



Government of **Western Australia**
Pilbara Development Commission



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Inquiry into the Funding Arrangements of Horizon Power
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To Whom It May Concern

SUBMISSION TO THE INQUIRY INTO THE FUNDING ARRANGEMENTS OF HORIZON POWER

The Pilbara Development Commission (PDC) welcomes the opportunity to make a submission on aspects of the draft report entitled "Inquiry into the Funding Arrangements of Horizon Power" (16th December 2010).

OVERVIEW OF THE PDC AND ITS PURPOSE

The PDC is a Western Australian statutory authority established under the Regional Development Commissions Act (1993) and committed to shaping the future of the Pilbara such that:

- It is a vibrant and sustainable place to live, work, visit and invest.
- Investment is leveraged many times over.
- We can attract and retain people.
- There is opportunity, prosperity and benefits for everyone.

The PDC's statutory function is to:

- Maximise job creation and improve career opportunities in the Pilbara.
- Develop and broaden the economic base of the Pilbara.
- Identify infrastructure services to promote business development within the Pilbara.
- Provide information and advice to promote business development within the Pilbara.
- Generally take steps to encourage, promote, facilitate and monitor the economic development in the Region.
- Seek to ensure that the general standard of government services and access to those services in the Pilbara is comparable to that which applies in the metropolitan area.

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INTRODUCTION

The Pilbara is a vast diverse region located in the northwest of Western Australia, often described as the engine room of the nation due to its immense reserves of natural resources and associated industries. Including offshore petroleum, in 2009/10 the Pilbara contributed 76% of the total value of minerals and petroleum in Western Australia. This equates to \$54 billion or 65% of Western Australia merchandise exports for that year from a population of around 50,000 or 2% of Western Australia's population.

The region has a significant Aboriginal population of approximately 16% and a number of regional and remote communities.

COMPETITION POLICY AND REGIONAL WESTERN AUSTRALIA

Similar to the Goldfields-Esperance Development Commission, whilst the Pilbara region is economically significant in State and national terms; it's large, mostly remote, geographic expanse and low population base makes the traditional business case for the provision of infrastructure services difficult to justify. There is also the social equity issue of all West Australians having access to a standard of affordable services irrespective of where they live in the country, as espoused by various governments and recognised within the functions of development commissions.

Hence there is a broad argument that Horizon Power should be supported in its role of providing equitable services in regional areas.

ISSUES RAISED IN THE ERA DRAFT REPORT

The ERA compares the cost reflective tariffs in various areas of Horizon Power service provision with the equivalent figure for the South West Interconnected System. As is predictable the average cost for Horizon Power (\$0.36 per kWh) is much higher than the SWIS (\$0.19 per kWh).

Three recommendations are to reduce Horizon Power's forecast capital expenditure budget by \$77.4m (9.2%) over the five year inquiry period, impose a compounding "efficiency target" of 1% per annum over the next three years and achieve a "pre tax benchmark rate of return on capital expenditure of 6.49%". This will result in reduced cost reflective tariffs, which in turn will reduce the subsidy that government needs to pay to Horizon Power for the shortfall in income; resulting from the fact that it costs Horizon Power more to provide power to its customers than it's able to recover in terms of revenue; given the government's current policy of charging uniform electricity retail tariffs (excluding large commercial users) across the entire state.

If Horizon Power is directed by government to maintain its current service limit but with less financial resources due to anticipated improved operating efficiencies; it is reasonable to assume that under this scenario Horizon Power would be tempted to move to a "centralised" model of operations, as opposed to its current "decentralised" regional model; so as to cut expenditure by having, for example, fewer regionally based employees.

This would be a major blow to regional development due to lost jobs and population; whilst denying communities access to locally based essential services providers. In the Pilbara, particularly coastal communities which are subject to cyclonic events, it is particularly important that there is a strong “on the ground” presence to provide an immediate and knowledgeable local response to emergencies.

The draft report acknowledges the many major challenges that confront Horizon Power in providing reliable power sources to many of its customers; these include remoteness and huge distances that need to be traversed, often over rough terrain, extreme weather conditions, and an ageing asset base. Reducing Horizon Power’s budget will only make meeting these challenges all the more difficult; with adverse consequences flowing onto regional and remote areas. In addition, it should be recognised that Horizon Power has made significant effort to implement a range of sustainable energy approaches, particularly with respect to remote communities. This is an expensive exercise initially but an absolutely essential requirement of providing effective support for our remote communities going into the future.

We believe that the current system of funding Horizon Power’s revenue shortfall, being made up of a combination of both CSOs and TECs (Tariff Equalisation Contribution) has served the State well, and hence this Commission does not support the recommendation that it be changed to be provided solely by means of CSO.

Yours sincerely

A handwritten signature in blue ink that reads "S. Webster".

Stephen Webster
CHIEF EXECUTIVE OFFICER

28 January 2011