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Ian Blayney, MLA
Chairman, Economics & Industry Standing Committee
Parliament House
PERTH, WA 6000
laeisc@parliament.wa.gov.au

Dear Mr Blayney:

INQUIRY INTO THE ECONOMIC IMPLICATIONS OF FLOATING LIQUEFIED NATURAL GAS OPERATIONS

Thank you for the opportunity to provide comments on the above-mentioned inquiry.

Horizon Power is Western Australia's regional and remote electricity provider. We are a state government-owned, commercially-focused corporation that provides power to about 43,000 customers (comprising more than 100,000 residents and 9,000 businesses, including major industry) across regional Western Australia.

Horizon Power is responsible for the generation, procurement, distribution and retailing of electricity. We serve every part of the State outside the southwest corner—2.3 million square kilometres covering the Kimberley, Pilbara, Gascoyne, Mid West and Southern Goldfields (including Esperance, Norseman and Hopetoun) regions.

Horizon Power is a member of the DomGas Alliance.

Horizon Power's operations

Our service area and the nature of our operations provide the basis for our perspective on the potential effect of floating liquefied natural gas (FLNG) operations on the West Australian economy.

The map on the following page illustrates where Horizon Power:

- Retails electricity (in all towns)
- Operates transmission networks (in the North West Interconnected System (NWIS), covering the gas-fired towns in the Pilbara; and between Kununurra and Wyndham)
- Operates distribution networks (in all towns, and in a wider area outside Esperance)
- Generates electricity at power stations (in Carnarvon, Marble Bar, and Nullagine), or purchases electricity from third parties, known as independent power producers (IPPs).

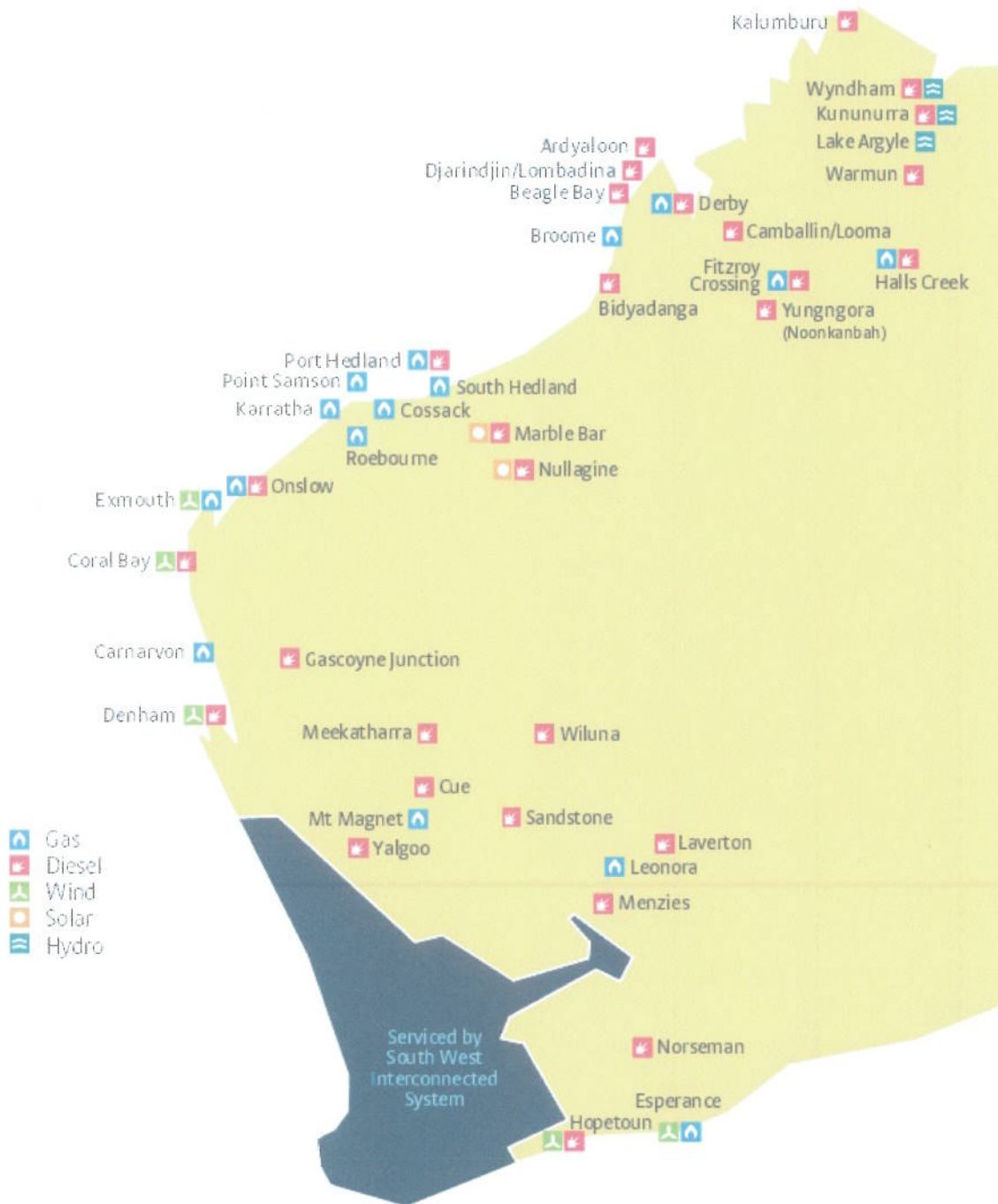


Figure 1: Horizon Power’s service area: two interconnected systems, and 36 isolated systems, running on a mix of fuels

Gas is the chief fuel source on the Pilbara coast. Trucked diesel is the main source of fuel for most small inland towns. Towns in the West Kimberley (Broome, Fitzroy Crossing, Halls Creek, and Derby) are powered by LNG, which one of our IPP suppliers produces from gas in Karratha and then trucks to site. Carnarvon, Mt Magnet, Leonora, Onslow and Esperance use gas because of their proximity to gas pipelines.

Towns where two fuel sources are shown may:

- feature gas-fired or hydro-powered generators that used trucked diesel when undergoing maintenance
- be solar-powered with diesel backup, or
- use trucked diesel or piped gas, with some wind power.

Our total demand reflects the size of our customer base (43,000 individual connections). By comparison, Synergy serves about 900,000 customers in the South West Interconnected System; the national electricity market in the eastern states supports 19 million residents.

We can also express our 2012 demand from our electricity systems as:

- NWIS: 125 megawatts (MW)
- NIS: 110 MW, across all 36 systems.

Horizon Power's need for natural gas

Horizon Power will have an ongoing requirement for natural gas as a fuel source for power generation in Karratha, Port Hedland, Onslow, Carnarvon, Mount Magnet and Leonora. In addition to this, the power Horizon Power purchases from IPPs to meet its Kimberley and Esperance demand is generated from gas procured by those IPPs.

The West Australian Government promotes long-term supplies of natural gas for local consumers through its Domestic Gas Reservation Policy, imposed on projects processing offshore gas on the WA mainland. The policy seeks commitments for the equivalent of 15% of gas available from new offshore gas developments for domestic use in WA.

Recent changes in Government policy have promoted the joint buying of gas through the electricity utilities. This is designed to leverage the State's buying power. A consolidated gas portfolio may facilitate the purchase of large tranches of gas from gas suppliers and underpin the development of domestic gas projects.

In future, the bulk of Horizon Power's gas is expected to be procured through the merged Synergy-Verve entity.

FLNG: matters of concern for Horizon Power

Horizon Power's primary concern about the development of an FLNG industry outside WA waters is that a reduction of gas supply to the WA market may cause supply shortfalls and upward pressure on the market price of WA domestic gas. We also note consequential impacts such as tax losses and therefore State budgetary constraints, along with an erosion of regional culture and economic viability through growth of an offshore, fly-in fly-out workforce.

Security of gas supply at market price is a key enabler for Horizon Power to meet its customer obligations and expectations. The development and maintenance of an efficient and liquid WA domestic gas market will facilitate the achievement of this objective.

One of the largest supply concerns for Horizon Power in the current market is the projected fall-off in North West Shelf Gas domestic gas production from 2017. Should that share of the market not be adequately replenished with supply from new projects, gas contracts are likely to become harder and more costly to secure with the increase in competition amongst buyers for a smaller pool of gas.

As long as the reservation policy applies, more gas projects in the region will increase the amount of gas coming into the market and therefore increase supply options. Horizon

Power considers anything that could reduce the availability of domestic gas as a negative turn of events.

Summary

Anything with the potential to reduce the amount of domestic gas entering the WA market is a risk to Horizon Power's long-term ability to secure a reliable, low-cost gas supply that will satisfy generation requirements and regional power demand. If gas produced from FLNG falls outside the reservation policy, gas prices will likely increase, and securing reliable supply will become more difficult. Higher costs will inevitably flow to consumers and impede our efforts to reduce our reliance on subsidies from government.

Thank you for your consideration of this submission.

Should you have any questions about the matters raised in it, or if Horizon Power can facilitate further discussion, please contact Horizon Power's policy manager, Brenna Pavey, on (08) 6310 1865 or at brenna.pavey@horizonpower.com.au.

Yours sincerely,



DAVID TOVEY
GENERAL MANAGER, CORPORATE AFFAIRS