

Chairman; Mr Bob Kucera; Mr Fran Logan; Mr Terry Redman; Mr Paul Papalia; Mr Colin Barnett; Mr John Day; Mr Murray Cowper

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**Horizon Power -**

Mr G. Woodhams, Chairman.

Mr F.M. Logan, Minister for Energy.

Mr R. Hayes, Managing Director.

Mr J.R. Banks, Acting Coordinator of Energy.

Mr D.W. Nairn, Financial Controller.

Mr B.R. Sadler, Principal Policy Adviser - Energy.

**The CHAIRMAN:** This estimates committee will be reported by Hansard staff. The daily proof *Hansard* will be published at 9.00 am tomorrow.

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 Chairman to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point.

Given that the minister has new advisers, I will read out the following. 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. For the purpose of following up the provision of this information, I ask the minister to clearly indicate to the committee which 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 committee clerk by 8 June 2007, so that members may read it before the report and third reading stages. If the supplementary information cannot be provided within that time, written advice is required of the day by which the information will be made available. Details in relation to supplementary information have been provided to both members and advisers, and accordingly I ask the minister to cooperate with those requirements.

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. Only supplementary information that the minister agrees to provide will be sought by 8 June 2007.

It will also greatly assist Hansard if when referring to the program statements volumes or the consolidated account estimates, members give the page number, item, program, amount in preface to their question.

**Mr R.C. KUCERA:** I refer to page 1002 of the *Budget Statements*. Previously I asked a question about bushfires. The item I refer to under the heading "Distribution" is \$5.1 million for the provision of safety performance and operability of distribution networks. What is the government doing, following the findings of the Tenterden inquest, to improve the safety compliance and reliability of the large rural networks around the town of Esperance?

**Mr F.M. LOGAN:** I spoke about the Esperance region earlier when officers from the Office of Energy were present.

**Mr R.C. KUCERA:** I understand Horizon's area is -

**Mr F.M. LOGAN:** Everything outside the south west interconnected system. Horizon performed valiantly in dealing with the issues that arose around Esperance. The power stations in the area are not owned by the state but by independent power providers. We are not sure what happened as a result of the storm that went through Esperance. The report has not been completed. The power stations were flooded with water from the storm. I went to Esperance to see what the storm did to the gas turbines. Apparently, drops of water went through the air intake and onto the first of the impeller blades on the gas turbine. The turbines run very hot, and a drop of water on a blade can cause it to shatter, even though the blades are made of titanium. Pieces of that blade can go through the rest of the turbine blades and shred them. Six turbines went out, but four were damaged beyond repair and had to be replaced. It was a catastrophe for the town Esperance. The work that was done by Horizon Power in ensuring that the lights stayed on was phenomenal. Horizon got generator sets from all over Western Australia - the north and Perth. Although it was a catastrophe, three hours was the longest time for a power outage in the area. The Independent Power Production was very good because it got turbines flown in very quickly from not only Australia but also the United States. The speed at which the turbines were back in operation was amazing. The work Horizon did was phenomenal.

Chairman; Mr Bob Kucera; Mr Fran Logan; Mr Terry Redman; Mr Paul Papalia; Mr Colin Barnett; Mr John Day; Mr Murray Cowper

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An amount of \$12 million has been allocated over four years to the Esperance rural upgrade project. That will include asset maintenance, capital works and inspection of powerlines across the Esperance district to ensure a reliable power supply in that mini-grid. The day I inspected the turbines at Esperance the helicopters were operating and I was shown what work had been done. They had just finished photographing every single powerline on the Esperance network. To outline how it is operating to date, I will pass over to Mr Hayes.

**Mr R. Hayes:** The program is spread over four years and the first phase, as the minister alluded to, is an asset phase to look at a number of key issues in that network. Particular focus is on the long bay issue, which members are familiar with from recent events. It was one of the causes of clashing powerlines and subsequent damage. The other is overloaded cable joints in the conductor. The work the minister witnessed was the helicopter auditing of that. That is now complete and we have signed a four-year alliance contract with Transfield to carry out the asset management works following on from that period. It will focus on the high priority areas this financial year and next year and will work through the issues in a prioritised sense. The physical work is well underway in this last quarter of the financial year.

**Mr D.T. REDMAN:** I refer to the last item under “Distributions”, at page 1002, which refers to \$2.3 million to refurbish the power stations at Nullagine and Marble Bar. I use that as a lead in because a substantial amount of power generation must come from diesel. Can Horizon provide the annual consumption of diesel that it uses in its remote generators?

[5.40 pm]

**Mr F.M. LOGAN:** We do not have those figures. The member has asked specific questions that normally do not come up in the estimates. Nevertheless, we will provide that as supplementary information. The actual consumption of diesel is decreasing, because of the IPP contracts that Horizon Energy is entering into, particularly in the Broome area, for example, where the new power station will be run on LNG.

**The CHAIRMAN:** What information is the minister undertaking to provide?

**Mr F.M. LOGAN:** We will provide to the member for Stirling information about the total consumption of diesel for 2006-07, and the projected diesel consumption going forward.

[*Supplementary Information No B18.*]

**Mr D.T. REDMAN:** My next question relates to alternative fuel options. As the minister would be aware, I have a bit of a passion for biofuels. The minister has committed to look at alternative, or renewable, energy sources. I presume that commitment extends to Horizon Energy. That might mean that some regional development opportunities could be capitalised on in respect of providing a renewable fuel source for that power generation.

**Mr F.M. LOGAN:** As that is an operational question and relates to the business practices of Horizon Power, I will let Mr Hayes answer that.

**Mr R. Hayes:** I thank the member for the question. We have just tendered for diesel contracts for the forward period. As part of that, we are seeking expressions of interest from biodiesel suppliers.

**Mr D.T. REDMAN:** How far into the forward period?

**Mr R. Hayes:** It is from June this year. I think the contracts are for two financial years.

**Mr D.T. REDMAN:** So is it for the next two financial years?

**Mr R. Hayes:** Yes. The issue that we face, and that we are a bit disappointed about, is that the biodiesel providers have not yet lined up a transport network. We are very keen to look at the biodiesel opportunities going forward, wherever we can. We have just started discussions with one of our major IPP providers to look at substituting biodiesel for the 10 stations that it is currently running for us. That is an issue that we are keen to progress. If we can play a part in that transport network, which is critical to that biodiesel opportunity being reliable and getting up, we will certainly look at that.

**Mr P. PAPALIA:** I refer to page 1002, “Works in Progress”, “Distribution”, and the line item Aboriginal and remote communities power supply. What is the government doing to improve services to Aboriginal communities in particular?

**Mr F.M. LOGAN:** I thank the member for Peel for the question. The line item the member is referring to is the Aboriginal and remote communities power supply program. The first phase of the ARCPS program is fully commissioned. The ARCPS program effectively seeks to normalise power supply in Aboriginal and remote communities. As the member would know, in many Aboriginal and remote communities, the community or regional corporation owns the electricity plant and equipment. It is very expensive to truck diesel into those

Chairman; Mr Bob Kucera; Mr Fran Logan; Mr Terry Redman; Mr Paul Papalia; Mr Colin Barnett; Mr John Day; Mr Murray Cowper

---

remote communities. It is also the case that in many of these communities, people have not been paying their power bills. Therefore, significant economic pressure is being placed on these Aboriginal and remote communities because they are not getting an economic return from the sale of the electricity that they provide. Under the ARCPS program, the ownership and operation of those power stations will be taken over by Horizon, which will effectively be the independent operator and will be delivering the project on the ground. The power stations will be unmanned and will be independently run and monitored. They will be Caterpillar plants that will run on LNG that is trucked into those communities. That is already being done in Kununurra and Warmun, or Turkey Creek. Prepayment electricity meters will be installed in the homes of people in Aboriginal and remote communities. The community members will buy a prepaid card at their local shop. They can then put that card in their electricity meter and consume electricity at their own will.

**Mr R.C. KUCERA:** Back to the future!

**Mr F.M. LOGAN:** It certainly is, member for Yokine! It is like putting a penny in the gas meter - or a thrupence in the gas meter, as I remember it!

That will remove the economic pressure on the community. The community can then grow and develop and put some responsibility onto the families themselves to pay for the electricity that they consume. If they do not want to consume electricity, they do not need to. However, if they do want to consume electricity, they will need to buy a prepaid card and put it in the meter. That is a very successful project, and it will be rolled out into the future.

**Mr P. PAPALIA:** I assume that because private enterprise will be providing that service, adequate provision will be made in case of emergencies.

**Mr F.M. LOGAN:** The project will be operated by Horizon. The provision of the power plants will be through an independent power provider. In terms of backup and safety, I will refer to Mr Hayes.

**Mr R. Hayes:** There are two parts to that backup. The first is for individuals who get themselves into financial strife.

**Mr P. PAPALIA:** That is what I am referring to.

**Mr R. Hayes:** As part of the prepayment system, an emergency credit of \$10 will be installed in each meter. Residents will be given a warning if they are about to run out of credit, and they will then be able to use that emergency credit. The same sorts of policy settings and protections, such as the Ombudsman scheme and the hardship scheme, will apply to these consumers as apply to all consumers of electricity. To add to the minister's explanation, Horizon is the face that the consumers will see. The independent power procurer will have no real relationship with the customers.

**Mr C.J. BARNETT:** I refer to the gas pipeline in remote areas, in two particular cases. The first is the pipeline to Mt Magnet and the Windimurra project. Does the ownership, or part ownership, of that pipeline lie with Horizon and the contractor? What will happen when the Windimurra project recommences next year? The second issue is the power generation at Carnarvon. Is that run on distillate or on gas through the pipeline?

[5.50 pm]

**Mr F.M. LOGAN:** I am informed by Mr Hayes that Horizon is a part owner of that gas lateral and is currently in discussions with PMA. That may or may not seek to bring their operation back up.

**Mr C.J. BARNETT:** I presume that gas is still powering Mt Magnet?

**Mr F.M. LOGAN:** Yes. Carnarvon is mostly powered by gas with diesel back-up.

**Mr C.J. BARNETT:** I would appreciate an update of exactly where the Broome project is at. It has been a long saga - about 10 years - but I gather it is finally coming to fruition.

**Mr F.M. LOGAN:** I will give a brief overview and then will leave the details to Mr Hayes. The Broome project is an LNG project. LNG is produced in Karratha and trucked on a regular basis to a holding tank in Broome. That LNG will then be piped across to Broome. An underground pipeline goes across the whole town of Broome rather than having the LNG tank on site next to the power stations. Eight V12 Caterpillar generating sets have been designed specifically. They are effectively diesel engines but they have been specifically altered to run on LNG. The last I saw was that they were all in place and were being wired up. With respect to the opening of Broome power station and the development so far, Mr Hayes might like to inform the committee.

**Mr R. Hayes:** The power station site in Broome is just about complete. Another four power stations are being redeveloped at Fitzroy Crossing, Halls Creek, Looma and Derby as part of that project.

**Mr J.H.D. DAY:** Will they be powered by LNG as well?

Chairman; Mr Bob Kucera; Mr Fran Logan; Mr Terry Redman; Mr Paul Papalia; Mr Colin Barnett; Mr John Day; Mr Murray Cowper

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**Mr R. Hayes:** Four of them will be powered by LNG. Looma will be powered by diesel. The LNG will be produced at an LNG facility being built by contractor EDL at Karratha. We are looking at commissioning Broome in September this year. Substantial testing has already taken place.

**Mr C.J. BARNETT:** How long has it taken since the expression of interest?

**Mr F.M. LOGAN:** Talking to Tom Stephens, the idea was floated a fair while ago.

**Mr C.J. BARNETT:** In the late 1990s.

**Mr F.M. LOGAN:** I think it was first floated around 1998.

**Mr R. Hayes:** We awarded the contract a couple of months after I arrived. Finalisation of the commercial arrangements occurred in about April or May 2006.

**Mr F.M. LOGAN:** Within one year, the project is nearly completed. That is pretty good going, given the current environment.

**Mr J.H.D. DAY:** Can the minister give us additional information about what he is planning to do in remote Aboriginal communities?

**Mr F.M. LOGAN:** That relates to the ARCPS project that we were talking about earlier.

**Mr J.H.D. DAY:** Where in particular is the focus?

**Mr F.M. LOGAN:** The first phase of ARCPS involves the normalisation and delivery of power to five Aboriginal communities, including Warmun, Bidadanga, Ardyaloon, Beagle Bay and Djarindjin-Lombadina. We are expecting to deliver them by September 2007. The total project will cost about \$12 million over the 2006-07 and 2007-08 budgets. There is a CSO of \$6.9 million in the 2007-08 budget as well. Those are the five ARCPS projects in phase one. The 10 communities for the second stage include Jigalong, Barunga, Yandeyarra, Warburton, Balgo, Mindibungu, Nookenhah, Oombulgurri, Kalumburu and Warakuna.

**Mr J.H.D. DAY:** When will the second stage come into effect?

**Mr F.M. LOGAN:** The second stage is still being negotiated with the commonwealth government in terms of funding arrangements.

**Mr J.H.D. DAY:** When roughly?

**Mr F.M. LOGAN:** We do not know. It is dependent on the commonwealth's approach to funding.

**Mr J.H.D. DAY:** So the commonwealth is contributing to stage 1?

**Mr F.M. LOGAN:** Yes, the commonwealth is contributing and the projects are underway.

**Mr J.H.D. DAY:** By normalisation, does the minister mean that the communities will be charged the standard tariff?

**Mr F.M. LOGAN:** Yes.

**Mr J.H.D. DAY:** Does the minister expect all those communities to operate on a pre-paid basis as he described for Warmun earlier?

**Mr F.M. LOGAN:** It is up to the communities themselves; it is not forced on them. If the communities agree to the pre-paid meter, it is installed. Most of them are opting for the pre-paid meter, simply because, as I just described to the member for Yokine, it takes the pressure off the communities and their budgets. Ultimately, normalisation power is exactly what it is - the delivering of power to large communities. Some of them are very large communities, larger than country towns. They have not been treated fairly in terms of the provision of power, the same as some wheatbelt towns. In fact, they have been treated as second-class citizens. That is what the normalisation program is about.

**Mr R.C. KUCERA:** I refer to "Other Works" on page 1002 and the line item "Distribution". Given what we talked about in one of the previous segments about exploration of mining in that area, can the minister provide details on what is proposed for Nullagine and Marble Bar? A total of \$2.3 million has been allocated for refurbishment of power stations at these towns.

**Mr F.M. LOGAN:** I will ask Mr Hayes to provide some advice to the member on Nullagine and Marble Bar.

**Mr R. Hayes:** At this stage we are into detailed planning on both of those sites. We are hoping to achieve a very high penetration of renewable energy on both of those sites, particularly looking at solar power. We hope that two things will happen on those sites. One thing that will definitely happen is the refurbishment and/or

Chairman; Mr Bob Kucera; Mr Fran Logan; Mr Terry Redman; Mr Paul Papalia; Mr Colin Barnett; Mr John Day; Mr Murray Cowper

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replacement of the diesel generating sets. The other thing that we are investigating as we speak is renewables technologies, particularly solar, on those sites - basically, a complete refurbishment of both sites on the current generation station sites.

**Mr R.C. KUCERA:** I assume that that would service the particular towns themselves and not be part of an integrated grid.

**Mr R. Hayes:** Yes, that is correct.

**Mr M.J. COWPER:** A question was asked by the member for Darling Range about the \$12 million being spent on stage 1. What is the recurrent cost of operating those power stations in those remote communities? What rate will the community members be charged in comparison to metropolitan areas?

**Mr F.M. LOGAN:** As I indicated earlier, they are charged the same tariff rate as we are in the metropolitan region, hence the reason for normalisation of power.

**Mr M.J. COWPER:** What is the recurrent cost of operating?

**Mr R. Hayes:** There is an annual CSO for the first year of \$6.9 million, which is pretty representative of the years going forward.

**Mr M.J. COWPER:** What is the population of those communities that the minister mentioned?

**Mr F.M. LOGAN:** They range in size. They have populations of up to 400 or 500 people. They do vary in size as people move around. Some of these communities are a lot bigger than country towns.

**Mr M.J. COWPER:** Does the minister not know the populations in total?

**Mr F.M. LOGAN:** As I said, there are towns of 400 or 500 people. I am not talking about people spread over the whole area.

**Mr M.J. COWPER:** I have worked and lived in these towns so I know what they are like.

**Mr F.M. LOGAN:** The member would know that the population goes up and down. Warburton, for example, has a population of about 400 people. For example, I went to one town that had 1 200 people. It is significant. As we have indicated, these people should not be treated as second-class citizens when it comes to the provision of electricity.

**Mr J.H.D. DAY:** Will the minister ensure that proper protocol is followed and that the opposition is invited to the opening of the Broome power station?

**Mr F.M. LOGAN:** Which of the two members wants to come up on the jet to Broome?

**Mr C.J. BARNETT:** I will make my own way there.

**Mr J.H.D. DAY:** I am not referring to transport arrangements.

**Mr F.M. LOGAN:** If the members for Cottesloe or Darling Range would like a trip up there -

**Mr J.H.D. DAY:** In recent years this government has been very shoddy in the way that it does not follow due protocol in relation to government events.

**Mr F.M. LOGAN:** I would hate to remind the member of what it was like under the previous government.

**The CHAIRMAN:** That completes the examination of Horizon Power and the estimates committee for this section.

*Meeting suspended from 6.00 to 7.00 pm*