

HON ERIC RIPPER BA DipEd MLA
DEPUTY PREMIER; TREASURER; MINISTER FOR ENERGY



FIFTH ENERGY
IN WESTERN AUSTRALIA CONFERENCE 2003
THE WESTERN AUSTRALIAN ENERGY SECTOR:
THE VISION FOR THE FUTURE

DATE: WEDNESDAY, 26 MARCH 2003

INTRODUCTION

THANK YOU RICHARD.

DISTINGUISHED GUESTS, PARLIAMENTARY COLLEAGUES,
VISITORS, LADIES AND GENTLEMEN.

I'M PLEASED TO HAVE THE OPPORTUNITY TO PARTICIPATE IN AN EVENT SUCH AS THE ENERGY IN WESTERN AUSTRALIA CONFERENCE. IT'S AN OCCASION TO TAKE STOCK OF THE ISSUES AND MAP OUT WHERE WE ARE HEADING IN THIS CRITICAL SECTOR.

A LITTLE UNDER TWO YEARS AGO, I TALKED AT THIS CONFERENCE ABOUT OUR GOVERNMENT'S ENERGY REFORM AGENDA. I FOCUSED ON ELECTRICITY REFORM, SUSTAINABLE ENERGY AND GAS DEREGULATION, AND I THINK SOME VERY SIGNIFICANT ACHIEVEMENTS HAVE BEEN NOTCHED UP SINCE THEN.

FEAR NOT, I AM NOT ABOUT TO GIVE YOU A BLOW BY BLOW DESCRIPTION OF EVERY ACHIEVEMENT OF THE GALLOP GOVERNMENT -- I SAVE THAT PLEASURE FOR MY OPPONENTS IN STATE PARLIAMENT!

WHAT I DO WANT TO TALK ABOUT IS WHY THE STATUS QUO IS NOT GOOD ENOUGH AND WHY WE HAVE TO MAKE PROGRESS TOWARDS A MORE COMPETITIVE, EQUITABLE AND SERVICE FOCUSED ENERGY INDUSTRY.

IN DOING SO, I DON'T WANT TO DOWNPLAY OR DIMINISH THE GREAT STRIDES MADE IN OUR ENERGY SECTOR IN THE PAST. AS A STATE, WE'VE COME A LONG WAY. IN PARTICULAR I WOULD LIKE TO TAKE THE OPPORTUNITY OF ACKNOWLEDGING THE ENORMOUS CONTRIBUTION OF DAVID EISZELE IN HIS 40 YEAR CAREER AT WESTERN POWER AND ITS PREDECESSOR ORGANISATION.

BUT THERE ARE STILL GREAT CONTRASTS IN THIS VAST STATE OF OURS IN TERMS OF ACCESS TO RELIABLE, QUALITY ENERGY SUPPLIES AT A REASONABLE PRICE.

I WELL REMEMBER AS A CHILD ON A FARM IN THE GREAT SOUTHERN HAVING THE DAILY RESPONSIBILITY OF CRANKING UP THE DIESEL GENERATOR BECAUSE OUR FARM WAS NOT CONNECTED TO THE ELECTRICITY NETWORK. IF I WANTED TO WATCH TELEVISION, I HAD TO BE SURE TO GO OUT TO THE SHED – NO MATTER HOW COLD OR WET - TO TURN THE ENGINE OFF BEFORE I WENT TO BED.

TO AN URBAN WESTERN AUSTRALIAN TODAY, WITH A HOUSEHOLD FULL OF ELECTRICAL APPLIANCES, THIS MAY SEEM ALMOST DICKENSIAN!

BUT FOR MANY PEOPLE IN REMOTE PARTS OF WESTERN AUSTRALIA, IT IS STILL A DAILY REALITY.

MY POINT IS, THAT WHILE I'M HERE TO OUTLINE THE GOVERNMENT'S VISION FOR THE FUTURE, WE MUST ALWAYS REMEMBER THAT THE 'VISION THING' HAS TO BE GROUNDED IN THE REALITIES FACED IN WESTERN AUSTRALIA BY FAMILIES WHEREVER THEY LIVE, AND BY BUSINESS LARGE AND SMALL.

ABSTRACT DEBATES ABOUT ENERGY POLICY GIVE NO COMFORT TO FAMILIES OR BUSINESSES WHO HAVE PRESSING NEEDS TODAY.

WITH YOUR INDULGENCE, I WANT TO PAINT A PICTURE OF OUR ENERGY INDUSTRY THROUGH REAL AND HYPOTHETICAL CASE STUDIES. SOME OF YOU MAY IDENTIFY WITH THEM.

CASE STUDY 1 – ABORIGINAL COMMUNITY

FOR MY FIRST CASE STUDY, I WOULD LIKE TO BECOME YOUR TOUR GUIDE AND INVITE YOU TO JOIN ME ON A TRIP TO BIDYADANGA, AN ABORIGINAL COMMUNITY ABOUT 180KM SOUTH OF BROOME AND ABOUT 13KM OFF THE GREAT NORTHERN HIGHWAY.

THE COMMUNITY IS ONE OF THE LARGEST IN THE KIMBERLEY AND HAS A FLUCTUATING POPULATION OF UP TO 700 PEOPLE. BIDYADANGA IS PRONE TO CYCLONES AND STRONG WINDS AND CAN BE ISOLATED BY SEASONAL RAINS.

ACCORDING TO THE *COMMUNITY HOUSING AND INFRASTRUCTURE NEEDS SURVEY* CONDUCTED BY THE ABORIGINAL AND TORRES STRAIT ISLANDER COMMISSION IN JUNE 2001, BIDYADANGA EXPERIENCED UP TO 14 SUPPLY INTERRUPTIONS IN THE PREVIOUS YEAR, THE LONGEST OF WHICH WAS 6 DAYS AS A RESULT OF CYCLONE SAM.

SOME OF YOU MAY KNOW THAT BIDYADANGA COMMUNITY'S POWER STATION IS DIESEL-FIRED AND CURRENTLY HAS AN INSTALLED CAPACITY OF 900 KW. THE COMMUNITY IS ON THE STATE'S LIST FOR REPAIR AND MAINTENANCE OF ESSENTIAL SERVICES, BUT UNFORTUNATELY THIS ARRANGEMENT DOES NOT INCLUDE THE OPERATION OF THE POWER STATION, RETAILING OF ELECTRICITY OR MANAGEMENT OF THE NETWORK.

WESTERN POWER HAS NO ROLE IN BIDYADANGA. ESSENTIAL SERVICE OPERATORS IN THE COMMUNITY ARE RESPONSIBLE FOR DAILY MONITORING AND OPERATION OF THE POWER STATION. IF THERE IS A MAJOR PROBLEM, THE OPERATORS CONTACT THE KIMBERLEY REGIONAL SERVICE PROVIDERS, WHO HAVE THE CONTRACT FOR THE KIMBERLEY AREA UNDER THE REMOTE AREA ESSENTIAL SERVICES PROGRAM.

CASE STUDY 2 – SMALL TOWN IN THE MID WEST

I AM GOING TO EXTEND MY TOUR AND TAKE YOU TO MEEKATHARRA, SITUATED ON THE GREAT NORTHERN HIGHWAY IN THE MURCHISON-EAST GASCOYNE REGION OF WESTERN AUSTRALIA.

MEEKATHARRA, THE CENTRE OF A MINING AND SHEEP AND CATTLE DISTRICT, HAS A POPULATION OF 1,445 PEOPLE AND PROVIDES A GEOGRAPHICALLY CONVENIENT MEETING POINT FOR THE NUMEROUS PASTORAL STATIONS, ESTABLISHED MINES AND MINERAL EXPLORATION GROUPS WHO OBTAIN THEIR STORES, FUEL, PARTS AND POSTAL SERVICES IN THE TOWN.

WESTERN POWER HAS 358 RESIDENTIAL CUSTOMERS AND 117 COMMERCIAL CUSTOMERS, INCLUDING GOVERNMENT AGENCIES, IN MEEKATHARRA.

THE TOWN IS CURRENTLY PROVIDED WITH POWER FROM AGEING DIESEL-FIRED GENERATION PLANT THAT IS IN URGENT NEED OF REPLACEMENT FOR TWO MAIN REASONS:

- THE GENERATION COSTS ARE SIGNIFICANTLY HIGHER THAN IN THE SOUTH WEST INTERCONNECTED SYSTEM; AND**
- THE PLANT IS CURRENTLY LOCATED CLOSE TO THE TOWN CENTRE AND HAS A HIGH LEVEL OF NOISE AND GREENHOUSE GAS EMISSIONS.**

CASE STUDY 3 – MEDIUM SIZE PROJECT LOOKING TO EXPAND

IT IS APPARENT THAT LIFE FOR SMALL COMMUNITIES IN REGIONAL WESTERN AUSTRALIA IS, AT TIMES, NOT AS EASY AS IT SHOULD BE. BUT, WHAT ABOUT INDUSTRY?

I AM GOING TO ASK YOU TO THINK OF A MEDIUM SIZED MANUFACTURING COMPANY WITH A CONTESTABLE ELECTRICITY LOAD LOOKING TO EXPAND ITS OPERATIONS INTERSTATE. ON THE SURFACE, WESTERN AUSTRALIA APPEARS TO BE AN IDEAL LOCATION WITH WELL-DEVELOPED INFRASTRUCTURE, ABUNDANT NATURAL RESOURCES AND ENERGY SUPPLIES, AND CLOSE PROXIMITY TO THE SOUTH EAST ASIAN EXPORT MARKET.

HOWEVER, THE COMPANY HAS NOTED THAT ELECTRICITY PRICES IN WESTERN AUSTRALIA ARE SIGNIFICANTLY HIGHER THAN THOSE IN OTHER AUSTRALIAN STATES. AND UNFORTUNATELY, ALTHOUGH THE COMPANY WOULD BE A CONTESTABLE CUSTOMER, THERE IS A LIMITED CHOICE OF SUPPLIER OR PRODUCT OFFERING IN THE MARKET.

ENERGY COSTS ARE A SIGNIFICANT COMPONENT OF THE BUSINESS' OVERALL COST STRUCTURE AND, THEREFORE, AN IMPORTANT CONSIDERATION IN ITS EXPANSION STRATEGY.

IN THE CURRENT WESTERN AUSTRALIAN ELECTRICITY MARKET, THE BUSINESS' ONLY OPTIONS ARE TO PURCHASE ELECTRICITY FROM WESTERN POWER, BUILD ITS OWN POWER PLANT OR EXPAND ITS BUSINESS IN ANOTHER STATE WITH LOWER ELECTRICITY PRICES.

AND SOME INEVITABLY WILL TAKE THAT LAST OPTION AND GO ELSEWHERE.

CASE STUDY 4 – COMPANY BUILDING POWER STATION TO SUPPLY THIRD PARTY CUSTOMERS

I AM GOING TO WALK YOU THROUGH MY FOURTH CASE STUDY NOW. THIS IS THE CASE OF A COMPANY CALLED GENERATION X.

GENERATION X IS A LARGE COMPANY WITH POWER GENERATION AND SUPPLY EXPERIENCE IN THE EASTERN STATES LOOKING TO BUILD A POWER STATION IN THE SOUTH WEST GRID OF WESTERN AUSTRALIA TO SUPPLY POWER TO THIRD PARTIES.

THE COMPANY IS CONFIDENT IT WILL BE ABLE TO SECURE A NUMBER OF LARGE LOAD CUSTOMERS, HOWEVER, IT IS CONCERNED THAT THE ELECTRICITY MARKET STRUCTURE IN WESTERN AUSTRALIA WILL MAKE IT DIFFICULT FOR THE COMPANY TO SUCCESSFULLY ENTER THE MARKET.

GENERATION X IS CONCERNED THAT A WHOLESALE MARKET IN WHICH IT CAN BUY AND SELL ELECTRICITY OPENLY DOES NOT EXIST. THE COMPANY CONSIDERS THAT THE BALANCING REQUIREMENTS FOR INDEPENDENT GENERATORS ARE ONEROUS AND COMPETITIVELY SOURCING STANDBY CAPACITY IS DIFFICULT.

GENERATION X IS PARTICULARLY CONCERNED THAT IT MUST SEEK ACCESS TO THE TRANSMISSION AND DISTRIBUTION NETWORK FROM THE SAME ORGANISATION THAT IS A DIRECT COMPETITOR IN ITS GENERATION ACTIVITIES. IN ADDITION, THE LACK OF INDEPENDENT REGULATION AND DISPUTE RESOLUTION BODIES ARE ALSO A SOURCE OF CONCERN.

CASE STUDY 5 – MAJOR RESOURCE PROCESSING EXAMPLE

AND WHAT ABOUT OUR ABILITY TO ATTRACT INVESTMENT, NOT ONLY TO OUR ENERGY INDUSTRY, BUT GENERALLY? THIS IS MY FIFTH AND LAST CASE STUDY. WHAT KIND OF GUARANTEES DOES OUR ENERGY MARKET PROVIDE TO INVESTORS WHEN IT COMES TO ENSURING A SECURE ENVIRONMENT FOR THE DEVELOPMENT OF A HEALTHY AND PROFITABLE PROJECT?

LET'S PUT OURSELVES IN THE SHOES OF THE CEO OF A LARGE CORPORATION LOOKING FOR THE IDEAL LOCATION FOR A MAJOR RESOURCE-PROCESSING VENTURE.

LET'S CALL THAT COMPANY DIGEMUP RESOURCES.

OUR CEO THINKS THAT THE BURRUP PENINSULA COULD BE WORTH CONSIDERING AS A POSSIBLE LOCATION FOR A MAJOR PLANT.

OUR BOARD HAS NUMEROUS QUESTIONS ABOUT THE OPPORTUNITIES THAT THE REGION CAN OFFER TO COMPANIES LIKE OURS. BUT REALITY MUGS US. THE SWOT ANALYSIS WITHIN OUR STRATEGIC PLAN IS STARTING TO LOOK SLIGHTLY PESSIMISTIC, WITH A LARGE COLUMN UNDER THE HEADING "THREATS" AND A NOT SO LONG ONE UNDER "OPPORTUNITIES".

THE "THREATS" COLUMN INCLUDES:

- A HARSH ENVIRONMENT WITH A SMALL AND GEOGRAPHICALLY SPREAD PRE-EXISTING COMMUNITY CUSTOMER BASE;**
- AN INFRASTRUCTURE UNABLE TO COPE WITH THE BLOCK CHANGES IN DEMAND AS NEW INDUSTRIES ARE DEVELOPED IN THE AREA;**

- THE ABSENCE OF A STATE GENERATOR, CONSEQUENTLY HAVING TO PURCHASE ELECTRICITY FROM WESTERN POWER VIA CONTRACTS WITH PRIVATE GENERATORS, WHO, BY THE WAY, ARE FOCUSED ON THEIR OWN BUSINESSES AND, IN SOME CASES, MAY BE OUR OWN COMPETITORS;
- PRESSURE TO BUILD A HIGH EFFICIENCY PLANT TO REDUCE GREENHOUSE EFFECTS, WITH THE OBVIOUS CONSEQUENCES IN TERMS OF CAPITAL AND OPERATING COSTS; AND
- THE POSSIBLE NEED TO GENERATE OUR OWN ENERGY WITH A BACK UP MECHANISM IN PLACE, WHICH LEAVES OUR BOARD OF DIRECTORS DEALING WITH A DIFFICULT PREDICAMENT: WHAT DO WE DO WITH OUR VERY LIKELY UNDER-USED INFRASTRUCTURE AND EXCESS ENERGY GENERATION CAPACITY?

AS YOU CAN SEE, CERTAINLY NOT A CEO'S, RISK FREE, IDEAL SCENARIO.

POLICY ISSUES

IT IS CLEAR THAT WESTERN AUSTRALIA'S ENERGY MARKET FACES WHAT SOME PEOPLE WOULD CALL "CHALLENGES", TO PUT IT POLITELY.

LET'S LOOK AT THE UNDERLYING POLICY ISSUES.

ISSUES RELATED TO THE COMMUNITY

LETS START WITH BIDYADANGA AND MEEKATHARRA.

THE LACK OF A RELIABLE POWER SUPPLY IN REMOTE ABORIGINAL COMMUNITIES, INCLUDING BIDYADANGA, AFFECTS, AMONGST OTHER THINGS, WATER AND WASTEWATER PUMPING, REFRIGERATION OF FOOD AND MEDICAL SUPPLIES, OPERATION OF MEDICAL EQUIPMENT, HEATING AND LIGHT.

WITHOUT A RELIABLE POWER SUPPLY, THE IMPACT ON SEWERAGE, FOR EXAMPLE, IS EXTREMELY SERIOUS. PUMPING SYSTEMS FOR SEWERAGE FAIL WITHOUT POWER AND OFTEN RESULT IN OVERFLOWS. THIS IS A MAJOR ENVIRONMENTAL AND HEALTH ISSUE.

THERE IS ALSO CONSIDERABLE RESEARCH LINKING SUB-STANDARD LIVING CONDITIONS TO POOR PRIMARY HEALTH AND FAMILY VIOLENCE. THE RELIABILITY AND QUALITY OF POWER SUPPLIES CONTRIBUTES TO THE QUALITY OR LACK OF QUALITY OF LIFE OF RESIDENTS WITHIN THESE COMMUNITIES.

POWER SURGES IN BIDYADANGA HAVE RESULTED IN THE DAMAGE TO ELECTRONIC EQUIPMENT INCLUDING COMPUTERS AND FAX MACHINES. WHEN THERE IS NO POWER, TEACHING IN THE COMMUNITY SCHOOL IS ALSO DISRUPTED.

THE LIMITED RESPONSE IN RECTIFYING THE MAJOR POWER SUPPLY INTERRUPTIONS CAN BE ATTRIBUTED TO A LACK OF REGULATED POWER SUPPLY ARRANGEMENTS WITH ESTABLISHED RESPONSE RATES AND EMERGENCY MEASURES. THIS WAS THE MAIN REASON WHY BIDYADANGA WAS WITHOUT POWER FOR 6 DAYS FOLLOWING CYCLONE SAM LAST YEAR.

THERE IS ALSO AN ISSUE OF EQUITY IN REGARD TO CHARGING REMOTE COMMUNITIES FOR ESSENTIAL SERVICES. MOST REGIONAL TOWNS RECEIVE A SUBSIDISED UNIFORM TARIFF FROM WESTERN POWER AND ACCESS TO ASSOCIATED GOVERNMENT FUNDED REBATES. THIS IS NOT THE CASE FOR REMOTE ABORIGINAL COMMUNITIES. THE COMMUNITY PAYS ABOUT 60 CENTS PER UNIT FOR ELECTRICITY SPREAD AMONGST ITS RESIDENTS, COMPARED TO THE DOMESTIC TARIFF OF 14 CENTS.

I WILL NOW TURN TO WESTERN POWER'S REGIONAL SYSTEMS.

WESTERN POWER INCURS SIGNIFICANT LOSSES IN THESE AREAS DUE TO THE HIGH COST OF GENERATION. IN 2002/03, LOSSES ARE ANTICIPATED TO BE \$50 MILLION. IN MEEKATHARRA SPECIFICALLY, WESTERN POWER MAKES AN AVERAGE LOSS OF \$3,093 PER CUSTOMER PER YEAR.

MANY OF THE POWER STATIONS IN REGIONAL TOWNS, INCLUDING MEEKATHARRA, DO NOT MEET CURRENT ENVIRONMENTAL STANDARDS IN RELATION TO NOISE EMISSIONS. AND, AS REGIONAL TOWNS HAVE GROWN, A POWER STATION CONSTRUCTED OUT OF TOWN IN EARLIER YEARS IS NOW FOUND CLOSE TO RESIDENTIAL AREAS AND IMPACTS ON THE QUALITY OF LIFE OF RESIDENTS.

REPLACING WESTERN POWER'S AGEING GENERATION TECHNOLOGY IN REGIONAL TOWNS WOULD REQUIRE A SIGNIFICANT CAPITAL OUTLAY THAT COULD IMPACT ON THE STATE'S FINANCES.

ISSUES RELATED TO INDUSTRY

THE FINAL CASE STUDIES I HAVE PRESENTED, FOCUSING ON INDUSTRY'S SITUATION, HIGHLIGHT A NUMBER OF SIGNIFICANT ISSUES.

FIRSTLY, IT IS WIDELY ACKNOWLEDGED THAT WESTERN AUSTRALIA HAS AMONGST THE HIGHEST ELECTRICITY PRICES IN AUSTRALIA. DATA SOURCED FROM THE ELECTRICITY SUPPLY ASSOCIATION'S PUBLICATION *ELECTRICITY PRICES IN AUSTRALIA 2002/03*, SHOW THAT ELECTRICITY PRICES FOR SMALL BUSINESS ARE 17.9% HIGHER THAN THE CAPITAL CITY AVERAGE PRICE AND JUST OVER 50% HIGHER THAN PRICES IN NEW SOUTH WALES AND VICTORIA. AND PRICES FOR RESIDENTIAL CUSTOMERS ARE 9.7% HIGHER THAN THE CAPITAL CITY AVERAGE.

HIGH ELECTRICITY PRICES ARE A DISINCENTIVE TO INVESTMENT IN WESTERN AUSTRALIA, PARTICULARLY FOR INDUSTRIES WHERE ELECTRICITY IS A LARGE COMPONENT OF THE OVERALL COST STRUCTURE.

SIMILARLY, THE EXISTING MARKET STRUCTURE IN OUR STATE IS A DETERRENT TO NEW MARKET PARTICIPANTS ON MANY LEVELS.

FIRSTLY, THE LACK OF A WHOLESALE MARKET THROUGH WHICH PARTICIPANTS CAN TRADE OUT ANY IMBALANCES IS DISCOURAGING COMPETITION IN WESTERN AUSTRALIA.

THE BALANCING SERVICE CURRENTLY PROVIDED BY WESTERN POWER REQUIRES EACH INDEPENDENT GENERATOR TO CONTINUOUSLY MEASURE THE LEVEL OF DEMAND FROM ITS CUSTOMERS AND COMMUNICATE THIS DATA TO THE POWER STATION TO ALLOW CHANGES TO OUTPUT TO BE IMMEDIATELY EFFECTED. THE COST OF THE LOAD FOLLOWING EQUIPMENT REQUIRED FOR MEASUREMENT AND COMMUNICATIONS IS EXPENSIVE, AS ARE THE PENALTIES INCURRED FOR OUT-OF-BALANCE OPERATION. THESE COSTS PLACE A LOWER LIMIT ON THE SIZE OF LOAD THAT CAN ECONOMICALLY BE SUPPLIED BY INDEPENDENT GENERATORS.

THESE ARRANGEMENTS SUBSTANTIALLY NEGATE THE BENEFITS OF PROGRESSIVE DEREGULATION.

WHILST WESTERN POWER PROVIDES STANDBY POWER, THERE IS NO OBLIGATION ON IT TO DO SO. IN ADDITION, THERE IS NO PRICE DETERMINATION. IN THEORY, THIS SERVICE COULD BE WITHDRAWN AT ANY TIME OR BE SUBJECT TO UNREGULATED PRICES. THIS POSSIBILITY CREATES ADDITIONAL UNCERTAINTY FOR POTENTIAL MARKET PARTICIPANTS.

SECONDLY, THE VERTICALLY INTEGRATED STRUCTURE OF WESTERN POWER CAN CREATE PERCEPTIONS IN THE MARKET THAT ITS OVERALL BUSINESS INTERESTS NEGATIVELY IMPACT UPON THE PROVISION OF ACCESS TO WESTERN POWER'S NETWORKS FOR COMPETITORS TO ITS GENERATION AND RETAILING ACTIVITIES. RING FENCING IS NOT CONSIDERED SUFFICIENT TO REMOVE THE CONFLICTING OBJECTIVES WITHIN WESTERN POWER.

IN THE SAME WAY, THE LACK OF INDEPENDENT REGULATION AND DISPUTE RESOLUTION MECHANISMS CAN RESULT IN PERCEPTIONS THAT ACCESS TO WESTERN POWER'S NETWORKS WILL NOT BE ON A FAIR AND EQUITABLE BASIS.

AND IN REGARD TO RESOURCE PROCESSING PROJECTS WE ARE REQUIRED TO ENSURE THAT APPROPRIATE INFRASTRUCTURE IS IN PLACE TO SUPPORT FURTHER DEVELOPMENT.

INFRASTRUCTURE IS EXPENSIVE. IT IS CONSEQUENTLY PARAMOUNT TO MAKE SURE THAT IT IS WELL USED. THIS OBJECTIVE COULD BE ACHIEVED BY FACILITATING PHASED CONSTRUCTION OF INFRASTRUCTURE TARGETING AREAS WHERE INDUSTRIAL PROJECTS ARE LIKELY TO BE DEVELOPED.

SOLUTIONS

LIKE IT OR NOT THIS IS THE REALITY OF OUR ENERGY MARKET. BUT IT DOESN'T HAVE TO BE.

ABORIGINAL POWER PROCUREMENT

THE ABORIGINAL AND REMOTE COMMUNITIES POWER SUPPLY PROJECT, ENDORSED BY CABINET IN JULY 2001, IS UNDERTAKING A PILOT PROJECT TO RESOLVE ISSUES RELATING TO ELECTRICITY SUPPLY IN LARGE PERMANENT REMOTE COMMUNITIES. BIDYADANGA IS ONE OF THE PILOT COMMUNITIES.

THE JOINT OFFICE OF ENERGY AND ATSC PROJECT TEAM HAVE CONSULTED EXTENSIVELY WITH LOCAL COMMUNITY COUNCILS, WHICH HAVE ENDORSED A RECOMMENDATION FOR THE STATE TO ASSUME RESPONSIBILITY FOR DISTRIBUTION, RETAILING AND CONTRACT MANAGEMENT FUNCTIONS THROUGH A STATE OWNED UTILITY. THIS UTILITY WOULD HAVE THE IMPORTANT ROLE OF BEING THE ELECTRICITY SUPPLIER OF LAST RESORT.

THE CURRENT PROPOSAL IS FOR PRIVATE INDUSTRY PARTICIPATION WITH THE GENERATION FUNCTION OF THE SUPPLY ARRANGEMENT.

WHEN THE NEW POWER SUPPLY ARRANGEMENTS ARE IN PLACE, THE RESIDENTS AND FACILITIES WITHIN BIDYADANGA WILL RECEIVE THEIR ELECTRICITY SUPPLY IN ACCORDANCE WITH THE WESTERN POWER REGIONAL TARIFF STRUCTURE. SENIORS AND PENSIONER CONCESSION CARD HOLDERS WILL BE ABLE TO RECEIVE A REBATE ON THEIR DAILY SUPPLY CHARGE AND ACCESS THE SENIORS' AIR CONDITIONING REBATE.

IN ADDITION TO FINANCIAL BENEFITS, THE COMMUNITY WILL SEE ITS QUALITY OF LIFE IMPROVE IN A NUMBER OF WAYS.

OF PARTICULAR IMPORTANCE IS THE FACT THAT THE COMMUNITY WILL RECEIVE A RELIABLE SOURCE OF ELECTRICITY, INCLUDING QUALITY OF SUPPLY, DELIVERED IN ACCORDANCE WITH STATE REGULATIONS AND ASSOCIATED CUSTOMER PERFORMANCE STANDARDS.

THIS WILL ASSIST THE COMMUNITY IN OPERATING ITS HEALTH CLINIC, WHICH HAS TWO KIDNEY DIALYSIS MACHINES, WITH A FURTHER MACHINE INSTALLED IN A RESIDENT'S HOUSE.

A SCHOOL AND COMMUNITY EDUCATION PACKAGE IS BEING DEVELOPED TO ASSIST RESIDENTS IN THE TRANSITION TO THE NEW POWER SUPPLY ARRANGEMENTS AND PROMOTING ENERGY, WATER AND WASTEWATER EFFICIENCY.

THE NEW POWER STATION WILL USE MODERN GENERATION TECHNOLOGY, WHICH IS MORE FUEL EFFICIENT AND MORE ENVIRONMENTALLY FRIENDLY IN RELATION TO NOISE AND GREENHOUSE GAS EMISSIONS.

IN ADDITION, THE DISTRIBUTION NETWORK WILL BE UPGRADED TO A REGULATED STANDARD, WHICH WILL FURTHER IMPROVE RELIABILITY AND QUALITY OF SUPPLY AND SAFETY ASPECTS ASSOCIATED WITH POWER DELIVERY.

THE GOVERNMENT'S ELECTRICITY REFORMS, WHICH I WILL DISCUSS IN DETAIL SHORTLY, HAVE PROVIDED AN OPPORTUNITY FOR THE PROPOSED REGIONAL POWER CORPORATION TO HAVE A ROLE IN SERVICE DELIVERY TO REMOTE COMMUNITIES SUCH AS BIDYADANGA, AS WELL AS REGIONAL TOWNS.

REGIONAL POWER PROCUREMENT

THE REGIONAL POWER PROCUREMENT PROCESS IS TRYING TO REDUCE WESTERN POWER'S LOSSES IN ITS REGIONAL SYSTEMS, WHILE ALSO DELIVERING HIGH STANDARDS OF RELIABILITY AND QUALITY OF SUPPLY AND MAINTAINING HIGH SAFETY AND ENVIRONMENTAL STANDARDS. IT AIMS TO ACHIEVE THIS THROUGH PRIVATE SECTOR PARTICIPATION WITHOUT IMPACTING ON STATE CAPITAL.

A POWER PROCUREMENT PROCESS WAS CONDUCTED FOR THE MID WEST REGION TO TEST THE MARKET FOR THE LOWEST COST OF GENERATION FOR THE SIX MID WEST TOWNS OF MEEKATHARRA, MT MAGNET, CUE, YALGOO, WILUNA AND SANDSTONE.

FOLLOWING A RIGOROUS EVALUATION OF TENDERS AND A NEGOTIATION PERIOD, WESTERN POWER AND STATEWEST POWER PTY LTD SIGNED A POWER PURCHASE AGREEMENT IN AUGUST 2001 TO SUPPLY ELECTRICITY TO THE MID WEST REGION FOR A CONTRACT PERIOD OF 10 YEARS.

ONCE COMMERCIAL OPERATIONS ARE ACHIEVED BY STATEWEST POWER, WESTERN POWER'S GENERATION COSTS WILL REDUCE BY AN AVERAGE OF 15% PER ANNUM OVER THE LIFE OF THE CONTRACT.

THERE WERE A NUMBER OF CONDITIONS IN THE AGREEMENT THAT STATEWEST POWER IS REQUIRED TO SATISFY BEFORE THE CONTRACT GOES UNCONDITIONAL. FURTHER ANNOUNCEMENTS ARE LIKELY VERY SOON.

THE PROPOSED STATEWEST POWER OWNED MEEKATHARRA 2505 KW CAPACITY POWER STATION WILL BE LOCATED ON GASCOYNE ROAD, 1KM WEST OF THE TOWN AND WILL USE DIESEL FUEL. MODERN GENERATION TECHNOLOGY USING DIESEL IS MORE FUEL-EFFICIENT AND OPERATES WITH A LOWER LEVEL OF NOISE THAN ITS PREDECESSORS.

WHEN THE NEW POWER STATION IS COMMISSIONED BY THE END OF 2003, WESTERN POWER'S EXISTING POWER STATION WILL BE DECOMMISSIONED AND THE SITE REHABILITATED.

IN THESE ARRANGEMENTS WESTERN POWER RETAINS THE IMPORTANT ROLE OF SUPPLIER OF LAST RESORT, OWNS, OPERATES AND MAINTAINS THE DISTRIBUTION NETWORK AND RETAILS ELECTRICITY TO CUSTOMERS, WHILE BUYING POWER FROM A THIRD PARTY INSTEAD OF GENERATING ITS OWN.

THE MID WEST POWER PROCUREMENT PROCESS WILL BRING CONSIDERABLE BENEFITS TO THE STATE IN GENERAL AND THE MID WEST REGION IN PARTICULAR, INCLUDING ENVIRONMENTAL, ECONOMIC AND SOCIAL BENEFITS THAT WILL IMPROVE THE QUALITY OF LIFE OF OUR COMMUNITIES AND PROMOTE THE DEVELOPMENT OF INDUSTRY IN REGIONAL WESTERN AUSTRALIA.

IN ADDITION THE STATE DOES NOT HAVE TO INVEST ITS SCARCE CAPITAL UPFRONT, BUT CAN WORK IN PARTNERSHIP WITH INDUSTRY TO SHARE THE RISKS AND BENEFITS.

ELECTRICITY REFORMS

THE ELECTRICITY MARKET REFORMS PROPOSED BY THE ELECTRICITY REFORM TASK FORCE AND ENDORSED BY GOVERNMENT LATE LAST YEAR ARE INTENDED TO LAY THE FOUNDATION FOR GREATER COMPETITION AND LOWER ELECTRICITY PRICES, ATTRACT NEW INVESTMENT, PROMOTE STRONGER ECONOMIC GROWTH AND CREATE THOUSANDS OF JOBS.

THE ELECTRICITY REFORM IMPLEMENTATION STEERING COMMITTEE, SUPPORTED BY THE ELECTRICITY REFORM IMPLEMENTATION UNIT, WILL IMPLEMENT THE TASK FORCE'S RECOMMENDATIONS.

ONE OF THE KEY REFORMS WE ARE UNDERTAKING IS THE DEVELOPMENT OF A NEW WHOLESALE MARKET. THE EXISTING ARRANGEMENTS PROVIDE LIMITED OPPORTUNITIES TO GENERATORS OTHER THAN WESTERN POWER. THIS IS ONE OF THE REASONS WHY WE HAVE NOT SEEN THE EMERGENCE OF COMPETITIVE GENERATORS, EVEN THOUGH THE ACCESS LEVELS TO WESTERN POWER'S NETWORKS HAVE BEEN PROGRESSIVELY FALLING.

THE MARKET MODEL PROPOSED BY THE TASK FORCE CONSISTS OF A BILATERAL CONTRACT MARKET WITH A BINDING DAY AHEAD RESIDUAL TRADING MARKET AND IS INTENDED TO IMPROVE ON THE EXISTING APPROACH BY ADDRESSING ISSUES THAT HAVE INHIBITED THE DEVELOPMENT OF A COMPETITIVE BILATERAL MARKET.

AN INDEPENDENT CONSULTANT, CHARLES RIVER ASSOCIATES, HAS BEEN APPOINTED TO REVIEW THE MARKET MODEL PROPOSED BY THE TASK FORCE AND TO RECOMMEND ANY REFINEMENTS. THE RESULTS OF THIS CONSULTANCY WILL BE REPORTED BACK TO GOVERNMENT IN COMING WEEKS.

WHILST THE IMPLEMENTATION OF A NEW WHOLESALE MARKET WILL REPLACE EXISTING BALANCING ARRANGEMENTS, THE GOVERNMENT HAS ENDORSED A NUMBER OF TRANSITIONAL MARKET ARRANGEMENTS TO CREATE A MORE COMPETITIVE MARKET IN THE INTERIM PERIOD.

UNDER A NEW TOP UP AND SPILL PROPOSAL BEING PROGRESSED BY THE STEERING COMMITTEE, INDEPENDENT GENERATORS WILL NO LONGER BE REQUIRED TO BALANCE THEIR SUPPLY. INSTEAD, THEY WILL BE ALLOWED TO TOP UP THEIR PRODUCTION BY PURCHASING ADDITIONAL ENERGY FROM WESTERN POWER AND SELLING EXCESS ENERGY TO WESTERN POWER.

THIS SCHEME HAS A FURTHER ADVANTAGE IN THAT IT ALLOWS INDEPENDENT GENERATORS TO TRADE WITH WESTERN POWER TO REDUCE THE OVERALL COSTS FOR BOTH PARTIES. FOR EXAMPLE, IF AN INDEPENDENT GENERATOR'S PRODUCTION COSTS ARE HIGHER IN CERTAIN CIRCUMSTANCES THAN THOSE OF WESTERN POWER, IT COULD REDUCE ITS OUTPUT AND PURCHASE POWER FROM WESTERN POWER. SIMILARLY, WESTERN POWER AND VICE VERSA.

AN ESSENTIAL REFORM ENDORSED BY THE GOVERNMENT IS THE DISAGGREGATION OF WESTERN POWER. WHILE THE GOVERNMENT IS FIRMLY COMMITTED TO MAINTAINING WESTERN POWER AND ITS SUCCESSOR ENTITIES IN STATE OWNERSHIP, THE SEPARATION OF ITS BUSINESS UNITS WILL HAVE SIGNIFICANT BENEFITS FOR THE COMMUNITY AS A WHOLE.

FIRSTLY, THE SEPARATION OF WESTERN POWER'S NETWORK ACTIVITIES FROM ITS GENERATION AND RETAIL ACTIVITIES IS INTENDED TO ELIMINATE PERCEPTIONS THAT THE OVERALL BUSINESS INTERESTS OF WESTERN POWER NEGATIVELY IMPACT UPON THE PROVISION OF ACCESS TO ITS NETWORKS FOR COMPETITORS TO ITS GENERATION AND RETAILING ACTIVITIES. THIS IS INTENDED TO ADDRESS THE CONCERNS OF POTENTIAL NEW MARKET PARTICIPANTS AND THEREBY STIMULATE COMPETITION AND INVESTMENT.

SECONDLY, THE SEPARATION OF WESTERN POWER'S RETAIL AND GENERATION ACTIVITIES WILL ALLOW THESE BUSINESSES TO ACT INDEPENDENTLY IN THEIR OWN BEST INTERESTS AND, OF PARTICULAR IMPORTANCE IN THE CASE OF THE RETAIL BUSINESS, IN THE BEST INTEREST OF THEIR CUSTOMERS.

THIS SEPARATION WILL ALSO ENSURE COMPETITIVE NEUTRALITY WHEN STATE GENERATION IS CONTRACTING WITH RETAILERS. SIMILARLY, STATE RETAIL WILL TREAT ALL GENERATORS EQUALLY AND SEEK OUT THE LOWEST COST SOURCES OF GENERATION.

ANOTHER RECOMMENDATION OF THE TASK FORCE WAS TO REDUCE THE CONTESTABILITY THRESHOLD TO 50 MEGAWATT HOURS PER ANNUM FROM 1 JANUARY 2005. ANNUAL CONSUMPTION OF 50 MEGAWATT HOURS EQUATES TO ANNUAL ELECTRICITY COSTS OF APPROXIMATELY \$8,000 AND IS TYPICAL OF SMALL BUSINESSES SUCH AS CORNER SHOPS. THIS STEP WILL RESULT IN AN ADDITIONAL 10,000 CONTESTABLE CUSTOMERS AND WILL TAKE THE TOTAL NUMBER OF CONTESTABLE CUSTOMERS TO APPROXIMATELY 12,500, REPRESENTING AROUND 60 PER CENT OF WESTERN POWER'S CURRENT LOAD.

THE GOVERNMENT WILL NOT RUSH THE INTRODUCTION OF FULL RETAIL CONTESTABILITY. HOWEVER, THE 50 MWH PER ANNUM INTERIM STEP WILL PROVIDE SIGNIFICANT OPPORTUNITIES FOR INCREASED COMPETITION IN THE MARKET.

THE GOVERNMENT'S COMMITMENT TO ELECTRICITY REFORM HAS ALREADY PROVIDED POTENTIAL MARKET PARTICIPANTS WITH THE REQUISITE LEVEL OF CERTAINTY TO ENCOURAGE THEM TO INVEST IN NEW GENERATION CAPACITY. THIS IS EVIDENCED THROUGH EXISTING PROPOSALS FOR MERCHANT PLANTS SUCH AS THOSE OF ALCOA/ALINTAGAS AND PERTH ENERGY.

TO COMPLEMENT THE NEW ELECTRICITY MARKET, THE PROPOSED ECONOMIC REGULATION AUTHORITY, THE BILL FOR WHICH IS CURRENTLY BEFORE PARLIAMENT, WILL ASSUME RESPONSIBILITY FOR ECONOMIC REGULATORY FUNCTIONS CURRENTLY PERFORMED BY A VARIETY OF MINISTERS, SECTOR-SPECIFIC REGULATORS SUCH AS THE GAS AND RAIL ACCESS REGULATORS AND PUBLIC SECTOR OFFICIALS.

AS THE AUTHORITY WILL BE INDEPENDENT FROM BOTH GOVERNMENT AND FROM THE INDUSTRIES IT REGULATES, IT WILL SERVE TO UNDERPIN THE GOVERNMENT'S POLICY FOR COMPETITIVE UTILITY MARKETS AND REGULATION THAT INVOLVES TRANSPARENT AND ACCOUNTABLE DECISION-MAKING. THIS IS AN ESSENTIAL FEATURE OF STRONG GOVERNANCE WHERE THE STATE HAS AN OPERATING INTEREST IN THE INDUSTRY.

IN ADDITION TO ITS COMMITMENT TO A TRANSPARENT DECISION-MAKING PROCESS, THIS GOVERNMENT IS ALSO DETERMINED TO FACILITATE OPEN AND TRANSPARENT STAKEHOLDER COMMUNICATION AND CONSULTATION PROCESSES THAT WILL CONTRIBUTE TO MAKE OUR VISION OF A REFORMED ENERGY INDUSTRY BECOME A REALITY.

IN REGARD TO DIGEMUP RESOURCES, THE CORPORATION TRYING TO DEVELOP A MAJOR RESOURCE-PROCESSING PLANT IN THE BURRUP PENINSULA, I AM SURE ITS BOARD WOULD BE HAPPY TO KNOW THAT IN 2002 GOVERNMENT APPROVED \$136 MILLION FOR "COMMON USER" INFRASTRUCTURE ON THE BURRUP. THIS INCLUDED SEA WATER SUPPLY, PORT FACILITIES, ROADS AND INCREASED ELECTRICITY CAPACITY, WHICH COULD BE USED BY A NUMBER OF COMPANIES.

GOVERNMENT HAS ALWAYS PLAYED A KEY ROLE IN THE PROVISION OF INFRASTRUCTURE TO SUPPORT STATE DEVELOPMENT AND WILL CONTINUE TO DO SO FOR THE BENEFIT OF ALL WESTERN AUSTRALIANS.

WE WILL DO SO IN PART BECAUSE AS A RULE OF THUMB, FOR EVERY POSITION CREATED BY A MAJOR RESOURCE PROCESSING PROJECT, FOUR MORE POSITIONS ARE ESTABLISHED WITHIN OTHER INDUSTRIES.

THAT'S NOT A BAD RATIO.

CONCLUSION

I HOPE TODAY YOU'VE GAINED A CLEAR PICTURE OF THE KIND OF BENEFITS THE GOVERNMENT WANTS WESTERN AUSTRALIANS TO ENJOY.

OUR GOVERNMENT CAME TO OFFICE WITH A SIGNIFICANT REFORM AGENDA AND A VISION FOR THE FUTURE. OUR COMMITMENT TO A HEALTHIER AND MORE COMPETITIVE ENERGY INDUSTRY IN WESTERN AUSTRALIA WILL REQUIRE HARD WORK, AS THE CASE STUDIES THAT I HAVE PRESENTED TODAY CLEARLY SHOW.

BUT WE KNOW THERE ARE NO SHORTCUTS TO ANY PLACE WORTH GOING.

**AND I BELIEVE THAT A PRIVATE SECTOR FRIENDLY AND
COMPETITIVE ENERGY MARKET, TOGETHER WITH PUBLIC
OWNERSHIP OF SOME KEY ASSETS, FOCUSED ON IMPROVING
SERVICE DELIVERY TO THE BROADER COMMUNITY, IS A PLACE
WORTH GOING.**

THAT IS OUR DESTINATION. THAT IS OUR VISION.

THANK YOU.
