

TREASURER; MINISTER FOR COMMERCE;
SCIENCE & INNOVATION; HOUSING & WORKS

Our Ref: 30-11384

EXPLANATORY MEMORANDUM

ENERGYSAFETY BUSINESS PLAN 2010/11

Pursuant to Section 11(2) of the *Energy Safety Act 2006*, I am pleased to table the Department of Commerce – EnergySafety Division Business Plan 2010/11 for the information of Members of the Parliament of Western Australia.

The Plan is a key part of the statutory provision for annual industry funding of the Director of Energy Safety and staff ("EnergySafety"). EnergySafety is responsible for technical and safety regulation of all of WA's electrical industry, most of the gas industry and related activities.

This is the fifth Business Plan for EnergySafety. The first was submitted during the first half of 2006. The 2010/11 Plan is the basis on which the quantum of the levy for the year will be determined, through a future *Energy Safety Levy Notice 2010* published in the *Government Gazette*. The levy is payable by electricity network operators and gas distribution system operators.

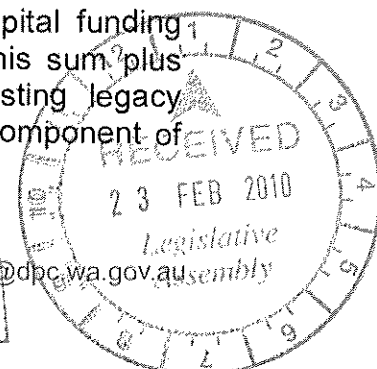
The Business Plan assumes continuation of an attraction and retention benefit ("ARB") for the technical staff of EnergySafety, which has been in place for three years. This ARB has helped EnergySafety retain and recruit staff to fill vacant positions. Some important vacancies remain and further recruiting is required. The ARB costs are included in all the forward years under the Plan on page 39.

The 2010/11 Business Plan proposes a levy of \$6.272m. This is less than the 2009/10 levy of \$6.152m plus 2.1% to cover expected inflation over the period.

The modest increase in the levy accommodates a significant increase in EnergySafety's share of the capital cost to develop the Department of Commerce's new computer-based Compliance Management Program (CMP).

CMP consists of a new licensing information system (CALs) and a new Corporate Compliance Management System (CMS).

In the 2009/10 Business Plan, EnergySafety committed to a capital funding contribution of \$800,000 to the CMP. It has been agreed that this sum plus \$225,000, identified as a contingency sum to maintain the existing legacy systems but not used, will be EnergySafety's share of the CALs component of the CMP.



All of EnergySafety's IT systems dealing with compliance management are old and use unsupported technologies that are difficult to support or enhance. This has put EnergySafety in a vulnerable position for many years with a recent event demonstrating the critical role of these systems.

In September 2009, an unrecoverable hardware failure caused a five day outage and loss of data. This compromised the ability to service front-counter customers and forced staff to revert to manual processes for business continuity. The systems were eventually restored but the underlying software issues and risks of the systems running on old technologies remain.

As EnergySafety is industry funded, all expenditure must be justified and related only to gas and electrical safety. Therefore, a detailed review of all options available to EnergySafety was undertaken. The most cost-effective, least-risk option was to remain with Commerce's integrated Compliance Management Program (CMP) and, specifically, the Compliance Management System (CMS) component. The expected additional cost for EnergySafety's share of CMS is \$2.625m.

Fortunately, EnergySafety is expecting a significant carry-forward at the end of 2009/10. This has built up over the past few years for two main reasons. Firstly, licensing incomes were higher than budgeted. The extent and effects of the resources boom were underestimated, while the effect of the global financial crisis was over-estimated. Secondly, there was under-expenditure of budgets. This occurred primarily because EnergySafety has had continuing difficulties attracting staff. Labour and related on-costs have been lower than budget. Staff shortages caused some projects not to be completed.

EnergySafety is confident that its future budgets properly reflect expected activities.

The expected 2009/10 carry forward will enable EnergySafety to meet the additional CMS cost and continue its important regulatory work, while holding the industry levy increase to less than CPI.

The principal cause of expenditure uncertainty stems from a number of national regulatory reform projects and, specifically, EnergySafety's role in implementing the new National Occupational Licensing System. While the role is reasonably understood, the potential staff time, travel and related costs remain poorly defined. The Plan allows a reasonable component to cover such expenditure but this may require revision if EnergySafety's commitment exceeds expectations.



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