



# CONSULTATION

## Inquiry into the Funding Arrangements of Horizon Power

### DRAFT REPORT

The Economic Regulation Authority has published a draft report on its inquiry into the funding arrangements of Horizon Power and is calling for public comment. The draft report is available from the Authority's [website](#).

The inquiry, requested by the Treasurer on 17 May 2010, is to establish Horizon Power's efficient level of costs to supply electricity to regional Western Australia. From this information the Authority has calculated the amount of the Tariff Equalisation Contribution (TEC), which is the subsidy paid to Horizon Power to fund the additional costs it faces in supplying electricity. The TEC is funded from network tariffs paid by electricity customers in the more densely populated areas of the State.

In the draft report the Authority has sought to determine the efficient levels of costs which would be incurred by a prudent regional electricity service provider acting efficiently and in accordance with good industry practice. This has required the Authority to determine, for the duration of the five year inquiry period (2009/10 to 2013/14), values for Horizon Power's:

- return of capital (or depreciation);
- rate of return on capital; and
- operating and maintenance costs.

From these elements the Authority has calculated Horizon Power's annual efficient cost to supply electricity to regional Western Australia and also the cost reflective tariffs for Horizon Power's 34 electricity supply networks. The cost reflective tariffs produced in the draft report range from \$0.26 per kWh for Wyndham in the East Kimberley to \$1.43 per kWh for Menzies in the Mid West. The cost reflective tariff for the North West Interconnected System (NWIS) is \$0.28 per kWh and \$0.36 per kWh for Horizon Power as a whole. These compare to an equivalent figure of \$0.19 per kWh for the South West Interconnected System (SWIS).

The Authority's key draft recommendations are that:

- a historic cost valuation of \$264.1 million be used for Horizon Power's capital base at 1 July 2009;
- a compounding efficiency target of one per cent per year be applied to the 2009/10 level of controllable operating costs per connection. This reduces Horizon Power's forecast total operating costs by \$105.8 million over the five year inquiry period, from \$1,646.7 million to \$1,540.9 million;
- Horizon Power's forecast capital expenditure programme be reduced by \$77.4 million over the five year inquiry period, from \$841.6 million to \$764.2 million; and
- a real pre tax benchmark rate of return on capital expenditure of 6.49 per cent be applied to Horizon Power's regulatory asset base.

All of the values above are real as at 30 June 2009.

The draft recommendations result in a potential reduction in TEC values between 2009/10 to 2011/12 of \$103.9 million (nominal) compared to those published in the *Government Gazette*. It is the Authority's preferred position that the TEC be funded through a Community Service Obligation payment directly to Horizon Power, rather than have TEC funding distort cost reflective electricity pricing in the SWIS.

The Authority recommends that another inquiry be undertaken in three years to enable a further review of Horizon Power's actual costs and to set new efficiency targets.

Interested parties are invited to make submissions in printed and electronic form (where possible) on the draft report by **4:00 pm (WST) on Friday, 28 January 2011**.

After considering submissions on the draft report, the Authority will deliver its final report to the Government by 18 March 2011.

Submissions should be marked to the attention of Sara O'Connor, Analyst, and addressed to:

Inquiry into the funding arrangements of Horizon Power  
Economic Regulation Authority  
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Perth Business Centre  
PERTH WA 6849

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## **Confidentiality**

In general, all submissions from interested parties will be treated as being in the public domain and placed on the Authority's website. Where an interested party wishes to make a submission in confidence, it should clearly indicate the parts of the submission for which confidentiality is claimed, and specify in reasonable detail the basis for the claim. Any claim of confidentiality will be considered in accordance with the provisions of section 55 of the *Economic Regulation Authority Act 2003*.

The receipt and publication of a submission on the Authority's website shall not be taken as indicating that the Authority has knowledge, either actual or constructive, of the contents of a particular submission. Furthermore, no duty of confidence will arise for the Authority where the submission, in whole or part, contains information of a confidential nature.

For further information contact:

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**LYNDON ROWE**  
**CHAIRMAN**

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