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Mr Lyndon Rowe
Chairman
Economic Regulation Authority
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Dear Mr Rowe

Issues Paper on Western Power's AA3 Submission

I refer to the Economic Regulation Authority's invitation to comment on its Issues Paper on Western Power's "Proposed Revisions to the Access Arrangement" for its network. My assessment of the submission focuses on public safety aspects and its relevance to Order No. 01-2009 issued by EnergySafety.

My principal concern arising from the material presented in the Paper relates to Section 5.1.2.4 – Forecast Capital Base. Western Power proposes to address its acknowledged wood pole safety risk by a program of pole replacement and reinforcement extending over a 20-year period. This means there will be a continuing community risk associated with poles failing in service for the next 21 years.

As you know, EnergySafety has been drawing Western Power's attention to the unsafe wood pole issue for over five years, resulting in a very unsatisfactory response in terms of pole replacements and reinforcements. Western Power has yet to achieve the long term sustainable pole replacement rate of approximately 16,000 per year and has not identified a satisfactory way to deal with its legacy of 200,000 un-supported Jarrah poles in rural areas. Moreover, Western Power's system includes 345,000 poles reinforced using steel supports which, many cases, clearly are not adequate to support the deteriorated pole to which they are fitted.

Western Power has not defined clearly the true size of its wood pole problem in its AA3 Submission and appears to have put forward its proposal to ramp up, eventually to replace or reinforce 33,000 poles a year, costing in total \$748 million, as a fait accompli. Western Power appears to continue to rely on their remedial estimate of 60/40 replacement/reinforcement ratio (appearing in their AA2 submission) and costs of \$7,500 per replacement and \$1,000 per reinforcement. The cost estimates and ratio imply a total cost of \$980 million to deal in part with the 200,000 poles at risk, which will not produce compliance with the Order. If all the poles require replacement the total cost would be \$1.5b.

Both the ratio and cost estimates require much more justification. Costs will vary considerably with location and estimates should pay due regard to scale economies achievable through careful project planning and contract packaging. A different mix of replacement or reinforcement could produce a better outcome. Reinforcing provides immediate safety assurance, costs less than replacement, takes much less time, requires no specialist line work, buys time and spreads costs over time. However, Western Power would need to confirm that the older poles still have enough strength above ground to rely on the reinforcement.

I respectfully suggest that the Authority would need to see much more detail about how many poles are to be replaced or reinforced in each year of the AA3 period, where they are located and how such work will improve community safety (as well as reliability and quality of supply).

Importantly, the submission makes no attempt to quantify the community risks implied by the proposed capital works plan. I submit that it is the Authority's role, and ultimately the Government's, to weigh the balance between community risk and budget realities. But to do so, both the costs and risks must be presented for proper consideration. This is not possible from Western Power's submission.

I comment as follows on certain passages in the submission:

1. Section 8.2.1 page 174

"Delivering the safety investment program will improve the condition of our pole population and satisfy safety regulatory obligations."

Safety "regulatory obligations" will not be satisfied with respect to wood poles until Western Power has complied with the requirements set out in Order No. 01-2009. Western Power's Managing Director confirmed to me in writing in July 2011 that they will not be able to comply with the Order with respect to the rural network, comprising the poles most at risk. Further they say:

"Our current plan is to increase our rate of wood pole replacement so that within 20 years we are treating poles at the same rate at which they are identified to require treatment."

This statement implies that the inspection process will identify more unserviceable poles than Western Power can treat, causing an accumulating backlog. This backlog will not disappear before 2031.

2. Appendix B - Capital Expenditure, a review of AA2 achievements, is silent on pole replacements and furthermore Western Power appears to be underspent in distribution on both asset replacement and compliance.

In my opinion as the State's electricity safety regulator, prolonging the very significant community risk for such an extended period is unacceptable. While I recognise the economic realities confronting Western Power, I strongly urge the Authority to give consideration to insisting upon a better balance between community safety and Western Power's proposed capital expenditure base.

I have suggested to Western Power, Treasury and your Authority that correcting the unsafe wood poles be treated as a legacy issue, justifying special financial treatment and risk assessment, so that the work can be completed quickly without causing an immediate, unacceptable increase in electricity tariffs. I would appreciate the Authority's support in promoting this idea with Treasury and the Government.

Yours sincerely



**KEN BOWRON
DIRECTOR OF ENERGY SAFETY and
EXECUTIVE DIRECTOR, ENERGY SAFETY**

28 November 2011