

**STANDING COMMITTEE ON  
ESTIMATES AND FINANCIAL OPERATIONS**

**2012–13 BUDGET ESTIMATES HEARINGS**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
FRIDAY, 3 AUGUST 2012**

**SESSION ONE  
WESTERN POWER CORPORATION**

**Members**

**Hon Giz Watson (Chair)  
Hon Philip Gardiner (Deputy Chair)  
Hon Liz Behjat  
Hon Ken Travers  
Hon Ljiljanna Ravlich**

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**Hearing commenced at 9.17 am****Hon PETER COLLIER****Minister for Energy, examined:****Mr PAUL ITALIANO****Acting Chief Executive Officer, sworn and examined:****Mr JOHN CAHILL****Acting Chairman, sworn and examined:****Mr MARK DE LAETER****General Manager, Networks, sworn and examined:****Mr STEWART HART****Chief Financial Officer, sworn and examined:**

**The CHAIR:** On behalf of the Legislative Council Estimates and Financial Operations Committee, I welcome you to the hearing this morning. Before we begin, I am required to ask the public servants present to either take an oath or an affirmation.

[Witnesses took the oath or affirmation.]

**The CHAIR:** You have all read and signed a document entitled “Information for Witnesses”. Have you understood this document?

**The Witnesses:** Yes.

**The CHAIR:** This hearing is being held in public, although there is discretion available to the committee to hear evidence in private, either of its own motion or at a witness’s request. If for some reason you wish to make a confidential statement during today’s proceedings, you should request the evidence be taken in closed session prior to answering the question. Government agencies and departments have an important role and duty in assisting Parliament to scrutinise the budget papers on behalf of the people of Western Australia and we value your assistance in this process.

The proceedings this morning are being recorded by Hansard. A copy of your transcript will be provided to you. It will greatly assist Hansard if, when referring to the *Budget Statements* volumes or the consolidated account estimates, members give the page number, item, program and amount in preface to the question. If supplementary information is to be provided, I ask your cooperation in ensuring that it is delivered to the committee clerk within 10 working days of receipt of the questions. Should you be unable to meet this due date, please indicate to the committee clerk immediately. The committee reminds agency representatives to respond to questions in a succinct manner and to limit the extent of personal observation. Minister, for the benefit of members and Hansard, please introduce your advisers to the committee.

[Witnesses introduced.]

**The CHAIR:** At the outset, I wanted to indicate that the committee is in receipt of a range of documents that we have received from Western Power both in relation to this hearing and previous documents that were requested primarily in relation to the report from the other standing committee, the analysis report. Included in those documents is a copy of draft Western Power board minutes dated 9 May 2012. The committee wishes to discuss those draft board minutes. We are mindful that you might have a view as to whether you want to discuss that in private or in public. We will

provide you with copies of those draft minutes to allow you an opportunity to consider those. Perhaps when you are ready, you could indicate to the committee whether you are happy to discuss those matters in public or whether you wish to do that in private.

**Hon PETER COLLIER:** There is nothing that is glaringly evident. Because the ERA has not given its final decision—that is not forthcoming for another couple of weeks—with regard to AA3, we think it should be in private session.

**The CHAIR:** In which case, the procedure now is that I might ask everybody but the committee members and the witnesses to clear the room. We will deliberate on that.

**Hon KEN TRAVERS:** I wanted to ask a quick question. It strikes me that at least some of the discussions can and, in my view, need to be taken in public. I am interested specifically in clauses of the minutes. Should we do that now or in private session?

**The CHAIR:** I think we might do that in private session with the board. I ask all people in the gallery to clear the room and we will take it from there.

**[The committee took evidence in private session]**

[9.47 am]

**The CHAIR:** Just to indicate, the committee has resolved to continue hearings in public, clearly. We also indicate that this session was due to conclude at 10.45 am, but we might run on a little longer—just to give an indication to witnesses and to the minister. At that point then I will ask if members have questions they would like to ask.

**Hon LIZ BEHJAT:** Minister, I want to take you to page 598 of budget paper No 2. That first paragraph there under “Asset Investment Program” states —

Western Power’s asset investment program for 2012–13 totals \$1039.1 million and is focused on improving public safety, facilitating state growth by connecting new customers and maintaining service standards and security of energy supply of the electricity network.

Minister, there is no secret that there has been some public comment with regard to perhaps the culture of what is happening in Western Power, and it seems to me from that first paragraph there that you have probably had to make some changes, I would have thought, in regard to how you would deliver on that.

**Hon PETER COLLIER:** Yes.

**Hon LIZ BEHJAT:** Would you like to make some public comment with regard to changes that might have been made?

**Hon PETER COLLIER:** Yes, I do. I want to make clear at the outset I do not diminish the exceptional role that Western Power do play and perform within the community. I think as one of the largest above-ground isolated networks, it has an enormous challenge in front of it. You have got a lot of poles there and some of the poles there are sort of World War II vintage that have been neglected over successive governments over decades, and that is at the forefront. What has happened, of course, has put enormous burden on not just our government but also our predecessors and inevitably on governments ahead in trying to overcome those issues within Western Power. So those challenges exist, and I do think Western Power do a very, very good job in ensuring that we do have one of the safest, most reliable electricity systems in the world. Having said that, and I think if you saw the storm just recently, they were able to have pretty much everyone back on line certainly within a week and most of them within 24 to 48 hours. As far as Western Power are concerned, as I said, as a whole it is a very, very good operating corporation. I will be honest, though: I think that what has happened with Western Power a little bit is that it was a bit of a damaged brand over recent years. And with no disrespect to the gentleman sitting to my left or those people that they work with, the perception in the community with Western Power was a little

damaged. It was almost like a monopoly mentality that did exist, and you do not need a PhD to work that out. I do not think I am saying anything inappropriate. I do think it just existed—that attitude.

It became apparent to me, certainly when I took over as energy minister, that there did need to be a cultural shift in Western Power, and it needed to come pretty much from the top echelons in the fact that there was almost this disconnect between what actually occurs within the community at large and decisions that were being made from above. And, if anything, that disconnect needed to be removed and remedied, both within the corporation but also with regard to the corporation and their interaction with the community as a whole—the customers. There have been some significant changes over the last couple of years. I am very grateful for those changes. I did make some significant changes to the board. I appointed a new chair, Mark Barnaba. Mark was exceptional. I was very disappointed when he had to leave. He left to go to Macquarie. He did not want to. He was quite forensic in his approach towards the board and also to the corporation, and also made some changes to the board themselves, and there have been some changes in the management structure of the corporation. So I did make those changes. We have an acting CEO in Paul Italiano who is doing a very good job. I have great confidence in Paul. I have got a recommendation for a permanent position—that has yet to go to cabinet, so I cannot comment on that—and I am still in the process with regard to the chair.

[9.52 am]

In terms of the actual corporation itself, in ensuring that we did get to that point where they were perhaps a little more prudent in terms of spend, particularly in things that would be deemed as inappropriate spend in terms of excess—I have made my position quite clear—I have said that all overseas travel must come to me now for approval. A whole raft of, dare I say it, discretionary spending has been under the microscope to ensure that, as I said, that message is getting through to those at the senior executive level of Western Power that they are service deliverers for Western Australians, and they need to understand—particularly with regard to electricity where it is biting with regard to tariff increases and it has an impact on the community at large—that they need to show similar restraint within the corporation, and we do not have excessive Christmas parties, for example, and there have been instances of that, or excessive discretionary spending, which they probably could be a little bit more prudent in that area. We still have got a way to go. As I say, you do not change your culture overnight. Whenever I have spoken to the chair or his predecessor with regards to this issue, or members of the executive of Western Power, they have not been defiant with regard to this area. They have taken it on board and they acknowledge there needs to be some changes, and as a result of that there have been some changes. For example, I had to have—I will stop in a moment, Madam Chair; I apologise—a dedicated correspondence officer in my office up til 12 months ago because of the volume of complaints that came directly to the minister's office; I no longer need that correspondence officer. In addition, Western Power has had a reduction of 70 per cent in customer complaints, which is testimony to that improvement; so I think there have been some improvements. Having said that —

**Hon LIZ BEHJAT:** In what period of time is that 70 per cent?

**Hon PETER COLLIER:** I will ask Mr Italiano to comment on that in a sec.

But as far as I am concerned, yes, I have, I have made it quite clear—it is almost like a cliché with me in terms of the cultural change—I said it in front of the cameras when I appointed Mark, and I have said it in front of the cameras on a number of instances, that cultural change is a thought pattern, it is a habit, and it is an attitude that exists and permeates through not just Western Power, but through any work environment. To improve that cultural change takes time, but it has to come from the top, and I feel it is coming from the top with the current administration on board.

**The CHAIR:** Mr Italiano, do you want to add anything?

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**Mr Italiano:** Yes. The 70 per cent reduction is between two financial years—2010–11 to 2011–12.

**Hon LIZ BEHJAT:** On those safety issues, I think probably one of the major concerns the public would have, obviously—again, it has been out there—is the issues we have had with the poles; you mentioned pre-World War II. If you go to page 599, under “Safety” there you have a line item dedicated to pole management. Where are we at with the pole management program at the moment; do we know where all our power poles are?

**Hon PETER COLLIER:** Moving feast!

Look, yes. In terms of pole inspections, for example, there was an EnergySafety audit from 2008 that brought down either 33 or 35 recommendations. We are working with EnergySafety to ensure that we do meet the expectations of EnergySafety with regard to those recommendations. In 2006 or 2007, in terms of pole maintenance there was a backlog of around 100 000 poles. It was around 83 000 in 2008 and now it is down to negligible amounts of around 1 000. So there have been improvements in terms of pole inspections. In terms of the actual maintenance et cetera, I might ask Mr Italiano to provide some further advice.

**Mr Italiano:** If it is okay, I might get Mark de Laeter to add some more information on that because he has developed a revised wood pole management plan, which we are working with EnergySafety on. But I can say that during the last 12 months we have revised the level of treatment that we wanted to do with wood poles out in the field; we increased it quite dramatically and we achieved that revised target. I have the information in front of me that we can talk about, if you would like the numbers. But certainly our treatment of wood poles has escalated quite dramatically over the last couple of years and increased over the revised target that we set for this year as well.

**Mr de Laeter:** In terms of specific numbers, in 2011–12 we delivered approximately 39 000 reinforced poles and replaced poles; so about 15 000 replacements, and the balance being reinforcements. We slightly exceeded our targets. That was a lift from below 20 000 in the previous year, so the acceleration that Mr Italiano referred to is underway. Certainly recognising the feedback from the standing committee and the expectations of the community, we are planning to greatly increase the amount of poles replaced and reinforced going forward. We considered that feedback in the early part of this calendar year and looked at a number of scenarios for addressing the wood pole challenge with the objective of reducing public safety risk as rapidly as possible. We considered a number of scenarios, and some of that was done in conjunction with EnergySafety. One of our primary objectives was to satisfy the requirements of EnergySafety’s order of 2009—order 001–2009. The range of scenarios, perhaps if I take the most expensive option, at about \$2.4 billion, was to satisfy all the requirements of the order. That would require us to replace all poles that are greater than 40 years old, and reinforce all poles that are older than 25 years. We estimated that would cost about \$2.4 billion more than we had in our original go-forward plan. We also considered what would be the maximum deliverable replacement and reinforcement rates going forward, again with reinforcements being more easy to implement and cheaper to implement than replacements. Our estimate is that we could not do any more wood pole replacements than we had originally set forth with both in our AA submission, and starting in this financial year’s budget.

[10.00 am]

That is about just over 100 000 pole replacements over the next five years, with about 17 000 of those—a little over—in this financial year. Where we could make a big difference is with maximising the rate of pole reinforcements, which is essentially a life-extension strategy. We believe we can increase the number of poles reinforced from our budget of 60 000-odd level up to just over 260 000 over five years. The target for this financial year is just over 45 000 pole reinforcements. I can go on if you wish; I have got more details, but just to say that the requirements of the EnergySafety order do take us to an age-based management process. We have approximately 190 000 poles that are unreinforced and are over 25 years old, so that would be the target for those reinforcements. We have roughly 180 000 poles that are over 40 years old, so

according to the strict requirements of the order, we would need to replace those, and we simply cannot do that at the moment. Our best work is that we can do the numbers I mentioned, roughly 100 000 replacements and 260 000 reinforcements. What we will do, what we are doing every day and what we will continue to do is to seek to improve on those targets and to outperform those targets hopefully for the same amount of money. If we find that we can do more volumes, if that is prudent to do so and we believe we can deliver those and need more money, we will go to our owner and seek more money.

**Hon LJILJANNA RAVLICH:** I refer to page 598 and the line under the five dot points. There is a little paragraph there that refers to the key objective of delivering important safety programs to reduce the likelihood of electric shocks and fires caused by Western Power's assets. I want to ask questions in relation to compensation for the Toodyay bushfires, which I understand has recently been offered. My first question is: I assume it comes out of Western Power's budget, is that correct—the compensation?

**Mr Italiano:** If we are able to reach an agreement with the claimants, then, yes, it would come from Western Power's budget.

**Hon LJILJANNA RAVLICH:** Can I ask you how much has been budgeted for for compensation generally for victims of bushfires?

**Mr Italiano:** I am hesitating because we have an insurance arrangement in place and the insurer pays for a proportion of the claims beyond a minimum level that we have in place.

**Hon LJILJANNA RAVLICH:** How is that insurance arrangement structured? In other words, how much are you insured for; and, if there is some special arrangement that you have, can you please explain to the committee what those special component parts are, please?

**Mr Italiano:** I will ask Stewart Hart to answer this question; he deals with our insurance program for us.

**Mr Hart:** The first \$3.5 million would be to the account of Western Power and the balance, whatever the amount becomes, is insurance.

**Hon LJILJANNA RAVLICH:** I am asking you for the amount. How much are you insured for?

**Mr Hart:** In terms of total —

**Hon LJILJANNA RAVLICH:** Liability.

**Mr Hart:** For \$300 million.

**Hon LJILJANNA RAVLICH:** So \$300 million?

**Mr Hart:** Yes.

**Hon LJILJANNA RAVLICH:** Are there any other special conditions surrounding that?

**Mr Hart:** I am not sure there.

**Hon LJILJANNA RAVLICH:** So, you are insured for \$300 million?

**Mr Hart:** The maximum foreseeable loss is \$300 million.

**Hon LJILJANNA RAVLICH:** How much is on the table for the victims of the Toodyay bushfires?

**Hon PETER COLLIER:** What do you mean?

**Hon LJILJANNA RAVLICH:** In terms of how much is the government offering to, in fact, settle any liability for the Toodyay bushfires?

**Mr Hart:** That question, as Mr Italiano mentioned, is still a process that is underway; the process has not concluded.

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**Hon LJILJANNA RAVLICH:** My understanding is that there are a number of people who have said that they will settle, is that the case?

**Mr Hart:** Yes.

**Hon LJILJANNA RAVLICH:** How many of those are there?

**Mr Hart:** Of the ones that are settled it is 41 of 66.

**Hon LJILJANNA RAVLICH:** There were eight homes destroyed, and so how many —

**Mr Hart:** The people who joined that group we were dealing with through the mediation process totalled 65 claimants.

**Hon LJILJANNA RAVLICH:** How many of those have settled thus far?

**Mr Hart:** There are two parts to the process and most of it is confidential, and I am really mentioning it because of the people who —

**Hon PETER COLLIER:** You just cannot mention—it can just be some general numbers, we cannot give specific instances, obviously; it is confidential.

**Hon LJILJANNA RAVLICH:** Minister, I am not asking for specific names, I am asking for some answers in relation to the process and the number of people involved. I have not asked for specific sums or specific names, so if you could provide me with information in relation to—can you explain to me what the two-part process is, first of all?

**Mr Hart:** If I can be quite general, the first part was an offer from Western Power, which some people chose, and the second part was a process, which is still ongoing, where a process evaluation of their claims will be made.

**Hon LJILJANNA RAVLICH:** That first part of the process, can you clarify or provide some more information in relation to that first-part process, which involves Western Power? You have got a two-part process and the first part that involves Western Power. Exactly what is Western Power involved with in relation to that?

**Mr Hart:** To be clear, it involves Western Power and the insurers, so it is collective, and involves the parties who have made claims, and with those parties that we have reached settlement, that settlement is confidential.

**Hon PETER COLLIER:** Can I make of that that Western Power is not liable for what they are doing? Western Power sees it as financially prudent to actually offer compensation as opposed to following the process through the court, correct?

**Mr Hart:** Correct.

**Hon LJILJANNA RAVLICH:** What is the second part of this process?

**Mr Hart:** Those people who chose to go on and have a valuation process done.

**Hon LJILJANNA RAVLICH:** How many people were involved in the first part?

**Mr Hart:** I think it is either 40 or 41; I just cannot recall the exact —

**Hon LJILJANNA RAVLICH:** Forty or 41?

**Mr Hart:** Of the 65.

**Hon LJILJANNA RAVLICH:** And the remainder of them are involved in the second process?

**Mr Hart:** Yes.

**Hon LJILJANNA RAVLICH:** Can you explain to me, apparently there was an email from Mr Kevin Banks-Smith to his clients, and it basically said that people have 14 days in which to decide, otherwise anyone who rejected that offer would be subject to a binding assessment of lost process. Can you explain that to the committee, please? What did that mean?

**Mr Italiano:** We cannot explain that, because it was not an email from us; we have not seen that email.

**Hon LJILJANNA RAVLICH:** Under whose instruction would he have been acting?

**Mr Italiano:** Again, I cannot answer that question for you.

**Hon PETER COLLIER:** He is not acting for Western Power, obviously.

**Mr Italiano:** No; he is acting for the claimants.

**Hon LJILJANNA RAVLICH:** Okay. Then it went on to say that Western Power would then be liable to pay 60 per cent of the losses under the judge's determination. Why only 60 per cent?

**Mr Italiano:** Again, we cannot comment on an email —

**Hon PETER COLLIER:** That email did not come from Western Power, obviously; it came from Mr Banks-Smith.

**Mr Italiano:** If I could —

**Hon LJILJANNA RAVLICH:** Yes, go on.

**Mr Italiano:** Kevin Banks-Smith was the legal counsel retained by the claimants and they also had access to a senior QC or SC and another at legal adviser and Mr Banks-Smith is part of their legal representative team, so these are communications between their legal representatives and the claimants, so I am not sure whether we can comment on that.

**Hon LJILJANNA RAVLICH:** Can I just ask you finally, why this is such a closely guarded secret in terms of Western Power and in terms of the victims of the bushfires and the negotiations between the parties?

**Mr Italiano:** I am very happy to answer that. We are protecting the personal financial information of the individual claimants. These are personal arrangements that people have and part of the settlement process is to keep those things private. We understand the values and the amounts claimed by each individual are not widely known by the other claimants in the pool, so in order to protect the people within the claimants' population who wish to keep their personal dealings private, we have made the settlements private and we are respecting that privacy.

**Hon LJILJANNA RAVLICH:** What about for the taxpayers who want to know how much of their money is going to be spent in terms of dealing with this matter? Can you tell the committee how much you anticipate that this will cost?

**Hon PETER COLLIER:** The negotiation process is still continuing, so we cannot —

**Hon LJILJANNA RAVLICH:** Although it is going to be paid by the insurer?

**Hon PETER COLLIER:** Some of it will be, but we still have a way to go in that process yet.

**Hon LJILJANNA RAVLICH:** But minister, you have advised that money is set aside for this purpose. Everybody knows that there will be some payout figure. What we are really asking for is how much has been set aside.

**Hon PETER COLLIER:** I think we have answered that.

**Hon LJILJANNA RAVLICH:** How much has been set aside?

**Mr Hart:** For all the amounts relating, there are sufficient funds recorded in the financial accounts of Western Power to cover the total claims. There are no forward estimates relating to that because the data relates to the insurers.

**Hon LJILJANNA RAVLICH:** How much do you estimate it will likely cost?

**Mr Hart:** Again, I am not sure that we should be disclosing that amount, given that the process is still underway.

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**Hon PETER COLLIER:** The negotiations are still continuing and while those negotiations continue, we cannot offer you anything other than what we have provided.

**The CHAIR:** I think we probably cannot press that question any further.

**Hon LIZ BEHJAT:** Did you not say that there is a maximum exposure of \$3.5 million by Western Power and the rest is covered by the insurer anyway?

**Mr Hart:** Yes.

**Hon LIZ BEHJAT:** So, the maximum could be \$3.5 million then.

**Hon LJILJANNA RAVLICH:** If that is so —

**Hon LIZ BEHJAT:** They already said that.

**Hon PETER COLLIER:** That is what I said. We have already stated that.

**Hon LJILJANNA RAVLICH:** So, the maximum is \$3.5 million?

**Mr Hart:** The maximum is \$3.5 million and then there is the fund to which Western Power and the government put in at the time or shortly thereafter, so there is that as well.

**Hon LJILJANNA RAVLICH:** How much is in that fund?

**Mr Italiano:** The total value of the fund was \$10 million, half of which was contributed by Western Power and half of which was contributed by the state government.

**Hon PETER COLLIER:** That is the fund we gave initially, that initial fund we gave to each of those who lost their homes. It is 38, I think.

**Hon LJILJANNA RAVLICH:** And the rest is picked up by the insurer?

**Mr Italiano:** The rest is picked up by the insurer, yes.

**Hon PHILIP GARDINER:** Can I just come back a little bit on the same issue, really, but on a broader basis. The number of those fires that occur as a result of either pole fires or fallen poles, I think that is probably documented somewhere, is it not, roughly, for last year or the year before? Is there not a number that is talked about? Were there 100 or so pole fires or something like that?

**Mr de Laeter:** That is a published number.

**Hon PHILIP GARDINER:** It is a published number? What is that number, roughly?

**Mr de Laeter:** Unfortunately, I do not have that number with me, I can just check; I am happy to provide the numbers.

**Hon PHILIP GARDINER:** Just the general, just the range. What is it roughly per year?

**Mr de Laeter:** I would say that asset initiated fires, as we call them, were of the order of 100.

**Hon PHILIP GARDINER:** So, that is quite a lot. The insurance that you have, the \$300 million of cover you mentioned before, that covers, I presume, damage, but have you ever—as you probably may know, this is a bit of an interest to me—what is the cost of the personnel, the volunteer bushfires, who contribute to fighting those fires, quite separate from the professional firefighters?

[10.15 am]

**Mr Italiano:** No, we do not know what the cost is of the volunteer bush firefighting force.

**Hon PHILIP GARDINER:** Is that a cost which we should know?

**Hon PETER COLLIER:** An estimated cost, are you saying?

**Hon PHILIP GARDINER:** It can be more than an estimated cost. It could also be quite a finitely calculated cost because as we all know people go and they give their voluntary time to fight a fire and if there is a “cause” then that number could actually be pretty succinctly calculated. I would be

interested to know why it is that Western Power should rely on a volunteer bushfire service to mitigate the risks which are in the system of, say, roughly 100 fires per year.

**Mr Italiano:** I am not sure what the point is.

**Hon PHILIP GARDINER:** Where I am going is that these bushfire services require depots and they require different infrastructure for it and often that requires servicing by Western Power for power and connections. This is the issue. So it is the offsetting of the cost of that capital cost to tie those depots into the system, which is a cost that is charged to those volunteer people, which they have got to find from their own pocket, yet they go out and they fight the fires.

**Mr Italiano:** If I may, I understand. I was a little hesitant earlier because it was the word “rely”. Obviously, we do not rely on the volunteer bush fire brigade to respond. We work very, very hard to identify the causes of asset-initiated fires and we strive to treat those each year to minimise those and reduce the impact of any fires as a result. Nevertheless, what I do understand is that the volunteer bush fire brigade population provide an astonishingly fantastic service to the community and it is one that we are certainly very grateful for its existence.

We do seek to support the volunteer bush fire brigade branches and depots throughout this state. We have a program where they can apply for a grant to help assist them with connection to the electricity network or any other infrastructure requirement they have when they build a new depot or refurbish an existing depot. At the moment, that is a \$5 000 grant and we do give out quite a number of those each year. We constrain that because we do have a very strong view on costs and we try to keep down that. Nevertheless, we are currently reviewing our commitment to volunteer bush fire brigades and to look at ways where we can increase the level of support that we provide to them within the funding constraint that we have. So, maybe we can re-prioritise some of our community support programs to better align them with the other organisations within the community that we have a relationship with and in this case the volunteer bush fire brigades we do have a relationship with. We are a little cautious about making a blanket commitment to providing free connection to the network for each depot because some of those depots can be in quite difficult to access regions—by necessity that is the definition of the area they provide—and the cost of connection may not be the most sensible solution. So, we would like to work with them about finding alternative ways of providing them with energy at their depot. But we certainly do appreciate the work that they do, very much so, and we are certainly trying to find ways that we can provide even greater support than what we currently provide them.

**Hon PHILIP GARDINER:** I think the \$5 000 is appreciated. I think it is a fairly recent change which is appreciated, but it is just that it is a small proportion of even an average connection, as you would well know. So, somehow it is an imbalance if the volunteers are putting a lot of effort and free time into fighting fires because these risks are there, when the cost of connection is often so big they cannot afford to do it themselves. So that is just one part.

For those on this committee—and I do happen to know because I have a property on which you put reinforcements for poles—can you actually explain what that means, what reinforcing is?

**Mr Italiano:** I feel tempted to answer that myself, but I am conscious of the fact that I do have a far better expert on the subject next to me.

**Hon PHILIP GARDINER:** Just very simply, starting with how deep are the poles in the ground and then move from there.

**Mr de Laeter:** Okay. I was thinking confidently about being able to answer your question until you said “how deep are the poles”, but perhaps if I start with what I know. The reinforcement system that we deploy now is very different to what has occurred over the last 40 years or 30 years. We have a supplier called UAM who provide us with steel reinforcements which are basically designed to be locked onto the pole and provide stiffness at the base of the pole to take over the duty of the pole at the base because that is where we typically find poles rotting or failing. So, they are steel

reinforcements that are bolted from one side to the other through the pole. There are typically two bolts; it can be more depending on the sort of pole and the sort of reinforcements. So it is a life extension strategy. They are relatively straightforward to install; we can do those without taking the power off, so we maintain supply. They cost about \$1 100 per unit all up to install compared to the cost of a wood pole replacement of about \$7 000 on average. As I said, we can do very high volumes. They are a life extension strategy; they are not a substitute for pole replacement. I stress that we are still seeking to maximise our pole replacement volume of late because that is a much more long-lasting solution. As to the depth, I think about a metre and a half, 1.8 metres below ground.

**Hon PHILIP GARDINER:** When you bash down those steel pillars on either side of the pole, which you bolt together, do they go down roughly to the same depth?

**Mr de Laeter:** I stand to be corrected—I can provide the exact information—but I believe so.

**Hon PHILIP GARDINER:** Okay. When you have those reinforcing poles and the steel comes up to roughly one metre to 1.2 metres above the surface of the ground, what is the rate of pole collapse out of the reinforced poles?

**Mr de Laeter:** I do not have the exact figures. Again, I would be happy to provide those separately. But typically reinforced poles fail at a very much lower rate across the network than unreinforced poles. I do not have the exact failure rate, and that is with our what we call “legacy reinforcement” systems. We have I think 72 varieties of reinforcements in the network that have been developed over 30 to 40 years. The latest one does comply with Australian standards, and we have had very few poles fail when they have been reinforced with the UAM reinforcement method. That is not to say they do not fail; I am just saying it is a very useful life extension strategy.

**Hon PHILIP GARDINER:** Could we just have that information about the UAM reinforcements and what we know about the probability of failure and actual failures, because it is pretty hard for me to see how they fail unless they are to be snapped off well up. I just do not know what the probability of that is over the base snaps.

**Mr de Laeter:** May I add, you are right; the point of failure typically is transferred from the ground line to the point above the reinforcement. Because reinforced poles fail much less than unreinforced poles, we are seeking to get to all the unreinforced poles that we possibly can.

*[Supplementary Information No A1.]*

**The CHAIR:** I just add that I would be interested in: How long is the extended life? Does it add 10 years? Does it add 30 years, two years, or is that an imponderable?

**Mr Italiano:** If I may, I might be able to answer this from a less technical level, because I am not an engineer so I do not profess to know the detail of it. But from the understanding that I have, one of the causes of failure of poles is below-ground rot, in addition to wind force or external pressure on the pole that causes it to break, typically at ground level. One of the advantages of putting in a reinforcement is that although you still have the above-ground pressure of wind and things like that that could snap the pole, it does take away the probability of a failure due to below-ground rot because the steel is strong enough to hold the pole in the ground without any good wood below the ground surface. So, it makes a material difference to the serviceability of the pole. It has been estimated at this point in time—and we are looking at trying to establish the data—from looking within our own databases and across the network through analysis, we think about 15 years is the extended life of a pole. We will be striving to monitor the performance of it to ensure that that is what we get out of it, so that we are not continuing to invest in something that does not perform to the level. But our modelling is at around 15 years.

**Hon PHILIP GARDINER:** I will move onto another area now, and I know the time, so just quickly. In terms of the return that you are generating with the Western Power assets, I know the ERA has got a cost of capital issue but they try and work that out and there are dividends being paid

and so on and it comes back. But, really, if there is capital being borrowed to invest in the asset that you have, you must be able to work out what you believe you can pay off, which has really come back to the cost of capital and what you can get to pay it back. But the difficulty you have got is that you have got to go through a government, which has got the financial purse strings, when really in a way the base of your business is with the customers, albeit they are all through Synergy, I know. So, you have got a corporate model which is really kind of like a company corporate model rather than a cooperative corporate model. Have you made any recommendations to anyone about looking at your structure and taking it away from being the corporate model you have got as a company, where you have got to pay a dividend to government, albeit that is where the money has got to come from at the current time, to a cooperative model where the owners, which are really us as citizens—and we also use the service because that is the definition of a cooperative? Have you looked at that option at all and proposed anything to government?

**Mr Italiano:** I can give you a short answer and say no, but I would like to expand on it a little bit more. We are acutely aware that we have a relationship with our customers and that is certainly something that has grown in the organisation culturally over the last few years. In fact, our contact centre only last month won an Asia-Pacific award for one of the best contact centres in the region, beating off everybody else in Australia and a number of other companies in Korea and Japan and Singapore. So we are very proud of the achievement that we have got there.

In terms of how our capital funding comes, yes, we are absolutely clear that our capital is sourced from government, but it is important to look at our business through the eyes of cash flow rather than perhaps reported accounting profits. We are a cash flow-negative business; we are not paying down debt. We are in the fortunate position of being in a state where the economy is growing and the investment in the network is required to support the growth in the economy. That capital investment is funded by debt, so we are spending more on the network each year than we receive in revenue from tariffs from our customers. The dividend and tax contributions to government in that context are somewhat less important; it is more about what is happening to the cash, and there is more cash going into the network than we are receiving at the moment in the form of tariffs. If we changed the structure, we might change the way that is reported, but the cash flow would not change. The important thing is the cash flow would not be any different.

**Hon PHILIP GARDINER:** Apart from the dividend to government, because in a cooperative you do not pay dividends.

**Hon KEN TRAVERS:** You would not have to borrow the money to pay the dividend anymore.

**Mr Italiano:** No, that is true.

**Hon LJILJANNA RAVLICH:** It is very true.

[10.30 am]

**Hon KEN TRAVERS:** I was interested if you could tell us the financial projections in the budget, particularly in budget paper No 3; so all of the outcomes that the government is relying on in terms of dividends and everything else. Can you tell us what the basis of that financial modelling is? What is the basis upon which your budget is projected to be for 2012–13 and over the forward estimates?

**Mr Hart:** In terms of the basis, are you talking revenue or are you talking —

**Hon KEN TRAVERS:** Both revenue and income. What access agreement is it based upon?

**Mr Hart:** As the minister alluded to, we are in this quite strange situation that we have started that period and we do not know the AA3 decision. We have done our best to reflect as near as possible to our AA3 submission in the early part of the budget in the forward estimates. In those early periods, we are fine. We do not know the outcome of the pricing so we have stuck with the revenue assumptions that were in the previous budget. To some degree there is a lot of uncertainty around what is in the outer years. There is more certainty in the first two years.

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**Hon KEN TRAVERS:** What do you mean you do not know the pricing assumption?

**Mr Hart:** The pricing has not yet been set for 2012–13 by the ERA.

**Hon KEN TRAVERS:** But is that not a government decision?

**Mr Hart:** No, it is an ERA decision.

**Hon PETER COLLIER:** I think you are talking about the pricing.

**Hon KEN TRAVERS:** Which pricing are you —

**Mr Hart:** I am just talking about the network price because that is the only thing that Western Power deals with. It does not deal with the tariff to the final customer. That is a policy decision by government.

**Hon KEN TRAVERS:** The ERA will set your price for access?

**Mr Hart:** Through the AA3 process

**Hon KEN TRAVERS:** What are you charging people at the moment?

**Mr Hart:** We are charging them what we were charging them from the prior period.

**Hon KEN TRAVERS:** When will that be set by the ERA?

**Mr Hart:** Unknown, because we will get a final decision on the twenty-second, and then there is a process potentially of —

**Hon KEN TRAVERS:** Part of the access agreement will set the price?

**Mr Italiano:** That is right.

**Mr Hart:** Yes. They are the price-setter.

**Hon KEN TRAVERS:** On revenue, it is based on what you are currently charging?

**Mr Hart:** Yes.

**Hon KEN TRAVERS:** And on expenditure, it is based on your submission to access agreement 3?

**Hon PETER COLLIER:** That is correct.

**Mr Hart:** Let me just clarify: for the forward estimates, we were using the assumptions that were in the budget previously. That was tariff rate increases of CPI plus 10.6 per cent in 2012–13, and then CPI plus three per cent in 2013–14. They were previous assumptions. We have maintained those assumptions; nothing has changed.

**Hon KEN TRAVERS:** What were they again?

**Mr Hart:** Tariff increases of CPI plus 10.6 per cent in 2012–13, and CPI plus three per cent from 2013–14. Again, I need to point out that all of that is subject to the ERA decision.

**Hon KEN TRAVERS:** In terms of the draft ERA decision that has been out so far, what impact will that have on both your expenditure and your revenue, and your final bottom line in terms of your capacity to pay dividends to government? What impact will that have if it comes out as recommended in the draft?

**Mr Italiano:** It is difficult for us to do that. We have responded to the draft decision and we have provided additional information to the ERA which we believe supports the position that we have had from the beginning. They are going to make a decision on 22 August. We do not think that the draft decision is going to be where they come from, so we have not really looked at it from that point of view.

**Hon KEN TRAVERS:** You must have done some modelling on what impact it would have, if it is applied as recommended in the draft.

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**Mr Italiano:** What we have looked at is if the decision comes back and it is lower than what we had originally anticipated, then we will look at ways that we can cut our cloth accordingly. We will match our expenditure to the means that we have available to us.

**Hon PETER COLLIER:** The spending is accelerated in the forward years. Is the access agreement for five years?

**Mr Italiano:** Yes, that is right.

**Hon PETER COLLIER:** I just wanted to clarify that.

**Mr Italiano:** That is a really good point. Under the access arrangement application that we put forward, expenditure accelerates over the five years. Any reduction that comes from that draft decision that might be applied to us is not going to affect us greatly in this year or next year—2012–13 and 2013–14.

**Hon KEN TRAVERS:** What I want to know is in terms of the final bottom-line impact of your ability to pay dividends to the government, to pay income tax equivalents—local government rates will not be affected, but those other two—if the access agreement is implemented as drafted, what would happen in terms of your bottom line in terms of dividends and income tax equivalents?

**Mr Italiano:** The draft decision clearly highlights a lower profit position for Western Power over the period of the access arrangement than what we had proposed in our original submission.

**Hon KEN TRAVERS:** But what is the quantum of that? I cannot believe you have not done modelling to work out what that quantum would be. From our point of view that then creates a problem in terms of the overall budget. The overall budget is based upon the government expecting to get revenue this year from you of \$196 million, which is up from \$126 million in 2011–12. I am interested to know what impact that has. Obviously the dividend will be based on last year but —

**Mr Hart:** We do not have that with us, but what I would say from a government point of view is you need to look at it —

**Hon KEN TRAVERS:** A total of \$269 million next year.

**Mr Hart:** — from the whole. A drop in price or revenue into Western Power has a corresponding benefit to Synergy in the equation. Whilst you can look at Western Power and its slice of the whole energy portfolio—as you would be aware the energy portfolio has to get funded from other parts of government—a drop here will result, if you like, in an increase in Synergy or less of a contribution to Synergy. I do not have those numbers with me and I do not get to see Synergy —

**Hon KEN TRAVERS:** It also has an impact upon when you reach full contestability and therefore it may impact on at what point Synergy is required to get a CSO —

**Mr Hart:** Certainly we cannot talk to that part of the equation because that is outside the bounds of Western Power in terms of contestability.

**Hon KEN TRAVERS:** What I can get from you is what impact it will have on your bottom line. I cannot believe you would not have done that modelling, as to what impact the AA3 —

**Mr Hart:** I just do not have those numbers with me.

**Hon PETER COLLIER:** We can get that information.

**Mr Hart:** Yes. It is quite public information.

**Hon PETER COLLIER:** That is right, it is readily available. We can certainly provide it anyway.

**Hon KEN TRAVERS:** In terms of the revenue, what will be the impact of AA3 in terms of that CPI plus 10.6 per cent on your revenue? Is it likely to drop? It is likely to go down, is it not; you will not get it?

**Mr Hart:** The AA3 decision?

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**Hon KEN TRAVERS:** Yes.

**Mr Hart:** I cannot comment because I do not know what it is.

**Hon KEN TRAVERS:** But the draft one that is out for public comment, that is less than that CPI —

**Mr Hart:** The draft one is substantially less.

**Hon KEN TRAVERS:** — and CPI plus three per cent. To find out what the bottom line is we have to wait for Synergy and Verve to come through.

**Mr Hart:** I cannot comment because that is beyond the scope of Western Power.

**Hon KEN TRAVERS:** You must have a rough idea of what impact it would have on your dividends, even if you do not have a specific figure.

**Mr Italiano:** We can certainly provide that information —

**Hon KEN TRAVERS:** Is it a sizeable impact?

**Mr Italiano:** The difference between our original submission and the draft decision is quite sizeable.

**Hon PETER COLLIER:** It is significant.

**Mr Italiano:** We can certainly provide that information to you. What we cannot do is describe the overall impact on the sector because it involves financial impacts in other entities that we are not privy to.

**Hon KEN TRAVERS:** If we can have that as supplementary.

*[Supplementary Information No A2.]*

**Hon KEN TRAVERS:** In terms of the efficiency dividend on operating expenditure, how did you achieve that in the 2011–12 financial year? What cuts did you make to achieve efficiency in the 2011–12 financial year?

**Mr Hart:** In 2011–12, in terms of the final outcome, I am not sure that we are doing that reporting now.

**Hon KEN TRAVERS:** Did you achieve the full five per cent?

**Mr Hart:** My understanding is we did not in the last year.

**Hon KEN TRAVERS:** Will that have an impact on the estimated dividend you will pay to government?

**Mr Hart:** A small amount—the efficiency dividend was not that great. The biggest contributor to the dividend would be the reduction in revenue that we saw in the 2011–12 year, not the efficiency dividend.

**Hon KEN TRAVERS:** The estimated dividend this year in the budget papers of \$135 million, do you expect to make that this year?

**Mr Hart:** No, we do not.

**Hon KEN TRAVERS:** What is the estimated dividend you will pay?

**Mr Hart:** The current estimate is around \$102 million. As I said, that is predominantly related to lower revenue, which is lower consumption.

**Hon KEN TRAVERS:** What impact will that have on net state debt, by not achieving your five per cent efficiency dividend?

**Mr Hart:** For last year?

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**Hon KEN TRAVERS:** Yes. And also if you know what it will do this year because I assume it will have an impact on state debt as a result. What impact will it have on state debt, both last year and this year?

**Mr Hart:** I do not have that figure with me for last year, specifically your question. In terms of going forward, again, if you look at where the ERA are going, until we actually can interpret what comes out of that process—because they define the efficiency costs for Western Power—then we will need to take stock of that and then have a look at the state budget and determine where we go from there.

**Hon KEN TRAVERS:** But the five per cent efficiency dividend is separate to the ERA's efficiency dividends that they apply to you, are they not?

**Mr Hart:** No; I am not sure that they are. For example, if you are asking me a question, "In the state budget are we going to meet the efficiency dividend?", I would say yes because we have done a bottom-up build of our budget and we have passed that message to people. As we have accumulated the budget, we meet the efficiency dividend.

**Hon KEN TRAVERS:** For this year?

**Mr Hart:** For the 2012–13 year.

**Hon KEN TRAVERS:** But you did not last year?

**Mr Hart:** No.

**Hon KEN TRAVERS:** Will you make up what you did not make last year, this year?

**Mr Hart:** Yes, I believe we will.

**Hon KEN TRAVERS:** In terms of getting five per cent, you will get five point X per cent —

**Mr Hart:** Correct.

**Hon KEN TRAVERS:** — to make up for what you missed out on?

**Mr Hart:** But I would like to make the point that the ERA take quite a different approach and they set our efficiency cost. Until I get that number, in terms of quantum, and then compare it back to the state budget, again we are in a situation of many moving parts to be able to answer the question. I am not trying to be complicated. My life as a CFO in iron ore was completely more predictable than the process we are in with the ERA!

**Hon KEN TRAVERS:** So you were able to predict what the iron ore price was going to be!

**Mr Hart:** I certainly did not get the variations! To some degree we did, yes.

**Hon KEN TRAVERS:** In terms of your efficiency dividend, how did you achieve that in terms of the five per cent efficiency dividend over the last 12 months? What you did achieve of it, how did you do that? What were the cuts or changes that you made to achieve it?

**Mr Hart:** Like all businesses, we went through and looked at efficiencies around suppliers and reduced our expenditure. We slowed down our recruiting in some areas. We have eliminated some of our processes. Western Power, in its processes, goes through constant review. We are one of the few entities that is related to government, being government owned, that actually gets a lot of scrutiny by the ERA. It is an ongoing process.

**Hon KEN TRAVERS:** Maybe if we can take it on notice as to specifically what savings were made to achieve the five per cent efficiency dividend.

*[Supplementary Information No A3.]*

**Hon KEN TRAVERS:** In terms of your entertainment expenses, what sort of sponsorships involving corporate boxes do you still have?



**Mr Italiano:** We have one corporate box. It is at Subiaco Oval. It is for the West Coast Eagles, not both teams.

**Hon KEN TRAVERS:** That is a very political decision to take!

**Mr Italiano:** Particularly today!

**Hon KEN TRAVERS:** Who has the home ground this weekend?

**Hon PETER COLLIER:** The Dockers.

**Hon KEN TRAVERS:** So you will not be there!

**Mr Italiano:** I have never been.

**Hon KEN TRAVERS:** Why do you need a corporate box?

**Mr Italiano:** What we use the corporate box for at the moment is as an organisation of our size, it is prudent we have the number of community support programs that we have. We have relationships with a number of organisations as part of our community engagement program. For example, last year some of the executives and managers went and did some volunteer work with a charity called Workpower. Workpower have carers that provide respite care for other carers who are looking after people with intellectual disability or mental illness.

[10.45 am]

We spent a day working with those carers, and we got a new appreciation for what it is to provide a service to a community in an entirely selfless way. We were really impressed with the selfless and thankless task that the carers provide. It was a very humbling experience for us. We looked at ways that we can reward them or recognise them as part of our community sponsorship program, so earlier this year we thought, “How about we take 10 of them to the football?” We have used the box for things like that. We have used it for Charity Link. We have used it for the Paraplegic Benefit Fund. Despite the fact that we are not in a retail sector, we also do have quite a lot of commercial relationships that include very technical and complex negotiations and discussions. Large block load users—for example, Gindalbie, the Karara mine and Grange—require us to enter into commercial arrangements and commercial discussions with those organisations. To build a relationship and a working relationship for those organisations, because the transactions that we are working on with them are very complex and very, very high in value, occasionally we will use the corporate box to help build a working relationship with those organisations.

**Hon KEN TRAVERS:** I suspect you will not have it here, but could we get a list of the attendees at the corporate box over the last financial year?

[*Supplementary Information No A4.*]

**Hon ROBIN CHAPPLE:** I want to turn to page 184 of budget paper No 3. We go down to the first paragraph of the first dot point where it says —

over \$402 million of expenditure on the \$443 million Mid West Energy Project that will enable the continued development of the Mid West region, including new mining projects;  
...

By that, does this allocation signify that public moneys are being used to fund the development and energy provision for new mining projects?

**Hon PETER COLLIER:** No. The first part of the project is the first part of the 330 line; that is, from Pinjar to Eneabba. That component from Eneabba to Three Springs is the Karara component and the funding—the \$443 million—includes that component of the line. But that is going to service the entire midwest, essentially. We did not go along with the midwest project on the basis of actually servicing mines along the road. Perhaps I can ask —

**Hon ROBIN CHAPPLE:** It said in your budget paper “including new mining projects”.

**Hon PETER COLLIER:** Yes, I know, but I said that was not exclusively as a result of the new mines.

**Hon ROBIN CHAPPLE:** What percentage then?

**Hon PETER COLLIER:** There is enormous load growth in the midwest. That has come off a bit after the global financial crisis; in fact, it has not been as accelerated as was first anticipated. That is why we decided to go down the first tranche first—the first component of the project. It will ramp up. The midwest is an exciting area at the moment; it really is. There is population growth. There is small to medium commercial growth. As you know, also a component of it is within the mining sector. You have always focused on the Pilbara in terms of the resource sector, but the midwest is an emerging —

**Hon ROBIN CHAPPLE:** I will deal with that later.

**Hon PETER COLLIER:** No; I am answering your question. The midwest is an emerging component of the mining sector as well. Everything has got to be taken into consideration. If you are asking did we decide or commit to funding for the midwest project based on to service the mining industry, no, we did not.

**Mr de Laeter:** The midwest energy project stage 1 through to Three Springs enables growth in the region and also adds to the security of supply into the midwest region. The project was submitted to our economic regulator, the ERA, in two steps. One was a regulatory test which it passed, which was essentially a test to determine that we are following the best technical option. Secondly, we got some feedback from a new infrastructure facilities test, and that primarily went to “Is it an efficient project from a cost perspective?” and also helps answer “Who should pay?” In the case of the project, it was determined that no capital contributions were required from anyone else based on the cash flows that would be coming from prospective customers plus the net benefit to the state. So, essentially, in securing or passing the NFIT test, the project was deemed to provide sustainable benefits for the state for that portion of the state. What it does do, as Minister Collier said, is it enables the connection of mining developments and also new customers of all sorts, including generators, in that middle of the midwest region. It also does provide some security of supply further north into the midwest region through to Geraldton.

**Hon ROBIN CHAPPLE:** Just on that, why, then, would a business like a Coles or a Brumby’s bakery have to pay for increased line provision and/or transformers if they want increased power, yet the mining industry does not?

**Hon PETER COLLIER:** I think you have to look at it in its entirety, not in isolation, with regard to supermarkets et cetera. Supermarkets et cetera are going to be the beneficiaries of the whole process.

**Hon ROBIN CHAPPLE:** They are going to provide you extra income as well.

**Hon PETER COLLIER:** Yes, but they are going to be making a lot of money as well.

**Hon ROBIN CHAPPLE:** So will the mining industry. Sorry; I find a difficulty in establishing why some sectors of the community have to pay for line provision and transformers and others do not.

**Hon PETER COLLIER:** But they are still going to have access. The mining industry is still going to have to have access costs as well.

**Mr de Laeter:** I am not exactly sure what you are seeking, but I will do my best to answer your question. The new facilities investment test makes a determination within the regulatory framework as to who should pay, and the determination was that because the net benefit to the state, or the south west interconnected system more particularly, was positive, all users effectively would contribute to the cost of that infrastructure, because there was a benefit to the state. It enables renewable generation as well as more traditional non-renewable generation. It does open up the opportunity for greater cash flows into the state through enabling new mining developments,

enabling growth. That is the logic behind the regulatory tests that the project was subject to and the logic behind the answer. We had to submit a very detailed submission to satisfy that new facilities investment test and that was the outcome.

**Hon PETER COLLIER:** And it took a long time to come back; it took forever.

**Hon ROBIN CHAPPLE:** Just continuing on, if I may, on 184, when we are talking about the network upgrade of \$863 million in the next paragraph down, was any consideration or provision made for replacement of powerlines with underground power?

**Mr de Laeter:** Yes. The primary vehicle for that at the moment is the underground power program, which is a co-sponsored program and a state government initiative. That is the primary vehicle. There are other replacement projects, but they are much smaller in scope than that one.

**Hon PETER COLLIER:** That is like the localised enhancement project et cetera.

**Mr de Laeter:** No; that is the full underground power project.

**Hon PETER COLLIER:** Sorry; I thought you were talking about those additional projects.

**Mr de Laeter:** The state underground power project at about \$40 million per annum for the next two years.

**Hon PETER COLLIER:** That is right. Can I just add to that? You are talking about the metropolitan area, I assume.

**Hon ROBIN CHAPPLE:** No; I am talking about the replacement of powerlines generally.

**Hon PETER COLLIER:** Underground outside the metropolitan area?

**Hon ROBIN CHAPPLE:** Yes. I was actually then going to ask a supplementary to that: what would be the cost variations between underground power, its extended life and poles?

**Hon PETER COLLIER:** I will just say the financial cost of undergrounding the network, or even partially undergrounding the network, is phenomenal. In the metropolitan area alone, I think around 51 or 52 per cent of the metropolitan area is underground. That is not as a direct result of the underground power project; that includes those new subdivisions et cetera that are coming on that do have underground power. In the regional area, I do not know if any costings have been done. I get asked this all the time: why do we not put it all underground? To try to put an underground powerline from Merredin to Kellerberrin, for example, would cost an enormous amount of money. So, I would anticipate that if you are looking even at specific areas of the regional area, it would come at a phenomenal cost not just to the network, but to the taxpayers of Western Australia.

**Hon ROBIN CHAPPLE:** Maybe as supplementary, I could just get a cost analysis.

**Mr Italiano:** We might be able to deal with it as a generalisation that undergrounding costs between six and 10 times the equivalent cost to overground—to put up powerlines above ground—depending on the —

**Hon ROBIN CHAPPLE:** Is that over the life of the —

**Mr Italiano:** Yes, over the life.

**Hon PHILIP GARDINER:** Is that supplementary information?

**The CHAIR:** I think that is the answer.

**Hon ROBIN CHAPPLE:** I think that will deal with the answer.

**Hon PHILIP GARDINER:** The analysis that I would like to just see is what the other side of the savings are—for example, pole fires or any of that kind of stuff—and the full cost of that, including what that cost part of it is. I know the north is a bit different and that is Horizon's area. But what are the costs for loss of power or anything like that which might be more prevalent when you have

poles blown over in cyclones or whatever and all that kind of stuff? I would like to see a full analysis of it.

**Hon PETER COLLIER:** I understand why you would want to do it, Hon Philip Gardiner. Have you guys done anything on that?

**Mr Italiano:** We have done a little bit of work perhaps not on the scale that is being contemplated, because the state underground program is suburb by suburb or region by region, so we do it on a much more contained area.

**Hon PETER COLLIER:** The honourable member is talking about the cost benefit on the occasion that you would not need volunteer firefighters et cetera. Have you done anything like that?

**Mr Italiano:** No. With respect, minister, the ERA has done a review recently on the cost–benefit analysis of underground power and they have produced quite an extensive report.

**Hon PHILIP GARDINER:** Okay.

**Hon PETER COLLIER:** Is that publicly available?

**Mr Italiano:** That is publicly available.

**Hon PHILIP GARDINER:** Can you direct us to the linkage?

**Mr Italiano:** Yes.

**Hon ROBIN CHAPPLE:** I now refer to a submission made by WALGA this year in relation to lighting networks in the SWIS and, again, some of the potential costs. I understand that WALGA were looking at putting in a 50–50 deal, or approximately that, in relation to improving street lighting to make it more cost efficient and less of a cost burden to local government. Can you explain why you did not progress with that? It was a reasonable deal. It would have saved local government a significant amount of money. With the advent of some of the new lighting systems that are now coming on board in terms of the LED systems, which were not in the original submission, it would have made for a huge cost saving for local government. Did you not progress with it because it would have actually meant less revenue to you in terms of power provision?

**Mr Italiano:** You will have to forgive me; I am really embarrassed. Sorry; I was just being prompted with something when you said that WALGA made a proposal to move forward with the “it” and I missed what it was.

**Hon ROBIN CHAPPLE:** Dealing with the provision of street lighting.

**Mr Italiano:** I have been personally involved in discussions with WALGA around the provision of street lighting, and I would like to make it very, very clear that we would, as a business, love to do more in respect of replacing street lights. But with the replacement of street lights, there is an upfront capital cost that has to be incurred in putting those in before the cost benefit of that is realised. The capital cost is borne by us upfront; we need to secure the capital to provide that, and then the ongoing operating benefit accrues to councils and so funding that upfront capital cost for us is a challenge—we have to fund that from our work program.

[11.00 am]

**Hon ROBIN CHAPPLE:** But I understood that it was a 50-50 deal with WALGA that agreed to —

**Mr Italiano:** Yes, we still have to find our bit as well. We are, though, exploring —

**Hon ROBIN CHAPPLE:** But it was my understanding that it would have been only \$19 million over four years.

**Mr Italiano:** And we have supported their application to the federal government for that funding; we have supported that and we are looking at ways that we can roll out an expanded program of changing out street lights over the next few years. I think there was some misrepresentation as to what our level of commitment was to the street light program.

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**Hon ROBIN CHAPPLE:** So other than having shunted it off to the federal government, where is that sitting at the moment? Are you going to progress with a program of putting low-emission street lights in, which will reflect well on local government in terms of its carbon emissions? It will be a massive saving to the councils and therefore a massive saving to ratepayers.

**Mr Italiano:** We are examining options to do exactly that right now; I wish I was in a position to be able to say with absolute certainty exactly what we are going to do, but at the moment we have prioritised our examination of the alternative ways forward.

**Hon ROBIN CHAPPLE:** When are we likely to get a result of your investigations back to the local government sector or WALGA or, indeed, a position put forward by Western Power in relation to this?

**Mr Italiano:** Off the top of my head, I do not have the answer to that. It will be this financial year.

**The CHAIR:** I will give the call to Hon Ken Travers, but just before you continue, we had scheduled to start the next hearing at 11.00, but a few members have indicated to me that they would like to continue on with this particular agency for a little longer, so I am just letting people know that if they are eagerly awaiting the next one, there will be a slight delay in proceedings.

**Hon KEN TRAVERS:** I just want to ask in terms of your efficiency dividends or any other sort of changes that you have made, do you have any providers that you now use that are offshore that previously you used providers that were based in Australia, or the staff that were providing the service were based in Australia?

**Mr Italiano:** No.

**Hon KEN TRAVERS:** All right. In terms of the AA3, do you envisage, if it is implemented—the draft as proposed—is it likely to have any impacts on your ability to maintain safety on the network?

**Mr Italiano:** The draft, no. The safety programs will be the last things that we would prioritise making any changes to.

**Hon KEN TRAVERS:** All right, so what things would you have to change if it is implemented as proposed under the draft of AA3 proposed by the ERA?

**Mr Italiano:** We classify the other parts of our expenditure into growth and service oriented, and we would be looking at making changes to our investment on the network to support future anticipated growth and perhaps deferring or delaying some of that expenditure and some service-oriented expenditure, which would help us to reinforce the network to ensure the delivery of some service standards that are required for Western Power.

**Hon KEN TRAVERS:** So if you cut back on meeting future growth but that growth occurs, how do you then manage that issue of providing services to people that want to use your network, if you have not built it to meet the demand?

**Mr Italiano:** We would seek separate funding for that at the time.

**Hon KEN TRAVERS:** So why do you need to build it now? Why would you not just do that as your normal course of events, that you only build what you need for now and then wait until there is growth and then build it to meet that growth?

**Mr Italiano:** If you are looking at the draft decision, what we are talking about is a difference in opinion on what is the anticipated growth, so we are saying we will build it now because we anticipate a higher level of growth than what was proposed, perhaps, by the ERA in their draft decision. If that decision comes through then we will match our growth programs to what they are proposing and then we would respond to the growth as we are required to under our legislation; we would respond to the growth needs as and when they materialise. There are some advantages to us in being able to invest in the network in advance of the growth so that we can stage the construction

over a longer period of time and build it into works programs and contracts with our suppliers well in advance, which helps us to drive unit rate costs down a little. So those are the advantages to doing it a bit earlier.

**Hon KEN TRAVERS:** So if you do not do it in the time line that you have outlined in your response, it will ultimately lead to the cost of providing that structure being higher?

**Mr Italiano:** Marginally.

**Hon KEN TRAVERS:** Right. So is there any risk that, if you are restrained in what you can build as a result of the AA3, you will not actually have it ready to meet the demand for that service at the time it is required? This is what I cannot understand. If you are building to meet the demand, you are either building well in advance of when you meet the demand, or the AA3 draft decision is going to actually have you in a position where you are running a risk of actually not having infrastructure in place when it is required.

**Mr Italiano:** There are a number of moving parts to that question. The first is: to what amount of growth? If it is a small amount of growth, then the answer would be less likely. If it is a rapid rate of growth that is quite large, then yes, there is a real risk that we would not be in a position to respond as rapidly as we would like to. Plus there are also other solutions that are available to us that can be used as an alternative to a network investment, and they can become economic during that time, so non-network solutions we can look towards curtailable loads and we can enter into arrangements with users who are happy to move onto a curtailable load or an interrupted supply arrangement and there is a financial negotiation between us and them. So we can use those as an interim solution to responding to growth needs in other areas.

**Hon KEN TRAVERS:** Why would you not be using those as a regular tool?

**Mr Italiano:** We do use those as a regular tool, but we go to network solutions when that is the most efficient way to respond to a growth need. But the question you asked was being unable to meet growth requirements, so those tools are available to us. They might be less efficient for the short term whilst we are reinforcing the network than a longer-term arrangement, but nevertheless, the probability of us being unable to respond is diminished by those other options that are available to us.

**Hon KEN TRAVERS:** Has there been any inappropriate use of credit cards within Western Power over the last financial year?

**Mr Italiano:** I cannot answer that.

**Hon KEN TRAVERS:** You cannot answer it because you do not know, or you do not want to?

**Mr Italiano:** There are 5 000 people in our work force; we use purchase accounts as an efficient way of purchasing.

**Hon KEN TRAVERS:** Has any inappropriate use been identified and any action taken against anyone that you are aware of, or any of your other staff here are aware of, where there was identified inappropriate use and action taken against anyone?

**Mr Italiano:** Not that I am aware of, and it is extensively audited and there is a very strong control process around it.

**Hon KEN TRAVERS:** In terms of your expenditure in 2011–12, are you able to tell us how much you spent on entertainment—corporate boxes, sponsorship and advertising?

**Hon PETER COLLIER:** I think that was the product of a parliamentary question, but we can provide it again. Do you have the information here?

**Mr Italiano:** Not on me.

**Hon KEN TRAVERS:** And also the budgeted expenditure in those areas for 2012–13.

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[*Supplementary Information No B5.*]

**Hon PETER COLLIER:** It was definitely a parliamentary question; I signed off on it. It was from Bill Johnston.

**Hon ROBIN CHAPPLE:** Are you sure that was not the one I asked about DIA?

**Hon PETER COLLIER:** No, this was from Bill Johnston. We can provide that.

**Hon KEN TRAVERS:** Did you provide him an answer?

**Hon PETER COLLIER:** Yes, I always do! A very comprehensive answer.

**Hon LJILJANNA RAVLICH:** I want to get some information in relation to the weighted average cost of capital. I wonder whether somebody can explain to me what is the weighted average cost of capital.

**Mr Italiano:** In quantum, or the definition of it?

**Hon LJILJANNA RAVLICH:** You can give me both, but we can start with the definition and then you can give me the quantum.

**Mr Italiano:** I might channel my ancient finance maths from years gone by, and then I will leave it to Stewart to give you the actual quantum of it. The cost of capital comes in two forms: equity and debt. Both of those come with a different level of cost because they rank differently. Debt ranks first and equity ranks later. What you do is you work out the cost of your debt, you work out the cost of your equity, and you work out your weighted average, which is what the average cost of capital is overall, depending on what proportion of debt and equity you have.

**Hon LJILJANNA RAVLICH:** What about the quantum?

**Mr Hart:** In the AA2 it is 7.98 and then we are into this world of AA3, which has many numbers.

**Hon LJILJANNA RAVLICH:** Do you have historical data of the WACC for Western Power?

**Mr Hart:** I do not, but I can provide that.

**Hon LJILJANNA RAVLICH:** You can provide that? Thank you, if I could have that for the last four financial years.

**Mr Italiano:** It remains fixed for the duration of the access arrangement period, so it has been 7.98 for three years.

[*Supplementary Information No A6.*]

**Hon LJILJANNA RAVLICH:** In terms of privatisation of an asset in Western Power, would this rate of WACC be acceptable or attractive to investors?

**Hon PETER COLLIER:** Just to make one thing perfectly clear: we have no intention to privatise Western Power.

**Hon LJILJANNA RAVLICH:** I am just asking!

**Hon PETER COLLIER:** That is fine! I just want to clarify something.

**Hon LJILJANNA RAVLICH:** Would it be attractive?

**Hon PETER COLLIER:** I do not know how to answer that.

**Mr Hart:** It depends on your view. If you look at some of the risks that are associated with the ERA process, perhaps not for some people. At 7.98, for some people it may be. Looking forward, if you look at the ERA draft decision at 4.73, pre-tax, I would suggest not, and there are some things like the ERA can come back after the event and write items down, so some of those risks play into how people think about it commercially and would want to be rewarded in the weighted average cost of capital. I do not, personally; compared to the returns that I am used to, it is quite shockingly low, but that is comparing it to a mining company.

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**Hon KEN TRAVERS:** I was going to say, we do not want Western Power to be a mining company!

**Hon LJILJANNA RAVLICH:** I am looking at a submission from the Department of Finance to the ERA, dated 29 May 2012, in which it is maintained that, firstly, while a low WACC has obvious short-term benefits to consumers through lower network tariffs, there is a risk that an insufficient return to the network operator for its investment in its assets could deter efficient investment in the network, resulting in reduced reliability over the long term. We have a situation in which there has not been a benefit to consumers through lower tariffs and we also do not have reliability or efficient investment in the network.

[11.15 am]

**Hon PETER COLLIER:** We do; we have a very reliable network. It is one of the most reliable in the world. In terms of the tariff, what needs to be remembered is that the network costs constitute less than half the total figure. It is around 40 per cent. We have got other costs that come in to make up that final cost stat. The network cost is, as I said, around 40 per cent; the rest are generation costs, retail costs and other ancillary costs.

**Mr Italiano:** I would also like to add that, in my experience from outside the organisation, I have to say Western Power is subjected to quite a significant regulatory review regime and the extent of the examination that is applied to it by the ERA is quite wide, and in their draft decision the ERA did say that it felt that the investment in the network over the previous access arrangement had been pretty efficient. It has the right and, in fact, the obligation to write down the asset base for any inefficient expenditure that it thinks was incurred and that level of write down was very, very low; it was \$20 million.

**Hon LJILJANNA RAVLICH:** Can you explain to me also why there are no obvious short-term benefits to consumers as a result of this low WACC? Why is that not happening? This is the Department of Finance writing to the economic regulator, not me.

**Mr Italiano:** I am not sure that we are able to provide an answer to. That Western Power does not set the tariffs to consumers.

**Hon LJILJANNA RAVLICH:** Minister, maybe you can supply us with the answer.

**Hon PETER COLLIER:** I already have explained to you that the network costs make up less than half the actual tariffs. We are still not at cost reflective levels. We still have around the 20 per cent mark to get to cost reflective levels. The impact of the network charges on the tariff, as I said, is not going to be the only variable we consider from that perspective. The fact that we had not had a tariff increase for a number of years is responsible for the significant increase over recent years. All those things have to be taken into consideration. When we made a determination on the tariffs to report, it was 3.5 per cent this year. As I said, we made that decision based on the understanding that the public really had worn very, very significant increases prior to this year. That is why we have slowed down the process. When we look at it for the years ahead, it needs to be remembered that, yes, the network charges are a significant component of the entire cost stat. But they are not the only component. Other cost pressures are put on an electricity tariff—significant pressures from generation and from fuel costs, which continue to escalate. It is not a Western Australian-exclusive phenomenon. It is a national phenomenon; it is an international phenomenon. The costs of delivering electricity will continue to rise. That is a simple fact of the matter. We will keep it as low as we possibly can because of the impact on Western Australian householders.

**Hon LJILJANNA RAVLICH:** You make super profits and you harvest them through —

**Hon PETER COLLIER:** No.

**Hon LJILJANNA RAVLICH:** Yes, you do.

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**Hon PETER COLLIER:** No; because can I point out a couple of things: they still have huge debt levels in the corporations that they still have to service. We have to reach a point, as I said, where the public of Western Australia are literally paying for their electricity. It will be a long process and it has been a long process getting there.

**Hon LJILJANNA RAVLICH:** How much are you harvesting over the forward estimates from this organisation? It comes pretty close to \$1 billion, from my recollection, so I have to say it sounds very hollow when you put forward the sort of responses that you have now just put forward.

**Hon PETER COLLIER:** I can only go over it again.

**Hon LJILJANNA RAVLICH:** Nearly \$1 billion.

**Hon PETER COLLIER:** We are still servicing from consolidated revenue more than \$1 billion in terms of payments to CSO—I think it is about \$1.2 billion, from memory—over the forward estimates.

**Hon LJILJANNA RAVLICH:** Another statement that has been made in this letter to the ERA is that insufficient investment could also result in otherwise higher costs to consumers in the long term due to the need for increased investment and maintenance costs in the future. I notice that here in your annual report I think you have foreshadowed a total of \$36.1 million to be allocated for asset replacement in 2012–13, which is just paltry.

**Hon KEN TRAVERS:** Minister, in light of your explanation, why does the government take the dividend out of Western Power rather than letting them retain it and reinvest it, rather than having to borrow more money?

**Hon PETER COLLIER:** That was a policy decision, obviously.

**Hon KEN TRAVERS:** That is why I am asking you why.

**Hon PETER COLLIER:** It was a policy decision on the part of government, as I said. It is put into other areas of government of service need; in health, education et cetera. Ultimately, of course, we want the corporations to be efficient in terms of their operation.

**Hon KEN TRAVERS:** Your government actually increased the dividend. Did you seek advice from the board about that before you took that decision?

**Hon PETER COLLIER:** No; that was a policy decision.

**Hon KEN TRAVERS:** Can I ask the chairman: if the board was not required to pay it, would you be paying a 65 per cent dividend to the government, or in normal commercial prudent practice, would you maintain a lot more of it for the purposes of reinvestment in business, or do you pay it only because it is a government policy decision?

**Mr Cahill:** It is a policy decision. We have an ongoing dialogue with the minister and Treasury on what is required to keep the business operational and what we need on an ongoing basis, and that is a dialogue that has happened for, dare I say, decades with utilities.

**Hon KEN TRAVERS:** What impact did the increase in the dividend from 50 to 65 per cent have on the organisation when it was increased two years ago?

**Mr Cahill:** I do not have a number.

**Hon KEN TRAVERS:** The minister has just admitted that you were not consulted, but was it an issue of concern to the board? Did it have an impact in terms of making you have to reassess how you operated? Obviously, you had to borrow more money—that would be the starting point—and will continue to have to borrow more money every year to not only meet your expansion requirements but also just to pay the dividend.

**Mr Cahill:** Absolutely, as the acting CEO has just pointed out, we need more cash than we generate out of the business so any impost like that obviously decreases the ability to service it elsewhere.

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Having said that, in terms of the specifics of 50 to 65 per cent, we were going through a whole range, as the corporation always does, of looking at where we could be more cost reflective; where we could be more efficient. Did it have an actual impact on the works program that we were undertaking at that point in time? I would say to you the answer is no, to the best of my recollection.

**Hon KEN TRAVERS:** It had an impact on only your debt then?

**Mr Cahill:** Yes.

**Hon KEN TRAVERS:** So, based on what the minister told us earlier, the government is basically driving up debt in Western Power to fund its general government sector?

**Hon LJILJANNA RAVLICH:** Exactly.

**Hon PETER COLLIER:** I think we have answered that.

**Hon KEN TRAVERS:** Is that correct, minister?

**Hon PETER COLLIER:** No; I said it was a policy decision. That was your assumption.

**Hon KEN TRAVERS:** But did you not hear what he said. The net impact is they are having to increase their debt for you to fund, I think you referred to, schools and hospitals.

**Hon PETER COLLIER:** I said it is across government.

**Hon PHILIP GARDINER:** Does the board have agreement on a mission statement and on a strategic statement at board level? If you do. I am sure you will not have it here, so I wonder whether you would give that information to the committee as a supplementary answer.

**Mr Italiano:** There is a hesitation. The organisation does have a strategic plan in place and a strategic objective. With the changes happening in the organisation at the moment we have decided to take this opportunity to reset them. The timing of this hearing means we are actually at the commencement of that process, and that process ends about November. We can provide you with something that was developed for last November on the understanding that it will be changed and something new will be in place this November when we go through our annual strategic planning cycle. If I could elaborate on that a little more, my intention is to put before the board a strategic direction for the organisation that clarifies and simplifies our role to provide safe, reliable and affordable electricity to Western Australians, and to do that with a focus on delivery, a focus on service to the community and a focus with respect to our regulators, the Parliament, our minister and our other stakeholders and to operate with integrity. That document is in a very embryonic stage at this point in time. It has not yet been provided to the board but that is part of our normal cycle. Sorry to elaborate too much on it, but I can go back. We most definitely will have a mission statement, a vision for the organisation and strategic plan signed off as part of our annual planning cycle in November last year. I can supply that to you but it is likely to be quite different from when we go forward.

**Hon PHILIP GARDINER:** That will be very helpful.

**The CHAIR:** Would you still like the existing one?

*[Supplementary Information No A7.]*

**Hon PHILIP GARDINER:** The difficulty I have with the structure is that the board must have conflict between what is needed to satisfy the objectives of safety and the other elements you talked about and how it deals with giving a dividend to government. There have to be some conflicts there. As another supplementary answer maybe, I would like to know how the board deals with that conflict of allocating its money where you have those corporate objectives and giving this money to government.

**Mr Cahill:** Yes.

*[Supplementary Information No A8.]*

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**Hon PHILIP GARDINER:** Thank you very much.

**Hon ROBIN CHAPPLE:** In relation to, again, 184 of budget paper No 3, you talk about investment in the generation portfolio by Verve Energy having approximately \$250 million. Is that a Verve investment or is that an investment —

**Mr Hart:** Verve.

**Hon ROBIN CHAPPLE:** There are no funds coming out of Western Power for that?

**Mr Hart:** No.

**Hon ROBIN CHAPPLE:** That is fine. Again, the same with the \$386 million in regional generation through Horizon Power?

**Mr Hart:** I think you have to look inside the section to find the company; it is not in our Western Power section.

**Hon ROBIN CHAPPLE:** All right, no worries; you answered that query.

I refer to page 598, which I think is in budget paper No 2, volume 2. You talk about a lower priority area. What constitutes a lower priority area given that Western Power can ill afford any reduction in its capacity to upgrade or evolve its current asset base?

**Mr Hart:** Paragraph please?

**Hon ROBIN CHAPPLE:** Capital works review \$57 million asset investment. This is the forward estimates 2015–16 asset investment.

**Hon PETER COLLIER:** Did you say page 598?

**Hon ROBIN CHAPPLE:** Yes, though I think I might have been 599, sorry. Not investing the \$53 million —

**Hon PETER COLLIER:** I am lost; where are you?

**Hon ROBIN CHAPPLE:** I will have to leave that one. I cannot locate it either. We pulled it out of the system and I have read it in my notes here. No problems; leave it. I will come back to that and put it on notice.

**Hon PETER COLLIER:** Put it on notice.

**Hon ROBIN CHAPPLE:** Yes.

**The CHAIR:** Further questions anyone?

**Hon KEN TRAVERS:** Has the government reached agreement on the statement of incorporate intent for the 2012–13 year?

**Hon PETER COLLIER:** No that is still with Treasury.

**Hon KEN TRAVERS:** Has it been submitted to Treasury?

**Hon PETER COLLIER:** Yes; I think it has. Certainly it is in negotiation with Treasury.

[11.30 am]

**Hon KEN TRAVERS:** Have you agreed to it, subject to the concurrence of Treasury?

**Hon PETER COLLIER:** That is correct.

**Hon KEN TRAVERS:** When was it submitted to Treasury?

**Hon PETER COLLIER:** I cannot remember a date. I can get that date for you.

**The CHAIR:** We submitted it at the end of April.

**Hon PETER COLLIER:** I cannot give you an exact date; I can find out for you.

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**Hon KEN TRAVERS:** Why has agreement not been able to be reached with Treasury? What is the conflict?

**Hon PETER COLLIER:** I have no idea. As I said, it is with Treasury. These things do take time.

**Hon KEN TRAVERS:** But, minister, it is about you and the Treasurer making an agreement.

**Hon PETER COLLIER:** It is. We have a new Treasurer now and we have had some changes.

**Hon KEN TRAVERS:** He cannot even agree with himself in the transport portfolio.

**Hon PETER COLLIER:** I am not going to comment on that. I can find out the exact date.

**Hon KEN TRAVERS:** I am interested in why we have not been able to reach agreement in accordance with your act before the end of the financial year.

**Hon PETER COLLIER:** It is with Treasury at the moment.

**Hon KEN TRAVERS:** What is the reason you have not been able to reach agreement?

**Hon PETER COLLIER:** As I said, I will provide that information for you. I cannot provide that information at the moment.

**Hon KEN TRAVERS:** None of your officers know what the disagreement between Treasury and Western Power is?

**Hon PETER COLLIER:** Not that I am aware of.

**Hon KEN TRAVERS:** Have they not advised you as to why they would not give you concurrence?

**Hon PETER COLLIER:** It is with Treasury and my office at the moment. We have to get concurrence from Treasury.

**Hon KEN TRAVERS:** You are required to get it before the end of the financial year. You have not got it. I am assuming that the reason you have not got it is not because you are inefficient in meeting your requirements of the act; it is because there is some disagreement between Treasury and what is in the Western Power statement of corporate intent.

**Hon PETER COLLIER:** Potentially, as I found out in other years, these things do take time. Yes, ideally, you want to have it done by the end of the financial year.

**Hon KEN TRAVERS:** It is not “ideally”, minister; it is a requirement of your act.

**Hon PETER COLLIER:** It is a requirement. In years gone by, and certainly under your administration, we had exactly the same situation. Yes, in a perfect world, you would like to have them done by the end of the financial year. It is not out of any disrespect for the processes at all. We will continue to work with Treasury to ensure that we do get that process right.

**Hon KEN TRAVERS:** Minister, if you have not reached agreement, either Treasury is not treating it seriously or there is some conflict. Are you aware of any reasons why Treasury is not prepared to give you concurrence to that agreement? I am not asking you; I am asking the senior staff of Western Power whether they have been advised by Treasury and if they have any concerns about it and that is the reason they have not given concurrence.

**Hon PETER COLLIER:** The response is to endeavour to reach agreement. We need to clarify that; it is to endeavour to reach agreement. We continue to do that. I am not aware of any conflict personally between Treasury et cetera. As I said, sometimes these processes take longer than anticipated. I am not aware of any conflict.

**Mr Italiano:** Treasury have certainly not expressed anything to me.

**Hon KEN TRAVERS:** If they have not expressed it, that means that Treasury has just been slack, I assume, if they have not given that concurrence.

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**Hon PETER COLLIER:** We cannot come to that conclusion but that may be one that you come to.

**Hon KEN TRAVERS:** Can you give me an alternative explanation if there is no conflict and they are required to do it by the end of the financial year and they have not done it?

**Hon PETER COLLIER:** We have endeavoured to reach agreement.

**Hon KEN TRAVERS:** What have you done to endeavour to reach agreement?

**Hon PETER COLLIER:** We continue to work with Treasury. I am not aware that there are any conflicts. I have said that three times.

**Hon KEN TRAVERS:** What have you done since 1 July?

**Hon PETER COLLIER:** My office continues to work with Treasury. I am not aware of any conflict.

**Hon KEN TRAVERS:** I would like you to take on notice to provide a list of all contacts between the minister's office and Treasury or the Treasurer's office regarding reaching agreement on the statement of corporate intent since it was submitted to them; I think the date was sometime in April. I want a list of all the attempts to reach agreement that have occurred.

*[Supplementary Information No A9.]*

**The CHAIR:** We need to conclude this hearing shortly because we have allocated some time for the next hearing. We have eaten into it but we can keep going if you like.

**Hon KEN TRAVERS:** What is the impact of the increase in the loan guarantee fee on the cost of your borrowings for this financial year?

**Mr Hart:** About \$30 million. But then obviously there is a corresponding decrease in our dividend and tax. It is about 76 per cent.

**Hon KEN TRAVERS:** In this financial year it has an impact on future dividends. This year you are paying across \$30 million?

**Mr Hart:** It is about \$30 million.

**Hon KEN TRAVERS:** Do you have an average rate of interest that you pay?

**Mr Hart:** Currently for the portfolio it is 5.24 per cent.

**Hon KEN TRAVERS:** I refer to the issues that you mentioned about cash flow. As I understand it, the AA3 does not make provisions for dividends; they make an average weighted cost for capital and you have to make that out of it. If you are consistently borrowing to fund your dividends and you are required to get a two per cent efficiency dividend under the ERA rules, at what point do you reach that point where it is unable to be sustained that you are meeting your financial obligations? Have you ever done that modelling to see at what point into the future you will get to a point where you physically cannot be making payments and you are going backwards and you are never going to be able to go forwards?

**Mr Hart:** If I can take the last bit first, the ERA does not come out with a two per cent efficiency dividend on our total cost base; they come out with a statement around efficient costs to run the network. That is their position. They subject Western Power to quite an enormous amount of scrutiny and give independent advice around what that is. That is the first bit. If the question is then around a dividend efficiency, my experience is that if you look at compressible costs or discretionary, I think two per cent is not a large number. We will work towards that.

**Hon KEN TRAVERS:** You have effectively got in your books an accumulated amount for payment of dividends. Even over the forward estimates, it is something like \$188 million in terms of the additional borrowings to meet the 65 per cent rather than the 50 per cent. You must suddenly get to a point where the cost of maintaining the capital for your dividends is greater than your

capacity to manage the process. You are never actually paying back that money. You are never getting to a point where you are repaying your dividend.

**Mr Italiano:** There is a natural point of equilibrium where the interest component on the increasing proportion of debt effectively precludes the opportunity to make any profit and therefore denies us the possibility of paying any dividend. We do not get past that point.

**Hon KEN TRAVERS:** When is that?

**Mr Italiano:** I do not know off the top of my head. We have not seen that.

**Mr Hart:** All of this is predicated on what our AA3 decision is. In that you have a weighted cost of capital return for business. There are a number of moving parts. You do not get there as quickly as possibly you are imagining. It would be a long way out. A substantial amount of investment is required in the network. I think doing that efficiently is where our target is. If you can look at the numbers, it is five times what the profit is. The capital load is possibly the right part of the equation to look at. Nothing in the forward projections goes close to painting the picture as bleakly as you put it.

**Hon KEN TRAVERS:** I would be interested, if you have done any work on it, if you could take that as a supplementary question.

**Mr Hart:** Beyond models that we have prepared. We can do that.

*[Supplementary Information No A10.]*

**The CHAIR:** Is that modelling of projections?

**Hon KEN TRAVERS:** I am asking for the impact of the dividend effectively. If you have a suggested better way that we should be looking at these issues in terms of understanding the impacts of that, I am happy for you to provide that to us.

The other question I have relates to the valuation of your assets. How much is allocated to intangibles like the brand name or the value of the name? Do you give a name to Western Power or anything like that?

**Mr Italiano:** We do not carry any brand.

**Hon KEN TRAVERS:** You do not carry any intangible assets at all?

**Mr Hart:** We would have some intangibles but they are more around things that are happening in terms of IP. It is minor, when you have a look at that \$7 billion in assets, and rising.

**Hon KEN TRAVERS:** If you have done any work on where that equilibrium point is, the cost of the interest on your borrowings for the repayment of previous dividends reaches that point where you cannot physically make a profit.

**Mr Italiano:** We can do that. That will require us to make some assumptions about revenue and price, but we can do that under those scenarios.

**Hon KEN TRAVERS:** Maybe you can give us your submission rate versus the draft rate. They are probably the two parameters; they are the two ends of the scale that we would be looking at.

**Mr Italiano:** We can do that.

**Mr Hart:** That is quite a body of work.

**Mr Italiano:** Can we do it within 10 days?

**Mr Hart:** I do not think so.

**The CHAIR:** I appreciate that that would take longer. Just indicate that to the committee staff and we can make allowance for that.

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**Hon ROBIN CHAPPLE:** I found the missing page. It is page 207 of budget paper No 3. I refer to the last comment under “Capital Works Review”, which states —

The Government has made a decision not to fund \$34 million of asset investment within Verve Energy’s budget of 2015–16.

**Hon PETER COLLIER:** It is Western Power’s budget; I think you said “Verve”.

**Hon ROBIN CHAPPLE:** It does say “Verve” but the government is making the decision. I cannot ask Verve that because it is a government decision.

**Hon PETER COLLIER:** I am aware of that. You just said “Verve”. In my notes, it says “Western Power”.

**The CHAIR:** That is what it says on page 207.

**Hon ROBIN CHAPPLE:** It goes on to state —

This will reduce asset investment in low priority areas.

Can you advise what the low priority areas are?

**Mr Hart:** With regard to that point, it is actually Verve Energy.

**Hon ROBIN CHAPPLE:** It says the government has made the decision.

**Mr Hart:** Yes, but we do not have line of sight of Verve Energy’s budget.

**Hon PETER COLLIER:** You will need to ask that of Verve.

**Hon ROBIN CHAPPLE:** It is the government that has made the decision, not Verve.

**Hon PETER COLLIER:** We will ask that in the Verve hearing.

**Hon ROBIN CHAPPLE:** I just thought that if it was government, it must have some purview or overview of Western Power in that decision.

**Hon PETER COLLIER:** No.

**Hon ROBIN CHAPPLE:** Okay, I will hold it for Verve.

**The CHAIR:** We will conclude this hearing as we have run over a fair amount. The committee will forward any additional questions that we might have to you via yourself, minister, in writing in the next couple of days together with the transcript of evidence, which includes questions that have been taken on notice. Members, if you have any unasked questions, please provide them to the committee clerk by email at the close of the hearing. Responses to these questions will be requested within 10 working days of receipt of the questions, noting that some of them might require a bit longer. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met. Finally, on behalf of the committee, thank you very much for your attendance this morning.

**Hearing concluded at 11.42 am**

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