



Knowledge Influence Support

CHAMBER OF COMMERCE AND INDUSTRY
WESTERN AUSTRALIA

Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

2 February 2011

To Whom It May Concern

**RE: INQUIRY INTO THE FUNDING ARRANGEMENTS OF HORIZON POWER:
DRAFT REPORT**

CCI thanks the Economic Regulation Authority (ERA) for the opportunity to comment on the above draft report.

CCI is the leading business association in Western Australia and the second largest organisation of its kind in Australia. CCI has a membership of nearly 6,000 organisations in all sectors of the economy. About 80 per cent of members are small businesses, and members are located in all geographical regions of WA.

Issues relating to the funding arrangements of Horizon Power are important to WA businesses and the wider community. Horizon Power plays an important role in supplying electricity to the state's regional areas, many of which are key drivers of the state's economic wealth.

A particularly important matter for CCI, and the broader WA economy, is the method by which the Tariff Equalisation Contribution (TEC) is funded.

The funding of the TEC is important as it accounts for a large portion of Horizon Power's income, while it also impacts upon the broader WA community given that it is currently funded through network charges in the South West Interconnected System (SWIS). This means the TEC affects the cost of electricity for many households and businesses in WA.

The ERA Draft Report indicates that all of Horizon Power's towns and systems currently receive a subsidy (see Figure 1.1 of the Draft Report), with the current gazetted TEC value for 2010 at \$122.1 million, rising to \$175.7 in 2011 and \$181.2m in 2012.

To this extent, CCI strongly supports recommendation 9 of the ERA Draft Report that the TEC be funded by a direct Community Service Obligation (CSO) payment to Horizon Power, rather than the current approach whereby participants in the SWIS cross-subsidise regional power consumers.

Funding the CSO from Government consolidated revenue rather than SWIS network charges represents a more equitable apportioning of the higher cost of supplying electricity to regional areas across all WA taxpayers, rather than SWIS users alone. Moreover, this amendment would decouple the cost of supplying power in the SWIS from the cost of supply in the regions thereby allowing for

fully cost reflective pricing in the SWIS. This is an important step towards full retail contestability in this market.

Following this change if the Government wished to maintain the uniform tariff policy throughout the state, it is important that the determination of the revenue requirement of Horizon Power continue to take into account, as accurately as possible, the efficient costs of servicing regional areas. CCI therefore supports Recommendation 10 of the Draft Report to conduct a second inquiry into the funding arrangements of Horizon Power in three years time to further review Horizon Power's actual costs and to set new efficiency targets.

More broadly, it is also important that the outcomes of this review align with the Government's *Strategic Energy Initiative* (SEI) which aims to set a broader, long term framework for energy policy in WA. In particular, any decision to amend funding arrangements for the TEC (which represents a significant reform to energy policy in the state) should also be reflected in the SEI to eliminate any chance of overlap or conflict with recommendations contained in that parallel project.

Yours sincerely



David Harrison
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