

CHECK AGAINST DELIVERY

ADDRESS
BY THE DEPUTY PREMIER AND MINISTER FOR ENERGY
TO THE
AUSTRALIAN INSTITUTE OF ENERGY
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PERTH

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INTRODUCTION

It is less than 100 days since the new Government was sworn in and I'm aware that across the board industry and the wider community are watching for signs of how our policies will be implemented.

I intend today to give you a broad indication of the Government's energy reform agenda, touching on:

- Electricity reform;
- Sustainable energy; and
- Gas deregulation

The Government has come into office with a reform agenda that was articulated in more than 60 pre-election policy documents, which are still available on the ALP's website for those who are interested and who wish to hold us accountable.

In the relatively short space of time the Government has been in office, it has been preparing the groundwork for implementing these policy commitments.

In practical terms, this means preparing a State Budget which funds the specific commitments made in the election but which also brings financial discipline to Government accounts so that the State is well placed to achieve its objectives of:

- maintaining the AAA credit rating, which is currently at risk;
- maintaining tax competitiveness;
- maintaining the net worth of the public sector; and
- achieving an operating surplus for the general government sector.

I mention these financial objectives because they are the foundation on which all of the Government's policy commitments depend.

ENERGY REFORM

I would now like to outline our major objectives in energy reform.

A former British Prime Minister, Harold Wilson, once said:

“The State machine is neutral. It is like a car waiting to be driven. Whichever way it is steered the machine will go. What matters therefore is the driver.”¹

If only it was that simple!

As you well know, there is a great deal of progress yet to be made in the reform of the Western Australian energy sector. By most measures, we are lagging behind other States and comparable nations.

¹ Cited in Wilenski P, *Public Power and Public Administration*, Hale & Iremonger, 1986 p. 100

An important question for any Government, and a Labor government in particular, is what is the reform process trying to achieve? As importantly, who benefits?

Broadly speaking, the Gallop Government is committed to energy reform to achieve sustainable lower energy prices for all energy consumers, but not at the expense of reliability, security, quality, and safety of energy supply. We must also uphold environmental objectives.

The Government does not believe these are mutually exclusive aims.

WHERE ARE WE NOW?

The Government's starting point for the reform process is conditioned by what progress has been made to date.

The gas market, now in full private ownership, was scheduled to enter full contestability in July 2002. But on coming to Government it was disturbing to find no systems had been put in place to ensure a smooth transition and to manage full retail competition in the downstream gas industry. More on that later.

As for the electricity market, it is well overdue for reform. Western Australia has had one of the least competitive electricity markets and has had among the highest electricity prices in Australia. A full and proper analysis of the electricity market is one of my highest priorities as Minister for Energy.

We have also inherited what I consider to be a fragmented and ad-hoc approach by Government to the emerging sustainable energy industry.

ELECTRICITY REFORM

As I indicated, electricity reform is currently occupying my attention. I am working on the establishment of an electricity reform taskforce – within a matter of weeks – which will develop detailed recommendations for:

- the reform timetable;
- the best way disaggregate Western Power to support the market structure to achieve lower electricity prices;
- the structure of the electricity market to be established in this State;
- measures to enhance competition in electricity retailing; and
- arrangements for implementing full retail contestability.

I am conscious of the scale and complexity of the job the task force will be asked to undertake, so I'm am "hastening cautiously" to ensure it has the right terms of reference and best membership to achieve the objectives.

I have consulted with the key stakeholders to develop the following five key objectives to guide the task force:

1. the main objective is to achieve, where possible, sustainable lower electricity prices for all customers while maintaining the uniform tariff for residential and

small business customers. This should be achieved while maintaining reliability, security, quality and safety of electricity supply to all consumers.

2. The uniform electricity tariff is to be retained as a safety net in a transparent way to encourage efficiency in the delivery of electricity and energy conservation by each customer;
3. The interests of customers in relation to the supply of electricity are to be upheld wherever possible, promoting effective competition between parties engaged in the supply of electricity;
4. A reasonable balance between the interests of electricity generators, transmitters, distributors, retailers, customers and the broader community is to be achieved;
5. Due consideration is to be given to the role that sustainable or renewable energy is to have to provide good opportunity for gas greenhouse emissions to be reduced.

ELECTRICITY REFORM LAGGING

I am aware that decisions made today will have long term ramifications for the electricity industry, and for infrastructure investment decisions with a 30 year horizon. We intend to implement reforms that will serve the State's interests in the short, medium and long term.

Some say that Western Australia has seen ten lost years in terms of electricity reform.

A decade ago Australian National University Economics Professor Fred Gruen, considering the question of public enterprise reform, pointed the way for States when he said

“substantial economies would be possible if the generation and transmission of electricity became separate and more competitive (or at least more contestable) economic activities.”

He added that

“public enterprises should be exposed to as much direct competition as possible and provide clear objectives designed to make them innovate and to operate as economically as possible.”²

Some States took the advice. The Lawrence Labor Government established the Carnegie Inquiry to make recommendations on the structure of SECWA.

The report of that inquiry presented a blueprint for the restructuring of the electricity and gas industry. However, there has been too little progress in electricity market reform, and steps taken to date have largely been reactive and ad hoc.

In this environment of uncertainty about the previous Government’s commitment to electricity reform and the slow progress in deregulation, it is hardly surprising that

² Gruen F and Michelle Grattan, *Managing Government*, Longman Cheshire, 1993, p155-156

there has been a lack of investment by independent power producers in private electricity generating capacity.

The Gallop Government will kick start the reform process, with goals that are well understood and drawing on the lessons from other jurisdictions. Through the task force, we intend to find solutions that best fit the local industry conditions and community needs, not just now but into the future.

As soon as the task force is established, I will be seeking quick progress. Within two months I would expect a discussion paper to be released canvassing the major issues and seeking comment on them from all sectors of the community.

I expect to receive interim reports from the task force so Government can consider issues as they arise rather than waiting for the final report.

RENEWABLE ENERGY

As I indicated earlier, the Government aims to ensure renewable energy and energy conservation have an important place in the new market arrangements. In other jurisdictions renewable energy project proposals have become more difficult to finance in increasingly competitive markets, so it is important that this issue is addressed early in the process.

DISAGGREGATION OF WESTERN POWER

Addressing the structure of Western Power is one of the critical steps in the reform of the energy sector in this State.

Western Power remains the only vertically integrated power corporation in Australia. Rightly or wrongly, industry does not have confidence in the current ring fencing arrangements of Western Power's business segments.

One can well understand why potential competing generators are concerned that they must advise their competitor, Western Power, of any electricity transport requirements they have. There is a widespread perception that the process for applying and contracting with Western Power for access to its transmission and distribution systems raises questions of commercial conflict.

Similarly, private retailers buying electricity from Western Power can only do so by negotiating with Western Power's retail arm which is their direct competitor.

In my view, these perceptions discourage investment decisions and impede electricity competition in this State.

The extent, and the timetable, for the disaggregation of Western Power will therefore be one of the most important matters for the task force to consider.

WA'S ELECTRICITY MARKET STRUCTURE

The central concern of the task force will be to consider the overall structure of the electricity market, bearing in mind the objectives of sustainable lower energy prices and reliability of electricity supply.

Currently, the arrangements for electricity trading are effectively limited to bi-lateral contracts between buyers and sellers of electricity. This may not be efficient when access levels drop further to 300 megawatt hours on 1 January 2003 and the number of contestable customers increases to around 2,500.

Full deregulation of the market may even prove to be ineffective with the current trading arrangements. Therefore, a review of the electricity market structure is an important step to ensure electricity reform objectives are fully realised.

The challenge is to find a market structure that provides stability and incentive for investment in capacity rather than the wildly fluctuating market prices in the pool system that has been operating in the Eastern States. Ultimately, no-one is served by a lack of investment in capacity and the consequential loss of system reliability.

INDEPENDENT REGULATOR

There are a number of concerns related to third party access to Western Power's wire business that need to be addressed to stimulate competition in the State's electricity market.

A major concern is the absence of an independent regulator to oversee access to electricity transmission and distribution infrastructure under an electricity code.

The Government intends to develop such a code and it also intends to appoint an independent general economic regulator who will oversee electricity, as well as the gas, water and rail industries.

Treasury will co-ordinate the establishment of the multi-industry regulator. I'm aware that there are concerns in industry about the performance of independent regulators, including concerns about the timeliness of decisions. The creation of a multi-industry regulator provides an opportunity to address those questions and the Government would welcome industry views on this issue.

The electricity functions of the regulator are still being considered, but will essentially involve the determination of access arrangements and prices. The role will be independent of Government, similar to the existing independent gas pipelines access regulator.

The Government aims to implement full retail contestability in the electricity sector in 2005 and the task force will undertake its work with this expectation in mind.

REGULATORY FRAMEWORK

Full contestability raises the question of the appropriateness of the existing regulatory framework which is based on a State owned utility which historically undertook the generation, transmission, distribution and retailing of electricity, with little or no competition.

In reviewing the State's regulatory framework, a fundamental objective for the Government is to protect the interests of consumers in relation to the affordable, sustainable and safe supply of electricity as the market moves to full contestability.

Australians are innately suspicious that their interests will not be taken into account in market reform – a view reinforced by their response to privatisation which, I think it is fair to say, was one of the reasons the former Government lost office.

Our reforms will not result in privatisation of Western Power or any of its assets.

In our view, exposing public utilities to greater competition is a better model – but the public must be assured that their interests are central, and not incidental. Maintaining this confidence is one of the functions of a good regulatory framework.

For the reason, I will also move to establish an Energy Ombudsman with powers to impose remedies to customer problems.

POWER PROCUREMENT – SOUTH WEST INTERCONNECTED SYSTEM

Closely related to the work of the electricity reform task force is the issue of Western Power's power procurement for the South West interconnected system.

In December last year, the former Government announced a program for the replacement and additional electricity generation on the South West interconnected system.

It has been put to me that the replacement of Western Power's Kwinana Stage B plant should be cancelled or opened to a general public tender process.

I accept that Western Power has a legitimate interest in updating its plant, but I am at the same time concerned that this process is not used to reinforce its market dominance which would have an adverse impact on the Government's electricity reform plans.

I can advise you today that Western Power has no approval to proceed beyond the first stage of its replacement strategy for Kwinana B.

I can also confirm that Western Power will undertake the public power procurement process for new capacity for the South West Interconnected System as required by its Act. I am seeking further advice on Western Power's required additional access to energy and generating capacity and the timing of these requirements.

The economic slow down and the foreshadowed retail deregulation schedule will have an impact. However, the lack of spare capacity in the private sector means the impact will not be dramatic in the short to medium term.

In any case, I remain to be convinced of the need to defer the power procurement process.

The overriding principle in any decision on Western Power's requirements and its power procurement program is the need to encourage competition through private sector investment in power generation capacity that provides lower supply costs for Western Power and its customers.

An essential part of the work of the electricity reform task force will be to review Western Power's power procurement process and its likely impact on future electricity market competitiveness.

WESTERN POWER'S ROLE

This Government will ensure that Western Power continues to contribute to development of essential infrastructure in Western Australia.

I will ensure that the necessary investment takes place in the transmission system and in the reinforcement and renewal of the distribution network.

For example, the State underground power program is well underway with contributions by both Western Power and the State Government. On completing its current round, Around 30 per cent of homes in the metropolitan area will have underground power.

There are other ways in which Western Power may contribute to improvements to essential infrastructure. One example concerns a pilot telecommunications project in the metropolitan area in partnership with a telecommunications company.

REGIONAL AREAS

At the State Election in February, the bush sent a very blunt message to Government about its services and infrastructure.

This Government will extend and improve essential electricity infrastructure in the regions. But it must also safeguard regional interests in the electricity reform process.

There has been long standing bipartisan support for the uniform tariff policy for households and small business. The Government will not accept any erosion of this policy and in fact will ensure a sustainable arrangement is provided for the continuation of uniform tariffs and the rights to connection for new customers in reasonable circumstances.

Affordable, sustainable and reliable energy supply to the regional areas of the State has a high priority in the energy portfolio of this Government.

Last month, I announced the selection of Burns and Roe Worley as the preferred bidder to supply cheaper electricity to Western Power in the Esperance region.

Burns and Roe Worley plan to build a power station in Esperance with low emission gas turbine generators. The primary fuel proposed for the power station is natural gas, transported from the North West shelf via the Goldfields Gas Transmission Pipeline and a new 310 kilometre pipeline from Kambalda via Norseman to the Esperance Power Station site, with a possible lateral pipeline to Ravensthorpe. Diesel fuel will be used in the event of a loss of pipeline gas.

Negotiations will now begin between Burns and Roe Worley and Western Power to reach a power purchase agreement.

In the Kimberley, as you are well aware, the Derby tidal power proposal remains an issue of significance. The new Government has received preliminary advice on the contracts entered into by previous Government in its last days with Woodside/Energy Equity for electricity supply in the West Kimberley.

Further advice has been sought to explore all the legal and financial options in relation to those contracts.

Whatever action the State takes will be financially responsible and in accordance with its contractual obligations. At a minimum, I expect there will be a tender process for a small scale tidal project for Derby.

SUSTAINABLE ENERGY

I would like now to address the Government's sustainable energy policy. This policy targets two key issues:

- first, it recognises that Greenhouse Gas Emmissions linked to climate change will increasingly become a potent political, economic and environmental issue for State and Federal governments over the next decade and beyond;
- second, it recognises that renewable energy and energy efficiency represent an emerging technology based sector with job creating potential.

Specific sustainable energy initiatives were outlined in the pre-election policy, but the broad thrust was:

- a stronger whole of Government response to Greenhouse and sustainable energy;
- further development of the renewable energy and energy efficiency industries;
- maximisation of State benefits from Commonwealth and other Government programs;
- improvements to the bureaucratic structure for promoting sustainable energy initiatives; and
- additional sustainable energy programs.

Some of the Government's strategies in this regard are bound up in the Budget process and in the Machinery of Government process that is redesigning the entire State bureaucracy.

I'll be in a position to make further announcements concerning the establishment of a Sustainable Energy Development Agency and related programs in the near future.

RENEWABLE ENERGY ACCESS

In advance of SEDA's establishment – and as a tangible demonstration of our commitment -- I'd like to announce today a reduction in the threshold for access by renewable energy generators to the South West Interconnected System.

At present access to renewable energy is only available to customers with consumption greater than 300 megawatt hours per annum – like a large factory.

Yesterday I signed an instruction to slash the threshold to 50 megawatt hours per year from 1 January 2002. This will allow renewable energy generators – wind power, solar power, biomass and the like – to supply medium sized businesses through Western Power's networks.

I have also asked the Office of Energy to review the renewable energy access arrangements with a view to providing less onerous regulatory requirements and creating more opportunities for independent power producers using renewable energy.

GAS DEREGULATION

Let me now turn to the gas market in more detail.

As you are all well aware, full contestability in the gas market is due on 1 July 2002.

There has been some suggestion that this target date will not be met. Given the lack of planning by the previous Government for the open market, that would probably be a fair assessment.

But the Gallop Government is putting the process back on the rails. There is an immense amount of preparatory work to be done, but we will endeavour to meet the deadline.

From 1 January 2002, the threshold for gas consumer contestability will reduce to 1 terajoule per annum from its current 100 terajoules per annum. This will open up contestability to businesses, hospitals, hotels, large bakeries and laundrettes.

By 1 July next year, I would like to see all 430,000 residential and small business gas consumers able to chose their preferred gas supplier.

Already, access arrangements to transport gas to contestable customers through Alinta Gas' coastal distribution system have been approved by the independent gas pipelines access regulator.

With the various access arrangements expected to be in place before the first of July 2002 and full open access being made available at that time, what remains to be done is to put in place the necessary systems, services and business rules to manage full competition.

Critical issues include:

- Management of customer transfers between retailers;
- Billing and metering issues;
- Consumer protection and education;
- Emergency gas supply procedures; and
- Operational issues related to differing ownership of gas distribution systems.

Cabinet has endorsed the establishment of a steering group, supported by a series of technical working parties, which will deal with these critical issues. The steering group, which will report to me, will comprise gas industry representatives, government and consumer interests.

I am currently writing to the stakeholders inviting their participation so the steering group can start work as soon as possible.

CONCLUSION

This is only the beginning of the Government's life but they are the most critical months because the foundations are being laid for long term action.

You can be assured that the Government's energy policy – as it stated in the election campaign – is pro-competition. Our approaches to the gas market, electricity reform and to renewable energy access demonstrate that very clearly.

The privatisation of AlintaGas by the previous Government was probably the last gasp of Thatcherism. The election results in Western Australia, Queensland, Victoria – and the political repercussions on the Federal scene – have seen to that.

The Government is abandoning ideological obsessions with privatisation as an outcome in itself, and focusing on the more important debate which is the social benefit. Competition delivers wider choice, better services, and lower prices. Privatisation is an irrelevant issue.

It is important for all of us – if we are committed to reform in the energy sector – to heed the community on this question.

The message is loud and clear: give us change for the better, not change for change's sake.

I look forward to speaking to you from time to time to report on progress of the reforms that are planned.

ENDS.