

Extract from Hansard

6 May 2009

INFRASTRUCTURE AUSTRALIA — PILBARA INTERCONNECTED ELECTRICITY GRID

Motion

DR M.D. NAHAN (Riverton) [6.33 pm]: This is not a new issue, it has been around for 20 years. It was an issue when I worked for a resource and development board in the time of the Burke government. In the past few years it has been promoted by Horizon Power, as one would expect it to do. It is a major provider of energy in the north west and it is trying to coordinate it.

On paper, it has some benefits, some of which have been hinted at. A large-scale development, both in demand and capacity, is going forward in the Pilbara next March, although it is spread out geographically. On paper, there is potential for efficiencies in the network. There is also a potential to allow alternative energy on to the grid, not so much solar energy but an additional or different baseload.

One of the problems of the area is that it is solely dependent on gas. It could also allow specialist producers of electricity to enter the market. On paper, it has huge potential.

The question is: why, 20 years ago when the proposal went around, and more recently when Horizon Power's proposal went around, did the major beneficiaries of it not want it? Why did Rio Tinto, BHP and all the major producers and consumers not want it?

Ms A.J.G. MacTiernan: They are not the major beneficiaries.

Dr M.D. NAHAN: They will be. They are, first, the major consumers, either directly in their own operations or through their workforce, whether those people are directly employed by the firms or otherwise. Second, they own most of the generating capacity. Third, they will account for most of the expanded capacity and demand; and, if there are any efficiencies, which is what motivates this—trying to drive efficiencies in the economies of network—they will gain from it. Why are they against it?

One or two years ago they were against it because they had higher priorities. They were busting their bums—excuse me—during the boom to try to run with the projects that they had. They did not have the workforce or the priority or management time to do it. Now, things have changed, but they are still not supporting it, and there are some technical reasons for it. I suggest that it is a project we could look at down the track; it is not a high priority project now.

I think the Premier outlined the two arguments that existed 20 years ago, two years ago and today that eventually there will be a grid in the Pilbara, particularly if the projects, as expected, come off. The market for iron ore is still uncertain, at least price wise. In dealing with high transmission lines, there are large losses and large spaces between the various consumers, and very little demand between them. Therefore, as the Premier said, and as the technocrats say, it is better to ship gas than electricity.

Ms A.J.G. MacTiernan: Are you aware of what the percentage of losses is on those transmission lines?

Dr M.D. NAHAN: Potentially, yes. I will not quote them, but they are large. Like the member for Armadale, I am a politician; I am not an expert. The transmission losses are large.

Ms A.J.G. MacTiernan: They are between three and five per cent, and those losses have been calculated into the comparison between this project and the base case, which is the business as usual case. Even factoring in the losses on the transmission line, we still get a saving of \$700 million a year by going through this combined integrated transmission system. The losses on the line are irrelevant because they have been taken into account.

Dr M.D. NAHAN: No, they are not irrelevant. The business case does not stack up. The member has probably had access to calculations. Horizon Power was forecasting large growth in demand when it predicated these efficiencies. The second point is that there was a significant concern amongst the firms about the motivation. If the major aim was efficiencies, why did they not go for it?

Ms A.J.G. MacTiernan: We just explained that to you —

Dr M.D. NAHAN: No, the member did not.

Ms A.J.G. MacTiernan: It is about suppressing their competition and about controlling their competition.

Dr M.D. NAHAN: No, it is not. They are the major consumers; they are not suppressing anyone. They are going to give away —

Ms A.J.G. MacTiernan: It is like third party access on the rail!

Dr M.D. NAHAN: We are not talking about the rail. If there will be \$700 million in gains, why would they not go for it, especially in this market? They are not mad! BHP and Rio need a quid. Of course, they would go for it! The reason is that it is not there. They are also worried that they will eventually have to pay for it, either up-front with the investment in the infrastructure or through the price, and it will be used for non-commercial gain. Firstly, they are not going to realise efficiency and, secondly, it will be used for alternative uses. That is why they are not interested.

Ms A.J.G. MacTiernan: What alternative uses?

Dr M.D. NAHAN: Building solar cells, which will force the companies to determine the price. There will be a grid, a coordinating system—I assume it will be Horizon Power; that is why it exists—and a certain type of operating system. When they operate in the Pilbara and they build the plant, they will have a very unique system; it is all baseload.

It is not like the south west interconnected system, on which there is a very large peaking system. The Pilbara does not have that; mines operate 24/7; there is a real high priority on reliability of supply. They will gold-plate the systems; they will build excess capacity and provide excess spending capacity because they need to be risk averse in consumption of electricity. That is why they do it. It is very rational. That actually helps the Pilbara. That is the way it was developed because excess capacity was built in to supply the non-mining users such as mine sites, town sites and new consumers.

They are worried that, if the grid comes in, it will alter the operating systems, reduce the spending capacity, reduce the excess capacity and change the pricing arrangements. Okay?

That might suit certain people. But as the previous speaker said, it is the mining sector that will lead to the growth; it is the mining sector that is the future of the state; and it is in the mining sector's interest—not personal bottom-line interest—that we must look at. Horizon Energy found that it could not convince Rio Tinto Ltd, BHP Billiton Ltd and the other big companies to go into it both during the boom and now.

However, if we are to have a grid system, it is feasible and appropriate to discuss what will be the operating procedures. We could not bring NEMMCO here, the eastern states grid, because it would not fit. We can go into alternative systems by, for instance, allowing other people to come into the grid.

One of the other questions is: what other alternative energies could we get? Again, the issue is not peaking; it is base load. Geothermal is a possibility.

Ms A.J.G. MacTiernan: You obviously know a bit more about this than the Premier does; could you explain what the subsidy is to the mining companies? The Premier says he is opposed to it because it is a subsidy and you are saying the mining companies are opposed to it because it will cost them more. I cannot quite see the two.

Dr M.D. NAHAN: The Premier's point was simple. The issue here is: should the commonwealth use taxpayers' money to invest in the interconnected grid?

Ms A.J.G. MacTiernan: No; he said there would be a subsidy.

Dr M.D. NAHAN: No; that is the issue. The member for Armadale is suggesting that the state go to the commonwealth and both put some money together and build a system through Horizon Energy, a government-owned entity. Okay? The Premier is assuming the opposition wants to spend government money, not as a business, not to get a commercial rate of return, but rather to promote economic development. The member for Armadale emphasised that.

Ms A.J.G. MacTiernan interjected.

Dr M.D. NAHAN: Now, it might be that the government turns it in and charges a price that gets a return eventually from the mining companies. But that is often not why we use government money.

Ms A.J.G. MacTiernan: Not like Oakajee.

Dr M.D. NAHAN: It comes down to a simple thing. The rule here should be, given the nature of the demand, given the nature of electricity and given the nature of the firms involved, why would the state as a top priority during this period when we have huge demand for infrastructure, have to fork out money to assist Rio Tinto and BHP? I have no problems with those two firms at all but there is no need to do that. The reason they will not go ahead with it is not some rivalry issue; it is basically that, right now, the project does not stack up. That is the bottom line.

I would like to make a couple of comments about Oakajee, which is part of this debate. The opposition's argument is that the government is wrong to spend money on Oakajee rather than the Pilbara electricity grid. The opposition also said that it was strange for the Liberal Party to promote public investment and infrastructure when, in fact, the private sector should do it.

I find this argument, in part, a legitimate argument and, in part, strange since the opposition spent seven or eight years killing the James Point project in Kwinana because it was a private project, but which we really needed and could be operating as a bulk port now. But if, in fact, the proponents of the Oakajee port and rail project—it is an integrated one—could go ahead right now in the expectation that they would fund the whole thing and hand over to the Geraldton port, we should allow them to do that. We should let them go ahead. But, if we analyse the situation, that is very unlikely and was always going to be unlikely.

The truth is the winners of the beauty contest to build own and operate the rail and port entered the contest under the proviso that it was economically viable—appropriately so. Since that time, things have changed.

Ms A.J.G. MacTiernan: That is not what they say —

Dr M.D. NAHAN: That was part of the contract.

Ms A.J.G. MacTiernan: And that is not what the Premier said in answer to questions. In answer to questions, the Premier said they never ever —

Dr M.D. Nahan: No, no, no. When it awarded the project, the Labor government stipulated that the go ahead of the project was subject to economic viability. It had to do that.

Ms A.J.G. MacTiernan: And it still is.

Dr M.D. NAHAN: Of course it is. The question is: would we expect the combined Murchison and mid-west operations, under current prices, to have sufficient financial capacity to fund the rail and the port as planned? I do not think so. Given the state of play right now—may be it was a year or so ago—it is highly unlikely that the two projects, even if they were to go ahead could afford both.

If that is our expectation and the project is absolutely vital to the mid-west, which unfortunately missed out on most of the boom, what would we do? We would say, "Well if we are going to put some money here why don't we build the public parts of the port?" We do that in Fremantle; we do it in the Pilbara; we do it everywhere. What are those public assets? They are the breakwater, the dredging area and the longer-term industrial land. That is what we do everywhere.

The private sector can do the other aspect—the loading and the rail. Another reason we would want government involvement is that, hopefully, there will not be just one user or two users of the port, there will be multiple users. As we do at the Bunbury port we will allow a number of users to put their facilities there. It makes sense. The reason for not seeking to fund the Pilbara grid, just as it was 20 years ago or two years ago, is it is not ready yet. Why go to Oakajee?

We received a bucket of money from Mr Rudd—Mr Christmas—and in this case he invested properly in infrastructure rather than in \$900 handouts to everyone, and we knew that the project was unlikely to go ahead by itself and we promised to put down the public aspects of it. That is only rational and appropriate.

Another issue that was raised is the Ord scheme. It is an issue that I started with, again 30 years ago, when I was involved in a cross-benefit study, and I was critical of the project. However, the project's time has come.

I agree with the member for Willagee that it is not going to be the breadbasket of Australia or Asia nor will it replace what the Murray-Darling Basin provided; that is impossible. However, it will provide further growth in irrigated agriculture. It will increase the capacity and scale of the area to produce and develop transport links, which has always been the weakness of the project.

It will allow for large-scale agriculture in produce such as cotton, particularly genetically modified cotton, to provide a basis for production in the area and it will bring into production highly fertile land that has been excluded to date. The scale of the state's investment has been very small; not large at all. For an increment to an investment we get a very large project, so it makes great sense.

I would like to end by addressing a comment raised by the member for Armadale that the Howard government did not provide any funds for infrastructure in Western Australia. It did not provide the funds for the railway; however, it did provide them for Roe Highway. It funded a third to 50 per cent of stages 4, 5, 6 and 7, which the previous state government takes total credit for. Indeed, Roe Highway would not have been built without first the funding from the commonwealth's instigation through the AusLink program.

At least in economic terms, Roe Highway has provided a much greater benefit to the state than the rail or any other infrastructure project. It is an absolutely essential piece of social and commercial infrastructure for the state. Our task now is to continue Roe Highway with the Roe extension.

Mr M.P. Whitely: Do you know the history of Roe Highway; when it was Roe stage 4, and was hanging off William Street for a decade?

Dr M.D. NAHAN: I know it very well. It would not have been progressed without the Howard government.

Mr M.P. Whitely: That is rubbish.

Dr M.D. NAHAN: It is true. The Howard government's Auslink project allowed it to proceed. Without it, stages 6 and 7 would never have been started or completed.

Mr M.P. Whitely: You guys sat on stage 4 for 10 years.

Dr M.D. NAHAN: The truth is that without the matching funding from the Howard government, it would not have gone ahead.

Mr M.P. Whitely: Just listen to him—he knows everything.

Dr M.D. NAHAN: That is what we are here for. We are here to know things, not to not know anything. The Pilbara integrated grid will be built some day. Funding for Oakajee is only sensible. After decades of blithering and dithering about a port in Geraldton, we will now get one that is not limited by its scope.

Ms A.J.G. MacTiernan: The blithering and dithering was the Kingstream project.

Dr M.D. NAHAN: No; the previous government wasted a decade putting \$100 million into the Geraldton port. Finally, it is time for the Ord River scheme. It is about time we invested in new, expanded irrigated agriculture.