

Confidential

29 May 2024

Reference: J1457

Maurice Ryan
Senior Manager System Operations
Horizon Power

By email: maurice.ryan@horizonpower.com.au

Pilbara ISO – Control Desk audit

Dear Maurice

The Pilbara Independent System Operator (ISO) may direct Horizon Power to obtain an independent audit of the costs that it recovers, or proposes to recover, from the ISO to perform delegated real-time functions by providing a 24/7 control desk.¹ The ISO directed Horizon Power to obtain an independent audit of the costs that it proposes to recover from it in 2024-25.

Horizon Power engaged ACIL Allen to audit the costs that are proposed to be recovered from the ISO in financial year 2024-25 to ensure they are compliant with Rule 125 of the Pilbara Networks Rules. ACIL Allen was engaged to provide assurance to the ISO that the costs recovered by Horizon Power to perform the ISO Control Desk functions under Rule 125:

1. do not exceed the amount that would be incurred by a prudent system operator
2. do not include any allowance for corporate overheads
3. do not include any mark-up, return on investment or other margin
4. consider allocation of costs recoverable under rule 125 and other costs not to be recovered under rule 125, are fair and reasonable.

We undertook the audit by:

- reviewing documentation provided by Horizon Power
- meeting with Horizon Power staff via videoconference to better understand the information provided and clarify any queries that we had
- visiting Horizon Power's offices to meet with staff in the Control Centre to better understand the assumptions that had been made including validating the use of systems used by Horizon Power to provide datasets to estimate the costs such as the System Operations Management System (SOMS), Trouble Call System (TCS), and Power on Advantage SCADA system
- clarifying outstanding issues by email
- undertaking independent research into the costs incurred by other operators.

Please find attached the findings of our audit. In summary, we are of the view that the final budget of \$1,224,000 represents a fair and reasonable allocation of costs by Horizon Power to the ISO delegated function.

¹ Pilbara Networks Rules, Rule 125(5)

Should you have queries in relation to this audit, please contact me by phone on 0409 983 041 or by email at m.lourey@acilallen.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'MLourey', is positioned over a light blue rectangular background.

Marianne Lourey
Director

29 May 2024

Report to Horizon Power

Control Desk Audit

of costs recovered by Horizon Power from
the Pilbara Independent System Operator



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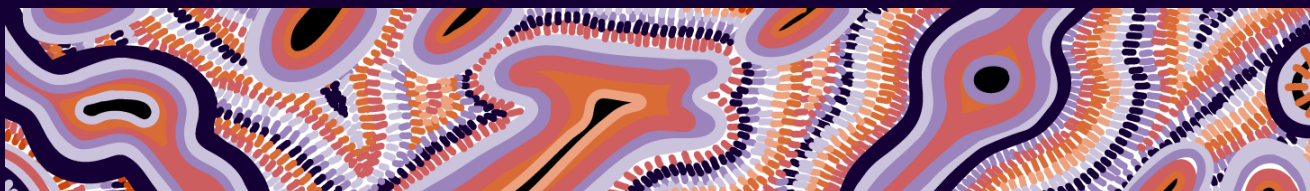
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Goomup, by Jarni McGuire

Executive summary

With the commencement of coverage of the Pilbara electricity networks in July 2021, the Pilbara Independent System Operator (ISO) was established by the Western Australian Government as the independent system operator for the North-West Interconnected System (NWIS).

Horizon Power System Operations operates a control room on a 24/7 basis to monitor and control parts of the NWIS and the other power systems for which it is responsible. As the ISO does not have a 24/7 control centre, it has delegated its real-time functions to Horizon Power (as the ISO Control Desk), which Horizon Power performs using its control room (the Horizon Power Control Centre or HPCC).

The Pilbara Networks Rules (the Rules) allow Horizon Power to recover its costs for performing ISO Control Desk functions from the ISO.² The costs recovered by Horizon Power must not:

- exceed the amount that would be incurred by a prudent system operator performing those functions, acting efficiently, in accordance with good electricity industry practice, to achieve the lowest sustainable cost of performing the functions having regard to the Pilbara Electricity Objective³
- include any allowance for corporate overheads
- include any mark-up, return on investment or other margin.⁴

Additionally, Horizon Power's costs must be allocated on a fair and reasonable basis between:

- costs that are recoverable under the Rules
- other costs that are not recoverable under the Rules.⁵

Proposed costs for 2024-25

On 15 March 2024, Horizon Power informed ISO of the proposed budget to perform the delegated functions in financial year 2024-25.

The ISO may direct Horizon Power to obtain an independent audit of the costs that it recovers, or proposes to recover, from the ISO.⁶ The ISO has directed Horizon Power to obtain an independent audit of the costs that it proposes to recover from it in 2024-25. Horizon Power engaged ACIL Allen

² Rule 125

³ The Pilbara Electricity Objective is to promote efficient investment in, and efficient operation and use of, services of Pilbara networks for the long-term interests of consumers in the Pilbara region in relation to—

(a) price, quality, safety, reliability and security of supply of electricity; and
(b) the reliability, safety and security of any interconnected Pilbara system.

⁴ Rule 125(2)

⁵ Rule 125(3)

⁶ Rule 125(5)

to audit the costs that are proposed to be recovered from the ISO in 2024-25 to ensure that they are compliant with the Rules.

Findings of the audit

Costs incurred by a prudent system operator

Based on the:

- costs incurred by the Northern Territory Electricity System and Market Operator (NTESMO) to provide system control functions in the NT
- costs incurred by the Australian Energy Market Operator (AEMO) to provide system control functions in the National Electricity Market
- costs we assumed based on AEMO's 2018 cost estimates to perform the ISO delegated functions,

we are of the view that Horizon Power's proposed budget does not exceed the amount that would be incurred by a prudent service provider.

Allowance for corporate overheads

There is no explicit allowance for corporate overheads in Horizon Power's proposed budget, and the labour costs and direct costs do not include any allowance for corporate overheads.

An allowance for corporate overheads is included with expenditure when it is capitalised. The depreciation costs in Horizon Power's proposed budget therefore included a small allowance for corporate overheads, but this was not material.

Inclusion of a mark-up, return on investment or other margin

Our review of Horizon Power's proposed budget for performing the delegated functions for ISO did not identify the inclusion of any mark-up, return on investment or other margin.

Fair and reasonable allocation of costs

At a high level, Horizon Power's proposed budget includes:

- labour costs associated with providing a 24/7 control desk with one operator
- less the labour costs associated with providing non-ISO services during the night shift (referred to as "offset" activities)
- an allocation of shared costs, including costs associated with the SCADA system and the control room
- other direct costs incurred.

Our review of the costs that were allocated by Horizon Power in its proposed budget to perform the ISO delegated functions indicated that the:

- calculation of the hourly rates used to estimate costs did not take into account annual leave and public holidays, resulting in lower hourly rates, which underestimated the total estimated costs
- estimated times to undertake the "offset" activities were generally conservative (that is, over-estimated), which underestimated the total estimated costs
- number of "offset" activities appeared to be over-estimated, which underestimated the total estimated costs
- depreciation costs included corporate overheads.

On the basis of our analysis, we were of the view that the costs allocated by Horizon Power to the ISO delegated function in its proposed budget were fair and reasonable.

We note that Horizon Power will continue to improve its processes and systems which will improve the cost estimates over time.

Horizon Power's final cost estimate

When the draft findings of our review were communicated to Horizon Power, it updated its estimated costs for performing the ISO delegated functions by:

- removing the corporate overheads from the depreciation costs
- updating the estimated number of "offset" activities by correcting an error
- updating the hourly labour rate.

We are of the view that the final budget of \$1,224,000 represents a fair and reasonable allocation of costs by Horizon Power to the ISO delegated function.

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