

Western Power —

Mr S.J. Price, Chair.

Mr W.J. Johnston, Minister for Energy.

Mr E. Kalajzic, Chief Executive Officer.

Ms J. Hall, Chief Financial Officer.

Mr S. Barbaro, Executive Manager, Asset Operations.

Mr N. Roberts, Chief of Staff, Minister for Energy.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available tomorrow. 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. The Chair will ensure that as many questions as possible are asked, and that both questions and answers are short and to the point. If an adviser needs to answer from the lectern, will they please state their name prior to their answer.

The minister may agree to provide supplementary information to the committee, and I ask the minister to clearly indicate what supplementary information will be provided, and then I will allocate a reference number. Supplementary information should be provided to the principal clerk by Friday, 30 October 2020. 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 question system.

Member for Warren–Blackwood.

Mr D.T. REDMAN: Thank you. I refer the minister to page 236 of budget paper No 3, which is the net accruals of all the public corporations, which, of course, includes Western Power. Significantly, the interim dividend was held back. I wonder whether the minister can give us an outline of the reasons and the basis for that. In his response yesterday, the Treasurer talked about Western Power needing to borrow to pay its way before the close of the last financial year.

The CHAIR: Minister, sorry; I should have mentioned that we have only 30 minutes allocated for this.

Mr W.J. JOHNSTON: It was a decision of government based on the needs of Western Power and the government.

Mr D.T. REDMAN: Can either the minister or the agency confirm that in fact the intent would have been to borrow funds, had Western Power committed to its dividend payment to government?

Mr W.J. JOHNSTON: Yes, it is true that if it had paid the dividend at that time, it would have had to borrow the funds. Because remember that its profit and loss is based on its asset position. When it gets gifted assets—the member of Riverton will explain this as well—a lot of its income is not cash, but in kind, and it is added to its regulated asset base. But it is still an accounting profit, and it still has to pay dividends on that.

Mr D.T. REDMAN: That would have been the position right up until 30 June. Knowing when the budget papers closed off, it would have been a March decision. Is it the case that right the way though, Western Power would have been in the position of having to borrow funds to pay its dividend?

Mr W.J. JOHNSTON: Yes, it would have borrowed money to pay its dividend, which is not unusual. That has happened on a number of occasions; it is not new.

Mr D.T. REDMAN: Typically, would Western Power go to Western Australian Treasury Corporation for that?

Mr W.J. JOHNSTON: Yes.

Mr D.T. REDMAN: But not all of Western Power's borrowings are Treasury Corp, are they?

Mr W.J. JOHNSTON: Yes, they are all Treasury Corp.

Dr M.D. NAHAN: Further, what are Western Power's cash balances? How much cash does Western Power maintain? I am exploring the dividend. In the budget for 2019–20, Western Power expected to pay that dividend. The postponement was of an interim dividend. I assume the interim dividend was going to be paid towards the last quarter of the year. I assume that; the minister can confirm that. What was Western Power's cash balance during the last quarter of 2019–20?

Mr W.J. JOHNSTON: Page 48 of the annual report has the cash and cash equivalents at \$28 million as at the end of the last financial year. Mr Kalajzic tells me that the target is a \$25 million cash balance.

Dr M.D. NAHAN: The assumption in that budget would be that Western Power would have had moneys sitting aside to make the interim dividend in the last quarter of 2019–20.

Mr W.J. JOHNSTON: This is the annual report, which reflects what actually happened; it did not make the interim dividend at that time.

Dr M.D. NAHAN: Did the minister give a direction to Western Power to postpone the dividend?

Mr W.J. JOHNSTON: Under the act, a minister has to direct the level of the interim dividend, so I exercised —

Dr M.D. NAHAN: It is the minister, not the Treasurer?

Mr W.J. JOHNSTON: I think it is with the concurrence of the Treasurer. But the interim dividend is only paid when I direct it to be paid. Remember, this is actually the bit the member changed when he was the minister—he introduced the provision.

Dr M.D. NAHAN: I know.

Mr W.J. JOHNSTON: It says that Western Power can pay an interim dividend when it is directed to, and obviously I gave the direction not to.

Mr D.T. REDMAN: What was the interim dividend liability?

Dr M.D. NAHAN: It is fixed.

Mr W.J. JOHNSTON: It was \$215 million.

Dr M.D. NAHAN: The government has a new regulatory regime coming up.

Ms J.J. SHAW: Access arrangement.

Dr M.D. NAHAN: A new access arrangement, yes. When does that come up? What are some of the issues that the government is going to look into? In particular, are there any changes in methodologies that the regulator is considering?

Mr W.J. JOHNSTON: Well, I do not know what the regulator is considering; the member could ask it. But obviously there is a challenge about the weighted average capital cost because of the falling interest rates. I do not know what they are doing on the east coast; it must be a nightmare. I am glad the Australian Energy Regulator is not making the decisions, because I think it would get it wrong. There is a range of parameter variations and a whole range of technical issues regarding the fifth access arrangement that are keeping the board and management of Western Power up at night. In budget paper No 3, there is a financial risk for AA5. That is one of the risks that Treasury called out.

Dr M.D. NAHAN: The Australian Energy Market Operator was looking at a whole range of changes, and particularly in the fringe of grid inclusions, or exclusions—different treatments like that—to allow Western Power to perhaps include generation capacity in its RAB, or regulatory asset base. Other things have been considered in the eastern states. My knowledge of this is a bit dated. Has the regulator contacted Western Power asking it to include considerations of these changes when it provides information to the regulator?

[12.10 pm]

Mr W.J. JOHNSTON: We changed the act to allow Western Power to do the standalone power systems and to include standalone power systems in its WACC, in its RAB. Certainly through the transformation strategy there are a range of issues that are going to be dealt with, and then there are a whole range of other issues that regardless would need to be dealt with in AA5. It is a very, very complicated issue; that is why it is called out as a risk. Interestingly, of course, about half the downside risk for Western Power is an upside risk for Synergy. That is because one of the biggest clients of Western Power is Synergy. If its WACC and other charges are pushed down, that benefits Synergy. We had that big debate about how much the subsidy is. Well, those two things cross over. But there is no question that AA5 is a risk.

Dr M.D. NAHAN: On the issue of the WACC, that is a very significant risk right now. It happened before in the global financial crisis, if the minister remembers. Debt went down significantly, and it got locked into a couple of WACCs around the place. It took a whack out of industries. What directions has the minister had? This is an interim issue, hopefully.

Mr W.J. JOHNSTON: My control is limited, because the Economic Regulation Authority is independent. We can deal with the underlying rules around the market rules, and we are examining those, but I cannot control what the ERA does. It would be ridiculous for the ERA to set a weighted average cost to capital that is lower than the cost of borrowing. Because remember, it is not the government rate of borrowings; it is the government rate of borrowings plus that fee the member brought in. Was it 0.7 per cent? Yes, it is 70 basis points. It used to be 0.5 and the member put it up to 0.7 when he was Treasurer.

Dr M.D. NAHAN: It met it.

Mr W.J. JOHNSTON: Yes, it did, and it continues to do so. I am just making the point that if the ERA were to set the WACC on the basis of long-term government bond, but it is paying 0.7 above that, it would be going backwards. It cannot have a WACC that is lower than its actual cost to capital. Interestingly, Neil and I were talking just

yesterday about the fact that the long-term bond rate might effectively be zero, if you want to call it that, but I am still getting four or five per cent on my super. Maybe they should really benchmark against super funds, rather than against the government bond. But this will all be submissions, and I can assure the member that Jacqui Hall has already briefed me about Western Power's strategy for dealing with AA5.

Ms J.J. SHAW: Minister, I refer to page 762 of budget paper No 2, volume 2. My electorate has about 1 200 to 1 300 square kilometres of fringe-of-grid areas. I am very interested to understand the impact of climate change on Western Power's performance in rural areas and fringe-of-grid areas.

Mr D.T. REDMAN: Chair, do we got a particular point on that page?

Mr W.J. JOHNSTON: It does not need one because it is Western Power and it is an off-budget agency. The member was just pointing that out. I will ask Mr Kalajzic to talk about this as well. There is no question that climate change is impacting on the business enormously. One of the challenges we have in maintaining these long, thin regional feeders is the impact of bushfires. If we have an outage—that is, a line goes out—it is automatically tested. If it fails the automatic test, there needs to be a physical inspection of the line. It cannot be re-energised, because if it is re-energised and there is a fault, it will potentially cause a bushfire. The problem is that because we have so many more bushfire days, we cannot patrol the lines using a vehicle, because we cannot move across the ground and have the vehicle start the fire. I think the number of those days is now three times higher than it was two years ago. That means that the outages are getting longer. The number of outages is the same, but their duration is going up, and that is obviously leading to angst amongst communities. I absolutely understand that, but it is a function of climate change, because it is leading to more of these bushfire days. I invite Mr Kalajzic to make some comments about the challenge that is being found.

Mr E. Kalajzic: I think 2019–20 was probably the most challenging year in terms of weather events. If members recall, we had an amazingly hot December, which is when we had all those total fire ban days. To support what the minister just said, we had 148 TFB events in 2019–20. To put that in context, we had 90 in the previous year and we had 53 in the year before that. It was a hot December, and I think anyone who had been out in the bush would have really have experienced that. It was just an incredible year. I have been at Western Power for only 12 months, and it has been really interesting. One of my first questions after a few months was, "Is this normal?", because we were just having such a high number of them. Remember that once we rolled out of December, we went into that January–March period when we had some absolutely super storms, the likes of which we have never seen before. In March, we had 500 000 lightning strikes in one week. Obviously that is complicated for anyone who is operating in the electricity industry. Then in May, which was actually my first weekend as CEO, the mega storm came through, with the strong winds all through the south west. I actually remember being in the call centre on the Sunday and seeing how the call centre operates, and also Sam's operation team being under pressure.

In terms of climate change, is there a change? I think the scientists will always make the exact comment on that. I grew up in the bush. I think anyone who has been out there will know that it has changed and it is certainly different and they are dealing with multiple events. From a Western Power point of view, we want to keep investing in the network; it is what we do. When we look at what is in the budget for this year, we see we have \$202 million to replace the 920 kilometres of conductor that we need to replace, and 27 000 wooden pole either replacements or reinforcement. Obviously we are still working on undergrounding, in terms of \$34 million. We are also starting to move into one of the earlier things raised around those standalone power systems in rural areas. That obviously has a very strong correlation with climate change, because they have fewer poles and wires and thus greater reliability for people in that fringe-of-grid area going forward. I actually think it is an exciting time. Although it is a challenge, I think we have a lot of initiatives in place that are helping to address it.

Ms J.J. SHAW: I have a further question that may be rather technical. I understand that the changing risks around network operations have caused Western Power to have a bit of a look into protection settings on the network particularly. That comes up for me quite a bit with my constituents. Could the minister perhaps provide an overview of the way in which Western Power now operates the network, particularly relevant to protection settings, because that often has an impact on line outages in the fringe-of-grid areas of my electorate?

Mr W.J. JOHNSTON: I will ask Mr Kalajzic to answer.

Mr E. Kalajzic: That is a very relevant question. Obviously we have different settings depending on the time of the year, and it is about those re-closers. If we have an event when something goes onto the conductors or power lines, then obviously during winter there is less risk of something arcing and creating a fire, and then they will re-close again, and when whatever caused that accident has moved away, we will have the power put back through. During summer, it is a very different story in terms of how that happens. We only do that once, and then obviously we have to inspect it, whereas during winter we can open and close and open and close, and then inspect if there still continues to be a fault. I think it is a really important security and safety part of the network, particularly when we have those total fire ban days.

Ms J.J. SHAW: Is it fair to say that because of the much higher safety risk during summer, the network is far more sensitive in the way that it operates, and that is a public safety bushfire mitigation and management function?

Mr E. Kalajzic: Yes, absolutely. We had our board meeting a couple of weeks ago, and one of the things we spoke about with the board was our preparedness for the fire season coming forward. I think it is always front of mind at Western Power. It is what happens, particularly out in those rural areas where they might get those weather events. Absolutely it is about safety. If we have an event, it is always about safety first, to make it safe, and then we have to work out how we can get in there and repair when we can.

[12.20 pm]

Mr D.T. REDMAN: Further to that question, in terms of responding to those risk areas, I understand that with the summer bushfire season and the demand that places on some of the network, Western Power has located a number of diesel generators to some weak spots. The minister referred to one in Mullewa. Can the minister provide any information on where the diesel generators have been located in response to preventing risks?

Mr W.J. JOHNSTON: Yes. I will invite Mr Kalajzic to comment in a minute, but I make the point that Western Power has a need for generators to facilitate outages and maintenance. What Western Power did in Mullewa was locate one of the generators that it had there anyway, rather than keep it in the warehouse. It is taking advantage of the need to have this equipment available.

Mr E. Kalajzic: I probably could not give the member the exact location of where they are right now, but obviously the number of units is about preparedness, and we have been investing in more units to make us ready for the summer.

Mr D.T. REDMAN: Can the minister provide by way of further information the location of diesel generators in parts of the Western Power network? I think it is a very relevant question.

Mr W.J. JOHNSTON: The challenge is that they are mobile.

Mr D.T. REDMAN: I absolutely understand that. I am interested in the locations for set-up for summer.

Mr W.J. JOHNSTON: I will write to the member and let him know what I am able to tell him.

Mr D.T. REDMAN: The minister cannot tell me the locations of diesel generators? I think that is pretty basic information, minister.

Mr W.J. JOHNSTON: No. The point I am making to the member for Warren–Blackwood is that these gen sets are used for specific purposes. That is why Western Power has them. They are not actually there for network support; they are there for other challenges. However, given that, the gen set that went to Mullewa is available because Western Power does not do the same level of work in summer as it does in winter; therefore, it would otherwise sit in the warehouse. There are no spare generators sitting around on the ground, they all have a purpose.

Mr D.T. REDMAN: Minister, I understand that. However, with the caveats that the minister provided, I am simply asking for basic information—the location of the generators that Western Power has deployed; they are not sitting in a warehouse, but Western Power has chosen to put somewhere. Can the minister provide me with that information?

Mr W.J. JOHNSTON: I can provide the information today, but what will I do tomorrow, because they will move? That is the whole point. That is what I am trying to get at.

Mr D.T. REDMAN: Just the information for today will be fine, minister.

Mr W.J. JOHNSTON: Okay. I will send the member a letter and let him know.

Mr D.T. REDMAN: What is the minister's committed timing on that?

Mr W.J. JOHNSTON: As soon as I can.

Mr D.T. REDMAN: Minister, in the last division, we talked about a number of locations at which Western Power is putting in some effort. I think there are some 10 regional locations for which it has gone to market on reliability matters around the Western Power network. Could the minister let us know where that is at, and the nature of the request from the private sector to try to provide a reliability solution?

Mr W.J. JOHNSTON: What I said to the member is that I get comments from the private sector. I gave the example of a particular company that had written to me saying that it wanted to take over a microgrid.

Mr D.T. REDMAN: No. There are a number of locations for which Western Power has gone to market and said that there is like a reliability fund that can be paid to anyone who chooses to come in and offer up a solution to that. Western Power is seeking the private sector to —

Mr W.J. JOHNSTON: That was the discussion with Energy Policy WA, and the answer was about the network opportunities map.

Mr D.T. REDMAN: I understand what discussion happened before, and I had a discussion. I have it in writing that Western Power went to the private sector and said that there are a number of locations in its network that have

reliability issues—one is in my electorate, in Augusta—and that a payment is attached to that if the private sector can come to the party.

The CHAIR: Does the member have a line item for that question?

Mr W.J. JOHNSTON: I think there is a misunderstanding. The network opportunities map has not yet been published. This is the answer to the regulatory challenge of lowest-cost solutions, and the private sector criticism.

Mr D.T. REDMAN: But there are private sector participants out there now responding to Western Power's request.

Mr W.J. JOHNSTON: Western Power might have asked for bids for particular pieces of work. Sam is here. He is in charge of network operations.

Mr D.T. REDMAN: Is the minister saying that it is not?

Mr W.J. JOHNSTON: Western Power has an innovation unit that is talking to a number of people, including one down the member's way, which is the potential for pumped hydro.

Mr D.T. REDMAN: I understand that one. That is the Walpole one. Seven out of the 10 locations that have been identified as weak spots in the system and that have significant reliability issues are in the member for Moore's electorate. I understand that Western Power has gone to the market to say, "Can you provide a solution to this?"

Mr W.J. JOHNSTON: I am happy for Mr Kalajzic to make any comment he wants.

Mr E. Kalajzic: I am not too sure that we are talking about the same thing, but one thing we have gone to the market for is around flexibility service arrangements.

Mr D.T. REDMAN: Is about what?

Mr E. Kalajzic: Flexibility service arrangements. It is part of a trial we have been doing to work with people in the market around how we can curtail their energy on weekends, when we may have a low-load issue. That is one thing I do know we have gone to market for.

Mr D.T. REDMAN: Is that location specific?

Mr E. Kalajzic: It just depends on where the customer is.

Mr D.T. REDMAN: Okay, yes. This has specific locations.

The CHAIR: The member has asked the question, and the minister has responded. We are running out of time and we have a couple of questions lined up. The member for Cottesloe.

Dr D.J. HONEY: Thank you very much. Minister, I refer to page 763, the first heading "COVID-19 WA Recovery Plan" in the expenditure table, and the line item "Growth—East Perth Power Station". Can the minister outline for what purpose that money will be spent?

Mr W.J. JOHNSTON: That is a really exciting project. It is de-constraining the East Perth power station site. It is a bringing forward of works to decommission the 66-kilovolt yard in East Perth. That work was always going to happen, but Treasury is funding Western Power to bring the works forward so that the site can be used by its new owners.

Dr D.J. HONEY: Was there any thought that the proponents of the project might contribute? I see in this budget that about \$85 million of government money has been allocated to that site, including these works.

Mr W.J. JOHNSTON: The site is not worth anything. That is the problem. No, with all due respect, whoever buys it has to preserve the power station.

Dr D.J. HONEY: Sure.

Mr W.J. JOHNSTON: If we could make money off this, we would. When the Liberal Party was in government, if it had been able to make money off it, it would have. It was for sale by the former government and nobody wanted to buy it. No-one will buy constrained land, because it is not worth anything. Western Power is not funding the bringing forward—that is being funded by Treasury—because obviously Western Power has to act commercially. The 66-kilovolt yard was always going to be decommissioned. It had a long-term plan to do that, but it would have been done in 005, not in 004. Treasury has provided funding to allow us to decommission it. The land then goes to DevelopmentWA, which sells it. Western Power is not selling the land to the private sector. It is selling the land to another government agency.

Dr M.D. NAHAN: The \$16.9 million for the East Perth power station is funded to Western Power from Treasury?

Mr W.J. JOHNSTON: Yes.

Dr M.D. NAHAN: So the money comes in. It is in the budget somewhere?

Mr W.J. JOHNSTON: Yes.

Dr M.D. NAHAN: Is that part of that \$30, \$40 or \$50 million?

Mr W.J. JOHNSTON: Yes. A range of activities came out of COVID that were all approved. It is all CRF funding.

Dr M.D. NAHAN: What does it have to do with COVID?

Mr W.J. JOHNSTON: We just happened to include it in the COVID funding, because it is all about de-constraining work. This is a bringing forward of work that we would otherwise do, which is exactly what we are trying to do in COVID. We are trying to get work that would have been done later done now so that we can fill the gap that is left by the private sector.

The CHAIR: Thank you, minister. That completes the examination of Western Power.

[12.30 pm]