

**STANDING COMMITTEE ON ESTIMATES AND
FINANCIAL OPERATIONS**

2012–13 AGENCY ANNUAL REPORT HEARINGS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
TUESDAY, 28 JANUARY 2014**

**SESSION TWO
WESTERN POWER**

Members

**Hon Ken Travers (Chair)
Hon Peter Katsambanis (Deputy Chair)
Hon Martin Aldridge
Hon Alanna Clohesy
Hon Rick Mazza**

Hearing commenced at 1.02 pm

Mr PAUL ITALIANO

Chief Executive Officer, Western Power, examined:

Mr STEWART HART

Chief Financial Officer, Western Power, examined:

Mr ANDRE BOTHA

Chief Operating Officer, Western Power, examined:

Mr CAMERON PARROTTE

Executive Manager, Network Planning and Operations, Western Power, examined:

The CHAIR: On behalf of the Legislative Council Standing Committee on Estimates and Financial Operations, I would like to welcome you to today's hearing. To begin with, I ask the witnesses to confirm that you have read, understood and signed a document headed "Information for Witnesses".

The Witnesses: Yes.

The CHAIR: Witnesses need to be aware of the severe penalties that apply to persons providing false or misleading testimony to a parliamentary committee. It is essential that all your testimony before the committee is complete and truthful to the best of your knowledge. This hearing is being recorded by Hansard and a transcript of your evidence will be provided to you. The hearing is being held in public, although there is discretion available to the committee to hear evidence in private, either of its own motion or at the witness's request. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session before answering the question. Government agencies and departments have an important role and duty in assisting Parliament to review agency outcomes on behalf of the people of Western Australia and the committee values your assistance with this.

Do any of the witnesses wish to make an opening statement?

Mr Italiano: If you would not mind, I do have a very brief statement I just want to make. I do have some supporting documentation that I am happy to hand out—it is literally only three or four pages—if you would like to see that while I am speaking.

The CHAIR: If you can give it to the clerk, she can distribute it and we will have a quick look at it. You are happy for it, obviously, to be made public as a document you have just tabled?

Mr Italiano: Yes, very happy to, thank you.

Firstly, let me say thank you very much for the opportunity to present to the committee. Western Power is an organisation that is undergoing quite a significant process of transformation and change. We welcome the opportunity to hold ourselves to account to Parliament, the committee and the people of Western Australia through this forum. We look forward to your questions today.

Western Power is a significant part of the state's financial position and it faces considerable financial and operational pressures every year. We operate within a very robust regulatory framework including a very rigorous economic regulatory framework. You will recall that in 2012, the Economic Regulation Authority handed down its decision which governs the financial operations of Western Power for the next five years under a document known as the access arrangement. Within that access arrangement, Western Power was forecast to expend \$1.1 billion

last year in capex. Its actual operations came in at just a little under that—\$1.05 billion. Primarily, that small difference—although small in this scheme of things, \$50 million is still a lot of money—was due to timing differences mainly with the Mid West Energy Project. In the 2013–14 financial year, that capital expenditure is anticipated to grow to \$1.37 billion under the ERA's access arrangement number. The state budget number that you have in front of you is \$1.3 billion; again, it is a very small difference for timing differences and new information that has become available to us during the year.

Western Power faces the challenges of servicing growth in the state. This is a rapidly growing state with approximately 1 075 people migrating to Western Australia every week—75 000 new customers joining the network every year. Western Power has an obligation to ensure that these people are supplied with electricity. You will all recall the parliamentary inquiry from 2012 that highlighted the need to significantly increase the level of investment in wood pole management and other assets on the network. Western Power faces a challenge of increasing the rate of replacement of those assets. We operate to meet these challenges in an environment that has fixed revenue. Revenue for the organisation is constrained under the regulatory environment that we operate under. As a result of that, you will see on the next page, Western Power operates with a net cash flow deficit each year. That cash flow deficit will see the debt of Western Power increase over the course of 2013–14 from \$6.13 billion to \$6.96 billion. Management and the board of Western Power are acutely aware of the impact that Western Power has on the state's finances. We are seeking to maximise the effectiveness of the investment that we make in the network and maximise the opportunities for efficiencies. I am pleased to say we have made significant reductions in our recurring expenditure in opex, coming in in 2012–13 substantially below the number that was included in the budget. That is a recurring saving that will be repeated in 2013–14.

Despite these challenges, Western Power has made some significant progress in improving the safety culture of the organisation. The first priority for Western Power is the safety of both its staff and the public at large. An indication of the improvement in our safety culture is the reduction in the lost time injury frequency rate over the 12 months to the end of June 2013, reducing lost time injury frequency by 50 per cent. I am pleased to say that that rate of improvement has continued through until the end of December 2013. On the next page you will see the organisation's commitment to improving public safety. There is a considerable investment required in the network as contemplated by the parliamentary inquiry from 2012—just two years ago—particularly in the replacement of wood poles. You will see this chart talks about the replacement and reinforcement of wood poles and the substantial ramp-up in the rate of wood pole treatments, particularly over the last two years.

The highlights for 2012–13, apart from the 50 per cent improvement in the lost time injury frequency rate and the reduction in opex year on year of nearly \$26 million, are the delivery of our works program at Western Power in full, which is the first time that has been done since disaggregation, the substantial increase in the treatment of wood poles and a significant improvement in our compliance with our regulatory regime. I am pleased to say that we have gone more than 12 months without a single type 1 compliance breach and we have not lost focus on that because we know it is a very important requirement of the organisation to comply with its statutory obligations. We have met these challenges and we have maintained reliability standards across the network, which are equal to those of anywhere in Australia.

I am very pleased to be here today with the management team to answer of the questions that you might have regarding Western Power's operations for the last 12 months and for our budget in 2013–14.

Hon RICK MAZZA: Can I just ask a few questions on private power poles?

Mr Italiano: Yes.

Hon RICK MAZZA: It was highlighted quite recently that private power poles can be an issue, with one of them being suspected to cause the recent fires. From the report, it would appear that there are about 200 000 private poles in existence. Many of those would be in rural areas and smallholding-type areas. Is there any program at all by Western Power to assess some of these poles?

Mr Italiano: No.

Hon RICK MAZZA: There is not? Okay, because I know that you say in here that it is the landholder's responsibility, but in many of these areas, people are very, shall we say, low on funds; it is not always a priority to replace or to check the power pole on their land. Should there be a requirement for replacement, affordability is an issue. If someone has power poles on their land that may need to be replaced and they are not financial enough to replace them, is there any program by Western Power to actually assist them with it?

Mr Italiano: Not currently. There is a number of things that Western Power is involved in that do touch on private power poles. There is a program in place, and we saw an increase in the use of that program following the Chidlow fire from last year, which was similar with the failure of a private power pole. People can ask for their private poles to be inspected by Western Power and we will go out and inspect a pole. If we find that they are unsuitable for the purpose that they were installed for, then we can issue a make-good order, but the responsibility for the maintenance and the cost of repairing that pole is still the owner of that pole. Also, in our works program, if we do any work that requires us to disconnect a cable or a wire to a person's private pole—if we are replacing poles in a street or replacing wires along a street that we might change the wire to a person's private property as well—then we have to have a look at that pole and satisfy ourselves that it is satisfactory for the purposes of reconnecting the wire to it. So we will do that, but that is only on the first pole that is involved.

Hon RICK MAZZA: All right. So if you have assessed a pole and you find it does require maintenance and the person is unable to afford it, what programs has Western Power got to assist them?

[1.15 pm]

Mr Italiano: We do not have anything at the moment. Western Power's responsibility ceases at the end of its assets. Once we move into private assets that is the responsibility of private owners.

Hon RICK MAZZA: If someone has an order to repair a pole, and they do not repair it, what happens next?

Mr Italiano: There are a range of options people can choose. We will work with a person to help them do that. We figure out a way of dealing with it but it is not an official part of the Western Power program. It is a little-used part of the organisation. The question really is one of accountability for the maintenance of poles and ensuring continuity of supply.

Hon RICK MAZZA: I accept that in some ways, but if there are 200 000 poles out there and there is a possibility that one of those poles can cause a pole fire that can burn out an entire district, as we have seen recently, surely there must be more of a program to make sure the chances of these fires occurring is minimised?

Mr Italiano: That is a good question. It touches a little bit on what we should be doing as a state moving forward, and from that point of view it is worth having a look at what our responsibility is as Western Power and the culture we drive into the organisation. Our responsibility as Western Power is to execute on government policy and to do that in the most cost-effective, cost-efficient and safe manner possible. We recognise that we carry some expertise, both engineering skill and deliverability skill, that is relevant to the specific issue. From our point of view, we do not seek to shape policy. There are people in the community, elected members of Parliament and other community organisations, who have the responsibility of shaping policy. If the community's

decision is that Western Power should play a greater role in the maintenance of private power poles, we will accept that. But at the moment it is not our responsibility to proffer that. Our role is to execute on policy. We are very happy to contribute to the debate and to the discussion, to advise people of the pros and cons to the organisation, particularly the consequential cost. There is certainly a consequential cost to the state of accepting responsibility for private assets, but, ultimately, it is a policy decision that is made elsewhere and Western Power will act on that accordingly.

Hon RICK MAZZA: Who owns the wire on top of those private poles?

Mr Italiano: The landholder.

Hon ALANNA CLOHESY: Has Western Power sought legal advice about its role and responsibility in relation to ownership of private poles since Parkerville?

Mr Italiano: No. We have worked with people on the investigation of this specific incident. We have previously sought legal advice to clarify what our accountabilities are as an organisation towards the appropriate maintenance of network assets to ensure that we are complying with our obligations. Since Parkerville, our effort has been completely focussed on restoring energy to the people who live in that area and assisting the authorities with their investigation. As a business, we need to know only three things from the investigation and as a result of Parkerville: What, if anything, did we do or not do that may have contributed to the outcome there? What, if anything, can we do differently to mitigate the risk of that in the future, whether it is a private pole or Western Power pole, whether it is that pole or other things we are doing? What, if anything, does the state want to do going forward in respect of mitigating this risk, and what role does Western Power have to play in that? They are the only three things we are concerning ourselves with at the moment

Hon ALANNA CLOHESY: That is your current inquiry into —

Mr Italiano: That is right. It has been only a couple of weeks and we are focused very much on restoring people's lives to normality as quickly as we possibly can. I realise that will be quite a long process for a lot of people.

Hon ALANNA CLOHESY: As part of your inquiries, would you identify the kind of personal liability of people who own power poles in relation to Parkerville and Western Power's own liability in relation to that?

Mr Italiano: The important thing to note here is, again, Western Power's role. It is the operator and the executor of policy in respect of the management of the network. The state has a dedicated energy safety regulator that is responsible for conducting investigations and coordinating these types of activities. It is important for us to be supporting that process and to be seen to be supporting that process and not conducting an alternative or sideline process of our own. We are very much supporting what we think is a very good investigative process by EnergySafety.

Hon ALANNA CLOHESY: It is EnergySafety that will determine the personal liability, if there is any on individuals.

Mr Italiano: You should really direct questions to EnergySafety. My understanding is that EnergySafety is not a legal body.

Hon ALANNA CLOHESY: Is it easier for me to ask: does Western Power have a role in determining personal liability?

Mr Italiano: No; that will be determined externally.

Hon ALANNA CLOHESY: At what point are individuals told that they are the owners of personal power poles and it is their responsibility to look after them and have them investigated if they think there is a problem?

Mr Italiano: Again, I think we are stepping outside the function of Western Power. We are very keen to work with the appropriate authorities to raise the awareness of the community in respect of their responsibilities on private assets. I think it is understandable how people would not immediately consider their responsibilities and ownership of a power pole on private property. I can fully appreciate that. Last year, we supported EnergySafety in the publication and distribution of over 10 000 pamphlets to advise people. We saw an increase in inquiries of Western Power regarding obligations, but only a small increase from customers, following the release of that brochure. There was some public awareness raised through the media following the Chidlow event from last season and we will look at what we can do as an organisation to raise the awareness of the community in respect of their obligations as well. It is not something we have paid a lot of attention to in the past.

Hon ALANNA CLOHESY: It is not your responsibility to alert people to the ownership of individual power poles?

Mr Italiano: No; we would not see it that way as a direct legislative obligation, but it might be a community obligation as the network provider and an organisation with some expertise and authority in that space where we might have a role to play, which we would be very happy to look at.

Hon ALANNA CLOHESY: Other than a community service obligation, as you said, there is no legislative obligation. Who has the legislative obligation to alert people to the ownership of private power poles?

Mr Italiano: I do not know.

Hon ALANNA CLOHESY: What sort of information does Western Power keep on a database of private power poles?

Mr Italiano: We do not. Again, our responsibility is to manage the assets that Western Power owns and operates. We do not seek to have a database of privately owned assets or networks. It is worth noting there are substantial holdings of private power poles by corporations, mining companies, large businesses and large pastoral operations and, to the greater extent, they account for the majority of what is called privately owned power poles and they are managed professionally from those organisations. They have little need, desire or wish for Western Power to come in and record information on what is essentially privately owned assets.

Hon ALANNA CLOHESY: In particular, I am thinking of households really, that do not have the resources of large corporations to identify problems with their power poles, or even to know their ownership of them?

Mr Italiano: Currently, we do not, but, again, we are very happy to consider what roles we might need to play going forward from a review of this particular incident and consideration by the community of what they want to do going forward.

Hon PETER KATSAMBANIS: I have looked at some of the literature that the Office of Energy Safety and the Department of Commerce have put out on private overhead powerlines and power poles. It seems to be that a lot of the initial checking of the integrity of the poles seems to be pushed down towards the electrical contractor. I want to see from Western Power's experience, because you manage millions of poles, who in your organisation is tasked with the responsibility of checking for the integrity of the structure of a pole? I assume it is not an electrical contractor at all.

Mr Italiano: No, we do not use an electrical contractor. We have an inspection team that is specifically trained in assessing the integrity of a wood pole or any other poles we have in our network. We also have linesmen who are given early training on how to detect initial emerging issues so that they have the opportunity to call in specific experts.

Hon PETER KATSAMBANIS: That is an internal team you have, so all your expertise is internalised?

Mr Italiano: Yes. There are organisations that do inspection work for us outside the business on a contract basis.

The CHAIR: When you say it is done internally, is that often done through a contractor?

Mr Italiano: It is a mix of teams.

The CHAIR: Not necessarily direct employees.

Mr Italiano: Some are, some are not.

Hon PETER KATSAMBANIS: Private firms are out there with a capacity to assess these poles.

Mr Italiano: Absolutely, yes.

Hon PETER KATSAMBANIS: Where would a homeowner who has one or more power poles on their property that they are responsible for be able to find out information about these people so they can, at the very least, contact them and get them to check their poles?

Mr Italiano: I will have to come back to you.

Mr Hart: I think the brochure itself has two bodies that you can ring.

Hon PETER KATSAMBANIS: The brochure I have, which is “Private overhead power lines from the Office of Energy Safety” has a contact point of Western Power and Horizon Power. That is why I am asking.

The CHAIR: There are two you can contact!

Hon ALANNA CLOHESY: They do not ring you direct?

Hon PETER KATSAMBANIS: Office of Energy Safety is not —

The CHAIR: Does it have Paul’s personal line in there?

Hon PETER KATSAMBANIS: You are not the Department of Commerce, so this is where I am looking at that information gap. Yes I appreciate, as Hon Rick Mazza says, some people may not have the financial capacity, but many people might have the financial capacity but do not have the information available.

Mr Italiano: I am aware of one enterprising young individual who has set up a pole inspection business and has already started to letterbox drop in the area. I am anticipating that there may well be a response from the private sector, particular from organisations that are contracted to us to provide pole inspection services to perhaps tap into what is an emerging opportunity, but I cannot speak for them.

The CHAIR: Is there information to be taken on notice there or have we sorted that out?

Hon PETER KATSAMBANIS: I think we have sorted it out. We know there are private providers. I am happy with that. As a suggestion, maybe in the future you could possibly look at listing some of these people through your website as an easy point of reference for the public to access them or at least an industry organisation they can contact.

Mr Italiano: Yes, very happy to.

Hon PETER KATSAMBANIS: Do you guys have standards around time frames for inspection, or is there an Australian standard that a power pole should be inspected every five years or every three years?

Mr Italiano: We do have standards that we use for the management of poles on our network. You will appreciate that the role a power pole plays in the Western Power network is quite a bit different.

Hon PETER KATSAMBANIS: Yes, definitely.

Mr Italiano: It is required to carry more furniture at the top of it with cross arms and insulators. It is required to carry multiple conductors, many of them at a much higher voltage. As a consequence I do not know whether the standards that apply to the poles that are an integral part of the Western Power network would be the appropriate standard for a pole that is required for domestic use.

Hon PETER KATSAMBANIS: If there was going to be some work done around establishing a framework of standards for these private poles, would that be something that Western Power could be involved in or is it something that is better undertaken by EnergySafety?

[1.30 pm]

Mr Italiano: We are very happy to provide our expertise to whomever is doing that piece of work. If the community wants us to play that role again, we are very happy to do that. My personal opinion is that Western Power's responsibility is in managing and operating the power assets that are owned by the state. Once we start getting involved in setting standards for residential customers and other people in the community, it starts to take us away from those principles. If somebody else wants to take responsibility for leading the debate on that and entering into negotiations with the community over what an acceptable standard is, we would be very happy to provide assistance, support and cooperation to that end.

Hon PETER KATSAMBANIS: I appreciate that. I have lots of other questions, but not on this specific issue.

Hon MARTIN ALDRIDGE: Following on from an answer you provided to Hon Rick Mazza that you have make-good powers and that, essentially, if you came into contact with private poles or lines or things in proximity following a request that you have a look at something, you could issue them with a make-good notice. Is that through your statutory powers or purely administrative?

Mr Italiano: Everything we do is traced back to a statutory authority or power that we hold; it is an administrative process that we have in the business.

Hon MARTIN ALDRIDGE: You are not obliged to inspect these private lines —

Mr Italiano: No.

Hon MARTIN ALDRIDGE: — but if you come into proximity or are requested to look at something and identify a problem, you can issue them with a make-good notice. Do you then come back and inspect to make sure that that has been complied with?

Mr Hart: It is the EnergySafety inspectorate. We have inspectors working on behalf of EnergySafety in with Western Power. Those people would issue the order, which is an energy safety order. Those people would have to lift the order; so they would have to go back to that private residence and lift the order.

Hon MARTIN ALDRIDGE: EnergySafety has the power to do that now. Probably what they do not have is the obligation to inspect these poles, like local government has to inspect pool fencing.

Mr Hart. Yes, and I think that what is playing out in the public debate at the moment is who does have that responsibility. There is work underway looking at that.

Hon MARTIN ALDRIDGE: Some questions have been asked today about this publication that I got from your website titled "Private overhead power lines" by the Department of Commerce EnergySafety division. Is this the brochure that you referenced in terms of distributing 10 000 flyers?

Mr Hart: Yes.

Hon MARTIN ALDRIDGE: The footage that I saw repeatedly in the media following the Parkerville fire was of the pole closest to your network—the one with the meter box—that failed

and was burning by the edge of the road. To the best of your knowledge, is that the pole that started the fire in Parkerville?

Mr Italiano: The investigation process is not complete. We are assisting the investigators with their process and their examinations of things. Anything we do from here is speculation.

Hon MARTIN ALDRIDGE: Sure. Is the pole that I mentioned in your view a private pole or a Western Power asset?

Mr Italiano: I think it has been clearly established already that it is a private pole.

Hon MARTIN ALDRIDGE: The confusion I have in reading the second page of this brochure is with the section headed “What overhead power lines are we talking about?”, which reads —

All poles, conductors and pole top fittings owned by the property owner after the network operator’s meter are his/her responsibility.

There is a diagram in it, which is probably hard for me to show everybody but I could try and read what it says. Essentially, it shows the transmission network of Western Power with a line coming across to this pole with a meter box on the private property, and then every other pole on the private property is marked “Private power pole”, with the exception of the first pole with the meter box. To me, as a property owner, having a look at this flyer and reading this statement that all the fittings after the network operator’s meter, especially given that that pole is not marked as a private power pole, would lead me to believe that is your responsibility. Do you agree?

Mr Hart: There is a boundary line, and the illustration is trying to point out that anything over that boundary line is —

Hon MARTIN ALDRIDGE: But nothing in the brochure references a boundary line. I will read it again —

All poles, conductors and pole top fittings owned by the property owner after the network operator’s meter are his/her responsibility.

Your meter is sitting on that first power pole across the property boundary. That is saying to me that everything after that meter is my responsibility. It is the only pole over that property boundary that is not marked clearly “Private power pole”.

Mr Italiano: I think we are into a conversation around a schematic on a specific brochure rather than the matter of principle. I am very happy to take on board the feedback that you have provided on the schematic and whether or not that is creating some confusion around where the responsibility lies, but I think the principle is very clear that that is a private power pole, despite the fact there might be a meter on it.

The CHAIR: If I can interrupt. You made the comment earlier that it has been clearly established that that was a private pole.

Mr Hart: I think Paul is alluding to the fact that EnergySafety has come out and said it was a private pole. We have no comment on that.

The CHAIR: I am sorry to interrupt, but I am just trying to work out how it is determined what is a private pole and what is one of yours. You would have plenty of poles on private property through easements and the like. I am just trying to understand how it is determined that this one is a private pole and this one is a Western Power pole, particularly as your meter box is on that pole.

Mr Hart: The meter is ours, not the meter box.

Mr Italiano: It would appear that the process that has been applied over the last several decades has been that where Western Power is required to run a powerline across a person’s private property for the purposes of distributing electricity to that property and many others, then that becomes a line that is owned and operated by Western Power. So, where a powerline is required to be run from the

edge of a property further into that property solely for the purpose of that property owner at their discretion, then that is their option to do that. We run the powerline over the property boundary and attach it to a piece of infrastructure on a person's private property. That might be a power pole or it might be the wall of their house. The only thing there that Western Power has attached to that person's property is the meter. The box around it belongs to the person and the wall behind it on the house is their wall. They are the principles that have underpinned that.

Hon MARTIN ALDRIDGE: Is the meter the delineating point?

Mr Hart: No.

Mr Italiano: No; it is the connection.

Mr Hart: Let us take a new house. The electrical contractor will run wire from the pole up to the house, on the top, and we will make a point of connection. In the case of this example, there is a private pole; our point of connection is there and the electrical works are up there. That is the point of difference; it is the point of transfer.

Hon MARTIN ALDRIDGE: The meter might be at the house.

Mr Hart: That is called the point of supply.

Hon MARTIN ALDRIDGE: The meter might be at the house, but the line that is running from the meter to your network may be privately owned?

The Witnesses: Yes.

The CHAIR: Just to clarify this. I have a pole in the front of my yard that Western Power's power pole comes to and from there it comes into my house. Is that my pole and not your pole—even though the meter is on the house?

Mr Hart: Is it over your boundary and is it a steel pole?

The CHAIR: Yes.

Mr Hart: I think this is what played out on Friday or Thursday night and individuals started to look at those steel poles. That is a private pole.

Hon ALANNA CLOHESY: How do you find out?

Hon PETER KATSAMBANIS: I know that the one out the front of my place is yours, because you came and replaced it a couple of years ago.

The CHAIR: I am sorry to interrupt again. The document that suggests the meter is the point of determination is completely incorrect to suggest that the meter is the delineator between public and private?

Mr Italiano: I think I have said that we are very happy to take on board the feedback that there may be some information contained in the brochure that is causing confusion.

The CHAIR: I am not asking you to accept responsibility for the brochure. I am trying to clarify, from what you have told us this afternoon, that the brochure is incorrect in suggesting that the meter is the point of delineation and the point of delineation is actually something different.

Mr Italiano: It is not as simple as that.

Mr Hart: There are many types of connections.

The CHAIR: If it is not as simple as that, how does a simple person like me work out what is mine and what is yours?

Mr Hart: I think we can provide that feedback to EnergySafety.

The CHAIR: As another example, I have seen some of those metal poles that have wires for two houses coming off them. Who owns that?

Mr Hart: It is the first person whose property it is on; so it is whoever owns the property on which the steel pole is, which is indicated on that diagram. The point of separation—in that case of two houses—is whomever's property it is on.

Hon MARTIN ALDRIDGE: I do not necessarily have a problem with the principles that you have described. Another way of looking at it is to have a look to see if there are pole markings. All of your poles have pole numbers on them, which is another good way of distinguishing whether it is your pole or my pole. The concern I have is that we have distributed 10 000 copies of this flyer into a high fire-risk area, as identified by yourselves and EnergySafety, and the information contained in this very core flyer would suggest that the information is probably not as good as it should be. Again, it is probably something that should be raised with EnergySafety because it is its logo on the front page, but it is on your website; it was the first thing I looked at on www.westernpower.com yesterday. It is something that needs to be addressed, and probably very rapidly. I do not have any more questions on that matter.

The CHAIR: Does anyone have any other questions on this matter?

Hon RICK MAZZA: I have one that is a little bit out there about those private poles. I understand that with your main supply poles at the end of each summer dirt and stuff builds up on the insulators and then when we get moisture in the air we end up with arcing and that sort of thing. Is there a potential for that to happen with the private pole power supply that runs to the house?

Mr Botha: It depends on the type. There are so many connections to the house. If it is all covered in the black insulating material, then that will not happen. If it is a bare conductor—I am relatively new to this, so I do not know—and if we still have some of those, then the same thing will happen.

Hon RICK MAZZA: Really, they should be cleaned at a fairly regular interval to make sure that they do not arc.

Mr Botha: As Paul said, there should be a maintenance standard for these poles and we can help with developing that. I do not know what is out there in the market, but all electrical contacts should be cleaned at some point, especially if they are close to the coastal area.

Hon RICK MAZZA: A lot of this is quite new to me. I am aware of this information, and I have lived on rural properties with power poles and I had no idea of the responsibilities I had with those private poles. It is one of those things in which a lot of information needs to get out there for people.

Mr Italiano: We would agree with that.

The CHAIR: I was going to ask about your regime of inspecting lines and notifying property owners of removing trees around powerlines that are likely to cause damage.

Mr Italiano: Yes.

The CHAIR: Do you also inspect private lines to require them to be removed? Does anyone inspect those, or is that again up to the private property owner to be aware of their responsibilities and to have maintained a break? I think you require all vegetation, or whatever it is, to be two metres away from your powerlines and nothing overhanging and all the rest of it. Who is responsible for that on a private line?

Mr Italiano: There are a few questions there. Western Power does not inspect vegetation around private lines and is not responsible for the clearance of vegetation around privately owned lines. I do not know who would do that. Again, that is the private market. I am sure there are plenty of vegetation clearance and vegetation management companies that have both the capacity and the willingness to provide that service.

The CHAIR: I expect that most people only clear it when they get the notice from Western Power, and I suspect the same would potentially be happening on a whole lot of private lines. That is

another risk that is potentially out there: vegetation around private lines, and at the moment there is not a statutory regulatory regime for inspecting this on private poles.

The Witnesses: Yes.

The CHAIR: Before we go on I ask members if they are happy to have a motion to make public this document, “Connecting people with electricity”. I will make that public. I think everyone is finished with the issue of private power poles.

[1.45 pm]

Hon PAUL BROWN: Paul, I have a question in regard to an issue in one of my communities at the moment which is Kalbarri. Just recently, on 21 and 22 January, there were some rather large end-of-line outages. On 21 January we had a five-hour outage and on 22 January we had a 12-hour outage in Kalbarri. This is peak season, tourist season and a very profitable time, shall we say, for a town in regional Western Australia. There has previously been a provision by Western Power to provide a permanent backup generator in Kalbarri but that has been removed. My question to you is: what is Western Power doing to alleviate these end-of-line outages that are financially and socially affecting our communities at the end of the line?

Mr Italiano: I hope you do not mind, but I can answer the question more generally. In respect to the specific interventions in Kalbarri I would like to come back to you with some answers on notice if that is okay.

Hon PAUL BROWN: That is okay.

Mr Italiano: More generally, in any network there are always going to be boundaries where there is an edge of the network. By definition it becomes very difficult to create a network structure at the very fringes of the network. We are acutely aware of that. That problem is not uncommon; it is pretty much the case in any network anywhere around the world. In Western Australia, with very low population density and quite a large geography, that problem is a little bit greater for us to manage. We are not happy when people at the end of long rural feeders like Kalbarri experience extended outages. It disappoints us and we really do put a lot of effort into those. There are other towns in Western Australia that experience that. You may choose to believe me or not, but we as an executive team sit down and talk about this every month and we examine what interventions we can make to mitigate both the frequency and severity of outages in these communities. We do have backup generators but Western Power is not the generator in the energy sector in Western Australia; so we can only provide generation in certain situations. We have had interventions where we have put generators in places where we know that demand is greater and would put pressure on the line. I am not sure if that is an option we looked at specifically for Kalbarri. It is a real challenge to find an economically viable solution that provides people with an energy experience comparable to what people in the metropolitan areas and large regional communities get. At the moment people in Kalbarri and in a couple of other places around the network are not experiencing that and it really does tax us.

Hon PAUL BROWN: Have you done any research—not necessarily in Kalbarri, but I know you have done the bridging solution in Ravensthorpe—so have you done any other research in regard to end-of-line communities and what it is costing the community versus what it would cost Western Power to provide the regular, sustainable power that they require? The other day there was a 12-hour outage in Kalbarri in the middle of the peak tourist season which is a massive loss to that community. Not only is it a massive loss to the community, it is also a massive loss to Western Power because you do not have a bunch of consumers feeding off your system.

Mr Italiano: I hope this does not sound trite. The revenue is not the least of my concern but it is more the community experience that drives us and we are unhappy when the customer experiences that sort of thing. We appreciate the inconvenience and the disruption that it causes. There are increasingly new technologies being developed that provide assistance to remote or regional

communities and stand-alone power solutions. The network that commenced in the 1940s and was built right through the 1960s, 70s, 80s and 90s is not constructed with these technologies in mind, nor is the regulatory framework that we are operating in. But we are always exploring what opportunities there are for us to implement emerging technologies into the network so that people can experience a much better rate of reliability. At the moment the economics of those do not really stack up in keeping people on the network in Kalbarri. We are very hopeful that continuing innovation and continuing changes in technologies are going to provide us with some solutions going forward.

Hon PAUL BROWN: Once again in relation to Kalbarri, over a number of years backup generators have been provided and the understanding was that they were provided permanently but they keep being taken away for other reasons and being replaced spasmodically through the seasons. This year nothing has been placed back into Kalbarri. I know you may not be able to give me an answer right now and I will take it on notice. Can you tell me why Kalbarri, which had continual usage through summer over a number of years, was not provided with that asset this year to alleviate any possible poor outcome and, how many assets does Western Power have around the state that can go to these end-of-line communities particularly through the hotter parts of summer and also winter when there is higher electricity usage? What number of assets do you have that can go to these communities to alleviate problems?

Mr Italiano: We will come back to you with those answers.

The CHAIR: I will make that all B1 to link it to your comments.

[Supplementary Information No B1.]

Hon PAUL BROWN: I have one more comment, Paul. May I invite you to a community meeting that is being organised on 5 February in Kalbarri? The minister is coming and we are looking for someone from very high up in Western Power to come and speak to the Kalbarri community to alleviate their concerns.

Mr Italiano: Yes. We are very happy to come and talk to our customers. I would be very pleased to have either myself or somebody from Western Power attend.

The CHAIR: Following on from that, obviously one of the solutions to that would be putting generation capacity in Kalbarri that might then peak back down the line to Geraldton. Is there any planning done between yourselves and the new Synergy—previously Verve—or the private sector about locating generational capacity at the end of the line? It strikes me that that is one of the cheaper ways. You are saying that the technologies are not there or they are too expensive but actually locating at least some generation capacity at the end of the line might assist by feeding it back in and reversing the line effectively.

Mr Italiano: I am worried about the answers I am giving because I am straying into professional expertise that I do not have; I am not an engineer. I will have a stab at it and then one of the two engineers will kick me under the table and correct me. The issue really is around whether that is the most efficient place to put generation and is the line between Kalbarri and Geraldton of sufficient capacity to allow that energy that is generated to be exported back down. I am getting nods so it shows that I am learning something in this role. There are some issues around it. We have a division within Western Power nominally called “system management”. It has a responsibility around the planning of the network and the security of energy supply. Through that division there are constant communications between Verve, Synergy and Western Power.

The CHAIR: I get that it might require upgrading the line and those other enhancements but it strikes me that there may be the opportunity to put some form of generation out there which solves the problem of Kalbarri and solves you having to take peaking emergency plants out there every couple of months to prop up the peak seasons and low troughs. That still may end up being the cheapest option even though it might be a slightly more expensive cost of generating and you might

have to upgrade the powerlines. Whose job is it to do that modelling and work out whether or not there would be savings by actually taking an approach like that?

Mr Italiano: The planning for it and building can be done by Western Power but the economic modelling has to be done and submitted and it has to pass the new facilities investment team.

The CHAIR: I guess my issue is: who has the responsibility of trying to drive those solutions: Is it your job to try and find those solutions and then go to the generator?

Mr Italiano: Yes.

The CHAIR: Have you done any work on that with respect to Kalbarri? I am sure we can add it as part of the questions on notice.

Mr Parrotte: Not that I am aware of, and I think with Kalbarri —I am going from memory—the generation we used to put up there was because of a capacity constraint. Then we did work on the network so that capacity was not the issue but obviously being at the end of a 150 to 200 kilometre feeder you do have reliability issues. In terms of an economic decision; yes, rather than upgrade the network put some generation in just to deal with the peak but if you have an outage you are going to have an outage. We obviously do have reliability standards that we need to meet and we do look at those and do our best to meet those but there will be pockets of the network where we do have problems. We will go in and target and try to improve that reliability. From a reliability perspective it is hard to justify putting generation out there but from a capacity perspective generation can play a role for a couple of years if you do defer that investment.

Hon RICK MAZZA: Regarding local government there has been some communication we have had of late where Western Power is changing from switching wires for street lights to photocell dawn-to-dusk sensors. Obviously the street lights are staying on far longer than they were with the old switching wire. A lot of councils are concerned about the additional costs because they are the ones who bear the cost of electricity being used. Is Western Power looking at other technologies where those street lights can be switched off earlier?

Mr Italiano: The new street lamps are switched on and off according to a photo-electric cell that sits on the top of them and senses light and darkness, not dissimilar to motion sensors that you have in your own lights around your house. Currently they do not have a timing mechanism built into them. We would look at those if that opportunity came to us. At the moment we are removing the street light switch wire which was the device that allowed a signal to be sent to street lights to turn them on and off. We are removing them from the network because they represent an unacceptable safety hazard.

Hon RICK MAZZA: What safety hazard do they represent?

Mr Italiano: That wire carries an electric current. Despite being a fairly thin wire, it can degrade over time. The fact that it does not supply power to people's homes often means that damage or breakages in that street light wire are not reported to Western Power; we are not made aware of the fact that a street light wire has come down. That creates a situation where a person can come into contact with a live wire. That has very serious potential effects; the potential to be fatal and has proven to be fatal unfortunately. As a consequence we have made the decision that on balance the risk to the community in retaining that asset in the network is unacceptable. The trade-off is the photo-electric lights.

Hon RICK MAZZA: The dawn to dusk lights.

Mr Italiano: Many local councils in Western Australia take this option. Local councils can opt out of the Western Power street lamp program and they can go with their own street lamp program. They do not get charged and they carry their own costs directly. There are a number of councils, notably Subiaco is one, that install, manage and maintain their own street lamps.

Hon RICK MAZZA: In those shires where Western Power is responsible are you also responsible for the actual lighting unit?

Mr Italiano: For the luminaire itself, yes.

Hon RICK MAZZA: You are. What type of lighting units are you using at the moment?

Mr Italiano: They have been installed over an extended period of time. Some of the older ones are mercury vapour. We are moving towards some new ones with LED. The LED ones consume less electricity and they have lower maintenance requirements. They will be introduced into the network over time as the serviceability of the existing street lights deteriorates and they need to be replaced.

[2.00 pm]

Hon RICK MAZZA: With the LED lighting units, do you know how much less power they consume compared to the old vapour ones?

Mr Italiano: It depends on what level of technology they are. Every year there are new developments in technology that is making them even more efficient. We do know they use quite a bit less electricity than some of the incandescent lights.

Hon RICK MAZZA: Would it be fair to say that once a shire had LED lights on all street lights, that even though it is dawn to dusk, their power usage should be about the same, if not a bit less?

Mr Italiano: It depends on what the charge is. It is worth noting that the energy component for the street light is actually quite low. The majority of the cost goes in the capital cost of acquiring it, installing it in the first place, amortised over time, and then in the maintenance of it. When a street light blows, people report it and Western Power has a statutory obligation to replace it within two days—so the maintenance of it. Those charges represent the greater proportion of the charge. The fixed-cost component of street light maintenance is the greater proportion of the charge. The energy component is the smaller component. There will be a reduction in the energy component.

Hon RICK MAZZA: That is the part the shire sees.

Mr Italiano: No. The shire gets a cost per annum and they get the whole lot. They get the cost of the acquisition and the installation, and the maintenance of it amortised over the life of it. Those assets, the street lights, do not sit on the regulatory asset base of Western Power, and it does not generate any revenue from them from a statutory point of view. The only avenue Western Power has to recover the cost of installing and maintaining them is through that amortised capital cost.

Hon MARTIN ALDRIDGE: You answered most of what I was going to ask, but is that cost spread equally across all local governments?

Mr Italiano: It depends on the requirements—which street lamp they specify and the type of installation. Some of them are simply putting street lamps on power poles; some specify their own structures.

Hon MARTIN ALDRIDGE: But is location a factor? Obviously servicing street lighting in Kununurra is a different cost to servicing one in Melville —

Mr Italiano: Thankfully we do not do Kununurra; that is Horizon's responsibility! That level of detail, I would need to come back to you on.

The CHAIR: You would fund it through the tech, though!

Hon MARTIN ALDRIDGE: If you are going to take it on notice, my question is whether or not that cost is equalised across local governments. I understand that there will be a cost difference based on the type of lighting and the number of lights that a local government desires.

[*Supplementary Information No B2.*]

Hon ALANNA CLOHESY: I move to Western Power's own wooden poles. There was a "State of the Infrastructure Report 2011/2012". Was there a 2012–13 report?

Mr Italiano: There is. It is in draft at the moment. We will go through the process. It will be submitted and considered and made available to be released at some stage, yes—but shortly.

Hon ALANNA CLOHESY: It will be released publicly shortly?

Mr Italiano: Yes.

Hon ALANNA CLOHESY: This was released not long after the parliamentary inquiry; is that right?

Mr Italiano: Yes.

Hon ALANNA CLOHESY: Or just before?

Mr Italiano: After.

Mr Hart: It was one of our commitments coming out.

Hon ALANNA CLOHESY: That was coming out of the parliamentary inquiry. Was there not another commitment to update these annually?

Mr Italiano: Yes.

Hon ALANNA CLOHESY: We should expect a 2013–14 one fairly soon as well?

Mr Italiano: Yes.

Hon ALANNA CLOHESY: What has been the hold-up on the 2012–13 report?

Mr Italiano: This is a new document for us as an organisation. The recommendation from the committee, through its report, was to issue a “State of the Infrastructure Report”. When we commenced work on preparing that, it became clear that there are a number of ways of interpreting that requirement and then you need to collate the data, validate it and produce the report. Last year’s was the first iteration of that. We learnt some lessons on that on the way through. This year’s is the second —

Hon ALANNA CLOHESY: The first one was 2011–12?

Mr Italiano: Yes, was the first year. The second was 2012–13—we are in draft with that at the moment. That is a requirement of Parliament. Not only does it have to be prepared and collated by Western Power, and we need to make sure that the information we put in it is as accurate as we can make it, but also it needs to be reviewed by the policy part of government, the department—the Public Utilities Office—and then the minister.

Hon ALANNA CLOHESY: What part of that process is it at now?

Mr Italiano: We have completed the draft writing of it at Western Power, and we have to take it to our board for them to consider.

Mr Hart: We have also had a change in the executive on the one that you are reading; that is Mark de Laeter. We have had an executive change. We have a new COO, so we are also getting Andre across the document as well. It is a factor of those things.

Mr Italiano: The requirement was that it was signed off by the chief engineer, which is a role that is not in our structure as a specific person. For the majority of 2013, we had an acting person in that capacity.

Hon ALANNA CLOHESY: Some of the rest of the questions I might ask might actually be in that report. If that is the case, it would be great to get a copy as soon as it becomes available. What is Western Power doing about—I noticed in this one, and in the Auditor General’s report—the ageing of power poles? There appeared to be a lot of them. Western Power is responsible for decommissioning those ones. How many of those power poles on that are registered as being ageing and over what time frame, and what has been done about those since 2011?

Mr Italiano: We do have a specific piece of data on it. It depends on how specific you would like me to be. I can get very specific numbers. We have 800 000 poles of all types. Approximately 630 000 or 650 000 are wood poles. About 170 000 of those were over the age of 40, which was an indicative measure for serviceability. Another 200 000 were over the age of 25, which was provided as an indicative age for the need for intervention. Western Power has made some changes to its asset management plan during 2013 that now the wood pole asset management plan policy is to reinforce poles over the age of 25 and to replace poles over the age of 40. We have a program of work that sees us reinforcing poles. We have had nearly a doubling in the volume of poles reinforced over the last 12 months and we have had a substantial increase in the number of poles replaced. That is reflected in that slide that I handed out at the very beginning. That program of work is constrained only by the delivery of it.

Hon ALANNA CLOHESY: In what way?

Mr Italiano: The ability to obtain wooden poles, the ability to get crews with the skills that are needed to be able to replace poles, the ability to access the equipment—the heavy vehicles, the machinery, the drillers, the cranes that are required to do it—the ability to get the outages on the network to disconnect power while we are making pole changes and to identify the areas that are in most need of it. Those were delivery constraints. We have been working for the last 12 months—more than that, nearly two years—on maximising the number of poles that we can both replace and reinforce. I am pleased to say we are beyond the levels that we had initially thought we were capable of doing. We have been able to secure resources from outside of the business, who have come in and substantially increased the rate of reinforcements.

Hon ALANNA CLOHESY: Would it be possible to get a copy of that table you talked about —

Mr Italiano: Yes, absolutely.

Hon ALANNA CLOHESY: — that involves all of that detailed information as supplementary?

Mr Italiano: I think we have a wood pole performance report we put on the website each quarter.

[Supplementary Information No B3.]

Mr Italiano: We can certainly provide you with all of the data on the rate of pole replacements and pole reinforcements that we are doing at the moment.

Hon ALANNA CLOHESY: That is since the state of the network report.

Mr Italiano: One of the things that is really important for us is that over that period of time since we have been focussing very closely on that, we have brought down the unit rate per pole—the cost to replace a pole. That has been brought down quite significantly. We have been able to use those savings to do even more treatments.

Hon ALANNA CLOHESY: I want to talk about the reinforcement of poles now. I understand there is some conjecture around what determines whether a pole should be reinforced or whether it should be replaced other than age—in terms of how well the pole has worn. There are some concerns about whether it is reinforced and whether that is an appropriate choice, particularly around termites but also around the health of the pole above the reinforcement. How is that determination made, other than through the age of the pole?

Mr Italiano: I am not aware of any reservations around that. I do know that the pole is inspected and if it is found to be unserviceable because of splits, tracking or pest—termite—infestation, the pole is scheduled to be replaced. I know when people go out and do pole reinforcements, the very first step in the pole reinforcement process is to satisfy themselves that the pole is structurally sound enough to benefit from reinforcement. Those organisations and our staff—no-one is incentivised in any way to reinforce a pole that is not required to be reinforced.

Hon ALANNA CLOHESY: Or vice versa.

Mr Italiano: Or vice versa. Certainly the process is: inspect the pole, satisfy yourself that a reinforcement is the appropriate treatment for that pole. No process is perfect. When you have 630 000 wooden poles, there are going to be examples where human error creeps in or faults in the pole are not immediately apparent. I am not aware of any evidence to suggest that that process is inadequate.

Hon ALANNA CLOHESY: I will let you know

Mr Italiano: I would be pleased to hear it. I would be very, very pleased to hear feedback from that.

Hon ALANNA CLOHESY: How is cost effectiveness determined in pole replacement or reinforcement?

Mr Italiano: We have to establish with our economic regulator that the replacing or reinforcing of a pole is cost effective. In this particular example, we have an order from the safety regulator that was issued in 2009. We provide that audit to the economic regulator and say that they have requested that we address this population of wood poles in this manner. That becomes the basis of our business case. I do know that the reinforcing of a pole provides us with as much as 15 years' life extension, but not necessarily. We do know that even though we reinforce a pole, over a period of time we do have to come back and replace it, but we are aware of it. Our business case on this is largely driven by the audit.

Hon ALANNA CLOHESY: The conductors, is that a separate register of work required?

Mr Italiano: It is a separate class of asset, yes.

Hon ALANNA CLOHESY: The same process is used in determining conductors?

Mr Italiano: Yes. We do have an asset management plan and an asset management strategy behind that that we use for the management of conductors. Some of the findings of the committee—I am trying not to say “parliamentary inquiry” because I know that is a colloquial term; I know it was the report that —

Hon ALANNA CLOHESY: “The inquiry”, how is that?

Mr Italiano: It is actually report 14 —

The CHAIR: I think Max Trenorden likes it to be referred to as the Trenorden report!

Mr Italiano: Report 14 of the committee found that there were a number of shortcomings in relation to data management, inspection regimes and things like that that were beyond poles; they were more general findings. Those things are there. Those findings were accepted and they are being acted upon. Conductors are a separate class of asset. We are doing a lot of work on managing those as well.

[2.15 pm]

Hon ALANNA CLOHESY: Will that also be included in the next state of infrastructure report?

Mr Italiano: There is a comment on conductors in the state of infrastructure report. There is also a clearer statement on conductor risk, I believe, in this year's draft one.

The CHAIR: After poles have been reinforced, do you keep stats as to whether there was a failure of a pole because the pole fails above the reinforcement?

Mr Italiano: Yes.

The CHAIR: Can you provide us with the number of poles that you have reinforced? Is that something you can provide on notice?

Mr Italiano: Yes.

[*Supplementary Information No B4.*]

The CHAIR: In your answers to questions on notice, you indicated that you spent \$249 million in 2013; however, in the 2013–14 financial year, it will be only \$194 million. I heard you say earlier that the unit cost has come down. Is that driven by the unit cost or do you propose to do fewer polls?

Mr Hart: No, we are proposing to do more and we will move funding from the different categories to accommodate a focus on safety. As Paul said, as we start to ramp up our deliverability, we target our funds towards the highest priority, and that clearly is poles.

The CHAIR: Perhaps I am reading it wrong. In terms of the answers you provided to questions on notice, the answer to question (1) indicates that in the 2013 financial year, \$249 million was spent on the management of wood pole assets, and it is proposed that only \$194 million will be spent —

Mr Hart: The question related to the state budget. Given that we are six months gone, if you look in the budget papers, that is the amount that is in the state budget—the \$194 million.

The CHAIR: Are you saying that you will spend more than that?

Mr Hart: Yes.

The CHAIR: If you are spending more, why was that not incorporated in the budget at budget time?

Mr Hart: The time of the budget commenced in January 2013, but it may have preceded that by the time we got engineers to look at it. The point we are at now —

The CHAIR: Even though we had an August budget, it was still based on the material that was provided in January?

Mr Hart: No, as I said, the genesis was there. We continued to update it. If you are asking what the amount is now, it will be greater than \$194 million.

The CHAIR: Do you know what you are spending now?

Mr Hart: We are looking to spend about the same value as last year—perhaps more.

The CHAIR: Will you do more because the unit price has come down?

Mr Hart: Yes.

The CHAIR: Has that increase in expenditure been incorporated in the midyear review?

Mr Hart: I am not sure about the midyear review. I will have to take that on notice.

[Supplementary Information No B5.]

Mr Italiano: I want to highlight something that Stewart said earlier. Western Power has the capacity to redirect funds from within our portfolios. It may not have appeared in the midyear review. We are not suggesting overall.

The CHAIR: So your total budget impact may not have changed.

Mr Italiano: That is right. But we would reallocate money from one category to another.

The CHAIR: From where have you taken the money to fund it?

Mr Italiano: Some of the assumptions about the growth in both demand for electricity and economic activity in Western Australia have not panned out. The access arrangement was submitted in 2011 and a decision was handed down in 2012, but we are experiencing lower growth in peak demand, consumption and economic activity. That was provided for. That has allowed us to reallocate capital funding to service growth towards other capital funding projects.

The CHAIR: If that is the case, is there a corresponding reduction in your expected revenue because that growth is occurring?

Mr Italiano: Our revenue is calculated by weighted average cost per capital against our asset base. We might not be spending it on that asset, but we will spend it on a different asset, so it is still going onto the asset; it is still capital expenditure that is subject to the return.

The CHAIR: If demand is not increasing —

Mr Italiano: My mistake. There are two parts to our revenue calculation; I always get caught with this! There is how our costs are recovered, which is the regulatory asset base multiplied by the WACC, effectively, and that is the cost we pass on to Synergy and other retailers. They charge the consumer on a rate per kilowatt hour consumed. They pass some of that back through to us on an annual basis.

The CHAIR: But surely if demand is going down, there would be an expectation that your amount of capital would reduce, not necessarily correspondingly, but you would try to produce —

Mr Hart: No. There are two factors playing out. One is energy consumed, which you are interpreting growth to be that. There is also the capacity in certain spots within the network that require capacity expansion. There are two things playing out. The capital that Paul mentioned relates to the capacity in certain areas. If you go to certain suburbs—Cameron knows about this better than I—where there is density and people coming in, you still have to expand the network to cope with that growth.

The CHAIR: That leads to a question that has arisen out of this morning's hearing with Synergy. It said there is a drop in demand —

Mr Hart: In energy.

Mr Botha: In consumption?

The CHAIR: Yes, in consumption. One of my questions was going to be: are we still seeing that in some areas? Ten years ago, another substation had to be built in Padbury, the need for which was driven by the growth in air conditioning units, not so much the subdivision of properties. One of my questions was: even though there is a reduction in total consumption of electricity through either a reduction in usage or photovoltaic cells coming on, are you still having to expand the network across the established areas of Perth? Are you still having to expand the network even though you are putting less power through it?

Mr Italiano: Consumption per household is declining, but when you put on a new household, they still want to be connected. Then you are getting infill developments. I create a hypothetical scenario. Suburbs were developed in the 1950s on the principle of a quarter-acre block with a house with three bedrooms and one bathroom. Electricity infrastructure in those areas was developed accordingly. Now we are looking at multistorey apartment complexes with three plasma-screen televisions and reverse-cycle air conditioning. Those areas need more infrastructure, but the consumption per household is coming down. New air conditioners consume less electricity than did the older ones. Plasma screen televisions drained a lot of electricity, but the new LCD ones do not.

The CHAIR: Is it not part of the problem with the growth in peaks? Air conditioners were causing a growth in peak demand. So, it was not about the total increase of electricity use across Padbury, as an example; rather, it was the fact that people wanted more electricity between four o'clock and six o'clock every night when they would come home, put on the air conditioner and cook dinner and their kids would turn on their computers. What I am trying to understand is whether we still have a mishmash of having to expand the network because peak demand is growing, but your overall consumption is reducing.

Mr Italiano: We have not seen —

The CHAIR: I get the bit about expansion, but that is no different to building a new suburb.

Mr Italiano: That is right. During the recent heatwave, we had mid-40 degree temperatures. The energy consumed at the peak of that heatwave was not as high as the peak two years ago. The messages about energy efficiency are starting to have an effect with changes in consumer behaviour. The investment in the network is largely a fixed cost. The network component of the electricity tariff people pay now is recovering the cost of investments in the network that were made 30 and 40 years ago. The cost of the investments made in the network now will be recovered for the next 40 years. The network has a very high fixed-cost component to its capital expenditure.

The CHAIR: Each year we are paying our share of the depreciation on the asset.

Mr Italiano: That is right. It will be depreciated over 40 or 50 years.

Mr Hart: Which is why you see \$700 million in that waterfall jump in debt because it will be recovered. There is a cash cycle that governments operate on, and this business runs on NPV.

The CHAIR: How does Western Power manage a drop in electricity use?

Mr Italiano: Our regulatory environment is very clear—our costs are fully recovered. Whatever volume of electricity is consumed by the community, our costs are fully recovered. We work out what our costs are, and it is divided by the anticipated amount of energy consumed, and that is what is paid to us. At the end of the year, if people have consumed more or less—it is fantastically known as the “K factor” in our regulatory regime—the under or over is added or deducted from the following year’s tariff, and it is balanced out over the life of the five years. It is recognised in our regulatory framework that the cost of the network is not heavily related to the volume of electricity consumed. The mechanism for charging is cents per kilowatt hour, but that is what the retailer —

The CHAIR: Are you about 50 per cent of the cost?

Mr Italiano: No—nowhere near it. It is 30 per cent.

The CHAIR: Does a drop in demand just mean that the network cost is shared equally by the people?

Mr Italiano: It is true that if there is a continuing trend of reduction in energy consumption, some of the capital expenditure we would have incurred to fund or support growth would be avoided and we would not incur that capital expenditure. That means that over the next 40 years, the amount recovered from consumers will be reduced, but in small parts.

The CHAIR: I refer again to poles. One issue is whether you have good records of where your poles are located.

Mr Italiano: Yes.

The CHAIR: Are you now satisfied that you do have good records?

Mr Italiano: We do have good records.

The CHAIR: Are you confident about that?

Mr Italiano: Yes, I am confident about that. We have a very good system in place. We are always making improvements to it. We have made significant investments in the database and in the geospatial information system—GIS—which allows us to record the location and status of a pole. For the vast majority of our network, we are able to pull up a photograph and condition report of a pole and know the last time that it was inspected and the last thing done to it.

The CHAIR: I ask that question because—it is not a big issue—I heard a story the other day of someone doing a subdivision and one of the conditions was that they put in underground power when there was already underground power at the site. They were told that the WAPC was told by Western Power that there was no underground power. That suggests that maybe there are some problems.

Mr Italiano: There is underground power and there is underground power. If someone is doing a development and creates —

The CHAIR: No, this is underground power through the suburb.

Mr Italiano: If they are making new lots, the stipulation would still be that the new lot would need to be connected to the network using an underground connection with a little green dome called a mini pillar. I imagine that is what the instruction was.

The CHAIR: No, it was not.

Hon RICK MAZZA: Through the Chair, we have heard today the great raft of challenges that you guys have with the cost and maintenance of power poles. What programs are in place to convert a lot of overhead power to underground power?

[2.30 pm]

Mr Italiano: Western Australia has the state underground power program. It is the only state in Australia that has a retrospective power undergrounding program. Fifty-three per cent of the metropolitan area is undergrounded already, and we continue to go through the undergrounding program. Late last year, I think, Melville city council pulled out the last power pole in that city and they are now completely an undergrounded city. I might be wrong with that, but I do know that they are substantially undergrounded there. The state underground power program is a co-contributory program, with Western Power being the contractor that undertakes the work, and the state government, the councils and the consumer make some contribution to the cost of undergrounding. The whole program is administered by the Public Utilities Office on behalf of the state government because it involves people outside of Western Power. So, there is that undergrounding program.

Hon RICK MAZZA: What sort of targets do you have to put overhead power to underground power? Even in this area in the middle of the city, there are overhead powerlines. I think there are overhead powerlines down Wellington Street and Colin Street.

Hon MARTIN ALDRIDGE: They are transmission lines.

Hon RICK MAZZA: No, they are overhead powerlines. I am wondering what sort of targets you have. You can always go for a drive on your way out and have a look if you like.

Mr Italiano: I know there are some overhead lines running into Northbridge, for example. There are not any overhead distribution lines in the CBD. There are some major transmission lines that are coming into the city, and they are done overhead. There is one that runs near the Windan Bridge that takes it over the river, I think.

The CHAIR: It is the old Perth power station switch.

Mr Italiano: There are a variety of those. Transmission lines require significant management when they are underground. They require significant management aboveground, but when they are underground, they need to be cooled and they are encased in a mineral oil —

Mr Parrotte: They put a slurry around it to effectively dissipate the heat.

Hon RICK MAZZA: It is a whole different ball game from domestic power.

Mr Italiano: It is a very, very different ball game. For Western Australia, with a hot, dry climate, the heating up of transmission cables underground and the maintenance come with a cost and a risk associated with it. Distribution is different. The Perth area is distributed. The CBD is completely underground for distribution.

Hon RICK MAZZA: Getting back to that, do you have a target for how much overhead domestic power you have to get underground?

Mr Italiano: There is a separate line in the state budget that has been around since 1993 and it deals with the financial resourcing that the state has available to it to support the underground program, and that is what drives the volume.

Hon PETER KATSAMBANIS: You mentioned earlier that you have managed to reduce operating expenditure by around \$25 million or so per annum, and you suggested that that could be sustained through into the future. How have you achieved those savings?

Mr Italiano: Since early 2012, the organisation has been undertaking a substantial transformation program. We have focused on much clearer objectives and understanding our role in the community more clearly. We have changed the strategic direction of the organisation to being connecting people with electricity, with a focus on safety, reliability and affordability as our three major criteria. In doing that, we have also pushed a lot of emphasis on improving the deliverability of work in the field and reducing the amount of admin and head office support. What we have been able to do there is increase the volume of work that we are delivering, but reducing a lot of bureaucracy, duplication in work by improving our work practices and getting much clearer accountabilities for individuals in each of their work roles. We are very pleased to be able to say that the \$25.5 million reduction was a reduction on year-on-year expenditure. It was substantially more when you compare it with what was the approved budget going into that year. We came in well over \$40 million below the approved opex budget for the 2012–13 year, and we are driving to become very close to turning in a second year-on-year reduction in opex. About 26 per cent of our operating expenditure is dealing with fault repair and repairing work during storm events and after bushfires and things like that. There is quite a reasonable proportion of our opex that is fixed—for example, insurance costs and things like that that we have very little flexibility to deal with. A \$40 million reduction in recurring operating expenditure is quite a substantial reduction in our compressible operating expenditure for business. At the same time, our focus on the capital works program and the delivery of the capital works program were excellent. We were less than one per cent out from the delivery of our capital works program, which is a substantial improvement in our delivery of the works program on previous years since disaggregation, and we are very pleased with that as well. We are continuing that program of change at the moment. There is a considerable culture change program going on. We have new people in leadership positions. We have reduced the size of our executive team, we have reduced the size of our management team below the executive team, and we have reduced the size of the head office supervisory function as well. We have been very disciplined to make sure that we do not outsource the work that was previously done to external parties to make sure that those savings are captured and banked.

Hon PETER KATSAMBANIS: Do you have any target for the current year's year-on-year opex savings?

Mr Italiano: We do have a target in our strategic plan, which we are working towards implementing. But the principle is, like any regulated entity in an industry like ours, we get a regulatory contract, which we received from the ERA in 2012, and our job as an executive team and a board is to outperform that regulatory contract to drive efficiencies and savings that allow us to deliver the same consumer outcomes for a much lower capital expenditure and operating expenditure. That is the strategic challenge we have set for ourselves. We have delivered on it in year 1, and we are confident that we will deliver on it in year 2.

Hon PETER KATSAMBANIS: Changing tack slightly, we spoke this morning to Synergy and they talked about that reduction in demand for their product, particularly through the metropolitan area, with the installation of photovoltaics. With the introduction of these PVs that both provide energy for the home and feed back into your network, what challenges have you experienced as a network operator in having to deal with this uptake in PVs? Has it been smooth and simple, or does it create issues for you in relation to your network management, your load management and the like?

Mr Italiano: There was an administrative challenge in respect of understanding the potential impact of photovoltaics on the management of the network and the impact that it would have on load flow around the network and what volumes of them were going to be implemented. I think the administrative challenge took a little while to get resolved. The technical challenge in terms of what impact it is having on managing the network at the moment is very minimal. It does not present a substantial challenge for us. I think anyone under three kilowatts receives automatic approval for an installation from Western Power. There have been a number of network studies conducted by the industry around Australia, most notably the recent one in Queensland where there has been quite a substantial take-up of solar panels. The rule of thumb that has been developed there is that you do not start to really experience network management issues until the level of penetration reaches about 30 per cent, but that can be 30 per cent on an individual feeder or in a localised area, and then there may need to be some intervention.

Hon PETER KATSAMBANIS: Are you monitoring where in your system you are starting to get close to that 30 per cent?

Mr Italiano: Absolutely. We are monitoring that all the time. What we are trying to do is make changes to the way the network is managed so that we do not create a barrier when that happens, but we are prepared for it.

Hon PETER KATSAMBANIS: Where is the Mid West Energy Project at at the moment?

Mr Italiano: I might let Stewart answer that.

Mr Hart: Stage 1 started in the north country and many other iterations. Stage 1 is on time and on budget. We are looking to have that in the service by June 2014. That may provide some opportunity for generation in the regional area. I think there are 350 potential applicants for 350 megawatts of potential applications for power generation from wind up in that area. It is quite substantial. That line will enable that and back feed down to Perth.

Hon PETER KATSAMBANIS: We will look forward to having that delivered on time.

The CHAIR: But is there not a problem with the wind and the surplus capacity and the wind is adding increased complexities with respect to the baseload stations?

Mr Parrotte: It does. Wind, as does any renewable, has variability in it. We operate the system on a real-time basis on behalf of the Independent Market Operator, and that causes variability. But we have other generation that is online that can operate as quickly as the wind moves so that, effectively, mums and dads and anyone else do not see an impact.

The CHAIR: Yes, but my point is that we have already got surplus capacity in the system, so bringing on more capacity —

Mr Hart: Our job is to facilitate it. We are simply the connection between the generator and the customer. If the government policy changes, clearly these people will opt out and not invest.

Mr Parrotte: If they can make a commercial return, that is their call. As Stewart said, our role is to connect them to the network.

Mr Hart: It should be remembered that one of the geneses for that upgrade was the Karara mine.

The CHAIR: That is stage 1.

Mr Hart: But there are other benefits to the economy.

Hon PETER KATSAMBANIS: Obviously, we have discussed the impact of the private poles in relation to the recent bushfires. There would have been some impact on your assets through the recent bushfires. What was the impact and what has been the response so far both in relation to your assets and also in ensuring that the affected communities are reconnected as soon as possible?

Mr Italiano: It is a good question. About 155 poles were burnt down in the fire and nine kilometres of conductor was destroyed, and we had 1 000 customers' connections that were affected by the damage to the network. We are really pleased that we were able to work very closely with the emergency services. We put over 200 employees dedicated onto the program. The affected customers were reconnected within three days as soon as we got access to the affected area.

I just wanted to put on the record, if I could, just how pleased I was and how proud I was of the effort of the staff and the crews at Western Power and the fantastic support that we had from the fire and emergency services and local councils and everybody else who was involved. My experience with these emergency issues demonstrated that this one was really good in the way everybody collaborated and worked very well together. There was a lot of effort put into it beforehand to prepare. As devastating as it is—I cannot even imagine what it would be like for the people who have lost homes—to replace that many poles and that much conductor and have power restored in three days was a fantastic effort by the guys, and I am really proud of them.

Hon ALANNA CLOHESY: Who was the lead agency on the day? Was it FESA, or whatever the new acronym is?

Mr Italiano: It is always the Department of Fire and Emergency Services. There is the State Emergency Management Committee and they hold the chair position for that. We are very pleased to provide them with whatever support they need.

[2.45 pm]

Hon MARTIN ALDRIDGE: Page 14 of your annual report breaks down a number of public safety incidents during 2012–13. There were 79 recorded “Fire or explosion caused by Western Power assets”. Are you able to provide some detail on the types of incidents, location, cost of the related damage to either Western Power infrastructure or other infrastructure, and to what extent Western Power was involved in compensating third parties as a result of that damage?

Mr Italiano: I can. We were not invited to the bushfire preparation committee in the lower house for this season—we were in the previous season. So, statistics from the previous season might prove to be relevant for a similar volume of fires. The definition of a fire is anything that burns more than five metres away from the property—from the asset that failed. The previous year, I think, total losses were around \$680 000; the largest single loss about \$160 000. That was the compensation we paid to third parties. There was some damage to Western Power assets. That was the previous year; the responses are on the record from that, so please take those and correct me. I can provide you with the 2012–13 numbers on notice, if you would like, but they would be in that magnitude.

[*Supplementary Information No B6.*]

Hon MARTIN ALDRIDGE: That was going to be a follow-up question. This category is “Fire or explosion caused by Western Power assets”, so the determining factor for you is that anything that happens within five metres of your infrastructure falls into that category?

Mr Italiano: Any component failure or an asset fault, because they do not set out to cause fires. There is a component failure. There are millions and millions and millions of components that comprise the network—insulators, cross arms, poles, conductors, tie wires, stay wires, transformers. There are millions and millions of components. There were 79 component failures or asset faults that resulted in a fire that burnt more than five metres—Cam, are you just looking?

Mr Parrotte: I can give the definition, if you would like.

Hon MARTIN ALDRIDGE: Yes.

Mr Parrotte: It is in the state of the network report —

A ground fire is any ground fire that:

- starts in, or originates from, the electricity network

- is started by any tree, or part of a tree, falling upon or coming into contact with the electricity network
- is started by any person, bird, reptile, or other animal in, or on, the electricity network
- is started by lightning striking the electricity network or part of the electricity network
- is started by any other thing forming part of, or coming into contact with, the electricity network
- is otherwise started by the electricity network.

Sorry, it does not have a metreage around it.

Mr Italiano: So, that includes vegetation that is blown onto the lines, my famous statement late last year about possums, other animals, birds. We have had cattle rubbing up against poles repeatedly over years damage them. Those things are all counted in there—even lightning strike. If it is related to the network, it gets counted in that, so the definition is very, very broad.

Hon MARTIN ALDRIDGE: Does Western Power have a policy and what is it in relation to dealing with third party damages? Do you distinguish between somebody driving into the power network and causing a fire and burning down somebody's house as opposed to failure of the network causing that fire and burning down the house?

Mr Italiano: I am pretty confident that I can say I am very pleased with the way we manage the losses that are experienced by people as a result of anything to do with the network. We move very, very quickly to work with people who have suffered a loss to help them quantify that and to compensate them for it in a very seamless, quick and, hopefully, as least destructive way as we can possibly make it. We have got a very cooperative underwriter insurer that works with us on that. We are not in the business of attempting to avoid accountability where we are responsible for somebody experiencing a loss. We move very, very quickly to help people.

Mr Hart: Now the other question is on the third parties hitting our assets. We then try and recover as quickly from those people as we can. Car versus pole is the obvious one.

Hon MARTIN ALDRIDGE: Yes. On 29 December 2009, there was a fire in Toodyay which caused fairly extensive damage. There were two EnergySafety reports which essentially concluded that Western Power was at fault but most of the evidence was destroyed in the fire to pursue a case in court. What accountability did Western Power take in relation to that fire?

Mr Italiano: I have answered those questions. The first part of your question suggests that both EnergySafety reports clearly establish Western Power is at fault. I am not sure that is true. The interpretation of the EnergySafety reports, I think you might need to have a close look at them. The first one, by our evidence, clearly, I think, found that there was no determinable cause. The second expressed an opinion and did not make any effort—did not make any express attempt—on facts; it was explicit that it was an opinion. The findings of those reports were provided to the people who suffered loss in Toodyay, and they suffered significant loss. I have been up there and I have spoken to them, and I feel for them for that. It was a devastating event and it had a significant effect on them and their lives. Many of them are still experiencing that today. Claims were made, people went through a process, the information was made available to them, and a settlement offer was made and the claimants have accepted a settlement offer. In that settlement offer, Western Power has not accepted responsibility for the ignition of the fire, and those answers have been on record for some time.

The CHAIR: Have you accepted the full cost of the damages or only a proportion of the damages on that basis?

Mr Italiano: The settlement offers that were made were a proportion of the losses experienced by the people who made claims on a sliding scale determined by the size of the loss that they claimed for. The individual settlements are subject to confidentiality agreements.

The CHAIR: What does that range between, like for a small claim to a large claim?

Mr Italiano: From a small claim, all of it, through to a large claim, 50 per cent.

The CHAIR: And what is considered a large claim in value terms?

Mr Hart: Going from memory, probably in the range of \$400 000.

Hon MARTIN ALDRIDGE: That is different to the information the Premier has provided to Parliament with claims up to \$190 000.

Mr Italiano: No, that is a different —

Mr Hart: Now you are talking on a completely separate topic and that was the money that the state and Western Power put into the fund —

Hon MARTIN ALDRIDGE: The \$10 million.

Mr Hart: Within that fund, I think the maximum allowable under that claim process was \$190 000.

Mr Italiano: That was quite separate.

Mr Hart: That was separate again.

Hon MARTIN ALDRIDGE: So Western Power is providing further ex gratia payments?

Mr Hart: Western Power has a deductible of \$3.5 million on any claim and then the insurer, so most of the money is actually to the insurance account.

Hon MARTIN ALDRIDGE: Why would your insurers be paying compensation if Western Power does not believe it was at fault?

Mr Italiano: That is part of the legislative process or the court process. We walked into that, as I said, with a very cooperative underwriter. We feel very strongly for the people that have experienced loss. We try to work very closely with them. We put what we considered to be a sensible offer on the table and ultimately I do not want to give any opinions on what people thought of that offer. Ultimately, every single person accepted the offer. Every person was given the opportunity to continue on with their claim through the court. But it was a very constructive, very positively run, facilitated mediation session that I think resulted in a sensible outcome for all parties concerned.

Hon MARTIN ALDRIDGE: Were the confidentiality clauses at the request of the claimant —

Mr Italiano: Yes, they were.

Hon MARTIN ALDRIDGE: — or of Western Power?

Mr Italiano: They were the request of the claimant.

Hon MARTIN ALDRIDGE: And related to what was to be the size of the claim?

Mr Italiano: Yes.

Hon MARTIN ALDRIDGE: The \$10 million that was a joint package by the state and Western Power, has that been fully expended?

Mr Italiano: It was not fully expended, but I understand that there was a time limit on the date that people could make the claims.

Hon MARTIN ALDRIDGE: Can you tell me how much of that \$10 million was spent and to how many claimants?

Mr Italiano: We did not administer that fund; that fund was administered separately from Western Power. We do not have that information.

The CHAIR: Are you able to take that on notice?

Mr Hart: We will have to get it from the other —

Mr Italiano: I am not even sure that we would be able to get it, but —

The CHAIR: Who would have it?

Mr Hart: DPC.

The CHAIR: That is a question for Thursday morning, then!

Hon MARTIN ALDRIDGE: The other settlements that you are talking about outside of the \$10 million which was part of the court process, they have all been finalised? So, there are no outstanding claims in relation to the Toodyay fire?

Mr Hart: I think there are three remaining.

Hon MARTIN ALDRIDGE: And are they —

Mr Hart: Some of the people want to do their own work, rather than having a fencing contractor. So, that process is still going through.

The CHAIR: Can we get that sliding scale that you were talking about earlier? I do not want individual details of claims, but is the sliding scale something you could provide to us?

Mr Italiano: I am not actually sure because, as Stewart said, Western Power pays the first \$3.5 million of any insurance claim; beyond that, it comes out of the insurer's pocket, so it is actually an offer by the insurer. It is not actually an offer from Western Power, so I am not even sure that we have got the complete details about it.

Mr Hart: Commercially, I am not sure the insurer would want that information out.

The CHAIR: What I might do is make it supplementary information B7 and if you are able to provide it, provide it; and, if not, just indicate that the insurer has requested commercial-in-confidence or is not prepared to provide it.

[Supplementary Information No B7.]

Hon ALANNA CLOHESY: How are scheduled network maintenance outages determined—just your regular maintenance outages? Does each region have its own network maintenance and asset maintenance program?

Mr Italiano: We are actually in the process of making some changes to the way that we do those, but we need to do that through the appropriate authorities that regulate the way the business operates. You have asked very—I saw your question that —

Hon ALANNA CLOHESY: No, I was not sure which authority.

Mr Italiano: We have a safety and technical regulator that oversees the operations of the business that is separate from the economic regulator. We must make sure that whatever we do is to the satisfaction of our regulators, both the safety and technical regulator and the economic regulator, as well as the Office of the Auditor General, the Public Utilities Office, DPC, the minister and the people that oversee our business.

The outages are determined by the network planners when a maintenance requirement is such that it requires us to disconnect energy. We do some pole replacements live and we try and retain that. I might be getting out of my own depth—and Cameron is going to kick me in a minute! The determination of outages is separate from the asset management. What we do is we work out what asset management interventions are required to keep the network in the state that we need it to be in order to meet our service obligations. Then if we need to make an intervention on it for whatever

reason—it could be that there was a planned piece of work that we could see for a long period of time and it has been put on the work schedule and it is due to come up—then the team put in a request to the network planning system management team and they will go away, pull out the map, and they will schedule an outage that will tell them when the most effective day is and they will do that. But there are other times when we will identify a fault, a previously unknown fault or damage to the network, that requires us to make a very quick intervention, so we will follow a similar process but on a much shorter circuit. The determination of the outage is different from the determination of the asset management intervention, if that makes any sense.

[3.00 pm]

Hon ALANNA CLOHESY: Yes, it does, thank you.

Mr Italiano: What was your concern?

Hon ALANNA CLOHESY: Planned outages over a long period in Mundaring, Mt Helena on 19 January.

Mr Italiano: This year?

Hon ALANNA CLOHESY: Yes.

Mr Italiano: Off the top of my head I would need to find out what specifically was being done. However —

Hon ALANNA CLOHESY: Sorry; it is the seventeenth.

Mr Italiano: — we have put a substantial amount of effort into pole replacements and bushfire mitigation interventions in the Perth hills. Because those areas are in the Perth hills there is a very high likelihood that is what we were doing in that area. It would be conductor replacement, pole replacement and other network renewal to mitigate fire risk.

Hon ALANNA CLOHESY: It causes my first question: if it is conductor or pole replacement, would it not be better to conduct that kind of program when it was not so hot and when there was not such a high bushfire risk and when people did not need their air conditioners? This was a whole day planned outage.

Mr Italiano: We fully appreciate that one of the major areas of consternation for businesses is that the disconnection of energy causes significant inconvenience in people's lives. We do notify a couple of days in advance. It is a judgement call. There is a substantial part of the bushfire season left to run after 17 January—a substantial part of it. If there is the opportunity to take bushfire mitigation interventions that early in the season, we do not know what the temperatures will be on those days; it can sometimes be pretty hot.

Hon ALANNA CLOHESY: We have a pretty good idea in the hills in January.

Mr Italiano: On balance now we have a network that is in better condition for the balance of the bushfire season and into next year. There are problems in winter with access. We do not deal with just the residential area. There are commercial activities; schools that require power to be on; and agricultural activities with seeding, cropping and things like that. We have to manage land access at various times. As happened last year with the rain we had between August and October, getting into soft soil areas with a lot of clay and things like that proves to be a real problem. Some of the areas we did in December and January, we would have loved to have got to in September or October but the amount of rain made it inaccessible.

Hon ALANNA CLOHESY: This is not difficult terrain; this is Mt Helena. It certainly is in the back blocks but not the streets.

Mr Italiano: I need to check the specific outage. We certainly appreciate the inconvenience.

The CHAIR: Do you want that taken on notice?

Hon ALANNA CLOHESY: Yes, if it is possible to get a sense of what the planned outage was and why it was necessary at that time and why it was necessary from 8.00 am to 5.00 pm. That is for 17 January.

[Supplementary Information No B8.]

The CHAIR: In terms of your assets, we talked earlier about aging assets in different parts. How many assets do you have that are within five years of coming to the end of their economic life?

Mr Italiano: I would have to go away and check. As I said, there are millions of individual components described as assets. The state of the infrastructure report makes an attempt to divide them into poles, conductors and other ancillary assets.

The CHAIR: Is there an emerging issue with aging assets needing to be replaced that will place real demands on your finances?

Mr Italiano: I think the answer to that question is that it is not an emerging issue. The phrase that has been used on numerous occasions on both sides of politics and by lots of regulators is that there have been decades of underinvestment.

The CHAIR: What is the plan to deal with that?

Mr Italiano: This is the conundrum facing every network operator, not only in electricity and not only in Western Australia. We look to new technologies and new techniques and innovations to find ways to extend the life of the assets we have in a safe and reliable manner. We are constantly doing that. All network operators and technology operators are finding ways to continue to keep assets functioning in a serviceable way beyond what perhaps they were originally intended to be when they were installed.

The CHAIR: Is there also a danger that that might mean the cost of operation becomes higher than it would for replacing them?

Mr Italiano: Absolutely. As Stuart said earlier, the dilemma for us as an organisation is that we work within the government framework, which is very cash flow-driven over a four-year cycle, whereas we as a business work on a 40-year net present value proposition. If the net present value of maintaining the asset in a deteriorated state is higher than it is for replacing it, we will replace it.

The CHAIR: Are you given debt limits that restrict what you might do that would be commercially sensible for you but you are not able to do because of a debt limit?

Mr Italiano: We have not experienced that yet. The purpose of a limit is to restrict you. That is why we use the word limit. Yes, there is a debt limit that restricts us.

The CHAIR: There should always be sound consideration before increasing debt, but if you have an arbitrary debt limit that says you cannot go above this amount, that may force you to take commercial decisions you would not otherwise take.

Mr Italiano: At the moment we are able to operate within the regulatory contract we have with the Economic Regulation Authority and within the debt limits that have been provided for us. Maybe in the future there will be a time when the capacity to raise debt as a collective does not meet the needs of Western Power and other network operators.

Mr Hart: Given we have new members here, last year we had a similar question around what it looks like going forward. Our estimates last year were \$5.5 billion in capital this five-year period; \$7.6 billion in the next and \$9.2 billion in the one thereafter. That goes to Paul's point around the age of the infrastructure and the decades of underinvestment.

Mr Italiano: The capital we are spending on the network this year is more than \$200 million more than we spent on the network last year. The capex last year was \$1.05 billion. This year it is \$1.3 billion.

The CHAIR: I think one of the problems in WA is that there is a really unsophisticated debate about debt at times: We do not differentiate between the general government sector and the non-financial public sector, which you fit within. As long as you have got sound business cases and an income stream to cover the cost, that is a very different debt to the general government sector debt. In fact, the problem for the government is not actually your debt; it is more in the general government sector, which, going back five or six years ago, was in surplus. Because we have a single figure, I wonder what impact that has on organisations such as yourselves and restrictions on you being able to do what you consider to be commercially prudent practices.

Mr Italiano: We have an obligation under our regulatory framework to act commercially. If we are unable to, there is a mechanism —

The CHAIR: If you were of the view you needed to replace an asset because it was commercially the correct thing to do but you could not because the government would not give you the debt limit to do it, how would you resolve that? Would you require a direction?

Mr Italiano: The regulatory framework is very clear; it is very explicit. We have a regulatory contract and we operate within that. We seek to outperform it. If we are unable to secure the funding that is required to underpin the performance we need to deliver in the regulatory contract, that is a decision that is captured in the budgetary cycle and tabled before Parliament. Government and Parliament have the right to make whatever decisions they want to make.

The CHAIR: Did you say that after 25 years you are now strengthening the poles?

Mr Italiano: Reinforcing them.

The CHAIR: Did you say earlier you are automatically reinforcing them after 25 years?

Mr Italiano: The standard is working —

Mr Parrotte: Yes, we are working our way to that.

The CHAIR: According to your depreciation schedule, you depreciate them over 45 to 50 years and reinforcement is over 15 years. Is that really accurate to be depreciating if after 25 years they need to have reinforcements done?

Mr Italiano: I am an old accountant and I am going to avoid trying to answer the question, and throw it to my CFO.

Mr Hart: You are quoting from which section—the asset life of the poles and the reported structures?

The CHAIR: I was looking at your depreciation periods for categories of property, plant and equipment in your annual report.

Mr Hart: There are categories within categories and, in fact, the replacement of poles is an operating cost for tax purposes.

The CHAIR: You do not depreciate your poles; the pole network is not being depreciated?

Mr Hart: Under tax it is expense and under accounting it is depreciated. Within that there is a series of different categories. I think you are quoting an average.

Mr Italiano: If you want to get into a bit of detail, reinforcing a pole can be considered to be like maintenance on a car. The car is the asset and the maintenance is opex and allows you to depreciate the car over its life. Reinforcing can be treated as an opex, expenditure. In some circumstances reinforcing can be treated as capex. Whether it is capex depends on the purpose of the reinforcement, the expected life over it. It does not affect the depreciation period of the pole.

The CHAIR: As much as I would like to drill down a bit further, I might bring the hearing to a conclusion. The committee will forward any additional questions it has to you via the minister in writing in the next couple of days together with the transcript of evidence, which includes the

questions you have taken on notice. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons for why the due date cannot be met. If members have any unasked questions, I ask them to submit them to the committee clerk at the close of the hearing. On behalf of the committee I thank you very much for your attendance today.

The Witnesses: Thank you.

Hearing concluded at 3.11 pm