

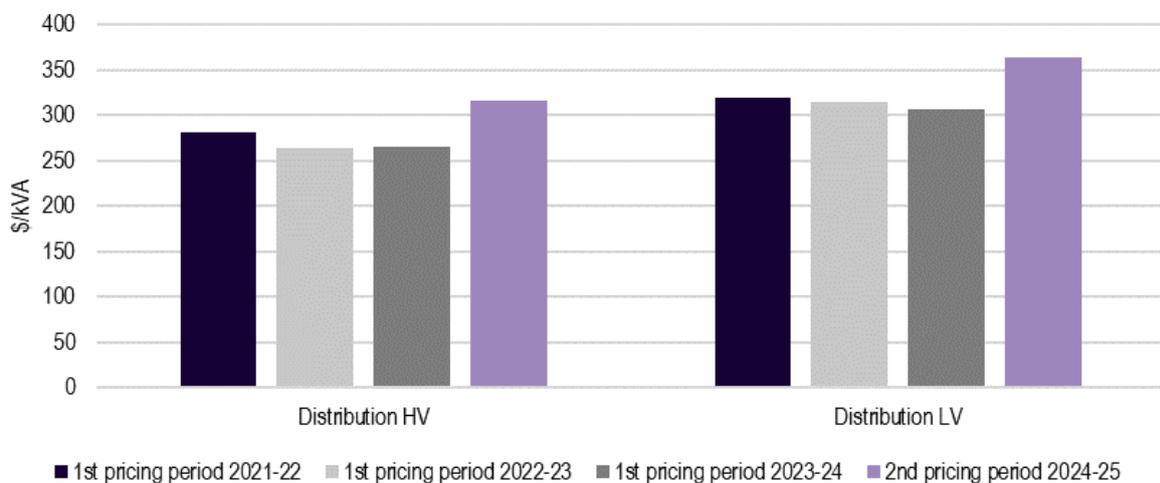
Why did network tariffs decrease in first pricing period

As illustrated in Figure 1, Horizon Power's Pilbara network tariffs will be increasing in the second pricing period following decreases over the first pricing period.

The Pilbara network tariffs decreased over the first pricing period because:

- the maximum demand by Horizon Power's network customers increased over the period, while
- Horizon Power's target revenue remained relatively stable, and
- a low forecast Consumer Price Index (CPI) was used to derive the network tariffs.

Figure 1: Horizon Power's Pilbara network tariffs are increasing in the second pricing period after decreasing in the first pricing period



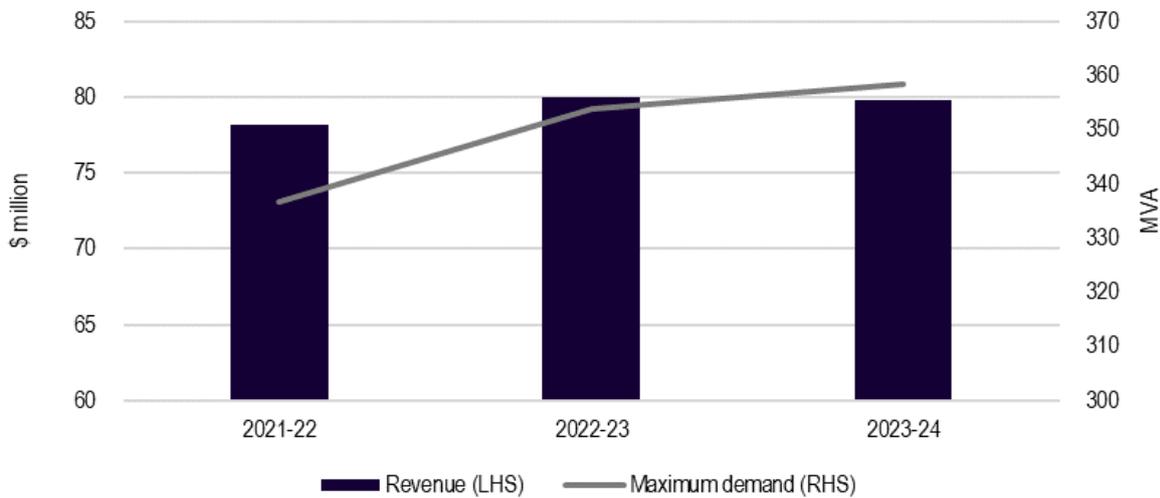
Increase in maximum demand over the first pricing period

As illustrated in Figure 2, the maximum demand by Horizon Power's network customers increased year on year during the first pricing period, particularly from 2021-22 to 2022-23. All else being equal, if the maximum demand¹ increases, the network tariffs will decrease.²

¹ Metered or contract maximum demand. The network tariffs are derived based on the metered or contract demand and the after diversity maximum demand.

² In simple terms, the network tariffs are equal to the revenue divided by the demand.

Figure 2: The maximum demand by Horizon Power's network customers increased over the first pricing period



Horizon Power's target revenue remained relatively stable over the first pricing period

Horizon Power's target revenue that is paid for through network tariffs increased by 2.4% from 2021-22 to 2022-23. This was largely due to higher expenditure associated with the increase in demand. However, the 2.4% increase in target revenue was less than the 5.1% increase in maximum demand, resulting in a decrease in network tariffs.

Horizon Power's target revenue decreased by 0.3% from 2022-23 to 2023-24, resulting in a decrease in network tariffs. The decrease was largely driven by a reduction in the value of corporate assets as they were fully depreciated.

A low forecast CPI was used to derive the network tariffs

The Pilbara network tariffs for the first pricing period (2021-22 to 2023-24) were derived using the CPI that was forecast in 2020-21. At that time, the Economic Regulation Authority forecast that the CPI would be 2.16% per annum following a low inflationary period due to COVID-19.³

As illustrated in Figure 3, CPI was much higher during the first pricing period than was forecast in 2020-21. If the network tariffs during the first pricing period had been derived annually using the most recent forecast of CPI, the network tariffs would have been higher than they were.

³ Economic Regulation Authority, *Determination of Pilbara networks rate of return, Final decision*, 24 November 2021, page 37

Figure 3: The forecast CPI used to derive the network tariffs in the first pricing period was low relative to the actual CPI

