

**Western Power —**

Mr I.M. Britza, Chairman.

Dr M.D. Nahan, Minister for Energy.

Mr G. Chalkley, Acting Chief Executive Officer.

Mr M. Crevola, Acting Chief Financial Officer.

Mr S. McGoldrick, Executive Manager, Asset Management.

Mr S. Walsh, Executive Manager, Corporate Services.

Miss S. Tasovac, Principal Policy Adviser.

Mr D. Tayal, Principal Policy Adviser.

[Witnesses introduced.]

**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, 3 June 2016. 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.

**Mr W.J. JOHNSTON:** I note at page 20 of Western Power's 2015 annual report and also on the balance sheet at page 29 and notes 6 and 15 to the financial report—it is in the non-current liabilities, which means that it is due in a future financial year—that the total liability is \$481 332 000 deferred income tax equivalent liabilities. To whom is that money payable?

**Dr M.D. NAHAN:** I will ask Guy to talk about that in a minute. There have been debates in the other chamber.

**Mr W.J. JOHNSTON:** In the real chamber!

**Dr M.D. NAHAN:** Yes, and we will have more. Under accounting treatments, a business can have capital as either a tax deduction or a tax offset. It is determined by the accounting rules. Particularly because Western Power has undertaken a large amount of investment in wooden poles, which are treated as immediate write-offs, its profit has been written off. Western Power declares a profit and the income tax for that level of capital expenditure is an immediate write-off that more than extinguishes its profit; therefore, tax equivalent payments to the state are zip. They have been zero for four years.

**Mr G. Chalkley:** They have been pretty much ongoing. Basically we make an accounting profit under normal circumstances, but as soon as we put the treatment of mainly asset replacement poles into perspective, it produces a tax loss. That has been the case for the last four years and it will be going forward, as well. We cannot see a tax payment being made in future years while we continue that investment.

**Dr M.D. NAHAN:** Western Power plans over five years over our forward estimates. There is no expectation of a tax equivalent payment from Western Power to the state.

**Mr W.J. JOHNSTON:** I asked to whom the deferred tax equivalent liability is owed.

**Mr G. Chalkley:** Ultimately, it will be through the tax office but, clearly, under the current arrangement, it does not get to a cash payment.

**Mr W.J. JOHNSTON:** Did the adviser mean to Treasury?

**Mr G. Chalkley:** Yes.

**Dr M.D. NAHAN:** In this arrangement, as the member knows, we are the tax officer but we apply commonwealth Australian Taxation Office rulings. The payment is to us when, indeed, it is contingent on turning a profit to offset abeyance.

**Mr W.J. JOHNSTON:** It is a liability not an asset; on the balance sheet it is shown as a \$481 million debt. I am not quite sure what the minister means when he says —

**Dr M.D. NAHAN:** It is a liability.

**Mr G. Chalkley:** It could carry for many years. It basically sits there as a deferred liability and it does not necessarily crystallise until an accounting financial profit is made. If a person looks at the forward estimates, whilst there is still investment in the capital program, that liability really would not be crystallised; it will remain on the balance sheet.

**Mr W.J. JOHNSTON:** I understand that means that because Western Power is continuing to invest in the assets of the poles and wires business, or the transmission and distribution business, it is carrying forward its liability and at some future date will start to write off the asset, which will allow Western Power to offset that liability against its future.

**Mr G. Chalkley:** It is not necessarily writing off the asset, because we have effectively already taken the allowance in the year that the expenditure was incurred. It really depends on the investment that is being made going forward. Whilst we are still making capital investment year on year, we would, therefore, generally have that deferred liability sitting on our balance sheet; it will not actually crystallise into a cash payment.

**Mr F.M. LOGAN:** A tax loss.

**Dr M.D. NAHAN:** Our expectation for the forward estimates is that that will end. For the last four years we have made a tax loss, effectively.

**Mr W.J. JOHNSTON:** Where is the tax loss that the minister referred to reflected in the entity's annual report?

**Dr M.D. NAHAN:** I said that the tax payment liabilities from Western Power to the state are zero, and they have been for four years and we expect that they will be for the next five years. That is because Western Power has more than sufficient capital expenditure that is deductible from its tax liabilities to offset any need. Western Power has more than enough expenditure to offset all tax earnings and all profit expectations over the next five years.

**Mr W.J. JOHNSTON:** For the next five years. That is what I am trying to get at.

**Dr M.D. NAHAN:** We have not forecast beyond five years.

**Mr F.M. LOGAN:** What is the estimated actual for the loss this financial year?

**Dr M.D. NAHAN:** Western Power declares an accounting profit and against that there are a number of write-offs that more than extinguish the profit. There is a stock of write-off assets, if you wish, but I am not sure what they are. If an accounting profit is declared and there are offsets against that that more than fully offset the accounting profit, the entity does not go into being negative, it just waits until the next year to use the residual offsets. That is what Western Power has been doing for four years. I understand that Western Power's offsets largely relate to the large wooden pole replacement program—Mr Chalkley can confirm that—that is almost finished. In fact, I think we have finished it. Mr Chalkley can talk to that. That stock of expenditure has allowed Western Power to not pay any tax equivalent to the state for four years and it will not have to pay any tax equivalent for at least the next five years.

**Mr W.J. JOHNSTON:** In 2011, Western Power received a direction to change the profile of its investment because EnergySafety stated that it was not complying with its licence conditions. Therefore, there has been a major program to replace wooden power poles in accordance with the direction from EnergySafety. There is a whole debate around the risk-based approach that Western Power took rather than the direction that it received, but, leaving that aside, an extraordinary amount of investment has taken place over the last five years to effectively bring Western Power up to date on its obligation to maintain a safe distribution system. Is the minister saying that that very large investment over that five-year period has led to the obligation to pay tax equivalents to the government being carried forward?

[8.10 pm]

**Dr M.D. NAHAN:** No, not that. The problems with wooden poles go way beyond 2011. There were a number of reports in 2005, 2006 and 2007 that Western Power was underspending on wooden poles.

**Mr W.J. JOHNSTON:** Yes, that is right. That is how it was producing.

**Dr M.D. NAHAN:** Yes. But there were other major investments that also have to be offset against any income stream. Beyond the wooden poles, Western Power had a very large capital expenditure that has been amortised, which includes as depreciation offset against profit, so wooden poles have been a major one and we have finished that project and met EnergySafety's requirements, I might add, on time and in full. There were some interesting complications to that. One of the problems we had was a wooden pole in the middle of a house. How do we replace that? It was technically difficult, but we finished all those things. The other issue has been that Western Power has had a huge capital works program since its inception as Western Power in 2006 and all that capital has also gone to diminish the revenue flows. Most of that capital expenditure, a great amount, has been of course funded by debt. Indeed we have had nearly \$5 billion invested in net debt in Western Power during our period.

**Mr G.M. CASTRILLI:** I refer to “Safety—Our Most Important Priority” in budget paper No 1. The second dot point states that \$141.6 million has been allocated for conductor management and bushfire mitigation projects. It goes on to explain priority maintenance repairs and replacement of aged and deteriorated overhead conductors. When I refer to safety, I am referring to Western Power’s emergency response effort. We saw extensive support provided for the bushfire affected communities across the south west. I was wondering whether the minister could provide some details of Western Power’s investment into the networks. Obviously as a result of those bushfires, there would have been major replacements and things Western Power has had to do.

**Mr G. Chalkley:** Certainly from our perspective the bushfire in Waroona in January was a major bushfire. It was probably the size of the three other ones that we had seen in the previous three years. We took a lot from it in the sense that we learned from the Northcliffe fire and we got very well prepared for it. We worked with the fire services et cetera to get ready and we were geared for it; we knew what the assets were. Over the three weeks after the fire work that we did in the recovery stage, over a thousand poles were changed. On top of that, we also did 20 kilometres of conductor work. One of the places that had been quite severely hit was Preston Beach, which was pretty much cut off from the highway to Preston Beach. It was on a distribution pole network and we took the opportunity to underground that area, which was something that we had wanted to do anyway. The total cost of what went on in January was around about \$20 million, including on all the poles, the conducting work and the undergrounding, but it brought a lot of the program forward, so it was not an additional expense for us; it was actually a way of bringing some of the work forward. From personal experience, I think the way we prepared and recovered from that situation went very well.

**Mr G.M. CASTRILLI:** I was not quite aware of the \$20 million, but we had some very good community feedback on the work Western Power did, so congratulations on what you have been able to achieve.

**Dr M.D. NAHAN:** I went down there soon after the fire and it looked like an army. It looked like the first Iraq War, with the amount of equipment there. The feedback on Western Power’s performance, particularly in Yarloop but also across the board, was really impressive.

**Mr G.M. CASTRILLI:** I have another point, Mr Chair, if you do not mind. The member for Collie–Preston and I drive past that area quite often. Every time we went up and down it was quite a crater. If people looked at it, they would see that it was complete devastation.

**Mr B.S. WYATT:** Regarding the loan guarantee fee paid by Western Power, how much is being paid by Western Power through the Western Australian Treasury Corporation to Treasury over the last three financial years and how much is expected to be paid in 2016–17?

**Mr M. Crevola:** I am happy to answer that question. Basically, we are expecting a government guarantee fee for the last financial year of approximately \$40 million. Then we expect that to continue for the next financial year in the forward estimates period.

**Mr B.S. WYATT:** Through the Treasurer, has that been effectively around that figure for the last three years?

**Dr M.D. NAHAN:** Yes, it has been in that vicinity. I am looking for that in the year, so I can give the member the exact sums for this year and the previous two years.

**Mr B.S. WYATT:** Just while the Treasurer is thinking about that—again, I came into the conversation a bit late—is the \$480 million in unpaid tax equivalents covered by the loan guarantee fee?

**Mr M. Crevola:** The short answer is no. Western Power obviously has a government guarantees in all the offset liabilities in a general guarantee. The government guarantee fee is actually levied only on our borrowings through WATC.

**Mr B.S. WYATT:** Does Western Power borrow, in any other capacity, other than through WATC?

**Mr G. Chalkley:** No, we only borrowed through WATC. We do benchmark where it sits to ensure that, but certainly we go through WATC.

**Mr W.J. JOHNSTON:** Western Power has run up quite a considerable amount of debt of about \$3 billion extra over the last four years. As the minister said, he has had that very large program to replace those older poles. Is the minister now expecting that borrowing program to slow down as that period of catch-up washes out of the process?

**Dr M.D. NAHAN:** Yes, that has been a very large program. Mr Chalkley can give the member the magnitude of it. Again I want to emphasise that we have had the midwest transmission program, which was a very large program during that time too. We also have had massive increases in metropolitan investments. Western Power, like many utilities around Australia, has had a very large capital build-up. We have had, as the member knows, 450 000 people. It is not just about poles, but we finished the pole replacement program. There is more money going into safety in higher proportions, so some areas are going up. Capital investment will slow over the

forward estimates, but the expectations are that because some of the fleet is ageing, the investment will ramp up again. I indicated that despite the improving efficiencies and operations of Western Power, and therefore higher dividends, the borrowings in each year over the forward estimates are expected to exceed by substantial margin all incoming flows to the state. From the state's perspective there will be a negative cash flow from the state to Western Power over the forward estimates, even though there is an improvement in dividends and also some slowing of capital investment.

[8.20 pm]

**Mr F.M. LOGAN:** Can the minister provide by way of supplementary information—I do not think he would have this information to hand—how many apprentices and in what trades Western Power has taken on in the last four years, including this financial year?

**Dr M.D. NAHAN:** So, back-casting four years?

**Mr F.M. LOGAN:** Yes, going back from this current financial year to 2012–13, how many apprentices and in what trades has Western Power employed those apprentices, and how many, and in what trades does Western Power expect to hire in the next financial year, 2016–17?

**Dr M.D. NAHAN:** I would like Mr Chalkley to talk about that and then provide the detail.

**Mr G. Chalkley:** I can certainly talk about that and then provide the detail of that afterwards. We had quite a large apprentice program over the last four years, generally across the trades in the industry for linesman and jointers et cetera. We did not take any in February 2016, but that was because the number of tradesmen that we have coming off this year through the last four years is obviously something that we are looking at now in terms of what we need to take on in the next year coming. One of the issues there, as the minister said, is that the program has got smaller, so it is understanding how many we actually need as we understand the size of the program going forward, which is definitely smaller over the four years of the forward estimates. I can certainly provide the detail—the numbers.

**The CHAIRMAN:** The minister has agreed to give us something. Can we clarify what he is going to provide?

**Dr M.D. NAHAN:** We will bring give a breakdown of the number of apprenticeships brought on in Western Power or onwards over the last four years.

**Mr F.M. LOGAN:** It is the number of apprentices and in what trades.

**Dr M.D. NAHAN:** It is the number of apprenticeships in Western Power, what trades and what we expect to do next year.

[*Supplementary Information No B35.*]

**Mr M.H. TAYLOR:** I refer to Western Power's recent announcements regarding its efforts to integrate emerging technology with the established network. Can the minister provide an update on the significant work Western Power has been undertaking in this sector?

**Dr M.D. NAHAN:** As the member knows, poles and wires are regulated as a natural monopoly; however, there are various dimensions at the end of the grid and within the grid that have been challenged by technological change. One of the great challenges that regulators have is how to facilitate the adaption of technological change and whether that is being done as a natural monopoly—the poles and wire—or as a retailer or as a generator; and, also, how and where it is going to go, particularly with battery technology. Horizon Power, Synergy and, of course, Western Power are experimenting on this in a whole raft of ways. Mr Chalkley may want to talk about that.

**Mr G. Chalkley:** One of the things we have seen probably in the last year is that people were talking about emerging technology, and it has since emerged. It is out there and is in the market. I think members will see that it has improved infinitely through an innovation point of view. Obviously, it has given us a real opportunity in some of the areas where we think reliability can be improved, as long as we can do it affordably and it is still safe and the service is still good. Where that has left us is that we announced the work we were doing with Carnegie Wave Energy on Garden Island, with the micro-grid using wave technology as a pilot. From an energy perspective, we also announced using a micro-grid with battery storage at Kalbarri and also using an existing solar farm out there. We have six other projects that sit around it. Probably the other interesting one is in Perenjori, which again is a battery storage-type solution. We also announced one at White Gum Valley, near Fremantle, which again is working through Australian Renewable Energy Agency funding and Curtin University, where it uses solar power on apartment blocks and battery storage as an option. We are seeing what is out there. One of the things we have seen—we saw it through Waroona as well—is that it is part of the investment decision now, whereas previously there were only certain ways to do things. Although not all of them are mature, it is an opportunity for us to look at alternative solutions.

Mr Bill Johnston; Dr Mike Nahan; Mr John Castrilli; Mr Ben Wyatt; Mr Fran Logan; Mr Matt Taylor

---

**Dr M.D. NAHAN:** White Gum Valley is in the member's area. It is extremely interesting because there are a lot of rental properties. The question has been how to get solar on rental properties—it has been a real hindrance—and how to get solar allocated to non-household facilities such as streetlights and other issues. Western Power is experimenting with doing that, as well as examining the incentives and cost of doing it. It is very interesting.

**Mr M.H. TAYLOR:** I have a point of clarification; I will not take long. Mr Chalkley said “emerged” rather than “emerging” technologies. I am curious whether he see the technologies coming as a pulse or a pipeline?

**Mr G. Chalkley:** It is a pulse in some respects. They are not mature enough yet, but they certainly have been tested in certain areas. We still have a pilot program to see what opportunities we have. We have still got to make sure they are affordable against the other options that we have. Yes, we are at the stage at which we want a pilot and to find out whether that is an option. It has been an option when reliability might have been a challenge for us in certain areas. They are the areas that we are focusing on at the moment, and also on where we can improve the customer experience from a reliability point of view and whether it can be affordable.

**Mr W.J. JOHNSTON:** I refer to the line item “Government Initiative State Underground Power Program” on page 408 of budget paper No 2. Which specific projects has the \$22.625 million been allocated to in the 2016–17 budget; and, in the out years, are there specific allocations for that to fund specific projects?

**Mr G. Chalkley:** There are actually five projects sitting in there, including in Pinjarra, Geraldton, and Melville south. They are a mixture of either enhancing the existing network or a full changeover from poles into an underground situation.

**Dr M.D. NAHAN:** They are remnants of stage 5 of the underground power program listed somewhere in the budget.

**Mr M.H. TAYLOR:** It is the last paragraph on page 407.

**Mr W.J. JOHNSTON:** What percentage of the out years is allocated to specific projects?

**Mr G. Chalkley:** In the out years, they would not be allocated to specific projects as they are generally taken in the next year, and then, obviously, they go through discussions with council and the Public Utilities Office et cetera.

**Dr M.D. NAHAN:** We are going into stage 6. To my knowledge, the money is allocated en bloc, but it has not been allocated to projects yet.

**Mr G. Chalkley:** Correct.

**Mr B.S. WYATT:** Does stage 6 start next year?

**Dr M.D. NAHAN:** Stage 6 starts when stage 5 finishes.

**Mr G. Chalkley:** Stage 6 starts next year.

**Mr B.S. WYATT:** Is that in 2017–18 or 2016–17?

**Mr G. Chalkley:** It is 2016–17. I think we are finishing stage 5 now.

**Mr B.S. WYATT:** Is stage 6 then 2017–18?

**Mr G. Chalkley:** Yes.

**Mr B.S. WYATT:** Has Western Power formally withdrawn from sale its office building in Wellington Street?

**Dr M.D. NAHAN:** Yes.

**Mr B.S. WYATT:** What costs have been incurred in considering the government's proposal to sell that building?

**Mr S. Walsh:** Largely the project was considered internally, so there were not a lot of external costs. We have several advisers who helped us with some of the analysis of rental properties in the market. I do not have the figure to hand; I can provide that subsequently. It was not large—circa less than several hundred thousand dollars.

**Mr B.S. WYATT:** I was not expecting you to have the figure, so I am happy to take it by way of supplementary information.

**The CHAIRMAN:** Does the minister want to provide supplementary information on this?

**Dr M.D. NAHAN:** I will provide an estimate of the expenditure by Western Power with outside consultants to estimate the value of the proposal to sell its office building in Wellington Street.

*[Supplementary Information No B36.]*

**Mr W.J. JOHNSTON:** How much expenditure was consumed by Western Power during the 2015–16 financial year on moving systems management to the Australian Energy Market Operator, changing the regulator from the

**Extract from *Hansard***

[ASSEMBLY ESTIMATES COMMITTEE B — Tuesday, 24 May 2016]

p194b-199a

Mr Bill Johnston; Dr Mike Nahan; Mr John Castrilli; Mr Ben Wyatt; Mr Fran Logan; Mr Matt Taylor

---

Economic Regulation Authority to the Australian Energy Regulator and preparing Western Power for privatisation?

**Dr M.D. NAHAN:** The answer to the last point is none. I will let Mr Chalkley talk about the EMO, but moving the systems management to AEMO has not happened yet; it is still with Western Power.

**Mr G. Chalkley:** It is indeed.

**Dr M.D. NAHAN:** I understand that I will get a briefing note soon to have that done and maybe Mr Chalkley can talk about that.

[8.30 pm]

**Mr G. Chalkley:** We already had quite a lot of regulatory functions—it was part of the business—and obviously we absorbed a lot of cost in transferring that type of function to the Australian Energy Market Operator through those functions. Everything else is with individual scoped consultancy projects, but we have probably not looked at it specifically for the electricity market review because we already had the function sitting within Western Power as a regulatory function. I can come back to the member about the cost of the consultants, but really it is within our existing business to undertake that sort of work.

**Dr M.D. NAHAN:** I have a couple of comments. First, Australian Energy Regulator policy is being done not by Western Power but by the Public Utilities Office.

**The CHAIRMAN:** Thank you, members. I apologise, but that completes the examination of Western Power.