Increase in network tariffs from 2023-24 to 2024-25

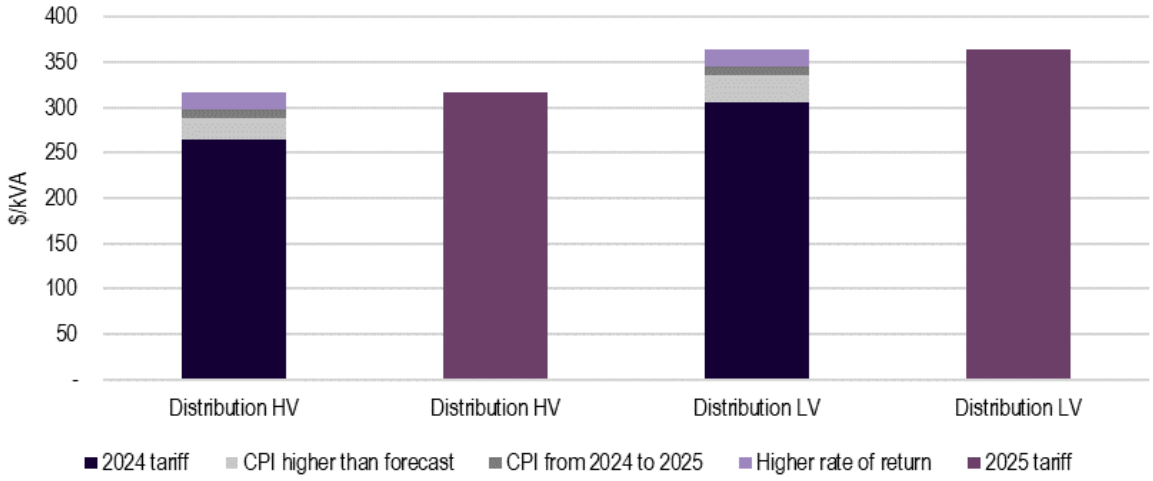
Horizon Power's Pilbara network tariffs customers will increase from 2023-24 to 2024-25 by:

- 19.7% for Distribution HV customers
- 18.8% for Distribution LV customers.

As illustrated in Figure 1, the increases in the Pilbara network tariffs are due to:

- a higher than forecast Consumer Price Index (CPI) in the first pricing period (2021-22 to 2023-24) (around 49% of the increase)
- CPI indexation from 2023-24 to 2024-25 (around 17% of the increase)
- a higher rate of return in the second pricing period (2024-25 to 2026-27) than in the first pricing period (around 34% of the increase).

Figure 1: 3 factors have increased Horizon Power's Pilbara network tariffs from 2023-24 to 2024-25[1]



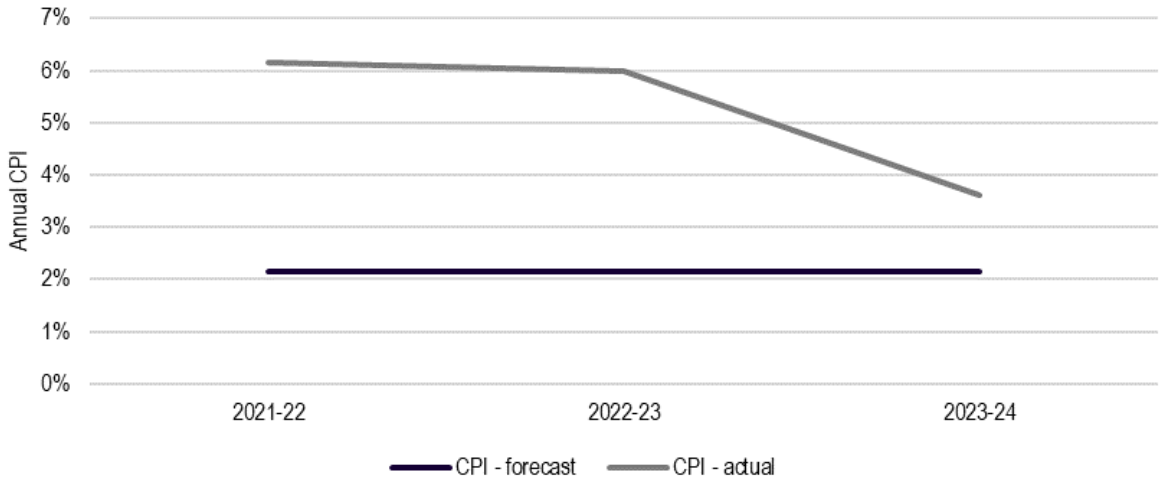
Higher than forecast CPI in the first pricing period

The Pilbara network tariffs for the first pricing period (2021-22 to 2023-24) were based on economic conditions that were forecast in 2020-21. At that time, the Economic Regulation Authority forecast that the CPI would increase by 2.16% per annum following a low inflationary period due to COVID-19.[2]

As illustrated in Figure 2, CPI was much higher during the first pricing period than forecast and Horizon Power's costs have risen more than was forecast in 2020-21. During the first pricing period, Horizon Power's Pilbara network customers have benefited from the forecast low CPI with lower network tariffs than if the actual CPI had been used to set the tariffs.
However, with the commencement of the second pricing period, the network tariffs have increased to align with the actual increase in costs experienced by Horizon Power during the first pricing period.

[1] Tariffs exclude GST
[2] Economic Regulation Authority, *Determination of Pilbara networks rate of return, Final decision*, 24 November 2021, page 37

Figure 2: The actual CPI has been far higher in the first pricing period than forecast in 2020-21



CPI indexation from 2023-24 to 2024-25

The CPI is forecast to increase by 3% from 2023-24 to 2024-25 - this will increase Horizon Power's operating, maintenance and capital costs, but will contribute to decreasing the rate of return that Horizon Power earns on its capital base (as discussed further below). The net impact is an increase in the network tariffs.

Higher rate of return

Horizon Power earns a return on the value of its capital base that is based on the rate of return. The rate of return is influenced by the economic conditions. As illustrated in Figure 3, compared to the first pricing period, the rate of return in the second pricing period is:

- higher due to an increase in the:
    - risk-free interest rate, which increases the return on equity
    - equity beta, which is a measure of the systematic risk that Horizon Power is exposed to relative to the market as a whole[3], and increases the return on equity
    - cost of debt
    - debt raising costs
- lower due to the higher expected inflation.

The higher rate of return results in higher network tariffs.

[3] The equity beta remains less than 1.0, that is, the systematic risk that Horizon Power is exposed to is less than the market as a whole. For further information, please refer to Horizon Power, *Proposal and Invitation for Submissions – Revised Rate of Return for second pricing period*, Document Number 42755487

Figure 3: The rate of return is higher in the second pricing period than during the first pricing period