

Chairman; Mr Eric Ripper; Mr John Day; Mr Brendon Grylls; Mr Jeremy Edwards; Mr Mark McGowan; Mr Mick Murray; Mr Fran Logan

Western Power -

Ms K. Hodson-Thomas, Chairman.

Mr E.S. Ripper, Minister for Energy.

Dr W.S. van der Mye, Managing Director.

Mr N. Ninkov, General Manager, Strategic Services.

Mr A. Cocks, Manager, Business Performance and Strategy.

Ms C. Chatfield, Government and Corporate Relations Executive.

The CHAIRMAN: This Estimates Committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow. Members may raise questions about matters relating to the operations of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers.

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 ask 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 6 June 2003, 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.

Details in relation to supplementary information have been provided to both members and advisers and, accordingly, I ask the minister to cooperate with those requirements. 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 6 June 2003.

Mr E.S. RIPPER: Today is a historic occasion. It is the first occasion on which a government trading enterprise has been before an Estimates Committee of the lower House. It is an advance in accountability that has been achieved under the Gallop Labor Government after many years of lobbying from both sides of politics. It is the first occasion -

The CHAIRMAN: I appreciate that the minister wants to make this statement, but I also appreciate the fact that we have 25 minutes in which to deal with this matter.

Mr E.S. RIPPER: This is the first occasion on which Western Power has appeared before the Estimates Committee.

Mr J.H.D. DAY: If the Government's plans go according to schedule, this time next year Western Power will be very close to no longer being an entity; it will be close to being divided into four separate entities. Can the minister provide an estimated value of Western Power as an entity at the moment, and an estimated value of the four separate entities once Western Power has been divided?

Mr E.S. RIPPER: This question was asked last year. I pointed out then that the only person who would be interested in the value of Western Power would be someone who was thinking of selling Western Power.

Mr J.H.D. DAY: No, I think Standard and Poor's and Moody's Investors Service might be very interested in its value, not to mention the taxpayers of Western Australia. What about answering the question?

Mr E.S. RIPPER: The Government is not interested in selling Western Power or any of the successor organisations to Western Power. We expect Western Power and its successor organisations to remain in public ownership and provide a continuing service to the people of Western Australia. Therefore, the question of the value of Western Power is essentially academic, unless of course the Opposition has a proposal to sell Western Power or its successor organisations. The AAA credit rating is not based on the net worth of the State but on the State's capacity to service its debt. Our capacity to service our debt is illustrated by our debt to revenue ratio. That is kept below the cap of 47 per cent. That is a sustainable level of debt to manage. That preserves our AAA credit rating. Whether we have a net worth of \$37 billion, \$38 billion or \$36 billion is not of particular interest to the rating agencies; they are interested in whether the State of Western Australia is capable of repaying its debts and servicing its loans.

Mr J.H.D. DAY: I raise a point of order. The question related to the value of Western Power now and its value in just over 12 months time. My question did not warrant a diatribe on the State's economic position, debt to

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equity ratios or a range of other matters. If it would help the minister, I refer him to the most recent Western Power annual report, which refers to Western Power having assets of \$4.2 billion. Is that still the case? To put it more simply, what would be the decline in the value of Western Power once the Government's disaggregation process is completed? It is as simple as that. This matter is of interest to taxpayers. I am not suggesting that the Government or anyone else is proposing to sell Western Power.

Mr E.S. RIPPER: Contrary to the position of the member for Darling Range, I am suggesting that he is interested in selling Western Power or its successor organisations; that is why he wants this information. He wants to know what to put in the coalition's election campaign manifesto for the next time round.

The CHAIRMAN: I was going to say order. I do not think we are getting very far. About five members wish to ask questions. I am mindful of the time. I call the member for Merredin.

Mr E.S. RIPPER: Madam Chair, I have not finished answering the question. The work on the disaggregation of Western Power is not yet complete. As I indicated earlier during the division on the Office of Energy, we are still working on the market design of those matters. Questions related to the value of Western Power to the State are still to be resolved. It could be considered in narrow financial terms; that is, how much the State could sell Western Power for. If I reinforced Western Power's electricity monopoly and doubled the tariffs, I could sell Western Power for a motser, particularly if it was sold with continuing monopoly rights and high tariff levels. Western Power's value to the community and to the economy of this State is important to this Government. We regard a competitive electricity system, with a disaggregated Western Power, as being of significantly more value to the community and the economy of this State.

[3.10 pm]

Mr J.H.D. DAY: Would the minister agree that the reduction in value is about \$1 billion?

Mr E.S. RIPPER: That is the assertion of the member for Darling Range, and I do not necessarily agree with it.

Mr B.J. GRYLLS: I refer to the completed works on page 216. This section lists generally the completed works for the past year and works for the future. How much was spent in 2002-03 on the Western Power program to steel reinforce every power pole on the Minnivale feeder line, from Cunderdin to north of Koorda? This has been spoken about in this House many times. I assume that the expenditure is included in the figures on page 216. Is there any remaining work to be funded from this year's budget; and, if so, has that money been set aside?

Mr E.S. RIPPER: Western Power's expenditure on distribution maintenance in the regions is three times the level of expenditure undertaken in 2001-02. Western Power is making a very significant effort, confronted with the twin problems of, on the one hand, an ageing distribution system and, on the other, new demands for quantity and quality of electricity that were not there when the system was designed and built. The problem is 30 to 40 years old. We must also contend with a campaign from the National Party, whose members are poodles in government and pretend Rottweilers in opposition.

Mr J.P.D. EDWARDS: I refer to the second dot point under distribution on page 215, which deals with the state undergrounding project. Where is the undergrounding project taking place in country areas, and how much is being spent in country areas?

Mr E.S. RIPPER: The underground power program is run by the Office of Energy, so perhaps that question should have been asked during that division.

Mr J.P.D. EDWARDS: It is mentioned under Western Power, which is why I am asking this question.

Mr E.S. RIPPER: The Office of Energy runs the program, and makes the selections, and Western Power does the work. The program we inherited has been biased to the city. When the Office of Energy asked me about the new funding round, I took the opportunity to get something added to the criteria responding to the possibility of cyclone damage in north west towns. That had not previously been one of the criteria. If the member is winding up to make the point that the underground power program should be more targeted to the country, or that there needs to be a fairer distribution between country and city expenditure, the history of the program shows that that is indeed an issue.

Mr J.P.D. EDWARDS: I am simply asking where in country areas the program will be extended to, and at what cost. If necessary I will take it as supplementary information.

Mr E.S. RIPPER: My Office of Energy advisers have that information. I will provide supplementary information on expenditure on the underground power program in country areas, showing how much is spent and where.

[*Supplementary Information No A46*]

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Mr M. McGOWAN: I refer to the capital works program described on page 216. Does that program take into account any write-offs that Western Power may have undertaken, in particular the Windimurra project? Is there a prospect that those transmission facilities put in place by Western Power will not be operational again, and what is the cost of that?

Mr E.S. RIPPER: In its third quarter report, Western Power has been forced to write down its investment in the Windimurra pipeline. This investment was not a purely commercial undertaking by Western Power. The previous Government encouraged or compelled Western Power to undertake that investment. That Government offered to subsidise interest on a \$14 million loan that Western Power took out to fund this non-commercial pipeline. There is a \$14 million loan on a pipeline that has now been written down to a value of \$9.7 million.

Mr J.H.D. DAY: It will be available for use in the future.

Mr E.S. RIPPER: Yes, the pipeline will be available in the future, but the member for Darling Range is interested in the present value of Western Power and how it has changed. An asset in which Western Power invested as a result of a decision of the present Leader of the Opposition has declined in value by \$16.4 million. I would still like to know what advice the previous Government received about the risks of this investment. I have asked the Leader of the Opposition to make available the cabinet papers of the time, so that we can see what advice, for example, the Department of Treasury and Finance might have provided. This pipeline was there to support a vanadium mine. The vanadium price has fallen considerably and there is a very significant prospect, on the basis of advice available to me, that this vanadium mine will not start up again. I hope that the mine does start up again, but it is a very real prospect that it will not, and therefore Western Power will have an asset that was valued at nearly \$30 million and is now valued at less than \$10 million. There is a loan on the pipeline that is greater than the value of the remaining pipeline. The consolidated fund will have a continuing obligation to pay Western Power \$800 000 a year in subsidies. This is now a very poor decision.

Mr J.H.D. DAY: You were a member of a Government that engaged in fiddles worth \$1.5 billion!

The CHAIRMAN: Order, members! I remind members that we are in Estimates Committee, and it is really unhelpful if it is adversarial. We have 12 minutes left and about six questions to be asked.

Mr M. McGOWAN: Could I have, by way of supplementary information, advice about what the exact loss to the State will be?

Mr E.S. RIPPER: I will be delighted to provide to the member for Rockingham full advice on the Windimurra disaster. I would like to be able to provide him with the advice the previous Government received on the risks of engaging in this project, but unfortunately the Leader of the Opposition will not provide access to the cabinet papers.

[Supplementary Information No A47]

Mr M.P. MURRAY: I refer to the ninth dot point on page 215, about the base load power procurement process. What stage is it at, and is the timetable being adhered to?

Mr E.S. RIPPER: I thank the member for Collie for the question. I am aware of his close interest in the power procurement process on behalf of his constituents. I will ask Mr Ninkov to answer his question.

[3.20 pm]

Mr NINKOV: In May last year the Cabinet approved the commencement of two power procurement processes. The first is the peaking plant process, which - to cut a long story short - is now at the short list stage with three proponents preparing final bids that are expected in the next month. Cabinet also approved the base load power procurement process and in December last year we sought expressions of interest. We received 13 expressions of interest in February 2003. At the moment, we are still evaluating those proposals but we expect to get detailed requests for proposals sometime in the next month or two. We hope to be in a position before the end of next year to make a decision and to get a base load power station committed for operation sometime in 2007-08 based on current sales forecasts.

Mr J.H.D. DAY: When is it expected that a final decision will be made on that?

Mr NINKOV: At the present, late next year.

Mr J.H.D. DAY: I asked for information about the estimated cost of upgrading the south west interconnected system where there are deficiencies in the transmission network at the moment. What is the estimated total cost of doing that and how is that expected to be funded once Western Power is divided into four entities?

Mr E.S. RIPPER: That is a difficult question to answer because there is always room for improvement in the quality of infrastructure. An analogy would be that we could have a four-lane road instead of a two-lane road; the equivalent could be done with the electrical system. Within Western Power there is a process whereby the

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different units seek access to capital. The bids for capital within Western Power always amount to more than what Western Power as an organisation thinks is a realistic figure in its capital works program. Then, when Western Power comes to Government for consideration in the Government's capital works program, there is competition for capital. Out of that has emerged a Western Power capital works program of \$395 million, which is a significant capital works program.

Mr J.H.D. DAY: That is not what I asked.

Mr E.S. RIPPER: I know but I am coming to the answer. That works program includes three times the previous rate of expenditure on distribution maintenance. However, I do not have a particular figure in my head about what we would spend if we had unlimited borrowing capacity and -

Mr J.H.D. DAY: I am not asking for that. The minister may not have a figure in his head but surely Western Power has some estimate of the cost of upgrading the south west interconnected system to adequate standards.

Mr E.S. RIPPER: I will seek some comment from my adviser from Western Power on that matter shortly. However, I will answer the question about electricity reform.

The network organisation will be the only organisation in the new electricity supply industry that has a monopoly on the market. Everyone who is a customer on the grid will use networks. Everyone who is a generator on the grid will use networks. All the electricity will go through networks and networks will not have a competitor. Networks will be in the best position of the successor organisations to make investments in infrastructure because they will not face competition. However, they will face the attentions of the independent Economic Regulation Authority because as much as publicly-owned monopolies are better than privately-owned monopolies, any monopoly not subject to competition needs the attention of a regulator. The managing director of Western Power can now comment on network investment.

Dr van der MYE: The amount spent on distribution in 2002-03 is about \$96 million, which will go up to \$106 million in 2003-04. For transmission it will go from \$84 million in 2002-03 to about \$97 million in 2003-04. All up that is an estimated increase of approximately \$23 million. We are reviewing the system all the time because of the ageing assets on the one hand and the low growth on the other, as well as the problems of natural elements such as wind and fire. The board of Western Power, supported by the management, continually keeps under review the health of the transmission and distribution system to ensure that we provide a good and reliable service for Western Australians.

Mr J.H.D. DAY: Does Western Power have a figure for the total estimated cost of upgrading the system to adequate standards?

Dr van der MYE: It would depend upon whether we want a gold-plated system or just an ordinary reliable current system.

Mr J.H.D. DAY: That version.

Dr van der MYE: At the moment, the management at Western Power believes that the current expenditure is adequate for the delivery of reliable and safe power supply to the people of the south west interconnected system.

Mr J.H.D. DAY: The overall capital works budget has gone down by about nine per cent or \$40 million from the current financial year to the next financial year. Can the minister confirm that that is the case and provide an explanation?

Mr E.S. RIPPER: The explanation is that Western Power has been paying for the Cockburn 1 power station. The payments for Cockburn 1 will tail off or finish in this financial year. The managing director has already indicated that the capital expenditure on the distribution and transmission systems is increasing.

Mr F.M. LOGAN: I refer to page 215 of the *Budget Statements*. The second dot point under generation refers to work continuing at the Cockburn 1 power station - a great project that is very close to my electorate and something in which I am very interested. How much more efficient is that unit compared with the existing plant that it is replacing? What will happen to the coal-fired plant that is there, and what is the likelihood of Cockburn 2 going ahead?

Mr E.S. RIPPER: That is a good set of questions. Combined cycle gas turbines are the most efficient generating plants around because the waste heat from the gas turbine is used to drive a steam turbine. I have just been advised that the efficiency figure for a combined cycle gas turbine installation would be about 50 per cent compared with the ageing coal-fired technology at 30 per cent.

Mr J.H.D. DAY: Is it 48 per cent for Cockburn 1?

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Mr E.S. RIPPER: It is about 50 per cent.

Mr F.M. LOGAN: What will happen to the plant that is there now and what is the likelihood of Cockburn 2 going ahead?

Mr E.S. RIPPER: I will ask my adviser from Western Power to comment on exactly what will happen to the plant that is to be replaced.

Dr van der MYE: We are currently producing forecasts for load and peak demand for the next 10 years or so. Depending upon the growth within the system, those plants can be kept on for a certain period. Further down the track, if Cockburn 2 were to go ahead, which is again a combined cycle gas turbine plant, we would not need those two units at the current site and they would be phased out.

Mr E.S. RIPPER: With regard to Cockburn 2, since the Government's announcement on the power procurement process the intention has always been to have private financing. Western Power is currently investigating the options for an economic use of private financing in the provision of Cockburn 2.

[3.30 pm]

Mr J.H.D. DAY: Sounds like privatisation to me!

Mr E.S. RIPPER: I think the member has much more to worry about with privatisation than I do.

Mr J.H.D. DAY: The reality is that the Government is doing it anyway.

Mr E.S. RIPPER: I know how the member's leader is planning to fund his next election campaign. He is planning to privatise something big and offer the community some goodies.

The CHAIRMAN: That completes the examination of Western Power.