

Horizon Power —

Mr P. Abetz, Chairman.

Dr M.D. Nahan, Minister for Energy.

Mr F. Tudor, Acting Chief Executive Officer.

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

Mr B. Hamilton, General Manager, Commercial Services and Finance.

The CHAIRMAN: 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, 19 June 2015. 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.

[Witnesses introduced.]

The CHAIRMAN: The member for Cannington.

Mr W.J. JOHNSTON: I have a couple of questions about the Pilbara underground power project, specifically in Karratha. Can Horizon tell us how many times it has cut a Telstra line during the work it is doing? If it has done that, I assume it has had to make good the damage. Is Horizon aware of how much it has cost to make good the Telstra lines and has any compensation been paid to owners of businesses who have had a Telstra line severed?

Dr M.D. NAHAN: Does the member have another question on the same theme?

Mr W.J. JOHNSTON: I have another question, not on that issue but related to the Pilbara underground power project, which I will ask now. As everyone knows, there was a lot of controversy regarding the billing that has gone out to residents and small businesses but I want to ask specifically about small businesses. How many of the invoices that were sent to small businesses in Karratha have been varied once there has been some discussion or negotiation? Does Horizon know how many of those bills have been varied and what is the aggregate change in those variations?

Dr M.D. NAHAN: I pass the question to Mr Tudor.

Mr F. Tudor: I cannot give an answer on how many connections were severed but one of the issues we face is that not even Telstra knows exactly where the cables are. When we have gone through that process we have worked pretty closely with Telstra. We will take on notice exactly how many there have been.

[*Supplementary Information No B28.*]

Dr M.D. NAHAN: We will provide the number of times in the Pilbara underground power process in Karratha that the contractor or Horizon has disrupted or cut a Telstra connection.

Mr W.J. JOHNSTON: There are two other aspects to that question: Does Horizon know how much it costs to make good the damage? Has any compensation been paid by Horizon to businesses because of disruption to phones?

Mr F. Tudor: These numbers may be rough but I think less than about four per cent of 8 000 notices sent out through the City of Karratha may have had issues. I think a process has been put in place, particularly for the small to medium enterprise sector that has allowed us to go back and check usage and correct notices as we have needed to. I do not have offhand the exact number the member asked for, so I will take it on notice.

[*Supplementary Information No B29.*]

Mr W.J. JOHNSTON: The question is: how many bills for small businesses have been varied and what was the total quantum of the difference between those bills? I am not after the individual ones but the aggregate figure.

Dr M.D. NAHAN: Horizon Power will clarify what the variations were for because there could be a variety of reasons.

Mr W.J. JOHNSTON: I am happy to have that information.

Dr M.D. NAHAN: Horizon Power will provide the information on how many small business bills were varied in respect of the Pilbara underground power process in Karratha.

Mr W.J. JOHNSTON: I also want the figure for the total variation and the minister suggested Horizon might be able to explain why.

Dr M.D. NAHAN: Yes; there will be numerous reasons for variation.

The CHAIRMAN: I think that is good enough for the record.

Dr G.G. JACOBS: I refer to the midwest and Norseman network augmentation. Why did the midwest power purchase agreement involve Norseman and the midwest towns? They seem to be strange bedfellows. They are a long way from each other. Obviously, distance might not be relevant, geographically, but I want to know about that combination because obviously Horizon Power supplies Esperance and a very large 3 000-kilometre transmission, and Norseman is just 200 kays north of Esperance. Is it my understanding that Horizon Power will build a new power station, recognising that the town of Norseman's power has been previously generated by Central Norseman Gold in its power station; and what is the cost of the new power station?

[9.40 pm]

Dr M.D. NAHAN: Horizon has numerous isolated systems, including the facilities in Norseman, and one of the objectives is to renegotiate those, to bring in new contractors. Most of them were privately provided. One of the objectives was to get more efficient machines in there, but most importantly it was to allow the contract —

Dr G.G. JACOBS: I am sorry, I cannot hear the minister. Opposition members might not think that the question is important, but I do, and I cannot hear the answer because of them talking.

The CHAIRMAN: Members, let us just keep our voices down.

Dr M.D. NAHAN: Just in context, one of the objectives Horizon has been pursuing is renegotiating its isolated grid system contracts, to bring in new contractors, which it has done to a large extent, and make sure the contracts allow for reduction in the quantity uptake, so that we can allow photovoltaics to come in and be commercially competitive. In the past, contracts were entered into with a certain minimum take, and if photovoltaics came into the system there was no advantage for that to happen.

Dr G.G. JACOBS: So it was economies of scale, basically.

Dr M.D. NAHAN: No, it basically reduced the electricity generated by gas sources to allow photovoltaics to take up the space. Mr Tudor can explain about the Norseman system.

Mr F. Tudor: We were dealing with two issues. One was that we had a suite of midwest towns where we needed to renew the contract with the incumbent independent power provider, a company called Energy Developments Ltd. We were in negotiations with that company, and we felt we could get a better deal by going to the market, and we ultimately did that, and in parallel we were dealing with the Norseman issue, which was going from the goldmine itself to Contract Power, which actually runs the power station there. We decided to combine it and go into the market with a portfolio of six stations to get a better deal, and that is what we have done. With that, we have contracted a company called Contract Power to build the power stations, and it has commissioned Wiluna, Yalgoo, Cue, Meekatharra and Sandstone, and in Mount Magnet we are working through an alternative arrangement that will be commissioned in due course, but we still have secure capacity. In Norseman, we have not built the power station yet, but we are working out with Contract Power what we should do—whether the existing power station, which is far in excess of the requirements we need for the town, will suffice in the long term or whether we need to do something different. We are working through that option analysis at the moment.

Dr G.G. JACOBS: There was an issue with the future viability of the mine. I suggest that that might have been at least one of the factors. Is the plan to work with Central Norseman to use its power station in the future—we are only talking about half a megawatt for Norseman, with a population of 850—or is there a plan to build a new station?

Mr F. Tudor: It will be the most cost-effective option that we can work up with Central Norseman and Contract Power, which sits there as the IPP that has provided us with the power station. Whatever turns out to be the most cost-effective option is the one that we will adopt. By going down the path we have taken for the other power stations, we have saved \$3.5 million a year across those other six towns, by electing to go to the market and getting Contract Power to come in and build, operate and maintain power stations for the next 10 years, as opposed to the arrangement that we had. As the minister has indicated, we also have the flexibility to retire diesel generators and put in place photovoltaics as the economics turn out to justify doing that. The other thing that we have managed to do through that process is to avoid finance lease and therefore a balance sheet liability that

would have hit state debt to the tune of \$40 million. That has been avoided through the risk allocation process that we have put into the contract, which allows the IPP to take the risk associated with the diesel generators and retire them as we dictate and take them elsewhere. The all-up arrangement there has been a very cost-effective outcome that has minimised the impact on state debt. We will be using exactly that philosophy to do what we need to do in Norseman.

Dr G.G. JACOBS: Is one of those aims for cost-effectiveness to work in combination with the mine and the mining company on a viable generation unit in the future? The second would be to maybe consider some gas-powered generation component, understanding that the gas goes past the door, because it comes to Esperance from Kalgoorlie and therefore from the North West Shelf.

Mr F. Tudor: The member can be assured that we will be looking at all those options.

Mr F.M. LOGAN: Horizon claims operational savings of \$175 million in the 2014–15 budget, following the commencement of this strategic review program. There is a series of reasons why it claims that achievement. Some of those reasons refer to possibly changing staffing levels. Can the minister advise whether there was any change to the staffing levels at Horizon Power as a result of the strategic review program? How did the program reduce the cost of providing power, and what was the value of that reduction?

Mr F. Tudor: We started the strategic review in the middle of 2013, when we announced about 240 positions that would be made redundant through the process. That is the announcement that we made. Some of those may have been vacant roles, and we allowed staff to transition out of the business in two tranches. One was at the end of 2013 and the other in June 2014. They were the big changes we made to the organisation as we went from the organisation we had to a very different looking organisation in the way we set up accountabilities and the structure. Since June 2014 we have been prosecuting a number of different initiatives for driving costs, but more through process efficiencies such as advanced meters for automating a process that is otherwise very time and resource intensive. We are still driving a number of initiatives across the business to deliver the outcome. We are not at the point at which we have achieved that outcome, but we are well on the way to achieving it.

Dr M.D. NAHAN: As the member well knows, although the objective was to have the headquarters of Horizon Power in Karratha, it was effectively in Bentley. Also, during that period there was a large ramp-up of investment from the time of the previous government to that period, and that had levelled off for a variety of reasons, mainly contracting out the activity, so most of the reductions were in Bentley. There was a very distinct decentralisation of decision-making and personnel to Karratha, Broome and Esperance. It is remarkable that that decentralisation has energised the workforce quite significantly. The reduction in Bentley was due to a number of factors, including decentralisation and efficiencies, but also the recognition that the build program had peaked. Horizon also made the effort to sell its construction unit to GHD Australia, so some of those people now work for GHD. I have met the people at GHD, and this has worked quite effectively. Maybe Mr Tudor can explain the preferential access to work that Horizon generates on a contract basis. Quite a few of the people actually left Horizon and went to GHD, but actually contract back to Horizon, and do a variety of other work. We have had this discussion before, and one of our problems is where this is to be located. The real issue was whether there was an impact on service delivery in the regions. There was not, because the big impact was in Bentley, and there has been instances of growth in not just decision-making, but also personnel in the regions.

[9.50 pm]

Mr F.M. LOGAN: Part of that question was: was there a reduction in the cost of providing power as a result of that \$175 million efficiency drive?

Mr F. Tudor: Yes. On our side, we certainly reduced the cost, and that has obviously been reflected in the subsidy reduction. The subsidy has also increased as a result of gas prices and things outside our control. Obviously the way the price is set to the customer is an issue for government, so whether that translates across directly or not is not our issue. We have certainly done a lot to drive down the cost base of the business.

Mr F.M. LOGAN: Related to this is the \$40 million projected savings in operational costs over the forthcoming budget. Where is that coming from?

Mr F. Tudor: One example is the advanced meter program. We are involved in rolling out meters across all our towns, starting with Hedland in about one month. That program will take about 12 to 18 months. It will save in the order of \$7 million plus per annum. That will go to automated meter readings. It will also go to accurate bills, which will ensure that we do not need to have any reworking of bills and we do not have any queries from customers. We will be able to ensure the accuracy because there will be minimal human intervention in that process. Connections and disconnections will be automated, which is a big factor, and fault management will be automated as well. We are almost uniquely placed because of our geography. We are able to justify advanced meters simply on those basics. We are also as a network manager able to justify some of the benefits that come from fault management et cetera that will also flow to us. In a disaggregated model, that is difficult to do,

because we have a retailer and a distributor and an interface that needs to be managed. In some cases it has been the retailer that has led the rollout of the meters, and in some cases it has been the distributor, and that interface does not always work as well as it could to maximise the benefit to the entire system, but we are able to do that. That is an example of one of the initiatives that we are continuing to roll out.

Mr F.M. LOGAN: Are you envisaging more terminations or even more redundancies?

Mr F. Tudor: There will not be any wholesale changes of the type that we have gone through. The remainder will be a continual process of refinement as we deliver the undergrounding program, and that may impact on some jobs. That is just business as usual. Jobs are not guaranteed in the business. However, as we deliver programs, one of the things that we are very mindful of is making sure that any people who are impacted are told and appropriately consulted. The intention of the business from this point on is not to target staff numbers. It is to continually refine our processes according to a set of eight principles that were adopted at the time of the strategic review, and that has underpinned the philosophy of the business.

Dr M.D. NAHAN: From my perspective, it is a pretty thin organisation now. It has contracted out most of the generation. It has done quite a bit, and its last puff is coming to an end. That is all contracted out. It has a huge task in front of it for not only those advanced meters but to optimise the disaggregated systems and get the contracts right, and also to work with the towns for the uptake of photovoltaics. One of our problems is that the renewable energy buyback scheme rate in certain towns was 70c, and if people put them in, they could make a good quid out of it. However, the uptake was very poor. There were some problems with the failure to uptake—maybe to do with ownership of the property, the longevity of the enterprise, and whatnot. Horizon has a big task in adapting to the new focus on disaggregated systems and becoming, if you wish, a world leader in those systems.

Mr B.S. WYATT: I refer to page 152 of budget paper No 3 and the heading “Operating Subsidy for Electricity Concessions, Rebates and Remote Communities”. It states that the operating subsidy has been revised down by \$6 million over 2015–16 to 2018–19. It goes on to state that this reduction reflects the withdrawal of \$4.6 million in commonwealth funding for the Aboriginal and remote community power supply project and \$1.4 million in savings as a result of the energy assistance payment being means-tested from 1 July 2015. I am curious to know what sort of numbers the government is expecting from the means testing of the energy assistance payment in remote communities.

Dr M.D. NAHAN: Good question! As the member knows, we have changed it to the energy assistance payment. The sum of money is the same, but people need to have a commonwealth health card of some sort, including disability and others. I will leave it to Frank Tudor to explain that one.

Mr F. Tudor: If the member wants a fuller explanation, I will have to take that on notice.

Mr B.S. WYATT: Can I get it by way of supplementary?

Dr M.D. NAHAN: Yes, by all means.

The CHAIRMAN: Can the minister clarify what he will provide?

Dr M.D. NAHAN: An explanation of the amount of savings in the energy subsidy scheme from means testing in Aboriginal communities.

[*Supplementary Information No B30.*]

Dr M.D. NAHAN: I think maybe the people managing it might have that benefit, but I am not sure!

Mr B.S. WYATT: Yes, but they would be an insignificant number.

Dr M.D. NAHAN: Yes; totally insignificant!

Dr G.G. JACOBS: Just a small point, minister. I refer to page 613 of the *Budget Statements* and the heading “Completed Works”. Congratulations, minister, on the energy efficiency program in LED streetlights. However, I am surprised that is noted as a completed work, because I do not think that work has even started yet. I understand that the program was agreed upon, but there were some implications for the Australian Tax Office because it saw it as asset gifting, and there was an impediment for the state of about \$800 000. That has now been resolved, and congratulations for that, and the program will now go ahead. But unless all the LED streetlights have been put in in the last two weeks, I would not say that is a completed work.

Dr M.D. NAHAN: I thought the member was supposed to give me dorothy dixers! No. What I think it refers to is that the funding is complete, but the works are not.

Dr G.G. JACOBS: It says “Completed Works”.

Extract from Hansard

[ASSEMBLY ESTIMATES COMMITTEE B — Tuesday, 9 June 2015]

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Chairman; Mr Bill Johnston; Dr Mike Nahan; Dr Graham Jacobs; Mr Fran Logan; Mr Ben Wyatt

Dr M.D. NAHAN: The funding is there. There were some impediments with the gifted asset, which we had to resolve, and that was not easy.

Dr G.G. JACOBS: I appreciate that.

Mr W.J. JOHNSTON: Minister, every year we ask the same question, and I am going to ask it again. Could we get a list, perhaps by way of supplementary information, as has been done in previous years, of the Aboriginal communities that are still planned to get regularised power? Not all communities will be regularised, because some of them are too small. It is a moving feast, because, as the minister knows there are various impacts on Horizon. But could we get a list, perhaps by way of supplementary information, of the communities in which Horizon still plans to regularise the power?

Mr F. Tudor: If I could clarify it, it would be the town communities that have not been regularised. It depends upon the funding from the department of housing and works, which runs the program, and we come in as a contractor, effectively, to do the work and then take over the regularised service. If the funding does not come through from the department of housing and works, we do not do anything.

The CHAIRMAN: Can the minister clarify exactly what information will be provided?

Dr M.D. NAHAN: Yes—from Horizon's perspective, for what Aboriginal communities does it have funding to regularise the power.

Mr F. Tudor: That is easy—zero!

[*Supplementary Information No B31.*]

Committee adjourned at 9.58 pm
