

INQUIRY INTO THE FUNDING ARRANGEMENTS OF HORIZON POWER

FINAL TERMS OF REFERENCE

I, COLIN BARNETT, Treasurer, pursuant to Section 32(1) of the *Economic Regulation Authority Act 2003*, and in accordance with section 129E(1) of the *Electricity Industry Act 2004*, request that the Economic Regulation Authority (the Authority) undertake an inquiry into the funding requirements, and operating and capital expenditure programs of the Regional Power Corporation (Horizon Power).

In doing so, the Authority is expected to consider and develop findings on:

- The cost reflective retail tariffs that would apply in the areas of operation of Horizon Power (HP), for the purpose of determining the efficient expenditure required to supply customers on regulated retail tariffs located in these areas. This will inform the setting of the amount of the Tariff Equalisation Contribution (TEC), which will be determined by Government.
- The cost reflective retail tariffs should be determined for the period 2009-10 to 2013-14.
- A cost reflective tariff should be determined for each of the retail tariffs currently provided by HP, being the A2, K2, L2, L4, M2, N2, W2 and Streetlight tariffs (as detailed in the *Energy Operators (Regional Power Corporation) (Charges) By-laws 2006*).
- The Authority is to determine whether the area that HP operates in should be separated into sub-areas, given the different cost structures of the systems that HP operates, for the purpose of determining cost reflective retail tariffs. If this is the case, the Authority is to:
 - define the sub-areas (minimising the number of sub-areas as much as possible); and
 - determine a different cost reflective retail tariff (for each tariff class) for each sub area.
- The Authority is also to take into account the following costs when determining the retail tariffs, but is not limited to considering only these costs:
 - the efficient generation costs applicable in the area HP operates in or each sub area, if applicable, taking into account the current and committed stock of generation;
 - the efficient network costs applicable in the area HP operates in or each sub area, if applicable, taking into account the current network infrastructure;
 - the efficient level of retail costs that would be applicable in the area that HP services (both operating and capital costs);

- the efficient net retail margin that would apply;
 - the efficient costs related to the national Mandatory Renewable Energy Target (MRET), including the expanded MRET if applicable; and
 - the efficient costs related to the proposed Carbon Pollution Reduction Scheme (CPRS), including the carbon intensity that should be applied in determining CPRS costs that would be incorporated into the cost reflective retail tariffs.
- The Authority is to also consider and incorporate incentives for HP to develop and implement efficiency measures, such as gain sharing mechanisms between customers and HP, in determining cost reflective retail tariffs if the Authority considers this would minimise costs within the area that HP operates in.
 - The efficiency of HP's procurement processes.
 - The efficiency of HP's operating and capital expenditure programs, including opportunities for alternative arrangements for service delivery in remote regions.

The Authority should note the following:

- The TEC refers to the amount payable by the Electricity Networks Corporation (Western Power) to the Tariff Equalisation Account to contribute towards maintaining the financial viability of HP, as set out in part 9A of the *Electricity Industry Act 2004*.
- The Department of Treasury and Finance and the Office of Energy are currently in the process of developing a revised framework for determining the TEC amount, including a post adjustment mechanism to vary the TEC set for 2009-10 to 2011-12.

The Authority will release an Issues Paper as soon as possible after receiving the reference. The paper is to facilitate public consultation on the basis of invitations for written submissions from industry, government and all other stakeholder groups, including the general community.

A Draft Report is also to be made available for public consultation.

The Authority will complete a Final Report on the findings of the inquiry by no later than 18 March 2011.

**COLIN BARNETT MLA
PREMIER; TREASURER**

13 MAY 2010