

Mr John Day; Mr Fran Logan; Mr Terry Redman; Mr Bob Kucera; Dr Janet Woollard; Mr Colin Barnett; Mr Paul Papalia; Chairman

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**Verve Energy -**

Mrs J. Hughes, Chairman.

Mr F.M. Logan, Minister for Energy.

Ms S.E. In't Veld, Chief Executive Officer.

Mr B.R. Sadler, Principal Policy Adviser, Energy, Office of the Minister for Energy.

Mr C.D. Dalton, Manager, Financial Planning and Services.

Mr G.B. Denton, General Manager, Trading and Sustainable Energy.

Mr J.R. Banks, Acting Coordinator of Energy.

**The CHAIRMAN:** This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chairman to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. For the purpose of following up the provision of this information, I ask the minister to clearly indicate to the committee which supplementary information he agrees to provide, and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the committee clerk by 8 June 2007, so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. Details in relation to supplementary information have been provided to both members and advisers, and accordingly I ask the minister to cooperate with those requirements.

I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office. Only supplementary information that the minister agrees to provide will be sought by 8 June 2007.

It will also greatly assist Hansard if when referring to the program statements volumes or the consolidated account estimates, members give the page number, item, program, amount in preface to their question.

**Mr J.H.D. DAY:** Can the minister tell me what is the current value of the Verve Energy business, as shown in the annual report, and what it was prior to the disaggregation of Western Power? In other words, what was the equivalent value of the generation component of Western Power previously?

**Mr F.M. LOGAN:** Can the member please point me to the item in the *Budget Statements*?

**Mr J.H.D. DAY:** I am referring to page 1005 - the single page for Verve Energy. It does not relate entirely to the capital works program, although I guess it is an indication of the ability of this business to fund capital works. From that point of view, is the minister able to give me those comparative figures?

**Mr F.M. LOGAN:** I am not exactly sure what the member is asking.

**Mr J.H.D. DAY:** Is there an estimated value for Verve Energy as an entity now, compared with the generation component of Western Power prior to the disaggregation?

**Mr F.M. LOGAN:** Yes, there is.

**Mr J.H.D. DAY:** What are those comparative figures?

**Mr F.M. LOGAN:** Despite the fact that it does not go to an item in the *Budget Statements*, I will answer the member's question. The generation capacity, or the generation assets, of Verve Energy totals approximately \$2.1 billion.

**Mr J.H.D. DAY:** Is that now, or previously?

**Mr F.M. LOGAN:** Now. I am advised that that has not changed. If the member were to do the exercise under Western Power, it would probably be the same.

**Mr D.T. REDMAN:** I refer to the heading "Sustainable Energy" and the allocation to expand the wind-diesel generation capacity at Bremer Bay. I am interested in the efficiency of wind-diesel generation. How much of

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that wind-diesel generation capacity comes from wind rather than diesel? Indeed, how much diesel is consumed at Bremer Bay?

**Mr F.M. LOGAN:** I will refer that question to Mr Denton.

[4.40 pm]

**Mr G.B. Denton:** The Bremer Bay system has had wind penetration of over 50 per cent in most time periods. There is a significant saving in the amount of diesel consumed relative to a stand-alone diesel system. The consumption of diesel in the system was approximately 400 000 litres a year for the Bremer Bay power station. It is also worthy to note that Western Power recently reconnected Bremer Bay to the system, so the diesel consumption will now fall.

**Mr R.C. KUCERA:** Comments were made earlier about summer loads. I refer to the section under "Capital Works Program" on page 1005. The second paragraph is headed "Fossil Fuel Plant Portfolio". Can the minister comment on the performance of Verve Energy's power stations during the past summer?

**Mr F.M. LOGAN:** The portfolio of equipment in Verve Energy's fleet varies. It ranges from 40 years old down at Muja A and B, which have recently closed, to Cockburn power station, which is three or four years old. I have responded to the member for Cottesloe, the Leader of the Opposition and the member for Darling Range about the peak loads in 2007. During the last peak record of 2007, those plants were operating at 86.1 per cent efficiency, which is extremely good for those types of plants, and were producing just over 3 000 megawatts of power. They vary in range from Muja, which was operating at 100 per cent, producing 227 megawatts of power - this is during the peak point; specifically, the two very hot summer days that led to that record of power generation - to the combined cycle gas turbine power station at Cockburn, which was operating at over 100 per cent. It was outperforming what was expected of its nameplate, at 236 megawatts. From the records that I have here, most of the power stations were operating at 60 per cent and above, giving an average of 86.1 per cent. Some of the brand-new Alinta CCGT power stations were operating well above their nameplate at 101 per cent and 110 per cent efficiency. Despite having quite an old fleet that requires significant levels of maintenance and care, the money that was spent by Verve last year and the work that was put in by Verve has certainly borne fruit by those types of performances.

**Mr R.C. KUCERA:** The minister commented on the capacity to the member for Darling Range. Was that within that capacity range?

**Mr F.M. LOGAN:** If we look at the total capacity of all the power stations, both public and private - this includes wind farms as well as coal and gas plants - across the entire power generation fleet in Western Australia, which goes to a capacity of about 4 200 megawatts, the peak record was 3 565 megawatts reached, which is running at 83.9 per cent efficiency.

**Mr R.C. KUCERA:** So much of that scaremongering that was practiced last year was unnecessary.

**Mr F.M. LOGAN:** Not just last year. The member heard the Leader of the Opposition claim in a previous committee that somehow Western Power was switching people's power off in order to save energy because it was a hot day. I indicated at that point that we had 70 per cent spare capacity.

**Dr J.M. WOOLLARD:** Maybe that is why the street lights go out - to save some capacity.

**Mr F.M. LOGAN:** No, the street lights have nothing to do with it. The whole point relates to the criticism that has been coming from the opposition. We have seen it in the media. The opposition is hoping for another black Wednesday but the reality is that that will not occur because we have capacity and very efficient systems now delivering electricity. There is always a problem on specific long stringy lines that go out to those farms.

**Mr R.C. KUCERA:** Minister, it does not hurt to say thank you occasionally to those people who do keep the lights off.

**Mr F.M. LOGAN:** I thank the member very much. I know that the people behind me would appreciate that.

**Mr C.J. BARNETT:** I refer to Muja power station. Have units A and B been decommissioned?

**Mr F.M. LOGAN:** They have been decommissioned 100 per cent. I believe they ran on for a short period - only a few days - as they were being wound down, but they are now 100 per cent decommissioned.

**Mr C.J. BARNETT:** Does Verve have plans to either recommission or close down the remaining units at Muja that are not as old as A and B but nevertheless ageing? In particular, does Verve have any plans to put the second unit on the new Collie power station?

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**Mr F.M. LOGAN:** The next units that are scheduled for closure are not in Muja. They are in Kwinana. The plants that are destined for closure are Kwinana B next year and Kwinana A the following year. Those closures, even Kwinana B, would then bring Verve below the 3 000 megawatt threshold that has been placed on it in order to try to get a competitive electricity generation market. The closure of Kwinana A the following year would significantly reduce the overall generation capacity. Also, it would then allow Verve to look forward to future generation, whether it is renewable -

**Mr C.J. BARNETT:** I specifically asked about Collie B.

**Mr F.M. LOGAN:** - or whether it be like Collie B. Verve does have a number of plans going forward but they are not the sort of things we will discuss here because they are commercially confidential. We are in an open, competitive market now.

**Mr C.J. BARNETT:** It is a state-owned asset and it is the Parliament that is asking questions.

**Mr F.M. LOGAN:** That does not mean that the member can ask for and I will give him confidential information.

**Mr C.J. BARNETT:** It is not commercially confidential.

**Mr F.M. LOGAN:** Of course it is. We are in an open electricity market. Verve is looking at a range of options. For example, is the member going to ask Alinta what its business plans are and expect it to tell him? Is that what the member expects?

[4.50 pm]

**Mr C.J. BARNETT:** Alinta is a private company and this is a state-owned utility.

**Mr F.M. LOGAN:** Verve Energy is a state-owned company that is operating in an open and competitive market.

**Mr C.J. BARNETT:** It is a state-owned utility that is open and accountable to this Parliament. Does the minister have any plans for Collie B? That is a perfectly valid question. If the minister cannot answer it, he should not be a minister.

**Mr F.M. LOGAN:** I have been in this Parliament when the member for Cottesloe, as a minister, refused to answer questions in a series of areas because of commercial confidentiality. This is no different. The former Minister for Energy should know better because he has been here for a long time. He knows that this company is operating in a competitive market and that the government is not likely to provide that type of information to competitors.

**Mr C.J. BARNETT:** It is a state-owned public utility.

**Mr P. PAPALIA:** I refer to page 1005 of the *Budget Statements* under the heading "sustainable energy". I note that a monetary allocation has been made to expand the wind-diesel generation capacity at Bremer Bay. What is Verve Energy's role in the renewable energy sector?

**Mr F.M. LOGAN:** I will ask Mr Denton to provide the member with information on Verve's total renewable energy capacity.

**Mr G.B. Denton:** Verve Energy owns the Albany and Esperance wind farms. They are Verve's two major wind farm assets. It also has a number of wind-diesel assets that are set in remote communities that are generally off the grid, with the exception of Bremer Bay. We are currently developing a new wind-diesel power station at Hopetoun and at Coral Bay, and two new wind turbines will be built at Kalbarri. Verve Energy is looking for new opportunities to further develop its renewable energy business. We will take advantage of the opportunities that are presented.

**Mr F.M. LOGAN:** Further to that, I will highlight the difference between the question asked by the member for Peel and the previous question asked by the member for Cottesloe. There is no problem talking in this chamber about the integrated wood processing plant and Verve's intention to move ahead with that or about the fringe-of-grid wind-diesel power supplies because they are publicly funded by the state and sometimes the federal government. That is different from talking about Verve's business practices when it borrows money from Treasury for its own investments. They are two completely different areas. It is appropriate to put the first matter on the public record but it is inappropriate to put on the public record that Verve borrowed money from Treasury to make a business investment.

**Mr P. PAPALIA:** Where is the anticipated growth to come from that will require allocations to meet the anticipated growth and customer load that has been forecast? Where has the projection come from?

**Mr F.M. LOGAN:** Is that in overall customer load growth?

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**Mr P. PAPALIA:** The *Budget Statements* refer to customer load forecasts.

**Mr F.M. LOGAN:** I will ask Mr Denton to answer that after I have provided the member with an overview. The projected load growth is the domestic load growth.

**Mr P. PAPALIA:** Is the expected take-up due to people's desire to buy green energy?

**Mr F.M. LOGAN:** There has been a significant increase in the demand for green energy. This subject falls into the area of Synergy because it sells green power and natural power. However, there has been a 146 per cent increase in demand for green energy.

**Mr P. PAPALIA:** Is it anticipated that Verve's growth in this area will be due to more customers?

**Mr F.M. LOGAN:** Verve's growth is part of its future business plan. It is making appropriate business choices. As I explained to the member for Cottesloe, when Verve brings its entire capacity below the 3 000 megawatt threshold that has been set, it will make certain business decisions. I certainly will not be discussing them here, but I will be informed of them, because it is a board decision. Verve will decide whether it will move further into the renewable area and expand its renewable fleet or participate in joint ventures with other companies. Another reason I will not talk about those practices here is the commercial confidential nature of those practices. Verve might decide to have a solely owned venture in gas or coal.

**Mr C.J. BARNETT:** That never works before a royal commission. The minister should trace a bit of Western Australia's history.

**Mr J.H.D. DAY:** Earlier today in the discussion on the Western Australian Office of Energy, reference was made to the increased use of diesel generation over the past 12 months. Now that the managers of Verve are here, are we able to get an indication of -

**Mr F.M. LOGAN:** Is that instead of going to that supplementary information?

**Mr J.H.D. DAY:** That can remain because it referred to quantity. I want an idea of the proportion of energy that was generated from diesel over the past 12 months. Is this increased use of diesel likely to continue over the next 12 months, and is there a plan to reduce the reliance on diesel?

**Mr F.M. LOGAN:** I will put the matter in context because, unfortunately, we did not get to the point of explaining why Verve Energy burnt that amount of diesel late last year.

**Mr J.H.D. DAY:** I also want an indication of the proportion of energy that is provided by diesel.

**Mr F.M. LOGAN:** Unfortunately we did not get to the point of examining why that was done. Verve was burning diesel last year because of outages on the Dampier to Bunbury gas pipeline, which were caused as a result of the upgrade of the pipeline. There is no good in the member for Cottesloe shaking his head; that is exactly what occurred. The expansion of the pipeline is up to stage 4 and is moving to stage 5. The compressor stations are being upgraded. Outages occurred on the Verve plant also.

**Mr J.H.D. DAY:** Did Alcoa and Alinta have the same problems with outages on the pipeline?

**Mr F.M. LOGAN:** Absolutely. Alinta's first power station came on stream just recently.

**Mr J.H.D. DAY:** I was referring to the fact that Alinta sells gas and Alcoa uses large amounts of gas.

**Mr F.M. LOGAN:** Alinta was affected in the same way as Verve with regard to outages. If it hits one, it hits them all. The outages posed the problem of how to maintain the thermal efficiency from the power stations. The solution was to burn liquids with the coal. As the member knows, last year I agreed to Verve's request to increase the amount of coal it burnt in Kwinana. That too was as a result of the outages that affected Verve. As I indicate earlier, Verve also conducted its own significant maintenance upgrades and suffered from gas outages, which required it to burn more liquids. In total, the quantity of liquids consumed at Verve's energy plant in 2005-06 was around 60 kilotons across its entire fleet.

**Mr J.H.D. DAY:** How did that compare with the previous year?

**Mr F.M. LOGAN:** I do not have the figures for 2004-05, but it a significantly less amount was burnt.

**Mr J.H.D. DAY:** Has that trend continued in 2006-07 and in 2007-08?

**Mr F.M. LOGAN:** Significant burns of liquids were conducted in 2006 because of those outages. However, since December this year, when the 45 gigajoules of gas from the Dampier to Bunbury gas pipeline stage 4 came on stream at the end of November or the beginning of December, Verve has burnt only a negligible amount of liquid.

**Extract from *Hansard***

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We can only hope that stage 5 of the Dampier to Bunbury gas pipeline will not have the same impact on the line that DBP stage 4 had in terms of enforced outages. For a start, there is greater capacity as a result of the expansion. All of us assume that that will not occur.

[5.00 pm]

**Mr J.H.D. DAY:** Is Kemerton now gas fired or is it still diesel powered?

**Mr F.M. LOGAN:** Kemerton has been on gas since December as a result of that expansion. It was burning liquids. It is a peaking plant, as the member well knows. It was designed and built as a peaking plant to run on numerous types of fuel, simply because getting gas to that point was extremely difficult throughout 2006. As a result of the gas outages and upgrades, it was burning liquids. I am on the record a number of times answering questions about that in Parliament. Since December, it has been burning gas.

**The CHAIRMAN:** I apologise to the members for Mindarie and Cottesloe who are still on the list, but that completes the examination of Verve Energy.