

Chairman; Mr Ben Wyatt; Mr Bill Johnston; Mr Tony Krsticevic; Ms Andrea Mitchell; Mr Joe Francis; Mr Bill Marmion; Mr Martin Whitely

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**Horizon Power** —

Mrs L.M. Harvey, Chairman.

Mr W.R. Marmion, Minister for Commerce representing the Minister for Energy.

Mr R. Hayes, Managing Director.

Mr B. Stevenson, Manager, Financial Planning.

Mr B. Stratton, Chief of Staff, Office of the Minister for Energy.

[Witnesses introduced.]

**The CHAIRMAN:** The member for Victoria Park.

**Mr B.S. WYATT:** I refer to Page 595 of the *Budget Statements*. The estimated total cost for redevelopment of the Carnarvon power station is \$79.7 million, which is about \$10 million less than the \$90.4 million estimate in the 2009–10 budget. Firstly, what is the reason for that change? Secondly, the government makes the point that the Carnarvon power station will take advantage of renewable generation. Can the minister outline how it will do that?

[8.00 pm]

**Mr R. Hayes:** There are two questions: firstly, what is the difference between the \$90.1 million in the total estimate and this year's budget? The aim of the project is to move from the current site to the new site in the most efficient manner possible. We are attempting to utilise the remaining life of the newest assets on the current site and progressively move onto the new site. As a consequence, \$10 million is outside the forward estimates period. That will occur in 2016–17 at the very end of the remaining life of the two gas-fired assets.

**Mr B.S. WYATT:** Will the cost be the same, except that it is taking longer to incur those costs?

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

**Mr B.S. WYATT:** What about the renewables?

**Mr R. Hayes:** The second part of the question is about renewables. The intention of the design of the redevelopment is to make it ready for renewables penetration, which will either be photovoltaic, we hope, or wind, somewhere down the track. The system is specifically designed to be flexible enough to take a very high penetration because it is quite a tricky system. Further down the track, whether we build a wind farm or a PV farm is subject to a business case to be done some time in the future.

**Mr B.S. WYATT:** Is there an indication how far down the track those renewables will start coming on?

**Mr R. Hayes:** At this point no. The intent is for the redevelopment to provide for Carnarvon for the foreseeable future—for the next five to 10 years. As the load and profile grow for Carnarvon, our next step will be renewables. The intention is to do that, triggered by whatever is happening in the development of Carnarvon, and to use that renewable penetration as the next sort of tranche for generation when demand requires.

**Mr B.S. WYATT:** Does Horizon see the photovoltaic or the wind power coming from Horizon investment or from third party investment?

**Mr R. Hayes:** At this stage we do not have a fixed view on that. We see potential future opportunity for it. It will be highly integrated into the power station, which will be a Horizon Power asset, so our first inclination is towards a Horizon Power-owned asset, but not exclusively. Our intention is to build a business case and look further down the track.

**Mr W.J. JOHNSTON:** I refer to page 595. The asset investment program estimated outcome for 2009–10 is \$145.316 million and for 2010–11 it is \$155.619 million and in the out years, the figures are \$128.874 million, \$57.292 million, then way down to \$36.128 million for 2013–14. I note from page 234 of budget paper No 3 that in those two last years, when there is a dramatic reduction in the expected capital expenditure, a very substantial dividend is being paid to the state of \$19.658 million in 2012–13, and \$21.431 million in 2013–14. Can the minister explain why there will be an intended dramatic reduction in capital expenditure? Why is the government going to start taking such a large dividend out of Horizon at the time it is reducing its capital expenditure?

**Mr W.R. MARMION:** I refer that question to Mr Hayes.

**Mr R. Hayes:** There are probably two key parts to the capital spend profile. The Pilbara underground power program probably distorts the 2009–10, 2010–11 and 2011–12 from what we would consider to be an average spend profile. That is pretty substantial; it amounts to \$130 million, and in 2012–13 and 2013–14 it tails right down. The program is designed to have quite a lot of crossover in the first three years. In the last two years it is down to Onslow and Roebourne, so it is a much lower spend.

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[8.10 pm]

The other factor is that in terms of the enhanced expenditure in the program for core asset management replacement, Horizon is subject to an ERA efficiency review through the remainder of this year, reporting in March 2011. As a consequence, through this budget process, funding is approved for the additional expenditure that we asked for in core asset replacement. The rest of that spend is subject to that ERA efficiency review, assuming that it confirms what we are saying about what needs to be in the asset base.

**Mr W.J. JOHNSTON:** Horizon is not currently paying dividends and is not expected to pay dividends for the next two years, but then it starts paying significant levels of dividend. I understand the explanation about the expected capital expenditure profile but it seems interesting on the surface that it starts to pay dividends at the same time as the capital expenditure profile winds down. Is there any issue that the minister wants to elaborate on to explain that to us?

**Mr W.R. MARMION:** Not me personally. Maybe there is something further Mr Hayes could add regarding the dividend side of the question.

**Mr R. Hayes:** In terms of the timing of the dividend payment, it is really around the recoupment of losses and when Horizon returns to a position where it can afford to pay dividends, having recovered the losses that we made in the second and third year of operation. Under the government's dividend policy, that is when the timing starts to kick in and we will be in a position to pay a dividend. It just happens to coincide timing wise. It is just coincidental with those other factors that I described before.

**Mr W.J. JOHNSTON:** I have a final question on this topic. Is Horizon confident that it will make that income profile to start paying those dividends? In the budget papers there is what I would call a glide path for future increases in costs. Is Horizon's dividend matched to that glide path and is it confident that that glide path will work for it and deliver those returns?

**Mr R. Hayes:** As confident as one can be looking out five years, everything that we see tracks towards that outcome.

**Mr A. KRSTICEVIC:** I refer to page 595 and the line item relating to the Pilbara underground power project. I ask the minister to outline the benefits of this project.

**Mr W.R. MARMION:** The Pilbara underground power project builds on the success of the state underground power program, an initiative of the Court government under which 50.1 per cent of homes in the Perth metropolitan area now have underground power. Unfortunately, there are a few suburbs in my electorate that do not.

**Mr B.S. WYATT:** As with mine.

**Mr A. KRSTICEVIC:** And some priority ones in mine.

**Mr J.M. FRANCIS:** And mine.

**Mr W.R. MARMION:** I should not have said that!

**Mr B.S. WYATT:** Is the minister offering to spend some money around the metropolitan area?

**Mr W.R. MARMION:** I return to the Pilbara underground power project. It is a significant component of the Pilbara revitalisation plan, which is funded under royalties for regions' regional infrastructure and headworks fund. The project is funded by a \$100 million contribution from royalties for regions and a \$30 million contribution from local governments. The project is intended to provide cyclone-prone north west towns with a safe and reliable power supply by replacing aged overhead electricity infrastructure with underground networks. The project will dramatically reduce significant safety risks and the likelihood of power outages to essential services, regional residents and businesses during and immediately following adverse weather events. The scope of the project covers Karratha, South Hedland, Onslow and the remaining overhead network in Roebourne.

**Mr B.S. WYATT:** I have a follow-up question. Does the minister have a date of completion for those towns of Karratha, South Hedland, Onslow and the remainder of Roebourne? Does he expect the \$30 million contribution from local government to be recouped from property owners?

**Mr W.R. MARMION:** I will ask Mr Hayes to respond to that.

**Mr R. Hayes:** As to completion dates, I will have to take that question on notice so I can be very precise about it.

**Mr B.S. WYATT:** I can take supplementary information if that is easier.

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**Mr R. Hayes:** I can provide the dates. The second part of the question about how local government recoups the cost is fundamentally a policy issue for the councils. Each council is quite entitled to do that out of retained earnings or rates or other issues. Each council is considering that at the moment.

**Mr B.S. WYATT:** Whilst Horizon is dealing with the various local government authorities, is it the expectation at the moment that it will be recouped through each property owner?

**Mr R. Hayes:** I cannot give an accurate answer because it is still under negotiation.

**Mr B.S. WYATT:** Is the minister happy to provide that supplementary information?

**Mr W.R. MARMION:** Yes.

**Mr B.S. WYATT:** I had a follow-up question which, when I think about it now, is probably more attuned to the supplementary information. The first part of the supplementary information asked for the time frame of completion of those towns. Will all houses in each town be covered?

**Mr W.R. MARMION:** The member is after the scope of the program and the time frame of when each of the projects is done in town.

**The CHAIRMAN:** Minister, could you define precisely for *Hansard* what you are providing?

**Mr W.R. MARMION:** I am prepared to provide for the towns of Karratha, South Hedland, Onslow and the remaining overhead network in Roebourne the time frame for the underground power projects that are specifically designated for those areas and the scope of the project in terms of what percentage of the towns will be covered by that work.

[*Supplementary Information No A56.*]

**Ms A.R. MITCHELL:** I refer the minister to the first paragraph on page 594. It specifically talks about the safety, reliability and quality of supply for customers in regional Western Australia. Could the minister give us a bit more information about the reliability of regional power supplies at the moment and in the future?

**Mr W.R. MARMION:** Of the 34 systems operated by Horizon Power, 29 exceeded reliability standards in 2010, which is an improvement of 18 per cent since 2006. Four years ago regional customers experienced an average of six interruptions to their power supplies a year. In 2010 there was an average of less than three outages per customer, an improvement of 54 per cent in four years. An upgrade of Horizon Power's asset management systems, collaboration with independent power producers, more targeted investment in capital upgrades, the employment of central services officers and other measures have resulted in quicker response times to ensure that disruption to regional customers is kept to an absolute minimum.

**Mr J.M. FRANCIS:** My question relates to the second paragraph on page 594, in particular, the statement —

Since the creation of Horizon Power, regional Western Australia has benefited from a regionally focussed asset investment program that is part of a deliberate strategy to upgrade ageing infrastructure to ensure electricity is available in a safe and reliable manner to all regions in Western Australia ...

Rather than just talking about the Pilbara and Karratha, can the minister elaborate on what safety-related projects Horizon Power is undertaking to drive safety performance across all of regional Western Australia?

[8.20 pm]

**Mr W.R. MARMION:** Horizon Power's capital works program is focused on upgrading the ageing infrastructure, which is obviously a principal cause of unsafe conditions, and ensuring electricity is available in a safe and reliable manner to all regions in Western Australia. Across the period the government, through Horizon Power, will invest \$121.2 million in improving safety and reliability, and the integrity of its electricity distribution networks. This includes an additional allocation of \$2.7 million in 2010–11. In addition to a range of district-specific safety programs, Horizon Power is implementing a number of major programs, including the Pilbara underground power project, funded through royalties for regions in conjunction with local governments in Karratha, South Hedland, Onslow and Roebourne. Other programs include the Esperance network rural upgrade project, which is focused on improving safety outcomes; reducing risks through replacing old wooden poles with steel poles; reducing the distance between poles to prevent lines clashing, causing fires; and replacing large sections of powerlines. So that should add a great deal to the safety of our powerline system. Also, other programs are bushfire mitigation through replacing dropout fuses with fault tamers, which prevent a spark that causes bushfires. Another program is the twisties replacement program. Members might be very interested to know what the twisties replacement program is; I was very interested to know. It relates to replacing all twisty-type overhead customer connections with safer, non-conductive PVC service connections. Horizon Power has replaced 18 595 overhead services since 2006, with only 2 227 connectors remaining. Horizon Power is on target

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to replace these connections by the end of next year, so we will have the new twisty-type overhead PVC conductors, which are a lot safer than the current ones.

**Mr J.M. FRANCIS:** I have a further question on this. I am honestly curious to find out how we are going with our plan to replace old power poles. I am aware of some criticism that has come in the past from previous governments, and, indeed, from this government, about the program. I wonder whether we can get an update on how we are going with the replacement of old power poles and what kind of time frame it is to replace a pole once one has been identified as being dangerous.

**Mr W.R. MARMION:** That is a very good question, member. I will ask Mr Hayes to tell us where we are up to in terms of the wooden power poles.

**Mr R. Hayes:** In terms of replacing and upgrading the power poles, the initial focus for us was the large rural network in Esperance, and particularly focused on the three-phase network. Based on risk, if the three-phase network fails in service, it is significantly riskier than the single phase. At the end of last year—in December 2009—we completed that program of both replacing all poles that were outside our condition and age profile in the three-phase network and addressing the long bay issue, which has been consistently one of the causes of clashing conductors and, therefore, bushfire risk. Our work on the three-phase network in Esperance is complete, and we now are moving on to our investment in the single-phase network, where we have a very small customer base on the very outskirts of that wooden pole base network. Our program there is a three-year program to work our way through the highest key risks in that network, and we are tracking according to budget.

The other part of the question was about how long it takes to replace a pole once it is identified. When we inspect a pole and assess its condition, we rate that condition in one of four ways. One is urgent, which means we are scared that it is about to fall over, in which case we replace it within 48 hours. It then has three months or one year, or is left until the next inspection cycle.

**Mr J.M. FRANCIS:** That is an excellent answer.

**Mr M.P. WHITELY:** The minister would be aware that the Office of Energy has made no provision to fund the feed-in tariff, but it is going to be funded by Horizon.

**Mr W.R. MARMION:** I am sorry, member; which —

**Mr M.P. WHITELY:** I am referring to page 594. The minister would be aware that —

**Mr W.R. MARMION:** Which line item?

**Mr M.P. WHITELY:** It relates to the feed-in tariff that is going to be funded by Horizon Power and Synergy. It relates to the operations of Horizon Power. How many of Horizon's residential customers are expected to take advantage of the government's net feed-in tariff scheme, and what allocation has been made to fund the feed-in tariff in the 2010–11 financial year and over the out years?

**Mr W.R. MARMION:** I am not sure whether Horizon Power is responsible for this. Perhaps Mr Hayes might want to comment on that, if he can, if Horizon has some involvement in this; or does the Office of Energy deal with this?

**Mr R. Hayes:** It is a policy issue and a planning issue for the Office of Energy.

**Mr W.J. JOHNSTON:** Can I clarify that? Who is funding the feed-in tariff?

**Mr M.P. WHITELY:** That is the basic question. It is not funded by the Office of Energy's budget, so where is it funded? There is no provision for it in the Office of Energy's budget.

**Mr W.R. MARMION:** It is not anything to do with Horizon Power in terms of its responsibility. The member should have asked this question of the Office of Energy.

**Mr M.P. WHITELY:** But how can we ask it when there is no provision for it in the Office of Energy budget? Presumably, if it is not in the Office of Energy —

**Mr W.R. MARMION:** I do not have any Office of Energy papers in front of me.

**Mr W.J. JOHNSTON:** Put it this way: is the feed-in tariff available to customers of Horizon?

**Mr W.R. MARMION:** Does the member mean the new feed-in tariff that the Minister for Energy announced? Is that available to Horizon customers? The answer is yes.

**Mr W.J. JOHNSTON:** So who is funding the feed-in tariff?

**Mr W.R. MARMION:** It is not Horizon.

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**Mr M.P. WHITELY:** It is not in the Office of Energy budget and it is not funded by Horizon and it is not funded by Synergy.

**The CHAIRMAN:** I suggest that it may be a matter for a question on notice to the minister, if it is not pertinent to Horizon Power.

**Mr M.P. WHITELY:** Just as a follow-up —

**Mr W.R. MARMION:** Does the member want that question as supplementary —

**Mr W.J. JOHNSTON:** Did the minister say a question on notice or as supplementary information?

**The CHAIRMAN:** It cannot be provided as a supplementary information request because it is not part of Horizon Power. Therefore, my suggestion is to put it as a question on notice to the minister.

**Mr W.R. MARMION:** Yes. That is a good idea.

**Mr M.P. WHITELY:** Where is it going to be funded?

**Mr W.R. MARMION:** Put a question on notice to the minister and the member will find out.

**Mr M.P. WHITELY:** Horizon will be paying 18.93c per kilowatt hour under the renewable energy —

**Mr W.R. MARMION:** Sorry, member; on what page is this and what is the line item?

**Mr M.P. WHITELY:** It is page 594, and it relates to the operations of Horizon Power.

**Mr W.R. MARMION:** Yes.

**Mr M.P. WHITELY:** Horizon is going to be paying 18.93c per kilowatt hour under the renewable energy —

**Mr W.R. MARMION:** Whereabouts does it say that?

**Mr M.P. WHITELY:** It is to do with the operations of Horizon Power, so it relates to —

**Mr W.R. MARMION:** It is a discussion point, yes. Does the member want to relate it to something, such as the asset investment program?

**Mr B.S. WYATT:** How about a regional-focused asset investment program? Is that broad enough for the minister?

**Mr W.R. MARMION:** Yes.

**Mr M.P. WHITELY:** What is currently paid through the renewable energy buyback scheme, and how is the 18.93c figure calculated?

**Mr W.R. MARMION:** I think this may relate to Synergy; but, if it does not, Mr Hayes will be able to provide an answer.

**Mr R. Hayes:** For Horizon, under the renewable energy buyback scheme, we actually pay a buyback rate that is calculated system by system, so it is a variable rate depending on the marginal cost of generation for us in each town—essentially that is what we offer—which is funded by us. Therefore, it is a replacement, if one likes, one for one, displacing our ordinary form of generation with renewables generation, and that is how our part of the scheme works.

[8.30 pm]

**Mr B.S. WYATT:** I refer to page 594 on regularisation. Which two communities is the minister talking about that have had phase 1 and 2 work completed already, and at what cost? No doubt the minister in his answer will outline the benefits for those communities, so that I do not need to ask the question. I am sure that is a nice little dorothea dixer for him!

**Mr W.R. MARMION:** I will refer that question to Mr Hayes to say where the two communities are and the benefits of the \$25.8 million program.

**Mr R. Hayes:** I am sorry, was the member asking about phase 2?

**Mr B.S. WYATT:** Which are the two communities?

**Mr R. Hayes:** We know certainly the name of the first community, which is Kalumburu. The intended second community was Yungngora.

**The CHAIRMAN:** I am sorry, that is time, and that completes the examination of Horizon Power.