

**Division 46: Finance — Service 5, Public Utilities Office, \$38 347 000 —**

Mr P. Abetz, Chairman.

Dr M.D. Nahan, Treasurer.

Ms A. Nolan, Director General, Department of Finance.

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

Mr G. Gadomsky, Director, Government Business, Department of Finance.

[Witnesses introduced.]

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

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 estimates committee's consideration of the estimates will be restricted to discussion of those items for which a vote of money is proposed in the consolidated account. Questions must be clearly related to a page number, item program or amount in the current division. It will greatly assist Hansard if members can give these details in preface to their question.

The Treasurer 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 Treasurer to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the Treasurer's cooperation in ensuring that it is delivered to the principal clerk by Friday, 19 June 2015. I caution members that if the Treasurer 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.

**Dr M.D. NAHAN:** I indicate at the outset that Dr Ray Challen, the deputy director general, is on leave; otherwise he would be here.

[12.50 pm]

**The CHAIRMAN:** The member for Cannington has a question.

**Mr W.J. JOHNSTON:** I am referring to page 518 of the *Budget Statements* and the dot point under "Public Utilities Office". In respect of the energy market review, I wonder what advice the Treasurer has had from the agency about the cost implications of moving the regulation of Western Power from the Economic Regulation Authority to the Australian Energy Regulator. We had a bit of a discussion last night, but I would imagine the Treasurer would have been given advice about the potential impacts on electricity prices of that decision.

**Dr M.D. NAHAN:** Indeed as we mentioned yesterday, I have not received that advice; it is still being formulated. We have had briefings on issues, and that always comes up as an issue, and I am sure advice will be provided as to an indicative estimate of the impacts, positive or negative, relative to the ERA. That will be, as we discussed yesterday, speculative in the sense that we would be comparing it with ERA judgement AA4—that has been done. The ERA would have to re-evaluate its weighted average cost of capital, even if it accepts that the existing methodology would be different. Nonetheless, I have not received that yet; I will. I hope to get that and a whole range of other things quite soon. Ray Challen, as the member knows, is chairman of that committee and is working diligently on it, as is Guido.

**Mr W.J. JOHNSTON:** What I understand the Treasurer to be saying is that he made the decision to change the regulatory framework without any advice about the potential impact on the cost of electricity for Western Australians in making that decision?

**Dr M.D. NAHAN:** Well, of course we made a decision and, as I went through yesterday, for a whole range of reasons. The evidence is that we will get a more robust assessment of the cost of operating capital from the AER because it has a whole range of other indicators. It has a much more robust database, so we are able to get a more accurate, stable process. The WACCs were large in the past in the AER, but they have been coming down, particularly in recent times, towards what the ERA would indicate. I am confident that there will be no additional cost pressures overall by moving to the AER, but I am waiting for the experts to confirm that or otherwise and to explore the dimensions of it. In fact, the indications are so far that the move is going to put a great deal of pressure on Western Power to reduce its costs to meet the requirements of AER. Therefore, the pressure is not going to come on a cost to electricity customers from the charge through Western Power, but on Western Power meeting the cost reductions that AER will impose on it. It is the opposite of what the member is inferring. There are all sorts of other reasons for us having a wider-known and understood regulatory regime to share with AER's assessment, both regulatory and otherwise, including technological change, which is very important; it is probably the seminal issue facing the industry. There is a whole raft of changes to move to, but I am confident

that there will actually be a diminution of cost pressures on electricity consumers because of the move to AER, not the opposite.

**Mr W.J. JOHNSTON:** But that is a contradictory answer, because I asked whether the Treasurer had had advice about the cost implications, and the Treasurer said it is being developed and he has not received it. Now the Treasurer is telling me what the advice contains.

**Dr M.D. NAHAN:** Yes, we —

**Mr W.J. JOHNSTON:** No—if I could ask my question, Treasurer. It just seems a bit odd. If the Treasurer has not had the advice, how is it that the Treasurer can tell me what the advice contains?

**Dr M.D. NAHAN:** In government we achieve advice in an interim manner. We have had extensive discussions and advice about what would happen if we move over to the AER, and there was a general consensus of view. Then it depends on how, what conditions are imposed on that and what special parts of the AER regulations are put in in Western Australia. Those have not been decided yet, as I indicated yesterday. That is what the group is doing now; it is putting together a detailed report on what will need to be done, how it will need to be pursued in a regulatory sense, what would be the variation, and what would be the special conditions or otherwise that Western Australia would require in the code. So, we did get an indicative view that there would be a reduction in cost pressure, but we have to go into the detail and that is what I am waiting for the report on.

**Mr W.J. JOHNSTON:** The Treasurer is saying that if the advice comes back it could be this, it could be this, it could be this; yes, I agree it could be any of those things, but it could be completely different, of course. So, what is the Treasurer saying? That if the advice comes in that moving to the AER will in fact potentially increase the WACC or potentially increase the cost pressures, the government will not proceed with it? Is that what the Treasurer is saying?

**Dr M.D. NAHAN:** If the report comes back, as I think it will, that it will reduce the cost pressure on electricity customers, which is, I think, what the outcome will be—that is the indicative advice I have—that is good. We will address that when it comes. My understanding is that there are numerous benefits from this, and one of them is the outcome the member is focused on, and that the debate has been around, and it is whether this will lead to a higher WACC or a higher cost structure to the industry and lead to a higher impost on electricity consumers. I am confident it will lead to lower price pressures on electricity prices in Western Australia.

**Mr W.J. JOHNSTON:** But none of that confidence comes from any advice the Treasurer has received.

**Dr M.D. NAHAN:** I said the advice we are waiting for is a detailed assessment of not only the general expectation of the impact, but also the detailed process of moving over and what the conditions are.

**Mr W.J. JOHNSTON:** So what the Treasurer is saying is that he has received interim advice. What does the interim advice show? Does it show that it will be more or less expensive?

**Dr M.D. NAHAN:** We have to go into the detail of what we do and the regulatory code, and discuss with the AER the process of doing it and when the regulatory regime would be put in place. This is a complex world and we have to deal with a complex situation, but the understanding that I have is—this is particularly supported by the recent results of the AER—that it will lead to further downward pressures on electricity charges and prices.

**Mr T.K. WALDRON:** Treasurer, I refer to heading 5 on page 522 of the *Budget Statements*, which is in regard to the Public Utilities Office's work on policy and reform. Can the Treasurer just let us know what is being done to provide residential customers with assistance to meet the rising costs of electricity supply?

**Dr M.D. NAHAN:** Yes; a whole raft of things. First, as the member well knows, when we came into government in 2008 we faced a mountain of increases in electricity prices over that time. Since then they have gone up, overall, by 84 per cent. It put real pressure on households, and that comes back to failed policies previous to our government. At the same time, despite the 84 per cent increase in prices, subsidies went up from around \$60 million a year to \$450 million. We were raising prices and still subsidising increases; it was a mess. So, we put in a raft of incentives. We put in the cost-of-living rebate and the cost-of-living allowance, and expanded the hardship utility grant scheme. Those only target people who are either, for HUGS, suffering hardship, or people who are retirees and others. But the real issue we are moving to is to take the cost pressures out of the electricity industry, so that we can remove the subsidy—taking the burden off taxpayers, which is as important—and also reduce the cost so that we can have more moderate price increases. Also, the aim is to have a reform agenda that changed the market structure, as well as efficiencies in Synergy and Horizon that allow us, at least in the south west interconnected system, to get to full cost reflectivity and have competition in the system.

**The appropriation was recommended.**

