

PUBLIC

Review of the Services and Pricing Policy for the second pricing period and proposed changes to other documents

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HORIZON
POWER

TABLE OF CONTENTS

1. Introduction.....	3
2. Services and pricing policy	5
3. Contributions policy.....	8
4. User access guide.....	8
5. Making a submission.....	8
6. Next steps	Error! Bookmark not defined.



1. INTRODUCTION

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.

The North West Interconnected System (NWIS) is located in the Pilbara region in the north west of Western Australia. The NWIS supplies the communities of Dampier to Port Hedland and inland to Paraburdoo and Tom Price. Horizon Power owns and manages a significant portion of the North West Interconnected System (NWIS) in the Pilbara, as illustrated in Figure 2.1.

Horizon Power's coastal network in the Pilbara region supplies the townships of Karratha, Roebourne, Point Samson, and Port Hedland (including Wedgefield and South Hedland). It also supplies major loads in the port area of Port Hedland.

Access to Horizon Power's coastal network is regulated under the Pilbara Network Access Code 2021 (PNAC). With the commencement of coverage on 1 July 2021, and as required by the PNAC, Horizon Power published a:

- system description
- services and pricing policy for the first pricing period (2021-22 to 2023-24)
- network development policy
- user access guide.

Horizon Power is required to review the services and pricing policy before the start of each new pricing period¹ and consult in accordance with the standard consultation procedures as set out in the PNAC.²

With the second pricing period commencing on 1 July 2024, and in accordance with the standard consultation procedures, stakeholders are invited to make submissions on the draft services and pricing policy for the second pricing period. An overview of the review of the services and pricing policy is provided in section 2.

Stakeholders are also invited to make submissions on proposed changes to the following documents for the second pricing period:

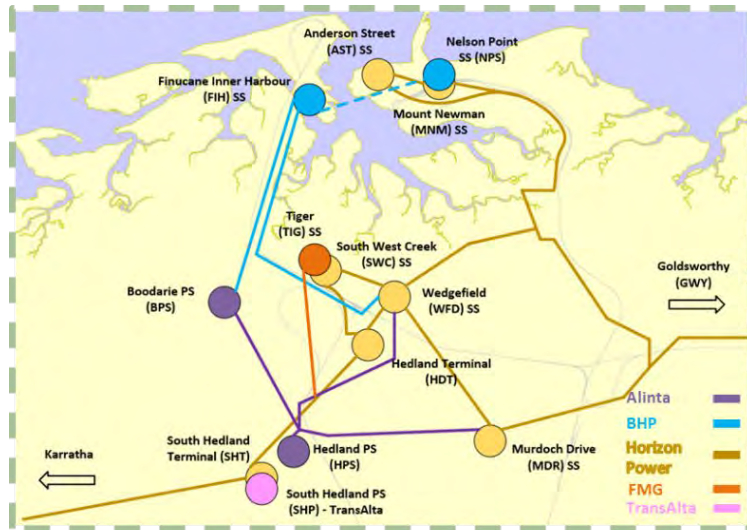
- contributions policy (which is part of the network development policy)
- user access guide.

The proposed changes to these documents are summarised in sections 3 and 4.

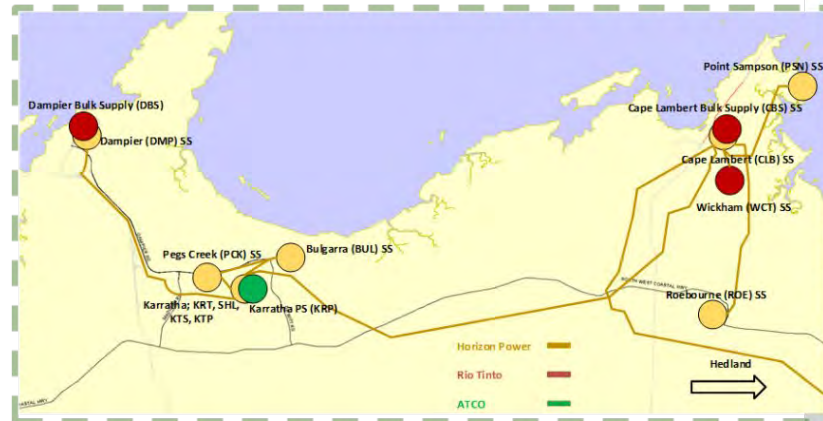
The process for making a submission is described in section 5 and the next steps are set out in section 6.

¹ PNAC, section 40(3).

² PNAC, section 40(4)(b)



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



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

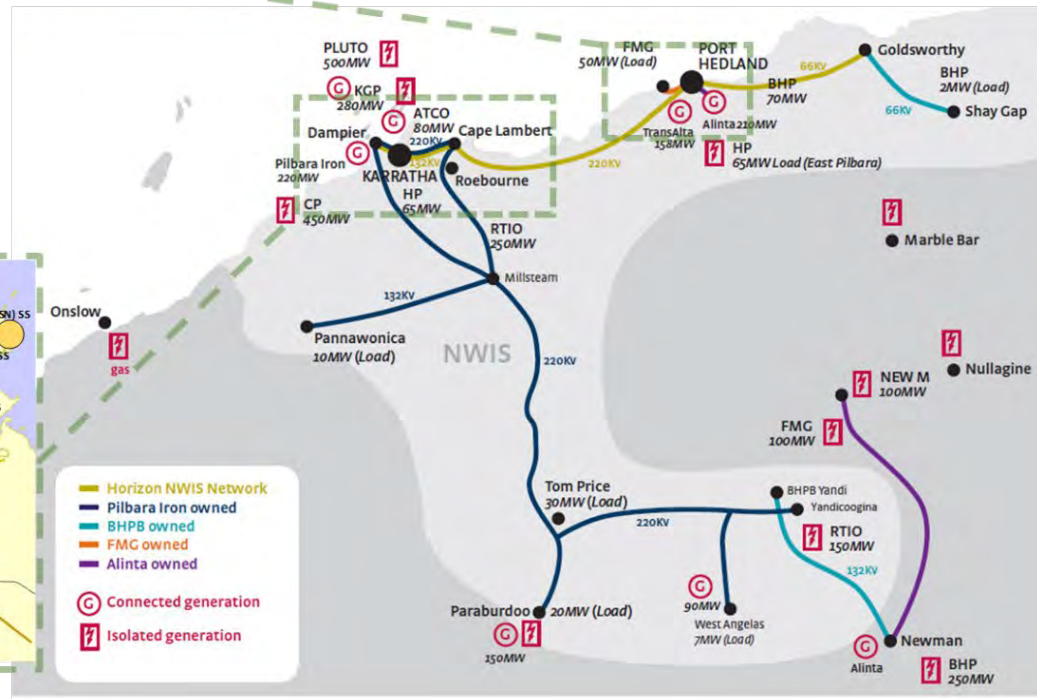


Figure 2.1: Networks within the North West Interconnected System

2. SERVICES AND PRICING POLICY

A services and pricing policy must set out the following information:

- the pricing period
- the reference services offered, and the reference terms and conditions for each reference service
- the target revenue for the pricing period and how it was calculated
- the methodology for adjusting the target revenue during a revenue period
- the tariff setting methodology
- a price list
- circumstances under which price list will be reviewed for each year of the pricing period
- a prudent discount policy.³

As part of the review of the services and pricing policy for the second pricing period, Horizon Power must publish a documented proposal addressing the matters listed above with:

- an explanation and justification of those matters
- a demonstration of how they comply with the PNAC
- a demonstration of how the tariff setting methodology meets the revenue and pricing principles.

Table 2.1 identifies the document in which the explanation or demonstration is provided for each component of the services and pricing policy. These documents are available on Horizon Power’s website.

Table 2.1: Components of the services and pricing policy

Services and pricing policy component	Relevant document
Pricing period	1 July 2024 – 30 June 2027 Services and Pricing Policy, Appendix B: Tariff setting methodology for the second pricing period (2024-25 to 2026-27)
Reference services	Services and Pricing Policy, Appendix A: Reference services
Target revenue for the pricing period	Services and Pricing Policy, Appendix B: Tariff setting methodology for the second pricing period (2024-25 to 2026-27), Chapters 5 to 12 and 14
Methodology for adjusting target revenue during a pricing period	Services and Pricing Policy, Appendix B: Tariff setting methodology for the second pricing period (2024-25 to 2026-27), Chapter 13

³ PNAC, section 40(1).



Services and pricing policy component	Relevant document
Tariff setting methodology	Services and Pricing Policy, Appendix B: Tariff setting methodology for the second pricing period (2024-25 to 2026-27), Chapters 15 to 17
Price list	Services and Pricing Policy, Appendix C: Price List – 2024-25
Circumstances under which price list will be reviewed	The price list will be published on an annual basis. It will be updated based on the tariff setting methodology.
Prudent discount policy	Services and Pricing Policy, Appendix D: Prudent Discount Policy

A brief description of the changes that are proposed to be made to these documents is provided in the following sections.

2.1.1 Pricing period

The length of the second pricing period is proposed to be 3 years, which is the same as the length of the first pricing period. The second pricing period commences when the first pricing period concludes.

2.1.2 Reference services

The changes made to the Reference Services document are to:

- provide clarity on the eligibility for entry services by limiting the electricity that can be transferred from the Horizon Power network at the entry point
- update the document in line with changes to other instruments
- make minor editorial changes.

2.1.3 Target revenue for the pricing period

The target revenue for the second pricing period is forecast to increase from \$80 million in 2023-24 (excluding the Temporary Access Contribution) to \$95 million in 2024-25 and to \$99 million in 2026-27 (all in nominal terms). The increase is due to CPI, higher actual CPI⁴ in the first pricing period than forecast and an increase in the rate of return from 4.06% to 4.85%. Rate of return is determined on the methodology adopted by the Economic Regulation Authority for Pilbara Networks.

⁴ - <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/sep-quarter-2023/640102.xlsx>, All Groups, Weighted Average of Eight Capital Cities

As illustrated in Figure 2.2, after taking into account the actual increase in CPI and the increase in the rate of return, the revenue in the second pricing period is similar to the target revenue in 2021-22.

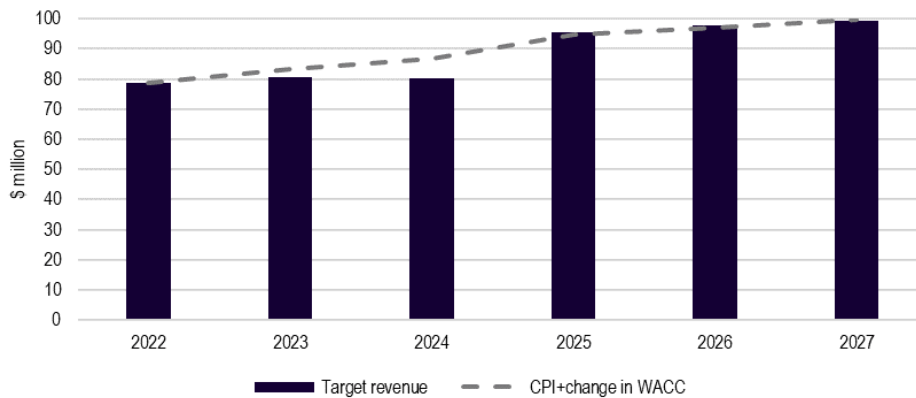


Figure 2.2: Target revenue, 2021-22 to 2026-27

2.1.4 Methodology for adjusting the target revenue during the second pricing period

The methodology proposed for adjusting the target revenue during the second pricing period is the same as the methodology for the first pricing period.

2.1.5 Tariff setting methodology

The structure of the tariff setting methodology for the second pricing period is the same as for the first pricing period. The only changes proposed are to:

- parameters, which have been updated
- include an adjustment to the target revenue at the start of the pricing period to account for the difference between forecast and actual capital-related costs associated with new facilities investment during the first pricing period. There was no adjustment in the first pricing period because the capital-related costs associated with new facilities investment had not previously been forecast.

2.1.6 Price list

The structure of the price list for the second pricing period is the same as that for the first pricing period. The only changes proposed are the values of the tariffs, which have been updated in line with the tariff setting methodology.

2.1.7 Circumstances under which price list will be reviewed

Consistent with the price lists published during the first pricing period, Horizon Power proposes to update the price list on an annual basis, with the values of the tariffs calculated in accordance with the tariff setting methodology.

2.1.8 Prudent discount policy

There are no changes proposed to the prudent discount policy which was published on 1 October 2021.

3. CONTRIBUTIONS POLICY

The changes proposed to the Contributions Policy are to:

- increase the threshold above which an applicant may negotiate periodic payments for contributions (rather than an upfront payment) from \$25,000 to \$10 million
- when determining a rebate to be paid by subsequent applicants, introduce a threshold of \$25 million
 - below which, the contributions are amortised completely in a straight line over 10 years
 - above which, the period over which the contributions are amortised completely in a straight line is negotiated based on the term for repayment of the contribution and the remaining life of the asset
- clarify that the forecast costs of connection works may include a reasonable margin
- make minor editorial changes.

The draft updated Contribution Policy is published in track change mode separately.

4. USER ACCESS GUIDE

The changes proposed to the User Access Guide are to:

- include references to requirements associated with the Independent System Operator (Pilbara ISOCO)
- make minor editorial changes.

The draft updated User Access Guide is published in track change mode separately.

5. MAKING A SUBMISSION AND NEXT STEPS

Please refer to the invitation to submission published separately.