

Horizon Power —

Mr A.P. O’Gorman, Chairman.

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

Mr F. Tudor, Managing Director Elect.

Mr B. Hamilton, General Manager, Corporate Services.

Mr D.J. Tovey, Company Secretary.

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, 8 June 2012. 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.

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

[Witnesses introduced.]

The CHAIRMAN: I give the call to the member for Cannington.

Mr W.J. JOHNSTON: I refer to the Pilbara underground power project. I would like to know the current expected cost of the project and the expected time line for the project, please.

Mr J.H.D. DAY: It is going well in Port Hedland, South Hedland and Wedgefield, and a lot more slowly in Karratha because of the difference in the terrain and the amount of rock that exists in Karratha. I ask Mr Tudor to add any further information.

Mr F. Tudor: The work in South Hedland and Wedgefield is about 15 per cent complete. Since we started the work in February 2012, this is pretty much where we had expected to be. The work in Karratha is far more challenging. The contractor that we have had on the job, a company called O’Donnell Griffin, has had some issues. We are currently doing two things. One is contesting a number of commercial issues with that particular contractor. We are also completing work that it has started, and we have a piece of work in train within the company, which is looking at options for how we will complete Karratha. That work I cannot comment on at the moment because it is being predominantly driven by our technical people and is still a week or two from being completed. We expect that work to be completed, to be assured and tested, and I think, as we publicly said, we would be making that available in about August.

Mr W.J. JOHNSTON: Sorry; in about August we will know where we are at.

Mr F. Tudor: Yes.

Mr W.J. JOHNSTON: But Mr Tudor does not believe that he will be able to have any updated costs before then.

Mr F. Tudor: The work is currently in progress to evaluate the options. A number of options are on the table and they go to a number of different things, so it would probably be premature to comment.

Ms R. SAFFIOTI: My question relates to the government trading enterprise efficiency dividend being applied to all the GTEs. What are the likely cuts? In which areas will there be cuts in 2012–13 to deliver on the government’s efficiency dividend?

Mr J.H.D. DAY: It is the same answer as previously: that is being considered, worked through and discussed within Horizon Power, and no doubt will be discussed with the minister between now and 1 July.

Ms R. SAFFIOTI: In relation to the process, will the minister be ticking off the individual items that will be cut?

Mr J.H.D. DAY: It is certainly not a matter of cutting services; it is a matter of —

Ms R. SAFFIOTI: Cutting budgets.

Mr J.H.D. DAY: — changing the arrangement so that hopefully the same services are provided more efficiently. I would expect there to be cooperative discussions between the minister and the chief executive

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officer. I am sure the member for Belmont could comment on his experience. Usually these things are done cooperatively. But I will ask Mr Tudor to elaborate.

Mr E.S. RIPPER: Not necessarily in my time. As I recall, the organisation paid money to unions that paid money to Brian Burke to campaign against the government's policy.

Mr J.H.D. DAY: Quite amazing.

Mr F. Tudor: There is obviously no intention to compromise the reliability of the service that we offer. That is very clear. We have been given some discretion to look at the process efficiency areas that we might consider. As was the case with the last efficiency dividend, we report back to the minister on the areas that we are looking at, and we do that quite formally as part of the process that has been set up specifically to monitor the efficiency program. We also have monthly meetings with the minister in which we apprise him of the ongoing activities that we have, which includes the efficiency drive.

Ms R. SAFFIOTI: Is that reporting before the final decision is made by Mr Tudor's organisation? For example, does Mr Tudor inform the minister of what areas are going to be cut, or does he report after the event?

Mr F. Tudor: I think it is a combination of both.

Mr E.S. RIPPER: Why has the government decided that the proceeds of the efficiency dividend will go to government revenues when Horizon is subsidised by the tariff equalisation fund paid for by metropolitan and south west consumers of electricity? If Horizon can become more efficient, why would the proceeds not be used to reduce the size of the TEF and therefore reduce the burden on south west interconnected system electricity consumers?

Mr J.H.D. DAY: I guess it is an accounting process or it is a matter of trying to get consistency in how it is approached across government. What the member has suggested is the alternative way of doing it—reducing the subsidy that is provided and —

Mr E.S. RIPPER: I am suggesting that one way consumers benefit and another way government revenues benefit, and the government has chosen government revenues.

Mr J.H.D. DAY: Government revenues are expended on government services for members of the public.

Ms R. SAFFIOTI: And government pet projects.

Mr J.H.D. DAY: They are projects which in some cases have been talked about for 20 or 30 years and which lots of people want—things like a sports stadium, a new Museum and the Perth Waterfront project.

Mr W.J. JOHNSTON: Horizon is an organisation that is in a contestable market. If there are efficiencies to be obtained, it is surprising that Horizon is not looking for them anyway. That is exactly what has happened at Verve Energy, which is why Verve is having trouble meeting its efficiency because it has already got there first. Is there a particular reason that Horizon has lagged behind the more competitive people at Verve? Is there a particular explanation for why Horizon has to be pushed into it by the government?

[8.10 pm]

Mr J.H.D. DAY: The Treasurer quite rightly has primary responsibility for this aspect of government, but clearly it has been discussed within the Economic and Expenditure Reform Committee and then approved by cabinet. The view has been that government trading enterprises have the capacity to make changes without causing a lot of pain and certainly without reducing the quality or the quantity of the services that they provide to the public. Indeed, there was an efficiency dividend on the GTEs in last year's budget. As far as I am aware, that has been put into effect generally and fairly painlessly. Presumably, that will be the case over the next 12 months as well.

Mr W.J. JOHNSTON: Why is it that Horizon Power's management was not doing that anyway?

Mr F. Tudor: I can address that. I was appointed to the acting role in December 2010. The remit that I had from the board was to restructure the organisation, drive accountability and put in place a productivity program. This was ahead of the announcement of the May 2011 budget when the first efficiency drive by the government was announced. I cannot speak on behalf of the board, but I can tell the member that the action I took away from that was to actually restructure the organisation, look at accountability, look at the capability, look at the work program that we had and put in place productivity measures. Therefore, when that announcement was made through the May 2011 budget, I think we were well placed. It was certainly a challenge, but we were well placed. Some of the challenges that are presented to us are things that we normally do not budget for. The sort of cyclonic conditions that we need to deal with, such as flooding at Kalumburu and Fitzroy Crossing, and the three or four cyclones on average that hit the Pilbara coast through November to March of each year are things that

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need to be offset against that. Certainly, we and the board were focused on driving the executive to deliver on those efficiencies prior to the announcement.

Dr M.D. NAHAN: I refer to the “Murchison Radio Observatory Power Station” line item listed under “Works in Progress” on page 595, which has been allocated \$14 million-plus this year. Will the announcement by the supporting bodies, in Europe mainly, for the Square Kilometre Array require additional expenditure in this area? I understand that the SKA will eventually require a lot of electricity.

Mr J.H.D. DAY: The decision by the Square Kilometre Array organisation to locate major components of the SKA in both southern Africa and Australia is of course welcome from our point of view, as I have mentioned previously. The allocation of \$15.5 million for the construction of the power supply is for the early stage of the Australian Square Kilometre Array Pathfinder project. That project is underway and construction will commence soon. Any future requirement for power supplies for phase 1 of the SKA project itself will need to be addressed separately. Installation of additional radio telescope dishes is not expected to occur until about 2016. Also, a lot of planning and design work needs to be undertaken initially, so that is an issue that will need to be addressed, but it is not directly an issue for Horizon Power at this stage.

Ms R. SAFFIOTI: I refer to the forward program of works for the utility. In 2012–13, \$258 million is expected to be spent and that drops to \$22 million in 2015–16. Is that realistic and are there no projects out there that have been approved by government? That seems like a dramatic drop-off in the works program.

Mr F. Tudor: It reflects the work program that is currently approved. There is short-term generation that we are putting into the Pilbara and we are regularising a number of Aboriginal communities as part of a program that has been ongoing for some time. We are implementing the Carnarvon power station, Mungullah, and there is, obviously, the Murchison radio observatory project that we just talked about. Those projects have been approved and will all be completed in the next year or two, which is why there is that drop-off. If other projects come along that require funding, there is a normal process that we would go through to put those through to our board, the minister and the government process.

Ms R. SAFFIOTI: This is what has been approved, obviously, through this budget process. Was Horizon Power’s list a bit bigger than what is listed in the budget papers? Was the request from the utility larger than what has been approved in this budget?

Mr F. Tudor: Yes. The thing that I would say is that the asset management program that we use to sustain capital expenditure, which looks at the capacity, safety and compliance issues with our asset base, is I think well served by the money that we have over the next year or two. We refresh that program each and every year and that informs with more definition what we need to do, and we put that into the budget process on a year in, year out basis. Therefore, as we go further out in the forward estimates period, the work program is less certain.

Ms R. SAFFIOTI: The managing director mentioned phase 2 of the Aboriginal and remote communities power supply project. Is there a phase 3 for which funding was requested and not approved?

Mr F. Tudor: The original program, which I think started back in 2005–06, dealt with five peninsular communities around Broome, which we have completed. That was done through funding by the federal and state governments. At that time, we fully expected that that would present a pilot case and that program would continue. The federal government did not bail out, but certainly did not participate in the program going forward, so we are completing two communities—that is, Kalumburu and Yungngora. They are being totally funded by the state, and I think the expectation is that at some point the two governments will come together and agree on a forward program for how these communities—there is still a number to be dealt with—will be looked after in terms of power supply.

Ms R. SAFFIOTI: How many communities need to be dealt with?

Mr F. Tudor: I do not have those numbers, but they fall into different categories. There are hub communities that are larger in population size, there are mid-sized communities and some are outstations. Therefore, I think that the framework that needs to be put in place has to consider the sustainability and size of each of those communities and configure a program of work around that.

Ms R. SAFFIOTI: Can I get that information, if possible, by way of supplementary information?

Mr J.H.D. DAY: What precisely is the member seeking?

Ms R. SAFFIOTI: A list of communities that need —

Mr W.J. JOHNSTON: A list of communities that do not have a regularised power supply. I think that is the term that has been used.

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Mr J.H.D. DAY: It depends on what the member defines as “communities”, I guess. Some are really very small and would never expect to have a regularised power supply, I suspect. What sized communities is the member talking about?

Mr W.J. JOHNSTON: What sized communities is Horizon Power considering?

Ms R. SAFFIOTI: It was just referred to. I am just asking for what was referred to; I am not trying to get clever.

Mr E.S. RIPPER: A population of 200-plus, was that not the —

Mr F. Tudor: It was, so we can certainly give a list of the communities that exist with that number of people that we do not service at this stage.

The CHAIRMAN: Minister, can I just clarify that you are going to provide supplementary information?

Mr J.H.D. DAY: We will provide a list of the Indigenous communities with a population of approximately 200 or more where a regularised power supply does not currently exist, as far as Horizon Power is aware.

[*Supplementary Information No B61.*]

Mr A.J. SIMPSON: My question refers to the “Carnarvon Power Station Redevelopment” line item on page 595. I wonder whether the minister could update us when that is likely to come online and the benefits to the town site of Carnarvon. Also, what will happen to the old power station site?

[8.20 pm]

Mr J.H.D. DAY: The new power station for Carnarvon, no doubt, will be very welcome for the local community. It is known as the Mungullah power station project. It is on schedule and within budget, and it is due to be operational in December of this year. Full testing will be completed by April of next year, and after that point it is expected that existing power station will be decommissioned after it ceases to operate. Instead of a phased transition to the new power station, both power stations will now operate only until testing on the Mungullah power station is complete, which will provide efficiencies on the overall project cost. The site works have been completed, two underground feeder cables have been installed and transformers have been delivered to the site in just over 12 months. Construction work is now underway, and a lateral extension to the Dampier to Bunbury natural gas pipeline is due to commence construction in July; that needs to be completed by December, presumably, for the gas to be available. The power station is costing about \$77 million, and it will ensure that there is sufficient capacity and a reliable supply for the Carnarvon area for many years into the future. I will just ask Mr Tudor to provide any additional information on this project.

Mr F. Tudor: I think the other question the member asked was what would happen to the existing power station site. That is to be assessed, and one of the things through the decommissioning phase is that we assess exactly the soil conditions and what we might need to do to refurbish the site and bring it up to a certain standard. That will be a work in progress; we have no firm plans at this stage.

Mr A.J. SIMPSON: The new one is running off gas. The original one was a diesel one, was it not?

Mr F. Tudor: The new power station is gas; there is also some diesel backup in the configuration, yes. The existing one is gas/diesel.

Mr W.J. JOHNSTON: The minister might have heard this question before tonight, but slightly differently. What is the estimated actual expenditure for Horizon Power on fringe benefits tax for the 2011-12 financial year? How much of this was for entertainment; how much was the underlying expenditure that attracted the entertainment FBT; and, what are the details of this expenditure?

Mr F. Tudor: We can take that on notice.

The CHAIRMAN: Is that supplementary information?

Mr J.H.D. DAY: We will provide that by way of supplementary information, as far as Horizon Power is able to within the time available.

[*Supplementary Information No B62.*]

Mr W.J. JOHNSTON: I just would like to ask a fresh question on a new topic.

The CHAIRMAN: Yes.

Mr W.J. JOHNSTON: Recently Horizon Power started buying back renewable energy at the cost of generation from individual customers in various locations across its area of responsibility, and many people welcomed that. However, of course, there is an issue here of the tariff equalisation fund, so Horizon Power’s customers are paying only an equalised cost for their electricity, but it is buying it back at an unequal value of the electricity. This, of course, is not about the feed-in tariff, which is completely separate; this is about the renewable energy

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buyback scheme. Does the government have a view about subsidising the power usage of consumers in remote locations, but then providing a benefit to them for that generation? So, a person in Cannington gets 7c for their REBS, but a person in a remote location may be getting 50c for REBS, or 40c or whatever, but the constituent in Cannington is paying the same price for the power they use as the person in the remote location pays. Does the government, on behalf of Horizon, have a particular comment, or is this the result of a considered position? Does the government think it is fair; is it the outcome it has been after?

Mr J.H.D. DAY: I am prepared to agree that I think that is a good question.

The CHAIRMAN: I think I saw the member for Riverton nodding as well.

Mr J.H.D. DAY: I am not sure, but I will ask Mr Tudor to outline the rationale.

Mr F. Tudor: What I can say is that it is obviously, under the current system, a win for us because we avoid very high marginal costs associated with servicing the towns we may be talking about, and that runs to as high as \$1.50 a kilowatt hour in some of the towns. So it is certainly a win in avoiding that cost, and it is obviously a win for the customers who choose to put in place the embedded solar generation I think we are talking about. One of the concepts we have, which does not extend as far as the south west interconnected system, is to make some of these cooperative, so that even if someone is in, for example, the Pilbara, which is part of Horizon's jurisdiction, they may be able to invest in a solar farm, for example, in Sandstone or one of the high-cost towns. I think that is one thing we are certainly looking at; it does not need to restrict it to the town itself. But we have not, from our perspective at least, thought about extending that to the SWIS.

Dr M.D. NAHAN: So when Horizon enters into renewable energy projects, either as a generator or on the houses, it tries to ensure that the cost of electricity produced is lower than the alternatives, because sometimes it uses diesel and others. Is that what Mr Tudor is saying? The member for Cannington asked about benchmarking on this, and particularly when it is subsidised; that is a real big problem. What is Horizon using as its benchmarking for costing and its decision to facilitate renewable energy or build any type of energy?

Mr F. Tudor: It is done on a town-by-town basis; with the two Aboriginal communities that complement the portfolio, we have 38. Each is unique, and there is an individual cost to serve in each one of those. The schemes would be tailored to the marginal economics in each one of those.

Mr W.J. JOHNSTON: Is it right that some towns in Horizon's jurisdiction, effectively, are not able to have additional small-scale photovoltaics because of the system requirements in different communities? Is that correct; and, if it is correct, can the minister specify which ones they are?

Mr F. Tudor: That is correct. I think Carnarvon and Broome are the two where we have had quite significant uptake, and there are technical considerations when there is a lot of uptake in a small system. Obviously, our first requirement is to maintain reliability and quality of supply. But in those in which where we have reached the limit, we have advertised and certainly made the community aware. We are also looking at making opportunities available to put embedded generation in when it is dispatchable. The ones we have talked about have been non-dispatchable, so we are looking at techniques for doing that. In fact, we have worked with one supplier in Carnarvon called EMC to install a 300-kilowatt system there. That is actually dispatchable by us, and so that provides us with the flexibility to go above those limits because we have control on how much generation is being put into the system by that particular installation. We are also studying the systems themselves to see whether we can actually improve the technical limits, and we are doing a number of things, including looking at storage devices and such like, to see whether we can actually put those on the system to increase the capacity to take small embedded generation.

Dr M.D. NAHAN: Is Horizon Power looking at off-peak storage devices to maximise the renewable capacity?

Mr F. Tudor: Yes, we are. We are also looking at the probabilistics around needing to maintain reserve capacity and the weather conditions, and getting experience continually as we operate with these systems to know how far we can push the boundaries. We are looking at a combination of things.

The CHAIRMAN: That completes the consideration of Horizon Power. That completes the consideration of the estimates by this committee.

Committee adjourned at 8.30 pm