

**STANDING COMMITTEE ON ESTIMATES AND
FINANCIAL OPERATIONS**

2012–13 AGENCY ANNUAL REPORT HEARINGS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
TUESDAY, 28 JANUARY 2014**

**SESSION THREE
HORIZON POWER**

Members

**Hon Ken Travers (Chair)
Hon Peter Katsambanis (Deputy Chair)
Hon Martin Aldridge
Hon Alanna Clohesy
Hon Rick Mazza**

Hearing commenced at 3.26 pm

Mr FRANK TUDOR

Managing Director, examined:

Mr DAVID TOVEY

General Manager, Corporate Services/Company Secretary, examined:

Mr EDWARD BRERETON

General Manager, Power System Services, examined:

Mr BENJAMIN HAMILTON

General Manager, Commercial Services and Finance, examined:

The CHAIR: Thank you for your attendance. On behalf of the Standing Committee on Estimates and Financial Operations, I welcome you to today's hearing. I ask each witness to confirm they have read and understood the document headed "Information for Witnesses".

The Witnesses: Yes.

The CHAIR: Witnesses need to be aware of the severe penalties that apply to persons providing false or misleading testimony to a parliamentary committee. It is essential that all your testimony before the committee is complete and truthful to the best of your knowledge. This hearing is being reported by Hansard and a transcript of your evidence will be provided to you. The hearing is being held in public, although there is discretion available to hear evidence in private, either of the committee's motion or at a witness's request. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session before answering the question. Government agencies and departments have an important role and duty in assisting Parliament to review agency outcomes on behalf of the people of Western Australia. The committee values your assistance with this.

Do any of the witnesses wish to make an opening statement or shall we go straight to questions?

Mr Tudor: We are happy to go to questions.

Hon MARTIN ALDRIDGE: I have a question before we get further into the hearing. Your financial report for 2012–13 was tabled in Parliament. Did you also table your annual report? I guess the next question is why are they separate?

Mr Tudor: I think we will have to take that on notice. We would have thought that they were both tabled at the same time.

Hon MARTIN ALDRIDGE: Is there any reason the two documents have been separated?

Mr Tudor: No.

[Supplementary Information No C1.]

Hon MARTIN ALDRIDGE: Page 48 of your annual report lists two special advisers to the board—Mr David Powell and Mr Ian Fletcher. Could you advise the level of remuneration of the special advisers to the board?

Mr Tovey: I could not tell you a precise number, but we can certainly take that on notice and provide that as supplementary information.

[Supplementary Information No C2.]

[3.30 pm]

Hon MARTIN ALDRIDGE: I am happy to go to someone else for the time being.

Hon ALANNA CLOHESY: I understand that over the last two financial years, Horizon Power's workforce has decreased. By what percentage has it decreased?

Mr Tudor: These are approximate numbers. We had probably around 540 positions; not all of them would have been filled. I think we most recently announced that we were looking at reviewing positions and were going to be cutting back in two stages by 240. I think the statement we made is that about 110 would leave before the end of the last calendar year. I think 105 positions have been removed from the organisation consistent with that, and as a result of that, about 82 people left the organisation at the end of the calendar year.

Hon ALANNA CLOHESY: So about 110 FTEs?

Mr Tudor: Yes; and we have another 130 positions that will be leaving or made redundant by the middle of this year.

Hon ALANNA CLOHESY: As a result of the reduction of 110 FTE, what services have been changed or interrupted?

Mr Tudor: We are anticipating that no services will be changed or interrupted. The intention is to continue with reliable supply, as we have always done.

Hon ALANNA CLOHESY: How can that be when you lose 110 FTE and another 130 FTE are proposed to be lost? How can that not have an impact on the level and type of service that you provide?

Mr Tudor: I think if I can go through the context. Since inception we have been delivering on a capital program of about \$1 billion, which has resulted in quite a number of power stations being built, the Esperance rural network being upgraded to be compliant with Australian standards, and we have had ongoing undergrounding of network program in the Pilbara. A lot of work has been delivered. We have also indirectly or directly underpinned investment made by independent power producers and we have signed up to contracts that probably over that same period are around \$2 billion worth, which is underwritten investment. That capital program is coming off, so there are significant changes we can anticipate and make as a result of that. We have certainly also taken the opportunity to look at the business quite severely internally in terms of efficiencies that we can make, particularly process simplification and how we conduct the asset management program and the review that we go through. A lot of this is built on becoming familiar with the integrity of our assets, becoming familiar with our assets and building on that to actually make some fairly significant changes in financial reporting and the delegation of financial management into the organisation, in particular into the regions to do away with duplication, which has been an important part of what we are contemplating. This means that we put more capability and more accountability into the regions. As you will have seen, many of the jobs that we are talking about will be removed from Bentley in Perth, which is seen as the corporate centre. A lot of the changes we have been talking about will be directed there. There is a raft of initiatives that are going through the business at the moment to deliver these changes. It is not one—quite a number of things are going on.

Hon ALANNA CLOHESY: What consultation with the staff was undertaken prior to the announcement of the loss of those 110 FTEs?

Mr Tudor: Through myself, we have kept the staff apprised fully. At the time that we came to the decision to make the changes with full consultation of the board and support of the government, we were upfront with the staff. We made announcements to all of the staff, through myself here in Perth and then through videoconferencing to the various site offices we have. That was all done within one day. People who were affected were spoken to before that personally, so there has been

individual consultation to allow people to know of their particular circumstances and to work through that. Our approach has been to be upfront and to actually set the story in terms of why we have chosen to make the changes and how it will impact on individuals. That process of consultation has continued as we have gone through the program. I think we have done as much as we can to account for individual circumstances, balancing circumstances of individuals against what we need to make sure that services are not interrupted in the business.

The CHAIR: I just have one quick question on that. Is it the intention to replace any of those FTEs with outside contractors coming in to do some of the work that people were doing previously?

Mr Tudor: No; we certainly are, however, looking at various initiatives. One would be in our engineering and design area, to actually test the market, which we are actually in the process of doing at the moment, to see whether we can strike the right sort of arrangement with an appropriate contractor to actually allow us to outsource effectively engineering and design work. That decision has not been made because the process is ongoing at the moment but that is an example of where we would be taking jobs that would otherwise be done internally and be effectively —

The CHAIR: So that would be further redundancies.

Mr Tudor: No, that is included in the numbers that we are talking about. So when I talk about 240 positions that will be made redundant by the middle of this year, that includes a view that we will be able to strike the right arrangements with a contractor.

The CHAIR: How many of the positions relate to that work of that second tranche of 130-odd positions?

Mr Brereton: Currently we have 55 FTEs within the engineering and projects group. How many of them will be outsourced will be dependent on the response we get, which is being evaluated at this point in time, and, as Frank said, striking the balance between maintaining your core competency within your business and what you need to outsource. Also, as mentioned earlier, with our capital works program, we have gone through a fairly extensive period and looking forward, that is going to be fairly cyclic on the demand on people we need. That is why we have explored this opportunity. If we get a suitable service provider, they can provide continuity of employment, whereas ours would be quite intermittent as we look forward on our works program. How many of those 55 will go will depend on the evaluation we do.

Hon PETER KATSAMBANIS: Just on this, effectively what you are saying to us is that you will reduce almost half of your staffing levels over an 18-month period or so, yet still be able to deliver what you have been delivering into your allocated region over time.

Mr Tudor: That is correct.

Hon PETER KATSAMBANIS: If that is the case, and I appreciate that some of the staff are no longer going to be engaged and will be made redundant or moved on or not replaced, I appreciate that some of those may have had roles that have terminated, but, taking those people aside, would they not indicate a significant level of featherbedding over the period of time leading up to the decision to reduce your staff by this extraordinary number?

Mr Tudor: Since inception we have gone through a period of having to build capability in the business, which we have done. We have had a very extensive capital program which has needed to be delivered and which I have talked about; \$1 billion in direct investment and \$2 billion of contracts that have been underwritten by us which has led to investment being put in the regions. That does not continue into the future. So the question is: when you are faced with that what do you do? Do you simply refine the organisation or do you take that as one of the triggers to actually radically look at how you could potentially deliver the same service through different means? That is what we have chosen to do. We are also looking at, as I say, simplification. In some cases that may mean internally reporting and things look very, very different to what they have been. But I

think, for a number of reasons, and I have described some of them, we have taken the opportunity to look at the business in a very different way.

Hon PETER KATSAMBANIS: A significant percentage of your operations—correct me if I am wrong—around 30 per cent are subsidised by people outside of the region that your service either through a levy of electricity provision to others or through direct taxpayer subsidy. Again, the question is: has this money been going to fund positions that really did not add any value to your organisation?

Mr Tudor: As I have said, our view would be that we were put in place at the time of inception with very little thought to what the business needed to actually run as a business. Through the process of the last six years we have been building IT systems that have actually supported billing, that have supported asset management, that have supported enterprise projects that we have needed to deliver. We have dealt with a significant backlog of work that has needed to be put in place—Esperance is a great example. We had, with our wooden poles, an unassisted pole failure rate of around 3.5 to four per 10 000 poles. We have put in place a \$50 million program that has brought that down to about one in 10 000 unassisted pole failure rate which is where we want it to be. It is also made sure that our wooden poles are compliant with Australian standards. We are in the position now; we have delivered that work program in the middle of last year. That was dealing with legacy issues. I can cite any number of projects: the West Kimberley project that is delivering power to about five or six localities, including Broome, that has delivered through the first five or six years of Horizon's inception. There is a lot of work that has been done. We are now faced with that work, that investment having been put in place—what can we do and what should we do to actually take account of that and put in place an organisation that is fit for the future and what we need to deliver in the future, along with the capital program? We have taken the opportunity to actually to look at radically changing the business and the model of the business.

Hon RICK MAZZA: I see that you have a Pilbara underground power project. Can you tell me a little bit about that? Are you putting cable underground that is high tension cable? What cables are you actually putting under the ground?

Mr Tudor: We are not undergrounding the transmission system that exists up there—the 220 that exists between Karratha and Port Hedland will be left alone. That will be an above-ground system. That is reasonably robust and, except for the last cyclone, has typically proven to be pretty strong and we have not had too many issues with it—except for cyclone Christine. The program is targeted at the distribution network, which is the lower voltage network that we have through Karratha and Port Hedland and getting that undergrounded. Port Hedland had already been done before the inception of Horizon so what we have continued to do is actually do South Hedland and Wedgefield and that program was completed before cyclone Christine so we had some of the benefits of that already being felt in Hedland. All of the distribution, the vulnerable parts of Hedland have now been undergrounded. We have also been focusing on Karratha where we have probably done about 1 300-odd houses out of about 2 500. The work program there is still not complete but we have done a number of the suburbs and we still need to continue that work program. Again, it is targeted at the vulnerable overhead distribution network. With cyclone Christine, that was hit and we had significant damage as a result of that. At one point in Karratha we had 7 000 customers without power. That is a direct consequence of a hit from a cyclone taking out a fairly vulnerable distribution network poles and assets.

[3.45 pm]

Hon RICK MAZZA: In that particular north west Kimberley region, do you still predominantly use wooden poles.

Mr Tudor: No. The poles in that part of the world are mainly steel. Most of our wooden poles are in Esperance. We have tended historically to actually determine, by soil conditions and also the

weather conditions, to put in poles that are appropriate for those conditions. Wooden poles are mainly in the south, and as we go further north, particularly in the Pilbara, they are mainly steel.

Hon RICK MAZZA: With your power generators, are they mainly coal-fired power stations or gas?

Mr Tudor: We have got a mix across the state. It depends whether we own them or whether we engage with an IPP. In the north, in the East Kimberley we have pac hydro—that is a hydro scheme—that is supplying us predominantly with power.

Hon RICK MAZZA: Sorry; a hydro scheme?

Mr Tudor: Yes.

Hon RICK MAZZA: Where is that coming out of—the Ord River?

Mr Tudor: Yes. That has been there for quite some time. We have combinations of diesel and solar, and diesel and wind in a number of locations. We have compressed natural gas also at Exmouth. We have the West Kimberley project as I mentioned, which has been delivered recently through an independent power producer. It also takes domestic-scale LNG and distributes LNG through trucks to five locations in the West Kimberley—so that is gas-fired but the means of transportation is through trucks and LNG. Of course, we also have gas-fired stations of the type that we are building at Mungullah and Leonora, and we still have very remote towns that are fired by diesel. We have a vast array of different fuel sources for the generation that we have.

Hon RICK MAZZA: With the wind generators that you have, are the maintenance costs on those very high, say, compared to diesel or —

Mr Tovey: We do not own any wind generation. We only buy energy from third parties with respect to wind. We have no insight into the maintenance costs of those units.

Mr Tudor: They are imbedded in the terms of a power purchase agreement—for example in the case of Esperance.

Hon MARTIN ALDRIDGE: The costs are imbedded in the power purchase agreements but are they more costly than traditional forms of generation; for example, hydro in the Kimberley and wind in Esperance, did you say?

Mr Tudor: If I look at the processes that we now follow, for example, in the Pilbara we are running a competitive process, seeking expressions of interest from any number of independent power producers to provide our power requirements. Typically we would not be very specific. In the Pilbara, it is obvious that it is gas, but we would allow quite a bit of flexibility for the independent power producers to choose their configuration of machinery. We might be incentivising them to look at renewables if we think renewables can play an economic part in the packaging of a generation unit, but we typically run that through a competitive process. Mostly we do get people who are interested in contracting with us, particularly as a government trading organisation that presents a certain unique opportunity in terms of our credit rating. That process, I think, tends to ensure that we get competition. If we allow the right flexibility and only specify the performance standards that we expect, then we will get the ingenuity coming in on the IPP side to configure the optimal type of generation for the location that we are looking at.

Hon MARTIN ALDRIDGE: Is there any policy pressure on Horizon Power to consider renewables? Obviously the whole renewable landscape is changing in terms of abatement of carbon emissions and things like that. What are the pressures on Horizon as an agency to meet certain targets or are you within the realm of any existing targets that are placed on you?

Mr Tudor: I think we are in the realm and we tend to look at everything from a value perspective. If there is value in actually putting in wind or if there is value in tapping into solar, we would let that run on its own merits economically and then put a case up to the board and through the

ministerial process to actually secure the funding for that. The only exception to that could be the Murchison array observatory project. We are working hand in hand with CSIRO to deliver a pilot project which will have diesel and renewable combined as a package, but there the objective is not so much the pure economics of that project, it is to put in place a project that is commensurate with the scientific objectives and profile of that particular Square Kilometre Array project which I think is important to the state and Australia.

Hon MARTIN ALDRIDGE: Hon Rick Mazza asked a brief question about the Pilbara underground power project. What state of completion is that project at?

Mr Tudor: The Hedland area is 100 per cent complete. I think Karratha is probably shy of 50 per cent still, so it is not up to 50 per cent. In aggregate, the project is probably closer to about 60 per cent because we have ordered some material. We have done some design that allows us to fast track the remainder of the Karratha area.

Hon MARTIN ALDRIDGE: What is the state's obligation in terms of financial input into that project?

Mr Tudor: The beauty of undergrounding is that you can stop at any suburb and you enjoy the benefits that you have put in place. If you choose to stop and not go forward, you can do that. The state has no obligation to continue the program. What we have done is put forward a business proposal that looks at the merits of completing the work in Karratha, Roebourne and Onslow. The benefits of that proposal quite clearly demonstrate that continuing undergrounding is worthwhile. What is interesting about the work we have done is when you look at a project like the undergrounding of the network in Karratha, you can see that some of the benefits will flow to the general business community because if we have undergrounded networks that means we are going to keep people away from work less because we do not have to go and rectify damage to assets. They can go back to work immediately once the winds subside. There is real hours saved in actual GDP output from the area.

Hon MARTIN ALDRIDGE: That is obviously talking about expanding the project. Originally, the scope was just Karratha and Hedland?

Mr Tudor: Correct. This is about completing the original scope of the project.

Hon MARTIN ALDRIDGE: The original scope was to do which towns—Karratha, Hedland as well as Onslow and the others?

Mr Tudor: Correct.

The CHAIR: One hundred per cent in each town?

Mr Tudor: Yes. It was not the high-voltage transmission lines but it was certainly the vulnerable distribution —

Hon PETER KATSAMBANIS: That was the proposal. What were you funded to achieve in the first stage?

Mr Tudor: At the time we were funded to achieve 100 per cent. We thought that the money that had been put up would achieve that, but it did not.

Hon MARTIN ALDRIDGE: And then there was an increase in costs?

Mr Tudor: Correct.

Hon MARTIN ALDRIDGE: Is that why the project is perhaps at that point where it might not go beyond Hedland and Karratha unless more budget funding is appropriated?

Mr Tudor: Yes. We have been very prudent to ensure that we spend within the budget that has been allocated; that is \$130 million. The work that we have done is commensurate with operating within that budget.

Hon MARTIN ALDRIDGE: How much do you need from the state to complete the original scoped project?

Mr Tudor: We need an additional \$100 million, which would be a contribution from the state through the royalties for regions program of \$75 million and the remaining \$25 million would come from the shires.

Hon MARTIN ALDRIDGE: The original project was \$130 million and costs increased by another \$100 million?

Mr Tudor: Correct.

Hon MARTIN ALDRIDGE: What were the reasons for those increases?

Mr Tudor: When we originally did the estimates—this was done with what was the Office of Energy at the time and predates the existing management team—it was done based on work that had been done in Port Hedland. If I use rough numbers, it was about \$13 000 a lot which would effectively underground the network and connection to each individual lot in the area. We budgeted with a generous amount on top of that for \$20 000; so 5 000 lots at \$20 000 effectively gave the sorts of numbers that we are talking about. We also included in the project an upgrading of distribution voltage in Karratha from 11 kilovolts to 22 kilovolts which became an additional add-on to the project. We engaged with contractors. Some of the contractors that we engaged with committed to that through a competitive tender process but could not deliver the project based on those estimates. They found that they were caught out by the huge increase in costs in the area. Rents, for example—this is according to Marius Kloppers, who was BHP's CEO at the time, and we can verify this—went up something like 600 per cent through a period of about seven or eight years, which is the period that we are talking about that this project was in planning and execution. Costs went up tremendously as a result of the cost pressure brought about by various resource projects. We have ended up—this has been tested by most recent contracts that have been awarded—with the numbers being \$40 000 per lot, which gives rise to the \$230 million that I am talking about; \$40 000 times 5 000 is the \$230 million for the voltage upgrade project that I spoke about. Really, it is an issue of the cost increase that nobody anticipated in that area coming to bear on this particular project and I would say any other large project that was also contemplated and implemented through the same time. We have seen it on Pluto, we have seen it on CITIC Pacific's magnetite project, we have seen it on Wheatstone, and we have seen it on Gorgon—they have all had significant cost increases, not because people have been incompetent, but because people did not anticipate the enormous increase in costs that have taken place during the execution of these long time frame projects. This certainly falls into that category.

Hon MARTIN ALDRIDGE: Surely a \$100 million increase on a \$130 million project is a bit more than just rental costs.

Mr Tudor: It is a combination of all the things that have gone into it. Rental is but one of them. There is also wages in the area. There is also the mobilisation and demobilisation of bringing people in and out. They are all the costs that build up into the project. What I can say is this: since we have changed the delivery of that project, which was about 18 months ago, we have held fast to the \$100 million increase and we made that quite public I think at the time of the August 2012 forward estimates hearing process. That number has not changed. In fact, if anything, the ongoing delivery of the program with the new model that we have in place has actually extracted efficiencies. We are still holding to that even though the passage of time means that the project will be delivered over a longer time frame.

Hon MARTIN ALDRIDGE: In which financial year was the funding first committed for the \$130 million?

Mr Tudor: It was 2009.

Hon MARTIN ALDRIDGE: You are saying that was based on work that was —

Mr Tudor: Done back in 2004–05 before the inception of Horizon Power. The original work program to underground Port Hedland was done under Western Power.

Hon MARTIN ALDRIDGE: That was not identified as a risk by the management team at the time?

Mr Tudor: It was, as it probably was with the Pluto engineers, as it probably was with the Chevron engineers, as it probably was with any number of people operating in the area, but, as I say, nobody anticipated the scale of the boom that happened and the cost increases that came as a consequence.

The CHAIR: Gorgon was originally estimated to be an \$11 billion project. Chevron would be very happy if it doubled! Admittedly they have a slightly bigger train and a few other things that add into that.

Hon MARTIN ALDRIDGE: I guess what I am trying to find out is: what have we learned from this process and how we can use that example to better plan and spend taxpayers' money going into the future?

Mr Tudor: I think the lessons for Horizon is that we have implemented them in the new project management approach that we have taken. We had a prime contractor who was particularly operating in Karratha that we are in commercial dispute with. We will be working through that on the side. We actually removed them from the execution of that project, and we assigned accountability for the delivery of that project with our regional office. That was an important first step. We included that in the ongoing work that they would normally do year in, year out. The other important thing that we did is we decided not to try to blitz this project and complete it within two to three years, which was the original intention. That simply puts you competing for the marginal input factor against everybody else. Why not spread the project over three to four years, do parcels of work, which we are now doing, imbedded in your normal work practices and work programs? That is the approach that we have taken, which means that our exposure on any individual part of it is not for the entire amount; it is for a very small amount. We have effectively taken it suburb by suburb. The model for delivery is now much more akin to what we are doing in the south west. Each year the government assigns a pot of money to Western Power and they go retrospectively back through the older suburbs and underground the network. If you like, that is the model that we should have in the Pilbara. We should continue to underground until we have completed the Pilbara, then we should justify a business case for the Kimberley, which is also cyclone-prone, put that forward and have that undergrounded progressively over a longer period, so in fact you end up with a bucket of money that looks at the cyclone-prone parts of the state and does it progressively over a longer period of time. I think that is our big lesson.

[4.00 pm]

Hon MARTIN ALDRIDGE: Are you able to do a cost–benefit analysis on each of the towns that you are talking about undergrounding to say that we expect so many cyclone incidents each year to hit Karratha and this is the average cost that Horizon Power spends on cleaning up the mess? Is that measurable?

Mr Tudor: Yes. In working up a fairly comprehensive business case for the justification of the remainder of the spend that we have on Karratha, we have gone to exactly that extent. Some of the things are readily quantifiable—what is the avoided capital and maintenance that we would incur directly as a result of putting the network underground? We have also looked at translating hours into GDP for the regions, so that if we can get people to work quicker after a cyclone by number of hours, that should translate to a certain benefit to the broader community. The ERA had done work two to three years ago on what it means for property value if you underground networks. We have taken some of those parameters and adapted them for the Pilbara, and also put that into the business case. If you look at it, there is an NPV of about \$95 million for a cost outlay of about \$80-odd million to justify the remainder of the program. A good portion of that is made up from GDP

benefits, a good portion is made up from increases in property value, which would be the same thing that you would see down here in the SWIS, and a good portion is made up from the avoidance of capital and operating costs that we would have otherwise had to maintain a vulnerable, ageing overhead network.

The CHAIR: Can we get a breakdown of each of those benefits and what the value of it is?

Mr Tudor: Yes, you can.

[Supplementary Information No C3.]

Hon MARTIN ALDRIDGE: Is the cost–benefit to Horizon Power alone by continuing with the project in those Pilbara towns sufficient enough that in time it will mean fewer staff and less operating expenditure on the network—so, savings to the organisation going forward?

Mr Tudor: Just in some of the things that we are referring to, yes. In Hedland, for example, there would be some consequences because the network is undergrounded, so I think it does have an impact on the way that we operate. What I can say is that the benefits to us alone are not sufficient to justify the program of work, so the program of work, I think, needs to be holistic and to take into account what businesses benefit and what private owners of the property benefit. Once you bring all those into account, there is a very clear case for delivering the project. But if it was left up to just the benefits that we see, it would be pretty difficult for us to justify. We would be continuing to simply replace overhead poles with overhead poles on an incremental basis as we needed to to comply with standards.

The CHAIR: I have a couple of quick questions on that. When will you have fully spent the \$130 million that you have currently got allocated?

Mr Tudor: About now-ish.

The CHAIR: For the program to continue, will you need to get a decision from government to continue funding for it?

Mr Tudor: That is very much what we have done. We have engaged with the local development commissions to actually put a business case through their approvals process. We have also done it with the Shire of Roebourne, because, clearly from what we were telling them originally to what we are telling them now, the costs have increased and that has gone through their decision-making process and there is a business case that is in front of government through this next process that will be considered. Whilst our numbers do not reflect the positive decision, the recommendations from Horizon, the development commissions and the Shire of Roebourne would be to continue with the program.

The CHAIR: I understand that, but I imagine that these are the sorts of projects that, to be able to maintain the expertise and the staff in the area, you need to be able to guarantee continuity of work; am I right there?

Mr Tudor: Yes. We are balancing trying to continue the work—there is still work that is going on—and obviously putting a business case in front of government to get approval.

The CHAIR: Have you fully expended the \$130 million you originally had?

Mr Tudor: No; we are shy by about a million or two.

The CHAIR: There must be a date when you will finally have expended that, and there is a date that you need to have a decision on that business case made by government or you have to shut up shop and let everyone go.

Mr Tudor: Yes, and in this case, shutting up shop is not so dramatic because we have not got a large contract to deliver all of the work. It really is remaining suburb by new suburb. We parcel the work out.

The CHAIR: If you do not get the decision of government, your staff are going to say, “Right; that’s it. I’m heading off to Perth, the Pilbara, Gorgon or somewhere else to get employment.”

Mr Tudor: If we do not get a decision through this next budget cycle, then of course we would wind back and work would stop and we would continue with our normal operations and maintenance. When it is considered favourable, alongside other government priorities, we would ramp up again.

The CHAIR: In terms of the staff you currently have got deployed to that, will you use them in other activities until you get that business case when you have spent that last million dollars?

Mr Tudor: Again, it is a balance. We are going through a significant review of where we are deploying people and what roles we are retaining. It is in that mix. We are hopeful of being able to get a government decision through the next budget cycle. We will weave that, whichever way it goes, into our decision-making and that will influence the way that we actually deploy people and retain capability or not.

The CHAIR: The other quick question I have is around property values. Does it actually increase property values or does it only increase relative property values for a period of time? For instance, I know when Applecross was done—it was one of the original suburbs—prices went through the roof because it became a more attractive suburb compared with Attadale, Bicton, Mt Pleasant or another area within the same vicinity with generally similar amenity. But when you reach a point when all those suburbs have underground power, will that price differential remain or will they drop back to a more even spread and the other amenity benefits of the suburbs will come into consideration?

Mr Tudor: It is a really good question. I do not know the answer to that. I think you make a valid point. I think the Pilbara is affected by a whole raft of factors, not least the call on how —

The CHAIR: Underground power is probably the least of them; demand being the greatest one.

Mr Tudor: Yes, absolutely.

Hon MARTIN ALDRIDGE: You mentioned that there was a commercial dispute with the original contractor. That contractor was obviously terminated by Horizon Power.

Mr Tudor: I need to be careful in terms of the words that are used, but suffice to say we are not continuing with the existing arrangements with that contractor and that contractor is no longer on-site and has not been on-site for some 18 months.

The CHAIR: You will find, if you read the last estimates hearing with Horizon Power, we talked about it then as well.

Hon MARTIN ALDRIDGE: I guess my question is: if the \$130 million has nearly been spent, what is the exposure to Horizon Power and the state if a successful claim is made against Horizon Power by the contractor?

Mr Tudor: Suffice to say, we feel very comfortable in the position that we have got.

Hon MARTIN ALDRIDGE: So it is not a risk from your perspective.

Mr Tudor: It is a risk that we are managing.

The CHAIR: You were talking about the area of getting more money. How many other areas in your responsibility that are cyclone prone still have above-ground power?

Mr Tudor: There is still, I guess, Broome and probably most of the Kimberley in fact, because you do get cyclones coming in through Darwin. We would go down as far as Carnarvon, I suspect, and Carnarvon has often been subject to other kinds of adverse weather and flooding and things like that. We have also had incidents in Esperance, for example. When I joined the company in 2007, we had probably the worst storm that Esperance had had for quite some time and we had quite extensive damage of the underground network there. There would be a good case to make on parts

of Esperance—not the entire system because it is so large, but certainly the CBD and the business centre. There would be a case to make on that.

The CHAIR: Do you have a real problem with pole-top fires down in Esperance because of the salt and the encrusting?

Mr Tudor: It is managed.

The CHAIR: There is a high cost to manage it.

Mr Tudor: That is certainly vulnerable in that part of the world.

The other thing I was going to say is that from time to time we opportunistically will sit down with a shire, as we did do with Broome. We had a number of poles to replace in the Chinatown area. We sat down with Broome. We had some money allocated through the budget. Broome shire and a number of bodies, including their CCI, contributed to topping that up, and that allowed us to underground the three principal streets in the Chinatown CBD area, which contributed to their vision. We do things like that opportunistically, but they are small compared with the sort of sustained program that you would need to make a real difference across the state.

Hon ALANNA CLOHESY: How many and which communities have benefited from the Aboriginal and remote community power supply project, and how many and which communities remain?

Mr Tudor: We did, I think, provide some answers to those questions. I will take it in two blocks perhaps. We had a remote community program for the upgrade of the power supply, which was originally funded by the federal and state governments, that targeted a number of the communities along the Broome peninsula—Ardyaloon, Djarindjin, Beagle Bay, Bidadanga and also Warmun on the interior. We delivered those and we have been providing a regularised power supply to those now for about four to five years.

Hon ALANNA CLOHESY: That was the remote Indigenous energy program that was funded by the federal government.

Mr Tudor: It was 50-50 by the federal and state governments. That was meant to be a pilot and I think the two governments at the time were meant to come up with a way of actually extending that program to cover the remainder of the Aboriginal communities, and certainly the large ones. For various reasons, that has not happened. The state government then provided funding for two more communities to be done, where they contributed 100 per cent of the funding. We have just recently completed those; that is, Yungngora and Kalumburu in the Kimberley area. We have just done those. Now there is no continuation of that program to the best of our knowledge, but there are still some large Aboriginal hub communities—at least seven, I think—that were originally earmarked for that kind of regularisation program. No work, to my knowledge, is going on in that area.

Hon ALANNA CLOHESY: Those seven large communities will not benefit from —

Mr Tudor: It depends, I guess, on government policy and decision-making around those. I probably cannot comment on that.

Hon ALANNA CLOHESY: What communities are they?

Mr Tudor: We could take that on notice and provide a list.

Mr Tovey: We provided a list of Aboriginal communities to the committee.

Hon ALANNA CLOHESY: Under the remote Indigenous energy program and then I want to come back separately and talk about the Aboriginal —

The CHAIR: I think there is some information provided in the questions on notice, so rather than making it C4 at this stage, I might get you to have a look at that to see whether that answers your question.

Hon ALANNA CLOHESY: There are two programs, but you know that.

The CHAIR: Yes, but just so we are not doubling up with work.

Mr Tudor: We are supplying about 49 Aboriginal reserves. Twenty-nine of those have been what we call regularised, where we have taken the bulk meters and put individual meters to each of the houses, and 20 still remain with the bulk meters. Through that program, we have engaged with the community, educated the community and just ensured that they became part of the mainstream community and have individual billing.

Hon ALANNA CLOHESY: Did you say how many of those are left to do?

Mr Tudor: There are another 20 left to do.

Hon ALANNA CLOHESY: Twenty town-based communities have not been regularised.

Mr Tudor: There may be more beyond that.

Hon ALANNA CLOHESY: Is it possible to get the list of those communities?

Mr Tudor: Yes.

[Supplementary Information No C4.]

Hon ALANNA CLOHESY: That is different from the —

Mr Tudor: In one case, we are going into a community that does not form part of our portfolio at all and becoming involved with a community for the first time and looking at the power supply and looking at the overhead distribution system and individual billing and metering—going into the community for the first time. In other instances, we are already supplying power, but it is through a bulk meter, so they are on the fringe of the mainstream community. What we are doing is actually bringing them in and treating them like everybody else in the community through the regularisation program.

Hon RICK MAZZA: Just in the financial report, you do have a contract that is in US dollars. Who is that contract with?

[4.15 pm]

Mr Tudor: I will defer to my —

Hon RICK MAZZA: You have got it on page 21 as “Foreign exchange risk”.

Mr Brereton: It may have been for the gas turbine we installed in Karratha. The project was completed last year, and it may have related to that project at the time because we purchased the machine direct from GE USA.

Hon RICK MAZZA: Okay, so that contract basically —

Mr Brereton: And the project is completed.

The CHAIR: The Karratha temporary power project, when do you expect that will conclude and you will have a permanent power provider for Karratha? Where are we up to with the procurement process for it?

Mr Tudor: The Karratha temporary generator is actually a peak generator. That is installed. The expectation was that it would be there for five-odd years. That has been up and running since January last year. It was critical that we got that in place for that particular summer, which we did.

The CHAIR: That was because that power had previously been provided through contracts with some of the mining companies—is that correct?

Mr Tudor: The power that we were obtaining had been supplied through Alinta, which are based up in Port Hedland, but the issue with Alinta is that all of their power is contracted with BHP and BHP’s plans for expansion are gradually ramping up. As they ramp up, they are taking more and

more of the power. We are left with effectively an interruptible power contract, so that got to a point where we needed to put in place a peak generator to make sure that if anything happened, we would have enough power, particularly for the summer period and particularly that summer that we were targeting. That particular generator is up and running. It successfully delivered on budget and within a very short period of time; from go to whoa, it was about six months.

The CHAIR: I get that, but my understanding was that the intention was that it would be a temporary arrangement until you went through a procurement process, or considered your options and then looked at a procurement process, for a more permanent arrangement for providing power.

Mr Tudor: The philosophy I think that has been agreed with government is to eke out all capacity that we can from the system that is up there. So, to the extent that we can tap into interruptible power that is available from Alinta that BHP are not taking, we have been taking that. In keeping with that philosophy, we needed to put in place the peak generator that we have done at Karratha. We are now in the process of delivering another power station in Hedland. That is being constructed in such a way that the majority of the spend on that is going to be reusable for a permanent generation facility, but we are putting that in place and putting small temporary generators on that to actually bridge a gap until we get an independent power producer selected and put in place a permanent generation solution, which we are looking to do in 2016. That process is ongoing at the moment.

The CHAIR: When that occurs, will then the temporary generators in Karratha no longer be required?

Mr Brereton: It depends on what happens with demand in energy. When we do our planning, we endeavour to forecast what is happening to load growth there and then we plan the strategy on the basis of what we would call $n+1$, the plus one being that we have the coverage; if we lose the largest generator on the system during our peak demand period of time, we can still continue to supply the community. How long what we have called the temporary machine at Karratha is required to remain will depend on our successful negotiations with the independent power producer for the new Hedland power precinct and the load growth. Now, depending on what we contract for—we have anticipated we are out there looking for 110 megawatts firm capacity at this point in time—if the load growth does not go at the rate that it has in the past, we may find that the generator at Karratha is surplus to requirements and then could either be relocated elsewhere within our portfolio or sold. But if all of a sudden China comes back on full stream and we have got growth going gangbusters, there may then be a requirement to retain that for a longer period of time. It is something we review at least annually; sometimes we do it even more frequently, depending on what is happening with the economy and what is happening with the demand.

The CHAIR: It must reach a point where it starts to become expensive to have all these temporary arrangements in place rather than putting in a long-term permanent arrangement, whether it be a baseload with an add-on peak or whether you only require peaking plants. I would imagine, because it is a diesel, for instance, that would work out significantly more expensive than if you had a gas peaking plant operating there on a permanent basis.

Mr Brereton: It depends. It depends on what you call load profile, as well, and load durations. Over the course of a day, the demand on our system varies and then it is seasonal across the whole of the year. The most expensive power is the last bit that you want; that is where you get your marginal and then it —

The CHAIR: Where you provide it for a couple of hours a year and you have still got to pay the capital costs for the other 364 days.

Mr Brereton: Yes, and then you are looking at how much capital you spend. To put in diesel infrastructure is cheaper than gas infrastructure, so if you are only going to require that machine, let us say for argument's sake, 125 hours in a year, it is cheaper to install a diesel plant even though the

fuel is more expensive on a per energy unit basis. Once you get past a certain number of hours, it then becomes economical to convert that to gas. The situation continues to change on us and we have got to keep monitoring that and try to forecast what is going to happen.

The CHAIR: So, it is probably incorrectly termed the “Karratha temporary power procurement”; it should be the Karratha permanent flexible power procurement.

Mr Tudor: That is a better expression. Again, taking that same logic, South Hedland, where we are building the new power station, the only thing temporary about it is the four generators that we are going to be putting at the end of it which will be replaced by permanent generators. The majority of the capital spend, the \$138 million, will be used for the permanent facility, so the transmission lines —

The CHAIR: That is in terms of all the connect switching and all of the —

Mr Tudor: Yes, so your point is actually well made. We have reached that point and we are actually significantly investing in a permanent facility.

The CHAIR: That will be the Pilbara facility, effectively.

Mr Tudor: Yes. An appropriate name for it would be the Hedland power precinct project.

The CHAIR: Is that expected to be able to meet the demands of both Hedland and Karratha—that network that you have got there?

Mr Tudor: Yes.

The CHAIR: Is there enough capacity down the line with the upgrades? Has that got the capacity or will the line need to be upgraded?

Mr Tudor: In due course. The ideal is that we have got demand building in Karratha and demand building in Port Hedland, and you would like to have your generation split between the two as well, and then for the purpose of redundancy have some connection between the two so you can effectively share redundancy. But at some point it might make economic sense to actually have that line upgraded.

The CHAIR: Are you looking at any renewables, both for that area but more generally across your different network locations? I mean, what work are you doing on sustainable and renewable projects?

Mr Tudor: One of the things that we are anticipating with some of our smaller systems is that where there is a significant subsidy put through us to actually maintain the uniform tariff and maintain the tariff through an existing power station that is connected to all of the houses through a traditional network, we may be better off going to embedded renewables—almost doing away with the network—and having a look at what that kind of concept looks like. We are sort of actively looking at how we might make those schemes work. There does come a tipping point where the cost of solar panels, for example, reaches a point where something like this starts to make sense, where storage technology starts to catch up and allows us to provide full coverage to each and every household.

The CHAIR: Rather than running a powerline into it.

Mr Tudor: Yes. We have got a number of applications in front of ARENA at the moment, which would look at subsidising some of the work which we do to take some of our communities and actually have a look at what that scheme might look like, prove up some of the technology, work with the community —

The CHAIR: Is that the main area where you are looking at renewable and sustainable energy?

Mr Tudor: That is certainly one area. We are also looking at hosting capacity in each of the towns continually to allow those people that want to afford themselves the opportunity of putting in

embedded renewables to do that and avail themselves of government subsidies in that area. So, we are looking at increasing hosting capacity based on experience, also based on us being able to control, from a central point of view, the dispatch of that embedded renewable.

The CHAIR: You might not be able to answer it now, so I am happy if you need to take it on notice, but can you tell me how much you actually spent in the 2012–13 financial year on developing renewable and sustainable energy options?

Mr Tudor: Yes, we would have to take that on notice.

[Supplementary Information No C5.]

The CHAIR: Do you have figures on how much energy is currently generated within your total networks by renewable energy sources?

Mr Brereton: I am just wondering whether we provided that.

Mr Tudor: We could calculate it from the table we provided. It is something that we can provide the answer to.

Mr Brereton: We could certainly take it on notice and provide it.

[Supplementary Information No C6.]

The CHAIR: It was touched upon earlier, but are the wind farms that are supplying power—I think you have got them in Hopetoun; you have certainly got a very big one in Esperance, because I saw it last week, and Coral Bay I think has got one, from memory —

Mr Tudor: Yes.

The CHAIR: Does Exmouth have one? I know they have got the gas plant on the outskirts of town.

Mr Tudor: No.

Mr Tovey: There were some very small turbines; I think they have been decommissioned now.

The CHAIR: Certainly, Denham I think has got one.

Mr Tovey: Yes, Denham has.

The CHAIR: Are they working in a cost-effective manner or who picks up the subsidy cost for those? Are they quite expensive compared to alternative power options for those towns?

Mr Tudor: Again, in each of those locations, there are embedded terms within the power purchase agreement and they are owned by the independent power producer, so it would be a little difficult for us to ascertain exactly what it —

The CHAIR: But you must know what they are relative to the costs of providing similar power for similar sized towns that is not wind generated.

Mr Tudor: Which is purely diesel?

The CHAIR: Yes.

Mr Tudor: Yes, we would have a view on that.

The CHAIR: So how do they compare to either purely diesel or gas? I mean, Exmouth is probably a little bit bigger than some of those, but certainly you could do a comparison between Exmouth and Esperance for instance in terms of cost.

Mr Brereton: It is more attractive to use renewables where we have diesel generation because the benefit is in your fuel offset. Your renewables, unfortunately, at this point in time tend to be intermittent, so the actual benefit you gain is by offsetting your fuel cost by reduced fuel burn. We are using diesel, which is a far more expensive fuel, so you have a more tangible benefit. You have got to model each town on the configuration of the power station that is needed. If I may go back to your load profiles on a daily basis and also your load duration over the year, and then you look at

how you can optimise based on your per unit cost on the degree of penetration and availability you can get and then you have got to look at how it offsets your actual running of your power station. But as every year goes by, there are continual improvements in technology and the price of your renewables is coming down. As Frank mentioned earlier, that is why our cases in front of ARENA are looking at distributed generation and how we could actually optimise that and bring down the cost of generation and hence the cost per unit.

The CHAIR: Because at the moment to meet your power demands in a place where you might be able to fully provide it by wind power, you also still have to have equipment, the maximum peak diesel backup, so it is really only fuel that you save.

Mr Brereton: You have still got to spend the same amount of capital on the power station if the wind was not there.

Mr Tudor: There is what they call low-load diesels that they use in conjunction with PV or in conjunction with wind, which are suited to actually running in combination, so that is what we have got.

The CHAIR: The contracts for those wind farms, what sort of life are the contracts for those wind farms over?

Mr Tudor: Esperance, for example, would be —

Mr Tovey: Each of them would vary. Certainly, I think some of the later ones were over a 20-year period, so I am thinking Coral Bay and Hopetoun I think were the last two that were put in as wind–diesel systems.

Mr Tudor: The smaller ones would have been about 10 years, I suspect. Esperance may have been larger because Esperance was not only the power station, but there was also the wind, there was also the gas lateral that was built from Kalgoorlie, so it was a huge package project.

[4.30 pm]

The CHAIR: That is run by Verve, is it not?

Mr Tovey: The wind farm is.

Mr Tudor: The wind farm only. A separate entity runs the power station, which has an arrangement with Verve that supplies into it.

The CHAIR: Will they go back out to some sort of procurement process when those contracts come to an end?

Mr Tovey: That is a matter between Verve and the IPP power station.

The CHAIR: Sorry; I am talking about Hopetoun and Coral Bay.

Mr Tudor: When we are getting close to the end of contract, to ensure we have enough time to exercise other options, we would start to look at an option analysis: Do we renew with the existing IPP? Is there life in the assets or are they at the end of their useful economic life? As we are now doing, do we continue with the mainstream power station or might we look at embedded generation and at some better way of utilising the government subsidy that goes into some of those towns? Simply put, we would look, in a timely fashion, at all the options and then make a choice based on that and anything is, I think, available in that suite that we would look that.

The CHAIR: Is the hydro power at Kununurra working out to be reasonably economical? Have you identified any other sites where hydro power would be a possibility, or is that really the only one?

Mr Tudor: I think it is really the only one in our portfolio. It is reasonably cost effective. However, the issue with hydro is that it has a lot of inertia. One of the issues is that that part of the world is subject to lightning and things like that, so if we have significant impacts on the network, they can

cause a power station to come off, and that becomes a lengthy process and then you need to ensure you have backup generation. We have backup generation in Kununurra and Wyndham to ensure we can provide reliable power. We have issues with the nature of the hydro scheme up there. That is the biggest issue. It is a reliability of supply issue. It is cost effective, but if you figure into it the cost of maintaining backup power supplies, I am not quite sure how the economics stack up in totality.

The CHAIR: This might sound a rude question but I think you have a road train come in from the gas pipeline to the Exmouth power plant once every three days or three times a day—I cannot remember which one it was.

Mr Tovey: I am not sure of the delivery timetable but it certainly comes from a compression station just off the Dampier-to-Bunbury pipeline.

The CHAIR: Have you had many complaints about the damage the road train is doing into and out of Exmouth and whether that road is sufficient for that vehicle. I followed one once into the town and the back trailer was—no offence to the driver because those things are not easy; the road has never struck me as being particularly suitable for that size vehicle going in and out—ripping up the edges the whole way in and out.

Mr Tovey: I cannot recall any complaints Horizon has received directly from anyone on the road transport aspect to the station.

The CHAIR: There have been no accidents involving caravans or the like with that road train going in and out of Exmouth?

Mr Tovey: Not that have been brought to our attention that I can recall.

The CHAIR: Can you, on notice, check your records and see whether you have done any risk assessments around it. It struck me that there are lots of caravans going in and out of that road. It is quite a narrow road. I think a triple road train effectively brings in the gas. It is not a pretty sight watching them swing around.

[Supplementary Information No C7.]

Hon MARTIN ALDRIDGE: Can you tell me where your network ends and where the responsibility for private poles and lines starts?

Mr Tudor: I can tell you that we implement government policy completely. One of the things we have done with private power poles, in concert with EnergySafety and Western Power, is to make sure that we notify people in our customer base who have wooden poles, particularly in the Esperance area, of their responsibilities for maintaining poles. A point of demarcation, David.

Hon MARTIN ALDRIDGE: How did you do that?

Mr Tovey: It depends on the type of connection we have. Certainly Horizon Power has some connections where the consumer is required to put a pole on the boundary of their property and the meter is attached to that. On occasions, sometimes the cable goes from our system onto that pole and then onto the house and the meter is located on the house. It varies; it is not just a single consistent point. Typically, poles located on consumer's properties are owned by the property owner.

Hon MARTIN ALDRIDGE: How does a property owner identify where their responsibility starts and finishes? I know poles is one aspect because there are generally characteristics of Horizon Power or Western Power poles that mean they can usually be identified. It is a little less clear, I guess, in terms of the lines.

Mr Tovey: We identify all our poles; they are all individually marked. Identification of Horizon Power poles should not be an issue. As Frank discussed a minute ago, we have been heavily engaged, particularly in the Esperance area, where we have a widespread network—there are also a

lot of privately owned power poles—to make sure the owners of those poles are aware of their obligations to maintain them or have them inspected.

Hon MARTIN ALDRIDGE: How do you make them aware of their obligations given the scenarios vary so significantly?

Mr Tovey: Certainly in the Esperance region we distributed the flyer agreed to between EnergySafety, Western Power and Horizon Power last year. Our customer relationship manager in Esperance certainly went out and spoke to a number of landowners who were a bit bemused about who owned what, and sorted that through.

Hon MARTIN ALDRIDGE: The brochure you are referring to is the private overhead power lines safety and responsibility flyer, by EnergySafety.

Mr Tovey: Correct.

Hon MARTIN ALDRIDGE: I am raising this obviously because of the conversation following the fires in the Perth hills and the question of responsibility for maintaining private powerlines and poles. I am a bit concerned about some of the misleading information in this flyer. I notice it is not available on your website. I have had a bit of a browse through and could not find it. In that flyer it says that the way in which to distinguish the property owner's responsibilities to private assets is based on where the meter is located. It states —

All poles, conductors and pole top fittings owned by the property owner after the network operator's meter are his/her responsibility.

Is that statement fair?

Mr Tovey: I would say, typically, yes, but I believe there are instances where, if the consumer pole is on the edge of the property and that is where the meter has been situated, sometimes that pole is owned by the property owner. If there is any confusion we encourage our customers to have a conversation with us.

Hon MARTIN ALDRIDGE: How many customers have you got?

Mr Tovey: Just over 40 000.

Hon MARTIN ALDRIDGE: How many do you estimate have private poles?

Mr Tovey: I would not hazard a guess on how many.

Hon ALANNA CLOHESY: Can you briefly outline your asset management program, particularly for power poles?

Mr Tudor: Ted can help me, but I think in terms of power poles, it goes back to a point I was making earlier. We have had to deal with a lot of legacies, particularly in Esperance. I mentioned a number of close to \$50 million that has been spent on dealing with quite a number of issues that we were faced with as an organisation when we were put in place in Esperance. Long bays and skinny poles were issues we needed to deal with, so we have had an ongoing program of work over about seven years when we have progressively been dealing with those priority issues. As I say, the most recent work we have done was when we replaced, I think, nearly 2 000 poles and reinforced nearly 6 000 poles in the Esperance area. That chunk of work finished in June last year. When we finished that, I think, effectively, the wooden poles now comply with Australian standards. For us now it is a matter of maintaining an ongoing program of work to ensure we never end up with a huge backlog of work and that we retain our compliance with the standard. It has become part of the ongoing asset management program. When you turn to the ongoing asset management program, we have a methodology in place that is reviewed by the Economic Regulation Authority. Most recently, that was done, and it was reasonably confident with the approach and the methodology and it took the period from which it comes in to look at what we do from 12 months to 24 months. The review

period has been extended. I can only think that has been done on the basis of the confidence it has seen in the work we have been doing.

Hon ALANNA CLOHESY: I noticed in your annual report you referred to moving away from an age-based management program to that one?

Mr Tudor: The age-based is what we are doing at the moment. Poles of 25 years of age are required to be reinforced, according to the Australian Standard. Those 40 years of age are required to be replaced, irrespective of their condition. In the Esperance area we have been using not only our dig and drill program of testing; we are also using that alongside a radiographic system of testing plus a radioactive based system of testing plus an ultrasonic basis of testing. The intention was to prove up those two techniques to the same degree at least as the dig and drill, if not better, and then rely on those techniques to go out and test poles more expediently, quickly and efficiently. If we determine that a pole still has life in it irrespective of its age, there may not be a requirement to reinforce it or replace it, so we can go to a condition-based monitoring approach to the wooden poles based on our confidence in these techniques we are using to test the integrity of the poles. There is an enormous saving to be made, particularly with us, but more so with Western Power, which has 10 times the number of poles we do, to go to a condition-based approach of testing, replacing and reinforcing poles.

Hon ALANNA CLOHESY: You have just outlined a couple of significant issues, I guess, for your asset management program. Are there any others that will affect it in the next 12 months in particular?

Mr Tudor: We have an ongoing program of work. We targeted twisties, which are the connections to households. Most of that has been removed except in a number of areas we are monitoring that are connected with the continuing undergrounding program in the Pilbara, skinny copper conductors, particularly the connections into street lights—the small gauges—have already been replaced. We are looking at going to larger gauges. Then, ultimately, copper conductors throughout the network will need to be looked at. An ongoing program of work is identified through the asset management program we look at. The test for us is to ensure that work program is balanced going into the future so that we do not end up with a huge peak of work —

Hon ALANNA CLOHESY: Or backlog.

Mr Tudor: — or backlog, and that we main the integrity of the assets and a continued sustained work program that allows us to therefore more effectively and efficiently manage it.

Hon ALANNA CLOHESY: What is the budget for your asset management program for this financial year?

Mr Tudor: On an ongoing basis, the asset management program is about \$40 million a year, and we have major projects over and above that. Most recently, last year we spent, I think, \$221 million, and that included the asset management program, plus a lot of major projects we are doing on top of that connected to power stations. That comes down to about \$183 million this year and starts to drop off quite dramatically, consistent with the view I was giving that the work program is coming off reasonably significantly.

Hon PETER KATSAMBANIS: Mr Tudor, I notice Horizon has a commitment to 20 per cent of its workforce being of Aboriginal and Torres Strait Islander descent by 2015–16. That is commendable; it is a really good and laudable target. What will that 20 per cent be as a number of employees based on your projections of the number of employees at Horizon in 2015–16?

[4.45 pm]

Mr Tudor: When we originally set the target it would have been 20 per cent of the 540. I think we are saying that by at least the middle of this year we will have 240 people fewer, so it will be 20 per cent of the 300 people who remain as full-time employees.

Hon PETER KATSAMBANIS: So it will be around 60 people?

Mr Tudor: It will be around 60 people.

Hon PETER KATSAMBANIS: From answers to questions on notice, you indicate that you currently have 31 employees of Aboriginal and Torres Strait Islander descent. Will any of those be part of the people who are made redundant or disposed of in this current set of changes?

Mr Tudor: We have had a very special focus on that, but inevitably, yes, some of those jobs and some of the people in those jobs will be affected, but it will not be as significant as the changes we are making across the board. A number of our Aboriginal workers are remote community utility workers connected to providing power to some of the remote communities and regularised town-based systems that we have; so they are an essential part of continuing to deliver that service.

Hon PETER KATSAMBANIS: Sure.

Mr Tudor: Certainly where people have been in administrative jobs or planning jobs that may have been affected through the review, then we have scrutinised each and every job. In some cases, inevitably some of the Aboriginal people will be made redundant in those roles.

Hon PETER KATSAMBANIS: Are you confident you will achieve that figure of 20 per cent?

Mr Tudor: The commitment to that figure still stands, but we will need to change and think about it. We were already in this space anyway, but as we engage with contractors—if we are successful, for example, in striking the right arrangement with an engineering and design contractor—certainly part of the assessment requirements that we would have will be to look at their Aboriginal engagement approach and philosophy. Where we have the opportunity to influence our procurement processes, we would be doing that, and we are actively doing that.

Hon PETER KATSAMBANIS: That will not actually have any impact on your 20 per cent target.

Mr Tudor: We are doing all of those things. We are not only focusing on our internal numbers and making sure we have feeder streams and relationships with schools, but also looking to make sure that our contractors and people that we engage with are fully focused on a similar philosophy and target.

Hon PETER KATSAMBANIS: As I said, that is a laudable aim and I wish you well in achieving that. It sounds as though from where you are to where you want to be, you will need to find the equivalent of 10 per cent of available positions across your whole organisation, which is going to be difficult in a few years but not unachievable.

Mr Tudor: Yes.

Hon PETER KATSAMBANIS: So, good luck with that.

Mr Tudor: Thank you.

Hon PETER KATSAMBANIS: I notice there had been some recent legislative changes that have taken away the residential requirement for the CEO or managing director of Horizon to live within the Horizon area; is that correct?

Mr Tudor: David, you might like to comment.

Mr Tovey: Yes, it is.

Hon PETER KATSAMBANIS: I do not know if this has changed recently, so correct me if it has, but I am aware that certainly in the recent past Horizon owned a property in Karratha that was essentially designated as a property for the CEO or managing director to live in. If it is still the case that they own that property, given that the residential requirement has been removed, will Horizon sell that property?

Mr Tovey: There has not been a property reserved for the use of the managing director since our last managing director resigned in 2010. Frank was brought in in an acting capacity. There is no requirement for a residence for the acting chief executive officer residing in Karratha.

Mr Tudor: We do not have any vacant houses. We certainly own more than one property in Karratha and that is all connected to our workforce operating in the area.

Hon PETER KATSAMBANIS: How many houses do you have in the Karratha area at the moment?

Mr Tudor: Numbers? I cannot tender an answer off —

Mr Hamilton: I would not know the exact number, but it would be roughly a dozen.

Hon PETER KATSAMBANIS: What sort of people would live in those houses?

Mr Hamilton: Staff.

Hon PETER KATSAMBANIS: What sort of staff?

Mr Hamilton: We provide a housing benefit to people who work in Horizon. Some people take it as an allowance, other people take it through rental support or through a direct house; so there is no specific job category that entitles someone to a house. It will be based on the needs that we have and the needs that the person has.

Hon PETER KATSAMBANIS: Is the subsidy the same whichever way they take it?

Mr Hamilton: It is not intended to be a huge difference, but there probably are differences depending on what goes on in the marketplace from time to time.

Hon PETER KATSAMBANIS: Are you able to provide on notice information as to the exact number of houses in Karratha and the level, job title or designation of the person who has that house allocated to them?

Mr Hamilton: Yes.

Hon PETER KATSAMBANIS: Thank you.

[Supplementary Information No C9.]

Mr Hamilton: Was that question just in relation to Karratha?

Hon PETER KATSAMBANIS: Just for Karratha, yes.

The CHAIR: I am intrigued. When was Mr Tudor appointed as the permanent CEO?

Mr Tudor: I was made acting on 17 December 2010. The board then went through a process, which it conducted with some external support, and I think I was made the MD elect in the April board meeting in 2011. It is near the exact date.

The CHAIR: So, since 2011 you have not been complying with the act with respect to residential requirements?

Mr Tudor: I am the MD elect insofar as the board is concerned, and so far as the government is concerned I am an acting CEO. There was a consultation with the minister at the time, and those arrangements were agreed and it was intended at that time to change the legislation.

The CHAIR: In 2011.

Mr Tudor: At some point.

Hon PETER KATSAMBANIS: Can I clarify, right now?

The CHAIR: Are you the permanent—are you formally appointed as the managing director now or are you still in an acting capacity or elect capacity or some other terminology to avoid the requirements of the act as it stood then?

Mr Tudor: I think the legislation has just changed so my status is still the same.

The CHAIR: So you still have not been appointed on a permanent basis?

Mr Tudor: Correct.

Hon PETER KATSAMBANIS: So what is your actual title right now?

Mr Tudor: As I said, the board refers to me as the MD elect, and the government and minister refer to me as the acting CEO.

Hon PETER KATSAMBANIS: So, when we commenced today you were asked to give your full name and title. I did pay specific attention, and you told us your full name and you told us your title was managing director. You are now telling us that is not the case.

Mr Tudor: Sorry; officially the board calls me the MD elect. The minister and the government sign correspondence to me as the acting CEO. My colleagues, friends, employees and people in business call me the MD.

Hon PETER KATSAMBANIS: I do not accept that as a satisfactory answer to the question I just asked you, and following on from that Mr Travers asked you as well. You were asked to give your full name and your full title.

Mr Tudor: So I should change that consistent with, I guess, what the board would refer to me as, so it is the MD elect.

Hon PETER KATSAMBANIS: Are you appointed by the board or by an act?

Mr Tudor: David, you know that.

Mr Tovey: Appointed by the board.

Hon PETER KATSAMBANIS: By letter of offer or position designation?

Mr Tovey: It would have been by letter of offer and formalised in a contract.

Hon PETER KATSAMBANIS: Has that changed since the act was changed?

Mr Tovey: No.

Hon PETER KATSAMBANIS: So nothing has actually changed?

Mr Tovey: Correct.

The CHAIR: The purpose of this naming of managing director elect rather than managing director was to avoid the requirements to live in Karratha.

Mr Tovey: No; it was to state the intent of the board to appoint.

The CHAIR: Why was the board not appointing a permanent managing director to lead an organisation like that with only a managing director elect rather than actually formally appointing? Was there a reason why there was not a formal appointment?

Mr Tudor: It was a full and transparent process that was run with the minister at the time. The board consulted widely and looked —

The CHAIR: Do not get me wrong; I do not have any problem with you being the managing director, Mr Tudor.

Mr Tudor: They went through that process. They discussed it with the minister of the day. The intention was to change the legislation at some point, and until that point had been reached to put me in place permanently. The arrangements that I am referring to were actually agreed.

The CHAIR: Which, to me, is contriving a situation to avoid the requirements of legislation. Whether we like the legislation or not or whether the government intends to change it, you are

telling me there was a specific arrangement put in place not to permanently appoint you to avoid having to —

Mr Tudor: I would say that the board was open and transparent with the government to put forward its recommended person and look at ways transparently that that could be done. I think that is the process that they applied.

The CHAIR: Was it ever made public that that was the arrangement back then? When were you made managing director elect?

Mr Tudor: In April of 2011.

The CHAIR: You talk about an open and transparent government, and I am happy for you to take on notice any public documents that were made available at the time that identified and highlighted that and indicated that you would be the managing director elect until such time as the act was changed.

Mr Tudor: Sure; it is certainly in the annual report but we can have a look at annual reports, statements and things.

Hon PETER KATSAMBANIS: The legislation went through early December last year, so it has not been that long ago. Has there been any indication from the board or the minister as to when your position is to be formally regularised, for want of a better term.

Mr Tudor: I think the first board meeting we have is in February and I think it will be a subject of conversation amongst the board.

The CHAIR: Have you been on a temporary contract all that time, or what is the nature of the contract?

Mr Tudor: It is similar to a permanent contract of the type that my predecessor would have had in terms of the responsibilities, accountabilities and the terms; the title is simply different.

The CHAIR: You were permanent as the managing director, so the title “elect” was just a name added on the end, and for all intents and purposes you were permanent managing director?

Mr Tudor: Yes, correct.

Hon PETER KATSAMBANIS: Has there been any trend over the last three years in relation to customer complaints received by Horizon—things such as billing and generally?

Mr Tovey: I will have to take this specific question on notice. I think that is the best way.

Hon PETER KATSAMBANIS: Where do you report that?

Mr Tovey: We report our customer complaints every year to the ERA and the ERA compiles a retail report, usually in February or March of each year. We are required to report under the small use code.

Hon PETER KATSAMBANIS: Is that made available in your annual report?

Mr Tovey: It is made available on our website as a specific report, and the ERA also publishes its own report.

Hon PETER KATSAMBANIS: Where would I find it on your website?

Mr Tovey: It should be reported under our network and distribution report.

Hon PETER KATSAMBANIS: Is it fair to say that in the last reporting period customer complaints actually went up? I do not have the numbers in front of me.

Mr Tovey: From memory, that would be correct, yes.

Hon PETER KATSAMBANIS: What drove that?

Mr Tovey: I cannot remember the specifics of that report.

Hon PETER KATSAMBANIS: Who would?

Mr Tovey: As I say —

Mr Tudor: One of the things we do is surveys of our customer base. Certainly that will give you some profile. Typically it has been issues associated with tariff increases or issues associated with—it is unlikely to be anything to do with reliability of supply. Billing inquiries is always something, but we have not had significant billing inquiries as a result of system changes that we have put in place.

Hon PETER KATSAMBANIS: Humour me, if you like, on how I find this report about complaints on your website. I am in the publication section of your website.

Mr Tovey: I think it is called network quality and reliability of supply

Hon PETER KATSAMBANIS: So there are brochures, newsletters, annual reports and quarterly reports.

Mr Tovey: It would probably be the annual report section.

Hon PETER KATSAMBANIS: In that annual report section I find a series of financial reports and annual reports and that is all there is there.

Mr Tovey: I apologise. I can provide the committee with a link.

Hon PETER KATSAMBANIS: Then in brochures, there are five brochures, none of which is relevant. Newsletters are all on Horizon; and under quarterly reports there is quarterly performance report.

Hon MARTIN ALDRIDGE: There is a reference in the annual report.

Hon PETER KATSAMBANIS: There we are. Would it be in any of these quarterly reports?

Mr Tovey: I thought it was an annual report that was published on the website.

Hon PETER KATSAMBANIS: Perhaps you can take it on notice and provide us the information. I would appreciate it; thank you.

[Supplementary Information No C10.]

Mr Tovey: Certainly the ERA captures those in their reports as well.

The CHAIR: The committee will forward any additional questions it has to you via the minister in writing in the next couple of days together with the transcript of evidence, which includes the questions you have taken on notice. Responses to these questions will be requested within 10 working days of receipt of the questions. Should you be unable to meet this due date, please advise the committee in writing as soon as possible before the due date. The advice is to include specific reasons as to why the due date cannot be met. If members have any unasked questions, I ask them to submit them to the committee clerk at the close of the hearing.

On the behalf of the committee, I again thank you for your attendance today.

Hearing concluded at 5.00 pm
