

**Horizon Power —**

Ms L.L. Baker, Chairman.

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

Mr F. Tudor, Managing Director.

Ms A. Yam, Chief Financial Officer.

Mr B. Hamilton, General Manager, Corporate Services.

[Witnesses introduced.]

**The CHAIRMAN:** The member for Gosnells.

**Mr C.J. TALLENTIRE:** I am keen to know about the efficiency dividend and its implications for Horizon Power. How much will need to be saved in the 2011–12 financial year? Where will this saving be found? Does the Horizon board agree with this measure? Is Horizon confident that it can comply with this requirement?

**Mr J.H.D. DAY:** I am sure that the Horizon board agrees with the measure. I am sure that it agrees with it willingly because it is government policy and part of the budget. I will ask Mr Tudor to comment on how it will be implemented.

[Mr A.P. O’Gorman took the chair.]

**Mr F. Tudor:** Two avenues have come to us around efficiency. First, the Economic Regulation Authority has recently completed a review of Horizon Power that also looked at efficiency. We had already started an efficiency program within Horizon Power which started with a reorganisation of the company from the CEO, through the general manager and manager level right through the organisation. That program of reorganisation was focused primarily around a strategy that had been consolidated in dealing with organisational issues but it is also expected to yield some immediate efficiency gains through some people who have been displaced through the process. We expect to drive further efficiency through the reorganisation and the clear accountability that we have put in place, through strategy, key performance indicators and targets, down to individual roles. We are very comfortable in being able to deliver the target that has been set through the budget process. In our case that is based on the discretionary operational costs that we have, which are about \$100 million. We expect that the efficiency target that we have to find through the forward program will be about \$6 million to \$7 million.

**Mr B.S. WYATT:** I refer to the line item “Pilbara Underground Power Project” under “Works in Progress” on page 615 of the *Budget Statements*. Funding for that project ends in 2012–13. How many towns and communities will still have overhead powerlines after completion of the project in 2012–13?

**Mr J.H.D. DAY:** The project currently covers Karratha, South Hedland, Onslow and the remaining overhead network in Roebourne. Royalties for regions funding, in conjunction with local government, has committed \$130 million to provide north west towns, subject to cyclones of course, with a safe and reliable power supply by replacing the ageing overhead electricity infrastructure with undergrounding. This program is still very much underway and quite a substantial expenditure has been allocated to it. I will ask Mr Tudor to add to that.

**Mr F. Tudor:** The other towns that we could expect would be picked up in a project like that, if it was to be extended and funded, would be those in the Gascoyne—the Carnarvon area, for example. Along with cyclones, flooding can also be a problem in these areas, as we have experienced recently. Undergrounding does help, whether we are dealing with cyclonic conditions or flooding of the type that we have seen. We would also go further north—as far as Broome—to capture the cyclone alley. Broome would also be the subject of a reasonable business case for having undergrounding.

**Mr B.S. WYATT:** Is that business case for both the Kimberley and the Gascoyne being developed by Horizon?

**Mr F. Tudor:** Prior to the Pilbara undergrounding project commencing, we had developed business cases for the entire undergrounding of those systems that I have just mentioned. The work does exist. If we were to progress it to seek funding from government from whatever means, we would simply refresh that work. Yes, the case and the rationale exist.

**Mr B.S. WYATT:** When was the last time the business cases for the Kimberley and the Gascoyne went to government?

**Mr F. Tudor:** We have discussed it at various times as part of the budget process, probably about three to four years ago. If the member wanted the exact time we put it, I will have to take it on notice.

**Mr B.S. WYATT:** Can I get that information by way of supplementary information?

**Mr J.H.D. DAY:** I am not sure that I agree to that.

**Mr B.S. WYATT:** I am not after the actual information. I want to know when it was last put to government.

**Mr J.H.D. DAY:** I would say that these things are put to government on a continuing basis. In the sense that there is always an opportunity to extend the program, the minister's office would be aware of that. It is obviously a question of the amount of funding available. There is preparation in the budget each year and a range of proposals are put up as part of that. I do not think it is of any great significance as to when these things are communicated to government. It is something that the government and the minister would be aware of all the time. There is probably nothing particularly significant about when a document might have been communicated.

**Mr B.S. WYATT:** How old is the most recent business case? I assume these things have to be updated on an annual basis.

**Mr F. Tudor:** I will just repeat my answer: it was probably done three or four years ago.

**Mr E.S. RIPPER:** Can the minister tell us how much power Horizon requires in the Pilbara to service its customers in this financial year and in projections for the next three financial years? What are Horizon's plans to ensure that that level of power is available? How are those plans reflected in these budget papers?

**Mr J.H.D. DAY:** Does the Leader of the Opposition mean how much additional generation capacity is expected to be needed in the next 12 months?

**Mr E.S. RIPPER:** Yes. What is the growth of capacity required next year or this coming financial year and in each of the subsequent financial years? How will that be met and how is that reflected in these budget papers?

**Mr J.H.D. DAY:** Whether that increased budget demand and therefore generation capacity is met entirely by Horizon Power or in some other way is open to discussion. These major investment decisions have an impact on state debt, so that is something that government needs to consider. Horizon is doing work on putting proposals before government about what options there are, as I understand it. I ask Mr Tudor to add to that and perhaps comment on the quantity.

[8.10 pm]

**Mr F. Tudor:** Through the most recent summer we have seen peaks in the Pilbara. The interconnected system that we talk about connects Karratha and Port Hedland, so the loads there during the summer period are peaking around 100 megawatts; through the winter period they are practically halved. That is where we start from. If we go forward two to three years, then we would expect by the summer of 2013 that it is up around 130 to 135 megawatts. It is based on growth of about five to six per cent. We currently acquire power through a power station that we have underwritten in Karratha. It has been built and operated by an independent power producer called ATCO Power. That probably started about 12 or 18 months ago and that is providing us with 86 megawatts in Karratha. That system is still connected to Rio Tinto in Karratha as well. At the Port Hedland end, we have contracts at the moment with BHP and Alinta, who between them own and operate the contractual rights to the capacity that is in Port Hedland. The current contract that we have finishes at the end of December 2012. We are talking to both of those companies about an extension, which could take us out to January 2014, so that will cover the calendar year of 2013. Those negotiations have come nearly to completion and we expect to be able to sign those contracts, but they have not been signed as yet. The options that we are looking at are extension of those contracts, also hire kit, and kit that we have in our own portfolio; it could be a combination of that that also supplements any contract that we have. On top of that, we are also looking at a power station that will be built in Port Hedland, either through us or independent power producers. There is still uncertainty around the development of demand and whether we can have any contractual capacity given to us beyond January 2014. These factors have been put into the mix. We are working with government on all of the options. As far as we are concerned, we need to ensure that we have secure capacity beyond 2012, and that comes either in the form of a contract, with the security that offers, or we own and operate something which we can control. At this stage, we have no concern about being able to deliver on that obligation, but we work all of the options collaboratively with government as our shareholder.

**Mr E.S. RIPPER:** If you are able to secure extensions of those current contracts does that provide for the growth that you anticipate, or do you need to do something in addition to extension of those contracts, assuming that extension of the contracts is possible?

**Mr F. Tudor:** The thing that I can categorically say is when we can get no more contracted capacity, because that contracted capacity at some point will be earmarked for the BHP expansion, we do need to do something different. Whether it is through hire kit or a power station that we underwrite, as we have done in West Pilbara, that will need to be put in place. At the moment, there is capacity that is available up to January 2014 and probably beyond January 2014 on a different basis. We are currently in discussions with BHP and Alinta about accessing that capacity. The other options are also being looked at at the same time.

**Mr E.S. RIPPER:** Your anticipation is that there is a definite end to the contract in Port Hedland. You may not have a definite date, but that contract in Port Hedland will end because the power is required by BHP, and whenever it ends there has to be some other solution. Is that a correct understanding of the situation?

**Mr F. Tudor:** The question is when, and the question beyond that is how much BHP actually needs on a secure basis or whether there is always going to be excess capacity in that system that we can access on an interruptible basis. We would need to understand what that was and figure that into the equation.

**Mr C.J. TALLENTIRE:** I am interested to know in relation to the Carnarvon power generation system and grid, how much of the supply can be renewable energy before we encounter problems with the stability of that grid?

**Mr J.H.D. DAY:** How much as a proportion of total generation?

**Mr C.J. TALLENTIRE:** This was in the news in the last week or so. Carnarvon had reached a ceiling level of renewable energy generation and there were instabilities in the system because of that ceiling being hit.

**Mr E.S. RIPPER:** And no more solar panels would be allowed. That was the news.

**Mr F. Tudor:** In the small systems, when we start to put in these solar panels and they become a significant part of the baseload generation, we run into problems with voltage and also with covering any spike or outage that might be caused by cloud cover with the machines that we have to run. Either we would have to run spare capacity to cover for that instance or we would need to suffer the interruption in the quality to power supply that would come otherwise. Our first obligation is to make sure that the quality of power is not interfered with by the installation of these solar panels. We are still studying systems to make sure that we can identify in each of our separate systems what the limits are. We started in Carnarvon with 700 kilowatts as the limit. We have recently increased that to one megawatt based on confidence we have being able to understand the system as we get the increased penetration.

**Mr C.J. TALLENTIRE:** Can Mr Tudor give me that in percentage terms of the overall supply?

**Mr F. Tudor:** The capacity of the station that we are going to build in Carnarvon is 18 megawatts, but daytime loads are about five to six megawatts. So one megawatt of solar during the day when we are talking about loads of five or six megawatts is about 20 per cent penetration, so it is a very significant amount.

**Mr C.J. TALLENTIRE:** But you are managing at that level, or are you are just getting by when you are at that one megawatt in the six megawatt load?

**Mr F. Tudor:** As we get the penetration, we physically simulate the system to understand the constraints. If we get comfortable with our ability to deliver the quality of power, we might, on a statistical basis, be able to increase the levels. That is what we have been doing. The limit has gone from 700 kilowatts to one megawatt. Over and above that, we have looked at separate installations that people have wanted to put in place and we have managed to configure different solutions for larger systems. The big issue with the small systems is that they are not designed in the same way as the south west interconnected system. The south west interconnected system is very large, so these small-scale distributed solar systems do not have the same effect.

**Mr C.J. TALLENTIRE:** I accept that, but can you explain why Horizon is doing so much better than the south west interconnected system, which is concerned about photovoltaic systems exceeding 150 megawatts on a notional 2 000 megawatt system? With our south west interconnected system, we have a ceiling of 7.5 per cent and Horizon is doing far better than that.

**Mr F. Tudor:** I have not studied the south west interconnected system. I know at a conceptual level what the differences are, but I cannot get into the detail and comment on that. All I can tell you is what we are doing on our systems.

**Mr C.J. TALLENTIRE:** Yet, logically, with a smaller system there would be more technical difficulties allowing for renewable energy to be powered into the system than with a bigger grid?

**Mr F. Tudor:** That would be my conceptual view of the differences, yes.

**Mr J.H.D. DAY:** I think I am right in saying that it is not only about technical aspects in relation to the amount of renewable capacity in the south west interconnected system, it is also about cost.

**Mr E.S. RIPPER:** It is about the size of the government subsidy.

**Mr J.H.D. DAY:** The size of the government subsidy and the amount that needs to be paid for in the renewable energy certificates. I think there is a national aspect to all of this which the Leader of the Opposition probably understands better than I do. There is quite a significant cost to other consumers or the taxpayers in relation to

the whole renewable energy scheme. Not being the Minister for Energy, I will not seek to explain it any further than that, but there are significant cost implications that would be a factor in the SWIS.

[8.20 pm]

**Dr M.D. NAHAN:** Further to that question, the issue was the reliability or quality of electricity—we had to buy solar in this case. There is also a cost factor to that. Would there not be, besides the reliability and the flow of electrons, an increase-in-cost factor, because there would have to be back-up generation? Could the minister explore that in terms of the rise in use of solar in Carnarvon?

**Mr F. Tudor:** I can only explain it in that we are looking at both factors as an entire system. We are also, as we go forward, gaining information from the weather and the frequency of outages that we might expect through periods. We may not always have to run backup through the summer period. They are the things that we are currently simulating to give us some more statistical confidence in being able to push the limits. We are looking at it as an entire system. We do have some flexibility to potentially change some of the configuration of the power station that we are currently building, but a lot of the significant decisions have already been made on that, and we have already started work on that. The design of that was started some time before the scheme was implemented.

**Dr M.D. NAHAN:** You have gas backup. The generator is a gas-fired station, and a quick-start one—right?

**Mr F. Tudor:** Yes, it is.

**Mr E.S. RIPPER:** Horizon Power is subsidised by the tariff equalisation fund, which is in turn subsidised by the electricity bills paid by people in the south west interconnected system. What is the size of the tariff equalisation fund contribution required in this next financial year, and are there elements of Horizon's operations that are profitable, even if there are other elements that outweigh that by their losses? For example, is the Pilbara system making a profit? Is the Esperance system making a profit?

**Mr J.H.D. DAY:** In relation to the size of the subsidy that is needed, I will just ask Ms Yam to comment.

**Ms A. Yam:** For 2011–12, the subsidy is \$181 million. In the forward years it is \$171 million, and in 2013–14 it is \$182 million.

**Mr J.H.D. DAY:** That is the size of it in relation to the comment about whether particular parts of Horizon Power's operations are in the black or not. Mr Tudor, are you able to comment?

**Mr F. Tudor:** Yes, I am. Of course, it depends how quickly the tariffs continue to increase, based on the flight path to cost reflectivity in the SWIS. In the Pilbara, we still enjoy legacy gas contracts, which have afforded us very reasonable prices compared with today's market price for gas. Based on our actual input costs, the Pilbara is still profitable. Somewhere like Kununurra, where we enjoy the benefit of a hydro scheme that was underwritten some time ago, also is profitable. The remainder of the portfolio starts to get progressively more costly and needs to be subsidised.

**Mr E.S. RIPPER:** Can I just ask about the Esperance component and how that goes?

**Mr F. Tudor:** I would have to take that on notice.

**The CHAIRMAN:** Member, are you happy for the question to be put on notice, or do you want that as supplementary information?

**Mr E.S. RIPPER:** If the minister was prepared to provide that as supplementary information, I would like to know whether the Esperance part of Horizon's network operates at a profit or a loss.

**Mr J.H.D. DAY:** The answer is yes or no essentially, I guess. We will seek to provide that by way of supplementary information.

[*Supplementary Information No B57.*]

**Dr M.D. NAHAN:** When is the legacy contract up for renewal?

**Mr J.H.D. DAY:** Is the member talking about the Pilbara?

**Dr M.D. NAHAN:** Yes.

**Mr F. Tudor:** Our gas contract finishes in 2016.

**Mr C.J. TALLENTIRE:** On the issue of the Pilbara grid, I am interested to know whether there are plans to expand that grid out to the various mining operations. It sounds as though, at 100 megawatts, not much of an incursion is being made into supplying mines with electricity.

**Mr J.H.D. DAY:** Is that a question?

**Mr C.J. TALLENTIRE:** Yes, it is a question.

**Mr F. Tudor:** If we contemplate a new-build power station in Port Hedland, the way that we are developing the site is to set it up as a generation park. The land that we would lease is much greater than any immediate needs that we would have. Our intention would be to make that available to not only ourselves for expansion, but also other independent power producers or mining companies that wanted to avail themselves of that land to build capacity. Many of the decisions that we are taking are consistent with aggregating capacity and making it easier for the next step in the completion of the grid to happen. Around the generation park that we talk about, we would be putting in connections—the connection to the grid, the connection to the gas pipeline, the connection to water—through the corridors and potentially sizing that to accommodate expansion. That is a fairly costless exercise relative to the size of the sorts of investments that we are talking about.

**Mr E.S. RIPPER:** Could the minister comment on the progress of the Aboriginal power procurement project, which has run across successive governments, and the number of Aboriginal communities that have now been supplied with regularised power provided through Horizon billing systems? How many more Aboriginal communities remain to be provided with that service?

**Mr J.H.D. DAY:** The current situation is that Horizon will complete the \$26.5 million Aboriginal remote communities power supply program phase 2 in 2011–12. At this point funding for the program ceases, so the program will conclude. Seven hub service centres are yet to be regularised: Balgo and Mullen in the Kimberley; Jigalong, Yandeyarra and Burringurrah in the Pilbara; and Warburton and Blackstone in the central reserves.

**Mr E.S. RIPPER:** If I might help the minister: by the end of the program, how many communities will have been provided with this power? What is the gap that a new program will have to meet?

**Mr J.H.D. DAY:** Half of the priority list or 14 large communities have been upgraded with the funds available. Therefore, a further seven large remote communities that are service centre hubs have not received funding for regularisation.

**Mr E.S. RIPPER:** There would be many more communities beyond those 14, would there not?

**Mr J.H.D. DAY:** Which would be smaller, I presume.

**Mr F. Tudor:** They would be smaller, yes.

**Mr B.S. WYATT:** Does the minister have the list of those seven communities?

**Mr J.H.D. DAY:** The seven that will not be regularised?

**Mr B.S. WYATT:** Yes.

**Mr J.H.D. DAY:** They were the ones I read out initially. They are the ones yet to be done.

**Mr E.S. RIPPER:** Just so there is clarity of information in *Hansard*, could we have as supplementary information the list of communities that will be provided with power, the list of hub communities that will not be provided with power by the end of the program, and some estimate of the number of communities with more than 200 people that are still remaining to be serviced?

**The CHAIRMAN:** Can that be provided by way of supplementary information, minister?

**Mr J.H.D. DAY:** Certainly, the first part of it can. If possible, we will provide the information about communities above 200 in population that are yet to be serviced.

[*Supplementary Information No B58.*]

**The CHAIRMAN:** That completes the examination of Horizon Power. Members, that also completes the consideration of estimates by this committee.

*Committee adjourned at 8.30 pm*