

Western Power (Networks) -

Mr G. Woodhams, Chairman.

Mr F.M. Logan, Minister for Energy.

Mr D.T. Aberle, Chief Executive Officer.

Mr M. Peacock, Chief Financial Officer.

Mr J.R. Banks, Acting Coordinator of Energy, Office of Energy.

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

The CHAIRMAN: This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers.

It is the intention of the Chairman to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point.

The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. For the purpose of following up the provision of this information, I ask the minister to clearly indicate to the committee which supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the committee clerk by 8 June 2007, so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available.

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

I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice with the Clerk's office. Only supplementary information that the minister agrees to provide will be sought by 8 June 2007.

It will also greatly assist Hansard if when referring to the program, statements, volumes or the consolidated account estimates, members give the page number, item, program or amount in preface to their question.

I will now take questions from members. The Member for Darling Range.

Mr J.H.D. DAY: I refer to the capital works program on page 1007 and the expected expenditure over the next four years, which to me adds up to approximately \$2.6 billion if I add the figures for 2007-08 and the following three years. How does that reconcile with the statement made a few weeks ago that \$3.5 billion was to be expended?

Mr F.M. LOGAN: The member is referring to the capital contribution, which is detailed in the second table on page 1007. The operating expenditure must be added to that figure as well.

Mr J.H.D. DAY: Does the \$3.5 billion include operating expenditure? Is that the whole of Western Power's operating expenditure?

Mr F.M. LOGAN: Yes, it is capital and operating expenditure on maintenance, upgrades and stuff like that.

Mr J.H.D. DAY: Is all the operating expenditure of Western Power, including salaries, office expenses and the like, included in the \$3.5 billion figure?

Mr F.M. LOGAN: No, that is not right. It was made clear in the press release that it is basically the capital that will be injected and the operating expenditure on that equipment. It does not include wages, operating plant and stuff like that. It is actually the expenditure on those assets.

Mr J.H.D. DAY: It really seems like the minister is trying to gild the lily, so to speak, to include all of that in the \$3.5 billion figure.

Mr F.M. LOGAN: I do not think that the member's colleagues to either side and behind him would say that of the upgrading of lines in the rural sector.

Mr J.H.D. DAY: Of course people want that to be done.

Mr F.M. LOGAN: A lot of that falls under operating expenditure because they are existing lines.

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Mr J.H.D. DAY: Can the minister define what he means by “operating expenditure”?

Mr F.M. LOGAN: Mr Aberle?

Mr D.T. Aberle: Operating expenditure basically describes expenditure on the maintenance of existing equipment and minor upgrade work, as opposed to expenditure on large, new builds. Crudely speaking, that is the difference.

Mr J.H.D. DAY: So the expenditure of \$3.5 billion over the next four years compared with \$2.3 billion over the past four years is a fair comparison?

Mr F.M. LOGAN: Yes. I am advised that the figures would have been determined on the same basis.

Mr J.H.D. DAY: What is the expected return to Western Power from that investment? The minister can provide that in percentage terms if he likes. Therefore, what is the expected dividend that will be payable to the state as a result of that investment?

Mr F.M. LOGAN: That is not as easy to determine as the question makes it appear. As the member would know, that is long-term investment. The building of a 300-kilovolt transmission line is a long-term investment for the return.

Mr J.H.D. DAY: All that has to be justified to the Economic Regulation Authority, as I understand it.

Mr F.M. LOGAN: That is correct. That is assessed by the economic regulator.

Mr J.H.D. DAY: Therefore, there must be some idea of the amount.

Mr F.M. LOGAN: Mr Peacock can provide a bit of advice on that.

Mr M. Peacock: With the Economic Regulation Authority recently approving our access arrangement, the return on Western Power’s capital is 6.76 per cent, which is a pre-inflation, pre-tax return. The dividends and tax returns that Western Power will be conveying to government are recorded in the *Budget Statements*. For 2007-08, it will be a dividend of \$47.7 million; for 2008-09, it will be a dividend of \$36.3 million; and for 2009-10, it will be a dividend of \$55.5 million. That is based on a 6.76 per cent return on capital.

Mr F.M. LOGAN: Is that sufficient?

Mr J.H.D. DAY: Yes.

[5.10 pm]

Mr G. SNOOK: I refer to line 3 of “Works in Progress” on page 1007. In relation to the almost \$10.9 million to upgrade equipment in regional areas through the rural power improvement program, what regions are being targeted, particularly in light of the reliability issues along the state’s south coast?

Mr F.M. LOGAN: I can inform the member that the rural power improvement program for next year contains the following initiatives: the rebuild of 21.2 kilometres of the Toodyay line from Northam substation, which will please the member no end; and the rebuild of 25.7 kilometres of the Bolgart line in the Toodyay-Bolgart area. That will also please the member.

Mr G. SNOOK: And the minister.

Mr F.M. LOGAN: And also the people there. I am very pleased that that will be achieved. The underground line in the Dardanup area will be extended by six kilometres, and reclosers in the south country area will be upgraded and automated. There will also be an upgrade from single-phase to three-phase in the Nannup area. They are some of the major projects for the RPIP.

Mr R.C. KUCERA: Can I ask a further question on that same point?

The CHAIRMAN: No, the member cannot at this stage. The member can refer back to it when he has the opportunity.

Mr G. SNOOK: When will the central midlands-Moora-Three Springs area be targeted for upgrade?

Mr D.T. Aberle: Across both the north and south country there are a couple of programs running over the next two or three years targeting particular areas of unreliability. There is \$60 million tagged for that over three years and \$40 million for wood pole replacement and upgrade; and a further \$10 million over the next two years for siliconing. Those areas will be the beneficiary of some of that funding.

Mr D.T. REDMAN: On page 1007, under “Works in Progress”, there are two sub-headings referring to new capacity under both “Distribution” and “Transmission”. It also includes asset replacement and public safety. Under “Distribution” the figure is \$195 million, and under “Transmission” the figure for new capacity, asset

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replacement and public safety is \$174 million. Comparing those figures with the notes on the previous page, it is my understanding that \$60 million will be allocated to new capacity specifically under distribution and there will be \$130 million for new capacity specifically for transmission lines. Will the minister provide those projects by way of additional information? I am particularly interested in the country-city split.

Mr F.M. LOGAN: In terms of transmission, as highlighted there are major new capacity, asset replacement and public safety projects in the works for 2007-08, and these are the big ticket items that need to be done to upgrade capacity, particularly across the metropolitan region. They are as follows: establish new substations for Kewdale, Bentley, Henley Brook and Cottesloe. What is the member for Cottesloe's address? I am just trying to work out where we can put it!

Mr C.J. BARNETT: When Cottesloe is done, it should be moved.

Mr F.M. LOGAN: We are trying to work out where we should put the substation. I cannot remember where the member lives.

Mr C.J. BARNETT: There is one in Cottesloe; it just needs to be moved a little bit so the road can go through.

Mr F.M. LOGAN: It is going to be a lot bigger. As I indicated, those new substations are critical for increased capacity across the metropolitan region. Other types of expenditure in the transmission area include installation of additional transformers at existing substations; land acquisitions for substations, which are quite significant; new line work; asset replacement expenditure; and regulatory compliance improving safety at substations and river crossings.

Mr D.T. REDMAN: Is that something the minister can provide to us by way of information rather than going through it now?

Mr F.M. LOGAN: It is not long; I will go through it. In relation to distribution, capacity and expansion will include metropolitan high-voltage and reinforcement work; pole replacement, which Mr Aberle referred to - 4 070 pole replacements in the metro area and the north and south country -

Mr D.T. REDMAN: That is delivering on new capacity, is it?

Mr F.M. LOGAN: That is in distribution - that is, in upgrading and improving the member's networks. There will be 3 600 pole reinforcements; power quality improvement programs; reliability programs; and safety compliance programs, including overhead customer satisfaction connections, metal street lights and poles, river crossings and changing the bays. One thousand bays will be reduced in size to stop the problems that have occurred in the past. In relation to the member's area specifically -

Mr D.T. REDMAN: No, I am asking about the state specifically making investments in delivering new capacity for both distribution and transmission. I would have thought the minister could provide a table at some stage - not now - that would detail those projects.

Mr F.M. LOGAN: Those sorts of things come out in the annual planning report. I will put it into context for the member because I know he and the member for Moore quite rightly want specific answers about how much expenditure there will be in rural areas compared with the metropolitan region. To give the member an idea, the amount of money spent in the rural area per household meter is effectively \$7 500, which is what it costs to deliver electricity, compared with \$2 700 in the metropolitan region. A significant amount of money is spent in the rural area because it is so big.

Mr D.T. REDMAN: The issue I have, and which I will continue to pursue, is that most of the population is sitting in Perth, and growth drives the investment. It will always be economic to deliver on that. I am highlighting the number of cases where the regional centre is more than 40 kilometres from a substation and therefore even though the current policy has been changed - I can understand why it is there - the net result is a user-pays process. It will not be economic to deliver on that, so the economic rationalist argument comes into play. I guess I am seeking support from government to have a fund, just like the regional power improvement program that tackles reliability, which tackles the capacity issue in those key areas.

Mr F.M. LOGAN: There is a fund already, the regional headworks fund, which is there for electricity -

Mr D.T. REDMAN: That gets administered through the Departments of Local Government and Regional Development. That tackles the issue of headworks for businesses, which any other customer has to pay. I support the headworks costs contribution. If a line has to be put up to get power, that has to be paid for. I am talking about those centres that the minister has described as the edge of grid places. They are the hot spots where there is substantial growth but in the long term it will never be a standard asset and there is scope to have a government policy position that supports investment in capacity in those areas. That is the point I am pursuing.

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Mr F.M. LOGAN: I accept that and it is not lost on us. We understand the points being made. The member is not the only one making that point; members on our side are making it loud and clear as well. That is under consideration at the moment. We need to move forward on the headworks. In the member's own area the issue has been resolved. A total of \$14 million will be spent on that line between Denmark and Walpole over the next few years, but there are other areas.

Mr D.T. REDMAN: The other \$10 million has not been committed yet. They are waiting to see who is going to pay. The advice I got yesterday from Western Power was that it is essentially waiting for the policy to be signed off before it can commit to the next \$10 million.

Mr F.M. LOGAN: It is only a timing issue. In terms of its business plans, Western Power is moving forward on the \$14 million. It is moving on the \$2 million -

Mr D.T. REDMAN: I understand that. It still does not alter the fact that it will be a user-pays process for people in that area. It will be headworks. As the member knows, that will be a better outcome than what exists at the moment. The cost per lot is a different matter. That will be added on. However, it will not be overcharged; it will be economically rational. If there is an additional benefit, or if additional community service obligation funding or some form of subsidy is put forward for those fringe-of-grid areas, it is another issue. I certainly do not want it to affect Mr Aberle and Western Power.

[5.20 pm]

Mr D.T. REDMAN: I totally support this; it is a government policy position.

Mr F.M. LOGAN: Yes, and I say to the member that the government is aware of it and is looking at it.

Mr P. PAPALIA: I refer to page 1006, under "Transmission". This is a bit parochial and concerns my electorate. I would like to personally thank Western Power for commencing work on its substation at Waikiki during the by-election. It was very helpful!

Mr J.H.D. DAY: You can thank Norm Marlborough for that!

Mr P. PAPALIA: I was being facetious.

Mr F.M. LOGAN: Thank him for the substation or the by-election?

Mr J.H.D. DAY: Both!

Mr P. PAPALIA: Although it was not a very popular move, Western Power made a commitment during the by-election that it would spend money on landscaping, because the substation is located at an entry point, and there was a lot of concern from local people that it would be an ugly addition to the roundabout at the centre of Waikiki. I understand that a significant amount of money was allocated in this budget. I would like to confirm how much of the \$1.3 million that has been allocated for the completion of the task - the amount does not appear in the *Budget Statements*; it is small, so members cannot see it - has been allocated to landscaping? Will the landscaping include the large, mature trees that appeared in the very nice picture that was distributed during the campaign?

Mr F.M. LOGAN: I refer to Mr Aberle to answer the question.

Mr D.T. Aberle: The total cost of that project is much more than \$1.3 million. The total amount going into landscaping and related activity for the entry point is \$2.3 million. That is a big sum of money, and \$1.5 million of it will be spent on undergrounding the overhead power cable at the point that it comes into the substation, so that there is some space around it. The entries will not come in directly above the substation, as in some areas. That still leaves approximately \$800 000, a large proportion of which will be spent on additional buffering land and on a limestone-rendered external wall. We consulted local people about what they would like, and there is a substantial commitment to that. It will also be spent on additional tree planting. They will eventually be mature trees! I cannot say whether they will be installed in that state. However, a substantial commitment has been budgeted to deliver on that promise.

Mr P. PAPALIA: I apologise if it seems parochial, but approximately 2 000 people were willing to sign a petition on this issue, so it is significant.

The CHAIRMAN: Member, I refer you to protocol. If you have comments or further questions, they need to go through the minister.

Mr P. PAPALIA: My apologies.

The CHAIRMAN: If the member for Yokine wishes to use his follow-up question, this is his opportunity.

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Mr R.C. KUCERA: I wanted to use it, but I have another question. Much of the member for Moore's follow-up question has been answered. The first part of the question relates to the same heading on page 1007, under "Works in Progress". I refer to the line item, "New Capacity, Asset Replacement and Public Safety". Will any spending be directed towards reducing the risk of bushfires caused by electricity assets?

Mr F.M. LOGAN: I thank the member for Yokine. That is a critical issue, obviously, considering the unfortunate death that occurred in the other member's electorate. It demonstrates that the issue is critical. Vegetation impacts on power lines. As the member knows, Western Power has been trying for years to educate the public to ensure that they look after any vegetation that comes anywhere near power lines.

Mr R.C. KUCERA: I had to contact the minister's office today about a metropolitan vegetation issue.

Mr F.M. LOGAN: Really? Okay. That will be addressed over the next three years, as will the impact of vegetation on power lines. Western Power is spending an unprecedented amount of money on its bushfire management plan - \$128 million over three years. It will spend \$37.5 million this year, \$43.2 million for 2007-08, and \$47.65 million for 2008-09. There will be approximately \$70 million - about \$23 million a year of the \$128 million - to fund vegetation management. It is about risk minimisation, vegetation management and education.

Mr R.C. KUCERA: This question is a little more parochial. I thank Western Power for the recent undergrounding of power in the Dog Swamp area. It has allowed a major development in the area to progress. I would advise any members driving up Wanneroo Road to look at it. It is quite an impressive development. On the same point on page 1007, can the minister tell us how Western Power is improving power supplies in the northern part of the south west interconnected system?

Mr F.M. LOGAN: I refer the question to Mr Aberle.

Mr D.T. Aberle: There has already been some recent expenditure. To clarify the question, I assume that by "northern part", the member is referring to the area as far north as Kalbarri and Geraldton. We have recently extended a powerline through Rudds Gully to Dongara to improve the supply there, and we have recently made investments to improve the supply to Kalbarri. From a capital point of view, they are recent investments, of which \$4.3 million was spent on the Dongara to Rudds Gully line. We will be spending a further \$6 million on 27 projects in that area during 2007-08 as part of the rural power improvement program, which, as was previously mentioned, falls under the category of improving reliability. In addition to that, we will spend \$60 million over three years on particular rogue feeders or feeders that are performing poorly. Some of that spending will include feeders in that area. We will spend \$10 million across the network, a proportion of it in the northern area, for siliconing to reduce the likelihood of pole-top fires and bushfires. A further \$40 million will be spent over two years on pole replacement, and a proportion of that will be spent in that northern area. That is the kind of investment that is happening in that area.

Mr R.C. KUCERA: What proportion of Western Power's budget, both capital and operating, will be dedicated to rural areas? We are constantly harangued in the chamber about issues to do with the regions!

Mr D.T. Aberle: Of the total \$3.5 billion that we will spend over the next four years -

Mr R.C. KUCERA: That is \$3.5 billion?

Mr D.T. Aberle: Billion, yes.

Mr R.C. KUCERA: Billion?

Mr D.T. Aberle: Yes, billion - with a "B".

Mr J.H.D. DAY: We have already covered that.

Mr D.T. Aberle: Of the \$3.5 billion, about 54 per cent is spent in the metropolitan area and about 46 per cent in the country. That is a total of the capital and operating budget. As the member suggested earlier, expenditure obviously goes to areas of growth, which is why it is slightly skewed around the metropolitan area where there is greater population and growth. If it is broken down by operating costs, which as I explained is about maintaining the existing system, the percentages are reversed, and in fact about 55 per cent is spent in country areas. Again, although the population is a lot less dense, it is partly a reflection of the recognition of the state of the network.

Mr F.M. LOGAN: And the scale of the network.

Mr R.C. KUCERA: So we can expect a bit of relief from the National Party?

Mr F.M. LOGAN: It was the point I raised with the members for Moore and Stirling. Taken on a per capita or per meter basis, \$7 500 per meter is spent on people in the bush and \$2 700 per meter is spent on people in the metropolitan region.

[5.30 pm]

Mr G. SNOOK: We grow the wheat for our bread, so it is okay.

Mr F.M. LOGAN: It is only a little bit of our bread. Most of what is grown is for export, as the member knows. We do not eat that much bread.

Mr G. SNOOK: How many compensation payments have been awarded for power outages and what is the total value of payments? I am happy to take it as supplementary information.

Mr F.M. LOGAN: It is not a matter of supplementary information. The question does not go to the budget papers. There is not a line item dealing with compensation in the budget papers. It is not an issue.

Mr G. SNOOK: I am happy to take it as supplementary.

Mr F.M. LOGAN: The reason I have not answered it is that it is not in the budget papers.

The CHAIRMAN: I need to stop proceedings. The circumstances of the estimates committees is that the hearings must finish exactly on time. Members may want to make recommendations on how it operates afterwards. That concludes the off-budget examination of Western Power.