



Speech by

Dr DAVID WATSON

MEMBER FOR MOGGILL

Hansard 14 May 2003

GAS SUPPLY BILL

Dr WATSON (Moggill—Lib) (4.46 p.m.): I rise to speak on the Gas Supply Bill 2003. Again, the coalition will support this bill. I would like to thank the minister for arranging the departmental briefing. Of course I had already gone through the bills to a large extent before the briefing, but I found that the briefings on the gas bill and the electricity bill were important in making sure that I felt confident that I understood precisely what was going on, so I thank the minister for that.

I must admit I was intrigued by a comment in the minister's second reading speech which I notice he repeated in the summing up in the previous bill, namely, that the bill is not about competition for competition's sake. As I say, he repeated that in his summing up on the previous bill. I know that the minister has to give these crumbs to certain members on his side in an argument like that, but the fact of the matter is that national competition policy was never about competition for competition's sake. That was never the case.

National competition policy was about primary industries having to respond to consumer preferences, to price changes and demand signals, as markets changed. But industry which was basically government controlled, or monopoly industries, were not responding to those kinds of changes in consumer demands.

Mr Lucas: We lost a Medicare office in my electorate because of NCP.

Dr WATSON: NCP was about making sure that government enterprises which were not responding because of the monopoly situation—because prices were controlled by governments—had to respond to changes in technology, international competitive conditions, and changes in consumer preferences. National competition policy was about ensuring that those kinds of industries were subject to some kind of change.

I think it is instructive that the whole reform of the energy industry, including the electricity industry—which we talked about in the previous bill—and the gas industry, really came about because of a reference made by a Labor federal Treasurer to the Industry Commission. Who was that Labor federal Treasurer? It was Paul John Keating! In May—

A government member interjected.

Dr WATSON: I have great respect for Paul Keating, and on this he was right. On this particular aspect he was dead right. On 20 May Paul Keating sent a reference to the Industry Commission which, in part, read—

... without limiting the scope of the reference, requests that the Commission give priority to areas where greatest efficiency gains are in prospect, and areas where early action is practicable, having regard to:

(a) the scope for improving the efficiency of electricity generation, transmission and distribution and gas transmission and distribution including through changed management and work practices, the removal of structural impediments and the use of, and investment in, new technology;

...

(c) whether generation, transmission and distribution activities should be subject to control by the one organisation within the region;

(d) whether electricity and gas retailing is most appropriately performed by a central authority or by a number of distributors;

...

(g) the potential for additions to generating capacity, including from privately owned sources ...

There were also a number of other references made by Paul Keating.

The commission reported back about a year later on 17 May 1991 and that started the process to reform the energy industry in Australia, including the electricity supply industry and the gas industry. As was said during debate on the previous bill, in the early 1990s in Queensland and other states the electricity supply industry changed but the gas industry did not. The gas industry was not in that position. Let me refer to what the Industry Commission said when it reported back. I have taken this from the summary of the *Energy generation distribution* report by the Industry Commission. I had a copy of it in my own library so I was able to access it pretty quickly. But what does it say? It says with respect to natural gas—

The natural gas supply industry has a number of features in common with the electricity supply industry (ESI). For example, transmissions and distribution of natural gas also display natural monopoly characteristics and, like the ESI, the industry consists mainly of large enterprises servicing well established markets in which there is no direct competition from alternative suppliers.

But it went on to recognise that in Australia the natural gas industry is not as mature as the electricity supply industry.

In fact, that particular comment was reinforced by the recent Parer report, which indicated that, while we needed some reform in the gas industry, it was important to recognise that the gas industry was not as mature as the electricity supply industry, particularly in the area of competitive production. Warwick Parer went on to suggest that one had to be very careful with regulating the gas industry particularly when it came to the production and the transmission of gas. This bill does not deal with the production and transmission of gas. That is to be dealt with in a bill which I understand will be brought into the House by the Minister for Natural Resources and Minister for Mines. This particular bill only deals with the retailing and the distribution in retailing areas, which of course is usually a franchise operation which gives a franchisor the monopoly in a particular geographical area.

When looking at this bill we have to understand the historical importance of what we are doing—that is, that this is really a further reforming of the energy industry and it is reforming the gas industry in a similar vein to the electricity supply industry because both of these are energy forms and they are competing, and therefore to ensure that there is relatively reasonable competition we need to ensure that the structures are similar and one industry is not given an unfair competitive advantage over another. What everyone agrees with—not only the government with this bill but the Industry Commission when it reported back in the early 1990s and what the Parer report agreed to when it reported at the end of December last year—is that the ownership of major transmission and distribution assets should be separate for similar reasons proposed for the electricity supply industry, that is, according to the Industry Commission at the time. The separation of course would support some kind of introduction of an open access regime.

This bill essentially gets rid of monopolies in local franchising areas. What will happen in the franchise area is that there will no longer be a monopoly given to distribute and retail in an area but rather retailing licences and distribution licences will be granted and those will not be held by the same organisation, and that is appropriate. As the minister said in his second reading speech, it is going to increase efficiency. It is going to ensure that there is not a monopolist situation and therefore prices will not be able to be set on the basis of a monopoly. In that sense, it mirrors that part of the electricity supply industry which we spoke about in the previous bill but not the complete industry.

The opposition agrees with the objectives as laid out in this bill. We believe that this bill will promote the efficient and economical use of fuel gas. Because the minister keeps the ability to set prices for small retail customers, we believe that it will protect customers in the reticulated fuel gas market. We agree that implementing and franchising licences in accordance with the agreement made between the Commonwealth of Australia and the other states—an agreement which was signed by the Borbidge coalition government in November 1997 and which was consistent with the objectives as laid out by Paul Keating in the early 1990s—

Mr Lucas: You're not prepared to stand for it on your own.

Dr WATSON: I agree with it, but it is important to understand that federally the Labor Party and the coalition have both supported this kind of reform. Not only that, it is the appropriate reform.

Mr Lawlor interjected.

Dr WATSON: No, that is because the member has not listened to me in the past. He will notice that I recognise that Paul Keating made a significant contribution to the micro-reform of the Australian economy, and that has also been done by Howard. John Howard has continued that and has been an advocate of that for a long period of time. In fact, if Paul Keating had had enough guts to stand up to Bob Hawke, we may have had more significant taxation reform much earlier in Australia and therefore a more efficient economy. But we will not get into those kinds of issues at the moment. The fact of the matter is simply this: this kind of reorganisation is one which in the electricity industry has led to, as the

minister said, a reduction in the prices being paid by consumers both at the retail level in a real sense and for industrial customers, and the restructuring of the gas supply industry will lead to the same kind of outcome.

There are two other matters that I wish to speak about before I conclude. Firstly, this bill deals with reticulated natural gas. It does not deal with the distribution of gas through bottles and so on. The other day, for the benefit of the member for Logan and the minister, I point out that I was reading a publication titled *Technology Review* published by MIT. I am sure the minister would be familiar with it. Interestingly, it made an important point. As I said in the debate on the previous bill, Australia has a very competitive energy industry because it has access to very good natural resources and because of the transformation that has taken place. The article by David Wolman indicates that nearly 95 per cent of known gas fields in the world are too small to justify the costs required to pipe the gas to a plant, turn it into a liquid and transport it on specially equipped tankers. In spite of the fact that we have massive gas supplies in these areas, we are talking about only five per cent of the world's known supplies as being in the competitive market. Some Japanese researchers have conducted work on an economical method of transporting gas from small fields. The article states further that for decades researchers have been looking for ways to gather crystals called hydrates from deep oceans and reap what they expect could be a natural gas harvest. They are now looking at taking natural gas from these small fields, converting them into hydrates and transporting them. These are essentially solids. Their point is that about 180 standard cubic feet of gas can be stored in one cubic foot of hydrate. This has a major advantage in terms of transportation. Hydrates can be transported at a much lower temperature and pressure than liquid natural gas and the risk of ignition is much lower. Therefore, the price of transporting the gas is significantly lower. We will find that gas will become more competitive in the future. We have to have an appropriate regulatory structure to make sure that our industry can adjust and compete as these technological developments take place.

In conclusion, I wish to raise a point I have discussed with the minister previously. The Scrutiny of Legislation Committee produced a report which questioned some aspects of the proposed legislation, specifically with respect to the rights of entry. I have no difficulty with those rights being in the bill, because they are necessary from time to time. Obviously, we have to provide inspectors with rights of entry. Those rights can be used in certain situations without acceptance on the part of consumers. Something that the Scrutiny of Legislation Committee did not address was whether the minister can put in place a mechanism whereby the use of these powers in these unusual circumstances is subject to a reporting mechanism to make sure that the government and the minister of the day are made aware of potential abuses. In terms of any intrusions on civil liberties, it is important that the government of the day and the minister are made aware of those via a formal mechanism. As I said, I have discussed this with the minister previously. I would like the minister to respond formally in his summing up.