

Overview of Horizon Power's covered network business in the Pilbara Region

Document Number: 16775517

Date Created/Last Updated	1 July 2021
Review Frequency	At least once every three years
Next Review Date	1 July 2024

This document remains in effect, until replaced or updated, notwithstanding expiration of the review date.

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1. PURPOSE OF THIS DOCUMENT

The purpose of this document is to describe our covered network business in the Pilbara region.

2. OVERVIEW OF HORIZON POWER

Horizon Power is a State Government-owned energy corporation established under the Electricity Corporations Act 2005 (WA), providing electricity across regional and remote Western Australia.

We supply electricity to more than 100,000 households and more than 10,000 businesses in regional towns and remote communities across Western Australia. Our service area is vast, approximately 2.3 million square kilometres. Horizon Power services the largest area with the least number of customers in the world. For every 53.5 square kilometres, we have just one customer.

As shown in Figure 1 below, we operate in the Pilbara, Kimberley, Gascoyne, Mid West and southern region of Western Australia, which includes the Southern Goldfields, Esperance, Hopetoun and Norseman. We have regional depots based in Karratha, Broome, Kununurra, Carnarvon, Esperance and Port Hedland, with administrative support provided from Perth.

We maintain three electricity systems connected in the East Kimberley (Kununurra, Wyndham and Lake Argyle), two rural systems (Esperance and Hopetoun), the North-West Interconnected System between Port Hedland and Karratha and 32 microgrids, or isolated power systems. The systems are exposed to diverse climatic conditions characterised by intense heat and cyclonic conditions in the north and storms in the south.

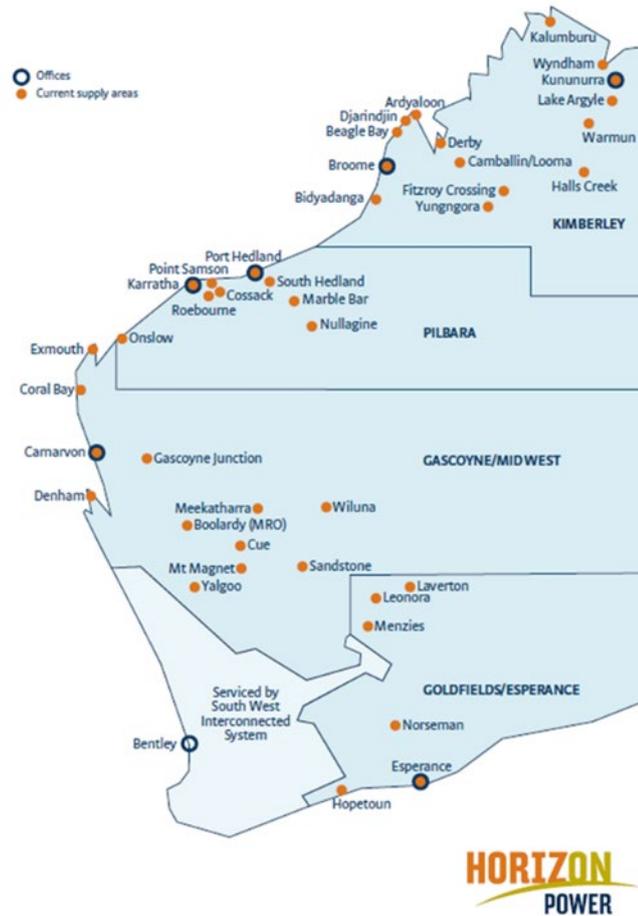


Figure 1 Horizon Power’s service area

Our decentralised delivery model ensures we have a presence on the ground so that we can respond immediately to local issues and tailor our services to customers’ individual requirements. We employ people who live and work in the communities in which we operate and who understand local energy needs.

The way we generate electricity varies between our major interconnected systems and our microgrids, with the energy supplied to most mainstream towns by gas and to smaller communities by diesel. Increasingly, renewable energy sources are also being integrated into our generation portfolio.

3. OUR REGULATED SERVICE AREA

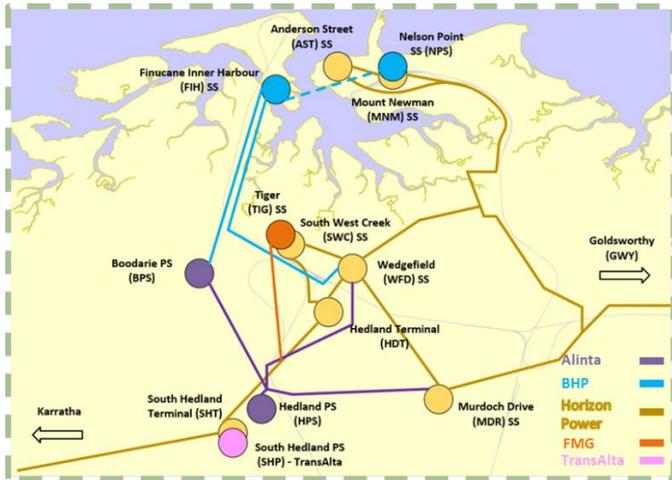
The North West Interconnected System (NWIS) is located in the Pilbara region in the north west of Western Australia. The NWIS supplies the communities from Dampier to Port Hedland and inland to Paraburdoo and Tom Price.

The NWIS comprises the following networks and generation assets, which are electrically connected (see Figure 2 below):

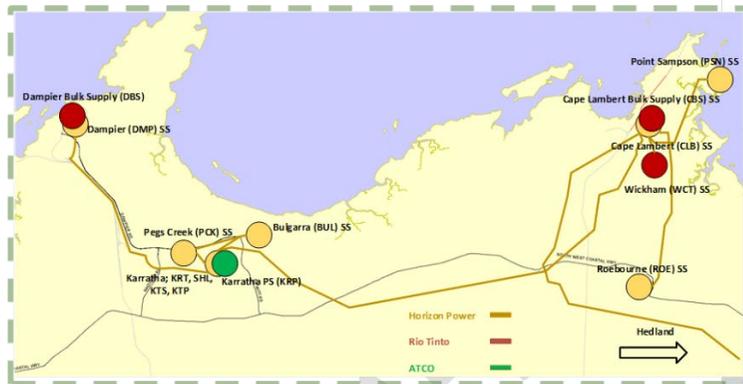
- Horizon Power's coastal network and backup generation
- Alinta's generation and network assets, which interface with Horizon Power's coastal network at the Wedgefield and Murdoch Drive substations
- network assets owned by BHP and FMG
- generation assets owned by ATCO and TransAlta
- Rio Tinto's generation assets and network, which supply electricity from the towns of Dampier to Pannawonica, then to Paraburdoo and across to the Yandicoogina mine in the East Pilbara.

Our coastal network supplies the townships of Karratha, Roebourne, Dampier, Point Samson, and Port Hedland (including Wedgefield and South Hedland). It also supplies major loads in the port area of Port Hedland.

As the generation and network assets in the Pilbara region are owned by a number of different entities, the rules governing the way in which we supply electricity to our customers in that region are different to those that apply elsewhere. Access to some networks within the NWIS, including our network, is subject to a light regulatory regime. The wholesale electricity market supplied by this subset of lightly regulated networks within the NWIS is subject to administered arrangements by the Independent System Operator.



Inset 1 - Magnification of Horizon Power's Network in Port Hedland



Inset 2 - Magnification of Horizon Power's Network in Karratha

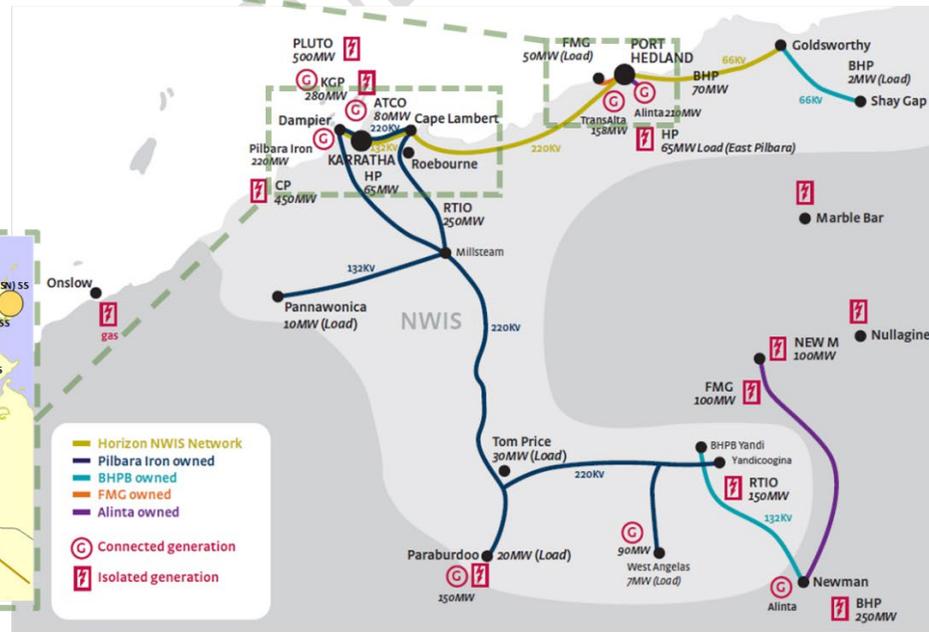


Figure 2 Networks within the North West Interconnected System

4. OUR SERVICES

We are committed to efficiently providing safe and reliable electricity.

In the Pilbara region, we are responsible for the delivery of electricity through our network from the sources of generation to your property. We are responsible for managing and maintaining our electricity network, including the power lines, substations, control centres and meters. Most of the services associated with our role as a network operator in the Pilbara region are covered by the light regulatory regime (“covered services”). In addition, we provide other services in the Pilbara region, which are not subject to that regulatory regime (“un-regulated services”).

The classification of our services is illustrated by the following diagram and explained further below.

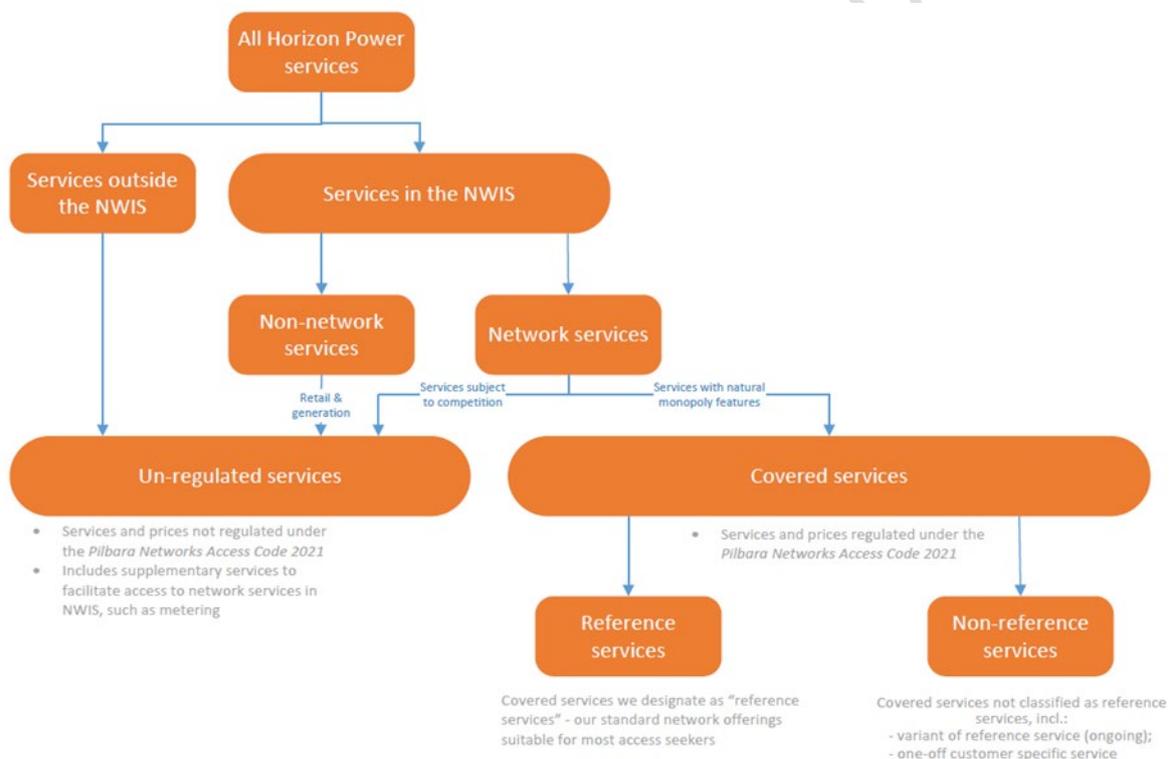


Figure 3 Classification of services provided by Horizon Power

4.1 Covered services

Covered services are those transmission and distribution network services delivered through our coastal network that are required to be provided in accordance with a light regulatory framework.

The covered services we provide using our coastal network are exclusively network services and, with minor exceptions, the network services we provide using our coastal network are covered services.

We provide covered services of two types: reference services and non-reference services. We specify reference services with a standard price and level of service suitable for most of our customers. The rest of our covered services are non-reference services, of which there can be many types. Broadly, our non-reference services are either:

- variants of our reference services where a non-standard level of ongoing service has been negotiated; or
- one-off services provided to specific customers, such as engineering services.

The prices for our reference services are set by reference to a revenue target. That is, Horizon Power is forecast to earn a set amount of revenue from the prices paid by customers for those services.

4.1.1 Reference services

We provide reference services to generators and retailers accessing our network in the Pilbara region. The terms and conditions are set out in the Network Access Contract and the prices, which are set out in a price list, are set by reference to our target revenue.

The types of reference services we provide are:

- entry services (two) for supplying electricity to the network,
- exit services (seven) for taking electricity from the network,
- bidirectional services (five) for supplying electricity to, and taking electricity from, the network,
- interconnection service (one) for supplying electricity to another network,
- auxiliary services (seven) including disconnection, reconnection, de-energisation and re-energisation.

The entry, exit, bidirectional and interconnection services include a supplementary metering service, the terms and conditions for which are un-regulated.

4.1.2 Non-reference services – ongoing services

We may provide entry, exit, bidirectional, interconnection and auxiliary services that are non-standard to generators and retailers accessing our covered network in the Pilbara region. Where this is the case, the terms and conditions, including price, are reasonably negotiated between the parties in good faith.

4.1.3 Non-reference services – one-off services

We provide some non-reference services to customers on request. These services are ancillary to the services provided under our revenue target and are not subject to light regulation.

The commercial terms and conditions (e.g. fees) for these services are generally negotiated between the parties, although some fees are set by the Government. Our business and regulatory objectives require these negotiations to be reasonable and in good faith.

Examples of our one-off non-reference services include:

- high load escorts,
- transmission enquiry and connection applications,
- distribution connection applications, and
- access contract modifications.

4.2 Un-regulated services

As an integrated electricity supply business, we provide other services in the Pilbara not subject to the light regulatory regime, and services to customers outside of the Pilbara region.

This includes generation and retail services to Horizon Power's customers in the Pilbara region. While maximum retail electricity prices for small customers are set by the Government, retail electricity prices for large customers are negotiated within a competitive market environment.

We also provide integrated electricity supply services (retail, network and generation) to customers in other parts of regional Western Australia, excluding the customers supplied by the NWIS. Maximum retail electricity prices for these customers are set by the Government.

We provide un-regulated network services to customers in the Pilbara region. If these services are provided, they are subject to natural competition and so the commercial terms and conditions for these services are not subject to light-handed regulation. The commercial terms and conditions (e.g. fees) for these services are negotiated between the parties. Our business objectives require these negotiations to be reasonable and in good faith.

Un-regulated network services include supplementary services that enable the efficient operation of the covered Pilbara network and facilitate access to services. Supplementary services include metering services. Horizon Power has an obligation to provide these services under the regulatory framework, but the terms and conditions for doing so are not covered by the light regulatory regime.

We have put in place special ringfencing arrangements to ensure that we carry out our regulated network functions in the Pilbara region in a competitively neutral manner, allowing private generators and retailers to compete to supply electricity customers connected to our network.

5. THE WAY WE CHARGE FOR OUR REFERENCE SERVICES

To ensure it remains safe, efficient and reliable, we recover the costs for operating and maintaining our network by charging our customers for network services. Network charges are included in the bill you receive from your electricity retailer. They are not shown separately on the bill.

The prices we charge for reference services are determined in accordance with the light regulatory framework established by the Government. The revenue from network charges is calculated using a "building block" model. The prices are then calculated by dividing the revenue by the estimated demand for electricity.

Every three years, we prepare plans for the forthcoming pricing period, and estimate the revenue we require (referred to as the target revenue) to carry out those plans. The revenue is the sum of the following “building blocks”:

- Return on capital – which is determined by multiplying the value of the capital we invest in the network by an efficient, forward-looking benchmark rate of return.
- Return of capital – which is the depreciation of the capital base to recognise that we need to recover the capital cost over the useful life of each asset.
- Return on and of investment which is forecast to be incurred during the three year period, where that investment is forecast to be efficient and prudent (referred to as new facilities investment).
- Operating expenditure – which is the amount we believe is efficient and prudent to maintain the safety, quality, reliability, security of the transmission and distribution network.

6. FURTHER INFORMATION

For further information, please contact us by email at:

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or by mail at:

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Horizon Power Pilbara Network Business
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Bentley WA 6102

7. REFERENCES

The following material is required and should be read in conjunction with this document:

LEGAL REFERENCES:	<i>Electricity Industry Act 2004</i> <i>Pilbara Networks Access Code 2021</i>
STANDARD & GUIDELINES:	
RELATED POLICIES AND OTHER DOCUMENTS:	Tariff setting methodology

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