

**STANDING COMMITTEE ON  
ESTIMATES AND FINANCIAL OPERATIONS**

**2012–13 BUDGET ESTIMATES HEARINGS**

**TRANSCRIPT OF EVIDENCE  
TAKEN AT PERTH  
FRIDAY, 3 AUGUST 2012**

**SESSION FOUR  
HORIZON POWER**

**Members**

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

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**Hearing commenced at 3.06 pm**

**Hon PETER COLLIER**

**Minister for Energy, examined:**

**Mr FRANK TUDOR**

**Managing Director-Elect, sworn and examined:**

**Mr BEN HAMILTON**

**General Manager, Corporate Services, sworn and examined:**

**Mr ZBIGNIEW WILK**

**General Manager, Operations, sworn and examined:**

**Mr DAVID TOVEY**

**Company Secretary, sworn and examined:**

**The CHAIR:** Before we begin, I am required to ask public servants either take an oath or an affirmation. If you wish to take the oath, there is a copy of the Bible on the table in front of you.

[Witnesses took the oath or affirmation.]

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

**The Witnesses:** Yes.

**The CHAIR:** The hearing this afternoon is being held in public, although there is discretion available to the committee to take evidence in private, either of its own motion or at the request of a witness. If for some reason you wish to make a confidential statement during this afternoon’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 to assisting Parliament to scrutinise the budget papers on behalf of the people of Western Australia and we appreciate your assistance in this task. The proceedings this afternoon are being recorded by Hansard. A transcript of your evidence will be provided to you. Members, it would assist Hansard if you could please refer to the page number, item, program in the budget estimates and consolidated accounts in preface to your questions. If supplementary information is to be provided, I ask your cooperation in ensuring that is delivered to the committee clerk within 10 working days of receipt of the questions. Should you be unable to meet this deadline, please advise the committee clerk immediately. The committee reminds agency representatives to respond to questions in a succinct manner and to please limit the extent of personal observations.

**Hon LJILJANNA RAVLICH:** Minister, I want to go to the Pilbara underground power project, which is found on page 595 under “Works in Progress”. As shown there, the estimated cost of this project was \$130 million and \$53.3 million was to be expended in the 2012–13 financial year. This is a project that is about burying the power lines and putting underground in the Pilbara. It was originally funded, I think, through royalties for regions; I think it was a royalties for regions initiative. I understand that this is now \$100 million over budget and it adds to the list of over budget items, if you like, the \$600 million tariffs for the solar panels and the billing system, and now we have another example where a project under your portfolio once again is \$100 million overrun. Can you explain to this committee why we have yet another significant financial overrun?

**Hon PETER COLLIER:** The Pilbara underground power project is a very good project. Essentially you are going to have about 5 000 homes, 5 000 residences, which are going to have the benefits of underground power, which will essentially cyclone-proof those areas and make sure it is much better in a very vulnerable area of the state. There have been issues with one component in particular of the project.

**Hon LJILJANNA RAVLICH:** Can you explain that?

**Hon PETER COLLIER:** Yes; I thought that is what I was doing. I will get Mr Tudor to comment on that particular area and why there have been those particular areas. It is more the contractor than anything. There has been a fair bit of dialogue that has taken place and I will ask Mr Tudor to take us through it. Suffice to say it did have the natural attrition in terms of the development of cost escalation that is always going to occur in any project, particularly in power. Having said that, I am still convinced that the Pilbara underground power project is a very, very good project, which will deliver much better energy security for those in the Pilbara. With regard to the increases in the costs of the project, and one particular component of it, I will ask Mr Tudor to comment.

**Mr Tudor:** In announcing the cost increase, I think we are no different to many of the resource projects that have announced successive cost increases on projects that they are executing in the Pilbara region. The issue that we all face operating in the Pilbara is that there are a number of competing large projects that are causing cost escalation and that is the case across Port Hedland; it is also the case across Karratha. This project was originally costed and scoped in 2008–09. When that work was done, it was done with the best possible information we had. It was referenced to work that had been completed on Port Hedland, where we had numbers of around \$13 000 a lot—that was the cost of undergrounding at that time. We also referred to project to the Office of Energy, which had recourse to the state undergrounding program, so the costs were benchmarked there. The numbers we established for the execution of the project when it was budgeted were about \$20 000. It took into account the best possible information and it also took into account some escalation for what we saw was happening in the Pilbara. We tendered this work in 2010 and I will come back to why there was a gap between the time it was scoped and costed and the period we tendered it. When we tendered to work, it was a cost competitive tender and the tenderer that won the work came in within budget. It was only once they started and completed a significant proportion of the work, which was in about the last quarter of last year, that we realised that there were significant cost pressures. At that time we took immediate action to instigate a major cost review and a major review of the approach we were taking. It so happened that at the time the contractor also walked off the site, so what we have done now is taken a different approach to the actual execution of the project. What we can say that with work that we tendered in Port Hedland, the costs have now come in at about \$32 000 a lot compared to the \$20 000 we had budgeted for, and in Karratha, we estimate that the work is going to cost around \$40 000 a lot. One of the contributing factors is simply to look at the cost of rental accommodation, which over the last seven years in the Pilbara has gone from about \$200 a week for a normal residence to about \$2 000 a week. So they are the sorts of factors that are leading to this cost increase that we have seen.

One of the issues that we also completed as part of this work is that clearly Karratha is expanding. One of the first things that we did is that we needed to address the expansion of Karratha and how, through the distribution system, we would continue to supply secure power. So one of the things we did in the early part of the project is that we actually increased the voltage that we were using to distribute power throughout the town. It was triggered by the Gap Ridge industrial estate, but we have had to do is actually modify the substations that we have got, one at Pegs Creek and one at Bulgarra. We had to order large transformers that take power from 132 kilovolts down to 22 kilovolts, which we were going to use for the distribution system. Those transformers are very expensive and there are long lead times associated with their delivery. So that took time in actually completing the project. We have also had the kiosk transformers replaced throughout the entire town that take the voltage from the 22 kilovolts down to the 440 volts, which is then used to

distribute through the suburbs. This is a massive project in itself that needed to precede the undergrounding work.

**Hon LJILJANNA RAVLICH:** Can I just ask, given what you have just said—I am having difficulty hearing you—the question for me is: have you re-costed of the project in terms of having to adjust your costs given these different changes in costing you have just referred to?

[3.15 pm]

**Mr Tudor:** In the last quarter of last year we took immediate action, which happened to coincide approximately to when the contractor came under pressure and walked off the job. What we have done is we have internalised the work, so with the contractor leaving the site we immediately sought to make sure that everything was safe and now we have gone about systematically completing the work that was started. As we did that, we instigated a major review, so we have brought in industry experts. We have actually used the information we have got already in having completed part of the program to actually look forward on how we would complete the program. Our assessment is that it is best done by using our people in the Pilbara, as opposed to using people of Perth, which we had been doing. So this is now being run by local people with local knowledge to actually execute the project. It is being done on a stage-by-stage basis, so we are approaching this suburb by suburb as opposed to trying to complete it in a rather big bang fashion according to a fairly aggressive timetable, which allows us, I think, to control costs as you go forward. So by the middle of next year we expect to have completed all of Hedland, this includes South Hedland and Wedgefield, and we also expect to have completed a substantial proportion of Karratha. That goes to the suburb of Bulgarra, which is a very large suburb, at 1 000 lots, and also Millars Well as part of the first parcel of work in Karratha.

**Hon LJILJANNA RAVLICH:** If you have readjusted your costing, can I ask you whether the overrun is still \$100 million or do you anticipate that that overrun will in fact be greater than \$100 million?

**Mr Tudor:** Based on the best possible information using industry experts, using our experience, we expect it to be approximately \$100 million.

**Hon LJILJANNA RAVLICH:** Can I ask you where you will source that \$100 million from? Are you expecting to go back into the public purse or do you have other plans for how you will secure that \$100 million in funding?

**Mr Tudor:** Perhaps I can answer that in two ways and then hand over to the minister. On the first one, one of the things that we have done is gone and looked at the value that arises from undergrounding. The minister did say that there were many aspects of it. There is the safety aspect, which makes it a very different project to the type of project you put in the metropolitan area. Where you underground lines in the metropolitan area, it is mainly about property values and about aesthetics in the community; here we are talking about cyclones buffeting those areas three to four times a year. What we do during the cyclones is we ask our crews with the best safety procedures and processes in place to go out and actually put themselves in that inherently risky environment to make sure that before the public is allowed to go out, they have actually trawled the streets to ensure that there are no hazards. Then they have to go about rectifying the damage that has been done and there are safety issues inherent in that, both —

**Hon LJILJANNA RAVLICH:** Can I just interrupt? That is not new; I mean, that would have been the case when this project started.

**Mr Tudor:** All I am trying to establish is that the value in the project is huge and compelling. What we are focused on at the moment is delivering, with the funds that are available, the work that we can, using the new approach efficiently and effectively. What we are now doing with the government is engaging in a conversation; we expect as part of the normal budget cycle to put a case up for the additional funding.

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**Hon LJILJANNA RAVLICH:** Okay, but this was originally a \$30 million project.

**Mr Tudor:** It was \$130 million.

**Hon LJILJANNA RAVLICH:** It was \$130 million, sorry; \$30 million I think originally came from royalties for regions—is that correct?—something like that. Now it is a \$230 million project but you have only ever got funding for \$130 million, which means you are \$100 million short. Really, my question is: where are you going to get the \$100 million? That is really the question I asked of you.

**Mr Tudor:** We would be taking that conversation up with the government and the shire. They are the original funders of the program, with the government being the primary one. What we will putting to the government is that we see a very compelling proposition, so we are putting quantification around the sorts of things that I was talking about.

**Hon LJILJANNA RAVLICH:** And what if you do not get that money?

**Mr Tudor:** We will have worked to the amount of money that had been allocated. We will have done as much as we can efficiently with that money. The plain fact of it is that it now costs \$40 000 to \$32 000 a lot to complete this work.

**Hon LJILJANNA RAVLICH:** Who will be missing out if you do not get that \$100 million?

**Mr Tudor:** The intention in Karratha is to complete Millars Well and Bulgarra. The suburbs that will not be completed are Pegs Creek and Nickol. The CBD will be done as it is renovated. There is a plan being separately planned under Pilbara Cities. We also then have to look at Roebourne and we also have to look at Onslow.

**Hon KEN TRAVERS:** Can I just check: were they part of the original \$130 million—Roebourne and Onslow?

**Mr Tudor:** They were, yes.

**Hon LJILJANNA RAVLICH:** One might conclude that it must be pretty sloppy project administration when you have a \$100 million overrun. What would you say to that?

**Mr Tudor:** I would say if we were the only ones that had a cost increase in the Pilbara that might be a fair accusation, but I do not see any large resource project that has actually delivered on time and on budget.

**Hon LJILJANNA RAVLICH:** Okay. In terms of the builder—the electrical contractor, as I understand—are you involved in legal action with the contractor, or do you intend to be?

**Mr Tudor:** They have walked off the job. Their assessment is that they were doing that within their contractual rights because they had hit the cap that we had on the contract. Our assessment is that they were not within their contractual rights because there were a number of contested claims, so around those issues we are currently in commercial negotiation with them. We are now following a dispute process that is actually embedded in the works agreement that we have with them. My hope and desire is that we can reach commercial settlement through that process.

**Hon LJILJANNA RAVLICH:** Is putting the powerlines underground an aesthetic act or is it a safety initiative?

**Mr Tudor:** I think it is a safety issue both for our employees and for the general public. The other thing that I would like to put on the table—which is when we forensically looked at the value proposition in this—is that we typically, whilst we go out and ensure that the town is safe, will lock down the town for a period of hours, so there is probably a day or two a year, depending on the cyclone's severity, that we can actually say, "We locked down the town." If that was taken away through undergrounding the lines, it means we have got an extra couple of days of productivity in the Pilbara, which, given the importance of the Pilbara to the state and the nation, is fairly significant. So it is both of those elements that contribute to the value.

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**Hon LJILJANNA RAVLICH:** My final question is: do you think that the people of the Pilbara would feel betrayed if this \$100 million is not found and the powerlines are not put underground?

**Mr Tudor:** Look, we have every sympathy for the people in the Pilbara. Our model is we are a regional-based company. Our people live in the Pilbara, they are part of the Pilbara community, so we are going to be doing everything that we can to actually deliver an outcome. The first part of that equation is to make sure that we are squeezing what we can out of the available funds. One of the things that we have done is we have modelled the approach that we have taken in Esperance over a period of time and there we have delivered a replacement of overhead infrastructure over many years, with Transfield in an alliance arrangement, effectively on time and on budget using a very different approach. This is in fact the approach that we are now using in Port Hedland to do South Hedland and Wedgefield and that is already yielding benefits—a much more inclusive approach with the contractor and a much more inclusive approach with the shire and the local people. So we are acutely aware of the pressures that the people are under.

**Hon PHILIP GARDINER:** My question is really looking at the break-even, if you like. The benefits which are obviously a very important part of your business case for this come, as you say, from the safety aspect and from the business opportunity cost aspect when things go down. Is the now, say, \$40 000 in Karratha still cheaper than the benefits that you think that you can generate over the 10 or whatever number of years you do to make this analysis—both the externality benefits and the actual benefits?

**Mr Tudor:** We are putting, as we speak, a lot of rigour into the analysis of that, attempting to quantify the safety issues associated with what we are talking about. My assessment is yes, but we need to do the numbers to actually verify that.

**Hon PHILIP GARDINER:** So the rigorous analysis of that is still to be done.

**Mr Tudor:** Absolutely.

**Hon PHILIP GARDINER:** The other issue which Hon Ljiljanna Ravlich raised was that, I suspect that communities will all understand, if the cost has risen—I forget what you started off with—up to \$40 000, that is a huge gap as I recall, then if it was deferred for two to five years until either the rental places or the houses got built so the rents fell and so on, would that then allow you to come down to \$25 000 or \$30 000? Would you save \$10 000 or \$15 000 per household?

**Mr Tudor:** The analysis that we have done actually will require the work to be completed through to the end of 2015, so we are actually going to be running it for a longer period anyway. So where we thought we could do it much more aggressively, we have talked to Western Power, we have consulted with the undergrounding program that is being done and we assess that about 800 lots a year is a reasonable target to have, so based on that we think we would go through to about 2015. If the general economic situation deteriorates, if Pilbara Cities as we hope is going to drive down the costs in the Pilbara, then that could all certainly help the tail end of the program.

**Hon PHILIP GARDINER:** Okay, so you could still push it beyond 2015 to, say, 2018 or something like that to contain that cost outlay if it was that you saw that the costs were going to fall off after this huge kind of bundle of investments up there.

**Mr Tudor:** Yes, that could be done.

**Hon ROBIN CHAPPLE:** You mentioned about where you were going to find the money from and you did mention local government. Currently, have local government participated in the funding of the program so far?

**Mr Tudor:** Yes. In the Town of Port Hedland we have executed agreement with the town and that is going according to the budget that we had set with the contractor, so that is being executed. The funding is in place and the funding through the —

**Hon ROBIN CHAPPLE:** Was it a percentage or a dollar figure?

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**Mr Tudor:** Twenty-five per cent is what —

**Hon ROBIN CHAPPLE:** So with the blow-out, are you going back to the Port Hedland council seeking 25 per cent of the blow-out?

**Mr Tudor:** The only way I can answer that, I think, is that we have just recently got on top of the information—released the approach. I think what we will now be doing is consulting with government and the shires to work our way through those issues.

**Hon KEN TRAVERS:** As I understand it, the government has given a commitment to underground all of those areas in the Pilbara, and so I think my question is more to the minister than yourselves. Is it the government's intention still to underground all of those areas of the Pilbara?

**Hon PETER COLLIER:** It is, it just depends on the time frame, I have got to say, and this cost escalation does put pressure on that. Having said that, it is still the intent of the government to complete those project areas. So, we are in close communication with Horizon, very cognisant of the fact that what the original intent of PUPP was, and ideally we want to get to a point where we can achieve or fulfil those obligations and even beyond that. As I said, we are in a highly constrained financial situation as a state government and we are very mindful of that.

**Hon KEN TRAVERS:** So when will the people of the Pilbara know? I think we have now got the list of those that will miss out on it if there is not additional funding. When will they know whether the government intends to provide additional funding to complete this project?

**Hon PETER COLLIER:** It will have to go through the budgetary process obviously, and that will require still a considerable more amount of dialogue that will take place between Horizon and government and Treasury to come to ideally a positive outcome. But, as I said, I do not want to preempt any decisions with regards to the budget at this stage.

**Hon KEN TRAVERS:** On the current time frame, when will the \$130 million be completely spent?

**Mr Tudor:** We expect that that is going to be the middle of next year, which is the end of the current financial year.

[3.30 pm]

**Hon KEN TRAVERS:** Have you changed the timing of that at all? My understanding is the original underground program was going to be completed by the end of the financial year.

**Mr Tudor:** Yes —

**Hon KEN TRAVERS:** Are you starting to spread the work out over a longer period of time?

**Mr Tudor:** Yes, we are.

**Hon KEN TRAVERS:** That is also having an impact then?

**Mr Tudor:** It is, but I think we must be prudent given the funds that we have got and putting in place a new approach and going about it systematically. When we looked at the approach that we would take, we looked at a raft of options. One that we have landed on we believe is going to be the one that actually gives us the biggest outcome for the funds that we have available.

**Hon KEN TRAVERS:** When was that decision taken to spread the program out over a longer time frame?

**Mr Tudor:** I think the trigger came with the prime contractor walking off the job.

**Hon KEN TRAVERS:** Which was the last quarter of last year?

**Mr Tudor:** Which, I think, was April of this year. They had been asked to do a lot of work leading up to that. They came under cost pressure and that is when they left. That became the trigger. We needed to move in and do something almost immediately in order to make sure that the work that

had already been started but not completed was in a safe condition. We went about systematically doing that.

**Hon KEN TRAVERS:** Why was there no public announcement made at that time? Why has it taken until now for there to be a public announcement that you (a) got the overrun and (b) that you are now going to take a lot longer to complete the project?

**Mr Tudor:** There are two things. When the contractor walked off the job we needed to make sure that the started works were completed and put in order. We went about doing that in the most cost efficient way. What we have now done through that same period is take a rigorous review of the different approaches that we could have taken. We could go back to the market and seek tenders to do the work. We could have worked with the existing contractor. We could have internalised the work that we have done. We have come to the view that internalising the work and going through a stage-by-stage approach makes more sense. We have now put that on the table and if there is indeed a desire to change that, we will be discussing that with the government and the shires. Our recommendation is on the table. We have only come to that following our due procedures internally—going through the board in the last month or so. This is part of the process. We were required to look at all the options, put a value on them and make a recommendation. This is what we are going public on and in discussions with government and shires about.

**Hon KEN TRAVERS:** Going back to my question: when did you actually take the decision to spread those works over the full financial year rather than, I assume, under the original time frame they would have been completed by the end of this calendar year and you would have been doing the remaining works in the remainder of the calendar year?

**Mr Tudor:** The contractor walked off the job in April. In parallel we were looking at all the options, costing them, evaluating them, and making an assessment and a recommendation based on that. We have just completed that work.

**Hon KEN TRAVERS:** You may have just completed it, but you still have not answered my question about when did you take the decision to spread those works. Are you saying that has only just occurred?

**Mr Tudor:** Yes. Up until April —

**Hon KEN TRAVERS:** Up until your board meeting a month ago or whenever the precise date was, you were still working towards a schedule of having those existing projects completed by the end of the original time frame so you could go on and complete the remainder by the end of this financial year?

**Mr Tudor:** Yes. We were working with the existing contractor and trying to deliver as best we could through the existing arrangement. That came to an end in April effectively.

**Hon KEN TRAVERS:** Minister, you say it has to go through the budget process. Are we talking about the full budget process or the midyear review?

**Hon PETER COLLIER:** Again, this has been a moving feast, for want of a better term. As we have just heard, it has really come to its fruition in the last month or so.

**Hon KEN TRAVERS:** The impression I got from your CEO was that the moving feast has stopped, we now know where we are; we have just got to get a decision of government.

**Hon PETER COLLIER:** That is what I am going to answer. As a result of that, we are now faced with the prospect of where to go all the way forward. Those negotiations and discussions will take place in the next few months. Whether it is part of the midyear review will be a decision for government, but I cannot answer that at this stage.

**Hon KEN TRAVERS:** That is why I am asking the minister: is it your intention to try to seek it as part of the midyear review? You referred to the budget process. As we have seen from your

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government, budget decisions can be made any time, but there are two formal periods—there is the presentation of the budget in May and then there is a midyear review in December. Is it your intention to seek those fundings prior to the midyear review?

**Hon PETER COLLIER:** I have not made that decision yet.

**Hon KEN TRAVERS:** When will you make that decision?

**Hon PETER COLLIER:** We have still got a way to go. As I said, we have still got a way to go with this and I still have to do some negotiations with my other cabinet colleagues. That is the process of government. As a minister I cannot go out there and commit to \$100 million without —

**Hon KEN TRAVERS:** I am not asking you to commit.

**Hon LJILJANNA RAVLICH:** That is not what he is asking.

**Hon KEN TRAVERS:** I am asking you to commit to a time frame, minister; I am sure you did that with all of your students in their homework.

**Hon PETER COLLIER:** As I said, if I want to commit to a time frame and say, “Yes, I can say that we are going to put \$100 million in the midyear review as a result of a decision that I make —

**Hon KEN TRAVERS:** No; is it your intention to seek additional funding as part of the midyear review?

**Hon PETER COLLIER:** I will certainly be talking with the Treasurer and we will be talking with Treasury to see whether that is a possibility, but ideally yes.

**Mr Tudor:** Can I add one factor to that which I think is important? We have said that we have sufficient funding to continue the program on a stage-by-stage approach until the end of the next financial year. That leaves open the option.

**Hon KEN TRAVERS:** But with all due respect, that is by pushing out what you are doing. What you are saying is you can take the money you have got and spread it out over the financial year.

**Mr Tudor:** It is the most cost effective way of delivering this. If we go back up to 1 600 blocks a year and trying to achieve that, we get into things that, on the sense that we have got from what has been done in the metropolitan area, are unreasonable. We are just going to be competing for resources in what is already an inflated input factor market in the Pilbara.

**Hon KEN TRAVERS:** Can I ask you then, in terms of that modelling, have you looked at what the likely escalation of prices in future financial years will be as a result of other mining programs? You mentioned earlier it is all about competition in the mining industry, so what is the impact of delaying it into future years? What is your cost escalation factored in for future years?

**Mr Tudor:** If you need to know levels of detail, then I do not have those. But certainly we have done it very, very rigorously and we have had industry experts involved as part of the team to actually look at a number of scenarios.

**Hon LJILJANNA RAVLICH:** Could you provide that costing?

**Hon KEN TRAVERS:** I am interested in, as part of that analysis of when is the most economic time to do it, what escalation were you factoring into future financial years, beyond this financial year, for the cost of that project. I assume you would be putting in some escalation figure.

**Mr Tudor:** Yes. We can provide that.

*[Supplementary Information No D1.]*

**Hon LJILJANNA RAVLICH:** I do not know whether you have just requested the same thing. I am wondering, through you, minister, whether we can have the documentation which shows all of those projected costings into the future—is that what you have asked?

**The CHAIR:** Yes.

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**Hon PETER COLLIER:** Yes; I think that is what we have just done.

**Hon LIZ BEHJAT:** I am asking one question on behalf of my research officer who is from Carnarvon. She is very interested in the Mungullah power station project. I notice here that it is due in the forward estimates; we are looking at a completion date some time in 2013–14. Can you bring me up to date? Is that project on time at the moment? Is it still likely to be in 2013–14? I know in Carnarvon they have huge issues with the reliability of power and I think this is going to in some way address those problems up there.

**Hon PETER COLLIER:** There are real load pressures in the Carnarvon region—the Gascoyne region—as I am sure you are aware. Mungullah power station is around \$77 million to \$80 million for 18 megawatts of power, which will certainly assist in terms of meeting those demands. As far as I am aware, the latest advice I have received is that yes, it will be operational by early 2013—is that correct?

**Mr Tudor:** Yes. The project itself is on budget. It is not time critical from where we sit. We have in place around the existing power station the necessary regulatory approval to continue to run it for a period of time that allows us to seamlessly move from one power station to the other. What we have done is increased the scope of the work that we are doing within the existing budget. Where we originally thought that we would run the two power stations in parallel for a period, we are now looking at accelerating the complete development of the new power station and doing that by the first quarter of 2013 and commissioning it and then completely effectively mothballing the old power station and moving across to the new power station. We ascertained that there were probably going to be difficulties on a system like that running two power stations. It provides us with a technical benefit. We felt the costs were reasonably in control and we could actually buy an additional couple of engines, which it always intended to do in 2015–16. We are intending to complete the power station and then abandon the old one effectively and not run the two in parallel.

**Hon LIZ BEHJAT:** What happens when you abandon an old power station—do you just shut it down?

**Mr Tudor:** There are a number of issues that we need to contend with; firstly, the physical assets that are on the site. We would need to dismantle that appropriately. Secondly, we would need to look at whatever ground contamination exists and also deal with that.

**Hon LIZ BEHJAT:** Thanks for that. I am sure my research officer will be interested to know.

I refer to “Works in Progress” on page 595. I notice there is a line item in relation to safety. I am looking at estimated expenditure in 2012–13 of \$32 million. What does it surround in relation to safety? Is it safety performances; how do you spend that money?

**Hon PETER COLLIER:** Again, I will ask Mr Tudor to comment. Safety and reliability is imperative. You are right, the investment is \$141.7 million in improving safety, reliability et cetera. Its expenditure will include \$32.5 million on safety-related projects. With regard to those particular projects, I will ask Frank.

**Mr Tudor:** Let me perhaps pick up two which are fairly significant. We are looking at making sure that our wooden poles comply with standards. In order to achieve that, we are working very closely with EnergySafety. They are well aware of the program that we have put in place. That requires us to effectively replace 2 229 wooden poles, which we are in the process of doing, which are covered by the amount that you have talked about. That is predominantly in the Esperance area, but some of that also is in the Gascoyne area. Most of our wooden poles are in the south, and in the north we have got steel poles. Our approach to replacing poles, where we have to replace them, is to replace wood with steel. We have done an analysis over a life cycle. Steel poles present us with the best life cycle cost quite significantly. That is a substantial part of the program. We are doing that for wooden poles that have reached their 40-year life.

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The other thing we are doing is also reinforcing poles. We have about 6 000 poles that we are reinforcing, also through that program. Wooden poles require that they are replaced at 25 years' life, so that is what we do. One of the things that we have come to recognise is that replacement by effectively birthday is pretty inefficient because we may find that some of those poles have life left in them. Some of the younger poles may have needed to be replaced or reinforced before, so we have had a program in place now for the last eight months where we have been working closely with EnergySafety to look at different testing techniques. We have got two testing techniques that we think are going to be proven to be pretty satisfactory. We are working with EnergySafety to have those adopted so that if we can get the reliability out of those testing techniques, we are going to be taking them into our wooden poles, using that to actually move to a condition-based replacement and reinforcement program so we move away from life cycle to condition based which allows us to much better extract the full value of the poles that we have in place. A very large proportion of that \$32 million is related to making sure that our wooden pole assets are in place. We also are looking at copper conductors. We have various gauges of copper conductors but we have certainly focused on street lights. It is a fairly extensive program that we have. We have replaced some of the very thinnest copper conductors that are related to street lights. We are then looking at low voltage conductors which are the next most serious, and then progressively also looking at the HV conductors as well. There is a program in place that is running to make sure all our conductors are in good order as well. So, they are probably two of the largest components of the —

[3.45 pm]

**Hon LIZ BEHJAT:** I was just wondering because it did seem like a lot of money and I was not sure what the expenditure was. Thanks.

**Hon PHILIP GARDINER:** Just on those problems, roughly what is the cost that you budget for for renewing poles in your network?

**Mr Tudor:** For replacement?

**Hon PHILIP GARDINER:** Yes, roughly per pole. I guess your distances are so huge.

**Mr Tudor:** The distances are huge. It could be anywhere between \$6 000 and \$8 000 for replacement of a pole with a steel pole and, depending on reinforcement and circumstances, it could be \$1 000 to \$2 000 per pole to reinforce the poles.

**Hon PHILIP GARDINER:** And that is for metal and wood; it is the same?

**Mr Tudor:** No. Once we have steel poles in place, we are getting much longer lives with them, so we do not reinforce them; we replace them. The thing with steel poles is it is a man-made metal which we can test with a lot of certainty, so we can use condition-based approaches to actually replacing our steel poles. So once we do move to steel poles, we will have a lot more confidence in the overall approach, because one of the issues between steel poles and wooden poles is wooden poles are a natural material, so if they have got fractures or cracks through them, the best testing techniques can sometimes be flawed. So that is another benefit of moving to steel poles.

**Hon PHILIP GARDINER:** What is the cost of a wooden pole—it is just jarrah, I presume—versus a steel pole, not putting it in, just the actual raw material when you buy it?

**Mr Wilk:** Our costing is based on the life cycle costing. When you actually compare the overall life cycle, the life cycle of a wood pole is at the moment 40 years as per the Australian standard. For the steel pole, you can achieve 55–60 years. Now, during that life cycle, a wood pole requires reinforcement, which is an additional cost, and it would require very frequent inspections, and that is an additional cost. A steel pole performance over time is more predictable; therefore, there is less maintenance cost. We have done the modelling on both the life cycle cost of the wood pole and the steel pole and they are identical. So, based on the performance predictability and stability, we decided to change our strategy and we do not replace wood poles with wood; we replace wood poles with steel. That is how we are progressing.

**Hon PHILIP GARDINER:** I understand the advantages between the two. I might have just missed it; did you say that the costs are the same?

**Mr Wilk:** The life cycle cost is the same —

**Hon PHILIP GARDINER:** The life cycle cost is the same, but that means that —

**Mr Wilk:** Over the life of the —

**Hon PHILIP GARDINER:** Because you have got an extra third of the life for steel over wood, is that reflected in the cost of steel?

**Mr Tudor:** Yes. I think steel would be more expensive, if you just looked at the raw costs of installation.

**Hon PHILIP GARDINER:** That is what I am looking for—the raw cost.

**Mr Wilk:** The initial cost is higher.

**Hon PHILIP GARDINER:** Do you buy those steel poles from China or do you have them manufactured out of Australian steel mills?

**Mr Wilk:** It is manufactured here. BlueScope is where we buy it from. It is Australian-made.

**Hon PHILIP GARDINER:** How many steel mills do we have? There are two steel mills, I think; are there not? There are two companies. So we get quotes from both before we get them.

**Mr Wilk:** It is galvanised and it is protected. The most, I would say, exposed area is on the ground level of the pole. That area has a specific plastic sleeve which is protected from the environment, and that is how we install it at the moment. That is our standard pole specification.

**Hon PHILIP GARDINER:** Do you ever get quotes from other countries—from China or elsewhere?

**Mr Tudor:** I think that is always a possibility that we should be looking to source from wherever we can get the cheapest, so that is certainly something that we will be looking at.

**Hon PHILIP GARDINER:** It is better from one point of view, but not from the other point of view, is it not? We have got to try to support our own.

In terms of the region which you service, you talked about Carnarvon and you said there are shortages or outages—I forget the word you used—in Carnarvon and so you have got to build the pipe so it is going to provide the power fully to them. Apart from the Aboriginal settlements at this stage, for the major regional town centres up there, how many of those have got deficient power supply? When I say deficient, less than ideal power supply where you would like to have it.

**Hon PETER COLLIER:** What do you mean—inadequate?

**Hon PHILIP GARDINER:** Inadequate, yes—a bit like having outages in the eastern perimeter of the SWIS network. Do you have either outages, or whatever the Carnarvon equivalent is?

**Mr Tudor:** No. We have criteria of SAIFI and SAIDI, which is outages and frequency of outages. Across our portfolio, we comply with the standards. Therefore, I think all of our power stations are pretty reasonable. We always do, at the time of summer, summer-readiness checks and we do move mobile fleet around to make sure that we optimise the time at which we need to expand or replace power plants. But the criteria that we use are safety and reliability. Safety is above all where we are concerned. The reliability standards, on the average, comply with the code. So, therefore, on that assessment, our power stations are run well. Where we do have some issues is where we have very long lines, particularly in Esperance or Kununurra. In Esperance, we have long feeders that go out into the agricultural area. The reliability of some of those, because of the network and because of storms and lightning and things like that, does present an issue. So one of the things that we are discussing with the economic regulator and the Public Utilities Office is whether we could ever justify bringing those systems up to the reliability that we see for the overall average. That would be

very costly—very expensive. So, we are suggesting that we use different standards of frequency of outage and outage to assess some of those.

**Hon PHILIP GARDINER:** I guess the alternative there for those people who are on the extended parts of those lines who have got to have supplementary power generation—their own diesel generation, I presume, in most cases—is whether they pay for it themselves or whether you pay for it based on the CSOs that you might get.

**Mr Tudor:** Yes.

**Hon PHILIP GARDINER:** That is the trade-off, really, is it not?

**Mr Tudor:** Yes, it is.

**Hon PHILIP GARDINER:** On the Aboriginal communities one, how many Aboriginal communities have what you would call, based on whatever standard you are setting, deficient supply?

**Mr Tudor:** All we can comment on are the ones that we have already regularised. We have got two programs that we have been working on since its inception. One is the regularisation of remote communities that we did not otherwise have a relationship with. The state government and the federal government initially funded the regularisation of power to a number of communities along the Broome peninsula which we have regularised power to, and that included Warmun as well. That program has been extended by the state government to cover Kalumburu and Yungngora in the Kimberley. So that program will complete, I think, with the new power stations installed and running, in the middle of next year. We have also been conducting a town reserves program. Where we have town reserves connected to main communities that we already service, rather than supplying those through a bulk meter and not having any involvement downstream of that, we have actually, with the Department of Housing, moved in to regularise that, take ownership of the assets, maintain the assets and put individual pre-payment meters in place, which has helped with the budgeting from a consumer point of view. Part of that process has also involved the education of the communities. They are the two programs that we have run. On the remote community program, we have done about seven or eight communities in total. On the town reserves, we have currently done 25 and we are looking at completing another four. How many exist outside of that, I would hesitate to guess at the moment.

**Hon PHILIP GARDINER:** I guess that is a bit of a gap anyway. You should know how many exist outside, so we know what we have got to do to try to fix it, given that we all need to have equal opportunities.

**Mr Tudor:** Indeed, and there are certainly a number of large hub communities of the type like Bidyadanga and Warmun that certainly would deserve the same regularisation program that we have already given to those communities.

**Hon PHILIP GARDINER:** Is that a responsibility that you see as being a Horizon Power responsibility—to know how many communities there are of the 24-plus or 30-odd you said you were involved with and to know what that gap is. Is that your responsibility or is it the Department of Indigenous Affairs?

**Hon PETER COLLIER:** It is a combination of both, because DIA is well aware of that situation and the demands on those particular communities. A lot of these Aboriginal communities are very fluid communities. Sometimes they will have three people; sometimes they will have 100. As I said, they are quite fluid. But DIA works very closely with Horizon. I went to a really good cooperative program that they have got operating with Horizon and DIA last week actually. Those communications continue—they always have—to ensure that we can, as best as possible, provide reliable electricity for those communities.

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**Hon PHILIP GARDINER:** Minister, maybe you can help answer my question, then. What is the gap of those Mr Tudor talked about going out to educating and so on? How many are left out there which we are not attending to in a proper way?

**Hon PETER COLLIER:** I certainly could not tell you that without notice. I have got no problems getting that information for you.

*[Supplementary Information No D2.]*

**Mr Tovey:** If I may, minister.

**Hon PETER COLLIER:** Sure.

**Mr Tovey:** There was a supplementary question previously with the number of Aboriginal communities with a population greater than 200 that are not regularised. There are nine of those remaining in the state following the completion of Kalumburu and Yungngora this year or next year. There is a list of nine that we have of a population of over 200.

**Hon PHILIP GARDINER:** The obvious question —

**Mr Tovey:** I have a list of those; yes.

**Hon PHILIP GARDINER:** No. That was not going to be my question—to what extent are those 199 and below?

**Hon PETER COLLIER:** I understand the question. Thanks, mate; that is good additional information, but that does not actually answer your question, so I will provide that information.

**Hon KEN TRAVERS:** Can you tell me whether or not you expect to be able to pay the dividend that was included in the budget for this year? Is it based on last year's profit of \$56 million? Are you still on track to be able to make that dividend in this financial year to the government?

**Mr Hamilton:** I would say, like anything to do with dividend, it has to be subject to the board's resolution. I do not speak on behalf of the board, but our forecasting tells us that we are preparing to pay it. But, as I say, it is —

**Hon KEN TRAVERS:** I am looking at the dividend you are paying this year. So that will be based on last year's profit. Did you meet your targets? You do not actually have a choice on the dividend; it is a government policy, as the minister, I am sure, will remind you if you thought otherwise. What I am interested in is: did you meet your target profit that that dividend of \$56 million was predicated on for the 2011–12 financial year?

**Mr Hamilton:** I wish I could give you an easier answer. The calculation of the \$56 million dividend was not correct. It is still our expectation that we will be submitting a dividend of that amount this financial year. But that, unfortunately, does not quite answer your question because your question was regarding the profit.

**Hon KEN TRAVERS:** I am interested in the dividend that you are paying. I get the sense that you are suggesting that you are not going to be paying a dividend of \$56 million this year.

**Mr Hamilton:** No. We will be paying a dividend this year of around \$56 million, subject to the board's resolution.

**Hon KEN TRAVERS:** But you did not make the profit necessary to pay that if you are paying 65 per cent of your profit.

**Mr Hamilton:** The calculation of the dividend was not correct in the Treasury modelling.

**Hon KEN TRAVERS:** I do not understand how, because surely you get your profit and take 65 per cent of it and that is the calculation. How do they mess that up?

**Mr Hamilton:** It comes back to the inception of Horizon Power, because we had substantial accrued losses, so we do not actually start paying a dividend until we have consumed all those

losses. This happens to be the year where we start to come over from being loss making to profit making, and that explains what would appear to be a pretty simple calculation in this particular year; it is a little bit more complex.

**Hon KEN TRAVERS:** Did you make the profit that you expected to make last year, then?

**Hon PHILIP GARDINER:** Yes.

**Hon KEN TRAVERS:** You did?

**Hon PHILIP GARDINER:** The losses are offsetting it. That is in the agreement with Treasury that you can have a look at. Sorry; I beg your pardon.

**Hon KEN TRAVERS:** That is the issue, is it? Treasury did not factor in the losses that you had available to be discounted against.

**Mr Hamilton:** The estimate of losses and the estimate of how we go from the loss-making period to a profit-making period were not that precise.

**Hon KEN TRAVERS:** So, then, if you are to make a \$56 million profit, does that mean you get to carry those losses over into future years or do they hang back in past years, or you are just losing them as a carryover?

**Mr Hamilton:** You can continue to eat away the losses that you make until you are in a profit-making position, which is where we have been since inception up until a year ago.

**Hon KEN TRAVERS:** That is what I am saying. If you now make a \$56 million dividend payment this year, if that is the decision of the board, that means you will continue to have a loss carryover to next year. No?

[4.00 pm]

**Mr Hamilton:** No; once you have consumed your losses, you have consumed them, so from this point forward —

**Hon KEN TRAVERS:** But you are saying that you are not going to get to consume those losses because if you got to use your final carryover loss you would not be making a \$56 million payment this year. Is that what I understood?

**Mr Hamilton:** The payment of dividend we are preparing to make is equivalent to the amount we have got included in the budget. We have arranged that with Treasury. The calculation of how that has actually occurred over the past six years is not as straightforward as taking 65 per cent. That is probably what I was trying to point out.

**Hon KEN TRAVERS:** But you are also suggesting that they had not taken any of the accounts in the carryover losses that you had.

**Mr Hamilton:** It had not been accurately defined. They clearly recognise that we get the benefit of prior-year losses but the way it had been calculated at this particular transition year was not based on 65 per cent; it was based on a different methodology, which we have since corrected.

**Hon PHILIP GARDINER:** Can we understand the methodology by having a supplementary answer on this?

**Hon KEN TRAVERS:** Yes, an explanation or a reconciliation of some form or whatever because I am at a loss as to what you are actually saying to me, to be honest. You either made a profit and 65 per cent of that equals \$56 million or you did not, I would have thought, and your profit would be after taking account of carryover losses that had you available to you.

**Mr Tudor:** So perhaps it is a supplementary question.

**Hon PETER COLLIER:** Yes, but I think I understand. I have had some issue was this myself and I think we need an explanation of how the losses have been consumed. We need some clarification

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on that transitional year between last financial year and this financial year for the committee. We can provide that. That is what you wanted, was it not?

**Hon KEN TRAVERS:** Yes. I want to know, if you have written off all your carryover losses or will you have removed all the carryover losses at the end of this financial year?

**Hon PETER COLLIER:** Yes.

**Hon KEN TRAVERS:** Are there any changes in the formula compared to how it was being calculated in previous years that make that possible if that is the reason that is occurring and you are able to still make the \$56 million payment? Has the formula changed from the way you previously understood it rather than maybe Treasury —

I get the sense a that Treasury might have had a different way of understanding it

**Hon PETER COLLIER:** Yes; there might have been a bit of poetic licence possibly.

**Hon KEN TRAVERS:** On?

**Hon PETER COLLIER:** On Treasury's part.

**Hon KEN TRAVERS:** But they are now making you pay that full amount.

**Hon PETER COLLIER:** That is what I am saying.

**Hon KEN TRAVERS:** So I am trying to work out the value of that poetic licence. How much extra are they charging you compared to what you would have normally expected to pay in terms of using the previous formulas?

**Mr Tudor:** Perhaps we can come back with the methodology and explanation.

**Hon KEN TRAVERS:** What would you have expected to pay under the previous formula and what Treasury is making you pay under the new formula.

**Hon PETER COLLIER:** Yes, that is the best way; that is exactly right.

*[Supplementary Information No D3.]*

**Hon KEN TRAVERS:** Why then do you expect that your dividend will actually decline over the next three years because this year's seemed to be quite a spike?

**Mr Hamilton:** Yes and I guess that is the reason the question is not quite right; that is because it is the dividend that is wrong, not the estimated profit. And maybe that answer will come out of the answer on the —

**Hon KEN TRAVERS:** Do we need to have that then taken in that explanation on the carryover into the forward estimates?

**Mr Hamilton:** A question on profits—what is driving —

**Hon KEN TRAVERS:** Yes, and how —

**Hon PETER COLLIER:** That can be a component of the same question.

**Hon KEN TRAVERS:** My next question is on page 595 under the funding of your capital works program. You have a negative amount coming out of "Internal Funds and Balances". Can you explain to me how that operates?

**Mr Tudor:** Where is that?

**Hon KEN TRAVERS:** At the bottom of page 595 where it explains how you fund your capital works program. You have got equity contributions of \$18 million. I assume that is your retained profit. Is it?

**Mr Hamilton:** Yes.

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**Hon KEN TRAVERS:** Then have you borrowings of \$250 million but then on the next line for “Internal Funds and Balances” it looks as though you are making a payment into, rather than taking out of your internal funds and balances. I would like an explanation of that. That seems to be unusual as a source of funding.

**Mr Hamilton:** I will provide a brief answer and I am sure I will be asked to provide something supplementary for it, because it is more confusing than my previous answer!

**Hon ROBIN CHAPPLE:** You should put it on notice.

**Hon KEN TRAVERS:** I must say I enjoy the frankness and the honesty!

**Mr Hamilton:** The minister will recall we had a situation that we tried to address at the last EERC process where inconsistency between the Treasury model and the Horizon financial model were brought to account. At the time it was decided that it would not be appropriate to apply and approve those changes. That would have brought the two models into alignment. This negative number in that line actually is as a result of those two models being inconsistent. We have had to live with it this year on the basis we would work out of it over the next couple of processes. As I said, it is quite a complex area.

**Hon KEN TRAVERS:** Am I right in assuming that you are effectively paying almost 100 per cent in dividend of what you should have been paying as a dividend through the Treasury?

**Mr Hamilton:** I don’t think that is right because we actually have —

**Hon KEN TRAVERS:** Sorry; 100 per cent of your profit into —

**Mr Hamilton:** Yes. At the end of this period we like to be quite happy that we have actually brought everything up to a correct position. Again, it comes down to what has happened over those transitioning periods—that we have had a benefit in one year that we are now making up in the next year. It would not be fair to say that we are preparing to pay more dividend that would be rightfully calculated under the 65 per cent profit dividend guidance.

**Hon KEN TRAVERS:** It strikes me that that seems to be a book entry that effectively removes your retained profit as an equity contribution, so you put it in and then you take it out.

**Mr Hamilton:** Yes, that is right.

**Hon KEN TRAVERS:** I assume that the beneficiary of that \$18-odd million did not occur, the beneficiary of that would be Treasury. General government sector would actually go down by about \$18 million. That would be the flow over into the consolidated books. If you are not holding it, then you are taking \$18 million off the general government sector.

**Mr Hamilton:** Yes, that is correct.

**Hon KEN TRAVERS:** That would mean, without trickery in the budget, this government actually presented a budget to the state, effectively Parliament, that is actual in deficit now. So that is interesting.

What is the average weighted cost of capital that you work on?

**Mr Hamilton:** We apply our investment decisions, particularly in the networks, based on eight per cent weighted average cost of capital.

**Hon KEN TRAVERS:** What are you actually achieving?

**Mr Hamilton:** I do not know that number offhand. I will probably say one thing that complicates things for Horizon Power that does not exist in the other businesses we run is three different types of businesses within our portfolio. We have generation, we have retail and we have network. Each of them have different risk profiles so require different rates of return.

**The CHAIR:** Do you have a rate of return on your generation, on your transmission and on your retail?

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**Mr Hamilton:** Yes.

**Hon KEN TRAVERS:** Are we able to get those three different rates of return. You do not actually have one consolidated rate, you have three individual ones?

**Mr Hamilton:** This is more about the internal decision-making process and it would be mostly influenced by risk so the cost of capital is the same because we are drawing from the same source but the risks are inherent in each of those decisions.

**Hon KEN TRAVERS:** I am particularly interested in your transmission costs and your generation costs rather than your retail costs. You may have to take it on notice but what is the average weighted cost of capital for your transmission costs and for your generation costs? Is that something you would be able to provide the committee?

**Mr Hamilton:** Yes.

*[Supplementary Information No D4.]*

**Hon KEN TRAVERS:** Do you know what the average interest rate across the organisation is for borrowings?

**Mr Hamilton:** I do not know the average weighted cost. I have to take that on notice.

**Hon KEN TRAVERS:** So the average interest rate as well. Add that to D4. Do you know what your total borrowings were in 2012–13—not just the additional? What were you carrying on your books as total borrowings in 2012–13 and are you paying it down or are you just accumulating borrowings? Are you in a position where you are paying down your borrowings, or are you still accumulating?

**Mr Hamilton:** We did retire a small amount of debt towards the end of last financial year. It is generally because we are asset intensive; we generally borrow more each year to fund expansion programs. At the time that expansion slows, that is when we start to see the net debt reduce.

**Hon KEN TRAVERS:** Do you know what your total borrowings were at the end of 30 June this year?

**Mr Hamilton:** I need to take it on notice, I would be estimating a number that would be pretty close but not precise.

*[Supplementary Information No D5.]*

**Hon KEN TRAVERS:** I am interested in ballpark terms if you have an idea.

**Mr Hamilton:** Three hundred and ninety four million dollars.

**Hon KEN TRAVERS:** I have assume you borrow to pay your dividends and your payroll tax income tax expenses. Is that correct?

**Mr Hamilton:** We are required to at the moment because of a function of our profit, including non-cash items.

**Hon KEN TRAVERS:** Here you are showing you are going to borrow another \$250 million, so is it likely that by the end this financial year your total borrowings will be up around \$650 million?

**Mr Hamilton:** Yes.

**Hon KEN TRAVERS:** It will be \$650 million plus the \$75 million to make your payments to government. Is that correct?

**Mr Hamilton:** It does not reconcile in that same way because we generate profits from our operating business so we need to include the actual cash we are generating from our operating business as well.

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**Hon KEN TRAVERS:** When you come to pay the dividends, do you actually have cash to pay them or do you have to borrow it? I imagine in terms of the nature of your business, whatever cash you have you would be holding it for liquidity purposes, would you not?

**Mr Hamilton:** We hold cash or their equivalents for liquidity, which we would include in our assessment of liquidity capacity that we have under our debt facilities. Whether the dollar that we pay a dividend comes from debt or whether it comes from operating cash flow. It is difficult to answer the question because we really deal with cash inflows as a portfolio. Some of our cash comes from debt; some of our cash comes from equity contributions from the state; some of our cash comes from operating profits.

**Hon KEN TRAVERS:** Your operating expenses exceed your revenue?

**Mr Hamilton:** No; our revenue exceeds our operating expenses.

**Hon ROBIN CHAPPLE:** I refer to page 184 and an investment of \$386 million in regional generation networks through Horizon Power. Is that Horizon Power's own investment, or is that money coming through you, through the government or through Western Power?

**Mr Tudor:** This number here, \$386 is the total number across all of those projects over the forward estimates period. That number comes from consolidated revenue. We have included in that I think also the underground project that we have talked about. Some of that comes from royalties for regions; some of it comes from a shire contribution.

**Hon ROBIN CHAPPLE:** Is that broken down in the budget anywhere specifically?

**Mr Tudor:** I am not sure that the royalties for regions —

**Hon ROBIN CHAPPLE:** May be I can take that one on notice if I may, to get a complete breakdown.

**Mr Tudor:** Of where the funding is coming from for that capital program?

**Hon ROBIN CHAPPLE:** Yes, thank you.

*[Supplementary Information No D6.]*

**Hon ROBIN CHAPPLE:** What percentage of this is being put towards upgrading the networks or facilitating access to renewables in the grid and what percentage of this regional generation will be renewable energy?

**Mr Tudor:** I think if we were talking about percentages we would need to take that on notice.

**Hon ROBIN CHAPPLE:** Thank you.

*[Supplementary Information No D7.]*

**Hon ROBIN CHAPPLE:** In relation to what I call the major towns, Carnarvon, Exmouth, Port Hedland, Karratha in your domain, again on notice, can I ask for a breakdown of your uptake of renewable energy in those areas? I know in Carnarvon you have had to limit the amount of renewable energy taken on board, and give me some idea of the cap that is available to you in those regional centres for renewable energy? You might have areas where you still have capacity for renewable energy, whereas in Carnarvon you have problems with generation. I would like to try to work out what variation there is through —

[4.15 pm]

**Mr Tudor:** The different towns.

**Hon ROBIN CHAPPLE:** Yes.

**Mr Tudor:** The headline is we have 851 customers who have about five megawatts of embedded PV. We have about two megawatts of pending applications. Each of the towns is different, as you quite rightly implied, so the limit in each of the towns, because they are of different sizes, is

different, so we can provide you with an indication of what that looks like. That is not fixed. We are doing a number of things to look at whether we can improve that. We are looking at storage options. We are looking at dispatchable options so that we have control over installations. They certainly are larger installations. We have one like the one that is being built in Carnarvon. That is 300 kilowatts that will be connected to the system. Also, simulation and whether we can connect spinning reserve to the climatic conditions in some way so if we are anticipating cloud cover and knocking out a number of these, we can kick in spinning reserves to cover that. We are doing a number of things to look at those caps. They are set at the moment but we are working with them. Having said that, where people have come to us with propositions of one and a half kilowatt systems, we will be processing them anyway because that is largely dealing with their own load, so that sits outside of that. When the system is five kilowatts or thereabouts, they are starting to impact and they become a net exporter and that has an impact.

**Hon ROBIN CHAPPLE:** There are two other aspects. Your brochure shows the wind farm at Exmouth. How long has that been not operational because it is on the DEC at the moment and it has been on the DEC for a number of years?

**Mr Tudor:** I cannot comment.

**Mr Wilk:** That is not ours. It is some legacy issue. I will take it on notice.

**Mr Tudor:** We have a wind farm at Coral Bay.

**Hon ROBIN CHAPPLE:** You have a wind farm at Exmouth which has not been operational for a long time. I want to know why.

**Mr Wilk:** That is right.

**Mr Tudor:** We can provide an answer to that.

**Hon KEN TRAVERS:** Do you have the one at Coral Bay or does Verve operate it?

**Mr Tudor:** Verve operates it but we have the people —

**Hon KEN TRAVERS:** You buy the power off it.

*[Supplementary Information No D8.]*

**Hon ROBIN CHAPPLE:** Just in relation to the provision of power, in some cases people have had to supply their own transformers, which they have paid you for to provide the extra amount of power they need for a shopping centre or something like that. They have paid for the transformers and now other generators or other consumers are using those transformers. What is the condition or the equity around a business having to pay full dollar for the transformer to provide power to their shop, their commercial entity, and then the surplus being picked up through that transformer for other businesses, yet those other businesses did not pay for that transformer?

**Mr Tudor:** We can simply provide you with a copy of our policy on that.

**Hon ROBIN CHAPPLE:** That would be very good, thank you.

*[Supplementary Information No D9.]*

**Hon ROBIN CHAPPLE:** Finally, I understand in Exmouth again there have been some issues about an application for a large-scale renewable energy system on a sports centre, I think, where there was one digit wrong in the application. This was pointed out to the applicant. The applicant corrected the digit. It was then resubmitted to you but then it was after the time available for the application and he has had to wear about \$86 000 as a result of that.

**Mr Tudor:** I am not aware of the circumstances. If you provide some details, we can provide some information.

**Hon ROBIN CHAPPLE:** That would be really good. What I am hearing around various centres is there is a great deal of difficulty from people trying to get renewables on to your system at various

locations and then finding it quite an arduous process. I am making that as a bit of a statement but I will provide you with the information.

**Hon PETER COLLIER:** I am not sure how we will do that, perhaps out of session.

**The CHAIR:** Yes, or the member can give some information, which we will send through with the transcript.

**Hon LJILJANNA RAVLICH:** I just want to ask a few questions in relation to the sale of the Solomon power station in the Pilbara owned by Fortescue Metals Group that I understand has come on the market. I also understand that Horizon Power has expressed some interest in that.

**Mr Tudor:** The newspaper has said that we have expressed some interest but that was news to me.

**Hon LJILJANNA RAVLICH:** That is good. My next question was: where is it in the budget? Clearly, it is not there. You have no interest.

**Mr Tudor:** We are looking at solutions in the Pilbara where they are connected to the grid. That is islanded so it would be of no interest to us at all.

**Hon KEN TRAVERS:** I was waiting for Hon Robin Chapple to ask the questions that he asked at the beginning of the day that you said would be better asked during Horizon Power.

**Hon ROBIN CHAPPLE:** I have forgotten but I do remember that I asked a question.

**Hon KEN TRAVERS:** I was waiting for you to answer them. I guess I am interested in what is happening with meeting the power demands in the Pilbara and how Horizon Power is going to meet the projected power demands in the Pilbara.

**Hon PETER COLLIER:** We touched on this earlier. You are quite right. We have 20 megawatts new generation coming onstream in October. Is that right?

**Mr Tudor:** It will be some time during the summer.

**Hon PETER COLLIER:** Sorry, I thought it was going to be earlier. Certainly, it will be operational for the forthcoming summer. That is 20 megawatts. In addition to that, we have extended the Alinta contract to provide better strength for the current summer. As I mentioned this morning, the Pilbara power procurement board is looking at the broader context of power supplies and potential extensions of a couple of contracts but also in terms of longer term energy needs of the Pilbara. That procurement board is working very effectively. Frank, do you want to comment on anything above and beyond that? That is essentially where we are at.

**Hon ROBIN CHAPPLE:** I mostly go back to the question with DEC and the Mining the Pilbara forum a couple of weeks ago. There was extensive discussion about future energy supplies. We are talking 10, 15 years. It was projected that there would not be enough gas available under forward contracts based on the expansion of the industry. It was a complete breakaway. There was comment about having to bring distillate or even coal into the Pilbara because of that shortfall. Have you had any thoughts or comments about that? As I say, it is a long-term projection. It was ACIL Tasman who were giving this and the mining industry was fairly concerned.

**Mr Tudor:** When you are going out that far, it is subject to a lot of uncertainty. What I can say is that the gas market has been generally tight but we have a Gorgon project with a domestic gas obligation that is starting and we will be putting 150 terajoules a day into the market from 2015–16. Following that, we have a Wheatstone project that will also have a similar obligation to be putting gas into the market. We also have the reindeer field, which has been underwritten by CITIC Pacific at Cape Preston which has had some gas as well. There are a number of markets there. For really credible buyers and off takers, there is gas in the market. It is a question of price. But to project that far into the future, I think we can also speculate about further LNG developments and further domestic gas developments. There is Buru Energy operating out of Broome that was recently announced, some oil and some tight gas discoveries on land. They have tremendous aspirations to

be developing that. You can start to think about unconventional gas making an impact. My assessment is when you are going too far into the future, there are lots of things that can change. I would not be as pessimistic about that situation as perhaps ACIL is.

**Hon KEN TRAVERS:** In terms of meeting the demand, is the extension of the Alinta contract on the same terms and the same cost of the power as was previously being provided or are we paying a premium for the extension?

**Mr Tudor:** No. The price has increased from what we were getting originally but there is competing demand for it so it reflects the market conditions.

**Hon KEN TRAVERS:** What sort of percentage increase are we talking about?

**Mr Tudor:** It has come to a point where it now resembles a cost of new build and that would be the alternative. People would price against the lookout. In the third year we are paying close to what we would expect to be paying for a new build.

**Hon KEN TRAVERS:** What is the percentage increase on the previous price?

**Mr Tudor:** Over the three years it has probably gone up 100 per cent.

**Hon KEN TRAVERS:** The 20 megawatts is for a new gas power turbine. In terms of your ability to meet the energy requirements across the Pilbara—Port Hedland and Karratha, predominantly, that network—when you say you are confident you have sufficient power to do that, is that including the Karratha temporary generation project?

**Mr Tudor:** Yes, it is.

**Hon KEN TRAVERS:** How many megawatts is that producing?

**Mr Tudor:** As the minister said, 20 megawatts will be installed at Karratha.

**Hon KEN TRAVERS:** So the gas turbines are only temporary turbines?

**Mr Tudor:** We have acquired the machine but we are putting it into Karratha on a temporary basis. We would need to assess what the long-term option looks like to see whether we continue with that or whether it is cheaper to actually build that into a longer term option and then perhaps look at disposal or doing something else with that generator that we have at Karratha.

**Hon KEN TRAVERS:** So that 20 megawatts is the Karratha temporary —

**Hon PETER COLLIER:** That is right.

**Hon KEN TRAVERS:** When you last came before us there was this talk of even having to move up diesel generators. That is no longer the requirement?

**Hon PETER COLLIER:** No, not for this summer.

**Hon KEN TRAVERS:** What about future summers?

**Hon PETER COLLIER:** That is what the procurement board is about. The 2013–14 summer and beyond is what the procurement board is.

**Hon KEN TRAVERS:** Why are we only doing that procurement now when we were talking about this at least 12 months ago at hearings of this committee, if not longer? It is not as if this is a new thing. I think a number of the contracts have ended knowing that they are going to be ending and the mining companies were not going to extend them. Why are we only now getting to the point of procurement?

**Hon PETER COLLIER:** As I said, we looked at the prospect. Initially there was the prospect of a build, own, operate, which was considered. We decided not to go down that path. We have been considering options ever since that. We are still at that point. I know it is not a satisfactory response.

**Hon KEN TRAVERS:** You have a lot of unfinished homework, minister.

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**Hon PETER COLLIER:** Tell me about it! I would love to be able to go in and have a nice big brand spanking new build, own, operate station but you get in there and Treasury will tell you, “No, you can’t have it.”

**Hon KEN TRAVERS:** Is that the problem, that Treasury won’t give you the capital to purchase it?

**Hon PETER COLLIER:** Not only Treasury, not only the finance, is an issue. It is a significant issue. Certainly at the time there was sufficient load growth to warrant it and there was a sufficient fall in demand. We made a decision as a government that we would assess the future demand needs through the establishment of the procurement board, and that is exactly what we have done.

**Hon KEN TRAVERS:** We have known about this for some time. We have known about the future demand. Surely you could have commenced the consideration of the various options of how you meet that demand some considerable time ago. It would appear to me we are now starting to look at potentially paying a premium for our power in that area because we have not taken those decisions. I suspect from what you have just said that one of the problems you are facing is accessing the capital to do that expansion.

**Hon PETER COLLIER:** It is one consideration but it is not an exclusive consideration.

**Mr Tudor:** The other thing I would say is part of the approach has been to squeeze everything out of what is available. Certainly getting the extension out of the Alinta contract was something that we have exploited. Certainly supplementing that with the 20 megawatts, which can be used in a number of different ways in due course, is part of that solution. The other thing is that part of the desire is to aggregate as much demand as we can to actually enable the start-up of combined cycle power stations. Where we have come to is much closer to actually synchronising demand with ourselves and potentially other miners to create what is effectively a power precinct in the Pilbara at Port Hedland. This is certainly something that is being looked at by the procurement board and if we were to realise that, it will have significant benefits.

**Hon KEN TRAVERS:** What is the time frame for that?

**Mr Tudor:** It is a point of active consideration right now and has been for the last little while.

**The CHAIR:** We have gone considerably over time, so we need to conclude. The committee will forward any additional questions that it has to you via the minister in writing in the next couple of days along with the transcript of evidence, which includes questions taken on notice. If members have any unasked questions, I ask them to submit them to the committee clerk by email at the close of the hearing. 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 and include in that advice specific reasons as to why any particular due date cannot be met.

Finally, on behalf of the committee, thank you very much for your attendance this afternoon.

**Hearing concluded at 4.30 pm**

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