Hon Christian Porter, and the Premier would come into this chamber and say to the Minister for Energy in his capacity as a backbench Liberal that it was terrible that a subsidy was going from the taxpayers of Western Australia to the electricity system. Now they say that it is part of the plan. When Labor paid a community service obligation, it was bad. When the current government pays it, it is part of the plan. I do not understand what has changed between the first two and a half years of the government and now. Perhaps it is because this government has put up prices 50 per cent faster than the Carpenter government would have put them up if it had been re-elected in 2008 and because the people of Western Australia have suffered because of that.

Another issue that needs to be thought about is the question of renewable energy. The Minister for Energy is not keen on renewable technologies. In debate on 19 August 2009 in his former backbench capacity and talking about renewable energy, the minister said —

Some of these new technologies have ... potential. However, windmills are not one of them.

He was referring to wind generators. I have asked the Minister for Energy about the Mumbida wind farm that is being built in the midwest, and I will be interested to see those answers when they come back. The minister is currently overseeing the development of a wind farm. If the minister is against wind farms, that does not seem to make any sense.

I also asked the minister about the plan that the government has put in place to meet its commitment to the 20 per cent renewable energy target by 2020. I do not have the minister's answer in front of me, but *inter alia* it was that the RET is a commonwealth government scheme, and each of the retailers is obliged to source the energy. I make the point that in May 2009, when the Premier announced the Muja refurbishment, the then Minister for Energy, Peter Collier, and the Premier both talked about how the government of Western Australia has embraced the 20 per cent by 2020 renewable energy target. So I still need to know where the minister stands on the renewable energy target. Does the government of Western Australia continue to support the 20 per cent by 2020 target that both the Premier and the then Minister for Energy talked about on 11 May 2009, or has the government changed its mind on that issue as well? It will be helpful for us to know where the government is going on that.

If the government wanted to sell Verve and Synergy and get the highest price for those operators, it would amalgamate them. That would make them a large dominating monopoly, and everybody knows that a monopoly operator is able to get a higher income than other operators in a competitive market. That can be the only reason that the government would amalgamate Verve and Synergy. I know what will happen. The minister will get up in a few minutes and give us the standard answer that is written down for the minister. It does not matter whether it is this minister, or the Treasurer or the Premier. That standard answer is that the Liberal government has no plans to privatise Verve and Synergy. I remind the chamber that in the lead-up to the 1996 state election, Hon Norman Moore, in his capacity as minister representing the Minister for Energy, was asked in the other chamber whether AlintaGas would be privatised, and his answer was that there are no plans to privatise AlintaGas. Those will be the words that are used. Those words have already been used by both the Premier and the Treasurer. I imagine that in a few minutes, the Minister for Energy will use the exact same words: there are no plans to privatise Verve and Synergy. So this has form. When AlintaGas was privatised by the then Minister for Energy and now Premier, he said in debate that future gas charge increases would be at the rate of inflation. We know that is not what has happened. The continual increases in gas charges in the network are well known by every consumer in the state. The privatisation of Verve and Synergy is not a good idea, and the Labor Party will continue to oppose it.

The minister has said again in this debate that it is confusing; the Labor Party wants the government to make space to allow the private sector to invest in large industrial assets such as power stations, but is opposed to the private operation of public hospitals. Yes, that is right. There is nothing confusing or mixed up about that. In a situation in which there is an operating market—there are lots of potential suppliers—and there is government security of the market, as there is in the electricity system in Western Australia, let us encourage private sector investment, because we will get innovation, people will take risks, and we will get things working. But a power station is not like a hospital. We do not want the health of Western Australians to be subject to risk. We want to

provide the highest possible standards for people in our hospitals. So those positions are not contradictory at all. What is contradictory is privatising hospitals, as the current government is doing, but not allowing private sector investment in the generation of electricity. That is what we on this side of the chamber find strange.

This government does not have a plan for the future amalgamation of Verve and Synergy. We know that the government does not have a plan, because, if it had a plan, it would tell us. So the government cannot stand here and say this is its plan, because it does not have one. We have asked the government dozens of questions about that; in fact, the minister complained that I have asked him too many questions. We have been asking the questions, but, unfortunately, we have not been able to get any answers, because the minister and the Premier do not have a plan for the future amalgamation of Verve and Synergy. Not only that, but Verve and Synergy are to be amalgamated without consultation with the community. We know that the independent power producers, the Chamber of Minerals and Energy of Western Australia, the Chamber of Commerce and Industry of Western Australia, and all the independent commentators, are opposed to that. The Labor Party is also opposed to that. The government has the numbers, so it is going to happen. We all understand that. But we will continue to put the government on the spot on this issue and hold it to account. We want the government to make clear statements. When the government says that it will save money, we want to know what those savings will be. We want the government to specify those savings in advance. There is a concept in government called failure standards. We want government to tell us what its failure standard is, so that if something happens, we will know whether it is a failure or a success. We want to know by how much energy prices will come down. We want to know what will happen under this new system, for which there is yet no plan. We will be interested to hear from the government on those issues.

MR F.M. LOGAN (Cockburn) [4.56 pm]: I rise to contribute to this motion about the planned merger of Verve and Synergy, which has been brought to the house by the member for Cannington. We have heard from the member for Cannington about some of the people opposed to the planned merger, and about the criticism levelled at the government about the planned merger, but I want to take that further. The planned merger is not supported by the Chamber of Commerce and Industry of Western Australia, by the WA Independent Power Association, by the Chamber of Minerals and Energy of Western Australia, by the Economic Regulation Authority and by the Sustainable Energy Association. It is also not supported by private companies in the electricity market or by national regulators of electricity. Although the government dismisses it, it is also not supported by this side of the house, of course. Why are all these organisations wrong and the government right? Most of these organisations have a vested interest in ensuring that the electricity market in Western Australia works properly. Why are all of these organisations opposed to the planned merger of Verve and Synergy? The Premier has indicated a number of times in the media that he knows he will get criticism and backlash from various organisations, but he is going to push ahead with it anyway, because it is in the best interests of the state. Why are all these organisations wrong and the government right? That simple question still has not been properly answered by the Premier or the Minister for Energy,

The best explanation that we can get out of the government for why this merger is so important is that the Premier and the Minister for Energy have said that although no major cost savings will be achieved by the merger of Synergy and Verve, it will put downward pressure on prices; it will keep prices at a more sustainable level for consumers. I remember one of the former Ministers for Energy also used the phrase “put downward pressure on prices”. That was the former member for Belmont and former Minister for Energy, Hon Eric Ripper. I remember the Premier when he was on this side of the chamber, both as Leader of the Opposition and as a backbencher, absolutely tearing the minister to pieces over and over again in this house. He howled down the then Minister for Energy about his claims that he would put downward pressure on prices, yet the Premier has used exactly the same phrase to justify the merger of Verve and Synergy. We heard from the member for Cannington that the then Minister for Energy, the former member for Belmont, Hon Eric Ripper, used that phrase about putting downward pressure on prices because the efficiencies gained by opening up the generation of electricity to a competitive market, would ultimately put downward pressure on prices. Has that been achieved? Yes, it has been achieved in the spot market area. It has been achieved in a contestable market. Prices have come down.

Mr C.J. Barnett: Tell that to consumers.

Mr F.M. LOGAN: I am talking about the contestable market.

Mr C.J. Barnett: Where’s the benefit to the public—2.4 million Western Australians?

Mr F.M. LOGAN: I will explain that. We do not necessarily agree with the way the government has done it, but had we retained government in 2008, we would nevertheless have increased electricity prices. We made that very clear before the 2008 election. The reason we would not put up electricity prices and the reason the government has put up electricity prices is to get to the full actual cost of the generation of electricity that had been held down by successive governments not increasing electricity prices.

Mr C.J. Barnett: But you didn't say that in 2001.

Mr F.M. LOGAN: Of course we did.

Mr C.J. Barnett: In 2001?

Mr F.M. LOGAN: As Minister for Energy, I stood in the seat behind the minister and said that over and again. The reason we had to put up electricity prices and the reason Verve was losing money through the way the disaggregation had been structured was that we were subsidising consumers by effectively pouring that money into Verve, which was at the end of the line when it comes to the electricity market. Why were we doing that? From 1993 to 2010 there were two electricity price increases—one for the GST, and one in 1998, which was a very small increase. That was all there was. There were two electricity price increases between 1993 and 2010.

The Liberal–National government and the Labor government both have to be held accountable for that. I was a member of one of those governments. There was no real justification for holding down electricity prices for that long period except that we did not put up the real cost of electricity for consumers. It was a purely political decision. I am sure that would have been exactly the same for both parties. It was a political decision to curry favour with the voters.

Mr C.J. Barnett: The big difference was in the nineties, when Western Power, then known as SECWA, traded profitably and efficiencies were made, including a lot of redundancies. There were cost savings that allowed the price of electricity basically to not increase. You had policies that increased costs and you held down the price. That is where the imbalance occurred.

Mr F.M. LOGAN: The only imbalance that occurred was when Verve lost money because it was at the end of the line when it came to the payout of the money that was collected. That was the only component of the three units in the south west interconnected system that did not make money after the disaggregation. If the whole lot were put back together again as Western Power, it would still make money. All three of them were making money but not much, and those costs would have increased dramatically. Whether it was Western Power or disaggregation, the cost pressures would have happened anyway because of two things: first, prices had remained flat for that period; and, second, all costs, particularly input costs, had increased dramatically over that period, particularly gas, as the Premier knows. If we look at the four disaggregated bodies of what was Western Power, all except Horizon are making money. Verve is making money. It is still not meeting the real cost of electricity but as a business entity, it is making money. The disaggregation in the first instance was justified on the basis that a private sector generator of electricity—a market that opened up energy generation to the private sector—would take some of the costs that would have been massively borne by Western Power for future energy demand. Instead of the government and the taxpayer paying for that electricity generation, it was shared with the private sector through the creation of an energy market. Was that market successful? Yes. Over the eight years of the Labor government, 12 new power stations were planned and constructed. Not one of them was a public one; they were all private sector power stations that were brought on line. That in itself added to energy security for Western Australia.

Mr C.J. Barnett: Maybe you don't intend to but don't suggest they were the first private power stations. There was one through the 1990s. I admit it happened more during your years but it started in the mid-1990s, the Mission plant at Kwinana being the first.

Mr F.M. LOGAN: Private power stations were contracted directly to Western Power, similar to what Water Corp does with its plant and capital equipment. It was not a private sector market. It was not a market structure.

Mr C.J. Barnett: No, you're wrong. The Mission power plant in Kwinana was selling both to the utility and to private customers.

Mr F.M. LOGAN: It was still firmly through the structure of Western Power with a determined price. There was no way we could know that that was the right price of electricity. As the Premier knows, the market brought some transparency to the real cost of generating electricity. That is what it did and that is what it does. It is appropriate that Verve stays in that market as a major player and only as a player of generation because it brings some honesty to the market. With a government-owned generator, at least we know internally how much it costs to generate electricity. Private sector players are also trying to find the greatest efficiencies possible to deliver the cheapest possible price to the marketplace. If that means Verve is not doing it properly, it means that the owner of Verve, the board and the government, can go back to Verve and say, "These other companies have got their prices down and you should be able to follow suit." That is the whole point of having the marketplace there in the first place.

The merger of Verve and Synergy will do a number of things. First, it will cause a major scare-off of private sector investment in electricity generation in the future. Already, the WA Independent Power Association has

made it very clear that it is absolutely paranoid about the merger of Verve and Synergy because it poses a possible threat to the billions of dollars of investment in existing electricity generation infrastructure and a threat to future investment that may or may not be available to the private sector after the merger of Verve and Synergy. It is absolutely paranoid!

The second issue is the cost of the re-merger and its flow-on effect to the consumers of Western Australia. The Premier is on the record as saying that some savings will be achieved by the re-merger of Verve and Synergy, although they would not be great savings, but I do not think that is correct. Certainly, people in industry do not believe it is correct. We, as the Labor Party, do not believe it is correct either. We believe there will be substantial costs as a result of the re-merger of Verve and Synergy and those substantial costs will be borne by the A1 tariff household consumer. That is where it will all flow back!

There has been no proof presented by the government that the consumer will benefit from this re-merger at all. There is no proof that the re-merger will not impact on current and future private sector investment, which raises the questions: Why do it? Where is the benefit? The only thing we can get from the government so far is that the Premier believes it is a great idea. The Premier is a former Minister for Energy; he was a very strong supporter of Western Power. He was a vocal critic of the disaggregation of Western Power, even though he voted for it. I will acknowledge that he was a vocal critic and was dragged kicking and screaming by his then —

Mr C.J. Barnett: It's all in *Hansard* —

Mr F.M. LOGAN: I know! I remember!

Mr C.J. Barnett: — and will prove to be correct.

Mr F.M. LOGAN: We do not agree that the Premier has been proved to be correct at all. As I said, the prices had nothing do with the disaggregation of Western Power. The price problems for households were, as I said, a result of both governments—both sides of Parliament—holding prices flat for over 12 years, from 1993 to 2010. That was the reason why—it all comes back to that! The reason Verve loses money is that those prices were increased, and the reason we had to do that was to ensure the future capital investment in power generation would hold those prices down and ultimately put downward pressure on prices.

What is the other reason? One could be that the Premier has always disliked disaggregation. He has made it very clear in this house that he dislikes disaggregation; therefore, this is a step back towards a path of reaggregation of what was then Western Power. Is it because the re-merger will put downward pressure on electricity prices? No. The member for Cannington has already indicated that, from the questions he has asked the minister responsible for electricity about the real cost of the generation of power, it is some time off. We know there will be future price increases. The government has already indicated that we will be getting future increases. A re-merger certainly will not put downward pressure on electricity prices. If anything, it will have the opposite effect.

[Member's time extended.]

Mr F.M. LOGAN: Therefore, what other reason is there for the merger of Synergy and Verve? The member for Cannington raised an interesting one, and it is one to which I subscribe: as profitable as Verve is, it still does not generate electricity at the real cost of inputs. Verve still has big liabilities. It has substantial liabilities because of that factor. Synergy does not; it is a profitable retailer of electricity with a proven and profitable structure in buying and selling electricity. If we wanted to sell Verve, the best thing to do would be to give it some value—that is, better value than its current assets—and merge the retailer with the generator. That would provide an organisation that is of greater value to the marketplace and therefore more amenable to privatisation. It was an issue that was raised by the member for Cannington and it is one to which I subscribe; that is, a merger of Verve and Synergy could well be the creation of an organisation with great value that would be financially beneficial through privatisation. It appears to be the case and is a proposal, to which I subscribe, about what this government may do. If that was to occur, it would cause mayhem in the marketplace of power generation.

One of the things we were going to do this year, 2013, as part of the disaggregation timetable was to re-evaluate the market structure for electricity generation, establish whether that market structure had become more mature—it has become more mature—and then move to bring competition to the retail sector of electricity so that Synergy would not be the only player in the marketplace selling electricity to households. At the moment that is available in the contestable market for heavy industry and it works well. The contestable market works well. Of course, there is a monopoly market for only the A1 household tariff. As of this year, we would have begun the process of bringing competition into the retail sector. That proposal, as part of the long-term disaggregation process, is now completely gone. It has been thrown out the window by the government's move to merge Verve and Synergy because a gorilla will be in the marketplace. An absolute gorilla! It will be a combined generator-retailer that will have not only absolute, dominant market share of generation, but also absolute insight into all the power generation costs for all the other private sector players. It is going to cause mayhem.

The Premier will stand and say, “Oh, well, that is nonsense, because what we’ll do, once this merger goes through, is open up the marketplace for other retailers.” What chance will those retailers have against a gorilla like Verve–Synergy in the marketplace? What chance will they have of taking any market share off an organisation giant like Verve–Synergy? None at all! If Verve–Synergy is privatised, which is the concern that both the member for Cannington and I share, it will not be the government with a giant energy-retailing organisation dominating the marketplace. It will be a private sector virtual monopoly—an old Western Power possibly—standing in the marketplace both dominating generation and virtually totally dominating retail. What chance would someone who was to establish a retail organisation have of competing with that? None at all. People would not put their money in. Nobody in this house in their right mind would put their money into a retail organisation to compete in a marketplace like that.

Mr C.J. Barnett: You might be surprised. Alinta might enter the market.

Mr F.M. LOGAN: Premier, even if Alinta did enter the market —

Mr C.J. Barnett: Or Wesfarmers—Kleenheat.

Mr F.M. LOGAN: Wesfarmers has entered into the gas market, as the Premier knows, in Kleenheat Gas. It is struggling, as the Premier knows. The latest share, despite a very aggressive campaign, is —

Mr W.J. Johnston: One per cent.

Mr F.M. LOGAN: It is one per cent. Despite an aggressive marketing campaign, it has one per cent of the —

Mr C.J. Barnett: Which might tell you that consumers aren’t actually looking for choice.

Mr F.M. LOGAN: They may well be —

Mr C.J. Barnett: They would’ve taken it up if they were looking for choice.

Mr F.M. LOGAN: They may well be, but the problem is that when a company enters into a market that is dominated by one huge great organisation, it will have to do more than Kleenheat does and spend millions and millions of dollars on advertising, because the marketplace it has just entered into is distorted. That is what the government is doing here. If the Premier is still saying that there will be a private sector marketplace in retailing, by the merger of Verve Energy and Synergy, the government will create exactly the same problem it has in gas. It is exactly the same problem: one giant organisation dominates the market and anybody else that enters the market has to spend huge amounts of money to get a very small share of that marketplace.

If those are the reasons for the Premier and the Liberal–National government to continue with the process to merge Verve and Synergy, they are the wrong reasons. As the Premier already indicated when he said, “I put these comments on *Hansard* and I’ve been proven right”, I have put these comments on *Hansard* and in future years, Premier, I will be proven right, too, that he will not —

Mr T.K. Waldron interjected.

Mr F.M. LOGAN: No, I am not. No, he —

Mr C.J. Barnett: I tell you what: in 20 years I’ll meet you down at the OBH, we’ll have a couple of drinks and we’ll argue it again! And the result will be the same.

Mr F.M. LOGAN: Hopefully, Premier, not in 20 years, and, hopefully, the Ocean Beach Hotel will be fixed up by then. I am waiting for the Premier to start on that!

The pathway for the merger of Verve and Synergy that has been elaborated by the government is the wrong path. We have already shown that if we are after lower cost prices, more innovation and a greater space for renewables, the only way we can do that is through the open electricity market that was created by the disaggregation. That is the only way we can do it. If we go along the pathway that the government has set out for a merger of Verve and Synergy, we will create a massive distortion in any marketplace that the government thinks it is going to create. We heard from the member for Cannington that the future marketplace has not even been described by the government. But let us just assume from the Premier’s interjections that that marketplace involves other private sector retailers, along with the existing private sector generators. The government will have created a massive distortion in the marketplace. It will look very much like how the gas market is at the moment, with one giant dominant player, and the only people who will pay ultimately for this move by the Barnett Liberal–National government are the consumers. They are the only people who will pay. Had we been able to keep going along the path set down by the disaggregation under the Labor government, ultimately, through electricity price increases, we would have got to the cost-reflective position for electricity. Certainly, the three south west interconnected system government-owned organisations would be making money, plus we would have a properly structured marketplace for the generation of electricity in Western Australia. The government has decided not to do that; it has decided to go down the path to merge Verve and Synergy, which is opposed by everybody who knows anything about electricity.

Mr C.J. Barnett: Except for Western Australian consumers—the 2.4 million people out there.

Mr F.M. LOGAN: If Western Australian consumers knew that they were going to pay more for their electricity, they would oppose it as well. The only problem is that at this point, they do not know. But we will ensure that they do find out, by continuing to highlight these issues. Consumers will pay because they will bear the massive cost of the distortion in the new marketplace that will come to fruition as a result of the merger of Verve and Synergy.

MR C.J. TALLENTIRE (Gosnells) [5.24 pm]: I rise to support the motion and add my voice to this condemnation of the Barnett government's plan to merge Synergy and Verve Energy. My principal reason for my opposition to the government's plans surrounds the issue of access to the grid for renewable energy generators.

The south west interconnected system sometimes has a total capacity of about 3 700 megawatts. That is steadily rising, although I hear that in recent years it has not been rising at the rate that was originally anticipated. The problem is that the merger would create a situation in which there would be a vertically integrated company that would, of course, want to buy from that arm of the company that is an electricity producer. Synergy would be buying from Verve. Verve is overwhelmingly dominated by fossil fuel production. Just to give members some figures on that, my review of the Verve Energy website shows that currently its actual nameplate capacity in megawatt terms is somewhere around 2 800 megawatts. Of that, Verve has only about four per cent renewable generation. That assumes that the Albany wind farm is producing at about 35 megawatts and the Mumbida wind farm will be at 55 megawatts and that the new Greenough solar farm will be at 10 megawatts. Therefore, my calculations—I am happy to be corrected on this—are that we are talking about the production of only four per cent renewable energy within the Verve generation area. That means that Verve merged with Synergy would overwhelmingly become an organisation focused on the fossil fuel production of electricity and the marketing of that electricity through Synergy's existing retail ability. If we allow that to happen, it is fair to say that the main reason for this amalgamation is about protecting Verve's generation assets; it seems that that is what we would be doing. Verve would feel not only that it is to focus as a fossil fuel electricity generator, but also that its assets are protected.

That is exactly what we are seeing with the situation at Muja, whereby an asset that should have been retired several years ago is having all this money poured into it to keep it going. We heard today how much of a waste that expenditure will be and of the inability, really, to maintain a power station that is 47 years old, given the technical problems of boilers rusting and that sort of thing. It seems crazy that we are pouring money into maintaining some of the ageing Verve assets. But there is another dimension to this; that is, one of the values of those assets is a connection point, so there is capacity to deliver into the grid. The last thing Verve wants to do is to give up that capacity. Being able to deliver that is worth a lot of money to Verve. If Verve were to take generation capacity offline, it would give that up. Verve does not have a history of retiring assets; it does not want to retire assets. In fact, on the contrary, as we have seen, it has a history of rebirthing these assets, even when they are 47 years old. But if Verve was forced to retire plant and capacity, that would leave space in the market for other producers to come in. Those producers could be fossil fuel electricity generators or they could be renewable energy generators.

It is really striking that since the Premier made his comments about the merger of Synergy and Verve Energy, we have seen a loss of confidence in the renewable sector. There has been a real fear that renewable energy companies' opportunities have suddenly evaporated; no longer can they have hope that there will be demand for their electricity, that there will be those connection points and that capacity to take their electricity. Renewable energy companies have lost confidence in their ability to sign those offtake agreements to develop their business arrangements. That is a great shame. I have heard other members ask about the status of the former energy minister's commitment to 20 per cent renewables by 2020. That might be a forlorn hope, especially as renewable energy generators are telling me that they have lost confidence in their ability to access the south west interconnected system and sell their electricity. That is indeed a great shame. So much of it depends on the ability of companies to be able to negotiate through offtake agreements. They have done that in good faith. They have been doing it with companies including Synergy. They hoped to do that through a competitive process. Renewable companies were perfectly happy to compete with fossil fuel. Now that there is talk of this re-merger between Verve and Synergy, they have lost confidence.

I am thinking back to the years 2000 and 2001 when the Albany wind farm was constructed. When renewables were coming into Western Australia, I can remember the Premier telling me how vital it was that we had a major entity, called Western Power at the time, to build the Albany wind farm.

Mr C.J. Barnett: Who built the Albany wind farm?

Mr C.J. TALLENTIRE: That is what I am saying. The government did, through Western Power.

Mr C.J. Barnett: Which government?

Mr C.J. TALLENTIRE: That was the Court government. Premier, I am saying that at the time the only way the wind farm could be built was by using this major organisation that was a retailer, a generator and also a network provider. It was a monster. This monolithic entity was able to provide our first major renewable energy generation on the south west interconnected system. That was in the year 2000. In that year, people were still very nervous about investing in wind turbines in Western Australia. I have said to the Premier before that the Albany wind farm is a success. At the time, 12 wind turbines were installed; now that has gone up to 18. I heard a few years later that the cost to construct the Albany wind farm back in 2000 was probably much more than the private sector would have demanded for delivering the same wind farm. It was the first one in WA. There was of course an Esperance wind farm as well; Madam Deputy Speaker would be well aware of that. But this was a major wind farm. It produced 21 megawatts of power. There was some justification for taking the belt-and-braces approach to the construction and development of that wind farm. There were complexities around planning issues. People had fears about wind farms, including noise. There was a lot of community consultation. There was a need to rehabilitate the coastal dunes where the wind farm is located. All those sorts of things added to the cost of the end product. I think that is understandable.

I note in media reports today that a tiny percentage of the population still protest against wind farms. Sydney shock jock Alan Jones actually tried to organise a protest against wind farms today in Canberra. I have seen the photos; he attracted about 150 people. Claims that there is a popular uprising against wind farms, and a real deep-seated concern about noise impacts from wind farms, are simply not well founded. Scientific report after scientific report shows that there is a negligible consequence when it comes to human health impacts from the noise generated from a wind farm. If any member here has concerns about that, I recommend that they visit the Albany wind farm to see for themselves that there is very little to be concerned about. I just say that in passing. The need for that first Albany wind farm to be constructed by that major organisation, that monolithic entity that was then called Western Power, could be justified on the grounds that it was our first major renewable energy project, but that is not the case any longer. We now know how sound the technology is. We know how well proven it is and we know its capabilities. That means that the private sector has confidence in delivering renewable energy projects. There are several private wind farms. I am thinking of the 80 megawatt Emu Downs wind farm, the wind farm at Jurien Bay, the 80 to 88 megawatt wind farm at Walkaway and the major Collgar wind farm, but none of these is owned by Verve Energy; they are owned by other entities. The Verve Energy renewable portfolio is abysmally poor and small.

I have tried my best to make these calculations from the Verve Energy website. The minister is welcome to correct me, but by my calculations the actual nameplate capacity at Verve Energy is about 2 800 megawatts. Of that, four per cent—only four per cent or about 100 megawatts—is from renewable energy generation. I am happy to be corrected if the Minister for Energy has better figures than mine. It just goes to show that if we increase the size of what will be this re-merger between Synergy and Verve with this overwhelming emphasis on fossil fuel-produced electricity, that is the way things will stay. We will not see Verve go out to the market to produce its own renewables, yet its sheer presence and size will squeeze out and make totally impossible any chance for a smaller renewable energy company to enter the market to gain physical access to the grid. That will be very hard, let alone those other issues I mentioned about getting the offtake agreement signed and getting those negotiations in place so that the wind farms can do the necessary negotiating.

I will conclude my remarks there. This is very worrying for the future of renewable energy. It exposes a glaring inconsistency. On the one hand the government wants to have a policy of 20 per cent renewable energy by 2020, and, on the other hand, makes the market arrangements such that renewable companies cannot even enter the market. How could the government contemplate ever meeting its policy commitment? Perhaps we are exposing a renegeing upon or quitting of that policy commitment to 20 per cent renewables by 2020.

Dr M.D. Nahan: Synergy and Verve have a lot of offtake contracts with private providers of renewable energy: They have not been doing it themselves like they did with Albany, but they sign up long-term offtake contracts. Mainly Synergy has done that.

Mr C.J. TALLENTIRE: I acknowledge the minister has not been in the chamber the whole time during my discussion, but the problem there is that Synergy will want to buy from the other part of that vertically integrated company.

Dr M.D. Nahan: No. They have a requirement under the renewable energy target scheme to get 20 per cent of their generating capacity through renewables.

Mr C.J. TALLENTIRE: I am pleased to hear the minister support the RET scheme, but his federal colleagues do not support the future of the RET scheme. That is really worrying as well. Some policy inconsistencies—that is perhaps the nicest way I can put it—are exposed by this. Therefore, I do not support the re-merger of Verve

and Synergy. I support this motion moved by the member for Cannington condemning the government's plans to re-merge Verve and Synergy.

MR M.P. MURRAY (Collie—Preston) [5.38 pm]: I also rise to support the motion moved by the member for Cannington. Although it took some warming on my part to agree in the first instance to the disaggregation, seeing the results in the Collie region in the building of Bluewaters I and II, and one day, hopefully, Bluewaters III and IV has changed my views about how private enterprise does the job. There was quite a settling-in period in which people were not quite sure exactly what it meant to disaggregate Verve Energy and Western Power and its set-up. As we worked through it, we have seen players come into the market. I must say, other than Bluewaters, it is mainly gas generation that has come in. It has certainly given us a state in which we have a dual power source or energy source that is second to none, I believe, because if one goes out, it can just about be carried from the other side with the surplus that is available—not totally, but very close to it. If we had not done that, we would still be relying on gas instead of coal or coal instead of gas, and it could have been a big bother when there were power outages and plant failures, which have happened along the way, particularly when it has been really hot. As the previous speaker, the member for Gosnells, said, when it is extremely hot, generally there is no wind power to do any backup. When we look at it across the board, it has worked quite well.

Before the election, I was surprised to get a call from the Chamber of Commerce and Industry. It went down to Perth and put its case for not having a re-merging of the parties. It was quite strong on that. Previously, my view of the CCI, from my side of politics, was that it had been quite biased; it always stuck with the Liberal Party's views. But in this case it has been very strong in its opposition to this re-merger of the parties. People from the industry itself also came to see me, and that is why I stand today, saying, "Look, where do we stand?" Just recently the goalposts have been changed again, whereby the 3 000-megawatt cap has been lifted slightly to allow Verve to put Muja AB, I believe, if it ever gets going, back into the market. That caused concern for the private investors, and also one of the proponents of a gas power station at Kwinana, who again came to see me about that. The company had invested heavily and the goalposts are now changing. The company went into the electricity game and invested its money in Western Australia, and now the government is causing some concern about future investment should Verve decide to build a power station over and above what was previously agreed to. There has been plenty of concern within the industry itself. In this case, the stance of the member for Riverton and certainly the Premier surprises me—it really does—because it is quite opposite to the general platform of the Liberal Party. Some of the views about the market had been espoused previously by the minister himself. I worked on the Economics and Industry Standing Committee with the member before he became the minister, and he spoke about the flat world and everything being equal in an open market. Now we see him in this place saying something that is opposite to that. I like the wry grin that is coming from the other side. Certainly, politics plays its part and we have our say, but to change so quickly and to put new investors offside in Western Australia is a concern.

The other concern that I have has been mentioned previously today. Along the way, is this a first step to allow the merger to happen and for the merged entity to then be set up for sale? We know where the budget is at at the moment. We know that previously, with governments of all persuasions, if they could sell something to bail out their budget, they did it, and not always for the best reasons; it has been done because of a bottom-line issue. That concerns me also. Again, it has been brought to my attention by the industry.

Kansai Electric Power Company bought part of Bluewaters, along with other partners. I was hopeful that it would build Bluewaters III and IV. In some ways, Bluewaters I and II were saviours in the south west for construction jobs, and also for Griffin Coal to sell coal, even though some of the pricing was a problem along the way. No-one is going to make any excuses for how and why that was done. When we look at that, if other players come into the market, from a government point of view, it could jeopardise Bluewaters III and IV, which I am hopeful will be built within the next five, six or seven years. I am no economist, but there is a chance that could happen. At the moment, we have surplus power around the place, so that is putting that off. However, it is something that I believe that company invested in, thinking along those lines. When the ground rules are changed along the way, it makes it very difficult for that company, which has invested nearly \$1 billion in electricity generation. The company then says, "Well, how do we get our money if a government entity is competing against us?" because even if that government entity makes a mistake, it can be bailed out, as we are seeing at the moment. That is where the problem lies. It is about certainty within the industry. Will those people invest further? Will they upgrade their machinery? I do not think they will, because the certainty of people buying what they supply will be missing, because other investors that could be subsidised will be competing against them. How do we explain that to the industry? We cannot say no, it will not happen, because we have seen a movable cap already. The former minister, Hon Peter Collier, shifted the cap so that Verve could lift its output. That caused shockwaves amongst all those private investors, who said, "Where do we go now?" Then the government goes further and acts against the advice of all the industry when it says, "No, we're going to have this re-merger."

I am very concerned not only for those electricity producers, but also for the coal industry, which I represent very strongly, because if the government decides that it will not go for the cheapest option but will play the political game and put a gas turbine somewhere else—it does not matter where—it will destroy the coal industry's confidence also. Certainly, if one of the companies that is a bit shaky decides it wants to sell, and there is no certainty about whom it will sell to, the price will drop as well. Then we will have the problem that, "Oops, the price has dropped too low. What do they know that we don't know?" and it might not be sold at all. That leaves us in a very, very dodgy situation.

I give the Premier and his group some accolades, because they did take this to the election; they did not just bring it all out after the election. Big business knew what it was getting when it put the Liberals in power, but we should not forget that the same people can take the Liberals out if they do not agree on that issue. Therefore, although the job might be cosy at the moment, with a few years to go, we will see the businesspeople come out and put extreme pressures on both sides of politics, saying, "What is your policy into the future?" We will see changes again. The other side of it is that we have not operated for long enough to have a mature market at the moment. I believe the market is just starting to settle down. People are starting to understand it and to invest heavily in it, otherwise Kansai would not have paid nearly \$1 billion for a coal-fired power station. Once we start to see that happen, we will see that the people in the business world understand the workings of what is happening within the industry. As we move along, we have to let business make this decision. As I said earlier, it certainly was not my way of thinking when the disaggregation was first introduced. I am still of a view that it should not have happened at that time; but as I have seen it work, my view has changed.

I believe the minister and the Premier are going down the wrong line. They should take notice of the leaders in our industry such as the CCI. They should take heed of the people who have invested very heavily in the electricity industry and who are now getting very nervous. I do not understand why it is such a big issue to go backwards or why governments spend such huge amounts of money. The re-merger will not come easily or cheaply. It will cost now and into the future. Why spend a huge amount of money to try to turn the clock backwards? That is how I view this. It is not a progressive, forward move. It is a backwards step for an industry that is beginning to move forward and find its feet in heavy industry.

The people responsible for this backward move are like I was. I was opposed to it when it first started. It is difficult for me to imagine that the two members looking at me at the moment would ever say that we should go back—go back to the future. I do not think so. It is a retrograde step, and it is amazing that it is coming from a Liberal Party leadership. I am amazed and concerned. I have changed my position. There has been room for change. I ask that the government of the day reconsider this decision, because I believe that it will hamper future expansion and much-needed investment in the south west. People will not come to on-trade, buy or build in the south west because there will be no certainty. Some mistakes have been made along the way by both parties, but I believe that this re-merger is a huge mistake. When big business is very vocal against the government on this issue, the government should take notice.

From my end of the stick, there is room for future investment in the coal industry to get the cheapest electricity in Western Australia. I am sure the minister was as overwhelmed as I when we, as members of the Economics and Industry Standing Committee, compared the price of coal-fired electricity with gas-fired electricity. It was between \$8 and \$10 a gigabyte for gas and \$2.50 to \$3 for coal. Many people do not understand that if competition is wiped out, prices go down at the bottom end and prices go up at the top end. How can those prices be kept down? It is well known that industry looks over each other's shoulder. Members know what will happen. If the power generation industry is wiped out in the south west and the produce is all turned into export, there will be problems because there will be no competition. It will not be in renewables. Members have seen the blowouts that have happened there. A lot of thinking must be done before doing this matter is resolved. There may be some other way to convince me, but at this stage I think the government should leave it well alone.

Members should use today's example of a patch-up job with Muja AB. It has cost the state a lot of money. Leave it to those who know best. Yes, some base power should come from a government utility; there should always be something to fall back on when private industry tries to screw the state. That has happened previously in the coal industry when the industry threatened to withhold coal. We do not want to see in Western Australia what happened in California, where the generation of electricity was privatised and providers did not turn on their generation facilities so that they could bump up the spot price. Huge blackouts occurred over there. We do not want that to happen in Western Australia. Those companies were then taken to court because they did not fulfil their obligations. Units were put out on what was called maintenance and they were just being put offline to push up the price. That can happen here if there is no control. A government-controlled system will be able to control what happens, but there will be problems in the future if the system is merged and there is no private industry to balance that.

With those few words, I ask the Premier and the Minister for Energy to reconsider their decision. Listen to big industry and follow the lead they are giving.

DR M.D. NAHAN (Riverton — Minister for Energy) [5.55 pm]: I would like to say a few words before six o'clock. I welcome the debate. This energy policy is important. The government is making a number of much-needed changes. I assure the member for Collie–Preston that the government's reforms will have a prime focus on his area. I also assure the member that the changes the government is making will not expedite Bluewaters III and IV quickly, but will sustain and enhance coal as part of Western Australia's mix of energy, which is important.

Major reforms were undertaken by Labor during its last period in government. That followed extensive debate in the public and in this house. It was focussed on trying to put more market-based processes and private investment into the system. I support both of those things. That followed on from reforms all around the world in this area. The simple fact is that the model had some good points, such as the Independent Market Organisation and the formation of Western Power, but it had some flaws that needed to be addressed. One cannot simply argue those out.

The member for Cannington criticised the fact that at the time of disaggregation prices and costs were not aligned. That is a fact and correct. The government has struggled to catch up over the first term of government, despite increasing prices by over 62 per cent, and it is still far behind. When changes are made to move to a different regime, a market-based system, in which prices should meet costs, costs should be aligned when starting off, because if they are not, one gets caught behind. That is where the government is at at the moment. Therefore, despite a 62 per cent increase in costs and another nine per cent for the carbon tax, the government is still 20 to 30 per cent behind in costs.

There was a lack of investment in poles and wires for 10 to 15 years under the old Western Power system and the new Western Power system had to catch up. The cost to Western Power, which is borne by electricity consumers through a regulated system, has gone up by 40 per cent over the last four years. There was a misalignment of costs and pricing, and there was a structure by which losses were focussed down to Verve, and the previous government had to funnel large amounts of money into those entities. The current government has changed that by decreasing the losses, increasing the subsidies to prices, increasing prices and changing the vesting contracts between Synergy and Verve. All those changes had to be made. The simple fact is that had to be looked at.

There is also substantial excess capacity built up in the system—to the tune of 700 megawatts to 800 megawatts. That is the equivalent to three or four Bluewaters. That is a large amount of excess capacity. Much of that is made up by what is called demand-side management, where if the supply is called on, a customer can turn down their electricity. It is an excellent initiative, but it has not been used for two years, yet we are paying a great deal for it. Under this new model, the IMO will estimate demand and then give capacity credits—that is, it pays people to go out and put in generation. That is how it works. They pay people upfront to agree to turn off the electricity if called on. A large amount of money is being paid but it is not being used, so we are building up excess capacity. That needs to be looked at. I add also that the Economic Regulation Authority has, as it is entitled and required to do, just released a 2012 annual review of the wholesale market and has recommended a number of changes, all of which the government has implemented or will implement. Firstly, there will be an independent review of the wholesale market—and the Public Utilities Office has that in train. That is a major issue. Secondly, the capacity needs to be looked at, and why there are such large volumes of excess capacity must be explained. We are all paying for that excess capacity. The Public Utilities Office is looking at that.

Another issue concerns the authority that allocates plants, hopefully at lower costs. The lowest cost based-load will be taken and it will move up the chain according to demand. The Public Utilities Office is very concerned that that currently is not the least cost option.

I seek leave to continue my remarks at another time.

[Leave granted for the member's speech to be continued at a later sitting.]

Debate thus adjourned.

Sitting suspended from 6.01 pm to 7.00 pm