

Horizon Power —

Mr N.W. Morton, Chairman.

Dr M.D. Nahan, Minister for Energy.

Mr F. Tudor, Managing Director.

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

Mr M. Houlahan, Manager, Finance.

Miss S. Tasovac, Principal Policy Adviser.

Mr D. Tayal, Principal Policy Adviser.

[Witnesses introduced.]

The CHAIRMAN: We have a quorum, so we can make a start. I have a very quick statement to read, and then we will get cracking with the questions. We will consider Horizon Power until 10.00 pm.

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, 3 June 2016.

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 give the call to the member for Cannington.

Mr W.J. JOHNSTON: I refer to the minister's media release of 24 November 2015 headed "Battery trial leads the way for renewable future" in which he set out details of an installation of a two-megawatt battery to be trialled in Carnarvon under a new partnership with a Chinese company, and to the decision on 4 March 2016 for the project to be stopped. Is it right that when the minister made that announcement and signed the memorandum of understanding with the Chinese business that there had not been any tender process to determine who was going to be the partner for that project?

Dr M.D. NAHAN: I will allow Mr Tudor to explain the situation.

Mr F. Tudor: The company in question is Lishen Battery Co Ltd. It approached us with a view to trialling a battery, and we are open to people trialling technology on our facilities. As it transpired, we did enter into a memorandum of understanding. The MOU was to specify and configure a battery that would be appropriate to one of the towns—most likely Carnarvon. We have done that piece of work. We are now assessing whether we should be looking at that as a long-term solution rather than just a short-term solution. We have not made any commitments to Lishen and the intention is to put a business case forward, looking at a longer term option, which will still have a trial period. If the trial period is successful, we will take it up for a longer term and that will go to the market on a tender basis.

Dr M.D. NAHAN: I have some background information. The project was not stopped in Carnarvon; it is still going.

Mr F. Tudor: Yes, it is.

Dr M.D. NAHAN: Horizon Power got the use of the battery from Lishen for free—no charge. We are not committed, once they move beyond trial of the use of the battery, in this case, in Carnarvon. There was another battery too; from memory, there were two of them. Maybe Mr Tudor can tell the member what is being done with the other battery. There was no charge to Horizon, nor a commitment to buy the battery. Indeed, even when we go into future installation of such battery technology, subject to results of the test, no commitment has been given to Lishen or anybody else.

Mr W.J. JOHNSTON: The minister says that the project is continuing. When was the battery installed by Lishen in Carnarvon?

Mr F. Tudor: If I can clarify, the battery has not been installed. We have worked with Lishen to configure it. This is the first time that Horizon has trialled a very large battery that we are putting on the system. A battery has all sorts of benefits that come from it, and we are configuring it. As we have been going through that process, we certainly have been approached by the market and other potential suppliers, so we have decided to go out to the market and have a trial period. The trial period will then determine whether we enter into a longer term arrangement; it could be with Lishen or somebody else, but we are intending to package the whole of work in one. We are going to the market. What we have done with Lishen thus far is configure and specify the tender package that we will be going to the market with.

Mr W.J. JOHNSTON: How is it that on 24 November people from Lishen and Horizon were in the minister's office signing an MOU and the minister put out a media release announcing a trial of the battery, but on 24 March this year Horizon's major project director was saying that he did not know what he should be preparing a business case for?

Dr M.D. NAHAN: We signed the MOU with Lishen and Horizon to trial and experiment the use of a battery provided without charge by Lishen. At that time we had to decide where we were going to trial it, how it was going to fit and how it would be configured. There were a whole range of issues, and that is what we proceeded to do. As Frank Tudor has indicated, we are now at a stage, after reconfiguring, that Horizon is deciding whether this configuration fits and, if so, how we go about implementing it on a competitive contractual basis.

Mr W.J. JOHNSTON: The minister's media release of 24 November states —

Two industrial batteries capable of delivering up to two megawatts ... of power will be trialled in Carnarvon under a new partnership announced today by Energy Minister Mike Nahan.

If the minister is saying that there is not, in fact, an installation and that he does not know where the batteries might go or where they are, why did the minister say that they were going to be in Carnarvon?

Mr F. Tudor: If I may, Carnarvon is still the destination but there are alternative destinations. We were approached by somebody who wanted to give us a battery for free to trial on our system. That is what triggered our interest in doing the trial. As we looked at how we would take advantage of that, we were also very cognisant of the processes that we needed to follow to ensure that we opened the opportunity up to a broader market. We have been balancing those two interests. Where we have got to is that Carnarvon is the location. There are potential other locations, which have been ruled out, but maybe subsequently, if the trial proves successful, they will also be a host for future batteries. We are going to trial it, most likely in Carnarvon, unless something comes up through the process, but I do not believe there will be, and a tender will go to the market subject to decision-making processes and normal governance within Horizon.

[9.40 pm]

Mr W.J. JOHNSTON: Is Lishen eligible to be part of that trial, given that as at 24 March it still was not on the list of eligible tenderers?

Mr F. Tudor: I am not sure what the member is referring to now, because we have not, to the best of my knowledge, gone out to the market yet. As I said, we are still subject to putting a business case to the executive within Horizon following our decision-making processes, and from there we will go out to the market.

Dr M.D. NAHAN: What is the member referring to as eligible tenders?

Mr W.J. JOHNSTON: I am referring to the note to Lishen from Horizon of 3 March in which Horizon points out that Lishen was not a registered supplier on the Tenders WA website and it was not clear whether there was actually an Australian company that could be a registered supplier on Tenders WA, because the company is registered as a legal entity only in China.

Dr M.D. NAHAN: The reason is that Lishen will not provide us with any products, action or service in exchange for money. Lishen is a subsidiary of a very large firm and it offered the use without charge of, I think, two very large batteries of approximately two megawatt-hours. That use did not commit us to any payments or to integrating them with our system or to any preferential treatment if we were to purchase or use a battery in the future. I think it is a very good firm, which I think has substantial connections to Western Australia, if I remember correctly, and it is just good use of resources.

Mr W.J. JOHNSTON: Six months after the minister put out his media release, where are the batteries?

Mr F. Tudor: We are following a normal process. We announced the memorandum of understanding, which was important for us, because we have not purchased or entertained the battery before in our systems, so we needed to work with the supplier to be able to configure and specify something that we could then put into the market as a tender. It so happens that we chose to do that with Lishen, but there is no commitment to it, and it will be part of the tender process. It is a fully owned subsidiary of China National Offshore Oil Corporation and

it is a very substantial player in Western Australia and Australia. We are working through the normal process and my assessment would be that it would follow process to register to be fully eligible to participate in the tender.

Mr F.M. LOGAN: I note the announcement that the Liberal Party wants to sell Horizon's transmission and distribution assets in the Pilbara. What dividend was derived from the operations of these assets in 2014, if there was any? Was any profit made? What is the expected profit or dividend in 2015–16; and, what is the budgeted profit or dividend in the forthcoming financial year?

Dr M.D. NAHAN: The assets in question are the transmission and distribution assets owned by Horizon Power in the north west interconnected system. To my knowledge, I do not have a breakdown of the dividend contribution of those specific assets. I might add that Horizon is a heavily subsidised business and it will continue to be so. It does have a dividend, but in reality most of the dividend is paid for by the tariff equalisation contribution, which is paid for by people in the NWIS. Horizon's dividend is largely a mechanism to keep the company focused on profit given its revenue stream. Its overall impact on the state and the TEC is not solely paid for by the state at all. Electricity consumption in the NWIS is substantially cash negative and will remain so. That does not mean that it does not have assets in its set that are very valuable. I do not know whether we can break down the contribution of net proceeds on it. There is another process underway in that Alinta Energy has appealed for access to Horizon's Pilbara grid, as it has a right to do so, and Alinta and Horizon Power are negotiating an arrangement for that. It was set up to do that and it has the right to do so. I have asked Horizon to negotiate in good faith with Alinta on that asset arrangement. Of course, one of the major aims of energy policy for many years has been to get an integrated grid in the Pilbara. Many attempts have been made, as I think the member knows, with great resistance from certain parties.

Mr W.J. JOHNSTON: The Premier.

Dr M.D. NAHAN: No; I think Rio Tinto was the largest inhibitor.

Mr W.J. JOHNSTON: He cancelled the project.

Dr M.D. NAHAN: That was about money. We will not need to take money from the commonwealth to spend on this dis-integration at all. The private sector will do the whole thing. We have a number of things underway. We are seeking common access to the grid and the distribution system via Alinta and maybe others in the future. Also, Horizon's major customers, the bulk of them, are very large producers, so a large amount of power is being provided for the big side of town. Also, there is the issue of eventually ending the system integrated to a common integrated network in the Pilbara. I think it is a major objective of economic development. One of the objectives is to move towards a regulatory seem for Horizon's asset; that needs to be done. We are having discussions with all the players in the Pilbara, including BHP, which is very cooperative, and others to work towards a common regulatory regime for the Pilbara grid. The plan is to try to sell Horizon's assets to a player and that may precipitate others selling their assets to a common party.

Mr F.M. LOGAN: I thank the minister for clarifying how he expects to do that. He has just indicated that the organisation overall does not make a profit and that in fact it is heavily subsidised by the TEC anyway. On page 404 of budget paper No 2, which we are dealing with and which refers to Horizon Power, under the works in progress and completed works, a significant amount of money is listed that has either already been spent or is committed to being spent on things that are clearly identifiable as part of the transmission and distribution assets. For example, in the Pilbara underground power project line item there is \$223 million listed. How is it expected that a sale will be made that will provide anywhere near the return of these investments that are currently committed to and that have been made, given the fact that what is being sold does not make a profit?

Dr M.D. NAHAN: The whole thing is that Horizon has a large amount of assets. Horizon has a large number of isolated systems that lose a lot of money; it is heavily subsidised. Its most profitable asset is indeed in the Pilbara. Just because a business like Horizon loses money substantially overall and it is a very diverse business with many types of customers over a large geographical region does not mean that individual assets do not have net profit. Up until now the asset has been a monopoly asset of Horizon. That will no longer be the case. It will be an open-access facility used at least by Alinta and probably by others, so it is changing its nature. We have invested quite substantially into the Pilbara underground power project—Mr Tudor can discuss how it would be treated—and there are other investments. I am sure there will be other investments needed by other parties in distribution and transmission in the Pilbara, but just because a business does not make a profit overall does not mean that individual assets do not have value. When this asset was a monopoly and regulated by the state, that influenced the pricing of Horizon, but that does not mean that in the future when there is open access, there will not be different pricing arrangements attached to it that have not been achieved. Also, the importance of this is as a building block for an integrated grid in the Pilbara, which the state will not build, but will get third party investors to build and integrate. Maybe Mr Tudor can address the issue of underground power.

[9.50 pm]

Mr F.M. LOGAN: Before Mr Tudor starts answering the question, I understand all that. I understand that we can have a part of the business that is the profitable part of the organisation, but how does the taxpayer get a return on that in that sale, given the amount of money just on this page alone that is being poured into it? Honestly, minister, regardless of how profitable it is, I cannot see how the taxpayer will get a return on anything equivalent to the capital invested on this page alone.

Mr F. Tudor: If I may, I will make a couple of points. At the request of government, I do not think any commitment has been made except to explore the possibility. The member for Cockburn has identified the issues that need to be looked at as we explore the possibility. There will be Horizon Power without the network and the network business itself. We would proceed only if it made sense for the taxpayer and the customers. If having those two individual entities in different hands made sense as a way forward, potentially we would do it. We would treat the network part as a business with a regulated asset base. That would be the normal way of dealing with a business such as that. We would have choices to make about the undergrounding expenditure that has been put in over the past two to three years and we could roll that into the regulated asset base. Government could determine that and that package would be put to the market to test whether there was an appetite for that kind of investment.

One of the things we see as really important is the regulatory regime. Putting that in place will provide more certainty for people to connect to and use the system. The investments that could be made into the future to give rise to the grid, which is the upgrading of the coastal link and completion of the link between Newman and Port Hedland, are potentially multibillion-dollar investments that will require some different approach to funding such as a public–private partnership or private sector access to capital. That bigger picture of the network sale to which the minister referred needs to be brought into the overall equation. The regulatory regime and getting access to private capital will be important for realising that.

Dr M.D. NAHAN: That is a very important point. Firstly, underground power and Western Power’s networks are not included in the regulatory asset base. It is excluded from that. That is why the state contributes to it; the regulator will not allow them to do it because it is not viable. Secondly, we are going to have to come up with a regime with Alinta Energy or a charge for the use of Western Power’s network. We have already entered into that debate with Alinta about the asset base, the rate of return and the charge. I am not party to those discussions, but that process is already underway and it wants to have access to not only the transmission but also the distribution, which includes the undergrounding power.

Mr W.J. JOHNSTON: As I understand it, the minister is saying that the Pilbara underground power project is part of what the government is considering to sell, but that asset was paid for by the local residents in the Pilbara and by royalties for regions, not by Horizon Power. Is the government going to sell an asset that was paid for by the residents?

Dr M.D. NAHAN: I said that if the methodology is followed with Western Power, the underground power is not included in the regulated asset base.

Mr W.J. JOHNSTON: It is in the asset itself, not the base. There is a difference.

Dr M.D. NAHAN: It is not included in the regulated asset base. Therefore, the only thing we are selling is the regulated asset base.

Mr F.M. LOGAN: The transmission lines.

Dr M.D. NAHAN: Yes, that is what we would do. It could, but we have not gone that way yet. Just as with Western Power and the standard treatment of uncommercial assets and regulated assets, we will examine the sale and determine the asset base of that and the cost associated with it. Of course, if we sold the asset and we used it to transmit electrons to customers, those electrons would go through the underground power network. I might add that the reason for undergrounding power was not for individual households to own an asset; it was to get a superior quality asset in the form of undergrounding that avoided cyclones and other impacts. The undergrounding has always been to improve safety, reliability and amenity of the other process, not to build an asset.

Mr B.S. WYATT: I refer to the rollout of smart meters by Horizon Power. How many complaints has Horizon Power received so far in response to the introduction of those meters; and, of those, what percentage related to billing disputes?

Dr M.D. NAHAN: I will make a quick statement on this rollover to advanced meters. It has been a real saving. It has so far achieved its savings because it is providing isolated towns with reliable meters that do not have to be

read, lowering the cost and giving instantaneous feedback if something goes wrong. So far it is working really well.

Mr F. Tudor: If I may, we have deployed 38 000 meters. We have another 10 000 to do to get to 48 000 and finish Karratha within three months; that is within the calendar year within which we promised we would do this work. We have sent out about 58 000 bills. We have had 110 queries, which is 0.2 per cent. We take each and every one of those queries very seriously, but in aggregate it is a very, very small number.

Dr M.D. NAHAN: What did the complaints relate to?

Mr F. Tudor: They related to various things; high bills would probably be part of it. A substantial proportion of that 110 has been in the Kimberley and was particularly related to some errors that we had in meter reading through the month of December last year.

Dr M.D. NAHAN: That was prior to the rollout.

Mr F. Tudor: That was prior to the rollout and it was to do with manual reading. This is the sort of issue that accurate automated meters will avoid in the future. We had an issue with a particular meter reader.

Mr B.S. WYATT: Was that in Broome?

Mr F. Tudor: It was in and around Broome. As soon as we were made aware of that, we notified customers and we have dealt with most of those issues.

Turning to the Pilbara, we have billed 26 000 homes there and 17 complaints have been made—one in Karratha and the other 16 in Hedland. That is about 0.07 per cent. By any measure, compared with what they have done in the eastern states, in aggregate terms this has been extremely well run. We have been at great pains to work very closely with the community and use our people on the ground to deploy the meters and work with any people who have had issues with their meters.

Dr M.D. NAHAN: In the media there have been reports of a large number of complaints. Most of those took place prior to the rollout of the advanced meters and related to failed manual reading of the meters. Indeed, the advanced meters have solved that problem; they have not caused it.

Mr B.S. WYATT: By way of supplementary information, can I get a breakdown of the location of those 38 000 meters, and the 10 000 to go? I do not mean individual addresses; I mean towns and communities.

Mr F. Tudor: Yes. Within three months we will have done all the towns that we service, including all the remote Aboriginal communities and the town reserves. We have regularised the town reserves, but we still serve some of the town reserves through bulk meters.

The CHAIRMAN: Minister, you have 60 seconds to clarify that supplementary information in *Hansard*.

Mr B.S. WYATT: I think I know what I am after.

The CHAIRMAN: Minister, just clarify what you will provide.

Dr M.D. NAHAN: I will provide information on the state of play of the rollout of advanced meters and a breakdown by town or major destination.

Mr B.S. WYATT: Town or community.

[*Supplementary Information No B43.*]

Mr G.M. CASTRILLI: My question is about dividends. Minister, what is Horizon Power's policy on dividend payments, and is Horizon Power borrowing money to comply with government directions?

The CHAIRMAN: That is it, sorry. That completes the examination of Horizon Power. It was a hard-hitting question at the very end there, member; sorry. This committee is adjourned until 9.00 am tomorrow morning. Thank you to the advisers. Members, thank you. We will see you back here bright and fresh tomorrow morning.

Committee adjourned at 10.00 pm