

Chairman; Mr Bill Johnston; Dr Mike Nahan; Mr Ben Wyatt; Mr Fran Logan; Mr Jan Norberger; Mr John McGrath

Western Power —

Mr P. Abetz, Chairman.

Dr M.D. Nahan, Minister for Energy.

Mr P. Italiano, Chief Executive Officer.

Mr G. Chalkley, Chief Financial Officer.

Mr D. Fyfe, Executive Manager, Asset Operations.

Mr C. Parrotte, Executive Manager, Network Planning and Operations.

Miss S. Tasovac, Principal Policy Adviser, Energy, Department of the Premier and Cabinet.

The CHAIRMAN: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day.

Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered, and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide. I will allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by Friday, 19 June 2015. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office.

[Witnesses introduced.]

The CHAIRMAN: Member for Cannington.

Mr W.J. JOHNSTON: I note that the budget papers show an expectation that Western Power's dividend to government will fall by \$90 million. Does the minister want to make any comment about the profitability of Western Power? This estimate reflects a \$90 million reduction in dividends.

Mr G. Chalkley: I will take that question. Certainly from our perspective, obviously, revenue is derived from a determination. The dividend is an output of the profit we have made after expenses. We have had a very efficient year from an operational expenditure perspective. That is certainly the output that we have had from a dividend perspective.

Dr M.D. NAHAN: Did the member say it is a \$90 million reduction in dividends?

Mr W.J. JOHNSTON: Yes. On page 286 of budget paper No 3 is "Public Corporations: Revenue to and Expenses from the General Government Sector". Western Power in 2014–15 is \$247.5 million and in 2015–16 it is \$153.5 million.

Dr M.D. NAHAN: Mr Chalkley will respond.

Mr G. Chalkley: There was a change in the way we pay our dividend in year. Previously, we paid our dividend in arrears, so it was paid in December for the previous year. We have changed the approach to provide for a dividend as an interim and then we pay the final dividend the year after. The change is a timing issue from a payment perspective.

Dr M.D. NAHAN: The legislation has passed through the upper house and will be debated in the Legislative Assembly next week, hopefully; that is the aim. In the midyear review we have allowed interim dividends from the electricity authority. That interim dividend is budgeted for 2014–15. There is an interim dividend this year and we go back to normal in 2015–16. The apparent reduction is not due to the profitability or a decline in profitability; it is just the interim dividend for 2014–15.

Mr W.J. JOHNSTON: If I understand correctly what is being said, in 2014–15 there will be an actual dividend and an interim dividend.

Dr M.D. NAHAN: Yes.

Mr W.J. JOHNSTON: In 2015–16 there will be an interim dividend and a top-up from whatever is left over. The dividend is expected to increase, because in 2014–15 Western Power is budgeting on receiving two dividends. That is dependent on the legislation passing Parliament.

Dr M.D. NAHAN: Yes.

Mr W.J. JOHNSTON: Western Power will be about \$120 million under water if the legislation does not go through.

Dr M.D. NAHAN: It has passed the upper house. We are confident.

Mr W.J. JOHNSTON: The Minister for Energy announced that he intends to move the regulation of Western Power to the national body —

Dr M.D. NAHAN: The Australian Energy Regulator.

Mr W.J. JOHNSTON: — the AER instead of the Economic Regulation Authority. Following up this issue, I note the submission by Western Power to the EMR—electricity market review, which is another wonderful term—that estimated there would be a 1.5 per cent increase in electricity charges if there was a 35 per cent increase in its weighted average cost of capital. Mr Chalkley said this is what is left over after Western Power has done all its work. Given that Western Power is already doing its work, if the WACC is increased and there is more money, does that mean it also expects higher levels of dividends coming out of that process?

Dr M.D. NAHAN: First of all, we have a lot of work to do before we have the legislation and move over to the AER. I am not disagreeing with the report that Western Power put forward, but the member's implied assumption is that there will be a higher WACC in the AER than would otherwise exist in the ERA. We do not know that. There has been a large amount of movement in the level of WACC that the AER imposes, particularly in recent cases in New South Wales and the Australian Capital Territory—substantial reductions. We have a lot of work to do to find out the impact of the AER on WACC operating allowable capital expenditure and operating expenditure. There are three things: allowable operating, allowable capital and the rate of return. There is a lot of work to do to see what the impact of the move to the AER will be on all those allowable factors. When we shift from ERA to AER, there are methodological differences. It is not necessarily automatically transferrable, but when we move down the path we will get a good view to it. We will be transparent with our expectations on that.

Mr W.J. JOHNSTON: Is the minister saying that Western Power does not have any expectation of a higher return from being covered by the AER rather than being covered by the ERA?

Dr M.D. NAHAN: It might be higher than under AA3—access arrangement 3—which is the ERA's current one, but it is problematic what the ERA would do in AA4. I am confident that the WACC will be similar. There is also an issue about the allowable capital and operating expenditure, which is part of the equation. My guess is that the benchmark that AER has is very thorough. It assesses a large range of organisations; it has a greater database. Since the gold-plating days of Queensland in the past, there have been significant changes to move the WACC down and really tighten up on allowable capital and recurrent. I think we are kind of guessing right now, but the latest data on both allowable capital and allowable operating and the weighted average cost of capital shows that there will not be a significant increase in allowable costs to Western Power from the move. But we have some time to go and no doubt there will be a debate about that.

[8.10 pm]

Mr W.J. JOHNSTON: I hope everyone in the chamber understood all the different terminology! Given that the government has already made the announcement that it will move Western Power from the Economic Regulation Authority to the Australian Energy Regulator without having made a determination of the likely impact of that move—the minister said that he does not really know what it will be—what motivated the decision to go from the ERA to the AER?

Dr M.D. NAHAN: It was a whole range of things. First, we have a unique ERA methodology and WACC here that is based on limited benchmarks. There are a range of benchmarks in the eastern states. They rate all the distribution and transmission agencies throughout the eastern seaboard. It is a much more thorough database.

Mr B.S. WYATT: Presumably, the ERA does not have access to those benchmarks.

Dr M.D. NAHAN: Yes. The AER does it all the time and has a sequence of assessments. The ERA does it every three to four years; it does one. The AER has a wider database. Second, there are a whole range of innovations and changes in how it assesses allowable capital and operating expenditure. A large amount of change and a large amount of intellectual capital goes into building that. The AER is doing it for everybody so we can piggyback that knowledge. Also there is a lot of technological change. The transmission distribution has been subject to phenomenal competition from distributive generation, as everyone now knows, and how electricity distribution transmissions respond to that and how the regulator responds to that requires a great deal of work. We might as well work with everybody in Australia to try to figure out how to do it—we have to get this right. The AER and various organisations are doing a lot of work on how to deal with the threat and competition from distributed generation. I know that the impact of the sale and the outcome of the weighted

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average cost of capital was a big issue in the New South Wales election. The recent WACC determinations from the AER are coming right down; they were too high in the past, there is no doubt about that. They are coming right down towards what the ERA was doing. There is a whole raft of reasons. Also, as we move to a market in which we have more private competition—we will not move to private competition in distribution, except perhaps for photovoltaic and distributed generation, which will come—we want a market here in terms of its cost structures that is more understandable for private investors to invest in, particularly in the area of generation.

Mr F.M. LOGAN: Does the minister expect that Western Power will be bound by all the criteria of the AER or does he expect, because of the unique standalone situation of Western Power's distribution network in Western Australia, to have different criteria in its assessment of Western Power?

Dr M.D. NAHAN: In the process of exploring the move to the AER, those are some of the issues. It is standalone and will not be interconnected. It will be a different system, and in discussion with the AER, we will have to have different conditions put in, and that is what the group of people led Ray Challen of the Public Utilities Office is looking at right now, along with Western Power. Perhaps Paul Italiano can talk about a few of those issues.

Mr P. Italiano: From the limited conversations that I have had with the AER, it does recognise that there are differences in the various networks around Australia. Some parts of the networks that it regulates at the moment are isolated. The network around Mt Isa in Queensland is an example of that. It has the flexibility within its regulatory framework to take into account the various differences between the network operators in different jurisdictions. On top of that, there are specific chapters within the national regulatory framework that can be determined at the state level, and that is the process that the guys are going through at the moment to determine which state regulations and state characteristics should remain in place to ensure the proper service of electricity to customers in Western Australia.

Mr J. NORBERGER: I refer the minister to the first dot point under the heading "Safety" on page 617 of budget paper No 2. Can the minister outline what bushfire mitigation activities Western Power will undertake in 2015–16?

Dr M.D. NAHAN: I will pass that over to Mr Italiano.

Mr P. Italiano: Thanks very much for the question. Western Power recognises the importance of having a safe network for the public in Western Australia and we undertake a specific range of actions every year to mitigate the risk of bushfire. One of the characteristics of the Australian climate is that it is hot and dry, particularly during summer, and we do have an overhead conductor network with a lot of bare metal conductors. Each year it is important that we undertake specific interventions to deal with the risks posed by the network to the community through bushfire. I will ask Dave Fyfe to go into a bit more detail to describe this year's specific interventions.

Mr D. Fyfe: Thanks, Paul. The budget line items in question are bushfire mitigation and conductor management and in total the budget provides \$153 million for those activities. Members should be aware that, in considering the bushfire management line item, that line item previously included conductor replacement, which is now included under the conductor management line item, so there is a reduction there, but it is actually more expenditure when one adds them both together. The budget provides for investment in strategies to minimise the risk of bushfire including installing low voltage spreaders, mitigating high voltage clashing conductors and replacing wood pole cross-arms.

Mr B.S. WYATT: I have a follow-up question on bushfire mitigation. I note Western Power's pamphlet titled "Tree and powerline safety". No doubt someone here is familiar with it. It refers to default cuts that I understand effectively involves Western Power pruning back trees. It also makes the point that the cost invoiced to the owner/occupier will —

often cost you significantly more than hiring a qualified arborist.

Why is that? Is that simply a measure of inflation to encourage property owners to do it themselves?

Dr M.D. NAHAN: That is a good question! Mr Italiano.

Mr P. Italiano: It is a good question! What we find is that people can be more specific and selective about the choice of arborist they use if they do their own contracting. They can choose when that person comes out at a time that suits them. We have to deal with access to private property, public liability issues and corporate standards that apply uniquely to work done by Western Power and the liability that we have more broadly across the network. When consumers do that work themselves, they would have some of those liabilities, but some of those obligations do not apply to them. Certainly accessing their own property is not an issue. When they

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contract for arborists or tree pruners they have greater flexibility and lower standards of obligations that they have to maintain.

Mr B.S. WYATT: So that significant extra cost is not a revenue stream to Western Power or a penalty payment that Western Power effectively places on private owners who have not pruned their trees? So Western Power is effectively not penalising or adding an inflationary impact on the cost of pruning trees.

Dr M.D. NAHAN: Mr Italiano.

Mr P. Italiano: Certainly not. If there were a way we could avoid participating in that market and activity, we certainly would. We do it as a necessity. It is not something that we particularly go out to do and enjoy.

[8.20 pm]

Mr B.S. WYATT: I have a very different question about the light bulb sales.

Dr M.D. NAHAN: Streetlights?

Mr B.S. WYATT: Sorry, yes. I am interested in the framework around this. How will that happen?

Dr M.D. NAHAN: As in sales?

Mr B.S. WYATT: Yes. How will that happen and on what basis will it happen?

The CHAIRMAN: Can you point us to the part?

Mr W.J. JOHNSTON: This is an off-budget item.

The CHAIRMAN: Okay.

Dr M.D. NAHAN: It is all right; it is a legitimate question.

Mr B.S. WYATT: Can the minister explain the framework for how that will happen?

Dr M.D. NAHAN: We indicated there would be a number of asset sales of electricity authorities, including, for example, Western Power's streetlights and metering. They are different. Quite a few streetlights are owned by local government. Western Power owns quite a few. Streetlights differ immensely according to the light bulb and the attachment; there is huge variation. It is an asset that gets a regulated return by the regulator. We can value that asset and, if we sell a regulated asset, it gets a weighted average cost of capital rate of return. The valuation is determined by the regulator and an income stream comes from that. There is a great deal of interest from superannuation firms and others about investing in regulated infrastructure assets. AustralianSuper has knocked on my door quite regularly for these types of assets. Maybe Mr Italiano can elucidate the diversity of his asset base on streetlights.

Mr P. Italiano: The simplest thing to say is that there are many markets in Australia and elsewhere in the world in which streetlight populations are owned in the private sector independently from the network operator. In fact, in our own network, approximately half the streetlights are owned by people other than Western Power, so the precedent is there.

Mr B.S. WYATT: About half?

Mr P. Italiano: It is about half, broadly speaking.

Mr B.S. WYATT: I assume that the vast majority of the half that is not owned by Western Power is owned by local government.

Dr M.D. NAHAN: No, the half that is not owned by Western Power includes local government. The other half is owned by Western Power.

Mr B.S. WYATT: That is what I meant. I assume that the majority of the half that is not owned by Western Power belongs to local government.

Dr M.D. NAHAN: Yes.

Mr J.E. McGRATH: I was under the impression that Western Power owned all the streetlights in the metropolitan area, including my electorate of South Perth.

Dr M.D. NAHAN: No.

Mr J.E. McGRATH: Is the minister saying that some local governments in the metropolitan area own light poles? Can the minister give us some idea which ones they are?

Mr P. Italiano: A really good example is Subiaco council, which owns all its streetlights.

Mr J.E. McGRATH: What about the City of Perth?

Mr P. Italiano: I am not sure; I cannot go through them, but I can provide that as supplementary information. As a general comment, Subiaco is a really good example of a local government that has put in its own lights and entered into its own contract for energy. It has its own contract for maintenance and the poles are maintained to a different standard. To the best of our knowledge, the residents in Subiaco are very pleased with the outcome.

Dr M.D. NAHAN: Subiaco did that when the power was put underground. When the power went through, the council put up all its poles. It entered into a contract, but I am not sure who with because it aggregated it and it can buy it on the competitive market. It works pretty well. I have had a bit of a look at it. There is huge diversity in the types of streetlights. Certain areas of poles are owned by the city, certain areas are owned by Western Power and certain areas are owned by third parties.

Mr J.E. McGRATH: If Western Power owns the streetlights and someone reports to the local authority that four streetlights are out in their street, does the report go to Western Power to fix it or is there an arrangement with the local government?

Mr P. Italiano: Streetlight servicing is a specific category of regulation under our regulatory arrangements. Western Power has to meet specific criteria for servicing streetlights that are out. I am pleased to say that we well and truly exceed the performance standards required for replacing unserviceable streetlights. Yes, it is done as soon as a person reports a streetlight to the local council. Most are reported to us. People ring Western Power directly and we dispatch crews within the next 24 to 48 hours to repair it.

Mr W.J. JOHNSTON: Is the proposal to sell only streetlights and not poles that have a streetlight on them?

Dr M.D. NAHAN: There is huge diversity.

Mr W.J. JOHNSTON: I know, but I am asking the minister whether it is the government's announcement that poles that are solely streetlights will be sold or is the proposal to sell poles that are streetlights and that carry electrical cable?

Mr P. Italiano: My understanding is that Western Power should look at the options available to it as an organisation to minimise the cost of providing street lighting to the community of WA. If that includes selling streetlights that are self-standing and streetlights that are cantilevered off existing poles and the mechanisms for how that can be done by third parties, we can work through the options to determine what produces the best outcome for the community. I do not think there is a prescriptive direction to go in, just a challenge to the organisation that we should be looking at innovative ways to lower the cost of electricity services to Western Australians.

Mr F.M. LOGAN: What is the expected return on the sale of those poles and the income from that? That will go back to Western Power, I presume, rather than back to Treasury, because the asset belongs to Western Power.

Dr M.D. NAHAN: We are waiting for advice. We put the request to Western Power, as Mr Italiano has indicated. We will get a report from Western Power on the magnitude of it. Again, this is not straightforward; it is very complex in a range of areas. If we do sell them, we have not made a decision on the proceeds, though I note that it would be beneficial for Western Power to bolster its equity towards cash balances.

Mr W.J. JOHNSTON: I assume that Western Power knows where all the light poles are because there seemed to be confusion in Mandurah about whether it owned a pole that was knocked over and left on the ground and two kids were electrocuted.

Mr P. Italiano: One of the things we have said before is that the impression is that the network is a very static machine. In fact, that is not true; it is changing every day. New equipment is installed all the time. Old equipment is removed and repaired all the time and there is a bit of a time lag between when action is taken on the network and when the records are updated in our system. To the extent there is a bit of variation at the edges, to accommodate that, I am very confident we know where all our streetlights are.

I would like to point out that concerning the tragic event in Mandurah, pleasingly, the two people were not electrocuted; they received an electric shock. It is a bit of a nuance, I know, but very important for the outcome to them. We knew at the time and we know now that we do not own the pole. I am not sure who does but we certainly do not. There may have been some confusion but there certainly was not at Western Power.

Mr W.J. JOHNSTON: In its submission to the midyear review, the Western Australian Local Government Association asked to purchase the poles so it could operate them and it could then get competitive electricity and

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then it could have control over the cost. If Western Power sells them to somebody else, councils will still have to pay a third party for the supply of light. Has the minister discussed this with WALGA?

Dr M.D. NAHAN: When we identify the asset we will sell, I am sure, whether it be WALGA or individual cities, they will look at buying the asset. I have no issue with that whatsoever. That has some advantages. They can do as Subiaco did and go into a contestable market and buy the electricity for their streetlights and everything else they own. That is the position.

The CHAIRMAN: That completes the examination of Western Power.

Meeting suspended from 8.30 to 8.34 pm