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Hon J C Kobelke MLA  
Chairman  
Public Accounts Committee  
Parliament House  
PERTH WA 6000

Dear Mr Kobelke

**MUJA A/B REFURBISHMENT - JOINT VENTURE ARRANGEMENT BETWEEN  
VERVE ENERGY AND INALCO ENERGY PTY LTD**


As per your request of 23 June, my Office has undertaken a preliminary review of this joint venture arrangement with a focus on the apportionment of risk and financial returns.

My preliminary review indicates that Verve could benefit substantially from the joint venture and I have seen no evidence to suggest that this benefit is disproportionate to that of its joint venture partner. I have also seen no evidence to suggest that the joint venture arrangements assign a disproportionate share of risk to Verve.

Attached is some analysis to support this view.

Should you have any questions, please contact either myself on 9222 7501 or Glen Clarke on 9222 7543

Yours sincerely

  
COLIN MURPHY  
AUDITOR GENERAL  
23 July 2010  
Attach

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## **PRELIMINARY REVIEW OF THE JOINT VENTURE ARRANGEMENT BETWEEN VERVE ENERGY AND INALCO**

### **Project background**

Verve Energy is the biggest power generator in Western Australia. It owns and operates four major power stations - Kwinana, Cockburn, Pinjar and Muja.

Muja A/B is a 240 megawatt coal fired power station with four 60 megawatt units. It was successfully operated by Verve (formally Western Power) from 1965 until April 2007. Muja A/B was then placed in a state of care and maintenance.

In March 2007, Verve invited Expressions of Interest into future uses for Muja A /B. In May 2008, Verve notified the Innovative Alumina Co Pty Ltd (Inalco) that their proposal was preferred. Inalco is majority owned by the Kempe Group of Companies, an international provider of engineering solutions.

In progressing the project, Verve has sought expert advice and conducted due diligence checks. This has included the use of external consultants to assess the commercial, legal, taxation and engineering aspects of the project.

### **Objective and Scope**

This preliminary review sought to establish any basis for concern that the Joint Venture will result in Verve Energy not receiving a proportionate share of the benefits of the project or that it will take on a disproportionate share of the risk. The emergence of any such evidence could then lead to the Office of the Auditor General undertaking a more detailed investigation into the arrangement.

The review was undertaken at the Offices of Verve Energy and involved a review of relevant documents and discussion with senior staff of Verve including:

- Wally Borocac - Chief Financial Officer
- Tony Narvaez - General Manager Business Development and Strategy

In undertaking the review, consideration was given to the need for independent expert advice to complement our audit expertise but in the end we were satisfied that we could rely on the various expert advice obtained by Verve Energy as part of its due diligence process. The review did not involve discussions with employees of Inalco Energy or any organisation that gave advice to Verve.

### **Preliminary Conclusion**

No evidence has been cited to suggest that Verve will not receive a proportionate share of the benefits or that it will take-on a disproportionate share of the joint venture risk.