

Western Power —

Mr R.S. Love, Chair.

Mr B.S. Wyatt, Minister for Energy.

Mr G. Chalkley, Chief Executive Officer.

Dr S. McGoldrick, Executive Manager, Asset Management.

Mr M. Crevola, Chief Financial Officer.

[Witnesses introduced.]

The CHAIR: Welcome to this evening's examination of Western Power. This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by Friday, 1 June 2018. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system. I remind the advisers that they are expected to wait to be asked to speak by the minister and then introduced before they speak.

I give the call to the Leader of the Opposition.

Dr M.D. NAHAN: Can the minister explain the changes to Western Power's capital works program in this budget as opposed to the previous one, and explain how the minister is treating access arrangement 4?

Mr B.S. WYATT: As the member knows, the AA4 process has been going on and the Economic Regulation Authority has made a draft decision. I will ask the chief executive officer to make comments on that decision. If I were to be general, I think the ERA and Western Power are very close in where they both landed. Mr Chalkley will give the member a better outline of it.

[Ms L.L. Baker took the chair.]

Mr G. Chalkley: As the member is aware, the budget estimates file was prepared before we got a draft decision from the Economic Regulation Authority at the beginning of May. Overall, where the numbers in the forward estimates sit is pretty close to the draft decision. From our perspective, if we look at the history, we see that the headline numbers draft is sort of five per cent down on revenue. It is six per cent down on operating expenditure and about 13 per cent down on capital expenditure. History shows that generally a draft is about 30 per cent down, so we are pretty pleased with the outcome. I think we got about 91 queries. Clearly, it is a draft and the ERA can still come back before we get the final decision. We are pretty happy with 60 of the queries already. We will probably challenge about 20-odd decisions. An overall high level is a pretty good outcome. The ERA challenged us on some specific projects but not on big efficiency reductions. It pretty much looked at what we have done in transformation in the last few years and went with the numbers. The key ones the ERA challenged us on were the customer relationship management system and the dollars for that information technology system. Another big one is the IT to connect the advanced metering. Otherwise, we are pretty pleased.

[9.00 pm]

Dr M.D. NAHAN: Is the minister confident the capital outlays will come back as dividends to the state in the forward estimates? Is he confident that AA4—the fourth access arrangement proposal—will finally not be a huge deviation from the forward estimates in the budget?

Mr B.S. WYATT: Mr Chalkley.

Mr G. Chalkley: Yes. Looking from where it has landed for us, it is pretty much in line. It is not materially different from what the forward estimates show. There might be some challenges in some of the allocations but not really in overall amounts.

Mr B.S. WYATT: Mr Chalkley might want to interject: if all the extensions for responses take place, this might lead to 2019. Will it get that far before we get to a final decision? It potentially might, so either way, we now go through this process that, hopefully, will not go that long. Western Power will still get to make some further comments on it before a final, final decision.

Extract from Hansard

[ASSEMBLY ESTIMATES COMMITTEE A — Wednesday, 23 May 2018]

p273b-279a

Chair; Dr Mike Nahan; Mr Ben Wyatt; Mr Terry Redman; Mr Dean Nalder

Mr G. Chalkley: A draft appeared in the first week of May. We have until Monday next week if we want to apply for a 20-day extension to make sure we can close out all the queries. There is an opportunity to appeal in that period. As I say, I think it is pretty close already and then I think it involves just the mechanics of how we can roll it out. We are more likely looking at 1 January next year, but possibly a quarter earlier, but we expect it to commence somewhere around that window.

The CHAIR: Member for Warren–Blackwood, is this a further question?

Mr D.T. REDMAN: Yes, it is, but it is not on capital. Is the Leader of the Opposition sticking to capital?

Dr M.D. NAHAN: No; I will be asking about dividends.

Mr D.T. REDMAN: The other part of the AA4 submission was about the distribution headworks scheme and some changes applying to that. Can the minister give us an understanding of the likely impact that will have on rural areas in particular where, potentially, headworks charges could be significant if they are played straight back on recovery?

Mr G. Chalkley: Yes. One of our proposals was to see whether there were other ways to fairly and equitably allocate the dollars across the whole population. We do not see any material change at the moment from where we already are. Some of the challenges we put in for tariff structures have not been agreed to. I do not see much change at the moment. I think that will be an ongoing challenge to put to the regulator.

Mr D.T. REDMAN: I thought part of the submission was the contributions policy. Is Mr Chalkley saying that a decision might not be made at the same time as the Economic Regulation Authority approves AA4?

Mr G. Chalkley: Again, I think it has been made so I think it will stay pretty much as it is at the moment. The scheme at the moment is really well regarded. There are no material changes to the policy.

Dr M.D. NAHAN: I refer to dividends and income tax equivalent payments in budget paper No 2 and note that the dividend plus income tax payment goes down from about \$467 million in 2017–18 to about \$160 million in 2021–22. What is causing that large reduction in returns to the equity holder?

Mr B.S. WYATT: Before I hand over to Mr Chalkley, it might be a similar answer to the Synergy dividend, being a particularly unusually high year due to timing and bring-forwards. I will ask Mr Chalkley to deal with that specifically.

Mr G. Chalkley: There was a proposed change to the forward dividend policy so it will more align in paying 75 per cent of the dividend in the year the profit is incurred, and 25 per cent thereafter. In 2017–18, that did not happen, so there are, effectively, two dividends in one of the years and then it is back to normality. The biggest reduction is the fact that the early year has, effectively, two years' dividends sitting in it, because the policy did not get pushed through.

Dr M.D. NAHAN: Western Power's dividend goes down from \$419 million to \$153 million. It is a steady reduction. That is a very low rate of return. The last year, in 2021–22, there are no income tax payments and the state will still make equity injections. The net transfer to and from the state is very low for an asset of \$9 billion. That is a very low rate of return on equity. Is it driven by AA4 or are there some other factors driving this?

Mr G. Chalkley: I would not say it was driven by AA4. There are a couple pushing through that in which we start paying income. That is one of the issues coming through. In the past with the capital program, there were full capital allowances in the year. Western Power will now be a net payer of tax. That is one that is paying out. There is probably also a slightly higher depreciation charge. I will hand that to Mr Crevola.

Mr M. Crevola: Fundamentally, as we would expect, for access arrangement 4, there are lower tariff charges over time. As Guy Chalkley and the minister have already pointed out, depreciation charges are increasing as we add more assets to the asset value. He correctly pointed out that there are \$9 billion worth of assets, from which a reasonable amount of depreciation comes through every year. On top of that, interest rates are forecast to increase in line with Treasury's expectations and our interest bill, again, on about \$8 billion worth of debt, is increasing, which is also chewing up some of those cash flows, hence lowering our overall dividend.

Dr M.D. NAHAN: That is not a very high rate of return. It is not a very large cash flow for a \$9 billion business—would the Treasurer agree?

Mr B.S. WYATT: It is probably not what we would expect in other industries, no.

Dr M.D. NAHAN: The Treasurer would not call Western Power a cash cow, would he, if it is earning \$154 million out of a \$9 billion, probably pushing \$10 billion business, around that time?

Mr B.S. WYATT: Like all Treasurers, I always enjoy a large dividend.

Mr D.T. REDMAN: I refer to the Kalbarri microgrid contract in the first dot point on page 657 of budget paper No 2. I am talking about some community concerns about this project, particularly the battery being located.

Mr B.S. WYATT: Which project?

Mr D.T. REDMAN: It is the Kalbarri microgrid project in the first dot point on page 657.

Mr B.S. WYATT: Sorry; I am just trying to catch up.

The CHAIR: It is the dot point at the top of the page, Treasurer.

Mr B.S. WYATT: Go on; I cannot find it, but I will work it out.

Mr D.T. REDMAN: It refers to the Kalbarri microgrid. I am interested in some community concerns that have been expressed to me via our local member up there about the battery for the project being located out at the wind farm, some 20 kilometres out of town. There is potential, I think, if it has not been done already, for a solar system in town. If the battery were located in town, it would be able to supply an offtake agreement to the Water Corporation, a project supported by the local community. Given it is not that far away from Western Power committing its final contract for this project, I understand there is only a small window of time to consider alternative arrangements about a microgrid arrangement whereby the community has a greater level of engagement.

[9.10 pm]

Mr B.S. WYATT: I suspect the local member needs to write to me, and that Mr Chalkley can provide a bit more detail than I can on that.

Mr D.T. REDMAN: I suspect his letter is in the system already!

Mr G. Chalkley: As a wider answer, trying to push a solution to improve reliability and security for Kalbarri was quite a long process for us. All the way through we had a lot of engagement with the community, even to the point of discussing what the solution would be. Certain parties might possibly be disinterested with the decision. I would not dispute that. But that would have been one of the solutions that came forward. It was quite a unique project because nobody had done that type of thing before; therefore, there was not a fixed scope for us to say, “This is what we want and you are all going to be the same.” One of the challenges we had was deciding what the best solution was and what solution the community wanted. That is how we selected where we ended up. There are many other alternatives to do it, but that is the one we chose. It is interesting that that is one of the solutions that was in our AA4 submission, and in the draft that was one of the ones that the regulator approved. Even from a regulatory point of view, it went through a rigorous process. We could have used alternative solutions, but we went through a very rigorous commercial process to get the solution we ended up with. I take the member’s point. There will still be disinterested parties from the decision that we made.

Mr D.C. NALDER: I refer to the state underground power program on page 253 of budget paper No 3. The subsidies to Western Power will decrease from \$7.6 million in 2018–19 to only \$800 000 in the last two years of the forward estimates. Will this mean a reduction in the work undertaken in the program? Are we scaling down the underground power program in communities? If not, why is it decreasing?

Mr B.S. WYATT: We are certainly not. I am not sure why it scales down like that. No doubt Mr Chalkley will be able to assist. A range of projects will be commencing all over the metropolitan region—Floreat east, Floreat west, Floreat north, Alfred Cove, Melville, Menora, Vic Park, Carlisle, South Perth, Kardinya, Maylands, Shelley, Trigg, South Lake, east Collie and Manning. There are 21 projects in total. I suspect that another round will be offered that will come in for the 2021–22 year. I suspect that is how it is accounted for.

Mr D.C. NALDER: I want to make sure that I have this right. This is funding for the current identified projects?

Mr B.S. WYATT: Yes, that is for the current identified projects.

Mr D.C. NALDER: Is it anticipated that over the next 12 to 18 months the government will be looking to add additional ones, so the funding will increase in the out years?

Mr B.S. WYATT: I am assuming that is the case. I am trying to work out from my notes how the next round process will start.

Mr D.C. NALDER: Does the minister agree that it looks a bit strange?

Mr B.S. WYATT: Yes, it does. Now that the member has asked, I will confirm that when the next round starts and the places are selected and the contributions are done, the \$800 000 in 2020–21 will increase as new sites are selected.

Mr D.C. NALDER: Shall we do that as supplementary information?

Mr B.S. WYATT: Yes. I will provide the member for Bateman with an explanation of why the state underground power program funding declines to \$800 000 in the 2020–21 year. Hang on! Just freeze for a second! I will do what I should have done in the beginning and give it straight to Mr Chalkley.

Mr G. Chalkley: Capital is much higher. What has changed is the contribution structure. Under the old structure, it was 25 per cent, 25 per cent and 50 per cent. Now it could be a 90 per cent contribution from the local government and a much lower contribution from the Public Utilities Office and Western Power. More money will be spent on the program but the contribution structure will change.

Mr D.C. NALDER: Can I seek confirmation in writing about what has changed in the policy? Obviously, there is a policy change here.

Dr M.D. NAHAN: No.

Mr D.C. NALDER: It sounds like a policy change. Is that what it is?

Mr B.S. WYATT: It does not seem to be.

Dr M.D. NAHAN: There is no policy change. We put out a bidding system. It went to the highest bidder—that is, the one who contributed the most. Cambridge decided to choose 90 per cent and Nedlands chose 90 per cent. Virtually all, except Melville, chose to do about 50 per cent. Therefore, we kept the same amount of money but it went much further.

Mr B.S. WYATT: I thank the Leader of the Opposition.

Mr D.C. NALDER: I am still confused. We kept the same money and it went further, but it still drops off in these last two years.

Dr M.D. NAHAN: My guess is that the ones that are being finished last have the largest contribution from the local authority.

The CHAIR: Thank you.

Mr B.S. WYATT: The total SUPP expenditure for 2020–21 still declines. In 2019–20, it is \$35.4 million. It goes down to \$9.2 million in 2020–21. It goes back up again to \$20.6 million in 2021–22. That is the SUPP capital expenditure. Is that just a budget movement? The \$800 000 must be a budget movement.

Mr D.C. NALDER: A budget movement?

The CHAIR: Minister, are you sending that to Mr Chalkley to comment on as well?

Mr B.S. WYATT: Yes.

Mr G. Chalkley: The table below shows the actual SUPP expenditure. The line that the member is talking about is the PUO contribution, which goes much lower. The SUPP expenditure fluctuates. That is just the nature of those projects that we have accepted—they happen in that three-year period. In 2019–20, the SUPP expenditure is \$35 million; in 2020–21, it is \$9.2 million; and in 2021–22, it goes back up to \$20 million. That is just the nature of how we are delivering those projects from a resource and scheduling point of view.

Mr D.C. NALDER: Can I just confirm that there has not been a policy change?

Mr B.S. WYATT: No, there has not.

The CHAIR: I am glad we got that sorted.

Mr B.S. WYATT: Thanks to the Leader of the Opposition.

The CHAIR: He was very helpful. I made a note.

Mr D.T. REDMAN: He is only happy to be helpful.

I refer to “Works in Progress” on page 657, particularly the line item “Bushfire Mitigation” under “Safety”. From some reasonable investments for bushfire mitigation, it tails off in the out years. Can the minister explain why that tails off?

Mr B.S. WYATT: It increases quite considerably from 2017–18 to 2018–19, before a decline. Is that just the nature of the work around high voltage lines?

Mr D.T. REDMAN: The year 2017–18 looks like an outlier.

Mr B.S. WYATT: Yes. Mr Chalkley, I suspect that is around the conductor clashing scheme, but go on.

Mr G. Chalkley: There are a few issues in there. In the safety category, the big one really is conductors, and the other big one is obviously poles that need to be replaced or reinforced. The mix changes. The mix has changed in how we are assessing our risk based on what we are seeing from our inspections. That is what we can see there. Yes, there is a decline, but that is not necessarily a decline in volumes. It is also due to getting benefits from

pricing. We are actually more efficient for fewer dollars. The key in some respects is not the dollars but the volumes that we are driving out. Our volumes are steady or going up. In the conductor space, they are certainly going up. The dollars do not really give the true story of what is being delivered, but the mix will definitely change because that is where the risks are, and the volumes will change if we can be more efficient in how we deliver it.

[9.20 pm]

Dr M.D. NAHAN: I want to go to a really interesting topic and that is the constrained access model. The government has committed to it. When is it expected to be completed and what is the cost of doing that? Because it might impact on existing generators—it will—are there issues of compensation or otherwise entailed in this move?

Mr B.S. WYATT: That has obviously been one of the key issues in moving to a constrained model. That work is ongoing. In terms of the cost, it is too early to say at this point. Clearly, constraining existing generators and how that arrangement occurs is, as the Leader of the Opposition knows, one of the key issues around moving to that model, but it is a model that we need to move to. That work is continuing. Hopefully, I will bring something to Parliament late this year or perhaps next year.

Dr M.D. NAHAN: Will it impact on Western Power's expenditure, because it will potentially significantly change the pattern of the location of generating facilities? Who knows?

Mr B.S. WYATT: Yes, who knows? I do not want to say no; so who knows? I do not know.

Mr D.C. NALDER: I have a different but simple question. I refer to the table on page 130 of volume 1 of budget paper No 2. Why is the government making an equity contribution to Western Power and Western Power is paying a dividend to the government? Is the \$109 million for line item 94 the equity contribution?

Mr B.S. WYATT: Yes, the equity contribution is \$109.235 million.

Mr D.C. NALDER: The government is making an equity contribution to Western Power, yet Western Power is providing a dividend to the state. What is the double handling for?

Mr B.S. WYATT: I suspect it has been like this for quite a long period. I guess it is a capital contribution. Mr Chalkley.

Mr G. Chalkley: Yes, it is an equity contribution due to residential customers' contributions, because we obviously incur a tax on that. That is basically the way it comes back; otherwise, we receive this and we pay the tax on it. It is just a way of closing the circle. It has been around for a long time.

Mr D.C. NALDER: It gives this distorted view of what Western Power is generating for the state when we look at gross dividends and therefore profitability and the fact that money is coming in the back door through a contribution by the state.

Mr B.S. WYATT: Perhaps the member is right, but in a lot of these utilities—we had this conversation about economic versus accounting profit during the Water Corporation hearing earlier tonight—that is how it has been accounted for for a long time. I think it has been probably at least since disaggregation.

Mr D.T. REDMAN: I refer to the heading "Growth" on page 656 of the budget papers. The spend on distribution customer-driven works is \$137 million in 2018–19, and it is pretty similar in the out years. Is that all of Western Power's resources or does that include customer contributions?

Mr B.S. WYATT: Can the member say that to me again?

Mr D.T. REDMAN: The fourth paragraph under the heading "Growth" on page 656 states —

Distribution customer-driven works typically reflect a large number of small projects to facilitate customer requests for connection to the network. Western Power is forecasting to spend \$137.2 million in 2018–19 ...

Is that Western Power's total figure or is there customer money?

Mr B.S. WYATT: No. This is just specific customer requests. Distribution customer-initiated works are, to a large extent, non-discretionary and include many diverse activities ranging from small residential connections—pole to pillar—to small subdivisions of two to four lots and network extensions to cater for the connection of major distribution. It is connections, asset relocations and network extensions.

Mr D.T. REDMAN: So the \$137 million could include customer contributions? Is there a regional breakdown of that number?

Mr G. Chalkley: Certainly, we have that data. All of it is customer funded.

Mr D.T. REDMAN: Is it all customer funded?

Mr G. Chalkley: Yes. Distribution and transmission are the two categories, but it is driven by the market—by the customer. Yes, we could provide the data on where it sits. It is quite hard to predict or forecast, but it seems to have been reasonably static in the last few years.

Mr B.S. WYATT: Is the member after that regional breakdown?

Mr D.T. REDMAN: Yes. The minister would need to provide that by way of additional information.

Mr B.S. WYATT: Yes, definitely. I will provide a regional versus metropolitan breakdown of the distribution customer-driven total cost of \$137 million.

[*Supplementary Information No A26.*]

Mr D.T. REDMAN: Just by way of clarification, the total spend is what customers provide for distribution. I thought Western Power played a broader community service function and therefore had some of its own resources if it did not meet the input test, or whatever the test is called, to determine whether it is commercially viable for a connection.

Mr G. Chalkley: Just to clarify that, when the member says “customers provide”, is he saying that the customer does the work?

Mr D.T. REDMAN: Pays.

Mr G. Chalkley: Yes, they pay but we would do the work. It is driven by the customer, but it is on a schedule of rates in terms of what gets charged.

Mr D.T. REDMAN: So it is a set rate. There is a standard charge, is there not, for a connection?

Mr G. Chalkley: There are standard charges but, equally, some things are quite unique, so some of them obviously get costed accordingly.

Mr D.T. REDMAN: It would be a powerline extension and so on. But it is all cost recovery for Western Power.

Mr G. Chalkley: Yes.

Mr B.S. WYATT: Yes.

Dr M.D. NAHAN: I refer to page 656 of volume 2 of budget paper No 2 and the replacement of existing meters. Does Western Power have any plan to roll out smart meters?

Mr B.S. WYATT: Mr Chalkley would like to talk about this.

Mr G. Chalkley: Certainly. Effectively, a rollout of advanced meters is built into the forward estimates and into AA4. We have a population of 1.3 million and built into the five-year AA4 are about 331 000 advanced meters. That is probably one of the challenges we have with the regulator’s draft decision at the moment. Volumes are pretty much approved, but one of the challenges is the cost of the information technology to make sure that we can get all the data we need. We definitely want to go there for any new or replacement meters. I think there will be 70 000 in the first year, but there will be about 330 000 over the regulator period.

[9.30 pm]

Mr B.S. WYATT: As the Leader of the Opposition would appreciate, it is important to have the information technology to go with it.

Dr M.D. NAHAN: Do “advance” and “smart” mean the same thing? I imagine that there are different bells and whistles.

Mr G. Chalkley: I think they are the same.

Dr M.D. NAHAN: But it is a change from the old meters. There were a series of meters of different degrees of intelligence, let us say, but this one will be able to be read remotely —

Mr G. Chalkley: Yes.

Dr M.D. NAHAN: — and monitored remotely.

Mr G. Chalkley: Yes. I think different terminology has been used through the process, whether it is advanced, smart or smart enabled. The key is that we can read them automatically. They can be read every 30 minutes; it is that type of functionality.

Dr M.D. NAHAN: Is this the same meter that Horizon Power used when it was rolled out?

Mr M. Crevola: We run a process through our suppliers and the meters that they provided to both Horizon and ourselves have very similar capabilities but are not quite the same model.

Extract from Hansard

[ASSEMBLY ESTIMATES COMMITTEE A — Wednesday, 23 May 2018]

p273b-279a

Chair; Dr Mike Nahan; Mr Ben Wyatt; Mr Terry Redman; Mr Dean Nalder

Dr M.D. NAHAN: Will you install the meters on the basis of new meters or replacement of existing meters if something happens to the existing meters? If people want to obtain a meter for their own purposes, can they buy it from and have it installed by Western Power, because some people might want this for a variety of reasons—different from Western Power’s purposes—for their internal uses, will they not?

Mr B.S. WYATT: Mr Chalkley, could I do that?

Mr G. Chalkley: That is not part of the way it has been constructed. Clearly, we could go that way if we think it is a material option. At the moment, they are our assets and they are going in as our assets. We have looked at it from that point of view and that gets us quite good coverage. We feel that doing it that way gives us a reasonably good take-up of the population.

Dr M.D. NAHAN: One of the problems—this leads me to my last question—is that if Western Power owns the meters, if it goes to a competitive retail outlet it will have to allow different groups access to it for obvious reasons and Western Power will have to administer that process. Will Western Power’s installing of the meters not inhibit competition amongst retailers using smart readers in the future?

Mr G. Chalkley: I do not believe it will. I think that any jurisdiction will need a meter coordinator, and who that becomes will be who that becomes. At the moment we have the meter. The key thing is the data, not the asset of the meter; it is the ability to ensure that we can provide the data that the competitor might want, which is why the IT is so important. The asset is not worth a lot of money; the real richness is in the data.

The CHAIR: Members, if there are no further questions, that completes the examination of Western Power. Committee A is adjourned until 9.00 am tomorrow morning.

Committee adjourned at 9.32 pm
