

HANSARD 18 AUGUST 2010
FAMILY HOUSEHOLD COST INCREASES

Motion

DR M.D. NAHAN (Riverton) [6.39 pm]: I would like to make some comments in this debate and try to add value to it. It is not the first time that we have dealt with this issue, and I am not knocking members opposite for raising it because it is important and should be thoroughly debated. But I would like to take a different route, and be positive on this.

The Leader of the Opposition stated that it has long been Labor Party policy to restrain growth in the price of the basket of goods for utilities, defined broadly but not including all utilities, to the inflation rate or lower. The member for Victoria Park showed a graph—I did not see it to confirm its accuracy—but he implied at least that the Labor Party had achieved that through the period of the Gallop and Carpenter governments.

I take that as a stated aim, and I take the member for Victoria Park's data as accurate. That is a very good aim. We would want to restrain all cost rises to the inflation rate or lower. However, what really relates is: what are the underlying costs? The member for Jandakot quite clearly made the point that the cost of electricity, water or a hospital service has to be borne somehow. That is the problem.

The essential decision we had here—or one that has been missing—is, firstly, have we restrained the growth of cost adequately? That has not been raised very much; secondly, is how should we fund these things? Let us look at energy. We have debated this, but I think I should go through a little bit of history, as the member for Cockburn was rewriting it.

It is true that the Court government implemented a policy of basically keeping the price of electricity more or less constant. I think there was one increase in one of its years in government. That was a very logical policy back then. At the same time, Western Power—even despite the fixed price of electricity—was able to expand, invest and achieve an adequate rate of return.

Anybody looking at the oil prices and the prices of gas and coal during that period would have noticed that it was a period in which energy costs were declining. Indeed, for the total period of the Court government, the oil price, which is the market price for all fuel and energy, declined in real terms by 20 per cent. All the Court government had to do was fix the price of electricity in real terms, and it led to a real lower price and gave a benefit. That was the thing to do. It was a good model, and the rational thing to do. When the Gallop government came to power in 2001 it continued that; and up until 2001 that was the right thing to do.

The Labor government then decided to debate and finally to proceed with a disaggregation of the electricity industry. At that time, in order to get the disaggregation through, it agreed to continue to fix the electricity price for, I think, about five years—I cannot remember the exact dates.

It was also forced to concede that after that period and before the last election it would have a review of the underlying costs and the price rises. That was okay. It agreed to the fixing of electricity prices for two reasons: one, in order get the bill through, it had to agree to it; two, it fought for and promised that its disaggregation was going to lead to substantial reductions in the underlying costs of electricity production.

That was the whole purpose of the disaggregation. That is what their claim was. That is what their promise was. And, third, it obviously hoped that the electricity price would not rise, as had been the case in the previous 10 years.

Its hopes did not come to pass. First, the disaggregation simply did not lead to the expected cost reductions; indeed, it led to virtually no cost reductions and it had significant underlying costs because the electricity industry had to compete with the mining industry for labour and other factors, so its costs started going up.

Then, the underlying price for gas and coal increased but, most importantly, oil went from \$11 a barrel in 2001 to \$225 a barrel in 2008; that is, the underlying fuel cost for electric energy skyrocketed; it went up exponentially. What happened? The Labor government had a fixed price, rising fuel costs and rising costs, and Verve started haemorrhaging.

Every year when Verve was haemorrhaging, the Gallop and Carpenter governments went out and said, "Aren't we good? We're delivering low utility prices to the public of Western Australia." They did—the prices did not go up very much. The only reason, by the way, it was able to achieve price rises lower than the inflation rate was because it kept electricity prices down. If we took electricity prices out of the equation, it would have gone up above that because of water—but I will get to water later.

The Labor government fixed the price of electricity and Verve was haemorrhaging. Eventually, before the last election, the Labor government was forced to come clean—because of the agreement it had to have a study, which said the price needed to go up 72 per cent. That is the story. The Labor government then went to the election; it said that the member for Vasse was very waffly. The Labor government said something like, "We will increase the price of electricity by at least 10 per cent a year, and we will worry about it after the election." That was not enough.

If we had kept it to the 10 per cent increase, Verve would have been a billion dollars in debt—or, we would have had to subsidise Verve from taxes. This is the important thing. We have heard about the issue of imposing charges on pensioners. I am a local member, just like members opposite. We all have friends and relatives who are on fixed incomes, whether they are unemployed or pensioners, and getting hit with these big, sudden rises is hard.

What I would say is: what was the Labor government thinking back in 2005, 2006, 2007 and 2008 when underlying costs were skyrocketing and they were not giving a signal to the consumers that the price was going up? I know what the Labor Party was thinking. If members remember, at that time, they were having \$2 billion surpluses, so they had plenty of money to pay for this.

But let us go back. How were they paying for it? It was with either debt or, in their case, taxes. What taxes does the state levy? One is payroll tax. The Labor government would rather subsidise and give incorrect signals to electricity users and subsidise energy costs by taxing jobs. The biggest tax growth was to tax people when they moved homes, that is, conveyancing. It thought, "We will tax new home buyers!"

Members may remember that during this period the experience of the home market was that the price of homes was skyrocketing. That led to record levels of unaffordability of housing. Part of that was higher conveyancing fees and revenue.

What the Labor government was saying was that it would like to give the appearance of having things under control and of being nice to utility consumers, but it was actually subsidising this by home buyers and jobs. There is an equity issue here. Is it better to price and charge utility consumers, people looking for jobs, or those buying new homes? I do not know what it is. What I can tell members is that there are two factors here.

One is that subsidising across-the-board electricity prices, no matter the income or circumstances of the consumer, is dumb and, I might add, inequitable. I remember 20 years ago when we decided to get into this debate as bureaucrats that we decided to look at who were the major consumers of electricity in Western Australia. The largest consumers were pubs; the second largest were supermarkets. They are often on different tariffs, but a blanket, across-the-board subsidy of electricity is not equitable.

At this time in the mid-2000s we were also discussing a little thing called global warming. The commonwealth government of the day was arguing that it should introduce a carbon tax or a carbon-trade system. The argument was that we needed to put a price on carbon, we needed to make electricity prices reflective of pollution and energy costs, and we needed to derive efficiency. No matter how we looked at it, that was going to lead to substantial increases in electricity costs and prices.

Mr C.J. Tallentire: Member, will you take an interjection?

Dr M.D. NAHAN: No. I usually would from the member for Gosnells, but given the track record of his colleagues on this debate today, I am sorry; no.

I think we will, no matter who is elected, put a price on carbon some day, or at least when the world reacts generally. We therefore need to move towards cost-reflective pricing. What was the task with electricity when we came to government? Clearly, whoever came to government would have been faced with a huge need to increase the price or to get more revenue into Verve Energy. The price of electricity needed to be moved towards more cost-reflective pricing. That was the policy of the previous government.

That was basically the consensus all around the world. The question was: how fast do you go and when do you do it? It was about timing and pace. I think that the previous government was hoping that the \$2 billion surpluses would go on forever. In the pre-election data, it was going to be diminished, but large budget surpluses were to be expected in the forward estimates. I am not criticising that; I think that was the legitimate forecast at the time. As we know, that was not the case.

We, as a responsible government, simply could not continue to pump in \$1 billion, as is estimated. If those subsidies were kept for a long period over two terms, it would have been more like \$7 billion to \$8 billion in subsidising electricity prices. That would have been pure madness and fiscally irresponsible. How would we get \$7 billion to \$8 billion out of our taxpayers? How many jobs would that cost?

I do not think Mr Rudd would have come up with a fiscal stimulus and given us billions of dollars to subsidise our electricity industry, given that he was promoting cost-reflective pricing. We made the difficult decision to take the data that we received and increase electricity prices. Increasing electricity prices was the fiscally responsible thing to do; it was the equitable thing to do. If we want to help the people on fixed incomes who are impacted by these hefty increases—that is true—we need to identify them and give them compensation through various mechanisms, and that is what we have done.

We can argue whether it is adequate and we can argue whether there is red tape. But that is what we did, and that was the right thing to do. It is easy to say, "Shock, horror; under us, electricity prices and other utility prices were constant, and these bad Liberals came in and they shot up."

That is what Joan Kirner did in the 1990s and, in pursuing that policy, she made the Victorian government into a basket case. She did not have the benefit of large surpluses. It is irresponsible to do that.

Let me turn to water. Water is a very interesting issue. The Economic Regulation Authority came out with a report. Lyndon Rowe, the chairman of the ERA, gave an articulate, dispassionate, objective assessment of what the ERA says is driving our costs. He was quite clear on ABC radio the other day. The Leader of the Opposition stated this very nicely in 2007 when he announced an eight per cent increase in water charges.

He said that the rate increase was really to cover the increased cost of providing water; for example, the new desalination plant. That was the first desalination plant, I think. The Leader of the Opposition also said that it produces good water but it is more costly than water that used to be available from dams, and that it is the expectation that water prices will continue to rise as more and more expensive sources come onto the system.

What the Leader of the Opposition and then Treasurer was hinting at, and what Lyndon Rowe stated quite clearly, was that the recommended rise in the cost of water was due to the fact that the previous government made a choice; it went with the second desalination plant, rather than the Yarragadee aquifer.

Mr E.S. Ripper: You might also accept responsibility for the fact that the Liberal opposition campaigned very strongly against using Yarragadee.

Dr M.D. NAHAN: My memory is a bit hazy. I am being honest. I was not in this house then. The choice was to go with the desalination plant. The desalination plant had a couple of attributes. Firstly, it was larger and more costly, because everybody was going to desalination plants. The first desalination plant in Western Australia was remarkably cheap. The second one was, as they are elsewhere, greatly inflated. I might add that Victoria is building one at a cost of \$5 billion.

Dr G.G. Jacobs: In Wonthaggi.

Dr M.D. NAHAN: Yes, in Wonthaggi. These things are hellishly expensive. It is not just the capital cost; it is the electricity costs. As the price of electricity goes up, the price of water goes up. Also, this plant is located such that it needs a long pipeline. The Yarragadee option was estimated to cost—I might be a little off here—about 80c to 85c a kilolitre, whereas the second desalination plant will cost in the vicinity of \$2 to \$2.10 a kilolitre.

Mr C.J. Tallentire: What is the capital cost of those two projects?

Dr M.D. NAHAN: Roughly, the first one was about \$350 million.

Mr C.J. Tallentire: And the same for the second one.

Dr M.D. NAHAN: The second one?

Mr C.J. Tallentire: Desal plant 1 was \$450 million as well.

Dr M.D. NAHAN: I read that the first one was about \$353 million. The other one is over \$1 billion.

Mr J.C. Kobelke: If you use the dollar of the day, they are about the same.

Dr M.D. NAHAN: I do not think so. Inflation has not been that bad.

Mr J.C. Kobelke interjected.

Dr M.D. NAHAN: Yes, and other infrastructure. I am not criticising this; it is just that there is a huge demand for desalination plants around the world. This is a problem. That was a choice. I readily admit that both sides of politics came to the same conclusion that it was better to go with the second desalination plant than the Yarragadee aquifer.

As an economist, I argued for Yarragadee because I had read arguments for it. Generally, my longer standing colleagues would agree to that. We went for the desalination plant. It cost more. The member for Gosnells in his previous role would also argue strongly in support of a desalination plant because of its convenience, but with some concerns about effluent. He argued that it should be considered. He had concerns about the Yarragadee.

Dr M.D. NAHAN: Nonetheless, he argued strongly for cost-reflective pricing.

Mr C.J. Tallentire: So long as people are given the means to become more water efficient so that their overall bill stays the same.

Dr M.D. NAHAN: The member should let me finish. I am not putting words in his mouth. What did Lyndon Rowe say? What was the recommended price? We invested in this big lumpy asset. Natural water supplies are going down. The expectation of the CSIRO is for further reductions in water supply from natural sources. Water costs are going up. During the 2000s, under the Labor government, water prices continued to increase faster than inflation. I might be wrong, but in its last two years, the increases were quite large. The Labor government was going towards cost-reflective prices for water.

Mr E.S. Ripper: What we did was look at fees and charges as a basket.

Dr M.D. NAHAN: But the only reason the basket was kept low was electricity.

Mr E.S. Ripper: And compulsory motor vehicle third party insurance and some other things.

Dr M.D. NAHAN: But electricity was the key to the success of keeping it low. The Treasurer and others made a choice to move water prices up sharply in its last two years. We have moved towards cost-reflective pricing for both electricity and water. We recognise that they were large increases, but we are holding back, as did the previous government, and asking, "What should we do in the future?" That is a decision that we are going to make.