

Horizon Power —

Mr R.S. Love, Chair.

Mr B.S. Wyatt, Minister for Energy.

Mr F.A. Tudor, Chief Executive Officer.

Mr D.J. Tovey, Company Secretary, General Manager, Corporate Services.

Mr M.A. Houlahan, General Manager, Commercial Services and Finance.

Ms K. McKenzie, Principal Policy Adviser.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. 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 principal clerk by Friday, 1 June 2018. 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 through the online questions system.

I give the call to the member for Bateman.

Mr D.C. NALDER: I refer to page 44 of budget paper No 3 and the reference to lower revenue as a result of economic conditions in the Pilbara. What was the reduction to Horizon Power's revenue in percentage terms for 2017–18 and 2018–19 and each year of the forward estimates?

Mr B.S. WYATT: That is in total revenue. I will hand that to the chief executive officer, Mr Tudor, in a minute, but obviously a range of economic factors are at play in the Pilbara, which everyone in this room would be familiar with, and there are changes also, no doubt, in how people are taking up their own energy options. I will ask Mr Tudor to make some comments about those percentages. If he cannot provide an answer, I will provide it to the member by way of supplementary information, but he might be able to.

Mr F.A. Tudor: I cannot provide the numbers, so we are going to have to take that on notice, but the trends pretty much continue. Residential has really bounced back a bit, but the business sector is still depressed across the Pilbara and other regional areas.

Mr B.S. WYATT: Did the member want the forecast revenue for 2018–19 and 2019–20?

Mr D.C. NALDER: Forecast revenue for 2017–18, 2018–19 and each year of the forward estimates.

Mr B.S. WYATT: I am happy to provide by way of supplementary information the expected revenue and forecast revenue for 2017–18 and across the forward estimates.

[*Supplementary Information No A21.*]

Mr D.C. NALDER: What factors will determine the forecast revenue changes? It is bouncing around a bit and Mr Tudor just said that the business sector is soft and residential is recovering a bit. Are they really the two drivers impacting revenue or is it other factors such as gas prices?

Mr B.S. WYATT: I suspect that there would be a large range, but, again, Mr Tudor is best placed to give the member more detail on that.

Mr F.A. Tudor: Gas prices will impact the cost side. I think the other factor on the revenue side is probably the beginning of distributed energy. Solar panels being deployed will impact on revenue. At the moment, with the current tariff structure, particularly now, not in our high-cost towns but in our lower-cost towns, like the Pilbara, solar panels being deployed means that we have less revenue coming back in. It is not such a big issue in the Pilbara because that is still to take off in any meaningful way, but in towns where we have reached hosting capacity—that would be Carnarvon, Broome and some of the bigger regional centres—we would have felt the impact of solar panels.

Mr D.C. NALDER: Is that around residential solar or is that commercial solar as well? Is Horizon Power seeing it across both or is it still a bit like Perth where we have had this massive influx of residential solar and we are starting to see some commercial solar?

Mr F.A. Tudor: I think the member has picked the trend; the residential has been first and for the small business sector, it is a significant investment that is becoming more attractive as prices are going up, if we are not moving the tariff structure, and the costs are coming down for the technology. I think businesses are starting to look at that, so that is taking off, but there is a lag between residential first and then the business sector coming after that.

Mr D.T. REDMAN: Could the minister update us on the access arrangements to the north west integrated system and in particular Alinta Energy's push and where that is at?

Mr B.S. WYATT: In respect of the NWIS, the member would have seen that we made a decision on a light-handed regulatory regime. The development of that is ongoing. Simultaneously, or around the same time, Alinta applied for coverage, which was granted by me in an interesting capacity that I have under the act. I must admit it is as close to a semi-judicial role as I will ever have, I suspect, but it is a funny role that I have. That final coverage decision was on 2 February this year. Effectively, coverage will apply from 1 January 2020, but obviously we have to go through two processes now to develop a regime that we think is a better regime than the bells-and-whistles coverage under the Electricity Networks Access Code, although there is quite a hefty process to get to the ENAC outcome before organisations can effectively connect.

Mr D.T. REDMAN: I assume that Horizon and/or the government has done some predictions on the likely impact, firstly, on Alinta's business and, secondly, on the tariff equalisation contribution.

Mr B.S. WYATT: It is very much high level—I obviously have quite a lot of time! If the member goes through the decision, he will see that it makes the point that there is a very broad spectrum of likely impacts. From memory, many of them were almost so uncertain that in making a decision it was almost something that I could not take into consideration under the act. But, as a result, clearly, there are policy considerations for government now that that coverage has been granted from that time. They are set out on page 47 of the decision and include the likely impact on the state's finances—we will get a better understanding of that over time—whether contestability thresholds might be appropriate; whether the current policy settings for the TEC remain appropriate in an environment in which Horizon Power were to face retail competition; eligibility thresholds for customers in being able to access subsidised tariffs under the ETP if they were able to choose a competitive market retailer; ensuring that appropriate default retailer arrangements are in place for continued electricity supply to customers when competitive retailers enter or exit the market, which is similar to the issue we talked about with respect to Synergy; whether there should be a light-handed regulatory regime for the NWIS to facilitate third party access, rather than the code's current regulatory requirements; and whether to establish an independent system operator to oversee network operations in the region.

Although the decision around coverage has been made, there are a lot of policy implications as a result of that that the Public Utilities Office and Horizon are working through. The question the member raised is dealt with specifically in the decision.

Mr D.T. REDMAN: Is there a time line for when decisions in and around those variables will have to sharpen up?

Mr B.S. WYATT: Yes. Indeed, with respect to the light-handed regime, some key decisions will need to be made this year. There is a bit more time around the ENAC coverage, but coverage under that is a sledgehammer-to-crack-the-nut force for something the size of the NWIS. That is why I think there is more interest in it and a better outcome would be the light-handed regime.

Dr M.D. NAHAN: The real issue is that since Alinta has the plant with surplus capacity in the Pilbara and a gas contract, it is expected that its cost of delivery will be lower than Horizon's and therefore will take market share away from Horizon. That was always the big issue. Exactly how much—who knows. It depends on that.

Mr B.S. WYATT: That is always a component of how much —

Dr M.D. NAHAN: It depends on how everybody responds. If there is a loss of market share, which there will be, one would assume, how will that work through on the TEC or those issues that need to be dealt with?

Mr B.S. WYATT: That is one of the key questions. I will ask Mr Tudor to make some comments. That is why one of the policy issues is whether the TEC is the appropriate mechanism post retail competition.

Mr D.T. REDMAN: Is there an alternative to the community service obligation?

Mr B.S. WYATT: There might be other alternatives. Hopefully, there will be. If there is competition, then, clearly, market share is lost by the current dominant player. How competitive Alinta wants to be, how aggressive it goes, are all the unknowns, but that is why those policy issues that I raised are key considerations. They will all be considered in one form or the other. I might ask Mr Tudor. He might want to make some comments on the first comments the Leader of the Opposition made about Alinta.

[7.20 pm]

Mr F.A. Tudor: There are two other factors. When people are considering who they might choose as their supplier in the Pilbara, there is cost, which is one factor, and there is security of supply. It is not just cost; it is security of supply and it is also the credibility of the counter party. We have seen that pay dividends with Roy Hill. It was always anticipated that it did not start at the beginning, but we competed for Roy Hill and won that piece of business. The decision around who supplies is much more than just a cost-based decision on behalf of customers. The other thing I would say is that the government has made the decision to put the open access start date to 1 January 2020. If we follow a process, which we will be obliged to follow-through on, we have to put together some access arrangements six months after that, deliver those to the Economic Regulation Authority, and the ERA has about six to nine months to consider that. The open access will start around mid-2021. By the time that occurs, the market could well have turned around and we can anticipate that there are some projects up there: replacing the mines, Balla Balla and indeed other big contracts will come off and again be contested. All of that taken into the mix is pretty difficult to predict, given the time frames.

Dr M.D. NAHAN: Is Alinta pleased with that time horizon?

Mr B.S. WYATT: Is it pleased? It has not expressed a view to me. I suspect it would have liked a tighter time frame. As I think the Leader of the Opposition is probably alluding to, they have not expressed a view to me personally.

Dr M.D. NAHAN: How is the TransAlta project going?

Mr B.S. WYATT: I will let Mr Tudor answer that.

Mr F.A. Tudor: From our perspective, it is going extremely well. We are blessed having two Canadian companies that are very credible independent power producers both at Karratha with ATCO and TransAlta in Port Hedland. From our perspective, the power station has performed very well. We have retired any of the temporary kit that we had there. We have had very few problems.

Dr M.D. NAHAN: Is the demand for Horizon's energy as expected? Does it still have a bit of surplus capacity in the plant?

Mr F.A. Tudor: We have talked about the sort of depressed demand; we would not have anticipated when we made the decisions that demand would have fallen the way that it has, but I think these are investments that are made over 25 to 30 years. Having the investment in place and having efficient generation there I think will pay dividends for the entire area. The one thing to remember is that the Alinta plant put in in 1996 is getting pretty old. We have already seen it start to replace its old frame 6 machines with new GE aeroderivative machines. That is going to be a progressive change out.

Dr M.D. NAHAN: With the declining demand, we started seeing the decline in business demand, medium-sized business, in 2016–17. Has it continued to decline in Karratha and Port Hedland since then?

Mr F.A. Tudor: I do not think it has picked up significantly, but I think it has bottomed. We have seen some of the things, particularly on the liquefied natural gas side. A number of LNG trains are being built and commissioned in the area. As we have discussed in the past, some people have come in who are being set up to do year in, year out maintenance going from one train to another. Although some of the small businesses have come down, there has been some take-up in demand as a result of some of these new businesses being set up to service the LNG industry, which has now got a critical mass in that part of the world.

Mr D.T. REDMAN: I refer to the expenses from the general government sector to public corporations on page 203 in the *Economic and Fiscal Outlook*. I notice that the tariff adjustment payments for both Horizon and Synergy are effectively coming to an end. Horizon has a little residual there. This is a bit of the dark arts about how this works, the minister can help me with this. I assume that the seven per cent increase in tariffs for electricity have soaked up most of that. Has much been soaked up by the business activities of Horizon, if I have got that right?

Mr B.S. WYATT: We made the decision in last year's budget to cease the TAP for the 2018–19 year. Synergy will be here in a minute. From memory, the difference between the efficient cost of supply, if you like, would have required a TAP of around \$53 million. Ask me to confirm it again when I have the Synergy CEO sitting next to me.

Mr D.T. REDMAN: Sorry, \$53 million? Just Synergy?

Mr B.S. WYATT: For Synergy. There is no question—I think I made this point—that we are asking Synergy to do a bit of work in 2018–19. I think the member's question around business and Horizon —

Mr D.T. REDMAN: In terms of how much the business is expected to soak up.

Mr B.S. WYATT: When I have Synergy here, I might have to deal with that if I can.

Mr D.T. REDMAN: The same principle applies to Horizon, does it not?

Mr F.A. Tudor: My view is that over the last four or five years we have driven efficiency pretty hard into the business. There is probably not a lot more that we can do. We have maintained that discipline as we have grown some capability in microgrids to look at a very different type of future. Our capacity to absorb that will be limited, but we will be driving efficiency, as we have been, where we can.

Mr D.C. NALDER: On page 44 of budget paper No 3 it outlines lower revenues. I want to get an understanding of the cost base, particularly around purchasing gas and whether there are long-term gas arrangements in place and how much flexibility is there, or whether there are inherent risks on the cost side for Horizon. I am trying to get an understanding of that.

Mr B.S. WYATT: The question is how much the cost base is fixed?

Mr D.C. NALDER: Yes.

Mr B.S. WYATT: Mr Tudor, do you want to make a comment about that?

Mr F.A. Tudor: The member has made a very good point. When we looked at our future—I think we probably locked in some supply with Synergy, I am guessing about two years ago—we were starting to look at a very uncertain future, particularly in the business sector, so we sought to underpin security of supply to the residential customer base that we have. We have locked that in with Synergy as a supplier, then over and above that we have taken the risk in the market that we thought was worth taking, and the prices in the short-term gas market are much lower than the longer-term secure prices from 20-year contracts, which Synergy signed up to and we have pretty much back-to-back arrangements with. We fixed gas related to our residential customer base, which we do not expect to move substantially, then in the business sector we have built-in flexibility based on going into the spot market. We have a portfolio of contracts that are giving us the flexibility to move with the market, both price and volume.

Mr D.C. NALDER: What percentage of Horizon's business is residential, versus business?

Mr F.A. Tudor: I will just defer to one of my colleagues. Mike, do you have the percentage split number?

Mr M.A. Houlahan: I do not have the exact percentage split, but it is around about 50–50, effectively.

Dr M.D. NAHAN: The tariff equalisation contribution is not in the books, of course. Could the minister provide us information on what he expects the TEC to be over, let us say, 2017–18 through 2021–22?

Mr B.S. WYATT: We probably do not have it but we can provide it, I suspect.

Dr M.D. NAHAN: Is it growing or shrinking?

[7.30 pm]

Mr F.A. Tudor: It flattens out to roughly \$160 million. We had an exceptional year of \$198 million when we were getting some back payment, but then in 2019–20 it flattens out to \$160 million. I imagine that there will be reviews to look at competition and perhaps the mechanism of the tariff equalisation contribution overall in that period.

Dr M.D. NAHAN: It went up to \$198 million and then it will level back off to \$160 million.

Mr F.A. Tudor: The \$198 million is artificial. It should be about \$186 million; I think that is attributed to the peak year. Then we flatten out to roughly \$168 million.

Dr M.D. NAHAN: What proportion of the TEC is due to the north west interconnected system?

Mr F.A. Tudor: I will have to take that on notice.

Mr M.A. Houlahan: Yes. About 40 per cent of the TEC is allocated to the NWIS and 60 per cent for the rest of the business.

Dr M.D. NAHAN: What percentage of the total sales are in the NWIS?

Mr M.A. Houlahan: That sits close to 50–50, so 50 per cent in the NWIS.

Dr M.D. NAHAN: The NWIS is one of the more profitable ventures. If we took out the NWIS and treated it differently, the residual TEC would be high.

Mr B.S. WYATT: It would be reasonable, yes.

Mr D.T. REDMAN: If we were to take out the competitive issues of the NWIS, what is predicted in the disruptive efforts of the distributed energy resources coming on board? What is the likely impact on TEC if we are predicting that in modelling?

Mr B.S. WYATT: It is a great question because everyone is grappling with this issue and Horizon has thought about it a lot. Mr Tudor might make some more comments. How long is a piece of string?

Mr F.A. Tudor: The Pilbara is a unique market, so we are not dealing with individual customers who will be making decisions based on their own circumstances. In many cases, the house is owned by Rio Tinto, Woodside or BHP, so we are dealing with a fleet. The employees are not directly exposed because their power is subsidised by the mining companies. It is a difficult equation to work through, but our estimate is that if anything occurs, it will probably occur at the end of the forward estimates and beyond. We have set up a trial whereby we are looking at making a solar offering in conjunction with a company called Energy Matters and local installers. We are building capability and certification for those local installers so that they can work with Energy Matters. The initial indication is that the take-up there without a deliberate effort is pretty slow. Our expectation is that it will start to impact, but not for the next two or three years.

Mr D.T. REDMAN: Did I hear Mr Tudor right when he said that a lot of household users do not have a price signal for power back to the energy provider because companies provide subsidies for their power?

Mr B.S. WYATT: That is what he is saying.

Mr F.A. Tudor: Yes.

Dr M.D. NAHAN: Especially in Karratha.

Mr B.S. WYATT: It is an interesting point.

Mr D.T. REDMAN: Are we supposed to try to model that?

Mr B.S. WYATT: That is right.

Dr M.D. NAHAN: If we go beyond Hedland and Karratha and the smaller towns that largely have diesel fleets, there was a very slow uptake of solar, even though solar was much cheaper than diesel units. Horizon Power did some modularisation of the diesel units to induce greater solar use and back off from diesel. How is the uptake of solar going in those high-cost centres such as Meekatharra and others?

Mr F.A. Tudor: It is still a work in progress. A lot of the communities in some of those towns are low income earners. In a lot of cases they are renters. It is not in the interest of the landlord to work through it, because the renter is exposed, but they are there for only a certain time, so they will not be able to do anything. It is a conundrum that we are working through with the landlord and the renter to make that proposition viable. We are doing quite a bit of work to see how we can increase that take-up and work with the community. We have not made big inroads yet, but as the member has identified, that is certainly an area within which we are completely aligned with the customer base. If we can put more solar on people's roofs, we win because we are offsetting losses and in turn the people would win.

Mr D.C. NALDER: I refer to the letter of intent signed by Horizon Power in December last year to undertake projects in Indonesia. Will the Treasurer provide details on the cost of this project, including the costs incurred to date and forecast future expenditure?

Mr B.S. WYATT: The cost incurred to date is the cost for Mr Tudor with Minister Johnston to travel to Indonesia recently, which is not a significant cost. The executives of Horizon travel and have travelled for a long time. All the utilities have staff who travel and continue to travel. The letter of intent is exactly that. It expires this year and has no legal impact, so I would not read too much into it.

Mr D.C. NALDER: Would the minister table that letter?

Mr B.S. WYATT: The member would have to ask Minister Johnston.

Mr D.C. NALDER: It is not Horizon.

Mr B.S. WYATT: Horizon signed it, but it is up to Minister Johnston to table that letter of intent.

Mr D.C. NALDER: Why? Horizon signed it and you are the minister.

Mr B.S. WYATT: The member can make a freedom of information request of me and I will consider giving it to the member through the FOI process, but Minister Johnson was part of that, so I think as a matter of courtesy, I would prefer to leave that decision to him. If the member wants to FOI Horizon, he might rustle it up that way.

Dr M.D. NAHAN: What is the intent of the letter of intent? Is it to provide isolated grid services? There are a lot of islands in Indonesia.

Mr B.S. WYATT: The way I read it, it is a relationship builder, if you like, and an agreement to talk directly on a range of different issues, which is something that I am relaxed about. It is not a legal agreement to provide energy services here, there and everywhere. The way I read it, it is simply an agreement to talk directly about a range of issues.

Dr M.D. NAHAN: When I was the Minister for Energy, we discussed the idea that when we develop microgrid technologies and isolated systems technologies, of which Horizon probably has the largest fleet of any utility in

the world, we could potentially sell those services in places such as India and Indonesia. Is that what Horizon is doing?

Mr B.S. WYATT: I think Indonesia is interested in that particular skill set of Horizon. The Leader of the Opposition knows more than I do about the make-up of Indonesia as a peninsula. There is a big need for distributed power systems. I think Horizon has particular expertise in that area, so that is where the focus of conversations would be. Certainly, with the question the member asked me in Parliament the other week around the conference that Minister Johnson and Mr Tudor went to, I suspect that is probably a big part of that conversation and conference. That is not unusual. I think Mr Tudor has also spoken at microgrid conferences in the United States, but that does not mean we are providing services to the United States.

Dr M.D. NAHAN: I refer to Horizon Power's off-grid technology, particularly in the Esperance area. Horizon went through and gave incentives or tried to give incentives to people, particularly after the fire down there, to replace lines with standalone facilities. Is Horizon progressing those incentives?

Mr F.A. Tudor: The only incentive we really gave was to assure people that when we put the off-grid systems in there, reliability of supply would be guaranteed. If they did not work, we were prepared to rebuild the lines. We have not had to do that. When we did the analysis, we started with about eight or nine customers who would have been ideal fits from our perspective. It would have been as cheap for us to replace the technology with an off-grid system as it would have been to rebuild the lines. We then worked with community members. I think, in the end, only about four or five were prepared to go with us and had the standalone power systems installed. Since then, we have installed additional off-grid systems across the state. We have installed one at Exmouth Golf Club and at Fitzgerald River National Park. As we have done so, we have begun to realise a couple things. One is that this is a utility product that the utility makes sense of. If we can retire long lines and derive the benefit of that plus the revenue the customer would normally provide, this is an economic proposition. Because of the nature of this state and its long feeders, we see enormous potential both in Horizon's patch and also the fringe-of-grid on the south west interconnected system.

Pretty much since 2013–14, with the fires in 2015, having deployed them, we have been building that skill set and building that capability. We see the systems themselves progressing from just crude units. I would not call the ones in Esperance crude, but they are the first generation. We see those being built potentially into being fleet-managed—integrated with utilities' back-office systems to provide a complete service. It becomes just another asset that the utilities manage in actually providing the service. The decision for the deployment is driven from the economics that the utility can run, rather than the customer. It is a utility product rather than a customer product.

[7.40 pm]

Dr M.D. NAHAN: Are the farmers or the people who participated in the four or five pleased with the outcome?

Mr F.A. Tudor: They are very pleased. Their only complaint is that they get too much media, too much press and too many people coming down to visit. Otherwise, they are very, very happy.

Dr M.D. NAHAN: Are you planning to expand the number of them?

Mr B.S. WYATT: Good question. Mr Tudor.

Mr F.A. Tudor: It is under active consideration at the moment. We see within our own patch lots of potential for deploying these. As I say, we also see it across the fringe-of-grid and probably across Australia as well. We do not see that there is a ready competitive market that can provide the kind of product we are talking about. We have a proposition in front of our board at the moment to consider how we bridge that gap and start to build a capability, particularly when we start to integrate a new utility back-office system so we can provide an integrated service. That is certainly something we are considering and that will be in front of our board in the next month or so.

Dr M.D. NAHAN: Are you starting to include more batteries as part of the package?

Mr F.A. Tudor: That is a good question. It is a combination. Certainly, in some cases we have had to deploy. When we had the fires at Esperance, we did not have the information on demand and spikes in demand, so we had to put systems in that we have gradually had to augment, so we have put more batteries in. We have it down to a point now where the diesel runs for about 200 hours a year, which is probably ideal. With all these systems, when we are not faced with a crisis, we need to put in watt watches and get information on the demand from the customer side. Once we have that, we can match the ideal system. As I say, we try to optimise the amount of diesel to a very bare minimum and that is done through solar and batteries.

Mr D.T. REDMAN: Mr Tudor commented on where technologies can be deployed. One is, obviously, on the isolated networks at Horizon. The other one is on the fringe-of-grid area. A big part of the operating arena there comes down to government policy settings and legislative change, potentially. This space is moving very, very fast. Horizon being virtually integrated has made a number of points about that being a huge advantage in

delivering these sorts of services to those areas. Has the government got an agenda soon, or is it waiting for that very competent committee to report back before it takes a path?

Mr B.S. WYATT: With respect to Western Power, for example?

Mr D.T. REDMAN: Yes, in terms of Western Power's footprint and/or the respective operating arenas that both Western Power and Horizon have got, whereby in the middle there, they would both like to take that bit of turf.

Mr B.S. WYATT: Absolutely. It is good to see the CEO of Western Power is here; he will be able to give the member more detail. We announced, I think, a trial of 60 locations for this very thing. Ultimately, we still have to change the regulatory environment in which Western Power operates to do these things. But everyone—Horizon, Synergy and Western Power—sees where this is heading. A large percentage of Western Power's transmission lines service—I will say the figures properly when I have the CEO here—are a very small percentage of customers. There are better, more reliable ways to do it. As the member said in his question, we need to update the operating model.

Mr D.T. REDMAN: Does the minister have a time frame for looking at any legislative change, because that is really what holds back —

Mr B.S. WYATT: I would like to think next year.

Mr D.T. REDMAN: The minister would like it to be next year?

Mr B.S. WYATT: We are doing some work at the moment; I cannot commit to that, but I would like to think that.

Mr D.T. REDMAN: I assume business-case work is being done.

Mr B.S. WYATT: Work is being done. Mr Kahn of the Public Utilities Office, who was here with Treasury earlier, is sort of doing that work.

Mr D.T. REDMAN: Including flow-on budget impacts?

Mr B.S. WYATT: Yes. The Public Utilities Office is now, of course, within Treasury and all that work around financial impacts as well are part of that.

Mr D.T. REDMAN: Will there be a level of public consultation?

Mr B.S. WYATT: Yes, and it will absolutely be led by the PUO. There is a lot of interest in the energy system. The PUO is doing a lot of reviews at the moment across a lot of different areas. It is all being integrated with a very clear and ongoing public consultation process. On this in particular, the PUO will start pretty soon, from memory, because, ultimately, there has to be public support and input because it is a very complex area. Ultimately, we probably want to see opportunities for private sector investment as we go forward as well, so we want to get certainty and confidence in whatever we create.

Mr D.T. REDMAN: And there will be a big impact on the regions.

Mr B.S. WYATT: It will be very big. As Mr Tudor has articulated, it will be a positive impact.

Dr M.D. NAHAN: The key issue, I think, with Western Power—Horizon has a benefit—is that it is an integrated business—generation, transmission and distribution—whereas Western Power is, by definition and act, just distribution and transmission. Therefore, the essential problem is that, increasingly, the natural monopoly position of Western Power is being eroded by changes in technology that allow substitution in generation, transmission and distribution. That is the essence of the problem.

Mr B.S. WYATT: And with Synergy, around generation.

Dr M.D. NAHAN: Yes, there are those two. The real change has to be either to allow Western Power to get into generation, or to have some trade-off between them and have competition. Horizon does not need that; it can already do quite a bit altogether under its legislative powers. Is that where the focus of the legislative change will be?

Mr B.S. WYATT: I will not give it that sort of oomph at this point, Leader of the Opposition. I will simply say that we are aware of the inadequacies of the operating model in the environment we are in. We need to make the value that Western Power can create—this is more of a Western Power question, but that is all right—out of its own network, whatever that network may look like.

The CHAIR: There being no other questions, that completes the examination of Horizon Power.