

Chairman; Mr Colin Barnett; Mr Alan Carpenter; Mr Tony McRae; Mr Dan Barron-Sullivan; Mr Troy Buswell;  
Mr Tom Stephens; Mr Mick Murray

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**Western Power -**

Mrs D.J. Guise, Chairman.

Mr A.J. Carpenter, Minister for Energy.

Mr T. Iannello, Managing Director.

Mr D.T. Aberle, General Manager, Networks.

Mr N. Ninkov, General Manager, Finance, Risk Management and Service Delivery.

Mr J. Bradley, Executive Director, Office of Energy, Electricity Reform Implementation Unit.

Mr B.R. Sadler, Adviser, Energy, Office of the Minister for Energy.

**The CHAIRMAN:** This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow. Hansard asks ministers, members and advisers to make their corrections on the daily proof *Hansard*. Hansard will forward the transcript to the minister's office for distribution to advisers. The cut-off date for corrections will be indicated on the transcript.

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. Only supplementary information that the minister agrees to provide will be sought by 17 June 2005. 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 officers. It will assist in the committee's examination if questions and answers are kept brief without unnecessarily omitting material information. It is the intention of the Chairman 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. For the purpose of following up the provision of this information, I ask the minister to clearly indicate to the committee which supplementary information he agrees to provide and I will then 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 committee clerk by 17 June 2005, so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. An example of the required Hansard style for the answer has been provided to the minister's advisers. Any information provided at a later date by ministers in response to members' questions may be published in a separate Hansard document.

**Mr C.J. BARNETT:** I do not wish to carry on about disaggregation, but I want to ask the minister exactly the same question I asked in the previous division. Western Power has, over the years, as has Treasury, done various studies on what the effect of disaggregation would be on the value of Western Power. Can the minister, or Western Power, provide information on what they believe the value of Western Power is as an integrated utility as of today, and what the value of the four constituent components would be post disaggregation?

**Mr A.J. CARPENTER:** I might ask Mr Bradley to give a quick response, as per the previous response, and see if there is any variation.

**Mr J. Bradley:** To recap the key conclusions, the reduction in value in Western Power, to the extent that there is one from its cash flow valuation in the future, will be determined by the effect of a competitive market, rather than by the impact of disaggregation. Competitive forces will reduce the profitability of Western Power if that occurs. The analysis that I referred to in the previous division was undertaken jointly last year by Western Power, the Office of Energy and the Department of Treasury and Finance. That analysis found that there was no requirement for any asset write-down based on the current carrying value of Western Power's assets. As I said earlier, there has been no further integrated analysis of the successor entities, which will be done prior to disaggregation.

**Mr A.J. CARPENTER:** The benefit of having Mr Iannello present should not be missed on this issue.

**Mr T. Iannello:** I do not disagree with anything that Mr Bradley has said. Competition in the market spreads the revenue across many competitors. We all know that being a monopoly player maximises the total revenue. If competition is introduced, it spreads revenue over many participants.

**Mr C.J. BARNETT:** There are two issues. One is the structure of Western Power, and the other is competition. For example, when Alinta was privatised, it clearly had a higher value as an integrated utility than as a disaggregated one. Western Power has had studies done prior to the tenure of the current chief executive that have measured the impact on the market value of Western Power of disaggregation.

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**Mr A.D. McRAE:** The member for Cottesloe commissioned those studies when he was Minister for Energy.

**Mr C.J. BARNETT:** I did not; Western power did. It is of significance to this issue that those figures be released.

**Mr A.D. McRAE:** The previous government was selling it off.

**Mr C.J. BARNETT:** That does not matter. Figures of \$500 million were arrived at by both the Department of Treasury and Finance and by Western Power.

**Mr A.J. CARPENTER:** I am happy for Mr Iannello to respond.

**Mr T. Iannello:** I am not aware of those previous studies. When considering the future value of the disaggregated units, the biggest impact results from competition, not disaggregation.

**Mr C.J. BARNETT:** They are two distinct issues.

**Mr T. Iannello:** They are.

**Mr C.J. BARNETT:** As a disaggregated utility, it will be competing with integrated utilities, such as Alinta.

**Mr T. Iannello:** That is quite correct, and that is why I say that the introduction of competition will have a bigger effect. In terms of disaggregation, one of the measures outlined in the reform agenda is for vesting contracts between the generation and retail business units. The effect of these contracts is to put in place arrangements that will essentially have the same impact as an integrated supplier, so that the generation business supports the retail business for a particular period.

**Mr C.J. BARNETT:** This begs the question: why break that part up? I do not expect Mr Iannello to answer that.

**Mr A.J. CARPENTER:** It is a government decision.

**Mr C.J. BARNETT:** I accept that.

[5.40 pm]

**Mr D.F. BARRON-SULLIVAN:** I want to refer to a situation that has gone on for some time now regarding power installations in new residential subdivisions, in particular, and also relating to individual applications. For example, a gentleman in Pinjarra has been asked by Western Power to pay, and has had to pay, nearly \$8 700 for a transformer. Western Power initially told him that, typically, he would pay the money and then 12 weeks later Western Power would get around to commencing the provision of that infrastructure. I do not know why it has to hold his money for 12 weeks, but apparently that is the case. He has been told that there is a delay of at least 25 weeks. This is now commonplace. Getting transformers from overseas is an absolute nightmare at the moment. The development industry in some places is grinding to a halt. There are problems with the provision of low voltage cable and a range of infrastructure in Western Power. It stems from the fact that at the moment developers and others have no option but to obtain their materials from Western Power. They get a choice, as the minister will know. Either Western Power does the whole job, or they can carry out the work but they must still get the materials through Western Power. I am not aware of another service provider, whether it be Alinta, Telstra, the Water Corporation or a local council, that operates in the same way.

**The CHAIRMAN:** Sometime soon I will hear a question.

**Mr D.F. BARRON-SULLIVAN:** The question will be a good one and worth waiting for.

**The CHAIRMAN:** Not for long, it will not.

**Mr D.F. BARRON-SULLIVAN:** The argument that the housing industry is booming does not explain this, because the problem does not affect all those other service provisions. My question is simple: what is Western Power doing at the moment to resolve this? Why do we not simply let the private sector do this work and provide the materials concerned, provided obviously that the quality is audited by Western Power?

**Mr A.J. CARPENTER:** As far as it is a Western Power issue, I will get Mr Aberle to respond. I want to make a general comment. It is somewhat predictable for me to say this but the process we are going through now with the reform of the energy industry is progressing apace. We are hoping that the disaggregation of Western Power legislation will be assented to this year, so that it can take effect next year. The process is to free up the whole energy industry and provide more competition at every level. Essentially the member's question relates to that. Yes, there are issues that, shall we say, attach themselves to disaggregating an organisation, especially when that part of generation is disaggregated from retail. Our overall view is for the best interests of the broader community rather than any single part of it, including that single part that is Western Power. I, the government

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and, I think, the general community have the view that there would be a better outcome for the broader community with the reforms that we are anticipating putting into place, so that we move from a single supplier, single generator scenario - albeit that there is competition around in the generation area - to a much more active and competitive industry at every level. This is one of them. I ask Mr Aberle to respond from Western Power's point of view to that particular question and the issues relating to it.

**Mr D.T. Aberle:** The fact is that at the moment when it comes to subdivisions people do have the option of doing the work themselves. They can either get Western Power to do it or they can do it themselves. In fact, they have the option of acquiring equipment and cable elsewhere, too. We provide a service by providing cable and associated equipment. We have large buying power and, by and large, people prefer to get it from us, because with the worldwide shortage of equipment, we have been able to use our capacity to access equipment even though we have suffered substantial delays. The short answer is that the choice is currently available. We are actively looking at ways of rendering even more attractive the option of people doing the work themselves, so that option gets picked up more extensively. As for the acquisition of equipment, we have certainly been through a period when delays like the one the member mentioned have occurred. We have managed to pull a lot of those back. That has been acknowledged by several quarters of the industry. One of the things we needed to do was improve the holdings of equipment, like transformers, and we have certainly done that in response to the squeeze on transformers, cable and related equipment across the country.

**Mr D.F. BARRON-SULLIVAN:** Can a developer buy transformers, cable and so on privately at the moment?

**Mr D.T. Aberle:** Provided, as the member has pointed out, that they meet the standards, that is true. It is much harder for a small developer to do that than it is for Western Power, so the option of buying from us is more attractive.

**Mr D.F. BARRON-SULLIVAN:** If, for example, a major developer or a wholesaler wanted to get a load of cable from Italy or transformers from America, there would be nothing to stop the developer doing that and other developers approaching that developer for equipment. They could do all the infrastructure work themselves and presumably just have it checked by Western Power before they flicked the switch.

**Mr D.T. Aberle:** Yes, indeed, that option is available. It is difficult for people to do that because of a worldwide shortage of the equipment the member is talking about.

**Mr D.F. BARRON-SULLIVAN:** The advice I have is that it is impossible to get equipment elsewhere. There is a reference group with the Civil Contractors Federation and others working with Western Power on this problem. I cannot tell the minister how many developers have complained to me about it since I have had this portfolio, which is only three months. Individual circumstances are coming to light. Not one of those people has told me that they can buy cabling and other equipment elsewhere. What is it that gives Western Power a stranglehold?

**Mr D.T. Aberle:** As I have said, it is to do with the volume that we naturally buy for our own needs and also for the development industry. Any individual developer trying to negotiate with a cable supplier like Perelli in a very constrained market is in a much more difficult position than somebody who is a long-term customer. That is the difference in a nutshell.

**Mr D.F. BARRON-SULLIVAN:** In which of the four divisions will this area be covered under a disaggregated model?

**Mr D.T. Aberle:** I am expecting it to remain in the network business.

**Mr D.F. BARRON-SULLIVAN:** All the minister's preamble to this had nothing to do with the network section. The legislation has no bearing on the matter we are talking about now, but I am intrigued by Mr Aberle's comments.

**Mr T.R. BUSWELL:** The sum of \$44 million to fund electricity market reform is noted on page 763. It is for the development of information technology systems and energy metering arrangements. Will the minister provide a little more detail of the exact items on which that \$44 million will be spent?

**Mr T. Iannello:** I will also refer to Mr Bradley, just to confirm this matter. A couple of individual projects need to be developed to introduce the reforms. One is a metering system for billing out of the networks, in which networks will be independent from other business units. We will also have an independent market operator, who will have responsibility for ensuring that there is system security and reliability. Some systems will be required to support that process.

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**Mr T.R. BUSWELL:** With regard to the payment to the government of dividends from Western Power, why is it estimated that over the next four years the dividends paid to the state government from Western Power will drop by almost \$60 million?

[5.50 pm]

**Mr T. Iannello:** There are a number of effects on the dividend flow. First, there is an additional commitment to improving reliability right across the network, which needs to be funded. That involves an increase in both capital investment as well as operating investment. The operating investment obviously flows straight through to profit and loss, which flows through to the dividend. The increase in investments in operating expenditure is really to manage some of the bushfire mitigation strategies that we have in place and to improve safety standards right across the network. We are also investing capacity to ensure generation needs to meet peak demands in the system. Whenever we meet peak demands, it does not flow through to revenue, as revenue comes from energy sales and not necessarily peak demands. We have a lot of investment in capacity in the system. At the same time we have a lot of competition entering the market. A new level of threshold was introduced on 1 January this year, and any customer with an electricity bill of approximately \$8 000 or more is subject to competition. As that competition takes effect, a lot of revenue will flow from Western Power to competitors. We have the impact of all three: increased investments in reliability, increased investments in capacity, and at the same time a diminution of the revenue base, which causes the reduced dividends.

**Mr A.J. CARPENTER:** A decision was taken in the budget process to not increase the tariff. That has obviously impacted.

**Mr T.G. STEPHENS:** I refer to the first dot point on page 762. Is there any additional information to describe the investment in the network that will be directed to non-metropolitan areas? Two areas are of particular interest to me. At the bottom of the page there is reference to \$4.6 million to be spent on Port Hedland's underground power. Will that program be expanded to include the remaining areas of South Hedland that are still to become beneficiaries of underground power, or is the investment of \$4.6 million limited to Port Hedland? If there is any additional information about investing in the network that will be directed to non-metropolitan areas, I would appreciate being given it?

**Mr A.J. CARPENTER:** I would appreciate it, too. I thank the member for the question. Does the member's question refer to the first dot point on page 762?

**Mr T.G. STEPHENS:** Yes.

**Mr A.J. CARPENTER:** I am grateful for the supply of information from Western Power. The amount of \$2.23 billion includes capital expenditure of \$1.65 billion. This funding will allow Western Power's networks to urgently improve safety of electrical networks throughout the state and develop the transmission of distribution infrastructure required to support the state's fast-growing economy, new residential loads included, and to identify and target areas in which further investment is required to improve reliability. With reference to regional areas, regional power - that is not on the south west interconnected system - is investing \$2.5 million to restore a human face into regional customer relationships of electricity supplies in regional Western Australia, putting customer service staff back into regional areas. Senior staff will be employed in Broome, Carnarvon, Esperance, Kununurra and the mid-west to complement similar senior roles in Port Hedland and Karratha, to provide the expected specialist regional electricity services. Three senior managers will be given responsibility for providing innovative solutions to the unique challenges facing the Kimberley, the Pilbara, the Gascoyne, the mid-west and Esperance. In relation to the extension of the undergrounding, I will ask Mr Iannello to respond.

**Mr T. Iannello:** The question refers to undergrounding in South Hedland. We have committed to undergrounding power in Port Hedland and Roebourne, which are included in the budget figures. An underground power program is in place, and proposals for that program need to be submitted. The criteria have changed to maintain greater weighting around reliability issues. If the South Hedland council wishes to lodge a proposal under that program it will be welcomed.

**Mr T.G. STEPHENS:** With reference to the operator of the non-integrated system, has a decision been made about what will be the annual subsidy allocated to that non-SWIS operator?

**Mr A.J. CARPENTER:** I have a ballpark figure in my mind, but I do not have a detailed response.

**Mr T. Iannello:** A tariff equalisation fund is being contemplated under legislation. At the moment the regional division produces a loss each year of approximately \$45 million. That does not include some of the cross-subsidies that are embedded into the business, which are being renewed now. That needs to be looked at over the next few months, which will allow us to finalise that level of subsidisation for the regional power division.

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**Mr J. Bradley:** It is our understanding as well that the tariff equalisation funding amount will be determined through the financial analysis relating to disaggregation, which will occur later this year. That analysis will look at the deficit in the regional power corporation's revenue requirement and the subsidies required to proceed transparently through the tariff equalisation fund. That will occur on a commercial basis, such that the corporation has the appropriate commercial principles to operate commercially.

**Mr M.P. MURRAY:** My question relates to the first dot point on page 763. This question was asked 12 months ago. Is there any plan to give detailed or line item quotes to prospective customers for connection works? At the moment that does not happen and it causes confusion.

**Mr A.J. CARPENTER:** I will ask Mr Aberle to answer.

**Mr D.T. Aberle:** We are in the process of overhauling that process. The earlier question referring to the 25 weeks is germane to this issue, and a lot of improvements have been put in place to pull that back. We are looking at providing much more visibility around those quotes and making it a lot easier for people to understand how those prices are derived.

**Mr C.J. BARNETT:** I have a very practical question. With disaggregation, which I assume will occur, what will be done in terms of the organisation of staff in a country town, for example? Will there be one Western Power-type organisation, or will there be two - a retail organisation and a separate powerline maintenance section?

**Mr A.J. CARPENTER:** In the SW integrated system?

**Mr C.J. BARNETT:** Yes.

**Mr A.J. CARPENTER:** My natural reaction is to say that if they work for the generation organisation they will be -

**Mr C.J. BARNETT:** Generation will be okay; it will apply more to retail or powerlines.

**Mr A.J. CARPENTER:** Or the networks. They will be employees of that particular entity, otherwise I fail to see how there would be differentiation. There will be two separate organisations operating in some of these locations and there will be employees of those organisations. There will also be some transitional issues in the meantime.

**Mr T. Iannello:** We have very few employees in retail outside the metropolitan area. That sort of situation would be very rare. Having said that, if it does occur they will be in separate businesses.

**Mr A.J. CARPENTER:** Are there any examples at the moment?

**Mr T. Iannello:** None that I can recall.

**Mr D.F. BARRON-SULLIVAN:** In May last year during the budget estimates hearings the minister's predecessor advised that Western Power would undertake a variety of measures to deal with security of supply for the summer that has just gone, including changes to plant at Muja power station to answer the coal-fired generating capacity compared with the previous summer. What changes and improvements were made at Muja, and what additional capacity was provided as a result?

**Mr A.J. CARPENTER:** I do have some notes about that, but I do not want to mislead the member. I will defer to Mr Iannello. Did that question refer to future years or the summer gone by?

**Mr D.F. BARRON-SULLIVAN:** The previous minister said that between May 2004 and the summer that has just gone, improvements would be made to the plant at Muja that would add to the coal-fired generating capacity compared with the previous summer.

**Mr T. Iannello:** Quite a number of programs took place to improve capacity over the summer months. One of those included adding misting sprays to lift the capacity provided by the plant at Muja - that was at Pinjar.

**Mr D.F. BARRON-SULLIVAN:** My question relates specifically to Muja.

**Mr A.J. CARPENTER:** The member for Leschenault is talking about the last half of last year.

**The CHAIRMAN:** We have run out of time. The member might need to ask that question in another form. That completes the examination of Western Power.

**Mr A.J. CARPENTER:** I thank the staff of Western Power and Mr Bradley and Mr Sadler. The staff of Western Power have been very good to me as the new minister in these challenging times and I am very grateful to Mr Iannello for his leadership and support in today's proceedings.

**Extract from *Hansard***  
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*Committee adjourned at 6.00 pm*

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