

Horizon Power —

Ms J.M. Freeman, Chair.

Mr W.J. Johnston, Minister for Energy.

Ms S.J. Unwin, Chief Executive Officer.

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

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

Mr R. Watson, Executive Director, Infrastructure and Finance, Department of Treasury.

Mr N. Roberts, Chief of Staff, Minister for Energy.

Mr P. Meyerkort, Senior Policy Adviser.

Miss K. McKenzie, Senior Policy Adviser.

[Witnesses introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point.

The minister may agree to provide supplementary information to the committee rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by Friday, 31 May 2019. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system.

I give the call to the member for Swan Hills.

Ms J.J. SHAW: I refer to page 270 of budget paper No 3, table 8.4 and specifically the second line item that states that Horizon Power is forecast to require a tariff equalisation contribution of \$663 million over the forward estimates. Can the minister advise why the tariff equalisation contribution is required and any particular factors that have contributed to the amount forecast over the forward estimates?

Mr W.J. JOHNSTON: The tariff equalisation contribution is a subsidy that enables the government to provide electricity to households and small businesses in regional and remote Western Australia at the same price that is paid by people in the Perth metropolitan area. That subsidy is important because the cost of supply in regional areas is obviously much higher than in the metropolitan area. Without the subsidy, electricity would become much more expensive for people living in those areas. Of course, the TEC is not a blank cheque, and Horizon Power is required to deliver electricity in regional Western Australia as efficiently as possible.

It is interesting that the second part of the member's question is about the factors that might be influencing the TEC. Of course, one of those is the unfortunate decision of the former government to enter into a contract for a power station in South Hedland. This contract is very difficult for the government because it is effectively leading to a doubling of the fixed costs of Horizon Power and operations in the north west interconnected system. The contract is for the supply of capacity at a power station in South Hedland and it was the result of a flawed process. The decision to enter into a power purchase agreement was not the preferred option for Horizon. Horizon wanted to build and operate its own power station. Nonetheless, the former government required Horizon to do it through a PPA. What was worse was that the government required it to be done in an off-balance sheet manner, which meant that Horizon had to get a second partner involved in the project. If Horizon had simply done a PPA as a standalone business, it would have ended up having to show the contract on the balance sheet of the business, which is what it was trying to avoid.

Horizon sought options and it had two companies bid for the project. One company bid four profiles for the project and the other company bid only one. Let us understand that the shorter the contract, the better it is for the government because then it can try to get more competition. Unfortunately, the structure of the process that the government entered into forced Horizon Power to enter into a contract with the company that was the more expensive option. In fact, on every criterion assessed by Horizon Power, the company that was chosen by the former government was more expensive and less flexible. This has led to a terrible situation for Horizon Power. I have a document in my hand, which I cannot table at these types of meetings, titled "Pilbara Power Project 2016—RFP Response Cost Evaluation Report". This report highlights the relative merits of the two proponents. Unfortunately, as I said, on every criterion, the selected option by the former government was less favourable to the people of Western Australia. This has led to higher costs. Worse still is the way in which the government did the analysis, which means that as gas prices fall, the

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relative negative outcome of the project goes up. Of course, gas prices are falling, so the losses based on this decision are increasing. It is a \$1.2 billion contract. We have estimated that it will be \$600 million more expensive than if another option had been taken. The total value of the Horizon business is \$600 million. The former government entered into a contract that was worth double the enterprise value of the underlying business. Nobody in the private sector would ever enter into a contract like that—nobody. What is even worse is that a switchyard had been built for \$134 million in anticipation of the construction of the power station. That had been funded out of the TEC by Horizon over the previous number of years. That switchyard was sold into the contract. The new operator bought the switchyard from the government and is now leasing it back to the government over 25 years. The government has to pay for that in addition to access to the power station. Let us think about that. The government already owned the switchyard. It sold it to the commercial proponent and then decided to buy it back over 25 years. This is a disgrace. It is costing the taxpayers of this state \$600 million more than was required to be spent, and it is undermining our ability to move to contestability in the north west interconnected system.

The Department of Treasury and Horizon have been telling me about options to overcome this problem. I am in conversation with Alinta Energy, which is one of the companies that wants to access the north west interconnected system grid, to explain the severe, negative outcomes of the decision made by the former government to reject both the advice of Horizon Power and the lowest cost option. The former government made the bad decision to go to an off-balance sheet project, which was silly—it was never a good idea—but, even if it agreed to do that, why would it choose the most expensive option? Why would it deliberately choose something that will cost the taxpayers of this state more? I do not understand this, and we will be talking about it further.

[12.40 pm]

Dr M.D. NAHAN: The minister is reading from a document. Can he please provide that document?

The CHAIR: You cannot table in the estimates committee.

Dr M.D. NAHAN: He read into *Hansard* a document that had a potted, selective statement of history, and he cannot release the document?

The CHAIR: Leader of the Opposition, it cannot be tabled, but you can ask him to provide it to you.

Dr M.D. NAHAN: Can the minister provide the document to me?

Mr W.J. JOHNSTON: I would be very happy to provide the document to the Leader of the Opposition when he provides me with the cabinet documents. Let me make it clear: I have written to the Leader of the Opposition and asked for access to the cabinet documents that underpin this decision. I will release this when he releases that.

Dr M.D. NAHAN: No —

The CHAIR: Members! Leader of the Opposition, you cannot ask for the document to be tabled. You can ask for it to be provided. It is not being provided. We are looking at the estimates. Do you have a question for the minister?

Dr M.D. NAHAN: Yes. Will the minister —

The CHAIR: You have asked that question.

Dr M.D. NAHAN: I want to make it clear. The minister did a trade-off. He did not answer directly, as usual. The minister read from a document. Can he please tell me what that document is and provide me with a copy of that document?

Mr W.J. JOHNSTON: Yes. The document is “Pilbara Power Project 2016—RFP Response Cost Evaluation Report”. I would be very happy to provide the Leader of the Opposition with a copy when he provides me access to the cabinet papers.

Dr M.D. NAHAN: The minister made a whole range of statements. He said that Horizon Power’s preferred option was to build, own and operate its own power station. I believe that is true; it was before I was minister. Can the minister please provide us the estimate of the cost of that power station in the proposal by Horizon Power, the cost of the energy that was expected to come from that power station, and those valuations that he implied—he did not state—made that a lower cost option? It was definitely at that time the preferred option of Horizon Power. It was rejected by the government of the day as a higher cost option. The minister implied that it was not. Could the minister discuss that, since he has delved into history here and implied that the previous government chose the higher cost option, which is false?

Mr W.J. JOHNSTON: There is no question there.

Dr M.D. NAHAN: Can the minister please provide the information he mentioned in estimates.

The CHAIR: Leader of the Opposition, are you asking for supplementary information? You are the person asking the question.

Dr M.D. NAHAN: Yes. Could the minister please provide me the information on Horizon Power's original proposal and the cost of that proposal to build, own and operate a power station in Hedland?

Mr W.J. JOHNSTON: I can provide to the Leader of the Opposition the point that he seems to have forgotten. Horizon Power built a power station. It was called the temporary project. In fact, when the Leader of the Opposition was the Minister for Energy, in estimates here —

The CHAIR: Minister, I just need to know if you are going to provide the supplementary information that has been requested.

Mr W.J. JOHNSTON: I did not know I was being asked for supplementary information.

The CHAIR: That is what I was assuming. Is that what the Leader of the Opposition is asking for?

Mr W.J. JOHNSTON: I thought he said he wanted to know the information. I did not think it was supplementary information.

The CHAIR: I directed him to ask for it as supplementary information.

Mr W.J. JOHNSTON: All right. I am not providing that as supplementary information. We will be going further into this issue. I want to make a point here, in answer to this question: they actually built the power station. This is the extraordinary thing. They built the temporary power station, and Mr Tudor, as the then CEO, sitting next to the member for Riverton when he was the minister, said, "It looks pretty permanent." That is his quote in *Hansard*. The power station had already been built. That power station was then taken away and this power station was put in its place.

The other issue that needs to be remembered is that this stops all new renewable energy projects on the north west interconnected system for Horizon, because they have to use this power, which is excess to their requirements, before they can have any opportunity to build renewable projects. Let us understand that. There is nowhere in the world better for renewable energy than the Pilbara, yet Horizon Power cannot buy renewable energy in the Pilbara because of this silly decision.

The CHAIR: I am moving it on. Member for Warren–Blackwood.

Mr D.T. REDMAN: Thank you, Madam Chair. Minister, at the other end of the state, down in Esperance, Horizon is now going through a process to secure its arrangements with either gas and/or the power station to deliver energy to Esperance's network. One of the challenges is that the level of photovoltaics on roofs is at its upper limit. It is my understanding that a person in Esperance who wants to get PV on their roof and a feed-in tariff, as everyone else in the state is able to do, cannot do it. What is Horizon doing to allow those people unfortunate enough not to have PV on their roofs to get access to that?

Mr W.J. JOHNSTON: I just checked with Ms Unwin, and I will invite her to make a comment, but it is not the power purchase contract that is causing the issue in Esperance—it is hosting limits. It is not the power station that is causing the problem. I invite Ms Unwin to explain further.

Ms S.J. Unwin: The issue in Esperance is around the technical constraints of that system to enable a large volume of rooftop solar essentially to connect. We have done an assessment that is based on the Australian standards that are emerging in this space to determine whether we think we can increase or allow additional hosting capacity limits. We are in discussion at the moment, we have gone out to public consultation about this, and we expect to release an announcement, I think on 1 July, about increasing those limits. We will see in Esperance the ability for rooftop solar to connect with an increase in hosting capacity over what we have today.

Mr D.T. REDMAN: Horizon Power is confirming here that the constraint is not the take-or-pay arrangements for the baseload generation coming to Esperance; it is a technical constraint on the network?

Ms S.J. Unwin: Yes. We have very, very different systems in each of our areas. Because they are very dependent on one particular type of generation, it is a really different mix, say, to the south west interconnected system, which means that when we introduce a lot of variability from rooftop solar, we have to be very careful about the system's stability, which is why technically we are very concerned to make sure that we do not upset the whole system by a lot of intermittent generators. We are quite careful about letting new generators on. But I can confirm it is not the take or pay or the existing power purchase agreement that is determining those limits; it is the technical reliability of the system.

Mr D.T. REDMAN: Will there be consideration of options for others to be able to come on, and what level of penetration does Horizon Power expect to be able to achieve in Esperance?

Mr W.J. JOHNSTON: I invite Ms Unwin to speak.

Ms S.J. Unwin: The hosting capacity limits we are just determining at the moment, at the end of the public consultation, but by about 1 July we will have settled on that number and will release it. I can probably take that on notice.

The CHAIR: Minister, can you outline what you are agreeing to give as supplementary information?

Mr W.J. JOHNSTON: We are agreeing to provide by supplementary information the current and expected hosting limits in Esperance for rooftop solar.

[*Supplementary Information No B31.*]

The CHAIR: I give the call to the Leader of the Opposition.

Dr M.D. NAHAN: The previous Minister for Energy had a commitment to move into competition in the north west integrated system and to undertake a series of policy changes. Is the minister still committed to that?

Mr W.J. JOHNSTON: Yes.

Dr M.D. NAHAN: What is the minister's time line to achieve that?

Mr W.J. JOHNSTON: Our expected time line is 1 January 2020. We need legislation through the house, and we are working out exactly what that looks like. One of the challenges is that we will have to build in some sort of fee to cover the potential taxpayer losses. Obviously, if Horizon has this high fixed cost for the north west interconnected system, we do not want that sheeted home to mums and dads and pensioners here in Perth, so we are going to have to work out a mechanism to collect revenue to cover those losses.

[12.50 pm]

Dr M.D. NAHAN: Does the minister plan to bring in legislation on both competition entering the north west interconnected system and the government's so-called additional tax that the minister is talking about?

Mr W.J. JOHNSTON: We do not know that we need legislation to collect the revenue, because we think there might be another way; but, one way or another, we will have legislation to deal with this matter as quickly as we can.

Mr D.T. REDMAN: On page 669 of budget paper No 2 under "New Works", the 2019–20 budget estimate for remote communities' photovoltaics is \$11.6 million. Can the minister indicate where that investment is going and indeed whether there is a procurement process?

Mr W.J. JOHNSTON: This is a really exciting decision from Horizon that I was happy to support. These new technologies allow us to do this sort of thing. Construction is scheduled for Warmun and Kalumburu in 2020 and Ardyaloon, Beagle Bay, Djarindjin–Lombadina and Bidyadanga in 2021. A request for tender will be released this month, or maybe next month, and the project will kick off after that. It is to be rolled out alongside Horizon Power's solar incentive scheme, which encourages eligible remote communities to invest in rooftop solar. This part is interesting. I was approached by a group out in the Eastern Desert that had a community facility with its own generator and no Horizon network. It is an ideal location for renewable energies. Horizon now has a system to support the construction of renewables in those types of remote locations.

Mr D.T. REDMAN: Is the model a co-investment model?

Mr W.J. JOHNSTON: Yes, that one is. The first one is not. That is a Western Power supplier system. The intention of Horizon—I will get Ms Unwin to talk about it—is to partner with the communities, because we want to make sure that there is a maximum outcome for the communities. But the other one is not drawing from a grid; it is doing its own power solution, and Horizon has offered to co-invest to help it put in renewables. I will ask Ms Unwin to speak.

Ms S.J. Unwin: A really important part of this project is to make sure that we deeply engage with the communities we are going into. We have a great commitment so far from all the communities, particularly around how we can encourage local contract groups—for example, Wunan Foundation—to contribute to the ongoing operation and maintenance as well as some of the construction activities. We are really happy with the way that that engagement is going. It requires deep engagement. We have to engage deeply and properly, with a sense of sustainability. We do not want to create an in-and-out approach to this. It needs to be sort of long term. We already have remote community utility workers of Aboriginal descent living and working in the communities, and we are hoping to use some of this to scale up some of those roles. More work can be done to create sustainable jobs going forward with this group.

Dr M.D. NAHAN: I refer to page 270 and the tariff equalisation contribution. Can the minister explain the cause of that large increase in 2018–19 from the previous year? It then drops off in the next year. It looks like a one-off factor.

Mr W.J. JOHNSTON: The increase is driven mostly by tariff rates escalation being less than previously budgeted and reduced volumes based on energy sales in the demand and energy forecast.

Dr M.D. NAHAN: In 2019–20, there is again a \$27 million drop in the TEC. What is the cause of the sharp increase in 2018–19 and the drop back in 2019–20 to its previous levels?

Mr W.J. JOHNSTON: Michael Houlahan can answer that, please.

Mr M.A. Houlahan: There was a one-off TEC increase in 2018–19, the current year, that related to the previous year adjustment. The \$12 million of the TEC paid this year was related to a previous year. It does not pay onwards.

Dr M.D. NAHAN: So the \$12 million was brought to book, if you wish, in 2018–19, but incurred costs in the previous year. What were the causes of those? It looks like a one-off factor.

Mr M.A. Houlahan: That is correct. There were sort of late adjustments in tariffs et cetera in the previous period and the TEC was not adjusted for that before we entered that calendar year.

Mr D.T. REDMAN: If Horizon is moving towards a greater level of contestability, and presumably yielding to some access arrangements via other parties to the network, that will offer other parties scope to pick up contracts that Horizon would have had as its sweet spot, I would argue. Is the minister expecting the TEC to shift—which is effectively the customer service obligation—to offset its uniform pricing tariff to deliver those services?

Mr W.J. JOHNSTON: The member has hit the nail right on the head about my first answer. This is the problem. We do not want the TEC to pick up this high fixed cost that was entered into by the last government, because, otherwise, what happens, if we think about it, is that Horizon pays the private investor, who takes the money to their offshore home—and who pays for it? It is the mums and dads in Perth.

Mr D.T. REDMAN: It is a product of a competitive market if others are able to provide or pick up services to others that Horizon currently does.

Mr W.J. JOHNSTON: Yes, but the challenge for us is that we went from a situation in which the costs for Horizon went up and down depending on volume—because it was based on volume contracts—to this high fixed cost, where we are paying not for energy but for capacity. The fact that the power station exists means we have to pay for it, whereas, in the past, if demand went down, we could reduce costs because they were related to energy. The problem here is that we have this incredibly high fixed cost that increases over time, so we get further and further out of the money the longer it goes and the more competition there is.

Mr D.T. REDMAN: Is it not also fair to say that Horizon is obliged to provide a service to a whole heap of mums and dads out there at a high unit cost compared with anywhere else in the state?

Mr W.J. JOHNSTON: That is correct.

Mr D.T. REDMAN: Surely, a big component of what the minister is talking about is the competitive space, if it chooses to move into it. For commercial customers, that will put a threat. Other than any history that may sit in Horizon, the competitive space will drive a lot of that.

Mr W.J. JOHNSTON: Indeed, but that is the point I am making. This was a bad decision. It saddled Horizon —

Mr D.T. REDMAN: I understand why the minister is levelling that at the last government as much as he can, but there is still the challenge moving forward.

Mr W.J. JOHNSTON: Of course. If I had a way out, I would take it. Unless the investors in this project are prepared to forgive us, we are on the hook. We are in a market with a potentially declining need for electricity and we are hooked into one supplier. It is classic. When we look up a textbook of bad business decisions, this is what it says. That is the problem. We are trapped—high cost, no flexibility, and crowding out all other technologies. It is a terrible decision, and we are trying to get away from the mums and dads paying for it and working out another way to have it paid for.

Dr M.D. NAHAN: Horizon Power has a substantial increase in tariff adjustment payments in 2019–20. Can the minister explain that? It has TEC and TAP.

The CHAIR: Which line item is it?

Dr M.D. NAHAN: It is page 271 of Budget Paper No 3, under “Electricity Corporations”, “Horizon Power”, and the line item “Operating Subsidies”.

Mr W.J. JOHNSTON: It is driven by Synergy’s costs because it is about the relative difference between Synergy’s costs and Horizon’s costs. As Synergy’s costs moderate, if Horizon cannot also moderate them, it has to have this extra payment.

Mr D.T. REDMAN: It is dealing with the non-profitable parts of the service.

Mr W.J. JOHNSTON: Its cost base is different. Synergy is a much more dynamic business—that is just the reality—because it has basically small generation in isolated locations.

The CHAIR: We have one minute left.

Dr M.D. NAHAN: Horizon did a lot of work through various programs to encourage people to use an online system to price differently.

Extract from Hansard

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Mr W.J. JOHNSTON: Yes, the MyPower trial.

Dr M.D. NAHAN: How is that going?

Mr W.J. JOHNSTON: I will cut straight to Ms Unwin.

Ms S.J. Unwin: The MyPower trial is going very well, thank you. We are looking at whether we can extend that further into the business. It was absolutely a rebalancing.

The CHAIR: That completes the examination of Horizon Power.

Meeting suspended from 1.00 to 2.00 pm