PUBLIC ACCOUNTS COMMITTEE

INQUIRY INTO DEVELOPER CONTRIBUTIONS FOR INFRASTRUCTURE COSTS ASSOCIATED WITH LAND DEVELOPMENT

TRANSCRIPT OF EVIDENCE TAKEN
AT PERTH
ON WEDNESDAY, 5 MAY 2004

SESSION 3

Members

Mr J.B. D'Orazio (Chairman)
Mr M.G. House (Deputy Chairman)
Mr J.L. Bradshaw
Mr A.J. Dean
Ms J.A. Radisich

[10.28 am]

ROGERSON, MR ROBERT JOHN

Distribution Asset Integration Manager, Western Power Corporation,

365 Wellington Street,

Perth, examined:

MATTNER, MR PETER MAXWELL

Manager, Western Power Corporation,

365 Wellington Street,

Perth, examined:

BOWRON, MR KENNETH DAVID

General Manager, Networks, Western Power Corporation.

365 Wellington Street,

Perth, examined:

The CHAIRMAN: The committee hearing is a proceeding of the Parliament and warrants the same respect that proceedings of the House itself demand. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as contempt of Parliament. Have you completed the "Details of Witness" form?

The Witnesses: Yes.

The CHAIRMAN: Do you understand the notes attached to it?

The Witnesses: Yes.

The CHAIRMAN: Did you receive and read the information for witnesses briefing sheet regarding the giving of evidence before a parliamentary committee?

The Witnesses: Yes.

The CHAIRMAN: Have you made a written submission?

Mr Bowron: No, we have not.

The CHAIRMAN: As you are probably aware, we are dealing with developer contributions. A number of developers have pointed out to us that Western Power seems to have a charging regime that they do not understand. They do not understand how it arrives at the costs associated with the provision of power to subdivisions, how the process works, and how the figure for developer contributions is arrived at. The committee is very interested to know whether it is 100 per cent cost recovery from the developers or if Western Power is subsidising the distribution to these new subdivisions in particular.

Mr Bowron: I have made some notes for myself that probably address those questions, although not quite in the same order you gave. Perhaps if I go through them they will provide the answer.

The CHAIRMAN: Certainly.

Mr Bowron: The provision of electricity infrastructure is a condition of subdivision development. All new electricity infrastructure in subdivisions is now placed underground. We give the

developers two choices, but each is about them paying the full costs. In option A the developer pays Western Power to supply and install the infrastructure, and in option B the developer supplies and installs it to an equivalent specification. The cost of headworks for extending available electricity supplies at the start of a subdivision is fully funded by the developer.

The CHAIRMAN: They are fully funded by the developer. Does that mean that they make a contribution to the power station that actually -

Mr Bowron: It is only on the distribution system. It is the wire system we are talking about there. The cost of reticulating a typical residential subdivision is probably in the order of $2 200 per standard lot. That is made up, typically, of about $800 per lot for high-voltage infrastructure, including switch gear, about $1 200 per lot for the low-voltage infrastructure, including the transformers, and about $200 per lot for streetlights. The streetlight capital costs are paid for by the developer, but the operating costs are met by local councils. The developer pays the full cost of low-voltage and streetlight assets, but payment for the high-voltage - the higher level of the distribution system that supports it - is based on standard electricity capacity rate, worked out as $210 per kVA, where the minimum design standard presently for a residential lot is 3.5 kVA. We would expect to see that increase with time, because of the increased electricity use within houses. The approach is used to provide equity between developers because the amount of high-voltage infrastructure can vary significantly between developments, even between stages within developments, and a straight full-cost approach can result in large cost differences between subdivisions. So a generalised figure of $210 per kVA has been reached. It is an approach that was made jointly between Western Power and UDIA; it was their initiative. We manage a fund formed from developer contributions. The standard rate is based on historical actual costs and projected trends, so that the average full cost of the high-voltage infrastructure is recouped over time. The average rate slowly increases with labour and material costs over time and as the load density or the kVA per lot increases. This subdivision pool applies to only residential subdivisions where the lot sizes are fewer than 1 000 square metres. In all other subdivisions, whether they be commercial, industrial or semi-rural or rural, we seek the costs for the whole lot from the developer.

Western Power spends approximately $60 million a year on connecting new customers to the distribution network, the majority of which is associated with new land development. In addition, we spend about another $20 million per annum upgrading the existing network, just to cater for the general overall load growth and to service new and existing customers.

The developer contributions are a direct source of income for Western Power and are recognised as revenue in an accounting sense. Consequently they make a direct contribution to the profit, dividend and tax-equivalent payments to government. They also have the effect of reducing the required borrowings in subsequent years. The annual developer contributions are typically in the order of about $30 million a year; so about $18 million of that goes in dividend and tax equipment payments. However, it is important to note that Western Power needs to fully fund all the budgeted capital expenditure.

[10.30 am]

The CHAIRMAN: Just run that past me again. Are you saying that from the $30 million that developers contribute, $18 million goes back to the Government as a dividend?

Mr Bowron: Yes, and tax equivalent. It is about 30 per cent.

Mr A.J. DEAN: What are you basing that on? I gather it is a revenue stream that goes into a profit-and-loss statement.

Mr Bowron: Exactly. We have to borrow completely from an asset base, so there are capital borrowings to do all the work, and that is $60 million with about $30 million coming back on the P&L revenue. About a third goes on tax equivalent and about a third on dividend, bringing that to about $18 million.

The CHAIRMAN: Just so I get this clear in my head, are you saying that the developer provides it all on the ground, if he wants to?

Mr Bowron: Option B, yes.

The CHAIRMAN: If everybody chooses option B, how do you get the $18 million that goes back to government?

Mr Bowron: We do not. That is why we do not get back the full $60 million, because some of them use option B. They just then gift the assets to Western Power.

Mr J.L. BRADSHAW: Is the $2 200, or whatever, an average for option A?

Mr Bowron: No, that is about the cost of what it would take for anybody to do that, whether Western Power or the developer spent the money.

Ms J.A. RADISICH: What proportion of developers choose A or B?

Mr Bowron: Based on these figures, I would say it is about 50-50.

Ms J.A. RADISICH: Why would anyone choose B if the cost is the same?

The CHAIRMAN: A; because through A they have to pay $18 million to the Government.

Ms J.A. RADISICH: No, B is the one that they contract themselves.

Mr Bowron: In the end they would pay the same amount of money, unless they get cheaper labour rates from private contractors, or think they do, compared with Western Power. It may be about whether they would prefer to have others manage the project for them or whether they give it all to Western Power. We will provide the electricity infrastructure, whether they want to manage that as part of their development project.

Mr A.J. DEAN: Has that 50-50 split changed much over the past few years?

Mr Rogerson: It has increased and become more option-based.

Mr J.L. BRADSHAW: Do you charge the developers to quote for putting in the power?

Mr Rogerson: There is not a direct charge for doing a quote.

Mr J.L. BRADSHAW: Country people who want power connected to a house they are building have to pay for a quote, which then comes off the bill if they accept the quote.

Mr Rogerson: For rural-type connections, yes, but not for subdivisions.

Mr J.L. BRADSHAW: So, do you just quote, with no up-front cost if they do not take up the option?

Mr Rogerson: That is correct, and the money is refunded if they go ahead with the quote.

Mr A.J. DEAN: But that is no big deal because it is a standard rate. Is it a standard rate of $2 200 across the State? Let us say there are 50 lots - that is, 50 times $2 200. It is not exactly an expensive exercise to quote, is it? I think that is what John was driving at.

Mr Bowron: The $2 200 does not relate to the price of a quote.

Mr A.J. DEAN: I know that.

Mr J.L. BRADSHAW: We had better go back to the start. Does someone who wants to do a subdivision come to you and ask for a quote for putting in the power?

Mr Bowron: Yes, they do.

The CHAIRMAN: Do the costs vary on where the subdivision is located and whatever?

Mr J.L. BRADSHAW: It is not necessarily $2 200 a lot.

Mr Bowron: Not for a quote.

The CHAIRMAN: No, the actual cost to a developer.

Mr Bowron: There is no extra cost for them to get a quote, but the price is still around -

The CHAIRMAN: It is not the quote that he is getting at. The bottom line is if I had 50 lots -

Mr J.L. BRADSHAW: Does it not vary from $2 200?

Mr Bowron: Yes, it can vary.

Mr A.J. DEAN: So, there is no standard rate across the State. In Dalyellup, for example, or one of the Busselton developments, as opposed to the Perth area, the cost does vary. What is that variation, if you are saying it is an average of $2 200? Is it, say, $10 000 at Dalyellup?

Mr Rogerson: For a bit of clarity about the charging mechanism, we have developed the subdivision pool, and that is for residential subdivisions only. We did have one for commercial and industrial developments, but that got canned because it proved to be too inequitable. However, a quote is done for a residential development and we take into account the cost to do the development within the subdivision and the headworks associated with it. So that we do not have people distorting the pool and doing a subdivision a long way from the network - which would cost a large amount of money and cause someone in a residential lot to pay for something that is happening right out from the network and taking a lot more extension work and that sort of stuff - an economic test is done on the subdivision. It is only if developments meet the pool criteria - and, as I said, all this stuff was developed with the UDIA - that they can get into the subdivision pool, and that is when they are charged these average costs. When they do not meet the pool criteria, they have to pay full cost.

Mr A.J. DEAN: So, of the proportion of land development in Western Australia, how many fit into that subdivision pool and how many are outside it?

Mr Rogerson: The majority fit within it.

Mr A.J. DEAN: Is the majority paying $2 200 a lot?

Mr Rogerson: I suppose we can talk only about what their contribution is towards the subdivision pool. They pay a standard rate, which is $210 a kVA.

Mr Bowron: Paraphrasing that, we have stated that typically the subdivision costs total about $2 200. What is the variance around that, typically?

Mr Rogerson: I have not done any figure; I would not know.

Mr Bowron: Does it go as high as $3 000 and down to $1 000 or is it different?

Mr Rogerson: I have not really looked at that band. We just look at the subdivision band.

Mr A.J. DEAN: Is it possible for you to provide us three, four, five or six examples of a reasonably sized subdivision throughout the State and the costs that you charge to see what the variation is?

Mr Bowron: Of course.

Ms J.A. RADISICH: Maybe from the north, east, south and south west; something like that.

Mr Bowron: Are you looking to see if there is any geographic difference?

Mr A.J. DEAN: Yes.

The CHAIRMAN: Some things do not add up here. You are saying they will pay a headworks charge and then they are paying the standard kVA rate. What happens in the example Tony gave, where there is 10 kilometres to go; do they pay for everything?

Mr Rogerson: They would probably not fit within the economic test and would have to pay full cost.

The CHAIRMAN: Full cost is what?

Mr Rogerson: Full cost to extend the network and to reticulate within their proposed subdivision.

The CHAIRMAN: I thought that is what the $2 200 was the equivalent of - paying full cost anyway.

Mr Bowron: No, typically about $800 of the $2 200 is for the HV part of the network, based on the standard rate of $210 per kVA. If somebody did not pass the economic test, that component would change; it would be full cost of what it actually takes to reticulate the network to them; so that $800 would probably go up. The rest of the costs -

Mr M.G. HOUSE: Do you think you could do the economic tests? If I came to you with a subdivision, could you just tell me how you have decided that I have passed the economic test?

Mr Rogerson: The economic test is based on two criteria: a percentage test and a dollar-value test. The percentage test looks at whether or not you distort the pool by greater than a certain per cent, and I think that is currently set at about two per cent.

The CHAIRMAN: Distort the pool in what form?

Mr Rogerson: As in we look at the total value of what is in the subdivision pool and compare that with the cost of the subdivision. A massive subdivision will have a bigger impact than a smaller subdivision.

[10.45 am]

The CHAIRMAN: However, you are also getting more money.

Mr Rogerson: Correct.

Mr Bowron: However, this pool is about cross-subsidising between developers. The general purpose of the pool is to average out the cost of the HV part of the extension so that they all pay an equal amount. It is averaging; there is a bit of swings and roundabouts. That is what has been agreed with UDIA. If someone is now doing a large subdivision that requires much greater headworks or HV development on the distribution system, in the test that Robert started to describe, if they distort the pool that is already there by more than two per cent, they are out of the bounds of that and they would then pay full cost.

Mr M.G. HOUSE: I go back to the two choices that I have as a developer. One choice is that you do it all. Correct?

Mr Bowron: Yes.

Mr M.G. HOUSE: The other choice is that, as the developer, I can do some of it. Correct?

Mr Bowron: Yes.

Mr M.G. HOUSE: What percentage can I do? My understanding is that there are certain things that you will not allow new developers, connecters or extenders to do. What can I do and what can I not do?

Mr Rogerson: In option B you can do the complete installation of the cables, transformers and switchgear and put in pretty well all the reticulation.

Mr M.G. HOUSE: Dig the trenches?

Mr Rogerson: Yes, definitely. In option A you are also allowed to dig the trenches, because there are economies in option A. The items that you cannot do include the final connection asset to the existing network.

Mr M.G. HOUSE: Hooking it in.

Mr Rogerson: Hooking it in and commissioning it.

Mr M.G. HOUSE: What percentage of the cost in a normal subdivision would the commissioning and hooking it in amount to? Do you have a rough, ballpark figure for that?

Mr Rogerson: It would be a very low percentage for commissioning. How big the percentage would be would depend on the size of the subdivision.

Mr M.G. HOUSE: Would we be talking single figures? Under 10 per cent?

Mr Rogerson: Well and truly.

Mr M.G. HOUSE: The point I am trying to get at - you might now be able to tell me - is that there is a real cost comparison between the service that you would provide and the service that I can organise for myself. It is a true cost comparison.

Mr Rogerson: Yes.

Mr M.G. HOUSE: In other words, from what you said before, if 50 per cent of developers take one option and 50 per cent take the other option, your costs are very comparative with private industry.

Mr Bowron: Yes, and particularly as the biggest costs are to do with the equipment - the cables, the transformers and the switchgear. We require people to select from a standard suite of those things so that they match the rest of the system, because Western Power takes it on board and then has to maintain and operate it for the rest of its life.

Mr M.G. HOUSE: I am really interested in that, because I can give you a dozen practical examples of extensions, not subdivisions, in which your costs are so out of whack with what you or a private developer could do it for, that it is amazing. As a member of Parliament, I have taken constituents to Western Power, and it has demonstrated that, and they have had reductions in the cost. Your guys have said that you can do that for less. I am not talking about little bits of less; I am talking about huge amounts of less - thousands of dollars.

Mr A.J. DEAN: They are talking about only residential; they made that caveat before.

Mr M.G. HOUSE: I know that. However, if they can do developments on a cost comparative basis, I cannot understand why you get extensions in a rural electorate like mine, which are very important - we have a lot of upgrades and extensions to wineries and those types of developments - so wrong sided.

Mr Bowron: Without dealing with the specifics, I find it a really hard comment to respond to. Invariably, in the ones that I have been involved with, it is about the standard of the equipment and the construction that you are talking about or when comparing apples with apples. Often the utility standards are significantly higher than the standards used by developers and particularly people in mining industries, who will put it up to a lower standard on a much shorter life expectancy, whereas we are putting things up for a 45-year life expectancy.

Mr J.L. BRADSHAW: I thought you set the standards.

Mr Bowron: We do for the utility for what we want to use, but others will propose their own at times and say that they can build it cheaper. We will say that that does not meet our standards and that is where sometimes it gets into conflict and disagreement.

The CHAIRMAN: I return to the two per cent variation, because that intrigues me. A two per cent variation on $210 is $4. How will that make any difference to anybody? If you had a thousand lots, we would be talking about a maximum of $4 000.

Mr Bowron: If I understood Robert correctly, the two per cent was on the pool that is maintained to look after all the HV. There is a pool of funds and it is looking as though you will distort that pool by more than two per cent.

Mr A.J. DEAN: That is tens of millions.

Mr Bowron: Millions; I do not think it would be tens of millions.

Mr A.J. DEAN: Returning to the $210 per kVA, you said that the average supply to a standard lot is a 3.3 kVA; is that right?

Mr Bowron: I said 3.5. That is the minimum, not the average.

Mr A.J. DEAN: That is $700. Where is the difference between $700 and $2 200?

Mr Bowron: I think we said that the $210 per kVA in 3.5 came to about $800 per lot for the high voltage distribution system. It is about $1 200 per lot for the low voltage distribution system. There is about another $200 for streetlights.

Mr A.J. DEAN: In fact, the $210 per kVA is irrelevant because it should be $2 200 divided by 3.5, so it would be about $600 per kVA if you look at the total global cost.

Mr Rogerson: I suppose it is the HV pool that was established, because that is the one that consumes a large amount of money in initially setting up a subdivision and setting up entrance statements and that sort of stuff. That is the reason the pool was in that area. The pool was not on the LV. The low voltage is done all the time on full cost.

The CHAIRMAN: In relation to subdivisions, you are saying that you have 100 per cent cost recovery and you are happy with the system as it is. Is that the way I am reading it?

Mr Bowron: It is a system that is relatively well defined and understood by both Western Power and the developers. Yes, I think the only comment is that some of the figures get reviewed with time. Obviously, as energy densities and energy use in houses increase, it will put up some of those rates. That is never something that people like, but it is a fact of life. At this stage, it is on the user-pays system.

Ms J.A. RADISICH: How often do developers do quotes for option B and then come to you and say that they can do it for this much and ask you whether you can match or beat them and if not, why not? Does that happen very often?

Mr Rogerson: No; they normally just select which option they want to go for and take it.

Ms J.A. RADISICH: Has nobody ever said, "I can do it for $1 800 and you are trying to charge me $2 200. What is going on? Justify yourselves"?

Mr Bowron: They have the choice between the two options so they make that choice.

Ms J.A. RADISICH: Obviously they have a choice, but developers do not tend to sit around just taking what is given. I think they would want answers.

Mr Rogerson: Sure, but they have the choice to go either way. Most developers say to us that they prefer to go with option A. Invariably, it is the time constraint factor that influences them to go across to option B. They are not really complaining about the costs we have for option A.

Ms J.A. RADISICH: It is your contention that the cost difference is negligible.

Mr Rogerson: That is the feedback we have received, although we have not specifically asked.

Mr M.G. HOUSE: Can you do part of it? Could I say to you that I will dig the trench, you lay the wire and I will fill in the trench?

Mr Rogerson: That is what happens with option A. They dig the trenches because they can do the joint trenching and things like that, and they lay the cable as well. We do all the jointing, the commissioning, the switchgear, terminations and that sort of stuff, which is fairly complex. With option B they can do the whole lot. With option A we do not do the entire thing; we do a portion of the work.

Mr A.J. DEAN: Are there any firms in Western Australia that have the ability to do this sort of work? Obviously part of the reason that people choose Western Power is that it has the person

power and the expertise to do it. Are there companies in private industry in Western Australia of an equivalent size that can do this work when the developers want it? I imagine that is another reason they choose you; you can do it when they want it.

Mr Rogerson: Can you clarify that?

Mr A.J. DEAN: Are there any companies in Western Australia that perform option B type work? Are there enough people to do it to satisfy the demand?

Mr Rogerson: There are a few companies.

Mr A.J. DEAN: They have the same level of capital and expertise that Western Power has to do that work.

Mr Rogerson: They can do the work.

Mr M.G. HOUSE: With regard to the issue I raised before about the extension or upgrading of a service, not subdivision, if there are those two options for people who are doing a subdivision, why do you not apply the same principle to people who want to do an upgrade or extend a line?

Mr Bowron: Most of it comes down to how much work they are doing on the existing Western Power assets. If it is on live assets, we are very particular about the safety standards and the technical standards of hooking into them. If they are greenfield sites, often they do, and if it is building a line, these days most of those would probably be done by contract. We build some ourselves, but many line extensions are done by contract.

Mr M.G. HOUSE: I will give you an example. If I want to extend a line, which means putting up poles and wires or digging a trench to, say, a factory or winery facility or a new shearing shed that might be two kilometres from the existing power source, you do not allow me the option to do that. I have to get a quote from Western Power and, if I was smart, I would get my member of Parliament to argue with you because then I know the cost would be reduced. However, you do not allow me as an individual to get an independent quote. My blokes can dig holes and put up poles; they build fences, sheds and all sorts of things. If I want to extend my power source, why can you not allow me to dig the hole and put the pole in the ground? There is nothing technically difficult about it.

Mr Rogerson: We are currently reviewing that situation so that more of the work can be done on a contestable basis. Quite a few issues need to be considered to achieve that, such as safety, but there are other issues such as legalities and whatever. Some work is being done on that issue now.

Mr M.G. HOUSE: I am pleased to hear that.

Mr Bowron: It is certainly a valid point and that is why we are moving towards it. The hesitancy is in ensuring the standards that are required, because once it is built, Western Power takes over responsibility for the asset.

Mr M.G. HOUSE: I can understand that.

Mr Bowron: We need to be very careful from a safety and technical point of view.

Mr M.G. HOUSE: Does this review have a time line? Is it somewhere along the track? Are you likely to make a decision in days, weeks or months?

Mr Rogerson: A lot of work has been done to get a framework for what needs to be done with it, not for what needs to be done to achieve that. A lot of work needs to be done to do that. We are probably looking at 12 to 18 months before that can happen. We want it to go ahead in a way that can be acceptable to the community and also to Western Power.

The CHAIRMAN: With the residential fronts expanding so quickly, obviously you must have some funding to build up your infrastructure catch-up, otherwise your capacity will not be there to supply the underground wires and the rest of it. How is that funded? Is there a forward plan that

states that you need to put a new whatever in Wanneroo or a new one at Wellard or wherever? Is that part of the cost that you pass on?

Mr Bowron: It is not in these costs, but I did mention that we spend in the order of $20 million a year for general distribution system upgrade. That is part of the reason that we are getting infill.

[11.00 am]

The CHAIRMAN: With regard to that $20 million, do the developers not make a contribution?

Mr Bowron: No. We are talking only about a distribution system, which involves the feeders that come from substations, which is the high voltage part of that. From the transformers they step down to the low voltage in the streets. Beyond that are the substations and the transmission system. We are not talking about any contribution into that. That is funded by Western Power-driven capital growth projects.

The CHAIRMAN: That means the developers are not paying cost recovery. They are paying only their costs. They are not paying for the upgrades that are required to provide the extra electricity for their subdivision.

Mr Bowron: The headworks already go back into the distribution system, yes.

The CHAIRMAN: Do we now know what the breakdown is between the $20 million and what you generate? Is it 50-50?

Mr Bowron: No. It would be pretty difficult to calculate that. We would be looking at where the load increase would come from and where the specifics are.

The CHAIRMAN: No, but you could calculate that you were putting in $20 million and receiving $30 million from developers for their part of the bargain. You need $20 million to upgrade your line. Some of the $20 million is to upgrade people's increased requirement for electricity. Discount it back to $15 million, but that is subsidising the $30 million you are getting, so you are subsidising developers to the tune of $15 million. Am I reading this wrong?

Mr Bowron: Not completely. The way I would look at it is that about $60 million is spent on growth. We get about $30 million back against that as revenue. Over and above that, the $20 million is spent on expanding.

The CHAIRMAN: You get $60 million in and $30 million goes -

Mr Bowron: We budget $60 million.

The CHAIRMAN: Does that include the $20 million?

Mr Bowron: No, $20 million is on top of that.

The CHAIRMAN: Okay, so you spend $60 million. Developers pay $30 million. Is that right?

Mr Bowron: Against the $60 million.

The CHAIRMAN: You are subsidising even more.

Mr Mattner: In the sense that we are spending extra money on reinforcing the network, yes.

The CHAIRMAN: That is the question I asked at the start. We want to make the point in our report that although developers are complaining about the level of their charges, in fact they are getting the benefit of, in your case, $60 million plus $20 million, which is $80 million, minus the $30 million they give back to you, which is a $50 million subsidy.

Mr Bowron: Yes.

Mr A.J. DEAN: Which you hope to recover in future house sales.

Mr Bowron: Yes. Or in the network's case, it would be the network revenue for Western Power overall.

Mr A.J. DEAN: It is a subsidy of $50 million.

The CHAIRMAN: To the developer. The power connection allows the developers to sell the blocks.

Mr Bowron: The $20 million we talked about is not necessarily for the developers. It is general development. It might be for someone who subdivides a single house block.

The CHAIRMAN: I understand that; it is similar to water. The Water Corporation must provide a dam or desalination plant.

Mr Bowron: Or it is because someone puts in airconditioners and the like and we must operate the system?

The CHAIRMAN: That is why I discounted the $20 million back to $15 million. We could say that $5 million is infill or normal upgrades.

Mr Bowron: I do not know what the ratio of that much would be.

The CHAIRMAN: I understand. I am trying to get a handle on what sort of contribution we make to the development industry. As a Government, or you as Western Power, we are criticised that your charges are far too high and developers are paying for everything when in fact they are not; they are having a holiday with $40 million or $30 million, depending on whose figures we look at. Is that right or wrong?

Mr A.J. DEAN: He is a public servant so he probably cannot say.

Mr Bowron: That is how the sums work out, depending on where the revenue sources come from.

Mr M.G. HOUSE: You seem like nice, reasonable blokes; it is a pity the developers have been in here telling us what horrible fellows you are!

Ms J.A. RADISICH: Does a single residential lot being subdivided fall into the full scheme?

Mr Bowron: One of those would be full costs or whatever it costs to take them on. On a one-off basis they have no impact on the HV network. It is only when they build-up with time.

Ms J.A. RADISICH: How are those costs worked out?

Mr Bowron: On the actual costs to supply the electricity on the subdivided block.

The CHAIRMAN: That also applies to infill when you put in a block of flats of 20 stories.

Mr Bowron: Flats would be commercial.

The CHAIRMAN: Why would they be commercial?

Mr Bowron: Because a developer would be building the block of flats.

The CHAIRMAN: They are still residential dwellings.

Mr Bowron: Someone owns the land and wants to build the block of flats, so that person would pay for any reinforcement as required in the HV distribution system if there is anything in the immediate vicinity.

Mr M.G. HOUSE: His total cost would not be as great as a greenfields site. I presume the cost for connection to 20 or 30 units would not be as great as the cost for a 20 or 30-block subdivision. Is that correct?

Mr Rogerson: We would not have to put LV mains around the network but we would have to reticulate the building. Instead of being flat it would be vertical.

Mr J.L. BRADSHAW: He would be paying that anyway as a cost to build the thing.

Mr Bowron: That is right, which is the same principle. They pay for a flat subdivision and for a vertical development and you would probably give it to the builder.

The CHAIRMAN: If we go back to those figures, is it safe for us to say that Western Power is subsidising at least 50 per cent of the costs?

Mr Mattner: I do not think we could verify that figure here and now.

Ms J.A. RADISICH: You can send it to us.

The CHAIRMAN: It is important to put in our report that Western Power as well as the Water Corporation subsidise development.

Mr M.G. HOUSE: We will put it in the report if those are the facts. We have taken some contrary evidence. The evidence we have heard today does not -

The CHAIRMAN: Make you confident.

Mr M.G. HOUSE: No. It is not exactly the same as evidence we have taken from developers, is it?

The CHAIRMAN: That is the point I was making. The developers are complaining that they cannot get a handle on your costs because they are too high and Western Power is saying they are not paying all the costs anyway.

Mr M.G. HOUSE: They say the same thing about the Water Corporation. It is the same as when they talk about politicians - they do not like any of them.

Mr Bowron: Where do we see the beginning and end of our responsibility? Any customer coming into the Western Power system eventually has some impact all the way down the value chain to the generators. Eventually someone will have to put more generators into the system. When do we stop that process and make someone pay directly for it rather than indirectly?

Mr M.G. HOUSE: There is no black-and-white line.

Mr Bowron: The line we have is, as we have outlined here, the agreed payment schedule, and that has been built up over a significant time.

The CHAIRMAN: Direct payment means that the person who buys it pays for it. The indirect payment is the developer who will get the benefit. That is the value judgment.

Mr Bowron: The indirect aspect also is the indirect growth of Western Power and of the system. We borrow moneys from the Government to reinforce that. That is recouped effectively through tariffs.

The CHAIRMAN: Any other questions?

Mr J.L. BRADSHAW: The only bit of advice I have is regarding -

Mr M.G. HOUSE: You should become the elder statesmen of the committee.

Mr J.L. BRADSHAW: No.

The CHAIRMAN: He is the Father of the House.

Mr J.L. BRADSHAW: It is nothing to do with subdivisions; it concerns electoral issues in which people want power upgrades or power connected to their homes. Recently someone from Western Power verbally indicated that the cost would be so much and the residents received a quote that was double or triple the verbal quote. That is a big shock to people.

Ms J.A. RADISICH: It was discounted.

Mr J.L. BRADSHAW: In this case they got a quote of $10 000 in writing. It has now been discounted back to $6 000 due to my intervention. It occurred only in the past few weeks, by the way. In another case a few years ago someone was quoted about $25 000 against $10 000. I would rather be told the cost is $50 000 and get a $25 000 written quote rather than be told initially that it was $10 000.

Mr Bowron: I think it is a problem when people feel obliged to give verbal quotes rather than check their facts.

Mr M.G. HOUSE: The point John made is valid. It happens to us regularly. I can never understand why my political intervention results in a huge reduction in the cost. Either it costs a certain amount to do the job or it does not. If the account was sent in the first place and that was what the cost was, I would presume that was correct. Anyone who pays a legal bill up front is crazy. We argue with the lawyers and they reduce the fee. We can never work out why and they can never tell us why. Unfortunately, Western Power falls into the same category. I cannot understand that. That is no way to do business in today's world. That has nothing to do with this inquiry but it is an issue publicly for Western Power and for us as political representatives.

Mr A.J. DEAN: Verbal quotes over the phone should and be a no-no.

Mr J.L. BRADSHAW: They seem to be always well under. I would rather they were greater.

Mr Bowron: Your points are valid. We do not like it when those circumstances happen.

Mr M.G. HOUSE: The pertinent point is to be able to detail the cost. That is the point I made about lawyers' fees. They can never tell us how they arrived at the $2 351.17. With respect, you guys cannot usually tell us why it cost $6 451.10 to connect some power. That is what you must be able to do in today's commercial world.

Mr Bowron: That is correct. We can and should be able to and will.

Mr M.G. HOUSE: I am pleased to hear it.

The CHAIRMAN: Thank very much. Is there anything else you want to tell us?

Mr Bowron: I do not think so. Can we verify the extras?

Mr Mattner: I think we have two tasks: to provide examples of subdivision costs and the range in various geographies and to somehow quantify the level of subsidy to developers in terms of overall system reinforcement costs.

The CHAIRMAN: Yes. Thank you very much.

Committee adjourned at 11.11 am