

Horizon Power —

Ms J.M. Freeman, Chairman.

Dr M.D. Nahan, Minister for Energy.

Mr F. Tudor, Managing Director Elect.

Mr D. Tovey, General Manager Corporate Affairs/Company Secretary.

Mr B. Hamilton, General Manager, Corporate Services.

Mr A. Raj, Principal Policy Adviser, Finance, Department of the Premier and Cabinet.

[Witnesses introduced.]

The CHAIRMAN: Member for Cannington.

Mr W.J. JOHNSTON: Can the minister give us an update on behalf of Horizon on the prepaid meters issue and where Horizon is with that problem?

Dr M.D. NAHAN: I will pass to the CEO.

Mr F. Tudor: We have installed in various towns about 1 000 prepaid meters that we have regularised and replaced the power systems on through the Aboriginal remote community program. As the member is probably aware, the code was subsequently changed, which meant that if we are to comply with the code, those meters need to be replaced. We have sought an extension for the replacement of those meters for 12 months and we believe that will be granted. We have a program of work at the moment that is targeting a small community outside Carnarvon where we are testing credit-based meters that also have a prepaid meter facility. We hope to use the experience on that to eventually replace the prepaid meters across the towns that already have them, so there are about 1 000 in question.

Mr W.J. JOHNSTON: Is it the intention to modify practices, but continue to use the meters?

Mr F. Tudor: We are developing meters that comply with the new code, and we are doing that in one small community outside Carnarvon. Once that has been tested, we will apply those new meters to the 1 000 we have deployed that the prepaid meters will replace.

Ms R. SAFFIOTI: I refer to the total investment program for the utility over the forward estimates, on page 749. I understand one significant project—the South Hedland site to transmission works—is dropping away. Why is there such a significant drop in the asset investment program over the forward estimates; and are there any other projects Horizon would like to undertake but have not yet received borrowing approval from Treasury?

Dr M.D. NAHAN: I will pass to the CEO to describe the existing capital works program.

Mr F. Tudor: The capital works program we have at the moment comprises, I guess, two significant categories; one is the asset management program work, which comprises many small projects that we apply to the existing asset base to deal with safety, regulatory and capacity issues on an economic basis. That is running, roughly, at \$40 million through the forward estimates period. Over and above that we have a discrete set of projects we are looking at that include the work we are doing at South Hedland. They include the power station we are building at the Mungullah site in Carnarvon. A number of remote Aboriginal communities include power station developments. As those projects come off, we expect to see a major drop in the overall capital program, which is what we are seeing, and, in due course, other projects may come along to fill that space and be subject to the normal internal processes we go through to receive the sanction for the project and then put it through the government budget process. At this point in time, we follow the normal process. We have an asset management program that has a level of funding that at this time we are comfortable with.

Ms R. SAFFIOTI: Are you not able to provide any other projects that are high on the agenda that will get the go-ahead once Treasury gives the okay?

Dr M.D. NAHAN: There are the temporary generation facilities in Port Hedland, which is approved and being financed. That is a substantial investment.

Ms R. SAFFIOTI: Can the minister explain that one again.

Dr M.D. NAHAN: I will pass to the CEO.

Mr F. Tudor: The minister was referring to the South Hedland temporary generation project, which has been approved and is being executed as we speak. The project is expected to be delivered by the end of this year in time for this coming summer.

Ms R. SAFFIOTI: Is that in the current asset investment program?

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Mr F. Tudor: That is in the current program of works, yes.

The CHAIRMAN: Is there a further question from the member for Cannington?

Dr M.D. NAHAN: Let the CEO describe how it is funded.

Mr F. Tudor: At this stage we have received funding of \$138 million, which supports the development of the site, the connection of the site to existing terminal yards that we have in Hedland, the modification of the terminal yard in Hedland and the longer-term transmission connection, which is also part of that. It also includes the balance of plant we need to put in place on the site to support the temporary generators. The temporary generators will be put in place by the contractor that we have our arrangements with and they will be running four generators on an operating cost basis.

Mr W.J. JOHNSTON: My understanding is—tell me if I am wrong—that those temporary generation facilities are not capital; they are recurrent costs. Is that the case?

Mr F. Tudor: Correct.

Dr M.D. NAHAN: But as the CEO described, the infrastructure around them has incurred substantial capital investment.

Mr W.J. JOHNSTON: That \$138 million includes the \$20.7 million referred to on page 755, so it is the \$117 million on page 749, plus the \$20 million on page 755 to get the \$138 million. Is that the correct understanding?

Dr M.D. NAHAN: I will come back to the member; I do not have page 755 in front of me.

Mr W.J. JOHNSTON: It is at the head of the electricity sector provisions.

Mr F. Tudor: Yes; that is part of the \$138 million.

[5.10 pm]

Ms R. SAFFIOTI: That project is in the current program. Are any other projects likely to come onstream in the next couple of years?

Dr M.D. NAHAN: The CEO will answer.

Mr F. Tudor: The minister has asked that I also talk about how we expect the South Hedland temporary generation project to evolve, which I think would also be relevant.

Ms R. SAFFIOTI: Sure.

Mr F. Tudor: Concurrent with the development of that site and the placement of the temporary generators, we are running an independent power procurement process that is currently out with a select number of bidders. We expect the responses to that process to come back within the month. Then we expect to go through an evaluation and negotiation period and to put ourselves in a position to either sign or not sign power purchase agreements by the end of this year. Part of what we expect to do through that process is utilise a large part of the capital costs that we have incurred in setting up the site and connecting the site to the existing terminal yard with the main power station, so a large portion of that \$138 million has been put in place to support temporary generators initially and then to be moved across to support the development of a permanent power solution that would be run, owned and operated by independent power producers.

Ms R. SAFFIOTI: Will that involve further capital investment?

Mr F. Tudor: It will involve the negotiation of a power purchase agreement with the selected independent power producer.

Mr M.H. TAYLOR: I refer to Horizon Power's asset management plan on page 748 of budget paper No 2. What is being done to increase our understanding of wooden pole condition testing?

Dr M.D. NAHAN: To further the member's interest in wooden poles, I pass over to the CEO.

Mr F. Tudor: I would like to say two things. Our wooden poles—we completed this project about two months ago—are now compliant with Australian standards, so we have replaced and reinforced all the poles that we needed to. Our philosophy over the life cycle has been to replace the wooden poles with steel poles, but we still have wooden poles and we still need to think about how we go about testing them, so we are doing work now in conjunction with Western Power and under the supervision and monitoring of EnergySafety to look at different techniques for the testing of those poles. The traditional technique has been to sound, dig and actually bore into the pole to take a sample and test the integrity of the pole, which is not always good with a natural material because we have tested one area but another part of the pole could be deteriorated in some way. So we are looking at a radioactive technique and an ultrasonic technique to trial in the field over the next 12 months. If that

proves successful and we can satisfy ourselves and EnergySafety that those techniques can be used, we would apply both those techniques in the field. A move away from time-based replacement or reinforcement to a condition-based approach to managing wooden poles, we believe is value-adding. Certainly, the larger the number of poles, the more value we will get from applying something like that. It would mean that we would test the pole and not simply replace it on its birthday; if it still had integrity and another 10 years of life, we would leave it.

Dr M.D. NAHAN: Just to reiterate, what Horizon Power is doing and what we discussed earlier with Western Power is a major investment in the transmission and distribution systems in Western Australia. It is long overdue due to a long period of underinvestment in it and we are trying to catch up. We are doing that, but we have a ways to go.

Mr M.H. TAYLOR: Are the radioactive and ultrasonic methodologies used elsewhere successfully?

Mr F. Tudor: Yes. We did some work to look at all the testing techniques and did some filtering of those using universities—that is, verifying the results through university work that looked at the physical integrity of the material that was being tested. We ended up using those two techniques and then taking them forward into the field. But, yes, those techniques are used elsewhere, with varying degrees of success however.

Mr F.M. LOGAN: I refer to the Pilbara underground power project and the total cost of \$129 million. The asset investment program highlights that the project will provide underground networks in the areas of Karratha, South Hedland, Wedgefield, Onslow and Roebourne. Firstly, once the project is completed, how much of the network across those five towns that is currently above ground will be below ground? Secondly, the royalties for regions program funded \$100 million—75 per cent—in equity in the underground power project and the other 25 per cent came from local government authorities. The line item for the project's total cost refers to \$129.7 million, so I assume that the other \$29.7 million came from the local government authorities. That is a lot of money for the very small local government authorities up there. Did that come from their own resources or was that simply another contribution from royalties for regions?

Dr M.D. NAHAN: I pass over to the CEO.

Mr F. Tudor: Perhaps the overall numbers are what the member has referred to. I will take a number of the member's questions separately. How much of the undergrounding work that was originally envisaged would we expect to complete with that level of funding? Overall about 60 per cent, maybe a little more. Probably about 18 months ago, we went through a rethink on that project and recalculated the estimates. We said that to complete the original scope of work would take \$230 million. We have now done a further 18 months' work, which has substantiated that number as pretty accurate and we are still holding by that. So we are currently working to the budget of \$130 million and we expect to complete 60 per cent of the original scope. That will include all of Hedland, which includes South Hedland and Wedgefield, by this calendar year, so that should be ready for the cyclone season. We will have completed a number of the principal suburbs in Karratha, but we will still have some of Karratha to do, and we will still have Roebourne and Onslow to do. We have looked at the business case for taking the investment forward and have put that through the normal budget process. We believe that there is a substantial case to continue the work to complete all the original scope, but our methodology has changed. We intend to do that work over a longer period and take quite a different approach from what was originally envisaged four years ago when the project started.

Mr F.M. LOGAN: I want to clarify what Mr Tudor just told the committee. Once the project expenditure of \$130 million is finished, 60 per cent of the existing above ground network would be underground, but the areas that would still be missing from that project would be Roebourne?

Mr F. Tudor: Correct.

Mr F.M. LOGAN: Parts of Karratha or —

Mr F. Tudor: Parts of Karratha.

Mr F.M. LOGAN: And Onslow.

Mr F. Tudor: Onslow.

Mr F.M. LOGAN: To complete that would effectively cost another \$100 million?

Mr F. Tudor: Correct.

Mr F.M. LOGAN: My final question again relates to this. Of course, other areas in the north west and the north are affected by cyclones. Is there an intention to go back to royalties for regions and seek funding for

undergrounding, if only in part and not all, the towns of Broome, Derby, Kununurra and Wyndham, or are the chances of getting that unlikely because it is a Labor-held seat?

Mr F. Tudor: Perhaps we can split the answer in two. I can say that we have put a case up for continuing the work in the Pilbara to complete that scope. That would take another two to three years, so I think the question is relevant only once we get to the end of that piece of work. What I would say is that in the regional towns where we see that we are replacing poles, we will take the opportunity to talk to the local stakeholders, as we have done most recently in Broome. We came to a shared cost arrangement so that instead of replacing some of the poles overhead in Chinatown, for example, we have done the work underground. The minister within the next week will go up to celebrate that piece of work that has been completed in partnership with the local community. So we take the opportunity to do that where we are doing relevant pieces of work and the shire and the local development commission or whomever may be involved has a desire to partner with us to replace it with undergrounding as opposed to overgrounding.

[5.20 pm]

Mr F.M. LOGAN: The likelihood is that cyclones will impact on towns in the Kimberley more than in the Pilbara. This is not to say that the Pilbara does not get cyclones, because it does, but the history of cyclonic activity in the Kimberley is quite severe. If the scoping work has been done on those areas, what is the minister's response to the scoping work for Broome, Derby, Kununurra and Wyndham and the cost of undergrounding power in those towns?

Mr F. Tudor: I do not have the cost of that for those towns at the moment. I would say that all of the towns up there, through the Kimberley and the Pilbara, are subjected to cyclones. I would not say that the Kimberley is more significantly impacted than the Pilbara. What I can say is that there is a lot of activity going on in the Pilbara and that the work being done is vulnerable to cyclones, and therefore the Pilbara has a particular need at this point in time. I think the focus on the Pilbara is probably the right one.

Mr W.J. JOHNSTON: As I understand it, the \$29-odd million that is coming from local governments was the amount that was originally budgeted for. Given that the original scope of the project will not be completed, does the minister plan to ask local governments to make a further contribution to the balance of the scope?

Mr F. Tudor: We have locked away an agreement with the Town of Port Hedland and that has already been disseminated to the ratepayers. I think everybody is reasonably comfortable with the progress of the work. We are in discussions with the Shire of Roebourne to see whether it will work through the new costs; that is a work in progress.

Mr D.C. NALDER: I have a further question on the wooden poles. I refer to page 748 of budget paper No 2. What has Horizon Power done to implement the standing committee's recommendations on unassisted pole failure rates?

Mr F. Tudor: We have had a program of work over the last five to six years that has dealt with all of our issues. If I can repeat, we are now fully compliant with Australian standards. All of our wooden poles, to the best of our knowledge, comply with Australian standards. The most recent part of that project was to replace 2 229 poles and we reinforced 6 000. This was principally done in the Esperance area in a joint venture with Transfield. The last piece of that work was completed about two months ago. We are now compliant and we have seen our unassisted pole failure rate come down. Two years ago it was probably about two or 2.5, but now we are down to 1.29, just above one, and we think that is acceptable and getting fairly consistent with the set of numbers expected of a wooden pole fleet that is in good order.

Mr W.J. JOHNSTON: The minister says that negotiations for outstanding claims have been settled with the main contractor for the Karratha temporary generation project. Can the minister describe what the dispute was with the contractor and how long it will be before the minister expects Karratha to have a permanent power generation source?

Mr F. Tudor: That project was delivered on budget and in time for summer. The time from when we physically started work to completion was a period of about six months. Although we say that it is temporary, if the member went and looked at the facility, he would see that it looks pretty permanent, and from an engineering point of view it is a nice piece of work. The final bits and pieces that we closed out with the contract were really a punch list of items; they were nothing extraordinary but they were outstanding and took a little bit of time to close. They have now been closed out to the satisfaction of both the contractor and Horizon Power, and the project has been delivered within budget.

We have an interconnected system that links Karratha to Port Hedland, so really the next tranche of permanent generation is the one referred to earlier, with the South Hedland temporary generator and then potentially moving a good portion of that across to support a permanent generator from the beginning of 2016.

Mr W.J. JOHNSTON: Reference was made to this looking like a pretty permanent solution, but I understand that those generators are actually leased to another operator at the end of the contract with Horizon and that those generators cannot be kept at the end of the contract.

Mr F. Tudor: There are two aspects to this. The Karratha temporary generator is owned by Horizon, so that can stay there and there are no issues around leasing or having to move it prematurely. The generator that we are building at South Hedland will be put in place and will bridge us to the point at which the independent power producer starts, and we have options for extending that if we need to. If it turns out that we are not happy with the prices that we get through the IPP process, there would absolutely nothing wrong with us extending the temporary generators there in the long term if it makes economic sense at the time. Quite a bit of flexibility and optionality has been built into the way that we progress in South Hedland.

Mr W.J. JOHNSTON: Is there a particular reason that Horizon did not seek a permanent solution because, as has been said, the permanent and temporary generators actually look identical; it is just a matter of how they are financed. I am wondering why the decision was made to undertake a temporary project and then a permanent project rather than just undertake a permanent project.

Mr F. Tudor: I think it has been a philosophy of squeezing all the capacity that we can get and contract for in the interconnected system that exists in the Pilbara. We have contracted—I think this is on the public record—with Alinta at Hedland. We have access to Alinta's capacity, but gradually that will be taken up by BHP Billiton as it expands its iron ore operations. The best solution for Horizon was to put in a modular kit, as we have done, and as capacity was taken away by BHP's expansion and its greater appetite for capacity at Hedland, to replace that. We have done that through a small temporary generator at Karratha and we are now doing that through the flexibility of putting in as many machines as we need to at different times at South Hedland. Initially, we will start with 60 megawatts of installed capacity, graded for the conditions. If we need to put in some more, we have the option to do that, and then we can move across to the permanent generator.

Mr J. NORBERGER: I refer to page 749 of budget paper No 2 and the funding allocation of \$41.8 million in 2013–14 provided for safety, reliability and quality of supply, listed under the subheading "Asset Management Plan" for customers in regional Western Australia. How reliable are regional power supplies?

Mr F. Tudor: The Safety Alert Database and Information Exchange and safety numbers that apply to us are the same that apply to the south west interconnected system. We adjust for cyclonic weather across our portfolio, but even if we did not adjust for cyclonic weather last year, we are nearly compliant, and if the adjustment for cyclonic weather is made and the impact that that has, we are well and truly compliant with safety and the SADIE that we are obliged to keep tabs on.

[5.30 pm]

Ms R. SAFFIOTI: This question may be similar to the previous question as I did not quite catch it. My question refers to customers experiencing interruptions during the year and how Horizon is trending on that figure. As I understand the 2011–12 annual report, customers experienced on average 3.15 interruptions during the year. Has there been any significant interruption or issue that would throw that number out for 2012–13?

Mr F. Tudor: Across the portfolio, no, but we are dealing with certain issues that we have in Onslow.

Ms R. SAFFIOTI: Pardon?

Mr F. Tudor: In aggregate, no, we are compliant. We must account for the weather adjustment, which I talked about. But we certainly do in our towns. We have nearly 40 of them and they are all subject to different growth patterns and different issues which are local. In the case of Onslow, we have a very small power station that has been subjected to quite some significant load increases as a result of the Macedon project and the Wheatstone project. The state has negotiated an agreement with Chevron to build a power station there, but that will not start until 2016, and so we have issues to manage in the meantime and we are doing that. But we have had some reliability issues there. We always have reliability issues from time to time in Kununurra. It is a very extensive network and it is subject to weather, lightning, and bats that fly into powerlines and cause interruptions; so those sorts of things continue.

Mr W.J. JOHNSTON: My question on the Onslow power station is: who will actually own the station when it is complete?

Mr F. Tudor: It is a good example, I think, of the state being on the front foot with its agencies. There was good cooperation with the Department of State Development and ourselves and, I think, the Water Corporation on a

number of different fronts in terms of the impact that the significant Wheatstone project would have on the town; and the state agreement that was put in place on the power side covered the provision of a power station. Chevron will build the power station. We are liaising with it on design to make sure that it meets our design requirements, and then it will be transferred under the provisions in the state agreement so that it is owned and operated by Horizon Power.

Mr F.M. LOGAN: I have a further question on the Onslow power station. What is the capacity of that power station and how much power will Horizon take from that power station once it is completed? I ask that to try to work out, assuming it is a fairly significant power station, why that source of energy is not being used to put into the grid, particularly if Horizon has a financial interest in it, rather than go to the expenditure of the Port Hedland power station.

Dr M.D. NAHAN: The member is referring to Onslow.

Mr F.M. LOGAN: Onslow, okay, because they will all be ultimately connected; is that correct?

Dr M.D. NAHAN: I will let the CEO answer that.

Mr F. Tudor: The power station is nine megawatts in capacity. The historic load in Onslow before the Macedon and Wheatstone projects had an impact was probably about one to two megawatts; so it is a very, very significant increase. Could the member remind me of the second part of his question?

Mr F.M. LOGAN: It is okay. If it is only nine megawatts, the other part of the question is irrelevant.

Mr F. Tudor: Okay. So it is small, and if it was about the grid connection, Onslow is not connected to the north west grid.

Mr F.M. LOGAN: No, it is not in the interconnected grid.

Mr M.H. TAYLOR: I refer to pages 748 and 749 in volume 2 of budget paper No 2 and the Carnarvon–Mungullah power station project. Why is the Mungullah power station not yet operational?

Dr M.D. NAHAN: I will pass that through to the CEO.

Mr F. Tudor: We looked at some of the operational issues that we would face with the power station. The original plan would have had us run the old power station and the new power station concurrently. We determined that some technical risks were involved that we did not want to incur. In the project it was always anticipated that we would put a final phase on the new power station and then move across to sole operation from the new power station. We had sufficient budget to actually bring that phase forward, so that the scope of the project has increased in the way it is now being managed. The time has gone out a bit because of that and a number of other factors, but we are still expecting it to be delivered within the original scope. And then operationally, once that power station is delivered, we will move all the load to the new power station and we will not rely on the old power station. So we will avoid concurrent operation of the two power stations, and from a technical and reliability point of view, that was deemed to be the more acceptable path.

Mr F.M. LOGAN: Will Horizon still purchase its gas requirements through the new merged Verve–Synergy operation? If so, will the merger of the new organisation under Synergy have any impact on the future gas contracts of Horizon?

Dr M.D. NAHAN: Horizon does a number of gas spots with Synergy already, as the member knows. It entered the market to look for additional supplies of gas to replace its North West Shelf contracts, and others I suppose. We have decided that Synergy–Verve will enter into negotiations with the Gorgon project joint venturers on behalf of themselves and Horizon. We did that as a policy of aggregating state gas demand through one agency to effect more competitive prices for gas purchasers. One of the recommendations from the gas price inquiry that we undertook in the last government was to look at aggregating the purchase of gas as a countervailing measure amongst other reasons—if we aggregate we get better prices—and also to have an offset against eclectic selling powers of, in this case, the Gorgon project. So Horizon did enter the market. We have decided that Synergy–Verve will go in to purchase gas on behalf of Horizon. I might add that there is a lot of liquidity in the gas market right now for a variety of reasons, and Synergy–Verve are in a very comfortable position vis-a-vis their own sources of demand, and Horizon is going forward but it will enter into negotiation with Chevron, or the Gorgon joint venture, to purchase another tranche of gas.

Mr F.M. LOGAN: I have a further question that relates again to those gas contracts. When incidents occur—Varanus being one and the fire on the Woodside LNG train 5 project being another—and there are interruptions to gas supplies, what measures has Horizon taken, given those experiences, to avoid the possibility of seeking emergency gas supplies? I ask that particularly given that Verve and Synergy, or the combined entity, will look after themselves first, quite rightly too in terms of their suppliers of gas, and Horizon as a customer of Verve will be down the pecking order should there be an emergency interruption to the gas supplies.

Extract from Hansard

[ASSEMBLY — Thursday, 22 August 2013]

p580b-589a

Chairman; Mr Bill Johnston; Dr Mike Nahan; Ms Rita Saffioti; Mr Matt Taylor; Mr Fran Logan; Mr Dean Nalder

Dr M.D. NAHAN: Synergy and Verve will not treat Horizon as just a customer. They are an aggregator of gas on behalf of the state. They do have some commercial responsibilities for themselves, we understand that. But for Horizon in the case of a serious outage, which would probably naturally affect Synergy and Verve, various protocols were put in place after the Varanus incident for rationing and pricing gas. So, firstly, Synergy and Verve will not treat Horizon as a second-order customer; there will be understandings between them. We have also built the gas storage facility, as the member knows, and I think we are about ready to install gas. I am not sure whether that will help Horizon, but —

Mr F.M. LOGAN: It will not help Horizon; it goes the other way.

[5.40 pm]

Dr M.D. NAHAN: It will help Verve and Synergy and then have a knock-on effect on Horizon. The system is integrated. As to other aspects Horizon has put in place for security, I defer to the CEO.

Mr F. Tudor: We looked at making sure that the Karratha temporary generator was dual fired. We introduced dual-fired capacity on that. I should say that we have gone for diesel in the short term. We will look at whether that needs to be supplemented by gas. We have gas at Port Hedland and gas for the outgoing machines. We continue to monitor that as a decision. The Karratha temporary generator was put in with diesel for the time being. It is a peaking plant. With the temporary generators and the permanent solution at Port Hedland, we will look at the dual-fired option there and consider that on its merits.

Mr W.J. JOHNSTON: I have a couple of questions arising from that. Is the Port Hedland temporary solution intended to burn diesel?

Mr F. Tudor: No, that is gas fired. Karratha is diesel and the ones at Port Hedland are gas.

Mr W.J. JOHNSTON: Does Horizon choose to run it on diesel or does it not have any more gas?

Mr F. Tudor: Diesel was chosen because it was expedient and it is a peaking plant that we use very rarely during the summer months. On a cost–value basis, it was the right thing to do. If we end up having to use that machine longer, we will reassess the economics, and it may make sense to make it gas fired.

Mr W.J. JOHNSTON: Is the board of Horizon satisfied that the government did not sign off on the contract to sign with the Gorgon partners?

Mr F. Tudor: We are comfortable now that we are working on behalf of the state with Synergy and Verve to understand the full position of the state’s requirements and then allowing Verve and Synergy to be in the market on behalf of the state.

Mr W.J. JOHNSTON: Is the board of Horizon satisfied that the government refused to sign off on its deal?

Dr M.D. NAHAN: No, the word is not “refused”. The government decided that it was better for the Synergy and Verve merger to enter into negotiating another tranche of gas for Horizon and other purposes. It was not a refusal. Yes, the board is satisfied with that. I might add that the board has been very satisfied with a range of gas swaps between Synergy and Verve that have been going on for a long time. There is a great deal of liquidity in the gas market out there for a variety of reasons, including the slow uptake of CITIC Pacific Mining that is putting gas on the market.

Mr W.J. JOHNSTON: Is there a concern that other users may take that tranche of gas from Gorgon for another contract and no additional gas would be available to the state from Gorgon?

Dr M.D. NAHAN: We are confident that we will effect a good contract with Gorgon—I will not talk about the details of it—from the Gorgon project’s first phase of 150 terajoules or the second phase or Wheatstone. We are comfortable with the position of Synergy–Verve and Horizon in the gas market going forward.

Mr D.C. NALDER: I refer to page 749 of budget paper No 2 and Horizon Power’s major projects. Could the minister provide an update on the Murchison radio observatory power station project?

Dr M.D. NAHAN: The Murchison radio observatory power station is a very important project for science in the state. It is a major investment by this government, the commonwealth government and the private sector. I pass to the CEO for the details.

Mr F. Tudor: We are working in partnership with CSIRO to develop the right concept for that project. When it started, the state did not know that it would be able to host a significant portion of the project. We are now taking account of that to see whether the original design is still appropriate or whether it could be modified to be suitable for supplying at least part of the capacity for the major project. Because of the radio quiet requirements for that project, we have tested the market, got some feedback and we are assessing what that might mean in terms of alternatives. At this stage, we are yet to physically sign any contracts. We are still developing the concept in view of that information with CSIRO.

Mr W.J. JOHNSTON: How many Aboriginal communities remain without regularised power?

Mr F. Tudor: In anticipation of that question —

Mr W.J. JOHNSTON: I asked it last year, and I will ask it again next year.

Mr F. Tudor: — I have a list. I could attempt to read out the list.

Mr W.J. JOHNSTON: I am happy for it to be provided as supplementary information.

[*Supplementary Information No B41.*]

Dr M.D. NAHAN: Could we clarify the question?

Mr W.J. JOHNSTON: I am happy to clarify it. How many Aboriginal communities remain without regularised power?

Mr F. Tudor: If it is just the number, 16 remain to be regularised.

Mr W.J. JOHNSTON: Could the CEO name them, please?

Mr F. Tudor: I am happy to do that.

Ms R. SAFFIOTI: My question relates to the operations of Horizon, and in particular the efficiency initiatives Horizon was asked to deliver two budgets ago. Is the five per cent efficiency dividend still being applied to the utility? What measures are being used to deliver that efficiency dividend back to government?

Mr F. Tudor: When I came into the chair roughly two years ago, the board's requirement was to undergo a restructuring, which we completed. The objective of that restructuring was, in part, to impose a 15 per cent efficiency drive on the business, which we have been delivering to. Over the last couple of years, that has allowed us to meet the efficiency dividends and the government trading enterprise dividends that government has also imposed on the organisation. We are not satisfied with that, and we are working with the minister and the board to look at further efficiencies that we can make in the business.

Ms R. SAFFIOTI: What sorts of measures were implemented to achieve those efficiencies?

Mr F. Tudor: It was a broad range of measures. I could take any number of examples. They include the way we approach the end-to-end forecasting, the way that we link up with towns, and the way we run our models to come up with energy and demand forecasts. Those are examples of processes that we streamlined and that yielded benefits. We also looked at travel and all the normal sorts of things, such as reliance on consultants and contractors, to deliver the efficiency benefits.

Ms R. SAFFIOTI: Is it possible, by way of supplementary information, to have a breakdown of the value of some of those initiatives just outlined?

Mr F. Tudor: Yes, we can do that.

[*Supplementary Information No B42.*]

Dr M.D. NAHAN: The member wants quantification of some of the efficiency measures put in place over the past few years by Horizon Power.

Ms R. SAFFIOTI: I would like a list and the value of that.

Mr W.J. JOHNSTON: I have another question that I am sure the CEO has written on his piece of paper. Could the CEO advise us what the full-time equivalent positions headcount was on 30 June 2013 and what the break-up was between direct employees and contractors?

[5.50 pm]

Mr F. Tudor: I can be more precise about the number of full-time employees, but it is just over 500, I think. We do not have all those positions filled, so less than that number of people are in those FTE positions. We also have a number of contractors working on our projects and at the moment there is about \$200 million worth of capital works on the program. That will continue for a further year until those projects are delivered and that variable workforce will then move away.

Mr W.J. JOHNSTON: Could the exact numbers be provided?

Dr M.D. NAHAN: Yes; Horizon Power will provide the number of FTEs as of 30 June as supplementary information. The CEO emphasised the problem with the number of contractors, which is difficult to provide given the construction workforce.

Mr W.J. JOHNSTON: Sure, but the number is the number.

Dr M.D. NAHAN: When the member asked the same question about some other government trading enterprises the answer given included the contractor workforce in the firm itself rather than on projects.

Mr W.J. JOHNSTON: I am happy for that, minister. If a person is doing work for the enterprise on a construction project, that is a different issue than having contractors working for the company. This is the same information I have sought in previous years.

[Supplementary Information No B43.]

Mr F.M. LOGAN: The layout of the reference to “South Hedland site and transmission works” under the Asset Investment Program” on page 748 and 749 of budget paper No 3 is a bit confusing. I know part of my concern has been addressed in a response to a question by the member for Cannington, but I am just trying to get my head around how things are laid out. The total investment for the project is expected to be \$138 million. Although the figure is \$138 million, the budget papers state that Horizon is forecast to invest \$74.3 million in 2013–14 and has requested the release of \$20.7 million. It is a 67-megawatt gas power station and Forge Group Power has been awarded the contract to undertake the construction, operation and maintenance. It is then stated that the site is a temporary generation solution intended to be used for a permanent solution provided by an independent power producer under a process overseen by the Pilbara Power Procurement Board. What is it that Forge Group has won? The budget papers state that Forge has won a contract for the construction, operation and maintenance of the new power station, and yet that is a temporary solution. Further to that, why were we not able to procure power from the existing Alinta power station?

Mr F. Tudor: I will answer the question in reverse. We are procuring all the excess power capacity that Alinta has. That is gradually diminishing as BHP’s iron ore operations expand. As far as the Forge contract is concerned, it is for \$90 million-odd of the total amount and for that it is building the balance of plants and the preparation of the site, and doing the internal modifications and transmission link. It is also installing four temporary generators that we anticipate will be there for two years, but could be there longer. Those machines will be replaced with permanent generators and most of the physical kit I referred to, the balance of the plant, four transmission lines and four terminal modifications will be used to support the permanent generators once they are installed.

Mr F.M. LOGAN: If a new plant is being constructed and units are being installed, how come they are temporary? Why are those gas power plants temporary? Why will they only be there for two years to be replaced with those of another IPP?

Mr F. Tudor: Because it is probably more cost-effective to go to larger machines and hopefully build a combined cycle-power station with significant efficiency conversion benefits over the temporary generators we have in place.

Mr F.M. LOGAN: Is the Forge Group contract simply for the temporary period—the construction of the temporary operation of the power station until is taken over by another IPP with a larger plant?

Mr F. Tudor: Yes, correct.

Dr M.D. NAHAN: As I understand, the reason for the temporary plant, as the CEO indicated, is to try to optimise the use of the existing facilities in the area, including Alinta. That came onstream because the outer harbour of BHP’s facility was created and put off, so we used that power. There was also the issue of the scale of the permanent generator and how it relates to additional load in the area from new projects such as those of FMG and Roy Hill, which are taking some time to ascertain.

Mr F.M. LOGAN: Although the reference in the budget paper to \$138 million is for the total investment, is that total investment for the installation of the machines by the new IPP or will it be more than that?

Mr F. Tudor: That remains to be seen through the proposals we receive and on what basis the design is prepared. There has been design flexibility left to the IPPs for them to be able to choose different sets of machines and configurations—there is Siemens, General Electric and any number of suppliers of turbines that have their own individual requirements. The IPPs will bring their own innovation to the project and we hope that they will utilise as much as they can and optimise development of the site, but this is why we have gone to the market.

Mr F.M. LOGAN: I am trying to ascertain the exact scale of the project, how much it will cost and the future of it. Is the \$138 million allocated to the project for the Forge Group contract, construction of the site, transmission connections and temporary units—that is it—and in two years’ time there will be more money expended for an IPP?

Dr M.D. NAHAN: Regarding the IPP, we went out with a number of options that came through. It might be that the IPP builds the plant and tolls our gas or somebody else’s through it. It might just be an arrangement that does

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not incur any additional expenditure by the state. We have put the pad and the connections down to facilitate that process, but we cannot answer the member's question until we get the IPP response in.

Mr W.J. JOHNSTON: Does the \$117 million plus the \$21 million not include a power station?

Dr M.D. NAHAN: No, it does not include a permanent power station.

Mr W.J. JOHNSTON: It does not include either the temporary or the permanent power station. It does not include the temporary one because that is through operational expenditure.

Mr F. Tudor: Correct.

Mr W.J. JOHNSTON: It does not include the permanent one because that will be done by an IPP in the future. So the \$138 million is just for the infrastructure.

Dr M.D. NAHAN: Yes, exactly.

Mr W.J. JOHNSTON: That is a lot of money; I did not realise!

Dr M.D. NAHAN: The member is right.

Mr W.J. JOHNSTON: What was the actual expenditure for Horizon on fringe benefits tax for 2012–13? How much of that was in respect to entertainment? How much was the underlying expenditure that attracted the entertainment FBT; and, what are the details of that expenditure?

Dr M.D. NAHAN: As per the identical questions about one of the other government trading enterprises, I think we will have to take it on notice.

Mr W.J. JOHNSTON: If some internal audit procedure or whatever has not been done and only the expected actual expenditure is given, I will not complain about that, but as much as possible I would like the actual expenditures.

[Supplementary Information No B44.]

The CHAIRMAN: That completes the examination of the Horizon Power authority.

Meeting suspended from 6.00 to 7.00 pm