

GAS SERVICES INFORMATION BILL 2011

Second Reading

Resumed from 20 March.

MR W.J. JOHNSTON (Cannington) [10.03 am]: I rise to make some comments on the Gas Services Information Bill 2011. I just want to make it clear that this is actually very important legislation, and the opposition supports it. The bill needs to pass today; I appreciate that the government probably wanted to debate the bill on Tuesday, but I was not able to be briefed by the minister's office until Wednesday, so that is why the bill has come on today. It needs to pass today. We do not have any reason to cause a delay; we look forward to the bill being debated. The Minister for Transport is handling the bill in the absence of the Minister for Planning, who is representing the minister from the other place, so I appreciate that he probably does not have as detailed a knowledge as the minister who would usually handle it, so I am not going to torture the Minister for Transport in any way. In fact, if the minister likes, I can give him a couple of issues now and he might like to get some advice and make some comments in reply; that way, we might skip the consideration in detail stage. I will just raise those with the minister straightaway before I talk about the policy issues, if that helps.

Mr T.R. Buswell: Do you want to give me the policy issues first, if you wouldn't mind?

Mr W.J. JOHNSTON: Is that okay? Does the minister want to do it like that?

Mr T.R. Buswell: Yes.

Mr W.J. JOHNSTON: I will just go on a bit about the policy issues while the minister's advisers are being sought.

The Gas Services Information Bill does two things. Firstly, it creates the gas bulletin board, which will provide a web-based information source for gas market participants so that they can see, for example, the amount of gas flowing from the Dampier to Bunbury gas pipeline; where the gas enters; where it leaves; and the capacity of the gas pipeline. Therefore, a new gas consumer will be able to work out the gas available to be transhipped on the pipeline. That is just an example.

Secondly, the bill creates the opportunity for the publication of the gas statement of opportunities, or GSOO, which is a future-looking report that can be updated biannually or annually so that gas market participants can see how the gas market is expected to develop. That is already being done in the electricity industry, and it allows market participants to make their own decisions on the investment they are going to make in the electricity industry. The gas industry will now be allowed to do that.

These important ideas and proposals arise from the gas emergency management committee established by the member for Cockburn during the Varanus Island incident; they are also recommendations of the sixth report of the Economics and Industry Standing Committee entitled "Inquiry into Domestic Gas Prices". I was very fortunate to be the deputy chair of that inquiry.

Is the minister now happy for me to ask him some specific questions?

Mr T.R. Buswell: Yes.

Mr W.J. JOHNSTON: To get things formally on the record, I would like it confirmed that the Independent Market Operator will be the body that runs the gas bulletin board and prepares the gas statement of opportunities. The legislation facilitates the appointment of an organisation to do that, and we have already been told that the Independent Market Operator established for the operation of the electricity market will be doing the work prescribed by the bill. I just need that confirmed. Also, I would like an indication of the expected annual cost of running the gas bulletin board and the GSOO. I know the expected total price for the operation each year will be calculated by the price impact on market participants, but what will the potential costs for residential consumers, small business consumers and medium-sized business consumers be? I understand, minister, that that information is available from the advisers, so it would be good to get it on the record. I would also like an indication of when the regulations and rules are expected to return to the house. I appreciate that these are very complex issues, but if the minister could provide those sorts of comments back to me, I do not think we will need to go into consideration in detail, which, I am sure, will please the minister greatly.

I turn to the policy issues involved. Gas is absolutely critical for Western Australia. More than 50 per cent of the primary energy consumption in WA is gas, and well over 60 per cent of our electricity is generated by gas. Western Australia is the most gas-intensive state in Australia. Unlike anywhere else in the country, WA needs a good supply of gas. Western Australia has a very long history in the gas market. As we all know, it is based on the very large take-or-pay contracts entered into by the government in 1979 to underpin the construction of the North West Shelf. Those very long gas contracts were converted to volume-based gas contracts in the 1980s, and they will all expire in the next few years. That enormous supply of gas underpinned the very low cost of gas in

Western Australia up until about 2005–06. It is interesting that originally the gas price in WA was actually very high, but because of the nature of the contracts, by the time we got to the 1990s, that gas price was becoming very low by world standards and underpinned the development of major processing industries in alumina, nickel and other such areas.

The world has moved on. In 2002, the Parer report on the gas supply market in Australia was released. I have previously quoted the Parer report, which made the point that in Western Australia there were multiple suppliers and a low price. In the report, WA was compared with the east coast, where there was limited supply, limited infrastructure and a higher price. The weight of the long-term take-or-pay contracts with the North West Shelf joint venture meant that there was no continuing development of the market in Western Australia, and so when we moved from an oversupply to an undersupply during the boom of the first decade of the 2000s, the price pressure suddenly jumped. This is published information. I am quoting from the DomGas Alliance’s “The facts on Domestic Gas” document. In its opinion —

Wholesale gas prices have risen from around \$2.50 per gigajoule in 2005 to \$7–8 and, as high as \$10–12. WA gas prices are up 2–3 times the price of gas in Victoria ... or the United States ...

The reason for that is that WA went from being oversupplied to undersupplied in gas because the overhang from those long-term take-or-pay contracts meant that there had been very little exploration for gas in Western Australia and there had been very little development of domestic gas-focused processing infrastructure. We had a serious problem. The Gas Services Information Bill 2011 is a response to those issues. The government is to be commended for that.

The government has not taken up a couple of the other recommendations of the inquiry. One of those recommendations was to establish a short-term trading market. The government’s position is that this may be reconsidered in the future. It is saying that some private operators are now getting into the trading operation and so it wants to see how that develops. The Labor Party’s position on that is that is fair enough, but short-term trading needs to be done in public, as the gas market will develop more strongly if more information is available to gas market participants. The more information that is available and the more we know about price and volume, terms and conditions et cetera, the better we will be in the market. The gas bulletin board is an important contribution to the market, because for the first time there is a source that sets out where the production capacity is, where the pipelines are, what the volume use is, whether there is spare capacity, and where the opportunities are for a market participant. Again, the gas statement of opportunities is a great idea, because it indicates the future course of developments in the industry and a market participant can see the opportunities. A market participant might say that there is plenty of gas in this location but not in that location or, alternatively, that the Perth basin fields no longer produce gas and so the Parmelia pipeline, which runs from the Dongara area in the Perth basin fields to Perth, is available and then ask how it can use that in an innovative way. The Mondarra storage facility is an example of how the market can develop. Other opportunities might arise from the gas statement of opportunities. But our view is that establishing a short-term trading market in the full light of the market participants would be an advantage in Western Australia in the same way as it has been an advantage in the electricity industry and in the gas market in Victoria. Having said that, the opposition acknowledges the issues in Western Australia, because we effectively have two suppliers and six big users. It is a very different market from that on the east coast. But to the extent that we could have additional market developments to encourage more participants, we think that would be better. We understand the government’s position; we just do not agree with it.

Developing the gas market in Western Australia is, as I say, very important. One of the critical issues for us will be the ongoing price of gas. In the first term of the previous Labor government, a number of offshore gas projects—Wheatstone is an example—were being looked at as export supplies to the United States, because the United States was at that time looking down the barrel of an undersupply of gas for its domestic use. Since then we have had the shale gas revolution. The member for Riverton, who was the Chairman of the Economics and Industry Standing Committee’s inquiry into the domestic gas price, and I were very fortunate to go to the United States as part of that inquiry to participate in the world shale gas conference in Fort Worth. We talked to industry participants and listened to people at the conference. We saw the operations undertaken by Chesapeake Energy Corporation, which is one of the pioneers in the shale gas industry. We visited a couple of gas companies in Houston. It was a great opportunity. Shale gas has revolutionised the gas supply industry in America. It has gone from being undersupplied to potentially having a surplus of gas. In the United States, the export of liquefied natural gas is limited to the import of LNG. Although it is not the molecule that gets re-exported, that is the cap on the current export component. The United States has 30-year take-or-pay contracts with gas suppliers in Algeria and other places, and it now has gas that is surplus to its requirements, so it is converting some of its facilities to export LNG, but it cannot export a volume greater than the volume that is imported. It is true that the United States gets a lot of its gas from Canada, so there are Canadian LNG proposals, which effectively means that American gas will be exported, but it will be exported through Canada, which is an interesting issue. But

that is beside the point. What I am getting at is that the United States has a massive oversupply of gas, and there has been a market response. The price of gas at the Henry hub is now about \$3.50. I understand from reading reports that even forward gas contracts going out for five years still have it at only \$5, which is very, very low.

Mr F.M. Logan: It is \$5 cheaper than ours.

Mr W.J. JOHNSTON: Yes, it is \$5 cheaper than ours. That is the point I was getting to. If our domestic price is \$8—I am not breaching any parliamentary privilege by telling members that that is what people are saying about the price in the WA market—we now actually have a problem because if an investor is looking at developing and spending \$1 billion on a new processing facility in an industry, why would they do it in Western Australia if they can go to America and get a current price of \$2.50 on the spot market and \$5 for forward gas? Why would they spend \$1 billion here, given that our currency is \$1.04 or \$1.05 against the US dollar and, because of the massive expansion of the iron ore and offshore oil and gas industry, we have huge labour problems and cannot find enough skilled people to do some of the work we need, which is pushing up costs?

Why would they expand? Indeed, that is exactly what has happened with Alcoa. Alcoa's Wagerup expansion has all the government approvals in place already but Alcoa is not making investment decisions for two reasons. Firstly, it does not want to be competing against the current construction boom in the offshore oil and gas and iron ore industries. Secondly, it says that Western Australia's energy prices, given that alumina is effectively solid electricity, are higher than can be found elsewhere in the world. Therefore, this is a major impediment.

It has been put to me, not by BHP Billiton but by other people in the industry, that the nickel industry operations of BHP Billiton are equally under cost pressures on energy prices in Western Australia. The nickel smelter in Kalgoorlie and the nickel refinery in Kwinana are major employers in Western Australia. It is already in the public domain from BHP that it is changing its operations. It has reduced the amount of mining it is doing and it is using a stockpile of particular ore that it has set aside that it has not used previously; it has had to readjust the operations of its equipment to cope with that ore, and that ore will take about 18 months to run through its plant. Therefore, it is not clear what decisions it will make in 18 months' time. Again, if BHP cannot get a good energy price in Western Australia, why would it continue to invest in those operations? These are very important issues that are absolutely critical to our future every day that we come to work as members of Parliament.

Electricity prices are also linked to gas prices. Verve Energy gave evidence to the inquiry. One of the witnesses from Verve was asked about the price of gas—I am not quoting exactly, but it is in the transcript—and he said something like, "I would not want to be competing against an iron ore company to buy gas to generate electricity." If the iron ore industry gets \$140 a tonne and has production costs of \$45 a tonne, it has plenty of money to play with for a high energy price, but there is obviously an issue for an electricity generator operating in the domestic market that wants to keep down its electricity prices to home consumers. Therefore, it is a critical issue. I make the point, of course, that a 10 per cent increase in the cost of gas does not mean a 10 per cent increase in the cost of electricity in the home, because over half the cost of delivered electricity has nothing to do with generation—40 per cent is the distribution cost. However, there is still a direct link and we want to keep a downward pressure on prices. If everyone is coming to terms with paying \$8 for gas, we certainly would not want it to be at \$12. On the east coast it costs \$3.50 to \$4, so we have some real issues to contend with.

These are all critical issues to Western Australia's future. The Gas Services Information Bill deals with some of them and we congratulate the government for introducing it. However, there are other issues, including the short-term trading market, the gas reservation policy and ensuring that there is enough gas available. Another thing is that the gas statement of opportunities will have to deal with the issue of the gas supply to the North West Shelf joint venture. As I explained, that gas supply has underpinned our gas market in the state for a very long time. We are lucky because we are getting other producers such as Apache Energy at Devil Creek. I recently went to the opening of Apache's Devil Creek project. In addition, BHP and Apache are developing the Macedon project, Gorgon is coming on-stream—the government has already signed up a major gas contract with the Gorgon partners—and there is also the Wheatstone project. These are all opportunities for Western Australia. However, they are only opportunities if gas continues to be supplied by the North West Shelf joint venture. This is a non-renewable resource and the fields that underpin the North West Shelf joint venture are currently in decline. The North West Shelf joint venture partners have spent about \$1.5 billion on applying technology to those fields so that the flow of gas continues to come ashore at the same rate; they are not getting extra gas out of it. That means that the actual volume of gas coming ashore has remained the same, which enables them to continue to operate their five export trains and two domestic trains. Obviously that means that the length of the field is shortened.

Sometime in the next 10 years there will be a real question about what will happen to that multibillion-dollar investment in the North West Shelf. Where will they get gas from? The number one issue out of that for domestic gas users is keeping those two domestic trains, which provide about two-thirds of our domestic gas supply. That is roughly 750 to 800 terajoules a day out of a daily total gas supply of 1 200 terajoules. We need to

continue to produce that volume, because if we do not, the Gorgon project will simply replace half of the volume produced by the North West Shelf and there will be no growth in supply.

The other projects I have talked about are also not incremental increases in supply; they only replace the existing supply. If that happens, there will continue to be cost pressures, problems and massive challenges. Therefore, in my view, this is the number one issue in the energy sector in Western Australia and indeed in state development. When the member for Rockingham asked me to do this job, he put the two portfolios together and he is exactly right. When he told me he was making that decision, he said to me that he thought energy and state development were inextricably linked, and he is right. The number one issue is what happens to the supply from the North West Shelf gas fields as those fields run out. That is not a criticism of the North West Shelf joint venture. I know what will happen now: all these lobbyists will ring me up and come to see me to give me PowerPoint presentations. I will be very happy to see those and I will look forward to it, but this is the number one issue. We discussed this issue in the report. In fact, recommendation 5 of the committee's report stated —

The Department of State Development commence discussions with the North West Shelf Joint Venture to obtain a commitment from the joint venturers that production capacity at the Karratha Domestic Gas Plant will continue at current levels, as per the terms of the existing State Agreement, until at least 2025.

Scope should remain open within the agreement to allow third party gas processing at the Karratha Gas Plant should North West Shelf reserves prevent full production capacity from being maintained after 2020.

The government's response to that recommendation reads —

Noted. The Department of State Development has written to the North West Shelf Joint Venture and commenced discussions on these issues.

I recently asked the Minister for State Development, the Premier, about that and I do not have the answer in front of me, but I think two meetings have been held so far. To my mind, this is the number one issue in this state. If we cannot ensure that those two domestic gas plants continue operation over the long term, we have a major problem, because they currently provide, in round figures, two-thirds of our domestic gas. The major problem is that we will not continue to have electricity in our homes and we will not have an opportunity to develop industries that process our mineral wealth in this state. Let me make it clear: Western Australia will not have iron and steel operations. It will not have some big blast furnace at Geraldton. That will not happen because it is not economically viable. No company will invest capital in Geraldton when it can invest capital in China, Indonesia or somewhere else, where the cost structure is completely different. The energy cost is one thing that we have some influence over. Industries such as the alumina industry, in which investment in Australia makes sense, need to have that opportunity to continue. That can only continue when we have competitive gas pricing.

I make the point that there is no world price for gas, unlike liquid fuels. The great thing about oil is that it is completely tradable. There is an indexed price. We wake up every morning and hear on the radio that the Brent crude price is blah, blah, blah, the Singapore price is blah, blah, blah and the Texas price is blah, blah, blah. Over the past two years there has been a bit of variation between those indexes, but generally speaking the indexes are about the same, based on the chemical properties of the oil. In gas, that is not the case. As the gas markets are not connected to each other, except via liquefied natural gas, there is different shelf pricing in what is called "stranded gas", as New Zealand had in the 1970s and 1980s. It is a gas field that cannot support an LNG project and has to be marketed domestically. That is effectively what happened until recently on the east coast, or what is called "associated gas", which involves trying to get oil out of the ground and the gas comes up along with the oil. They do not care about the gas because the oil is so profitable. That is what happens in the Middle East. Leaving aside those types of gases, we need a good, effective regime. That is why the domestic gas reservation policy is so important. That is recognised by the Premier. The Premier has adopted the position that was created by Alan Carpenter in this state. It is not without controversy. Gas producers will say, "We're investing billions of dollars, we should be able to choose the market we sell our gas to." I can understand that, but only if that decision does not negatively impact on Western Australia's continued economic success.

At a social event on the weekend I spoke to a guy from one of the major gas companies. He said, "If you're going to do that, shouldn't you have an agenda? If you're going to say to the gas exporters, 'You can't export it to your choice market, you've got to use at least some of it for the domestic market', shouldn't you also have a plan telling us what the benefits are?" That is absolutely true. The alumina industry sells products on the world market. The nickel and iron ore industries sell their products on the world market, so it is not fair to say the gas companies cannot sell their products on the world market. I understand that, but there is not a world price for gas. If there was a world benchmark price for gas, we could index it against the benchmark. But there is not one, so we cannot do that.

At the time of the Economics and Industry Standing Committee's inquiry into domestic gas prices, Tom Baddeley was the representative for the Australian Petroleum Production and Exploration Association Ltd. That organisation represents the oil and gas companies. He did a very good job on behalf of his members and put the position of the industry. It is a very professional organisation, and does a great job. He said in his submissions, "In the view of industry, the long-term price of gas in WA would settle at about the long-term price of gas on the east coast." I said, "So you're prepared to cap your price to the east coast price?" He said, "Oh, no; we can't do that!" That is the problem—we do not have a proper index as we do for all the other industry sources because of the way gas is. The fact that it is a gas and not a liquid or a solid makes its transportation so complex. There either has to be an LNG system or a pipeline—it cannot be transported in any other way. That makes these things complex. That is why we need to have a good, complete scheme. We need a proper plan. We need all the elements implemented.

That is why the opposition welcomes the Gas Services Information Bill. We think it is an important step, but we think that some of these other recommendations are just as important. We believe that a short-term trading market should be transacted in public so that everybody has the information available to them in the same way the gas bulletin board will give us a clear picture of infrastructure. It would be great to have some elements of price done in public. The absolute essential issue is resolving the questions of the North West Shelf joint venture's production capacity in the two domestic trains and what will happen to them in the future. It is not about who buys the gas, it is about making sure the gas is sold into the market in Western Australia so that we can keep cost pressures out of the system.

I commend the bill. I hope we can have some responses to those particular technical questions, and I look forward to seeing the gas bulletin board start from 1 July.

MR C.J. TALLENTIRE (Gosnells) [10.37 am]: I rise to add my support to the Gas Services Information Bill 2011. I begin by saying that this concept of a gas bulletin board to be run by the Independent Market Operator, a body that has built up its expertise and practices through the running of independent market operations in the electricity market, is a very good thing. It can get us towards greater transparency in the pricing and availability of gas. Obviously, when it comes to the supply of bulk commodities, in this case energy—gas—we need the highest degree of transparency. It is not acceptable when pricing is determined by bodies that are not subject to the highest levels of scrutiny. That is the positive side of this legislation. There is also capacity for policy formulation and future directions to be set as a result of this legislation.

I want to take the opportunity to make a few other comments around the situation. As the member for Cannington, the shadow Minister for Energy, has said so well—I acknowledge his expertise in this area—gas is absolutely critical to the future development of Western Australia. We are very fortunate that we have an abundance of gas. Not only do we have the North West Shelf, but we also have a proven track record of being able to develop our gas resources. The North West Shelf development is testimony to that.

We have to ask questions about the pricing of gas, given we have an abundance of gas. There are questions to be asked about how much Western Australian consumers pay relative to the cost extracted from the people we export gas to. It is a great frustration to many in the Western Australian community when we hear of the prices, in terajoules, of products sold. It seems to be that those who are overseas get our gas at a rate that seems to be far, far cheaper than the actual unit rate that Western Australian consumers get gas at. I know the previous Carpenter government looked to remedy this problem and looked to assure a supply of gas to Western Australians through a domestic gas reservation system. That was a very sensible initiative because we have to look after our own energy needs first and foremost. We have an abundance of gas. Also, much of our electricity generation—I believe up to 60 per cent—comes from the burning of gas in gas turbines, which are an excellent means of providing our baseload electricity requirements. They are also very good at providing peaking plants. It is often said that the complementarity between gas and wind turbines, which have a problem with intermittency, is nicely remedied by the ability to almost flick a switch and have a gas turbine peaking plant come on at very short notice. That is a nice complementarity between gas-driven electricity and renewable energy and it is therefore of great value to Western Australia. I know that companies such as Perth Energy are designing their business models around this very issue. They can foresee that an ever-increasing amount of renewable energy will provide us with the electricity that we use and that much more of it will need the capacity to be offset by gas turbines through a peaking plant.

I want to raise a few other issues about the actual system itself. First, I acknowledge the quality of work that was done in the report of the Economics and Industry Standing Committee inquiry into domestic gas prices. I note that some of the findings in the report that particularly struck me were around this issue of wholesale gas supplies and how the report notes the concentration of wholesale gas supply in Western Australia. Indeed, chapter 5 of the report, which looks at the domestic wholesale market, states —

Despite the impending entry of several new upstream projects, —

I will come to those later —

the wholesale gas market in Western Australia ... remains highly concentrated. Currently, two major producers supply almost all of the state's domgas with over 90 per cent of demand coming from five major buyers.

That leads to all sorts of problems. I believe the industry talks about a “lumpiness” that that situation creates, but I do not think it could be healthy for the pricing of the product on which we are becoming so very reliant. Clearly we need a better situation, and I think that is where this legislation is going; it will help tackle that problem by bringing a higher degree of transparency to the situation.

I note also that the committee concluded, I believe in finding 15, that the Western Australia market lacks the level of liquidity, transparency and competitive pressure that is evident in other states. That is where I come back to my point that I support this legislation because it will help bring about that transparency, that liquidity and those competitive price pressures. The report goes on —

Whilst not the dominant factor, these market deficiencies have arguably contributed to the price differential now being witnessed between the local market and the eastern states.

I previously made the point that Australian consumers of our product seem to be paying considerably more than overseas consumers. But it is also the case that while we in Western Australia have this abundance of gas, we seem to be paying a lot more for gas than eastern states people. There are certainly some very interesting issues around this, and it is obviously our actual institutional arrangements to administer the sale and purchase of gas that are the deciding factors. That is what needs to be worked on here, while at the same time being very mindful of the need to ensure consistency and security of supply. When it comes to the supply of gas—I guess almost stating the obvious—we are dependent on the good management and security of gas pipelines. Our engineering capabilities enable us to pipe gas incredibly long distances, and to do that very efficiently. Naturally, the owners of those pipelines want to extract profit from the service they provide. They want to be able to enter into longer term contracts as well, which is understandable, but we have to be able to ensure that the interests of domestic consumers are best looked after.

I want also to touch on a couple of other quite topical issues that relate to gas. I note that only in the last week the Minister for Environment made a decision on a proposal that is looking at a shale gas or coal-seam-type gas operation—I believe the technical term is shale gas—from the Warro field, which is in a region some 60 kilometres east of Jurien Bay and 200 kilometres north of Perth. A bit of a first for Western Australia, as I understand it, is the use of the hydraulic fracturing method—sometimes known as fraccing. Most members would have heard of, if not seen and been very concerned about, the documentary *Gasland*. We also have seen the very big Lock the Gate campaign that is going on in the east coast, with the radio shock jock from Sydney, Alan Jones, walking hand-in-hand with people from the Greens party. It is a quite extraordinary alliance. I think those people in that alliance—many are farmers and private landholders—are very concerned about the implications of fraccing on their land and on their community, and I think they have every right to raise their concerns. I am still unclear on how different the geology is in Western Australia compared with the Liverpool Plains area of New South Wales, for example, and other parts of Australia, and that is why I am particularly disappointed that the Minister for Environment decided not to require the Environmental Protection Authority to do a formal assessment of the proposal I mentioned just inland from Jurien Bay. When there is an issue that has a high degree of community concern, to me that ticks one of the boxes that the Minister for Environment needs to look at when making a decision about a formal assessment. He has to give members of the community the opportunity to engage in the process and to learn about what is at stake to allay their concerns. That is one of the reasons I believe the minister has made a serious error in not allowing a formal assessment.

Another reason I think the minister has made a serious mistake is that he has done nothing to correct the current information knowledge imbalance. The companies involved are very rich, multinational companies that can commission all kinds of reports and do lots of research, and lots of lobbying as well. I know that there is legislation on the notice paper regarding the control of lobbyists. I think it is probably hard to find an equal to the lobbying capacity of those in the oil and gas sector; they are amazingly wealthy, capable and subtle in their lobbying capacity. I note, for example, the Santos company. I am a very keen cyclist, as most members know. It is hard to enter a cycling event that is not sponsored in some way by Santos. These companies, therefore, are ever-present in our community. They have a way of ingratiating themselves in our community. They are very effective at being able to approach members and put their point of view across. But is there an opportunity for an equivalent strength of argument to be put by those who have concerns? I put it to members that there is not, and that we unfortunately have what is, effectively, a power imbalance. That is very unfortunate. It leads to the sorts of strange alliances that we see on the east coast where people are, in desperation, having to form coalitions with people like Alan Jones, when their own inclinations and worldviews might be very different from those of people like Alan Jones. They are forced to use that public profile just to obtain the information they need and to

get the public debate to a point where there is some recognition that they have a legitimate concern, so that greater research can be put into it.

I return to my point: I remain to be convinced that the geology of Western Australia is so different that we do not face any of the risks attendant upon fracking that are experienced in the United States and on the east coast of Australia. That said, it may be that, given their closer proximity to Perth, new tight gas fields in the mid west could provide a nice complement to our domestic gas supply. It may just be that we could leave our North West Shelf gas, our Browse Basin gas and our Gorgon gas fields for the international market, and have our own local domestic market supply.

The shadow Minister for Energy touched on the relationship between the pricing of international gas versus local gas. That is a really interesting issue. Part of me says we should be bringing those together, especially when it seems that sometimes, international gas prices are cheaper than the price that domestic consumers are paying. I would like to think that the combining of international and local gas pricing would be beneficial to Western Australians, but I also believe that we have every right to protect our fellow Western Australians by making sure that their gas is as affordable as possible, so I would be perfectly happy for Western Australian domestic consumers—by that, I mean household consumers as well—to pay considerably less for their gas than those who are consuming our gas overseas.

I should have explained a little more that, when we are talking about domestic gas consumption, we are actually talking about consumption by some very big businesses, but they are organisations that are critical to our state's economic activity. I think only about five major operations account for most of the state's gas consumption. The actual percentage of domestic gas consumption that is consumed in households is relatively small; it is only a very small percentage of the overall consumption of gas in Western Australia. Nevertheless, that is the area that I am most interested in because it impacts on households and families who are struggling to pay bills and who are often looking to diversify their energy consumption away from just electricity. They are looking for more efficient means of heating their homes and heating their hot water systems, so they are keen to have gas as a major energy source in their homes. We need to look after the prices that they will have to pay.

Mr Acting Speaker, I am not going to ask for an extension. I will conclude by saying that I support this legislation. I know that the shadow Minister for Energy has raised a number of issues that I am sure the minister representing the Minister for Energy will be able to clarify for us. I hope that we can proceed with an Independent Market Operator–managed system that provides the necessary transparency so that Western Australians can feel that they are getting gas supplied to their homes and businesses at a fair and reasonable price.

MR F.M. LOGAN (Cockburn) [10.55 am]: In my contribution to this debate, first of all I congratulate the government on bringing the Gas Services Information Bill 2011 to the house. It is a timely bill that formalises the current informal arrangement of bringing buyers and sellers together by way of a market trading mechanism. In this case, that mechanism is the gas bulletin board that will be operated by the Independent Market Operator. I put on record my thanks to Allan Dawson, chief executive officer of the Independent Market Operator, not only for his commitment to getting a gas bulletin board up and running, but also for having the gas bulletin board formalised by way of legislation, which is what we are doing today.

Background was provided by the government to the opposition by way of briefing notes. They refer to the time lines for the development of the Independent Market Operator's bulletin board, which goes back to July 2008 and the Varanus Island incident. That was the genesis of the bulletin board, and it came about because of the 60 per cent restriction of the gas supply that resulted from the loss of the volume of gas supplied by Varanus Island after the explosion there. That resulted in an unfair distribution of gas to companies in Western Australia that desperately needed that limited supply of gas to keep going.

I say that the distribution was unfair on the basis that companies that had contracts with large shippers of gas on the pipeline were being refused gas completely, whereas some of their competitors were still being supplied certain volumes of gas and were able to keep trading and keep producing. As the Minister for Energy at the time, I had to find out exactly why certain companies were able to get access to gas from the shippers, while others were not. The member for Vasse raised this matter numerous times in his previous role, particularly in respect of the way in which some of his constituents in the south west were being denied gas. When we investigated the reasons why some companies got gas and others did not, they went into the contracts that were drawn between the companies and the gas shippers. To my understanding, it came down to how much was paid. If they paid more, they got gas; if they did not pay more, they did not get gas. It was as simple as that. No matter how much I tried to explain that to companies who were denied gas—I am sure the member for Vasse had the same situation; he probably understood it and tried to explain it to them—they would still complain bitterly.

Mr T.R. Buswell: Member, I may have used a slightly different explanation in dealing with those customers who were missing out; it may have involved you!

Mr F.M. LOGAN: Let us get this very clear: if the member for Vasse still does not understand that now —

Mr T.R. Buswell: No, member; there is a lot more clarity around the issue now —

Mr F.M. LOGAN: I know there is a lot more clarity around the issue! Read the Senate report again and read it clearly!

Mr W.J. Johnston: I'm still waiting for the royal commission!

Mr F.M. LOGAN: Yes; I am still waiting for the liquefied natural gas tankers to drop the gas in Kwinana, like the member for Vasse promised!

THE ACTING SPEAKER (Mr P.B. Watson): Members, I am still waiting for us to get back to the bill!

Mr F.M. LOGAN: Let us go back to reality and remind ourselves quite clearly of those times. This is the whole basis behind this legislation.

Mr T.R. Buswell: Member for Cockburn, I'm not saying you were wrong.

Mr F.M. LOGAN: No, but I think we need to put it on the record anyway, member for Vasse. Let us get it very clear. None of the molecules and infrastructure in the Western Australian gas system belongs to the government. It is all in the hands of the private sector, whether it is the Woodside joint venture bringing it from the North West Shelf or Varanus Island or the owners of the pipeline that transports the gas or the retailers who sell the gas, every single aspect of the gas industry is in the hands of private sector companies. The only control the Western Australian government has in the gas market is whether or not it agrees to a proposed increase in the price of domestic gas for households, which is put forward by Alinta as the major retailer of gas to households. The only decision that the government can make in the gas system is whether or not it agrees with Alinta to increase the price of gas—that is it. Everything else is in the hands of the private sector. That is why I congratulate the government for bringing in the Gas Services Information Bill. The bill does not go far enough, but I congratulate the government for bringing it in and recognising that the Western Australian government has a role to play in assisting with regulating and marketing gas in Western Australia. It comes out of the Varanus Island issue, which I am trying to rationalise with the member for Vasse; however, he seems to have a different view about the whole world.

Mr W.J. Johnston: He doesn't anymore. He only had that view in opposition.

Mr F.M. LOGAN: That is right. He had a very different view in opposition!

Mr T.R. Buswell: That does happen, as we have seen in this place from time to time.

Mr F.M. LOGAN: Yes, of course. I certainly agree with the member for Vasse.

I would like the member for Vasse to address some of the critical issues that arise from this bill. First of all, as the member for Cannington highlighted to the house, the major supplier of gas to the Western Australian market is the North West Shelf, which supplies 60 per cent of the gas into the system. That gas is marketed through the North West Shelf joint venture, whose operator is Woodside. There have been a number of challenges to that cartel. One such challenge was launched with the Australian Competition and Consumer Commission by the Labor government. It argued that the six members of the North West Shelf joint venture should have the ability to individually sell gas into the Western Australian market. They should not have the right to sell domestic gas as a cartel. The cartel exists in law and is recognised by the ACCC. Until now, there have been very good reasons for its existence; that is, to maximise the price of the supply of Western Australian LNG into the international market place. It was never envisaged that the cartel would also be used to control the price of gas in the domestic market.

Mr W.J. Johnston: I make the observation that recommendation 13 of the inquiry suggested that the government pursue the elimination of the joint selling arrangement at the next review and that it oppose the extension of Gorgon until the next review. None of the joint venture partners now market gas collectively overseas.

Mr F.M. LOGAN: That is right.

Mr W.J. Johnston: Like Gorgon, each participant is selling LNG separately —

Mr F.M. LOGAN: But the cartel exists only for the domestic market. That is right. The cartel has disintegrated somewhat over recent years and the partners have started to sell gas individually.

I ask the minister representing the Minister for Energy whether the Liberal–National government will continue to pursue the break-up of that cartel so that when this house, through this legislation, encourages the creation of an open, transparent and flexible trading market in Western Australia, the major supplier of gas into that trading market is not operating by way of a cartel. As the member for Vasse knows, if that continues to happen we are

banging our gums and wasting our time. That is one of the major problems of domestic gas supply in Western Australia. I would like to know whether the member for Vasse agrees with that point and whether the government will take any action to break up that cartel; and, if it will, when it will do so.

The second issue that arises from this bill is flexibility in shipping. Members should remember that the bulletin board is not a formal trading structure. It is not a trading structure that has a formal trading platform like the short-term energy market, the electricity industry, the Stock Exchange or any of the metals markets. It does not provide market settlement services, such as the Stock Exchange or any of the metal markets. It is simply a way of bringing buyers and sellers together, of getting some idea of what the settlement was based on and of letting the market know the price of that sale. That is exactly the type of structure that was put in place literally over the weekend by Allan Dawson and his team at the Independent Market Operator to overcome some of the problems that the member for Vasse's constituents had in the south west of being unable to get gas. It was put in place so we could get an idea of who had excess gas and whether they would be willing to onsell that gas to some of the member for Vasse's constituents in the south west—and further north—who were suffering from an end-of-the-line problem. There were also some unfair practices by their principal contractor, who is the shipper. It is great that this trading market is now being formalised this way. It is unfortunate that it is not being taken to the next step of becoming a more formal trading platform, of becoming far more open and transparent and ultimately developing into a proper marketplace structure. I understand why it does not go to that extent; it comes back to the issue of flexibility in shipping. Organisations that negotiate to buy gas from the two major suppliers—the North West Shelf and Apache—are big-volume purchasers; they purchase massive volumes of gas. A laundry service from Bunbury, for example, does not have the market capacity to approach Woodside and the pipeline operator to ask if it can buy gas and pay to have it shipped down the pipeline to Bunbury. It would neither get through the door, nor have its telephone call taken because the volume would be too small. It would not be sold that volume of gas and the price of shipping it would be far too much. It would not work out.

The people who purchase gas in Western Australia are the big-volume users. They pay for the gas in short and long-term contracts with the suppliers in the north west and ship that gas at a price down the Dampier to Bunbury pipeline and into their own operations. When they have excess gas there is some informal trading between buyers and sellers. The gas bulletin board will not deliver any flexibility to that system; it simply records the buying and selling of gas.

The Labor opposition strongly supports the creation of a gas market as it did when in government. The real problem in trying to create that market is having some idea of the price of gas as it comes down the pipeline in the same way that we have some idea about the price of oil as it is shipped around the world. In fact, the oil price may change five or six times from the time that oil is loaded in the Middle East until the time it is delivered in Japan. The idea is for buyers to have not only some idea of the price of the gas in the pipeline, but the ability to aggregate the price and ship the gas themselves—that is, third party market players in the market who do not use the gas but purchase and onsell the gas to users. That is the real flexibility, transparency and depth needed for the market to operate properly. The point, as the minister knows, is that without that depth there is no market. At the moment there is no market depth and even with the creation of a gas bulletin board there will be no depth because the big players ship primarily for their own use, selling only a little of the gas on the side. That little bit on the side and the idea of informal trades that we are talking about today need to be addressed. The ability to ship needs to be addressed. The ability to aggregate needs to be addressed. The ability to introduce third players into the marketplace in order to ship and onsell to other players needs to be addressed. And in order for that to take place, it needs to be addressed by way of legislation. It is not simply the case that a market mechanism will allow that to occur, even with all the government's best intentions! I would like to hear the minister's position on this matter.

The third and critical point, also made by the member for Cannington, is that of price. Regardless of the creation of a gas market, even if it were created as a proper trading platform and a proper market in the same way as other commodities are traded around the world, the real issue in Western Australia is that at this time we have only two suppliers. Up to five or six suppliers will perhaps enter the marketplace, but unless the cartel is broken and there is genuine price variability from the suppliers of domestic market gas, we are all whistling *Dixie*.

Mr T.R. Buswell: Member, when you requested that the ACCC review the cartel arrangement, what was the response?

Mr F.M. LOGAN: It did not agree with us. However, I think the situation is different now because, as the member for Cannington said, the cartel virtually does not exist. The cartel was set up—it was allowed for by the Australian Competition and Consumer Commission—in order to market gas internationally. However, they are out there selling their own stuff, but the cartel continues to exist for us! So it is very challengeable now and in my view, and that of the Labor opposition, it needs to be challenged.

Coming back to price, Cockburn Cement is an example of the impact of gas prices directly impacting on the community in Western Australia. Cockburn Cement used to burn 80 per cent gas and 20 per cent coal; it now burns 20 per cent gas and 80 per cent coal because coal is cheaper than gas. The ability to wrap up long-term contracts at the price Cockburn Cement is looking at is virtually impossible. I am hoping that legislation like this will help and that we are able to change that fuel mix somewhat. As I have gone on and on about in the house, for the general community the end result of Cockburn Cement burning coal is a stockpile of 100 000 tonnes of Collie coal in the middle of the suburbs that catches fire and covers the entire area in sulfur. That coal is also mixed in the kiln fuel burn, thereby adding to the sulfur smell in the suburbs. And this is all caused by the price of gas! That is the real example of the impact of high gas prices on the community and it is one of the most critical issues facing Western Australia.

MR T.R. BUSWELL (Vasse — Minister for Transport) [11.14 am] — in reply: I thank the three members opposite who spoke in support of this legislation—the members for Cannington, Gosnells and Cockburn. I am handling the Gas Services Information Bill 2011 on behalf of my colleague, the Minister for Planning; Culture and the Arts; Science and Innovation, who represents the Minister for Energy in this place and who is absent today. I am of course well supported by advisors, seated at the back of the chamber, who have provided me with some additional information to support my knowledge and assist me to respond to the issues that members have raised. Firstly, I thank members opposite for their generally positive reflections on the bill and their observations about the challenges faced in the Western Australian domestic gas market, with its complexities of limited suppliers and purchasers. Reflecting on my economic studies, I am not sure what we call this market type. I know what we call a market with two major suppliers, but what do we call it when two major suppliers are mixed with four or five major consumers. Perhaps the member for Riverton can help me; there must be a technical term for that.

Dr M.D. Nahan: Oligopoly.

Mr T.R. BUSWELL: An oligopoly in terms of the purchasers—but in terms of the suppliers?

Dr M.D. Nahan interjected.

Mr T.R. BUSWELL: You are absolutely no help, member for Riverton! I am not going to look at you anymore!

However, members opposite raised some good points and an oft asked question is why we pay so much for our domestic gas when we have so many suppliers. I reflect on the old adage, “Water, water, everywhere; and not a drop to spare.” I acknowledge the contributions and obvious knowledge of members opposite. I am pleased that the member for Cockburn was able to correct a public record that perhaps in the middle part of 2008 —

Mr F.M. Logan: You might have been a bit testy about!

Mr T.R. BUSWELL: I am not testy at all, but in 2008 I was very testy! As the member for Cockburn knows, occasionally in the heat of political debate some facts may be misunderstood or overlooked—never deliberately, of course, member for Cockburn!

Mr F.M. Logan: No! Never!

Mr T.R. BUSWELL: I think that we stuck to our message and I am perhaps prepared to admit for the public record that some of the criticisms that we may have levelled at the government and by extension the member for Cockburn may, in hindsight, have been a little overinflated.

Mr F.M. Logan: Can I run through them again?

Mr T.R. BUSWELL: They were pearls! I am sorry to digress, Mr Deputy Speaker, but I remember my last time in this chamber as Leader of the Opposition, which was in fact the last day before the election, when I sat on the other side of the chamber and, on this very topic —

Mr P. Papalia: The good old days!

Mr T.R. BUSWELL: They were good days. They were pretty tough days, actually, member for Warnbro. I was ejected from the chamber by the then —

Ms M.M. Quirk: They were the good old days!

Mr T.R. BUSWELL: And we were debating this very issue. I was reflecting in the chamber yesterday about how robust things may or may not be, and I have to say, albeit I am not trying to reignite that debate, that they were very robust debates.

Mr F.M. Logan: They were.

Mr T.R. BUSWELL: I think that if we were to complain about what happened yesterday, we are way off the mark. They were pearlers!

I remember when the then member for Wanneroo and Deputy Speaker ejected me from the chamber. I said, “You will live to rue this day; I know a lot of people in Wanneroo,” and look what happened to her! Therefore, I sense the current Deputy Speaker’s apprehension to eject people from the chamber.

However, this is a good piece of legislation. It delivers some important reforms. The member for Cockburn made comment about it not going far enough in terms of adopting what he termed a more formal trading platform. That is acknowledged. It was acknowledged in the introduction to the bill. It does not pretend to be anything that it is not and the gas bulletin board will not deliver that. However, that is not to say that as a result of the gas bulletin board some of those broader market-based reforms may not now be enabled. Some of the advice I have received suggests that there are indeed private companies that will now become involved, or may now become involved, in providing gas trading services. That is a positive. As I understand it, there are two private companies. Therefore, from our point of view, in terms of the public policy around the development of a gas trading market, perhaps we will see the sorts of outcomes this reform delivers. As I said, there are companies that we would hope to give room to move within the market to help them succeed in providing that link, as the member said. In my case, I think we had Prime Laundry or Iluka Resources in the south west. If the CEO of Prime Laundry rings the head of Woodside and says that he wants to buy some gas, he has absolutely no chance, first, because Prime Laundry is small, and, second, because it has no information about the market—none whatsoever. It was a very, very frustrating time. If I see them again, I will point out to them that perhaps the member’s role in that frustration was a little less than I perhaps indicated to them at the time.

There is also the changing nature of supply. Other suppliers will enter the market—some of them definitely not as large as existing suppliers—and that can also change the nature of the market. However, I think this is a good step forward in moving towards a more active and open market for the trading of gas, in particular gas for—I will not say smaller users—users outside the five or six big users that currently exist. I think everyone generally acknowledges that.

The member for Cockburn raised another issue that is really an extension of the same theme, and that is the use of the cartel. I cannot provide the member with a ready answer to the question that he has asked. That is a policy decision. I would have to check with the Minister for Energy, so I cannot give the member an answer about the extent to which the government will once again test the validity of the cartel, as the member calls it—the north west joint venture cartel—and use it to trade or to supply gas domestically. I acknowledge the point the member has made that the cartel no longer operates effectively in the international sale of what would be liquefied natural gas. The minister may well have made comments about that in the other place. I am just not aware of that. So I would have to get back to the member on that matter.

The member for Cannington asked a number of specific questions that I will attempt to answer. One was: effectively, will the Independent Market Operator be the body that runs the bulletin board and produces the gas statement of opportunities? The information I have is that that is entirely correct. The legislation will enable regulations to be developed that will create powers that will be conferred on the IMO. As the member rightly pointed out, the IMO has developed some significant expertise in its roles in and around energy markets. Basically, the short answer to that question is yes.

The member asked some questions about costings. The advice I have is as follows: there will be some capital costs involved, as the member would anticipate. I expect a lot of that will be around the IT base that will need to be in place. There will be half a million dollars this financial year and \$2.5 million in the 2012–13 financial year, which will be the capital costs to establish the IT platform needed to deliver what is required. There will be an operational cost of about \$1.1 million per annum from then on. What does that mean to users? The advice I have is that that means an additional cost of between 0.05c and 0.07c per megajoule. If we flow that through to households, it is a net impact on households across the year of less than \$1. The member also asked what the cost impact of that would be on businesses. Unfortunately, I do not have that information, but I think that the \$1 for households probably puts it into some framework.

There were also some questions about timing. The timing advice I have is that the expectation, if this bill passes through the house today and moves through the processes, is that in July this year the regulations will be, I am assuming, laid before Parliament, as would be the case with regulations. On the establishment of the rules, which is the other part of the question that the member put to me, the advice I have is that that will really depend on the IMO’s engagement with industry, and that will happen within the framework of the Gas Advisory Board. But, certainly, the target is to have the rules in place by the end of the calendar year.

Mr W.J. Johnston: The calendar year?

Mr T.R. BUSWELL: Yes.

Mr W.J. Johnston: I understood it was by the start of the financial year. That is fine; I am not worried about that.

Mr T.R. BUSWELL: I have a couple of bits of additional information about that. The construction of the gas bulletin board will start in July this year.

Mr W.J. Johnston: It's already done.

Mr T.R. BUSWELL: Yes. Once the IMO is empowered to deliver the bulletin board, some work will still be done on building the IT system, which reflects the capital that we talked about. Obviously, information flows from industry, and the advice I have is that we are expecting results out of the system—that is, when it is functioning fully—in about 12 months. So there is a period in and around implementation. I am hopeful that that has answered the questions that the member for Cannington asked, and hopefully I have dealt with the issues that the member for Cockburn raised. If members have anything else that they wish to ask, I am happy to attempt to answer those questions, or I will seek some more advice by way of a nod and a wink from the back of the chamber. The principal question asked was: will the government be pursuing the cartel? I just do not have that advice at the moment. I can get that for members at a later stage. I would be interested to receive that answer.

I again thank members opposite for their support for this bill, and also members on the other side in the other place. It would be fair to say that the explosion at Varanus Island in 2008 raised some very serious issues. When we cut away all the political claptrap that goes with those sorts of things, it raised some very, very serious issues for our state. In my time as opposition leader, I remember that I asked for a briefing on the supply of gas. I am pretty simple; I am from Busselton. I said, “All the users are down here; the two suppliers are up there. There are basically one or perhaps two little things that join them to us.” There are some massive risks in that to the state. I think we are dealing with some of those risks.

Mr W.J. Johnston: Yes. The risks are not really with the pipeline; it's the production facilities.

Mr T.R. BUSWELL: Yes. In that year, as the member may recall, prior to the Varanus Island explosion, there were some issues with the domgas plant at the North West Shelf.

Mr W.J. Johnston: Yes.

Mr T.R. BUSWELL: That was a sneeze. With Varanus we caught the cold. Often when people are in government, they look at risks and think, “No, it'll probably be okay.” Inevitably, it was the old adage —

Mr F.M. Logan: The integrity of the pipeline is fantastic, as is its capacity to be expanded. With the foresight of the builders, the capacity for gas to be compressed in there is fantastic. Where the government has no control is over the suppliers of the gas that goes into it. We don't run their plants.

Mr T.R. BUSWELL: Mind you, the Ukrainians think they have a good pipeline, but if the people turn the tap off, it stops working—which those Russians often do.

Mr F.M. Logan: I'm just glad they don't run the North West Shelf.

Mr T.R. BUSWELL: It is an interesting point. Notwithstanding that, it highlighted how important current and long-term cost-effective gas supply is to our state.

Mr W.J. Johnston: It's critical.

Mr T.R. BUSWELL: The member for Cannington is right. Energy is critical to state development, as are other things such as ports. However, when we look at state development, if we cannot resolve the energy issues and the energy challenges, not only is it important to consumers, but also it is fundamentally important to the long-term growth of the state.

I appreciated very much the contributions of members opposite and thank them for their support of this important reform.

Question put and passed.

Bill read a second time.

Leave granted to proceed forthwith to third reading.

Third Reading

Bill read a third time, on motion by **Mr T.R. Buswell (Minister for Transport)** on behalf of the Minister for Planning, and passed.