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27 January 2011

Inquiry into the Funding Arrangements of Horizon Power
Economic Regulation Authority
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To Whom It May Concern,

SUBMISSION TO THE INQUIRY INTO THE FUNDING ARRANGEMENTS OF HORIZON POWER

The Goldfields-Esperance Development Commission (GEDC) 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).

Before proceeding to the body of the report, this Commission wishes to address the issue of the limited opportunity for comment i.e. ERA releases draft report on the 16th December 2011 with the deadline of 28th January 2011 for submissions. In addition, with the festive season and the Australia Day Public Holiday falling during the response period, the actual time available to respond is effectively shortened further.

Under section 26 of the Economic Regulation Authority Act 2003, the ERA is required to have regard to, among other matters, "the need to promote transparent decision making processes that involve public consultation".

This Commission would argue that insufficient time has been made available for the public to have meaningful input into this process and to hence contribute to good policy development by government. Given the possible significant implications for regional WA of what the State Government finally decides on the

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funding levels for Horizon Power; it is requested that the deadline for submissions be extended accordingly.

It is noted that the ERA received only four submissions in response to its issues paper published on the 4th June 2010; with Horizon Power being one of those four.

OVERVIEW OF THE GEDC AND ITS PURPOSE

The GEDC is a Western Australian statutory agency committed to encouraging and promoting economic and social activity in the Goldfields-Esperance region of Western Australia. The GEDC is one of nine Regional Development Commissions that were established under the Regional Development Commissions Act (1993).

The GEDC's mission is to increase investment and attract population to the region and its function is to:

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

INTRODUCTION

The Goldfields-Esperance Region is characterised by a number of paradoxes. It is huge. A land area of 770,488 km² makes the region over three times the size of the State of Victoria, and just under a third of Western Australia's total land mass. It is the largest region in Western Australia and yet has a population base of just 58,727 (2009). The Goldfields-Esperance region is located in the South Eastern corner of Western Australia and incorporates nine local government areas – the City of Kalgoorlie-Boulder and the Shires of Coolgardie, Dundas, Esperance, Laverton, Leonora, Menzies, Ngaanyatjaraku and Ravensthorpe. It is bounded geographically by the Sandy and Gibson deserts to the North; the Wheatbelt region to the West; the Great Australian Bight to the South; and the South Australian and Northern Territory borders to the East.

In 2009/10, the Region contributed an estimated \$8.094 billion in terms of gross regional product, ranking third to the South West Region (\$12.408 billion) and the Pilbara Region (\$9.270 billion).

COMPETITION POLICY AND REGIONAL WESTERN AUSTRALIA

In terms of infrastructure provision, including power, the paradox is that whilst the 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.

ISSUES RAISED IN THE ERA DRAFT REPORT

Given the time constraints mentioned above, the GEDC is unable to comment on the assumptions under-laying the economic modelling used by the ERA for this exercise. However, we think that the following points are salient to the ERA's basic approach.

It seems that the ERA approach is to reduce Horizon Power's budget as much as possible and impose an "efficiency dividend" of 1% per annum compounded over the next three years. 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 might have little choice but 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.

If this scenario was to be played out, it would be a major blow to regional development due to lost jobs and population; whilst denying communities access to locally based essential services providers. The importance of access is demonstrated in the article that appeared recently in the "Kalgoorlie Miner" entitled "Business furious about outages" (21 January 2011; p.3) regarding recent power disruptions to businesses in Esperance.

We support the draft recommendation that service level standards for Horizon Power be retained, unchanged from their existing form, for the inquiry period.

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.

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 faithfully



Mr Robert Hicks
Chief Executive Officer