

**Western Power —**

Ms L.L. Baker, Chairman.

Mr J.H.D. Day, Minister for Planning representing the Minister for Energy.

Mr D.T. Aberle, Managing Director.

Mr M.G. de Laeter, General Manager, Networks.

Mr M.J. Peacock, Chief Financial Officer.

**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 Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point.

The minister may agree to provide supplementary information to the committee rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide 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 Friday, 10 June 2011, 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 Friday, 10 June 2011.

I now ask the minister to introduce his advisers to the committee.

[Witnesses introduced.]

**The CHAIRMAN:** The member for Gosnells.

**Mr C.J. TALLENTIRE:** The first question relates to efficiency dividends. Western Power is being required to reduce operating expenditure over the next four financial years to prop up the government's budget. How much will need to be saved in 2011–12? Where will the savings be found? Does Western Power's board agree with this measure? Is Western Power confident that it can comply with this requirement?

**Mr J.H.D. DAY:** I will ask Mr Aberle to comment. In relation to whether the board agrees with the measure, this is a decision of the government, and it is being required of the government trading enterprises. That is how the decision was made. Obviously, it was not a voluntary decision of the Western Power board. Although we probably care about its views, this was a government decision, and Western Power is required to comply with it. Having said that, I ask Mr Aberle to comment.

**Mr D.T. ABERLE:** About \$25 million will be required from 2011–12. That will be found from the operating budget. Yes, the board has discussed this and has committed to meet that request.

**Mr J.H.D. DAY:** Willingly, I am sure.

**Mr E.S. RIPPER:** Can the minister ask the managing director of Western Power how it will be found from the operating budget? What particular measures will be taken to reduce costs by \$25 million in the operating budget? Will there be fewer linespeople or a slower response when a pole falls over? What exactly is going to be done?

**Mr D.T. ABERLE:** I will take that as having been passed on. We are mindful that the request was specific in articulating that services were not to be impacted. We therefore do not have an intention, for example, to reduce the number of linespeople or to make a cut that will actually impact service provision. So it behoves us to look into the business. We have received the request only recently. We have undertaken to provide an implementation plan, which we will do. That will articulate where we will find that saving, but it will not impact services.

**Mr E.S. RIPPER:** Would it be fair enough to say that Western Power does not know yet where the \$25 million is coming from?

**Mr J.H.D. DAY:** Probably it does not know specifically, because, as Mr Aberle said, this has only recently been communicated when the budget was presented. It is up to Western Power to work out the detail, but, in short, as

the name implies, it means that it will need to find efficiencies in how it does things and to do the same for less cost. Most organisations are able to do that to some extent.

**Mrs L.M. HARVEY:** Electricity prices are below cost. Obviously, this will have an impact on the utility's ability to pay a dividend. What is the break-even point as far as pricing goes and the ability to pay a dividend to government?

**Mr J.H.D. DAY:** That might be a question more directed to Synergy when we have Synergy here later. As far as it affects Western Power, I will ask Mr Aberle to comment.

**Mr D.T. Aberle:** Our revenue arrangements are determined by a regulatory framework under which we operate. The notion that the total cost of provision of electricity is below cost is only really properly apprehended when all four of the entities are examined. Those that are not under the regulatory regime, as is Western Power, encounter substantial losses. When the profits and losses are added up across the four, that is where there is the shortfall, which the member made reference to in the fact that the provision of electricity is below cost. From the point of view of this business, we operate under a regulatory arrangement that provides a revenue stream. If we are able to operate at or below the costs that are taken into account when the tariffs are determined, we make a profit.

**Mr B.S. WYATT:** Minister, on page 620, under "New Works", the line item "Mid West Energy Project" is listed. Last year's budget had over \$200 million being spent in the 2011–12 year. Now we are down to just over \$50 million being spent in the 2011–12 financial year. Obviously, most of that funding seems to have been deferred through to 2012–13. Why is that?

**Mr J.H.D. DAY:** Obviously, that relates to the timing of the project. With the expenditure of \$50.3 million in 2011–12, obviously a serious start is being made on it. That is a pretty significant amount of expenditure. The greater quantity of construction works, it seems to me, would really be occurring in 2012–13. That is how I read these figures, but I will ask Mr Aberle to comment further.

**Mr D.T. Aberle:** That is essentially correct. As we get closer to actually constructing the project, we get a clearer picture of the outfall of expenses. It is true that we currently expect that the line will be completed by early 2014.

**Mr B.S. WYATT:** So that is when the line will go live.

**Mr D.T. Aberle:** Yes; that is our expectation. If we work backward from that, as the minister said, there is early expenditure around setting up, design and so on, and then the bulk of the expenditure occurs leading up to 2014.

[7.10 pm]

**Mr B.S. WYATT:** In last year's budget another \$50 million was going to be spent in 2011–12. Was there a particular reason for the delay or was it simply a matter of the timing of other projects?

**Mr D.T. Aberle:** It is basically a matter of working through a process of achieving a regulatory test with the regulator, which first establishes whether it is indeed the most appropriate way of addressing the need. We then move to the NFIT process, which we are about to submit. NFIT is the "new facilities investment test" whereby the project is tested for prudence and efficiency. As that process is passed through we move into being able to subcontract out the work to have the project completed. The difference is in the progress of that preparatory work and passing those gates.

**Mr B.S. WYATT:** Will that \$50 million for 2011–12 see construction commence?

**Mr D.T. Aberle:** The \$50 million on its own will not necessarily see construction commence, but it moves us down the project time line, which will see the line energised by early 2014.

**Dr M.D. NAHAN:** To clarify, the delay from the last budget to this is largely due to the regulatory process.

**Mr D.T. Aberle:** That is a fair comment. There is the regulatory process that I mentioned and the process of having business cases approved. What we see there is an outworking of it.

**Dr M.D. NAHAN:** Out of curiosity, who are the major consumers of the electricity provided by the line?

**Mr D.T. Aberle:** Ultimately, the line is built to support consumption in the Geraldton region. The line only passes some of those tests that I referenced if a case suggests that growth in demand will be sufficient to require it. We can break the consumers into two rough groups; there is organic growth in the town of Geraldton and surrounds and then there are large individual loads and generators. Loads might be large mines, for example, and generators might be wind farms or gas-fired generators. All those people would benefit from the line being built.

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**Mr E.S. RIPPER:** Can we have information on how the asset investment program in this budget and forward estimates compares with the asset investment program approved by the Economic Regulation Authority as the efficient level of investment in the network? When I looked at this issue, I saw a \$500 million gap prior to this budget between the three-year program approved by the ERA as an efficient level of investment and what Western Power was going to spend as per government approvals. Is that situation replicated with this new investment program?

**Mr D.T. Aberle:** The Leader of the Opposition is observing the impact of the global financial crisis, which occurred post commencement of AA2—asset agreement 2—which we are in the midst of. We had to prepare for that in advance and we had projected growth and capital works to meet that. As we move through in real time, if we have something such as the GFC, a lot of customer work gets pushed back and it does not make sense to invest on the original trajectory. That simply means that that investment is likely to occur later. If we graph the capital investment historically, we can see that it grew substantially, there was an expectation that that would continue, and then a dip associated with the GFC as I described. As we look forward into the asset agreement that we are about to put forward, AA3, we see that investment climb back up again both in supporting customer-driven work and network upgrade work.

**Mr E.S. RIPPER:** Is the asset investment program in this budget and forward estimates consistent with what Western Power will put to the ERA as its suggestion for the efficient level of investment in the network?

**Mr D.T. Aberle:** Yes, it is consistent with what we will put forward. The thing to remember is that when things are taken to the regulator, an investment adjustment mechanism, for example, allows for other items that may materialise that are not clearly enough visible now. Bearing in mind that that mechanism sits there, what we put forward is consistent as we see it.

**Mr E.S. RIPPER:** Could Mr Aberle explain what he means by the “investment adjustment mechanism”? Is that an ERA mechanism or a Department of Treasury and Finance mechanism?

**Mr D.T. Aberle:** It is an ERA mechanism. The mechanism recognises that when we look to a five-year period as we are now, there is a possibility that events will occur that will stimulate more investment than can be clearly recognised or forecast at this point. Therefore, rather than having the untenable circumstance in which a proponent, such as ourselves, projects a five-year plan and tremendous growth occurs and the proponent is constrained for the capacity to meet it, the mechanism foresees that a submission can be made to demonstrate that a large project has come along, for example, over and above what was there, and the regulatory regime allows for that to be added in.

**Mr P.T. MILES:** My question relates to page 618 of budget paper No 2 and the distribution works, which are quite relevant to my electorate of Wanneroo, particularly to the rural areas. How much is being spent to improve the safety and reliability of the electrical network?

**Mr J.H.D. DAY:** In 2011–12 a total \$360 million will be invested in new capacity, asset replacement and improving public safety. That \$360 million is part of an overall expenditure program of \$838.3 million in 2011–12. That is the overview.

**Mr D.T. Aberle:** That is certainly correct. If the member is interested in a little more granularity of what that \$360 million will be spent on, about \$110 million of that is dedicated to asset replacement, bearing in mind that the network has a substantial population of poles that are older than 40 years, for example, and we are in the process of building our way out of an extended period of underinvestment. The amount of \$110 million will be spent on asset investment and \$84 million of that is on pole replacement or reinforcement, which is part of a concerted program that we will need to follow for some years to refresh that pole population and reduce the public safety risk.

The amount of \$53 million is for the replacement of overhead service connections, which are the connections that run from the network to individual houses. A population of those connections is now obsolescent and potentially represents a safety risk—small probability, serious consequence. Therefore, we are working our way through replacing those connections. A further \$72 million is invested in improving the capacity and performance of the distribution network. That investment is basically aimed at alleviating overloads on feeders. As the network grows, feeders become progressively loaded. We like to run the network with the feeders about 60 per cent to 70 per cent loaded so that if one fails, the two adjacent feeders can pick up the load without being overloaded. Therefore, there is an investment in that space. The last \$40 million will go into the state undergrounding program, which the member is probably familiar with. That is our contribution to that program, which is progressively undergrounding existing overhead networks in the metropolitan area.

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**Mr E.S. RIPPER:** What reliability standards has the network achieved in the last financial year? What reliability standard targets are set for future years? Presumably this program is based on a reliability target and I would like to know what that target is.

[7.20 pm]

**Mr D.T. Aberle:** The highest level summary measure of reliability is SAIDI—system average interruption duration index. That is the average number of minutes per customer, as the Leader of the Opposition probably remembers. We achieved 217 minutes last year. Our target is 203 for the year we are heading into. We can confirm that, but it is just above 200. The reason it is not lower is that in terms of husbanding the available resource, our first priority is to deal with public safety issues. There is a bit of an overlap between doing that and impacting reliability. We basically attack public safety first, growth-related issues to support new connections and the integrity of the network second, and reliability third. We are essentially aiming, in our investment profile, to attack those first two and hold reliability relatively steady, which takes a significant investment given the age of the network, because it is deteriorating. They are the figures we have achieved.

**Mr E.S. RIPPER:** How does that reliability performance compare with contemporary standards in the national electricity market, for example?

**Mr D.T. Aberle:** That is a little behind. I will check the average across the NEM with Mr de Laeter. It is fair to say, in comparing urban performance—the Leader of the Opposition might remember we break the network down into four or five categories—that it is comparable with that of other jurisdictions in the NEM. There is a difference in rural long—rural short feeders. We are reasonably comparable with the most comparable jurisdiction, which is probably north Queensland. If we combine Queensland's distributors, Energex and Ergon Energy, we are similar, but, along with them, we are worse in terms of reliability performance than some of the other jurisdictions that do not have anywhere near as spindly a system or as much rural network.

**Mrs L.M. HARVEY:** With the underground power project, I understand that those reliability indicators are one of the assessment factors for undergrounding particular areas. Are those indicators adjusted for maintenance outages as opposed to accidental outages in the assessment of that program?

**Mr D.T. Aberle:** In terms of assessing the eligibility of an area for undergrounding—is that what the member is driving at?

**Mrs L.M. HARVEY:** One of the criteria for assessing an area's eligibility for undergrounding is that reliability indicator. Obviously, if there are outages for maintenance and those sorts of things, are they removed from the process? Does that all form part of that reliability indicator for the underground power project?

**Mr D.T. Aberle:** It all forms part of the indicator. The logic is, of course, if we have to maintain an area a lot because it is ageing, that is naturally a driver for wanting to put power underground. It does not immediately make sense to extract, say, maintenance outages from that. I think that is fair. The only adjustment made is for particularly extreme weather events. That is done across Australia to normalise the figures.

**Mrs L.M. HARVEY:** That question was out of curiosity. Underground power is popular in my area.

**Mr C.J. TALLENTIRE:** I refer to the total cost of the asset investment program on page 619 of the *Budget Statements*. I am trying to reconcile this with the Economic Regulation Authority's capital expenditure recommendation from December last year. It was stated that the authority has approved a \$2.8 billion forecast investment for the three-year period 2009–10 to 2011–12. When we add up Western Power's asset investment program, \$940 million was spent in 2009–10. That is in the 2010–11 budget papers. In 2010–11 Western Power will spend \$741.3 million. In 2011–12 we have \$838.3 million and \$153.3 million. Those are referenced on pages 619 and 620. That is a total of \$2.673 billion—an underinvestment of \$186 million relative to the ERA's recommendation. Can the minister confirm that is the difference and reconcile that difference for us?

**Mr J.H.D. DAY:** I will seek further comment from Mr Aberle; however, if there is a difference, obviously what Western Power expends impacts on the overall level of state debt. That has been an issue of concern to the opposition and the government. Therefore what Western Power expends in global terms at least needs to be approved as part of the overall budget process. If there is a difference, I assume it is explained by those sorts of factors, but I will ask for an expert comment.

**Mr D.T. Aberle:** Essentially, it comes back to the point I made in response to the Leader of the Opposition's question. The shortfall is related to what actually emerged as needing to be spent in that period as opposed to what was predicted when the access arrangement 2 period—which is what covers those three years—was approved by the ERA. That means that shortfall is most likely to be deferred into a later year rather than not

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spent at all for the dynamic. I explained earlier the reasons for the dynamic. I cannot give the precise figures, but that is what is going on.

**Mr C.J. TALLENTIRE:** Have specific projects been put on hold that would make up that \$186 million?

**Mr D.T. Aberle:** Yes. I will be hard-pressed to enumerate them off the top of my head. The way it works for us is that we have a 20-year planning horizon, 10 and five. The reason we run that and refresh it regularly is that the impact of boom and bust tends to either bring planned items forward or push them back. We always have some capacity to respond. What we see there is just the moving back of specific projects. I could not provide one off the top of my head.

**Mr M.G. de Laeter:** The majority of projects relate to growth-driven work, as Mr Aberle explained earlier. That is a combination of customer connection works and also the investment in the deep infrastructure to provide the capacity to connect new customers. The sorts of projects that have been deferred, albeit temporarily, include lines, substations and some connection works.

**Mr D.T. Aberle:** In some cases, an additional transformer.

**Mr E.S. RIPPER:** Having visited the Toodyay fire ground and noted that there was a previous serious fire in Toodyay, and there have been other serious fires in places like Bridgetown, is Western Power considering some special program for its infrastructure in these hilly, heavily timbered and more densely settled rural areas like Toodyay? For example, would Western Power perhaps be considering concrete poles rather than wooden poles in certain high-risk bushfire areas?

**Mr D.T. Aberle:** We have an ongoing program in cooperation with our sister organisations around Australia looking at alternative materials for poles for various applications. That remains live and active. What we have principally done is identified where there is the greatest vulnerability in the pole population. We use the Fire and Emergency Services Authority's categorisation of extreme and high fire-danger areas to drive that focus. We have dramatically increased the rate at which poles are being replaced and reinforced. Using that, we have tended to target those areas. We have also introduced, for areas of extreme risk, a coating that we put on the bottom two metres of wood poles that dramatically limits their vulnerability to burning. We have had significant success with that. That has been the most cost-effective way to continue replacing poles in those areas, and we continue with that. We are experimenting with a program whereby we can retrospectively coat poles that are in good condition with that material. We are also looking at other alternatives, such as spun concrete, along with our sister utilities. But they all have their own issues associated with them. Presently, our priority is to replace as many of our old poles as possible with something serviceable that reduces the risk.

[7.30 pm]

**Mr B.S. WYATT:** The minister referred to overall government debt levels. I address this question through the minister to Mr Aberle. Mr Aberle, because government debt levels have an impact on what Western Power is spending on its asset investment program, does Western Power anticipate that as government debt levels increase over the forward estimates, that will have a largely adverse impact on how Western Power's asset investment program will be run?

**Mr J.H.D. DAY:** I think I can say that having effective electricity infrastructure and safe and reliable electricity infrastructure is a major priority for the government, and that is weighed up together with all the other priorities that we need to deal with—just as the Leader of the Opposition was dealing with when he was Treasurer.