

**STANDING COMMITTEE ON ESTIMATES AND
FINANCIAL OPERATIONS**

2013–14 AGENCY ANNUAL REPORT HEARINGS

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
TUESDAY, 4 NOVEMBER 2014**

**SESSION TWO
HORIZON POWER**

Members

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

Hearing commenced at 11.48 am

Mr FRANK TUDOR

Managing Director, examined:

Mr BENJAMIN HAMILTON

General Manager, Commercial Services and Finance, examined:

Mr DAVID TOVEY

General Manager, Corporate Services; Company Secretary, examined:

The CHAIR: On behalf of the Legislative Council Estimates and Financial Operations Committee, I would like to welcome you to today's hearing. Firstly, can each of the witnesses confirm that you have read, understood and signed a document headed "Information for Witnesses"?

The Witnesses: Yes.

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

Do any of the witnesses wish to make an opening statement? If not, we will go straight to questions.

Hon RICK MAZZA: I have a question. I would like to refer to page 6 of the chairman's report, and in the third column you say there is a decision to outsource engineering and project services to GHD. What was the tender process for selecting GHD?

Mr Tudor: We ran through a process that was open to the market. We had an independent probity adviser that was attached to the process, and we had assessment criteria that were developed at the outset of the process. We ran through to two final participants—GHD and SKM—and GHD, based on assessment of the panel and a judgement, was deemed to be successful.

Hon RICK MAZZA: With GHD taking up some of those functions, what is the actual Horizon board doing with those projects themselves? Do they oversee those projects, or what involvement does the board have with those projects?

Mr Tudor: The board oversees our total governance processes. What we have inside the business is a commercial manager that is assigned to our power systems area. His prime responsibility is to manage the relationship with GHD, so he fulfils two particular tasks: he actually defines the scope of engineering and design work that we need to be done internally, and in doing that he consults with people across the business that might have a requirement for that service. He will then scope that, and then he will negotiate on behalf of the business with GHD to secure those services. For each of those, we have contracts that are put in place; they are either consultancy contracts, if they are at the outset of the project, or they are project agreements if we are talking about implementing and building a project using GHD's services. So they are put in place for each and every project.

At the moment, we have been running three to four months with about 20, I believe, consultancy agreements that have been put in place around specific activities and we have a number of project agreements that have been put in place around specific activities. The other ongoing role that that particular commercial manager has is he meets on a monthly basis with the GHD people. They cover the full gamut of activities that we have. We have 16 KPIs—key performance indicators—that have been identified in the contract, and we monitor their performance against that. Our assessment thus far is that the relationship is working well and that we are saving the sorts of money that we thought we would be on embarking on the project and the activity. It is probably important to say as well that when we negotiated the arrangements with GHD, we also migrated across 22 of our people. So, 22 of our people that were employed previously by Horizon Power have now become GHD employees, and they are involved on our project activity, but the benefit to them is that GHD's prime activity is servicing and doing engineering and design work. So they will do engineering and design work for us, and we already have a graduate engineer that was with us that went across to GHD that we know is working for BP at the moment up in Carnarvon, so we know that that activity and those sorts of flexibilities are being exercised.

Hon RICK MAZZA: Who were the unsuccessful tenderers?

Mr Tudor: In the final analysis there were two companies that we were evaluating. The other one that was not successful was SKM.

Hon ROBIN CHAPPLE: Thank you very much indeed for your responses to my questions. I want to touch on a couple of things. Your response to capital investment in Karratha in answer 1, you identify as \$1.189 million. That is the expenditure, so your return from the Pilbara underground power bills so far to date, as far as I am aware having amassed most of the bills, is \$748 315.63. Where is the rest of the money coming from? You have actually got a cost of \$1.189 million and your income to date—and I will deal with the second part of that in a minute—is \$748 315 via the City of Karratha.

Mr Tudor: I think the number here of \$1.189 million was probably broader than just the undergrounding project; it included asset management that is funded through consolidated revenue, so I think the comparison cannot be made. If you are saying this million is not actually funded from the City of Karratha, that is actually correct, so this covers work that we have been doing in the Karratha area beyond undergrounding.

Hon ROBIN CHAPPLE: Okay; fine. I was dealing with the Pilbara underground power project when I asked the question, so you have actually expanded that out to cover other expenditure.

Mr Tudor: I think we answered the question as we understood it.

Hon ROBIN CHAPPLE: Can I maybe on notice ask for the actual returns derived from the arrangements, through the City of Karratha, for the payment from the community of the Pilbara underground power project?

Mr Tudor: Okay.

[Supplementary Information No B1.]

Hon ROBIN CHAPPLE: Secondly on that same point, already \$257 000 has been identified as being incorrectly charged; that is, to my knowledge. Can you identify how much you believe has been incorrectly charged to the community through this process?

Mr Tudor: There are two points here. I think nobody will be incorrectly charged. We may have sent out a bill that may have been queried and there is a process for them going through and establishing what the facts are, and then putting an invoice consistent with the City of Karratha methodology to the particular individual or business within Karratha. That is a process that is certainly well established so I do not believe anybody will ultimately pay according to an incorrect invoice related to the undergrounding project. There is a process that has been put in place to

reconcile some of the differences that we have with the City of Karratha. We have our own set of accounts that we hold in Karratha. The City of Karratha actually has its own way of identifying its residential members through lots, and of course when you bring those systems together, there are some differences that will occur and, unfortunately, some have manifested themselves in the first instance in incorrect invoices. That is in the order of about four per cent, so I would like to put that in context. It is a very small number —

Hon ROBIN CHAPPLE: I thank you for your answer so far. The point that I am raising is that out of the total amount of bills so far that I am aware of, at \$748 000 from the region, \$257 000 of that has been incorrectly charged. I would suggest that is more than four per cent. What I would like to know, and I will do this via a supplementary if I may, is how much has been returned to Horizon Power through the City of Karratha for the power project; and, after re-evaluation, how much has been identified as being incorrectly charged?

[12 noon]

Mr Tudor: I will certainly take that on notice. I will just say two things. I think everybody in the City of Karratha, whether they were small residential customers, whether they were business customers or whether they were large customers were billed at the same time—so, 8 000. They would have all evaluated their invoices at the same time. Any of those that had inconsistencies or were queried for whatever reason have been dealt with through the process that I described, where we are working very closely with the City of Karratha to ensure an accurate bill is sent out to a lot customer. So I think the context there is quite important. At the moment we are just in the process of executing the agreement with the City of Karratha, so at this stage we are in receipt of no funds from the City of Karratha for the work that has been done thus far. It has been funded by the previous allocation of \$130 million, which was set aside for the undergrounding of South Hedland and Wedgefield, which has been completed, and also for 40 per cent of the work that is currently being done in Karratha. So, obviously the government process has now allocated the funding through R for R, and that has led to us now finalising the agreement with the City of Karratha. That is now in the process of being executed. Once that is executed, we will work through how funds will be made available to Horizon Power to continue the progress of the work.

Hon ROBIN CHAPPLE: You have raised another point that I will touch on in a minute.

The CHAIR: I am sorry, but you had a question there at the beginning that you are seeking some information on. Could you repeat the question and then we will get it clear? I need to give it a number.

Hon ROBIN CHAPPLE: I suppose I take on board the point that you have not received any of the funds from the City of Karratha at the moment, but I would like to know: what is the anticipated or estimated amount of return to Horizon Power from the City of Karratha in the management of the PUPP process; and how much has been identified to date that has been incorrectly charged in that process? I will do that on notice.

[*Supplementary Information No B2.*]

Hon ROBIN CHAPPLE: You raised two points there. You said that 40 per cent of the process has been rolled out in Karratha. My understanding is that people who have not yet got underground power and who may or may not be selling their property are being charged for the underground power that they have not yet been in receipt of. Can you identify if that is the case? How can somebody be charged for underground power when power has not yet been delivered and they are in the process of selling their property? One would assume that that will be the responsibility of the future property owner, not the current one who has not received the underground power.

Mr Tudor: We have an agreement that, as I say, is being executed with the City of Karratha. That will provide to us roughly \$34 million of the \$138 million which the total Karratha project will cost, which is consistent with the 25 per cent contribution that is expected. The way the City of

Karratha deals with each of the residents and the businesses is an issue for the City of Karratha that we have little visibility about, except where we need to reconcile invoices and the bills that we have been speaking about. So, the interface between the City of Karratha and how the billing goes through to each and every resident is an issue for the City of Karratha.

Hon ROBIN CHAPPLE: Thank you.

Hon ALANNA CLOHESY: You mentioned a figure of \$138 million. Is that the total budget for the underground project?

Mr Tudor: That has been the total budget we have been holding to since probably June 2012 for Karratha.

Hon ALANNA CLOHESY: For the whole project, what is the total budget?

Mr Tudor: The total scope of work as it was originally envisaged included Karratha, Hedland, South Hedland and Wedgefield. It also included Roebourne and Onslow. At the time that the project was put together and the forecast was developed, it was thought that \$130 million would cover that, and there was also an allowance in that for the voltage upgrade work that needed to be done in Karratha.

Hon ALANNA CLOHESY: So, what is the total budget and total scope of the work?

Mr Tudor: The total scope of the work, as has currently been agreed, remains the same. The budget is \$230 million, which includes \$30 million, roughly, for the voltage upgrade in Karratha.

The CHAIR: Can I just double check that the \$138 million is the Karratha component of that \$230 million?

Mr Tudor: Correct.

Hon ALANNA CLOHESY: What is the total financial contribution of royalties for regions to that budget, or is there a separate allocation?

Mr Tudor: No. If I can work backwards, because I think the contribution from the City of Karratha—these would be approximate numbers—would be \$34 million, the contribution from the shire of Port Hedland would be around \$11 million to \$12 million, and we are expecting a contribution of \$1.9 million from the Shire of Ashburton. Outside of that, the rest would be contributed to by royalties for regions. When it comes down to each of the particular shires or cities, the contribution that is being made by royalties for regions in each case is 75 per cent.

Hon ALANNA CLOHESY: So 75 per cent of the \$34 million for Karratha's contribution is royalties for regions?

Mr Tudor: Seventy-five per cent of \$138 million, which is the total budget for Karratha, is the contribution from royalties for regions.

Hon ALANNA CLOHESY: Is it possible to get in a table form a breakdown of —

Mr Tudor: Yes, we certainly can.

The CHAIR: And each subset, I think—so Karratha, Roebourne, Onslow, Port Hedland. Is that the four?

Hon ALANNA CLOHESY: Yes, so the local government contribution, the royalties for regions contribution and the total budget.

Mr Tudor: Yes.

The CHAIR: And the local government contribution is then collected back through the rates?

Mr Tudor: Yes.

Hon ALANNA CLOHESY: Just one more confusing bit, the local government contribution has a royalties for regions component, where royalties for regions is contributed to the local government to then contribute to the —

Mr Tudor: If I just take Karratha, it is \$138 million. Royalties for regions has contributed 75 per cent to that. The remaining 25 per cent, which is roughly \$34 million or \$35 million, is what the City of Karratha is responsible for. It will then in turn bill each of its rate holders to actually collect that funding.

Hon ALANNA CLOHESY: In addition to that, there is no other budget? There is no funding source in addition to those you have mentioned?

Mr Tudor: Horizon itself has determined that we derive a benefit from undergrounding the system, and we are contributing through consolidated revenue around \$7 million to \$8 million dollars in the last phase of work.

Hon ALANNA CLOHESY: If that could be included in that table, it would be great.

[*Supplementary Information No B3.*]

The CHAIR: In terms of the original \$130 million, how much of that was allocated for Karratha then?

Mr Tudor: Perhaps if I talk in round numbers. One thing I will say is that the development of the project in 2009–10 predates all of the existing management team at Horizon, myself included. What we do know is that, in rough terms, 5 000 lots were identified to be undergrounded across the four areas that we are talking about. A number was associated and derived for how much we thought it would cost to underground each of those lots, and that was \$20 000. So 5 000 times \$20 000 is \$100 million. There was also an allocation made by R for R for the voltage upgrade work, and that was set alongside that to make up the \$130 million.

The CHAIR: How many of those houses were going to be in Karratha?

Mr Tudor: These are rough numbers. We have done about 1 400 in South Hedland and Wedgefield, and there are probably about 200 in Roebourne and there are probably about 20 in Onslow, so the remainder are in Karratha.

The CHAIR: As part of that table, if you could actually give the number of blocks of what was originally proposed and what is now occurring. The issue then becomes: do we know what the original expectation on a per lot basis was and what it is going to be now in terms of the local government's contribution?

Mr Tudor: No; we just have to work that out.

The CHAIR: Either work it out, or give us the figures that allow us to work it out. Under the original budget, I think you were saying 5 000 homes at \$20 000 each, so I assume that 75 per cent was royalties for regions, and \$5 000 would have been the local government contribution per lot on average, and what is it today. That will all be part of supplementary information B3.

Hon ROBIN CHAPPLE: Can I just come back on those points, if I may? You mentioned there that \$30 million was going back into consolidated revenue.

Mr Tudor: No; \$30 million was set aside for the voltage upgrade work.

Hon ROBIN CHAPPLE: I am sorry; I have misread that then. In terms of the \$100 million that you are saving throughout the region as a result of an agreement with government, and I am going through your answers here, where did that that notional figure—it seems to be rather rounded—that you were going to save \$100 million throughout the region, come from?

Mr Tudor: We are not going to save \$100 million; \$100 million was the cost to underground each and every lot.

Hon ROBIN CHAPPLE: No, sorry; I am going onto your —

Mr Tudor: Okay, so have we moved on from undergrounding?

Hon ROBIN CHAPPLE: Yes, but it is all part and parcel of the same thing.

Mr Tudor: No, the \$100 million in the strategic review is not related to undergrounding at all.

Hon ROBIN CHAPPLE: Sorry, I am talking fiscally; I am not talking directly related. You are going to have a target in your strategic review program of \$100 million in reduction of expenditure, which will, therefore, reduce state government subsidies to Horizon Power by \$100 million. The \$100 million is fairly rounded. What I was trying work out was: is there any assessment that via the undergrounding of the power in Karratha, Roebourne and Port Hedland, where the system will be less prone to cyclonic activity and less breakdowns, that that would have been assessed as a cost saving into the future?

Mr Tudor: If I can just perhaps tease your questions apart. The \$100 million that we set up as an aspirational target for the business was based on assessment of the fact that a lot of investment had been made, not only undergrounding, but building power stations and doing a lot of work on pole reinforcement and replacement in the Esperance area. I think through the course of inception we probably reinvested either directly or indirectly through the independent power producers in some 20-odd power stations. So we dealt with an issue that was looming prior to disaggregation in that a lot of the assets were actually tired and needed to be replaced. So there was a fairly intensive program put in place from inception that Horizon has delivered in actually bringing the assets back up to a point of quality so they are good assets for the future. That work program, we believe, is now tailoring off. The legacy issues have been dealt with. Clearly, we wanted to have a look at how we would now need to adapt in the face of a declining work program. We were certainly obviously cognisant of the economic conditions surrounding the global community, not only in Australia but Western Australia.

[12.15 pm]

We also wanted to take the opportunity, because we have built a lot of capability and capacity in the business, to really have a look at all the things we did to drive efficiency and effectiveness. The choice that we faced is that we could have gone for a small reduction in costs or we could have had a look at world's best practice and benchmarked ourselves against utilities that existed outside of Australia, and this is what we chose to do. It was through that work that we informed ourselves as to what was possible. The \$100 million is made up of a number of components. One of them is our operating model, and there are savings associated with the operating model. There is also a component related to capital efficiency; how can we deliver the capital works that we will be required to do into the future more efficiently? Another component is related to tariffs and revenues. There are fundamental issues, I believe, with the tariff structure, which does not recognise peak demand, and the capacity that needs to be put in place to support peak demand. That is a particular case for us in the Pilbara, where we have had tremendous take-up of air conditioning and no real incentive for people to think about what air conditioning means. The other component of that is that we also ring-fenced specifically the Pilbara business unit within the company to drive a set of efficiencies and effectivenesses in that. I think they are broadly the different areas of work that we put together to actually drive to a target of \$100 million. The number of \$100 million was chosen because it is a round number. We have within the business about 40 specific road maps that in themselves are specific initiatives that are accountable to each of our managers that sit below the general manager level. If they are delivered as we hope, they would actually deliver more savings, or more benefits, than \$100 million. But we are driving to that; the \$100 million was a number that would cause the business to actually very seriously look at driving efficiency and effectiveness in a way that we thought would not be possible if we simply said we needed to drive a five per cent cost cut each and every year. It was really an opportunity that we took to turn the business and have it look at itself to determine how and why we should do things differently. As I say, a large part of our

information base and database was drawn from studying utilities in the US that operate in a regional capacity.

Hon ROBIN CHAPPLE: Thank you for your answer. Could I go back to the question? Is there no cost saving to Horizon Power in any way, shape or form by the Pilbara underground power project?

Mr Tudor: As I said in the last iteration, we identified about \$7 million of cost savings.

Hon ROBIN CHAPPLE: So that would then automatically flow on to a cost saving in terms of government subsidy to Horizon Power?

Mr Tudor: No, that is not an annual number; that is over the forward estimates period and that has actually been included in the budgeted part of the process.

Hon ROBIN CHAPPLE: Can you provide us with some statistics or data on how that cost saving is going to reflect on Horizon Power's budget into the future?

Mr Tudor: Sure, we can do that.

[Supplementary Information No B4.]

The CHAIR: I just had a follow-up question. You mention in there about one of the areas of savings was tariff reform and getting people to think about air conditioning and how they use it. Can you just expand on what you mean by that? Are we talking about commercial premises or residential premises or both?

Mr Tudor: These are all subject to government policy. All we would be doing in this area is actually putting up options to government. We, as qualified operators of our assets and qualified observers of our customers, make certain observations, and clearly one of them is that—very much like the SWIS—we are required to have huge capacity in place to deal with peak demand that occurs for a very small period of the year. We wanted to get our minds around that and understand what that looked like. We also make the observation that mining companies do not provide any incentive, and in fact subsidise their employees in the Pilbara. This is no reflection on them, but it is just a matter of fact that if the incentive is not put in place, they turn air conditioners on and leave them on for the duration of the summer. Is there a way, even working with the mining companies, that we could look at incentivising the right behaviour so that we deal with that peak capacity? Because that is a tremendous cost back onto the business and back onto the state. They are the sorts of issues that we are starting to look at, but it is really about putting options up which will then be subject to government policy and process and decision-making.

The CHAIR: Right. You have got to find that \$100 million in savings over what time frame?

Mr Tudor: It is an aspirational target and we have set ourselves a target of 2017–18.

The CHAIR: By the end of the current forward estimates?

Mr Tudor: Yes, roughly.

The CHAIR: When would you expect a decision will be taken on which measures you will adopt to achieve those savings? Because I assume that every day we leave it, it makes it just that little bit harder to get that aspirational target.

Mr Tudor: In the annual report we have already logged \$36.6 million of recurring savings per year, and some of that was the initial restructuring of the business. As I say, we now have in the business a very rigorous process that we have gone through to set up roughly 40 separate initiatives. Each one of those can be reined back to a particular manager who is accountable for delivering on that particular project, and each one of those is focused on different parts of the business. For example, one of them would be our core systems which we rely on for financial reporting, for asset management work and for data capture associated with our assets. Is there another way or are there other systems out there that can actually give us benefits, particularly with all the work going on with digitisation and access to cloud? We have certainly observed some things that the US

utilities are using. That is a specific project that in itself, if it is delivered and the savings we have attributed to it, will yield a benefit. As I say, there are about 40 of those in the business at the moment.

The CHAIR: But will they produce the \$400 million or do you still have more to achieve? You went through that list of items. Will those 40 initiatives achieve the \$36 million?

Mr Tudor: Some of them have already been delivered and have achieved and contributed to the \$36.6 million that we have logged. Others are going to be delivered over the next three, four or five years. Collectively, they might exceed \$100 million; the \$100 million is a number that is rounded and is really meant to incentivise the business, and really turn thinking around within our business to actually have everybody look at everything they are doing and question whether it needs to be done and whether there is a better way of doing it. The people that are in —

The CHAIR: Look, I understand all of that. What I am trying to get to is that you have identified \$36 million in the annual report. How much of that is from those 40 initiatives, or are they on top of the \$36 million? How much of those 40 initiatives is the \$36 million?

Mr Tovey: The 40 road maps that Frank is talking about are on top of the \$36.6 million.

The CHAIR: What do you expect they will achieve in savings?

Mr Hamilton: The 40 road maps include the \$36 million, but it also delivers the full \$100 million subsidy reduction target that we are pursuing.

The CHAIR: Have they all been agreed to now by government?

Mr Tudor: No. This is a level of detail that certainly the board is across. The organisation has decided to do this with the board's endorsement. We have taken it to government, they have agreed to it and now we are implementing it, but we do not expect the government, or indeed the board, to be around every specific issue. We follow our normal governance processes, but these are things that are delegated down to general managers, and in many cases below general managers.

The CHAIR: That is fine. At this stage I am just trying to get an overview of where we are at, and I am getting different answers from different people at the moment.

Mr Tudor: I will take the inconsistency out. The inconsistency is that we started off with 40, and maybe one or two or three of those have already been delivered; some have been partially delivered —

The CHAIR: Maybe the simple way to move it along in terms of the time is for me to make it a supplementary question. Can we get a list of the 40 items, which ones have been implemented and what you would expect their value to be over the forward estimates? Then there are obviously the ones that are still for consideration.

Mr Tudor: We can put it in aggregate terms. I do not think you would want to be down to the level of 40 or 50 particular road maps that are at a very low level in the organisation.

Hon ROBIN CHAPPLE: I would have thought we would most probably need to know the 40.

The CHAIR: If there is a measure that you are doing in Onslow and you are doing the same measure in Karratha and it is just sort of changing the widgets over, then I am happy for you to say “changing widgets” and that you expect that will apply across the business —

Mr Tudor: We can aggregate it in a way that makes sense, particularly with the sort of categories that we talked about. That would be an appropriate level, I would think.

The CHAIR: I would like those 40 road maps. What I am hearing is that you expect that they will deliver the full \$100 million, so of those 40, how much of the \$36 million in your annual report do they relate to and what have been approved, and what are still to be considered?

Mr Tudor: If I can qualify: the \$100 million is an aspirational target to drive a different thinking in the business, and they have been put in place. Will I consider it, and will the board, the minister and the people of WA consider it to be a failure if we do \$96 million or \$95 million or \$50 million? It is really about driving a different culture and efficiency in the business.

The CHAIR: I get that, and I assume that each of these initiatives will have their own value attached to them that may or may not be achieved as well.

Mr Tudor: Exactly. They will all be subject to normal decision-making processes. Where money needs to be allocated, we will go to the board, we will go to the government, and if the decision is not an affirmative one, that will have an impact on the target. What we are going to do is drive options, provide options for government —

The CHAIR: All I want is the list of the options—those that have been agreed to and what you expect, and those that are still under consideration and what you estimate would be the benefit of them.

[Supplementary Information No B5.]

Hon ALANNA CLOHESY: Oh, the irony; Protectionist just won the Melbourne Cup!

Hon PETER KATSAMBANIS: Yes, I know. It is a handicap, of course, so that is why; protectionists do well in handicaps.

Hon ALANNA CLOHESY: Who Shot Thebarman came third.

Hon PETER KATSAMBANIS: Anyway, on page 42 of your annual report you talk about a strategic review, and you have spoken about it today. Who was charged with conducting that strategic review? Was it conducted internally or were external consultants hired?

Mr Tudor: No; we formed the initiative ourselves and it has been conducted inside the business. We have run it according to our normal project management methodology. Ben Hamilton was the head of the project team that led the work that was being done on the various initiatives in the first phase. As I say, it has now morphed into 40-odd separate initiatives that are being effectively managed across the business by 20 or 30-odd senior managers in the business.

Hon PETER KATSAMBANIS: What work did Boston Consulting do during the period? Were they involved in this review?

Mr Tudor: Yes, they were part of the review. Their particular value-add to us was their data around the US utilities. They were the custodians of best practice, if you like. So, when we looked at —

Hon PETER KATSAMBANIS: So you did use consultants?

Mr Tudor: Of course. We used Boston Consulting and we used other consultants to assist us in developing the work and putting it in place, but it was specific pieces of work. The overall program was led internally, so this was an internally driven program. What we had decided to do was actually try to understand what world's best practice did in the area that we operated and absorb lessons from that, and we could not do that ourselves, obviously.

Hon PETER KATSAMBANIS: What was the cost of consultants used? You said you used a number of consultants. What was the cost of consultants used for this strategic review in the financial year and what are going to be any ongoing costs of the consultants used?

Mr Hamilton: We might want to take the question on notice, if that is okay.

[Supplementary Information No B6.]

Hon ROBIN CHAPPLE: Can we do that by 2013–14 and then, as you say, projected. But I would also like to go back and look at 2012–13 —

Hon PETER KATSAMBANIS: Yes, I am happy with that. If you can provide cost savings for 2012–13 —

Mr Hamilton: I actually think we can answer the second part of that question, because we do not have commitments to continue to use those consultants. Not to say that we will not, in time, use more consultants, but at this stage there is no plan to —

Hon PETER KATSAMBANIS: But not as part of this particular project.

Mr Hamilton: Not that is committed to at this stage.

[12.30 pm]

Hon PETER KATSAMBANIS: Again on page 42 of the review you talk about the savings in relation to materials, service, fleet and property, advertising, consultants and contractors—over a full year it was \$5.8 million. Is that after taking into account the costs of these consultants used for this strategic review, or does that go into a separate silo?

Mr Hamilton: That is separate. We are considering the cost of implementing the project quite separately from the benefits that the project delivers. In the first year, obviously there is an impact, but in subsequent years you do not carry the costs; you only receive the benefit.

Hon PETER KATSAMBANIS: Those costs we will derive through the questions on notice?

Mr Hamilton: Yes.

Hon PETER KATSAMBANIS: That is that one. There are a couple of others that I wanted to ask about. The PPP that you conducted with TransAlta, we do not have the time to go into what is commercially in confidence and what is not, but strategically moving forward, do you think that that model of PPP is going to be more prevalent in meeting the demands on your business in the areas that you service? Do you see more PPPs coming onstream?

Mr Tudor: Do I see more? If we continue to do exactly as we are doing, I think there are a lot of benefits that came from the TransAlta transaction. I think principally we were able to work with another customer, FMG, to together underwrite a power station that is going to be put in place by a very credible IPP, which is actually TransAlta. The benefit that we have derived is that because we are not the sole off-taker—the sole underwriter—that does not appear as a financial lease and does not impact on state debt as a financial lease. That is a very significant benefit. I also think it is a great example of what should happen in the Pilbara in the future where customers come together, aggregate their demand and underwrite bigger power stations than they could otherwise justify by themselves, which means that you are getting scale benefits and you are reducing duplication. The converse of that is that we might have had two or three different power stations being developed in the Pilbara—Hedland—at exactly the same time to service Roy Hill, which will come along in due course, to service FMG and to service ourselves. Each one of those would have been fine but inefficient in itself compared to a large power station, which is what we have here. For the very first time in the Pilbara we have a combined cycle power station. What is particularly pleasing about it is that FMG would have assessed this against all of their other alternatives and determined that this was the best option for them. We certainly did the same thing. I think for FMG, Horizon Power, TransAlta and the common good, it is a win for the region.

Hon PETER KATSAMBANIS: I do not disagree with you in the slightest. I think you are right; it is a new model for the Pilbara. It is a model that has been used almost everywhere else in the world apart from the Pilbara, and derives great benefits. Thank goodness it is finally happening in the Pilbara. But have you identified any particular other initiatives or projects that can be conducted under PPP either in the Pilbara or elsewhere in your sphere of operation?

Mr Tudor: I might ask Ben to talk about the Midwest because I think that is another great example where we have achieved an off-balance sheet solution and also built in flexibility to some towns where we can now play around with diesel and PVs. Ben, would you like to chat about the midwest?

Mr Hamilton: In the midwest we have recently appointed Contract Power to construct six power stations to serve six midwest towns. The unique difference about this arrangement is that we are using a third party to deliver us capacity that we expect will be declining in the future. That is probably a first for our sector where we anticipate reductions in demand. The feature of the contract is that as the demand reduces over time, the contract value can reduce over time as well. You are almost avoiding that instance where you make an up-front capital investment and then you wear the full cost of that investment forever. We have done that in partnership with the private sector.

Hon PETER KATSAMBANIS: On page 40 of your annual report you make the declaration “the requirements of the Western Australian Electoral Act”. Again because of the brevity of time, I will not even ask why —

The CHAIR: You will find it is in every report; it is part of the act. I will give you a history afterwards.

Hon PETER KATSAMBANIS: I realise there is a history to it.

The CHAIR: Peter Foss is better, but we will move on.

Hon PETER KATSAMBANIS: I am not going to ask about that at all. I am focusing on the actual figures declared and the issues declared. There is around about \$717 000 spent on advertising and media agencies. I know you have a relatively sizeable communications team. Why do you need to engage external media agencies?

Mr Tovey: Our communications team numbers about five individuals. We use advertising agencies to pull together material for our major advertising campaigns, of which there are three: the Be Aware campaign, which is about safety and awareness around electricity; the Cyclone and Storm campaign, which gets people ready, particularly in the northern parts of our state, for cyclones; and our Energy Efficiency campaign, which targets how to use energy more efficiently.

Hon PETER KATSAMBANIS: These costs would include the deliverables, for instance; the advertisements or the products produced?

Mr Tovey: That is correct.

Hon PETER KATSAMBANIS: The paraphernalia.

Mr Tovey: Correct. It will be the development of the material itself and also the advertising costs.

Hon PETER KATSAMBANIS: Okay. It is just a payment that you make and they book the advertising on your behalf or they buy the printing on your behalf, whatever the case may be?

Mr Tovey: Correct.

Hon PETER KATSAMBANIS: I am comfortable with that. For the moment, I am okay. I will hand over to someone else. If I get time, I will ask some more questions.

Hon RICK MAZZA: I see on page 31 that the Department of Environment Regulation gave you guys a warning for doing some clearing near the Mungullah power station. What was the reason for that clearing?

Mr Tovey: I am not across all of the details of that particular incident but I understand that someone gave some authorisation to clear an area of land for laying down materials but that was in breach of our licence for clearing, so we notified the DER about that. Their investigation resulted in issuing a warning to Horizon Power.

Hon RICK MAZZA: On page 30 you refer to 29 sites that are reported as being contaminated sites, most of which are to do with old power stations. I note that you have listed about eight or nine of those particular power stations where the contamination is evident. Whereabouts are the other 17 sites?

Mr Tovey: Those sites are scattered across our whole service area. I am more than happy to provide a list of those sites to the committee, if you would like that.

Hon RICK MAZZA: Yes, if you would, please.

[Supplementary Information No B7.]

Hon RICK MAZZA: If you could also include the nature of the contamination itself.

Mr Tovey: Yes.

The CHAIR: That will be part of B7.

Hon RICK MAZZA: Also what remedial action has been taken to clean those sites up.

One other question on environmental issues: with the power generators that Horizon operate, how many of those have renewable energy attached to them? Denham has a wind generator plus a diesel backup. How many generators do you have that include a renewable energy component?

Mr Tovey: Off the top of my head, you would have Marble Bar and Nullagine, which are both photovoltaic and diesel systems; you have got Denham, as you mentioned, which is wind and diesel; Coral Bay, which is wind and diesel —

Mr Tudor: Kununurra, which is full hydro; Esperance, which is gas and wind —

Hon ROBIN CHAPPLE: But the wind is not being used.

Mr Tudor: Yes, it is.

Hon ROBIN CHAPPLE: We have an answer to a parliamentary question that says it is not.

Mr Tudor: If you are asking a question about what is the operation of that, we buy power. My understanding is that there is wind and there is also gas. We can give you details if we can request those from the IPP involved.

Hon RICK MAZZA: If I can just finish off that question: what percentage of renewable energy is being utilised into the grid over fossil fuel?

Mr Tovey: That would vary system by system. We would have to —

Hon RICK MAZZA: Do you have an overall figure?

Mr Tovey: I think in the front of our annual report we have some figures, if I may, on generation sources. My apologies, I thought there was a table there.

Mr Tudor: We can take it on notice. My recollection is that around 10 per cent of the portfolio comes from either wind, water, PV or sun.

Hon RICK MAZZA: We will take that on notice.

[Supplementary Information No B8.]

Hon RICK MAZZA: What is the cost of maintaining the renewable energy—things like wind, solar and water? What is the actual cost of maintaining those?

Mr Tovey: Much of those we do not maintain ourselves. IPPs supply us with that energy. I think the two that we do own are Marble Bar and Nullagine, which are the solar arrays. Often the IPPs do not give us a breakdown as to whether it is wind energy or diesel energy. In terms of cost, it is wrapped up into a single power purchase agreement. Certainly where we have that information, we can provide it.

Hon RICK MAZZA: Is Horizon not interested in knowing what the percentage is of renewable energy?

Mr Tovey: Certainly the percentages of renewable energy versus fossil fuel energy, yes. Those numbers are available. But in terms of the cost of maintenance of particular types of kit, in terms of

wind energy equipment, for example, we would not have a breakdown of the cost of that equipment.

Hon RICK MAZZA: Are you able to access that? Can you ask the provider for a breakdown of that?

Mr Tudor: Some of that will be commercial-in-confidence in terms of what the component of PV or wind is in their contract. Where we own and operate, we can certainly make that available. But if I can go back, we certainly support the adoption of renewables wherever it makes sense. The contracts that Ben was talking about—the five or six midwest contracts that we have just gone through—I think are novel in the way that we are going to be positioning the IPP to give us the flexibility to then work with the town to either get the town to pick up PV or, if they do not, we put in aggregated PV to actually drive to the point where it is economically efficient to take up the PV. In some of our small towns, for various reasons, they are pretty high cost. We have done a lot to try to encourage people to put PVs on their roofs but there is a lot of inertia; either they are mining towns where people are in rentals or they do not have the incentive to do it. In fact, in some cases I think the renewable energy industry is not being done a service by charlatans who are in the marketing business and probably scare some people. We have been working with a panel of PV providers and creating the opportunity, if you like the statement of opportunity, around some of these towns to encourage the take-up of PV. The work we have done on the midwest we are very proud of. We believe that is actually going to set up those towns to pick up PV. As we do the PV, we can retire the diesel and that is already built into the contract. It is flexibility in a provision that is already provided for. In some of our diesel-based contracts that we have inherited there is a cap on how much renewables can be brought in, and it is capped at 10 per cent. There is no flexibility around it. This is one of the big milestones for us as a business to put in place these very flexible contracts. It is two-parts: one is to put in the fossil-fired plant—the diesel generators, if you like—and then retire them as we actually work with the community to take up PV. We have got flexibility in the contract and we have got to work with the community for them to take up the PV.

Hon RICK MAZZA: If it is difficult to get the figures of maintenance costs from the other providers, just the ones that Horizon owns, if you will give me the percentage of electricity that you are putting out for those renewable energy facilities and what the maintenance cost is on them.

The CHAIR: That is included in B8. I do not think it was difficult; I think it was suggested it was commercial-in-confidence. I was going to suggest that if it is commercial-in-confidence, you can provide it and ask that it be kept private.

Hon RICK MAZZA: It would be interesting.

The CHAIR: The member has asked for it, so we will ask for it and indicate that if it is commercial-in-confidence, you should ask that it be kept in private.

Hon ROBIN CHAPPLE: I refer to answers 13 and 14 of the questions I submitted where I referred to the strategic review program. Obviously you and I are aware that you have had a strategic review program. The answer you gave in relation to providing this inquiry and/or the committee was, “Much of the information generated by the program is commercially sensitive. It would take a considerable amount of time and resources to review and redact the amount of contact and Horizon Power has significantly reduced the number of staff who could provide assistance.” You are saying that it would jeopardise Horizon Power’s position. I do not think this committee—only if I am correct—would have a problem with seeing the redacted material. I think that as it is a question asked by this committee, that that information should be forthcoming. Could you please answer?

[12.45 pm]

Mr Tudor: Perhaps it goes back to the previous answer that I think we are going to give, which is what are we targeting and what in aggregate are the projects that are going to deliver the outcome.

But some of these projects will go into replacement of meters, and we will be going into the market to see who can provide meters to replace the ones that we have got. They will be going into the procurement processes, and you will not be getting into the business itself. So I think at a certain level, which is probably where the committee would derive the most benefit, we can certainly provide that information, I think consistent with the answer that we gave to one of the previous questions.

Hon ROBIN CHAPPLE: So, are we going to get that material? Are we going to get your strategic review A and B, I think it is?

Mr Tudor: Look, you know, if you are talking about internal business cases —

Hon ROBIN CHAPPLE: I do not want to see your internal finances. As you well know, I have seen one of the documents and I did not find a lot contained in that document that is particularly commercial-in-confidence. I am more than happy to see both documents redacted to remove anything that is commercial-in-confidence, if you are prepared to provide it.

Mr Tudor: As I say, where you would derive the most benefit is, I think, in aggregation of what we are intending —

Hon ROBIN CHAPPLE: I am not interested in —

The CHAIR: I do not want to go on, because we do not have a lot of time in the annual report hearings, but the member has asked for two specific documents, the strategic review A and B, was it?

Hon ROBIN CHAPPLE: I think it is A and B, yes.

The CHAIR: And they were part of your original questions?

Hon ROBIN CHAPPLE: Yes.

The CHAIR: Then I would ask that you do provide those to the committee. Indicate the parts that you believe need to be kept private. So you can provide us with a full copy, and a redacted copy that you believe is suitable for public release, and we will keep those elements private. We have done that with lots of other agencies. Obviously you are aware that the committee has certain powers, so, if you do not want to provide it, the committee will then make the decision at a future time whether or not they want to use those powers. But I would ask that you provide it.

[*Supplementary Information No B9.*]

Hon ROBIN CHAPPLE: Just touching on that, Chair, sorry, but it was not just A and B; it was part A, B and C of the business case.

The CHAIR: All right. I will make that A, B and C for supplementary information B9.

Hon ROBIN CHAPPLE: You talked about 61.5 redundancies and you then put out subsequent press release that identified, I think, 14 reductions in linesmen coming out of the Kununurra area. Yet in a question in Parliament answered on 13 August 2014, you identified that Kununurra, in fact, was one of the areas that had one of the greatest number of outages—there were more than 16 outages per year of greater than one minute. It seems interesting that we have an area that has significant outages and we are removing 14 staff from that area. Could you identify how those two —

Mr Tudor: So it is 12 staff that we are removing, and they are distribution workers. Five are in Kununurra, four are in Broome and three are in Esperance. It is related to the amount of work. Distribution workers can only do distribution work. It is related to the amount of distribution work that we anticipate going forward. The reliability in Kununurra has been considerably increased. We put an automatic generator on Wyndham, and the reliability, as measured by SAIFI and the SAIFI in Wyndham, has actually improved in the last two to three years. The remaining challenge for us in Kununurra is one related to generation investment, which we are in the process of

studying. The nature of Kununurra is that we have lots of wildlife, which impacts on powerlines, which causes outages. If you look at a map of the world, apart from the Republic of Congo in central Africa, Kununurra is one of the most prevalent places on the planet for lightning. Darwin, which is just up the road, had 1 600 lightning strikes in one afternoon. It is the same vicinity. That impacts on the distribution network. Distribution workers do not actually help with that situation. The challenge in Kununurra is we have been improving reliability as measured by SAIFI and SAIFI, and now we have to look at how we can automate the backup Kununurra power station that we have, which supports the hydro, which is managed by a company called Pac Hydro. The nature of hydro is that when it gets impacted by lightning, the response is, unless you have got protection in the right place and the IP link can handle it, the hydro goes off and it takes quite a while for it to actually start up again. Unless you have an automated backup station, which we do not have at Kununurra at the moment, then you suffer the consequences of an outage. Having said that, the number of outages in the last two to three years has remained about 16, but the duration of the outages in the last year has come from 660 minutes to about 460 minutes. So there has been an improvement. Reliability in Kununurra is not related to distribution work or the distribution network, or the integrity of the network.

Hon ROBIN CHAPPLE: On that I note that on 5 January 2014, Kununurra was out for 747 minutes, according to your sheet here. I would suggest that that is reasonably recent and most probably quite unacceptable given the international standards.

Mr Tudor: We have a program of work that is being put in place to look at the backup power station in Kununurra. Part of the work is going into having a look at the system that is required to support the development of Kununurra, which also goes to the end to and the development of the agriculture there. The sorts of options that we will look at are: can we link Shanghai Zhongfu into our system, because they will be building a power station if they develop their agriculture? That may be worthwhile connecting to the system. That might be part of the backup solution that we go for. But we need to do the studies and we need to spend considerable investment, and that is one of the biggest items that we have in our forward going asset management program. There is a big issue also with the location of Kununurra power station, which is in the middle of town. We need to work with the local residents to see whether there is a case for actually moving it outside of town. It is a prime piece of residential property, which overlooks the lake. So there are lots of issues that we need to work through. There are system studies being done at the moment. But the focus of improving reliability in the Kununurra area is on the backup diesel-fired generator that we have there at the moment. We have made that safe, so it is operational, but unfortunately because it is rather old it takes about half an hour to start up, and it is not an automatic kick-in backup, so if the hydro goes down, we do sustain outages. As I say, that part of the world, whether it is magpie geese, whether it is bats or whether it is lightning, is really subject to a lot of nature. We deal with it as best we can. As I say, it is a prime focus for the business and the asset management program going forward.

Hon ALANNA CLOHESY: I noticed that reliability for Hopetoun rural and Onslow, on page 15, continued to be an issue. What initiatives have been put in place to improve performance status in Hopetoun rural and Onslow?

Mr Tudor: Hopetoun rural is certainly part of the asset management program going forward. What we have done in the broader Esperance area is we have spent something like \$40 million to \$50 million over the last three to four years replacing poles, reinforcing poles, actually dealing with skinny poles, which were put in place, dealing with long bays—that is, bays between two poles that are longer than is now currently regulated. A lot of effort has been put into that. We have dealt with Esperance. We have dealt with some of the rural feeders in Esperance. We have still got issues to work through, which is the next focus for us in Hopetoun. But there has been a lot of progress made and I think there is a lot of good positive feedback coming from the Esperance community in terms of what has been done.

Hon ALANNA CLOHESY: And Onslow?

Mr Tudor: The situational context around Onslow is that we have a very small power station that we derive power from, and that was fit for purpose, given what Onslow was before the start-up of Macedon and before the construction activity associated with the Chevron's Wheatstone LNG project. The state, as part of a state development agreement with Chevron, has asked Chevron to build both a desalination plant and a nine-megawatt power station. We are in the process of working with Chevron to design and configure that for the town of Onslow. That will be handed over to Horizon in 2016 when it starts up. So we expect that is going to deal with all the reliability issues that Onslow has at that point in time. In the meantime, we are faced with the very poor power station that we have got, which we are augmenting with our own transportable machinery to deal with the build-up in demand as the construction activity on the Wheatstone LNG project takes off. It is not ideal, but that is the reality that we face. What we are working very positively and constructively on with Chevron is dealing with gas transportation issues, dealing with transmission connections and configuring the new power station. So when that comes, I think all of the problems that Onslow has will be removed.

Hon ALANNA CLOHESY: What I would find useful is for each of those initiatives that you talked about, a table about what each of those initiatives is, and the cost of each of those initiatives.

Mr Tudor: We can certainly do that. That information is reasonably recent, given that we have been working with Chevron through their finance, engineering and design process.

[*Supplementary Information No B10.*]

Hon ALANNA CLOHESY: Just on those reliability issues, who was affected by that? Were they residential consumers; were they commercial consumers; and how many?

Mr Tudor: If you want a catalogue of the outages and who has been affected —

Hon ALANNA CLOHESY: Yes. That would be handy.

Mr Tudor:— in Onslow, we can try and pull that together, on notice.

Hon ALANNA CLOHESY: That would be great.

The CHAIR: That will be part of B10.

Hon ALANNA CLOHESY: The other reliability issue is at Wyndham. What is the total cost of works on Wyndham power station?

Mr Tudor: It is a very small diesel-fired power station. I think it is sub-one megawatt. So we are talking \$2 million or \$3 million less than that, probably, but we can get the specific numbers if you are interested in that.

Hon ALANNA CLOHESY: Yes.

Mr Tudor: That particular project has made a big difference for Wyndham. But Wyndham is relatively small. It is part of the broader Kununurra system now.

[*Supplementary Information No B11.*]

Hon ALANNA CLOHESY: Okay. What about the Onslow power station? What is the total cost of work for that?

Mr Tudor: The nine-megawatt power station which Chevron is designing and building and handing over is fully covered in the state agreement, so it will be gifted to Horizon. Horizon will have some costs associated with gas transportation and connection and managing and overseeing the delivery of the project. So if they are the costs that you are talking about, we are happy to pull those together.

Hon ALANNA CLOHESY: The current costs of the current power station. What are the costs in that?

Mr Tudor: There are two components to that. One is the power purchase agreement that we have with the independent power provider, and then the other cost is associated with the transportable machinery that we have put there to augment the power station.

Hon ALANNA CLOHESY: So I am getting the second lot of costs in that table that I asked for before, but the overall costs would be useful.

Mr Tudor: We can do that.

Hon ALANNA CLOHESY: Thank you.

The CHAIR: That will all be part of B11.

Hon ALANNA CLOHESY: At page 16, there is a list of where some significant progress has been made on some of the capital works. Can you tell me what the total budget is, and then the individual budget per item of work—for example, what is the budget for the transmission protection, and what is the budget for the pole replacement program, as well as the total budget?

[1.00 pm]

Mr Tudor: We carry I think in our forward estimates numbers a value on the asset management program. I think it is broken down into about six or seven categories. We can supply that.

[*Supplementary Information No B12.*]

Hon ALANNA CLOHESY: I refer to pole replacement, on page 19, which states that 665 poles were replaced in 2013–14. What was the total cost of that?

Mr Tudor: We can take that on notice. If I can take that as a cue to put that in context, we have completed a very significant amount of work on pole replacement and reinforcement. We have spent between \$40 million and \$50 million in Esperance. The poles that we have now are compliant with Australian standard 1720. We have seen our unassisted pole failure rate come down from 3.5 three or four years ago to 1.77. We had some poles that were affected through the most recent Cyclone Christine in the Pilbara, but the numbers have come down pretty dramatically and we are pretty pleased about that. The other thing that we are doing going forward to reduce the number of poles that we need to replace is that the current technology for testing poles is not really effectively used except to test whether a pole, when it is still within its useful life, needs to be replaced or not. The way we deal with poles is that if they are 25 years of age, we reinforce them; at 40 years of age, no matter what condition they are in, we replace them. We have been working with EnergySafety to develop different techniques for testing—ultrasonic and radiographic testing—which we have now proved and are using in the field. With the knowledge of EnergySafety, we are now allowing poles to go beyond 40 years of age, because we have confidence using these testing techniques that they can be used to the end of their useful life. You can imagine if you are putting in poles across the state, the conditions are different and they all experience different things during their lifetime, but it does not mean that they all need to be replaced at 40 years of age. We have been working closely with Western Power as well, which has come on board in developing this with us. It will have a significant impact on our business, and also Western Power's business in due course.

Hon ALANNA CLOHESY: Of the 665 poles that were actioned or replaced, were any of those removed because of undergrounding the power?

Mr Tudor: I would have to check the number of 665. Obviously the undergrounding work has continued in the Pilbara. In recent times we have also completed undergrounding work in Chinatown in Broome; we have done three streets there. Work has been done in Laverton and Exmouth as well, where we have been tapping into state undergrounding project funds to do that, in cooperation with Western Power. How they have been calculated in the 665, I need to come back to you on that.

[*Supplementary Information No B13.*]

Hon ALANNA CLOHESY: You were describing the new work in regard to identifying poles that might need replacing. How do you physically do it? Is each pole physically investigated?

Mr Tudor: There is a testing frequency that we have for the poles, which is heavily regulated. The past techniques were really destructive in the sense that we would literally tap the pole with a hammer, and if you felt that the sound was not what it should be, you would then take core plugs from the base of it and you would fill those back in and you would test those. So you are filling them back in to protect the integrity of the pole, but at the same time you are destroying it, so it is not the best of techniques, but it is the only one that people were relying on. That is all we had in the past. These ones are non-destructive techniques, so they are ultrasonic and they are also radiographic. They require algorithms to work, and they do require calibration in the field, and that is why over the past couple of years we have been getting the database to give us the confidence to be able to rely on them when we put them to the algorithms to determine whether the integrity is correct or not.

Hon ALANNA CLOHESY: So a pole is physically sighted by someone who does the zapping —

Mr Tudor: Yes, there is a testing frequency. We have a regional presence, so each of our regional managers looks after their assets and looks after their customers—this is part of what we have done with the strategic review, to push accountability down into the regions—and they will have a testing regime as part of their asset management program for all the wooden poles and steel poles that they have. We also do the same testing for steel poles.

Hon ALANNA CLOHESY: Is it Horizon Power workers who do all of that work, or do you use contractors in that work?

Mr Tudor: For the new testing techniques, I do not know offhand. I know that we have been working with technology providers, and where we have got to with those arrangements, I cannot comment. But certainly historically we have been using internal people to do that.

Hon ALANNA CLOHESY: Can I take on notice what proportion of workers are contracted, and what proportion of workers come from Horizon Power?

Mr Tudor: Sure.

[Supplementary Information No B14.]

Hon ALANNA CLOHESY: Does Horizon Power have any customers who have power poles on their own land?

Mr Tudor: Yes, they do.

Hon ALANNA CLOHESY: Who is responsible for the maintenance of those power poles?

Mr Tovey: Customers are responsible for consumer-owned poles. Where Horizon Power has poles going across someone's property, they are marked Horizon Power, and Horizon Power is responsible for the maintenance and inspection of those poles.

Hon ALANNA CLOHESY: How many poles are on private property?

Mr Tovey: I could not tell you off the top of my head in terms of the quantum of poles.

Mr Tudor: There is probably context there in terms of what we have been doing to notify people of their obligations and working with EnergySafety.

Hon ALANNA CLOHESY: Just before we jump into that, can I get on notice how many power poles, and in what locations generally?

Mr Tovey: Horizon should have a good idea of how many of our poles are on private property, but we do not have visibility of consumer-owned poles on private property.

Hon ALANNA CLOHESY: You do not have a register of consumer-owned poles?

Mr Tovey: No.

Hon ALANNA CLOHESY: Is there a plan to move towards a register?

Mr Tovey: Horizon has been working with EnergySafety, and to a lesser extent Western Power, on this matter because of the number of incidents. Two years ago, following the most recent fire that we saw as a result of a privately owned power pole, Horizon Power was very active in the Esperance region, which is where most of Horizon Power's population of privately owned power poles would reside, given there are a lot of rural properties. So we did work with EnergySafety to distribute leaflets so customers were aware that they may have private power poles on their property and that they are responsible for them. We took a number of inquiries from customers at that time who were a little bit confused about whether they owned them or whether Horizon Power owned those poles, so we did work quite closely with consumers in that regard and ensured that if people did have doubts, they were resolved so that people understood whether they were accountable or we were accountable. We continue to work with EnergySafety to circulate its pamphlets. We also put flyers in our own bills to make sure that there is a raised awareness of privately owned power poles in the community.

Mr Tudor: The other thing, if I may add, is that in the regions, we have an open office that is available for people to go into. So, if they have any of these sorts of inquiries, we are not at the end of a telephone; we are actually at the end of the street.

The CHAIR: On page 22, you refer to the TransAlta power station for the 160 megawatts. How much did TransAlta agree to pay for access to the land and infrastructure owned by Horizon Power?

Mr Tudor: I do not have the numbers.

The CHAIR: I will go through the questions, and for those that you cannot answer, we might do them all at the end as one question on notice. How much is the total amount the government guaranteed to pay TransAlta?

Mr Tudor: Everything that is guaranteed is through the power purchase agreement, so we have not underwritten the project in any way beyond buying power. They are obliged to supply power according to certain standards, and we will pay for that power, and there would be a component of take or pay in that power agreement, which is normal. I would imagine that FMG—we have no visibility of that—would have something very similar.

The CHAIR: If we are talking about us getting 110 out of 160 megawatts, what is the take-or-pay component? How many megawatts have we got on take or pay?

Mr Tudor: If it is not confidential, we can take that on notice.

The CHAIR: Why would it be confidential—a contract has been signed?

Mr Tudor: Yes, but it is a confidential agreement.

The CHAIR: Why? It is public money; it is taxpayers' money. The contract is signed. Why does it need to be private? Why is it not able to be made public?

Mr Tudor: I suspect that Roy Hill will soon be going into the market to procure power, and people will be contesting for that. I suspect others will be going into the market to contest for that. From our point of view, it is fine to have it on the table, but I do not know what the requirements or constraints are on us in that agreement with TransAlta. There is also sensitivity involved with FMG. I am very happy to take the request back to those two and ask whether we can release the information.

The CHAIR: To be honest, I do not know why it is up to them to decide. It is a contract with the state. I am sure your contract will comply with the Financial Management Act, which says it can be made public through a parliamentary process. So I have yet to be given a reasonable explanation.

Mr Tudor: I am very happy to take the question on notice and explore what we can do.

The CHAIR: You still have not given me an explanation as to why you believe it should be kept confidential.

Mr Tudor: Because I think it has an impact on the way the market develops in the Pilbara for other players. I know that if I were TransAlta, I would be seeking, on their side, to have the terms of that contract confidential, because they will be turning around in the next iteration and seeking to supply somebody else. That is extremely valuable information for any one of their competitors. So if we were to make it public, I am sure it would have been an issue for them pre and post. Therefore, all I can do is take the state's request, through you, back to them.

The CHAIR: So I will ask that it be provided to the committee, regardless of whether you are also going to ask for it to be kept private. Over how many years is the contract for? What is the length of time that we are buying electricity for?

Mr Tudor: I think it is 25 years.

The CHAIR: Do you need to take that on notice?

Mr Tudor: We will correct it if it is not 25.

The CHAIR: Is the contract price for the government higher than the price being paid by FMG?

Mr Tudor: We have no visibility of the FMG contract. What I can tell you is that it is the best alternative compared to anything else that we have visibility of. We needed to do our own analysis in terms of what are our alternatives, so it was a much better outcome than building a standalone power station.

The CHAIR: I think you are going to tell us how much is on a take-or-pay basis. You also talked about some of the smaller systems and the provision for PV systems. Is there any provision in the contract for TransAlta, if there is a take-up of PVs within the area that is serviced by it, for you to reduce the amount of electricity you need to buy?

Mr Tudor: I am pretty sure there are no restrictions, but I will double check that.

The CHAIR: Will TransAlta be burning gas contracted by Horizon Power or does it have its own gas contract?

Mr Tudor: Gas contracted by Horizon Power.

The CHAIR: If it is using Horizon Power gas, will that also be using your gas to make the FMG electricity?

Mr Tudor: No. There are provisions in that to ensure that that does not happen

The CHAIR: So you will provide enough gas to produce 110 megawatts and no more?

Mr Tudor: For ourselves only.

The CHAIR: Or whatever you are using.

What level of profit is being returned to taxpayers with respect to that gas? If they are using your gas, what level of profit is being returned to taxpayers?

Mr Tudor: It is reflected in our power purchase terms. They are not charging us for gas, which would have been an additional cost if we had chosen to get them to supply the gas for us. The gas is gas that we have contracted that we are using to simply toll through their machinery.

The CHAIR: I take it from your earlier comments that the contract with FMG is between TransAlta and FMG, and you are not in any way involved in that contract.

Mr Tudor: Correct.

[1.15 pm]

The CHAIR: So you do not know how much FMG has contracted to take?

Mr Tudor: We know the overall size of the power station and we know what our specific requirements for the power station are, so we can back-calculate, but we certainly do not have the detail of what they put into their contracts.

The CHAIR: Do we have any detail at all as a result of them using our land, because it is on your land.

Mr Tudor: We certainly have agreements in place with TransAlta that allow them to access the land. We also have full visibility of the water and utilities that go in to service the land.

The CHAIR: Prior to this project, there was the 110-megawatt short-term generation: what due diligence process was carried out prior to contracting with Forge Group?

Mr Tudor: It was very normal, so subject to probity and subject to financial establishment of their credibility. We went through our normal processes, which are pretty rigorous, and I would say that FMG did exactly the same, as did quite a number of people, including Rio Tinto, who had all contracted with Forge. The Forge eventuality was quite a surprise to a lot of established and credible companies.

The CHAIR: Has Horizon received or does it expect to receive any compensation from the Forge Group as a result of the group going into receivership?

Mr Tudor: What I would say is that that project will still be delivered on budget. We have not in any way compromised security of supply in the Pilbara, so we have managed, effectively, the insolvency of Forge without having to go beyond the budget that was allocated to us in the cabinet process that did not anticipate Forge going into receivership.

The CHAIR: Have there been any additional costs, though —

Mr Tudor: There have been some additional costs that are covered by insurance bonds and guarantees that were included in the design–build–own–operate management agreement that we had. So we have been fully protected by the agreement that we struck with Forge Group.

The CHAIR: So, there are no additional costs that are not covered by those bonds or insurance?

Mr Tudor: Correct.

The CHAIR: What was the value of the contractual bonds?

Mr Tovey: I think it was in the order of about \$8 million.

The CHAIR: Have we called on all of them?

Mr Tovey: Yes.

The CHAIR: The earlier information about TransAlta will be B15.

[Supplementary Information No B15.]

Hon ROBIN CHAPPLE: Can I ask two questions and put them on notice straightaway?

The CHAIR: If you want to put them on notice, you can put them in writing.

Hon ALANNA CLOHESY: You can just submit them.

Hon ROBIN CHAPPLE: How long do we need to do that?

The CHAIR: Can you provide them to the committee by the end of today?

Hon ROBIN CHAPPLE: I just thought I might talk to them.

The CHAIR: It is probably easier, actually, if you just give them to the staff if you are happy to put them on notice.

Hon RICK MAZZA: I have one quick question. If I heard you correctly, earlier you mentioned the use of iCloud by Horizon for the storage of information?

Mr Tudor: No; it is something we are evaluating.

Hon RICK MAZZA: You are evaluating that?

Mr Tudor: Yes. We are fully cognisant of the security issues, and that is obviously part of the evaluation process.

Hon RICK MAZZA: That is all right; I thought you were already using it.

Mr Tudor: No.

The CHAIR: I just had one final question. You introduced yourself as the managing director elect: when do we expect to have the relevant section of the Electricity Corporations Amendment Act 2013 proclaimed if you are still the managing director elect?

Mr Tudor: People are considering my employment status as we speak.

The CHAIR: But has the requirement for you to be resident in the area serviced now been processed?

Mr Tudor: Yes. The legislation has changed, and I know that the contract is working its way through the system at the moment.

The CHAIR: So when you say they are considering your position, that is in terms of renewing your contract as the managing director?

Mr Tudor: Correct.

The CHAIR: But the act has been changed?

Mr Tudor: Yes; it was changed at the end of last year.

The CHAIR: It would be quite ironical if you were not to have it renewed, that you were never anything more than the managing director elect!

Hon PETER KATSAMBANIS: The act has been proclaimed.

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

I just wanted to re-emphasise that in terms of some of the information we have asked for today, even if you are of the view that it is commercial-in-confidence, I would ask that you provide that information to the committee. Indicate the parts that are commercial-in-confidence that you would like to be kept private, and also, wherever possible, provide a redacted version of the document you would be comfortable with the committee making public, if that is okay. Again, on behalf of the committee, I thank you for your attendance today.

Hearing concluded at 1.20 pm
