

**STANDING COMMITTEE ON
ESTIMATES AND FINANCIAL OPERATIONS**

ONGOING BUDGET ESTIMATES HEARINGS 2010–11

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 7 JULY 2010**

SESSION ONE

Members

**Hon Giz Watson (Chair)
Hon Philip Gardiner (Deputy Chair)
Hon Liz Behjat
Hon Ken Travers
Hon Ljiljanna Ravlich**

Hearing commenced at 10.37 am**COLLIER, HON PETER****Minister for Energy,
sworn and examined:****TUDOR, MR FRANK****Acting Managing Director, Horizon Power,
sworn and examined:****YAM, MS AMELIA****General Manager Finance Services, Horizon Power,
sworn and examined:**

The DEPUTY CHAIR: On behalf of the committee, welcome to the meeting. I apologise for the absence of our chairman, Hon Giz Watson, who is overseas. I ask you to please indicate to the committee clerk whether you prefer to take the oath. There is a bible in front of you. If you wish to take the oath, place your hand on the bible.

[Witnesses took the oath or affirmation.]

The DEPUTY CHAIR: To begin, please state your name and the capacity in which you appear before the committee.

Hon PETER COLLIER: Peter Collier, Minister for Energy.

Mr Tudor: Frank Tudor. I am acting MD of Horizon Power.

Ms Yam: Amelia Yam; general manager finance services for Horizon Power.

The DEPUTY CHAIR: Thank you. You will have signed a document entitled “Information for Witnesses”. Have you read and understood that document?

The Witnesses: Yes.

The DEPUTY CHAIR: Thank you. These proceedings are being recorded by Hansard. A transcript of your evidence will be provided to you. To assist the committee and Hansard, please quote the full title of any document you refer to during the course of this hearing, for the record. Please be aware of the microphones and try to talk into them, ensure that you do not cover them with papers or make noise near them and please try to speak in turn. I remind you that your transcript will become a matter for the public record. 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. If the committee grants your request, any public and media in attendance will be excluded from the hearing. Please note that the uncorrected transcript should not be published or disclosed. This prohibition does not however prevent you from discussing your public evidence generally once you leave the hearing. Government agencies and departments have an important role and duty in assisting Parliament to scrutinise the budget papers on behalf of the people of Western Australia. This committee values that assistance. Members, it will greatly assist Hansard if, when referring to the budget statement volumes or the consolidated fund estimates, you please give the page number, item, program, amount and so on in preface to your questions.

Hon KATE DOUST: Budget paper 2, page 595. I see that a little over \$11 million is being spent in 2010–11 regularising the power supplies of Aboriginal and remote communities, with an additional \$14.8 million allocated in 2011–12. I have a series of questions, Mr Chair, and I will just go through them.

The DEPUTY CHAIR: Fine.

Hon KATE DOUST: First of all, I want to know what communities are involved and at what cost?

Hon PETER COLLIER: Yes.

Hon KATE DOUST: I might just go through each separately—if you like.

Hon PETER COLLIER: Sure. I will get Mr Tudor to go through the communities, if you like, at this stage.

Mr Tudor: We are looking at two communities, one is Kalumburu and the other is Noonkanbah, also known as Yungngora.

Hon KATE DOUST: And at what cost were they?

Mr Tudor: I think the all-up cost is around \$25.8 million for the two of them.

Hon KATE DOUST: Okay. My next question is: what communities have been included in this program to both phase 1 and 2? Is that all—just those two—or are there others?

Mr Tudor: We have only two communities in phase 2. These are being funded by the state government. There is a program under discussion between the federal government and the state government to pick up a number of other communities. But as I understand it, the arrangements for funding and the business model that underpins the service provision to those communities, is still to be agreed between the two governments. Once that is done, we expect this program to continue beyond these two communities.

Hon KATE DOUST: How were these communities selected?

Mr Tudor: A steering group has been put in place with representatives from our company, the Office of Energy, the Department of Housing and a number of other government agencies and selection criteria have been established. Some of the parameters that go to the selection are the size of the community—200 people is, I think, the threshold, and also, I think, the state of the assets that currently exist in the communities. I cannot recall them, but a number of other parameters were considered in the selection of the two communities.

Hon KATE DOUST: I think you might have already touched on this, but obviously you plan to continue this into the future. I was wondering—well, are you planning to continue this program into the future?

Mr Tudor: As I indicated, I think the continuation of the program as we understand it depends on the two governments reaching agreement. Once that has been done, there is a program that has certainly been discussed with state government agencies about what communities it will be extended to.

Hon PETER COLLIER: That is right. That will be a determination for future budgetary consideration.

Hon KATE DOUST: What happens if the federal government chooses not to participate in this program? Will the state government still pursue providing this sort of service to Indigenous and remote communities?

Hon PETER COLLIER: Yes. We are very conscious, I can assure you, of the significance and the necessity for providing electricity and upgrading electricity provision for those communities. As I said, we will certainly consider it in future budgetary considerations.

Hon LJILJANNA RAVLICH: Minister, I cannot find this in the budget papers, but I refer to the issue of dividend payout ratios from government-owned corporations of which Synergy is one that has had its dividend payout —

The DEPUTY CHAIR: This is Horizon.

Hon LJILJANNA RAVLICH: Sorry.

Hon KATE DOUST: Budget paper 3 has that information.

Hon LJILJANNA RAVLICH: Thank you. Perhaps you might go to another question.

The DEPUTY CHAIR: I will continue with a quick question following on from Hon Kate Doust. What is the population of the Kalumburu and Noonkanbah communities that you are providing this additional investment to?

Hon PETER COLLIER: I have no idea.

Mr Tudor: The only thing we can do is take it on notice and feed back the number. I think they both meet the threshold of 200 people living in the community. They would both be above that. The exact number—I would have to take on notice.

[Supplementary Information No A1.]

[10.45 am]

The DEPUTY CHAIR: How many of these Indigenous communities who do not have the service that we would expect them to have are in your zone in the area to which you should be providing service?

Hon PETER COLLIER: We do not have that information readily available. We can take that on notice.

[Supplementary Information No A2]

The DEPUTY CHAIR: The reason I ask is to get an assessment of how big the issue is so we can ascertain what is ahead of us.

Mr Tudor: A task force put in place about two years ago that was led by the Department of Housing and Works looked at the number of communities, and I think there were well over 90 communities, but they varied in size. Some were over the threshold of 200 people that deserve a full regularised service and others were much smaller. Consideration was being given to the service model that would be applied to each of the communities based on their size. This task force recommendation exists in the form of the report. I cannot reference it here, but we can supply reference to that document which I think exists within the state government.

Hon KATE DOUST: I refer to page 595 again. Horizon asset investment program shows a huge decline over the out years from \$155.619 million to \$36.128 million in 2013–14. I understand this may change, pending Horizon's ERA efficiency review. Can you please explain what the efficiency review is about and how it is progressing, and what other additional projects are subject to the ERA efficiency review?

Mr Tudor: As far as the process is concerned, the government has agreed to the terms of reference. They go to a number of issues. But certainly the cost to serve for each of the communities we provide power to will be looked at from an efficiency and productivity point of view. Procurement strategy will be looked at and the capital investment program we have will also be looked at as part of it. The issues we are talking about here will be subject to that review, and that explains why we have a firm number for 2010–11, but the remainder of the program is subject to the ERA review and the review of the asset investment program and our philosophy behind that. We expect that, once the review starts, in about a month or two, the review will be completed by about March 2011.

Hon LIZ BEHJAT: I refer also to page 595, and the Pilbara underground power project under “Works in Progress”. I notice that we have a total estimated cost of \$130 million, which runs out in the 2012–13 forward years. That will see that project completed by that time and there will be no other moneys to be expended in that. I would like to know a bit more detail about that project and which towns in the Pilbara are included in it and how each town will be done. Will it be one by one or all at the same time?

Hon PETER COLLIER: We are all cognisant of the impact of cyclones in that region in particular. It was a decision of government to move down this path and we are appreciative of the royalties for regions program; it is a great program. This is a perfect example of how it is working to assist, particularly those in the north west. It is \$130 million—\$30 million from local government and \$100 million from the royalties for regions program. South Hedland, Karratha, Roebourne and Onslow are the towns that at this stage are projected to have underground power.

Mr Tudor: The indicative sequence is Karratha, South Hedland, Roebourne and Onslow. They should all be indicatively finished by the end of 2012.

Hon LIZ BEHJAT: In Roebourne will the Cheeditha Aboriginal community be involved with that underground power?

Mr Tudor: I do not know whether the scope covers that. I can take that on notice.

[Supplementary Information No A3.]

Hon KATE DOUST: Can you take me back through those figures. Did you say it was \$135 million?

Hon PETER COLLIER: The amount was \$30 million from local government and \$100 million from royalties for regions.

Hon LIZ BEHJAT: The \$100 million is all from royalties for regions?

Hon PETER COLLIER: Correct.

Hon LJILJANNA RAVLICH: I refer to “Revenue to Government From Public Corporations” on page 234 in budget paper No 3, the *2010–11 Economic and Fiscal Outlook*. Under “Horizon Power” in the dividend subtotal there is nothing listed in 2010–11 and 2011–12. But in 2012–13 there is a \$19.65 million revenue take by government, and in 2013–14, there is a \$21.43 million revenue take. Did the increase from 50 per cent to 75 per cent dividend payout ratio from government-owned corporations apply?

Hon PETER COLLIER: It was 65 per cent.

Hon LJILJANNA RAVLICH: It was variable between organisations. Did that 65 per cent apply to Horizon Power?

Hon PETER COLLIER: Yes it did. Until Horizon recovers its retained costs it will not pay a dividend. It will kick in from 2012–13.

Hon LJILJANNA RAVLICH: That has already been factored in. I notice it has kicked in for Synergy, Verve, Western Power and so on. The 30 000 customers in the respective localities of Kimberley, Gascoyne, Mid West, Southern Goldfields et cetera get a reprieve until 2011.

Hon PETER COLLIER: 2012–13.

Hon LJILJANNA RAVLICH: Yes. Thank you.

Hon KEN TRAVERS: Can the minister or his agency explain why he is expecting a dividend of \$6.6 million last year in 2012–13 but that has now jumped to \$19.658 million? That is not a case of changing it from 50 to 65 per cent. Why are you expecting to make such a significant dividend jump compared to what you were expecting last year?

Ms Yam: From recollection of the forecasts last year, this year we are forecasting more revenue coming from tariff increases as well. It is a reforecasting procedure. It has changed quite a bit from last year to this year. I can take the question on notice and give you some reconciliations.

Hon KEN TRAVERS: I would love to get that as supplementary information.

[Supplementary Information No A4.]

The DEPUTY CHAIR: We are seeking the basis on which the dividend has increased from —

Ms Yam: From \$6 million.

Hon PETER COLLIER: The projected dividend.

Hon KEN TRAVERS: From what I think I heard you say, it is about increases in tariffs, which is one of the reasons you are able to project a significant increase in your dividend. Can you tell us what percentage increase in your tariff would create an impact of going from \$6 million to \$19 million in the dividend?

Ms Yam: I could not answer that without having a look at the return so I am happy to take that on notice and give you firm details.

[Supplementary Information No A5.]

The DEPUTY CHAIR: I want to be sure I have the distinction between supplementary information request for A4 and A5. A4 is the basis for the projected dividend increase and A5 is —

Hon KEN TRAVERS: I want to know what tariff increases are associated with the higher dividend outcome?

Ms Yam: To confirm that, is it about the drivers behind the increase?

Hon PETER COLLIER: That is right. If I have it right, Hon Ken Travers is asking about the impact of the tariff increase on that component.

Hon KEN TRAVERS: Has there been a change in the tariff between what you got last year? Obviously you are now expecting you will have an even higher tariff in 2012-13 on the tariff you were expecting when you did last year's budget. What has been the change in the tariff? You are collecting an extra \$19 million in dividends.

Ms Yam: Some of it is 15 per cent.

Hon KEN TRAVERS: Yes; but even still, you are more than doubling the dividend you will be paying to government. If you were to hold the dividend at the same level as it was last year, how much could you reduce your tariffs by? Does that make sense?

Hon PETER COLLIER: I understand.

The DEPUTY CHAIR: We said the emphasis was on the tariff as one of the drivers. It may well be the increase in population as well, so can we have the drivers, including the tariff?

Ms Yam: So the focus will be on the drivers?

Hon PETER COLLIER: It is the factors responsible for the increase from 2011-12 to 2012-13 and in particular the impact of the tariff increase.

The DEPUTY CHAIR: Thank you.

Hon KATE DOUST: I come back to the issue raised earlier by Hon Liz Behjat about the underground power. I note on page 595, where it talks about the drawdowns from the royalties for regions fund, only \$65 million is estimated for that project from 2009-10. It is under "Funded By" on page 595. If it is coming from royalties why is the full amount not listed?

Mr Tudor: The numbers I am looking at have a total cost of \$130 million. At this stage we have already committed to a portion of the program. That explains why elsewhere in the notes we have

\$118.5 million, which is the money still to be spent. It is certainly the number of \$130 million. The funding was provided in two instalments.

Ms Yam: It started in 2009–10 and we got \$35 million. It is the forward estimates from 2010–11 onwards. It is just a matter of the number of years we are adding, so the whole program is still \$130 million. Does that make sense?

Hon KATE DOUST: Not on my page.

Hon PETER COLLIER: Is that page 595?

Hon KATE DOUST: Yes.

Mr Tudor: You just summarised very succinctly that the total cost of the program is \$130 million. In expenditure to date, I think it is —

Hon KATE DOUST: I see where the \$130 million is. I wonder why just for that period, the drawdown from the royalties fund is only that amount.

Hon LIZ BEHJAT: Where it says “Funded By” it says drawdown from royalties for regions fund \$65 million.

The DEPUTY CHAIR: The issue is whether the additional \$135 million —

Ms Yam: That has been received. That was in 2009–10.

The DEPUTY CHAIR: For 2009–10 there is only \$11.5 million and there is \$35 million somehow missing from the royalties for regions fund. Where is that being picked up?

[11.00 am]

Ms Yam: Of the royalties for regions fund, \$35 million came to us in 2009–10. Another \$65 million is coming through in 2010–11. The other remaining \$30 million is coming from the local governments.

The DEPUTY CHAIR: I understand the last \$30 million, but I think Hon Kate Doust is trying to find, on the numbers we have in front of us here on page 595, from where the other \$35 million of the royalties for regions fund is coming, because it only has \$65 million, and if it came from 2009–10, there is only \$11.5 million, so obviously more has to be somewhere.

Ms Yam: If I could explain, that profile that you see, \$11.5 million, \$42.5 million, \$58 million and \$18 million is the capital spend profile, not the funding profile, so we have spent \$11.5 million in 2009–10 and we expect to spend \$42.5 million on the actual capital expenditure. The funding itself will come through in three blocks: \$35 million in 2009–10, \$65 million in 2010–11, and \$30 million from 2010–11 onwards from local government.

Hon KATE DOUST: That is not indicated in these papers. There is only one figure in these papers and that is the \$65 million in 2009–10. If there are other amounts allocated for funding for that program, I would have thought they would have been shown in these papers.

Ms Yam: I think the papers the member is referring to must be the equity line—is that right?

Hon KATE DOUST: This is on page 595, and there is one figure in 2009–10—“Drawdowns from Royalties for Regions Fund”, \$65 million. If you are saying that there are other amounts that have already been allocated from that fund, either last year or in the forward years, why is that not shown in this paper?

Ms Yam: I think it was in 2008–09 it was allocated—the \$35 million.

Hon LIZ BEHJAT: In 2008–09 you got \$35 million.

Ms Yam: Yes, we got \$35 million.

Hon LIZ BEHJAT: In 2009–10 you were going to get \$65 million.

Ms Yam: We were to get \$65 million, but that is sitting —

Hon LIZ BEHJAT: It is actually \$100 million, and the other \$30 million is coming from local government.

Ms Yam: Correct, which we have not completed the funding —

Hon LIZ BEHJAT: So the \$100 million sits to one side, totally cloistered for use for the Pilbara underground power project over the forward years.

Ms Yam: Exactly; correct.

Hon KEN TRAVERS: Let me understand this correctly. You have drawn down on the money from the royalties for regions fund, but you have not spent it yet.

Ms Yam: We have spent \$11.5 million.

Hon KEN TRAVERS: But you will have drawn down, by the start of this financial year, or 30 June just gone, \$100 million from the royalties for regions fund, but you have only spent —

Ms Yam: At this stage, Horizon has received only \$35 million; the other \$65 million is sitting with the Department of Treasury and Finance. It is to come through this year, because the funding arrangements and the agreement are not completed yet. Yes, we are expected to get \$100 million, and \$13 million will come from local government.

Hon KEN TRAVERS: This question may not be for you, but the \$1 billion cap on the royalties for regions fund to stop people banking it up to spend it all prior to an election, does the money that you have sitting within your account count towards that, or is this a way of harvesting money off and getting it out of the —

Hon PETER COLLIER: No, it is not. I understand where the member is coming from.

Ms Yam: I cannot answer the question about the \$1 billion figure.

Hon KEN TRAVERS: You have a go, minister.

Hon PETER COLLIER: I cannot actually find the \$65 million.

Ms Yam: It must be the equity line.

Hon KEN TRAVERS: If you look on page 595, at the very bottom, the sources of funding for your capital works program are listed—“Drawdowns from Royalties for Regions Fund”.

The DEPUTY CHAIR: Sorry, I did not realise you had not found it. The issue there is that there is \$65 million to be drawn down in 2009–10. The other issue is that there is a \$35 million hangover. What we are trying to discover, the \$35 million could have been drawn down, but since only \$11.5 million has been spent, Hon Ken Travers is asking whether part of the \$35 million is still unspent but drawn down.

Ms Yam: Yes.

The DEPUTY CHAIR: The \$65 million, I think you said, is also being drawn down, and that follows on to the honourable member’s next question about whether this is part of the \$1 billion transfer.

Hon PETER COLLIER: Yes, we understand that.

Ms Yam: Yes, the total \$100 million has been drawn down, I suppose, if those are the right words. I am not sure why the \$35 million is not here; I think it is maybe because it was in 2008–09, so it was left out of the budget papers. I cannot understand the \$35 million, but yes, the \$100 million has been allocated to us as funding for capital programs. I cannot answer the question about the \$1 billion for royalties for regions.

Hon PETER COLLIER: I cannot either. I am not sure why.

Hon KEN TRAVERS: The works that you are carrying out under the royalties for regions program, were any of those previously contained within your 10-year capital works program? If so, for what time line?

Mr Tudor: We have an ongoing asset management plan. All these lines we are talking about are distribution lines or overhead lines. We would have had some amount put aside for the ongoing maintenance and upkeep of that asset base, including those distribution lines. What we are now looking at is actually removing those overhead distribution lines and undergrounding them, along with transformers and switch gear. That is offsetting any small amount we had in our asset management plan for the upkeep of those.

Hon KEN TRAVERS: Can you go back and look at how much you previously had allocated for the maintenance of those assets?

Mr Tudor: Yes, we can do that.

Ms Yam: The maintenance of replacements as well?

Hon KEN TRAVERS: Whatever money you had allocated for the network that you will now be spending that money on.

The DEPUTY CHAIR: That is, the amount you had already allocated for the maintenance of the assets that are now listed as going underground.

Hon PETER COLLIER: Superseded by the underground power, yes.

[Supplementary Information No A6.]

Hon LJILJANNA RAVLICH: As a follow-on from that, on page 138 there is reference to policy decisions since the 2009–10 midyear review affecting total public sector asset investment, and under “Horizon Power” there is additional expenditure of \$27.3 million planned for 2010–11 on Horizon Power’s asset management to address safety requirements through a pole and conductor replacement program. Can I ask how many poles need to be attended to under this program in order to meet the safety standards in total?

Hon PETER COLLIER: There have been revised regulated standards, and that has led to an accelerated program that has been developed, so with regard to specific numbers I will perhaps ask Mr Tudor to respond.

Mr Tudor: I do not know the extent of the program that we are looking at, but the two key areas that we have identified through this improved standard in programs that the minister has referred to are in the Gascoyne region around Carnarvon, where we have found that the poles there have actually deteriorated much sooner than we would have expected, largely as a result of the soil conditions, saline soil conditions. We have also done an inspection in the Esperance area. We have completed a significant amount of work on the three-phase network in Esperance. We have now conducted a survey over the single-phase network, which runs into very small communities and isolated households. We are looking at that, looking at long bays, looking at poles and looking at rectifying those. They are the two big contributors to that sum. The exact details on poles and conductors, I do not have, but I can take it on notice.

Hon LJILJANNA RAVLICH: Could you provide that information on notice to the committee?

Mr Tudor: Yes, we can.

[Supplementary Information No A7.]

Hon LJILJANNA RAVLICH: Can you also provide to the committee how much the \$27.3 million that has been allocated in 2010–11, how many poles that is likely to attend to in terms of moving them up to meeting those standards?

Hon PETER COLLIER: Yes, we can provide that.

Hon LJILJANNA RAVLICH: That will give us then a sense of what percentage of total pole replacement we will have covered with this \$23.7 million.

The DEPUTY CHAIR: We will include that in supplementary information number A7, about the poles.

Hon LJILJANNA RAVLICH: Just before I move off that, can I just ask whether the poles you referred to in Carnarvon and Esperance that require conductor replacement or any other attention, do they currently pose a fire risk or just a more general safety risk of perhaps falling down or whatever, but essentially I am trying to get the sense of whether it is a fire risk to those communities or, if it is not a fire risk, then what other type of risk is it to those communities?

Mr Tudor: If it is related to poles, the way we look at poles is if, on inspection, they are deficient according to our standards, then we will replace them within 48 hours. We also categorise, if it is not for immediate replacement, whether it needs to be replaced within three months, one year or on the next inspection. If any are an immediate safety issue, they will be replaced, so they will be categorised in that way. There may well be—I cannot answer that specifically—some long bays on some of the single-phase network in Esperance, and the long bays do lead to conductors clashing together, and under certain conditions that can certainly lead to bushfires and the sorts of things the member was talking about. This is obviously the program that we are following through to minimise any of that risk.

Hon LJILJANNA RAVLICH: Can you take on notice also and provide a response to how many long bays you have that will present a potential risk if not attended to, in both Carnarvon and Esperance? Can you give us a statewide figure, too, while you are at it, if you have that information available?

Mr Tudor: We can be very specific in terms of Esperance; I am not sure how specific we can be in the rest of the asset base, but we will have a look at the question and see how best we can answer it.

Hon LJILJANNA RAVLICH: What about Carnarvon and Esperance, given that you have identified both of those localities?

Mr Tudor: Carnarvon is essentially about pole replacement; the long bay issue is one that is in Esperance.

Hon LJILJANNA RAVLICH: Okay, so there are no long bays in Carnarvon. Thank you.

The DEPUTY CHAIR: So the supplementary information is on how many long bays are at risk especially in Esperance, but also in Carnarvon and the whole of Western Australia in your Horizon area.

Hon LJILJANNA RAVLICH: That is right.

[Supplementary Information No A8.]

Hon KATE DOUST: I assume that all of your poles are timber, or do you have some that are steel or concrete?

Mr Tudor: We have steel and wooden poles.

Hon KATE DOUST: I would be interested in the breakdown that you have provided to Hon Ljiljanna Ravlich of what is timber, steel and concrete. The other thing I was interested in —

The DEPUTY CHAIR: Sorry, that can be added to that supplementary question A8.

Hon KATE DOUST: I was just interested, in terms of the management of your poles and wire maintenance, is that done in-house by Horizon, or do you subcontract out? If you do subcontract out, how many companies are engaged in maintaining your poles and wires?

Mr Tudor: We will take that question on notice, if we can.

The DEPUTY CHAIR: The subcontracting out of the pole replacement.

Hon PETER COLLIER: Pole inspection or pole replacement?

Mr Tudor: Pole inspection.

Hon KATE DOUST: I just want to know which companies are managing that. If it is not Horizon, who is doing it?

The DEPUTY CHAIR: Pole inspection. Okay.

[Supplementary Information No A9.]

Hon KATE DOUST: On page 589, which is actually the Office of Energy's budget papers, I just want to refer you to that and note that there is information there referring to the government's net feed-in tariff that will be paid by both Synergy and Horizon. I have a series of questions about this; I will run through a couple, get your response and then finish off. I just wanted to know what is the net feed-in tariff that will be paid by Horizon?

Mr Tudor: It is 40c; it is the same across the state.

Hon KATE DOUST: It is the same? Okay; so, no change at all?

Mr Tudor: No.

Hon KATE DOUST: Okay; that reduces that question. Again, coming back to page 595, in reference to the works in progress and the \$37.2 million being spent on Horizon's distribution network as part of the \$121.4 million investment across the period, there seems to be large fluctuations inside and with only \$19.9 million being spent in 2013–14, I want to know what is the reason for that.

[11.15 am]

Mr Tudor: The reason for that is that we have in 2010–11 the money that we require to conduct the asset management program. We are then expecting the Economic Regulation Authority to come through with its review. As part of that process, we will be showing our forward asset management program, both on the distribution side for all of our systems as well as the transmission side, principally in the north west interconnected system. We are expecting the ERA to either challenge or endorse that program. Once that is done, that will then be subject to revised budget numbers that would be put through the state's process at the end of this year.

Hon KATE DOUST: Following on from that, a steady stream of government announcements are being made about changes to the north west region in particular and about developments and homes in the region. I want to know what Horizon is doing to ensure there will be enough energy after several land development projects in Karratha, for both residential and non-residential uses, for residential key worker accommodation, retirement units and office suits in South Hedland, and the government's plan to revitalise Newman, double its population and transform the town into a major sub-regional service centre. You have this enormous change proposed up there. What plan has Horizon in place to manage that increased energy use?

Hon PETER COLLIER: It is a good question, and you are right. The whole area will inevitably continue to develop and put pressure on the system. I opened an 86-megawatt power plant in Karratha a month ago —

Hon KATE DOUST: I have been there. It is a very attractive place!

Hon PETER COLLIER: It was a power purchase agreement with ATCO, a Canadian company. That will assist in terms of capacity. I have got to be honest, the Pilbara is under pressure. We are conscious of that and the government will continue to work with Horizon and DTF to ensure that we meet the power pressures of the region in the short to medium term. Mr Tudor might add anything further, if there is anything.

Mr Tudor: In addition to what the minister said, we have in the Pilbara requirements for power in Karratha and Port Hedland. The minister has just described the arrangements in Karratha. In Port Hedland at the moment we are in the process of signing agreements with BHP, Alinta and Babcock and Brown for access to generation capacity there that is in excess of BHP's requirements. This will take us through the next two years to the end of 2012. Beyond that period, we are looking at demand as it grows and we are plugged into the processes around Pilbara Cities, and we are also looking at options for extending contracts with BHP and Alinta, potentially putting in a hire kit and also the possibility of having to commit to a large power station in some form down the track.

Hon KATE DOUST: I am glad you talked about the arrangements with Alinta and BHP because I know that when I had the opportunity to visit, it was interesting to look at the power usage on a particular day. I was curious about what is being done through the government to engage with those other mining companies that have their own generators. I understand there are difficulties up there not knowing when they are on or off, and how that impacts on Horizon's capacity. I do not know whether or not that is something you work your way through with in negotiations. I would be interested to know whether you are currently engaged with those mining companies surrounding those large towns or whether or not you are looking to make some sort of legislative or regulatory change so Horizon can better manage those situations.

Hon PETER COLLIER: And provide some certainty. Again, that is a good question. I will ask Mr Tudor to comment again. The fact of the matter is that in terms of capacity, we have had good relations with the companies in the Pilbara and the north west, as I am sure you are aware, and we have had for a number of years. Some of those arrangements are coming to a close in terms of where we will go in the future. Communication and dialogue between Horizon and those companies—I will ask Mr Tudor to comment on specific instances in a moment—continues. The simple fact of the matter is, though, that as a government we are mindful of that and of the fact that it is our responsibility to ensure that there is sufficient capacity for the entire region in the North West, not just the mining companies and our work with them.

Mr Tudor: I think there is very good cooperation between the mining companies and ourselves. We have had many instances where we have cooperated to support them and in turn they have cooperated to support us. When we had the Varanus Island incident and we had a gas shortage, we were instrumental in actually providing Rio Tinto with power that came from the Port Hedland facility, which got them through some immediate issues that they had. We have also had Rio Tinto as a power provider to us up until very recently. They also supported us in the commissioning of our power station that the minister referred to. We, in turn, are expecting to support them in the commissioning of their new power station at Seven Mile in Karratha. The fact that we have an arrangement with BHP and Alinta for the next two to three years suggests that we have a good relationship. I think the minister is overseeing the strategic energy initiative, which, looking longer term, will provide some perspectives, context and justification for what needs to be done over the next 10 to 20 years. I imagine that the Pilbara is a key focus of that.

Hon PETER COLLIER: We went up to the Pilbara. A lot of people were working on that day, but it was still very worthwhile. The SEI—the strategic energy initiative—is exactly for what Mr Tudor suggested. The point behind the SEI was to ensure that we had a comprehensive energy strategy for the future. It is not just for those in the SWIS; Horizon is just as much a part of the demands, expectation and responsibility of government in terms of providing a reliable energy source in those regions in those areas. The feedback that we have received, not just from the forums right across the state, but also in terms of written feedback, has been very positive. That is why I felt it was important that we consulted with the entire community and it was not just left up to the Office of Energy or to a select few but in fact that those who were intimately involved in and impacted on by the energy sector were able to contribute. Their response has been very good indeed. I will be releasing that document by the end of this year.

The DEPUTY CHAIR: On the same issue, Hon Ken Travers?

Hon KEN TRAVERS: Following on the issue of projected demand, I love you words, minister, but I actually want to get down to the nitty-gritty. When do you expect your current demand will exceed your current capacity for places like Karratha and Port Hedland, if you have no new projects?

Hon PETER COLLIER: We will be under pressure in a couple of years, quite frankly.

Hon KEN TRAVERS: What is a couple of years?

Hon PETER COLLIER: Early 2013.

Hon KEN TRAVERS: What is your current date where demand will exceed capacity in Port Hedland and Karratha?

Mr Tudor: We have arrangements in place either with independent power producers that are dedicated to servicing our requirements in Karratha—this is ATCO—and with Alinta, who are servicing not only our own requirements, but also BHP's. We have a contract that I have just referred to that will finish with BHP and Alinta at the end of 2012. At that point we will need to look at further arrangements.

Hon KEN TRAVERS: Of what magnitude?

Mr Tudor: We have 86 megawatts that the minister referred to at Karratha. We expect our peak load at that time to be 130 megawatts. With some redundancy, we need more than that. However, there is installed capacity at Port Hedland—a significant amount beyond the requirements of BHP. A lot of that came onto the market because of the closure of the HBI plant. That sits there as capacity which happens to be contracted to BHP and which we are talking to them about. We hope there is the possibility for an extension of that contract beyond —

Hon KEN TRAVERS: If you are able to secure that extension, will you still require power over and above that from 2012 onwards?

Mr Tudor: Our expectation is that we will. We are looking at that and at possibilities with Rio Tinto. There are some assets that are being retired there. We are looking at whether it is possible to secure capacity from that and we are looking at that from a cost and value perspective. We are looking too at a hire kit and the possibility of building power stations along the lines.

Hon KEN TRAVERS: Do you have any construction of additional power stations currently included in your strategic development plan, and, within your statement of corporate intent, does it include the option of building additional power stations? Is that one of the items you have listed?

Mr Tudor: In order to secure capacity, we had provided for a large power station that was needed around that period, but what we are doing, with both the minister and the Office of Energy, is looking at every option to make sure that we push that out as far as we can and still maintain secure capacity and take advantage of any excess capacity that is left by BHP and any excess capacity in retired kit left by Rio Tinto.

Hon KEN TRAVERS: I understand that you will source whatever spare capacity there is in the Pilbara, but that will still have a limit on it. Do you have a projection of when you have sourced all the possible capacity you can harness within the Pilbara, at what point will demand exceed supply?

Mr Tudor: We expect it to be within the period 2013, 2014 and 2015. It is dependent on BHP's expansion plans.

Hon KEN TRAVERS: But it could be as early as 2013?

Mr Tudor: It could be as early as 2013.

Hon PETER COLLIER: Can I just pick up on that? We, as a government, are very aware of that.

Hon KEN TRAVERS: With all due respect, minister, the Minister for Water is very aware of the water situation, but you do not have a budget to do it. To build a new power station, it is not something that you can say, “We need a new power station,” and it will be open tomorrow.

Hon PETER COLLIER: It would probably take a couple of years.

Hon KEN TRAVERS: I would have thought —

Hon PETER COLLIER: Two years.

Hon KEN TRAVERS: You would need to move pretty quickly to secure all the necessary approvals to have it in place in two years.

The DEPUTY CHAIR: Hon Ken Travers, one more part.

Hon KEN TRAVERS: Does your statement of corporate intent refer to a new power station coming on stream? Is that one of the items listed on your current statement of corporate intent? It may be listed in the strategic development plans on which your statement of corporate intent is based. I will go to the next question. Have you, as part of your discussions with the Treasurer in trying to seek his concurrence with the sign-off on the statement of corporate intent—is money for your capital works project an issue of dispute? Because it is in the port authorities, minister; we know that. Is that one of the issue of dispute you have with the Treasurer in seeking his concurrence for your statement of corporate intent?

Hon PETER COLLIER: For Horizon? No.

Hon KATE DOUST: No, it is Western Power.

Hon KEN TRAVERS: No. Do we have the Horizon one for this year? It should have been tabled last week.

Hon PETER COLLIER: It was. Horizon was tabled.

Hon KATE DOUST: That is news to us.

The DEPUTY CHAIR: Who is going to respond to the question?

Hon KATE DOUST: It was not.

Hon PETER COLLIER: Sorry? Horizon was not tabled?

Hon KATE DOUST: No.

Hon PETER COLLIER: There is no issue with Horizon Power. There is no dispute with Horizon Power’s statement of corporate intent.

Hon KEN TRAVERS: Regarding capital works?

Hon PETER COLLIER: As the minister, I am very aware of the pressures and the potential shortfalls in capacity for Horizon Power. I am very conscious of it. I understand that I will not satisfy you. All I am saying is that I am very aware of the situation. As I say, we have issues with regard to capacity. There are contingency plans in there that will certainly see us meeting those demands until at least 2013. If you are looking at two years beyond that to construct a power station, it is something that we as a government definitely have to address.

Hon KEN TRAVERS: Is the government still looking at the north west interconnected grid, or have you completely written that off now?

Hon PETER COLLIER: No, we can deal with that with Western Power. That is not an issue.

Hon KEN TRAVERS: No, the north west interconnected grid.

Hon PETER COLLIER: Sorry, the north west interconnected grid. Certainly that is not a priority at the moment for the government.

The DEPUTY CHAIR: Hon Ken Travers, can I move to Hon Ljiljanna Ravlich?

Hon LJILJANNA RAVLICH: Just following on from that, my office received a number of complaints earlier on in the year from retailers at the Karratha shopping centre, who were not able to get air conditioning because there was not enough power to run air conditioning in Karratha because BHP had used more than its load of base power. Do not shake your head, because I am telling you that complaints were made —

Hon PETER COLLIER: I did not shake my head.

Mr Tudor: I did.

Hon LJILJANNA RAVLICH: — to Jon Ford's office and all the retailers at that major shopping centre were up in arms because they rely on people on a very hot day coming into the centre because they get relief from the weather in that shopping centre. With all the air conditioning down—this occurred day after day—they got so frustrated they actually contacted my office, as the shadow Minister for Small Business. This notion that you will not have problems until some two or three years down the track does not ring true. I am sure that it is not news to you that businesses in and around Karratha are complaining because of an insufficient power supply in order for them to be able to get on with business.

[11.30 am]

Mr Tudor: I do not think the issue is around generation because generation is not a problem for us at all at the moment. There is more installed generation than any of the resource companies, including ourselves, can use between Port Hedland and Karratha. At the moment there is excess capacity in abundance on the generation side. In order to provide power to individual shopping centres or retailers, we need to get it from generation, through transmission, through distribution, so there may well have been some problems during very hot weather around some part of the network. In order to be specific, if we could reference who they were, we could go back and have a look at what the problem was. I suspect it may have been a network problem and it may have been due to excessive environmental conditions.

Hon LJILJANNA RAVLICH: I will try to get more information for you.

Hon PETER COLLIER: That could be helpful because capacity is not an issue at the moment.

Hon LJILJANNA RAVLICH: I really want to put this to you, minister. In terms of your policy in the energy portfolio about cost-reflective pricing, are you concerned that this policy is causing incredible hardship to many users of energy?

Hon PETER COLLIER: Of course I am concerned. I have stated that quite consistently since we started. I do not like the notion of having to increase electricity prices. It is as simple as that. We were faced with this dreadful situation of having to bail out the state generators to the tune of hundreds of millions of dollars or move towards a cost-reflective tariff. We are not cost reflective at the moment and we will not be cost reflective for a number of years.

Hon LJILJANNA RAVLICH: Is the government's policy for cost reflectivity across all parts of government? In other words, will cost reflectivity be applied to the transport portfolio?

Hon PETER COLLIER: I cannot speak for the transport minister. We are dealing with energy at the moment. In terms of electricity prices, the responsible way to move is to move towards a user-pays system.

Hon LJILJANNA RAVLICH: At what price, minister?

Hon PETER COLLIER: What do you mean "at what price"? At what social price?

Hon LJILJANNA RAVLICH: How much hardship are you prepared to endure? We have heard stories of elderly people. We know that a number of people have passed away.

Hon PETER COLLIER: That is incorrect. That is wrong. From the evidence that I have just been provided by the journalist, those stories were found to be incorrect. We need to deal with this in a

sensible fashion and a compassionate way. I will just answer your question. I am very aware of the impact that increases in prices have on householders. I was insistent that we increase the hardship allowance throughout the state.

Hon LJILJANNA RAVLICH: It only touches a fraction.

Hon PETER COLLIER: Just let me finish. We have given over \$31.4 million for hardship areas. I might point out that Western Australia is not alone. We are not lone wolves in this area. New South Wales had another 13 per cent increase on 1 July as well. Up until our increases last year, Western Australian electricity prices were the lowest of any jurisdiction. I am aware that that is cold comfort for householders. We were paying the lowest electricity prices of any other jurisdiction in Australia. At the moment, even with the increases on 1 July this year, we are still around the mid range. We are not anywhere close to being the highest in Australia. We have to be aware of the fact that we as a government had to take a responsible decision but also a compassionate decision to increase tariffs. We have done that for a raft of reasons.

Hon LJILJANNA RAVLICH: What is compassionate about increasing tariffs?

The DEPUTY CHAIR: We can tackle this issue in the subsequent sessions as well. I need to have one more question because time is up.

Hon PETER COLLIER: Can I just clarify that the SCI for Horizon is completed but I am yet to table it. I apologise.

Hon KATE DOUST: I ask if you could table the others as well, thank you.

Hon PETER COLLIER: You will have them all done, I can assure you.

Hon LIZ BEHJAT: I refer to the strategic energy initiative that you spoke about in relation to the north west. Having lived in Karratha, I know how much the sun shines up there. Factored into all of this money that we are spending in relation to network enhancements—it is all through the budget papers—is any money specifically set aside for introducing photovoltaics in that region? Hon Kate Doust and I saw some fantastic projects in Israel recently. There is more sun up there than there is in Israel. What are we doing in that regard?

Hon PETER COLLIER: When I went to the SEI forum in Port Hedland about three months ago, one of the things that was compelling for everyone there was the fact that there were so few PVs on roofs, which is fascinating. As far as the government is concerned, the introduction of a feed-in tariff will certainly add to the incentives for householders to include a PV on their roofs. As well as that, in the next couple of months I will have a response from the Office of Energy in terms of the potential to expand it to commercial businesses. Again, ideally, that will be an incentive to expand that program. Two Aboriginal communities have been the recipient of such systems. I will ask Mr Tudor to speak about those. At the moment, there is a veritable smorgasbord of opportunities for PV systems in the north west. I am very aware of that.

Hon LIZ BEHJAT: What about other systems, not just those on people's roofs? For instance, we saw a standalone system that was providing power for an entire kibbutz and back into the grid.

Hon PETER COLLIER: One of the biggest problems with PV systems or solar power as a whole is the cost. The cost of providing solar power comparative to other fuels is prohibitive to a large degree. We as a government have to make a responsible decision to that. We are signatories to the 20 per cent by 2020. We are going to make our contribution to that. At the moment, our renewable portfolio is fundamentally just wind farms up and down the state. I have no problems with that. They have a bit of a problem with the grid. They are intermittent. The PV system is another way to go. I have a number of proposals on my desk. I get a constant flurry of people coming through my door talking about the potential for solar power, particularly in the Mid West and the north west. Again, it comes down to cost. That is something that we have to take into consideration when

looking at the energy future not just of the north west and those in the jurisdiction of Horizon but right across the state. Mr Tudor might like to comment on the Aboriginal communities.

Mr Tudor: We are intending to put PV, along with diesel, in the two communities we spoke about. We are expecting, within the costs that have been allowed, some reasonable penetration from PV. As indicated, they are both in ideal environments to tap into the sunlight as a resource. We should also say that Nullagine and Marble Bar are in the process of being completed. In both of those we have included PV and we have included technology that integrates low load diesels with PV. Our experience thus far has given us penetration of PV well over 60 per cent. I have heard numbers as high as 90 per cent. Those two have been done with hybrid PV diesels.

We are in the process, as indicated in the asset investment program, of replacing the Carnarvon power station. That is being put in place to be renewable ready. The most likely option there is to retrofit that power station once we have the fossil fuel part of it in place with wind. That is being looked at. We are constantly talking to proponents in the Pilbara about renewable energy. Wherever possible, we are encouraging people to work with us. We are working with a company that is looking at monitoring wind over the next year or two in the Pilbara, with the idea of putting wind in place there. It depends on the results and it depends on finance; it depends on a lot of things. When they come to us, we are totally encouraging of the work that they are doing at a preliminary stage.

The DEPUTY CHAIR: We have gone beyond time. We will have five more minutes of questions and then a two-minute break.

Hon LJILJANNA RAVLICH: When is the Horizon Power code of conduct performance report for 2009–10 due?

Hon PETER COLLIER: We will take it on notice.

Hon LJILJANNA RAVLICH: In view of that, minister, can you take a number of questions on notice? For 2009–10, can you provide figures in relation to the number of residential customers who have been granted additional time to pay their bill under part 6 of the act? Can you also advise the number of residential customers who have been disconnected in accordance with sections 7(1) and 7(3) for failure to pay a bill? Can you also advise the number of residential customers who have been disconnected who were previously the subject of an instalment plan, the number of residential customers who have been disconnected at the same supply address within the past 24 months and the number of residential customers who have been disconnected while receiving a concession? Finally—I had many more—what is the number of residential customers who have been granted additional time to pay their bill under part 6?

Hon PETER COLLIER: We will take all of those questions on notice.

[Supplementary Information No A10.]

Hon KATE DOUST: I wish to follow up on the comments made by Hon Liz Behjat about renewables. It is disappointing to not see anything referring to that in the budget papers because I know that you are quite progressive in that area. One of the things that strikes me with the take-up rate of the feed-in tariff, is that prohibitor may very well be the number of company-owned houses and also workers' units. Do you still deem them to be residential or commercial because they are leased out by the company and they are not owned by the individual?

Hon PETER COLLIER: They are residential. A lot of the companies are reluctant to pay out for a PV system. There is more of an inclination now. They are residents.

Hon KATE DOUST: Given that and given the proposed range of new developments in those two key towns, rather than putting PVs on people's individual homes, for a new development, would it not be a better outcome both for those communities and for putting power back into the grid, to look at other models of how you build the solar base in those areas? I do not know whether you have looked at those.

Hon PETER COLLIER: They came up at the forum in Port Hedland. They will be a definite part of the SEI and a consideration for government for the future.

Hon KEN TRAVERS: Is your head office still in Karratha?

Hon PETER COLLIER: Yes, it is.

Hon KEN TRAVERS: You both indicated that you were based in Bentley. Who is based in the head office at Karratha?

Mr Tudor: The MD is based in Karratha but spends a lot of time in Perth because 250-odd people are based there. The head office is still in Karratha.

Hon PETER COLLIER: Rod Hayes spends a considerable amount of time in Karratha.

The DEPUTY CHAIR: The committee will forward any additional questions that 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 that you have taken on notice. If members have any unasked questions, I ask them to submit these questions to the committee clerk at the close of this hearing. Responses to these questions will be requested within 10 working days of receipt of the questions. Should the agency 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. On behalf of the committee, thank you for your attendance today.

Hearing concluded at 11.44 am