

## Attachment 2

### Ministerial Statements on Maximising Sale Price

- Hansard, 14 March 2000, pages 4962 & 4963
- Hansard, 16 September 1999 pages 1322 to 1324, especially page 1324

Leader of the Opposition do to Western Australia if he rolls back the GST? He will reduce state revenue. I would like to hear from the state Leader of the Opposition about where the money will come from to replace lost state revenue. The Leader of the Opposition was part of that infamous group. From where will the money come?

#### GOODS AND SERVICES TAX, COMPENSATION

541. **Dr GALLOP to the minister assisting the Treasurer:**

Is the compensation being offered by the Commonwealth for just three years adequate to meet the shortfall that Western Australia will face?

**Mr KIERATH replied:**

Yes.

#### MANDATORY SENTENCING

542. **Mr BAKER to the Premier:**

Is the Premier aware of comments by Western Australian Labor Senator Jim McKiernan that the Federal Government should use the external affairs power to overturn Western Australia's "three strikes and you're in" legislation?

**Mr COURT replied:**

I am concerned that a Western Australian senator is leading the campaign for the Federal Parliament to use its external affairs powers to override state legislation. Today on radio Senator McKiernan referred to growing community pressure on all Governments against the laws in the Northern Territory and Western Australia and said he expected the community will rise up against those laws. The report that was tabled yesterday stated that the Western Australian legislation contravenes the United Nations Convention on the Rights of the Child. Members might recall the extensive debate on whether this country should sign that convention, and the concern that parents would not be able, for example, to properly discipline their children. I am not criticising the then State Labor Government which agreed to the Federal Government's entering into that convention, because it put in place a proviso. To the credit of the then Attorney General, Hon Joe Berinson, when writing to the then Federal Attorney General, Hon Michael Duffy, he stated -

The West Australian Government is prepared to agree to early ratification of the Convention by Australia subject to . . .

He set out two provisions, the second of which reads -

- (ii) the State Government's understanding that there is no intention by the Commonwealth to use the external affairs power (on the basis of the Convention) to enact Commonwealth legislation to override state laws in this area.

Now a Western Australian Labor senator is basically saying that this is bad law and a national disgrace. The federal ALP leader, also a Western Australian, is supporting the moves to use federal legislation to override Western Australian legislation. That really does concern me. This is a state responsibility. We are the people who put the laws in place. If this Parliament wants to change those laws it will. I do not believe there is any support for changes to the legislation. I believe that the sentencing policy is not only misunderstood by some but has sent a clear message to the community that we will not accept the behaviour of the repeat offender. It is not helpful having a Western Australian Labor senator campaigning to use the external affairs powers to override our state legislation.

#### DAMPIER TO BUNBURY NATURAL GAS PIPELINE

543. **Mr RIPPER to the Minister for Energy:**

- (1) Is it the case that the Government, when considering the sale to Epic Energy of the Dampier to Bunbury natural gas pipeline, had three options before it: A high gas transmission tariff and high sale price; a medium gas transmission tariff and medium sale price; and a low gas transmission tariff and low sale price?
- (2) If not, what options did the Government have before it on the issues of gas transmission tariffs and pipeline sale prices?
- (3) Why did the Government choose the high tariff-high sale price scenario for the sale of the DBNGP?

Mr BARNETT replied:

- (1)-(3) I thank the Deputy Leader of the Opposition for the question. I do not have all the details in my head and he did not give me prior notice of the question. However, I can explain the broad background to the sale and what occurred. The bidders, including Epic Energy, were asked to bid on a number of features. One obvious one and the most important component was price; a second related to service standards and the like; a third related to the price, not only what they would pay for it but the cost of the transport of gas; a fourth related to commitments to expanding pipeline capacity. Therefore the price paid for the pipeline was by far the most important criteria. However, there were three other components: The first was the bid of \$2 407m; the second was a commitment to spend some \$875m on effectively expanding and duplicating the pipeline capacity over an eight-year period; and the third related to the transport tariff. At the time of the sale, the cost of transporting gas was \$1.19 per gigajoule to the south west. Under the bid put in by Epic, the price would fall from \$1.19 to \$1.10 to \$1, and that has happened; in other words, the bid was composed of price, top dollar, an expansion commitment on investment and a 20 per cent reduction in tariff. I put in place regulations prior to Christmas to bring in the regulated tariff of \$1. Yes, it is true that we could have traded off. We could have gone back to Epic and said that we would take a lower price for the State in exchange for giving transporters of gas a lower tariff.

Mr Ripper: Will you table those documents?

Mr BARNETT: No. We made the judgment that a high price for taxpayers and the community of Western Australia was the first and most important component. If at the same time we doubled the pipeline capacity and delivered a 20 per cent cut in transport tariffs, it was a very good deal.

#### DAMPIER TO BUNBURY NATURAL GAS PIPELINE, COMPENSATION

544. Mr RIPPEN to the Minister for Energy:

I have a supplementary question. Does the Government now face a huge compensation bill or the threat of legal action over the sale of the pipeline?

Mr BARNETT replied:

The Government does not face a huge compensation bill. The possibility will always exist of legal action resulting from the sale of a government asset.

Dr Gallop: Why? You have entered into an agreement with them haven't you?

Mr BARNETT: An amount of the sale proceeds has been retained for incomplete disputes.

Dr Gallop: What are you talking about?

Mr BARNETT: The Leader of the Opposition should not become excited.

Mr Ripper: Is the amount \$500m?

Mr BARNETT: No, because disputes can arise with any of the hundreds of contracts for gas supply or gas transport. There is always a possibility of legal action; therefore, prudently, an amount of the sale proceeds was kept in reserve should any disputes arise. Members opposite are jumping in excitement because they believe some sort of deal was made. The Government has made a submission to the gas regulator, which I have read and endorse totally. The clear understanding was that the purchasers would pay the price and the gas transport tariff would fall to a dollar. That is why I put in place regulations to achieve the 20 per cent cut prior to Christmas.

The second component of that was that, thereafter, the national access code would apply as administered by the state-based regulator. That is exactly what is occurring. Epic Energy Pty Ltd understands that, as does everyone else.

No written agreement exists; an offer to buy was made which we accepted.

#### GOODS AND SERVICES TAX, MARKET RENT OF RESIDENTIAL PROPERTIES

545. Mrs HODSON-THOMAS to the Minister for Housing:

Given concern expressed by those on low incomes in my electorate I ask -

- (1) What impact will the goods and services tax have on the market rent of residential properties?
- (2) What has been done to help those on low incomes to pay an increase in rent?



Mr Trenorden: We hear this diatribe from a person who has never been to Tammin in her life.

Ms MacTIERNAN: The member for Ayon does not know that.

Mr Trenorden: You have a personal vendetta.

Ms MacTIERNAN: I do not have a personal vendetta, but I am concerned about the way Ronnie and Kevin Gors have been treated.

Mr Trenorden: Anyone who went there and spent two minutes investigating your remarks would end up laughing their heads off.

Ms MacTIERNAN: Bearing in mind the former minister said he did not get involved and knew nothing about the roadhouse until after he had left politics, I have an undated document, presumably reporting on a meeting, which shows that on 27 May 1998 the Minister for Transport advised the working groups that Main Roads Western Australia would arrange the purchase of all land, including the existing service station, and facilitate its disposal to CBH at appropriate going rates, but was undecided then whether Main Roads would arrange the demolition of a service station prior to disposal to CBH. This is not about being alarmed because the former Minister for Transport wants to be involved in redeveloping Tammin; it is more a matter of some very grave questions relating to the circumstances surrounding the issue.

**MR BARNETT** (Cottesloe - Leader of the House) [11.54 am]: I understand that was the last speech to be made in the Address-in-Reply. I thank members for their responses to the address by His Excellency.

A number of issues were raised regarding individual constituencies and I am sure respective ministers have taken note of them and will take follow-up action in a number of areas.

Question put and passed; the Address-in-Reply thus adopted.

### GAS CORPORATION (BUSINESS DISPOSAL) BILL 1999

#### *Second Reading*

Resumed from 14 September.

**MR BARNETT** (Cottesloe - Leader of the House) [11.56 am]: I thank members on both sides of the House who spoke on the Bill for the privatisation of AlintaGas. The legislation is clearly significant. It will implement a decision by the Government to proceed with the privatisation.

I will briefly restate some of the background and the reasons for and the policy issues behind the sale of AlintaGas. That will address many issues that members raised. I will then give more attention to specific issues. It is important we see the sale of Alinta in the broader context of what is occurring within the energy sector in this State.

Since the election of the Government in 1993 we have had a clear set of principles within the energy sector. The first was to see the growth of the sector; the second was to encourage competition; the third was to achieve price reductions; the fourth was to maximise economic development in this State by combining our energy resources with other natural resources, particularly mineral resources; and the fifth was to make use of private sector investment to achieve those objectives wherever possible.

Natural gas has a significant role within our state economy. Members should be conscious that Western Australia accounts for 80 per cent of Australia's proven gas reserves. In that sense, its availability possibly represents our single most important economic advantage. A number of quite rapid changes have taken place within the energy sector, particularly with natural gas. In 1996 the goldfields gas pipeline was commissioned. The Pilbara energy project that saw the gas pipeline extension from Karratha to Port Hedland was undertaken. Both projects were under state agreement Acts, but private sector investment put them in place.

Last year the Dampier-Bunbury natural gas pipeline was sold for \$2.4b. That result was important, but it was also a noteworthy example of why it is necessary to resolve policy issues prior to making decisions to sell or privatise assets. In the sale of the Dampier-Bunbury pipeline a number of policy issues were thought out and implemented prior to the sale. From my perspective that was one of the keys to the success and the achievement of such a high price. Apart from the \$2.4b in proceeds, the sale included a reduction in transport tariffs of 18 per cent over three years. A decision was made to widen the easement from 30 metres to 100 metres to allow future gas pipelines to be constructed, and a commitment was made by the buyer of the pipeline to expend \$870m over the next 10 years in expanding the capacity and ultimately duplicating to a parallel pipeline system. Over the past week or so the gas pipeline has been completed from near Geraldton to Mt Magnet and the Windimurra precious metals vanadium project - a distance of more than 300 kilometres - which brings gas and cheaper power generation into that area. The pipeline has also been extended to Busselton and prospectively it will be extended to other areas of the State.

The other aspect of policy relates to the regional power for isolated areas, where private sector investment has been encouraged through new power generation. Much of that will involve natural gas and perhaps some pipeline extensions. With the Collie power station and private power generation, there has been an enormous amount of investment in the energy sector in this State, most of it private and most based on the use of natural gas.

The other dimension of policy, beyond expanding capacity with economic growth, relates to the introduction of competition in an attempt to drive down prices and improve the quality of service to all concerned. Competition has been introduced through a series of steps. There is no magic formula for going from a controlled and regulated market to an open and

competitive market. Economic theory has nothing to say about that. It is a matter of managing a process of change. There are many critics and suggestions about how it should be done, and I think the Government has done it very well. Others may argue it has been too slow. History will be the judge.

The first introduction of competition was the splitting of the former State Energy Commission of Western Australia into Western Power and AlintaGas, which immediately produced a clear gas versus electricity competition. The second and most significant step was the renegotiation of the North West Shelf gas contracts which allowed direct dealings between gas producers and gas customers, and effectively broke down a system under which there had been a dominant producer, the Government as a major player in the middle, and one or two dominant buyers. It has brought new participants into the system - gas producers, gas transporters and gas customers - and the price of gas for major industrial customers has fallen 50 per cent in the Pilbara and around 30 per cent in the south west.

The other aspect of change relates to enforcing those competitive or structural moves through legislative changes. They are difficult and complicated changes. The Energy Coordination Amendment Bill, which was passed in June this year, allowed for the licensing of independent gas distributors. It allowed not only AlintaGas, but also other players to distribute gas systems in regional and metropolitan areas and to be licensed to do so. The Gas Pipelines Access (Western Australia) Bill, which was passed in February this year, set in place the national access code. That has been developed over several years to provide the terms and conditions for third party use of gas infrastructure. It also established the position of Gas Pipeline Regulator. In WA a unique feature of the Gas Pipeline Access Regulator is that he will look after both distribution and transmission lines. This State has seen new investment, structural change which has introduced competition, and legislative change which allows independent players to come into the market and sets up a regulatory regime under the national access code.

Mr Thomas: We still have the least competitive energy system in Australia and the most expensive electricity.

Mr BARNETT: The member for Cockburn continues to say that.

Mr Thomas: Because it continues to be true.

Mr BARNETT: The member for Cockburn will continue to bleat about this. He might also contemplate why almost all the energy investment in Australia is taking place in this State, and why more than half of mining and petroleum investment is taking place in this State.

Mr Thomas: Because the resources are here; it is not because of your policy.

Mr BARNETT: The reason for this introduction to the issue is that the privatisation of AlintaGas must be seen in the context of what is taking place in the energy sector. It should not be seen by itself, but the sale must be justified by itself. The Government decided in December 1998 to sell 100 per cent of AlintaGas.

Mr Thomas: Following Labor Party policy.

Mr BARNETT: So it was Labor Party policy to sell 100 per cent of AlintaGas?

Mr Thomas: No.

Mr BARNETT: That is what the member said. I hope the record has that.

Mr Ripper: He was referring to the pipeline.

Mr BARNETT: The decision was made after consideration by the Government and followed the sale of the Bunbury to Dampier gas pipeline. A sale steering committee was established under the chairmanship of Dr Des Kelly, and included the chief executive officers of AlintaGas, Treasury and the Office of Energy. Financial and professional advice was provided by Deutsche Bank, and a two-stage process was set up.

I will first describe AlintaGas as a business. AlintaGas was created on 1 January 1995, following the break-up of the State Energy Commission. Its current sales are around \$317m; its pre-tax profit is around \$32m; it carries debt of \$232m; it has a customer base of 400 000 customers; it employs 420 people; and it operates 10 125 kilometres of distribution pipeline. In terms of the number of customers it is similar in size to the gas distribution utilities in Melbourne. However, although the number of customers is the same, because of the difference in climatic conditions, AlintaGas sales are one-third the volume of gas sales of similar organisations in Victoria.

The sale is also taking place in the context of a phased deregulation of the market. This is a critical point. Following the disaggregation of the North West Shelf contracts, we have started a phased deregulation. At the moment, any gas customer consuming more than 250 terajoules of gas a year is in an open, competitive and contestable market. From 1 January 2000 that threshold will come down to anyone consuming more than 100 terajoules a year; from 1 July 2002 it will come down to anyone consuming 1 terajoule a year; and from 1 July 2002 it will be absolutely open access. By July 2002, which is not that far away, there will be absolute freedom of competition in the gas industry. It will be totally deregulated down to the level of the individual household. At it stands, AlintaGas accounts for 27 per cent of gas sales within Western Australia. The residential sales account for just 4 per cent of gas sales. Currently in the market 93 per cent of all gas sold in WA is sold into an open and competitive market; that will reach 96 per cent by 1 January 2000. AlintaGas' so-called protected market is about 4 per cent of gas sales at the moment, and in July 2002 there will be no protected market at all. The deregulatory timetable is already in place and is understood by AlintaGas and the wider market.

Issues related to policy are best addressed prior to a sale process being enacted. It is important to recognise those policy issues upfront and to deal with them in a logical way. The Government has recognised all the issues and if anything new

arises, it is treated as a policy issue and dealt with quickly and appropriately. Some key issues must be considered; one clearly is the sale process on behalf of the State. The Government is keen to maximise returns; it is not the sole objective, but it must be a prime objective in any privatisation. The Government is also keen that public shareholding be maximised, particularly among Western Australian householders, financial institutions, superannuation funds and so on. The Government is keen that AlintaGas remain as a Western Australian-based company. It is conscious of elements of consumer protection, so that householders and small business cannot be disadvantaged. We hope they will benefit from the process, but the issue of consumer protection is important, as is the welfare of the employees of AlintaGas. There may be others, but these seem to be the major policy issues.

One of the first issues to approach was the type of sale. There were options. The simplest process, which would achieve the highest price, is a trade sale. There could be a BankWest version with a trade sale; that would require the buyer to float off shares which would provide the second highest level of return. There could be a full public float of the whole 100 per cent which would result in a return estimated by our consultants to be about 17 per cent below that which we would receive from a trade sale. There are therefore the extremes of a simple trade sale versus a full public float. A full public float would represent about 17 per cent less in sales proceeds which may translate broadly to around \$170m; that is not something to be ignored but a significant factor to be considered.

A decision was made, after a great deal of analysis, to proceed with the cornerstone initial public offer arrangement; in other words, to sell about 40 per cent to a trade buyer through a competitive process and then float off the remaining 60 per cent in the marketplace. That is estimated to result in total sale proceeds of about 8 per cent less than the proceeds from a trade sale. We have not maximised value. We have given away some value in exchange for having a wide public ownership and some of the other objectives of retaining the business in Western Australia. However, these are complicated issues.

The proposal therefore is a cornerstone sale by tender of no more than 49 per cent and then floating more than 51 per cent, probably a 40-60 split. The wide public offer will occur giving opportunities to employers, customers - particularly the West Australian public - and institutions in Western Australia and elsewhere to buy into it. We are close to being able to appoint the lead managers of the float process. The Government has particularly focused on ensuring Western Australian brokers have a lead role in that process with the skill of brokers to provide opportunities to maximise returns in sales to the public at large and to ensure a strong body of institutional support. It is important for the institutions also to share in the ownership to provide strength to the market price. There is no point in simply selling to the public if the public will lose money. We want to ensure that the market price of the share is strong. Again, those aspects of the sale must be carefully managed.

Mr Ripper: What is the likely cost of fees, charges and commissions by the brokers and managers?

Mr BARNETT: They will be extensive. There may be a financial restructuring of debt which will carry some charges. The total costs will be about \$20m, much of which is related to the restructuring of the debt of AlintaGas and which will be recouped through the sale process. I will be able to provide more accurate figures later.

The size of the float, if we assume that AlintaGas is worth around \$1b, would probably be a debt to equity ratio of about 60:40. We may have \$400m worth of equity; the cornerstone investor may pay \$160m in equity; and the float would be \$240m, which would amount to about 100 000 shareholders. It is not a huge float but one which will receive strong support from the Western Australian public.

The issue of market structure was mentioned repeatedly during the second reading debate and whether AlintaGas should be sold as it is or further broken up into a pipe distribution business and a retail sales business. That has been considered in detail and the strong view is that it should be sold as a staple business; in other words, ring fenced but sold as one entity. I make the point that no other gas utility in Australia has been disaggregated to separate retail from distribution. The State has already, in a sense, disaggregated AlintaGas by selling off the Dampier-Bunbury natural gas pipeline. Most of the value of the business is in the distribution side rather than the retail side; however, I will return to that issue as it was discussed at some length.

The pricing regime is important, and this is really the issue of protection for consumers. As an act of faith we hope that consumers are protected as there will be a competitive market structure with a number of gas producers, large numbers of gas buyers, different gas transporters and potentially different gas retailers which will provide a natural degree of market protection. In addition, the regulatory regime under the national access code has been put in place to look after the interests of both household and business consumers. In addition, we have also included price controls during the initial years to ensure that protection is in place. As part of the sale process for householders and small businesses, the tariff customers operating in the regulated market, there will be no price rise in 1999-2000 or 2000-01. In the year 2002-03, any price rise will be limited to the consumer price index of that year, estimated to be about 2 per cent. Thereafter, any increase in gas prices to any individual will be restricted to the CPI for that year plus 2 per cent. In reality, we expect the average price rise to be around the CPI and, for certain classes of customers, we expect there to be significant falls in the price of gas under the combined impact of deregulation and privatisation. We expect to see continuing real price declines for householders. Indeed, during the time of this Government there has been only one increase in the price of gas in one year when we essentially introduced a different structure with a two-part tariff - a fixed charge and a variable charge based on consumption. That was equivalent to about a 2 to 3 per cent increase in price in one year.

The estimation from the financial consultants is that the small business sector will be the big winners and the main beneficiaries of this privatisation and deregulation. It is anticipated through the period up to 2007 that, in real terms, small businesses will receive a 47 per cent reduction in gas tariffs. I stress that consumers are protected by market competition, by the regulatory regime already established under the national access code and are further protected by price controls to be implemented. All of those aspects will look after consumers.

