



Statement of Corporate Intent

2016/17

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1. Purpose of the Document

This Statement of Corporate Intent (SCI) is prepared in accordance with part 5 of the *Electricity Corporations Act 2005* (the Act).

The document reflects the business intentions of Regional Power Corporation, trading as Horizon Power, for the 2016/17 financial year.

Consistent with the requirements of section 99 of the Act, this SCI outlines the objectives, functions, main undertakings and performance targets for the year, the community service obligations required of the business, the dividend and accounting policies to apply and the information to be provided to the Minister for Energy.

The SCI is consistent with the Corporation's Strategic Development Plan (SDP) 2016/17 – 2020/21. The SDP sets out Horizon Power's economic and financial objectives and operational targets over the medium term, and the commercial strategies and initiatives it will pursue.

2. Executive Summary

Horizon Power is a commercially focused State Government-owned energy utility that generates, procures, distributes and sells energy and other ancillary services to residents and businesses in remote and regional Western Australia.

Horizon Power is on track to achieving its Strategic Review target to deliver savings of \$87.3 million per annum by 2016/17 and is well placed to deliver on its objective of implementing initiatives that reduce subsidy by \$100 million per annum by 2017/18. Horizon Power's Strategic Review has served as a platform for Horizon Power to maintain its core business and continue to deliver safe, reliable and affordable services. However, Horizon Power recognises that efficiency alone is not sufficient to ensure long-term sustainability in this rapidly changing market and it must now build its emerging business and create viable options to position itself for the future to remain relevant to its customers.

Horizon Power is challenged by a vast service area with the least number of customers per square kilometre in the world – a service area of approximately 2.3 million square kilometres and an average of one customer for every 53.5 square kilometres of terrain. These customers range from people living in remote, isolated communities with less than 100 people, to residents and small businesses in busy regional towns and major businesses throughout the State. Our interconnected and isolated systems are exposed to intense heat and cyclonic conditions in the north, and severe storms in the south. The isolation adds significant cost to the business which is not being returned through tariffs.

The electricity industry is undergoing unprecedented levels of change placing the traditional utility business model at risk of rapid disruption. Horizon Power will seek to embrace this disruption through initiatives that will transform the traditional energy supply model. Through its system blueprints and economic modelling program, Horizon Power is identifying the optimal way to deliver energy to its customers in terms of safety, reliability, cost and sustainability. Horizon Power is also examining the potential financial benefits associated with high penetration distributed energy resources that may exist across Horizon Power's value chain. In addition Horizon Power is working with the Government to explore pricing reform to deliver pricing and subsidy options that shape consumption behaviour by providing customers with pricing signals that better reflect cost of supply along with options to control and manage their demand. This initiative will also have the effect of reducing subsidies and benefiting State finances.

Horizon Power has ensured sufficient capacity for the Pilbara in the long term without impacting on net state debt through the Pilbara Power Transalta generation solution and is ensuring its North West Interconnected System (NWIS) business is positioned to drive the most economically beneficial outcomes for Government and its customers through a program of reform. Horizon Power continues to address safety and reliability concerns by delivering underground power for the cyclone prone areas of our network such as the Pilbara, and secure power supply for Onslow as well as deliver improved customer service and lower cost to serve through the installation of new advanced meters for all customers which will enable meters to be read automatically and ensure accuracy of all bills.

The changes in the electricity industry driven by cost sensitivity, market reforms and technology change will impact political, economic, social and technological spheres. Horizon Power has implemented significant internal structural and strategic reform over the last 4-5 years, which means it is well placed to deal with:

- escalating costs of supply resulting in an increasing operational subsidy beyond levels considered sustainable;
- negotiation of a commercially viable gas supply to service growing forecast demand;
- discrete reliability, safety and capacity requirements across Horizon Power's service area;
- the increasing viability of disruptive technologies, such as distributed energy resources and off-grid supplies;
- increasing competition in the NWIS, general market contestability and Government led market reforms; and
- softening of demand driven by broader economic conditions.

Under the circumstances, Horizon Power will continue to perform and position itself to be low cost and sustainable. It is committed to maximising shareholder value by reducing its dependency on operating subsidies, while not detrimentally impacting the State's financial measures, namely Net State Debt and Net Operating Balance.

Ian Mickel
Chairman

Frank Tudor
Managing Director

30 April 2016

3. Current State

Horizon Power is responsible for generating, procuring, distributing and retailing electricity supplies to more than 100,000 residents and 10,000 businesses in Western Australia outside the South West Interconnected System (SWIS) across approximately 2.3 million square kilometres. Horizon Power has one customer for every 53.5 square kilometres in its service area, less than 10 per cent of the number of customers in the SWIS spread over an area 10 times greater than the SWIS.

Horizon Power has two regional divisions, one that manages the North West Interconnected System (NWIS) and one that manages the Non Interconnected System (NIS) together with a regional support centre based in Bentley. The NWIS accounts for 53 per cent of Horizon Power's total sent-out energy sales and covers the resource rich towns of Port Hedland, South Hedland, Point Samson, Roebourne and Karratha. Within the NIS there are three regional centres of Kimberley, Gascoyne/Mid West and Esperance. These regional centres cover the towns of Kununurra, Broome, Carnarvon and Esperance as well as a number of small isolated systems.

Horizon Power recognises that the NWIS and NIS, whilst having common drivers such as safe, reliable power, have significantly different economic drivers, particularly in terms of market evolution. As such, Horizon Power manages the two regional divisions as distinct markets with their own risks and opportunities. Where relevant across its systems, Horizon Power is working collaboratively with Western Power and Synergy to take advantage of scale.

In the NWIS Horizon Power is facilitating the move towards an integrated and coordinated energy market and putting the frameworks in place to enable contestability in segments of the market. Market contestability in the NWIS will put Horizon Power's market share and profitability at risk. Whilst the extent of revenue loss is dependent on timing, market growth, response and the aggressiveness of competitors, conservative estimates forecast significant annual revenue shortfalls.

In the NIS Horizon Power is exploring the introduction of new technology, such as a high penetration of embedded

photo-voltaic systems and battery storage to accelerate the transition to a Distributed Energy Resource business future (potentially supported by stand-alone power systems and gridless communities in some areas).

There are a number of challenging external factors facing Horizon Power over the SCI period, including a slowdown in economic activity leading to decreased demand, disruptive technologies such as the uptake of renewables and cost reductions in batteries, escalating costs of supply and cost to serve, market contestability and competition, and discrete reliability, safety and capacity requirements. These external factors directly influence Horizon Power's operational subsidy and recurrent funding requirements.

Through its Strategic Review, Horizon Power continues to reduce its dependency on operating subsidies whilst not detrimentally impacting on the State's Net Debt and Net Operating Balance. The Strategic Review, which challenges the way Horizon Power operates across the whole business, ensures it is best placed to embrace the changing market and will continue to be implemented through to 2017/18.



4. Objectives

Horizon Power will continue to be focused on maximising long-term value whilst in the short-term continuing to improve efficiencies, manage external challenges and embrace opportunities. In the longterm, Horizon Power will transition with the changing environment to deliver the most economic way of delivering energy to and remain relevant for its customers.

Horizon Power is committed to being a forward-looking business that is focused on total value and sustainability in the long-term. It will achieve this through targeted investment in technologies and systems that enable the business to adapt and evolve in a changing economic environment and to customer needs.

Horizon Power will drive down the cost of generation and explore alternatives to conventional electricity systems. This will be achieved through streams of work focused on

reforming revenue, embracing disruption, reducing operating costs, driving embedded renewable systems, developing intelligent system and network control and empowering consumer choice by providing appropriate economic signals. Delivery of these streams of work are anticipated to reduce the long run cost to supply, which is central to Horizon Power's strategy to reduce the subsidy it receives.

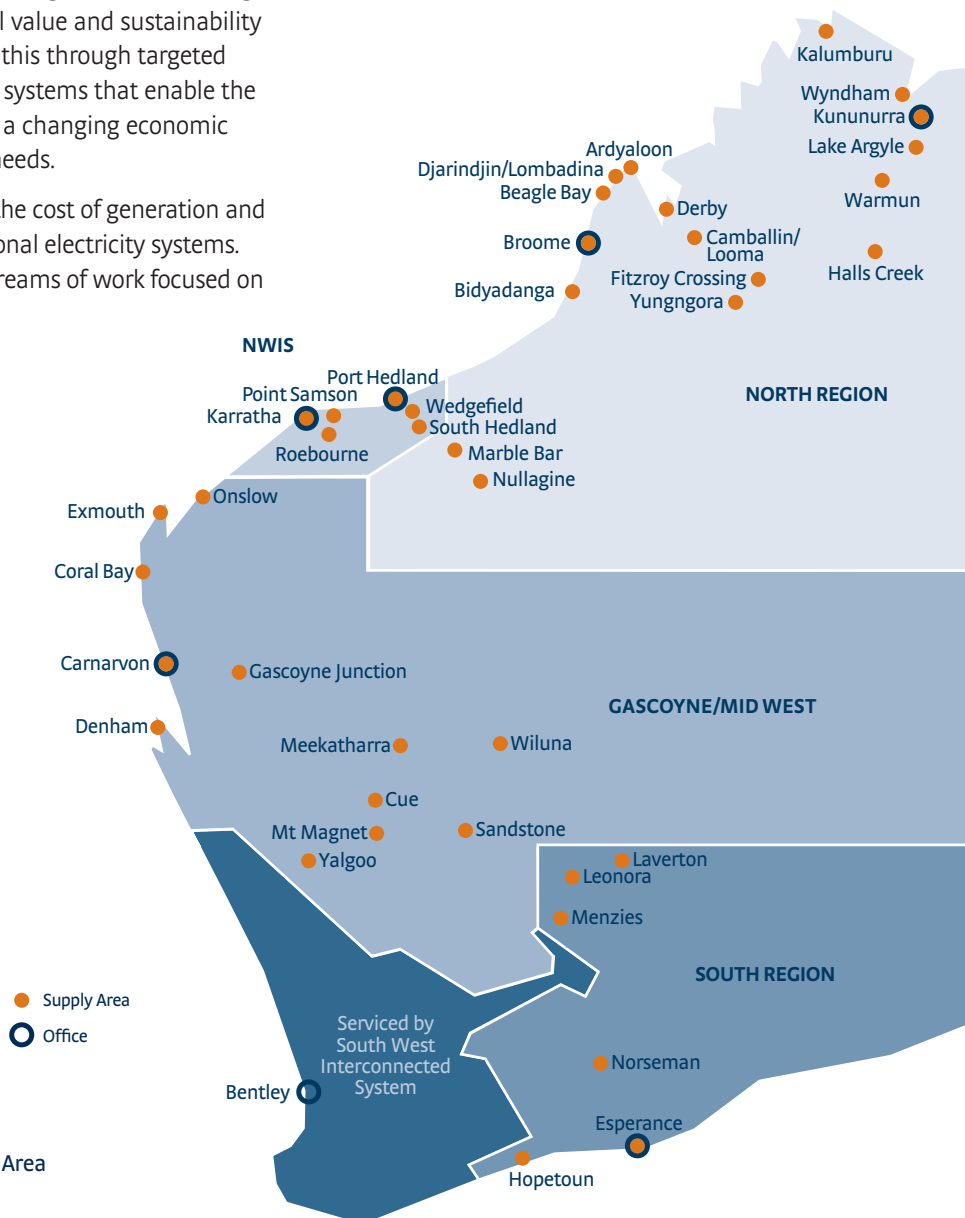


Figure 1 - Horizon Power's Service Area

Horizon Power’s primary key performance indicator is to pursue initiatives that will reduce operating subsidy by \$100 million by 2017/18. Horizon Power will achieve this by completing the remaining initiatives started under its Strategic Review of 2013 and is well placed to meet its 2016/17 target to deliver savings of \$873 million per annum.

Horizon Power is differentiated by being a vertically integrated supplier responsible for generating, procuring, distributing and retailing electricity supplies and services and by the fact that it has offices and staff located in the regional communities it serves. In order to achieve

Our Vision to be ‘Your Local Energy Partner, Low Cost and Sustainable’ for its customers and stakeholders, Horizon Power’s role is to support, develop, and deliver value to its customers and stakeholders. Being low cost is about performing; being efficient and building credibility in what we do. Being sustainable is about positioning our business to adapt for the future.

Horizon Power’s Vision is underpinned by three Focus Areas, as illustrated below and consistent with Appendix A.

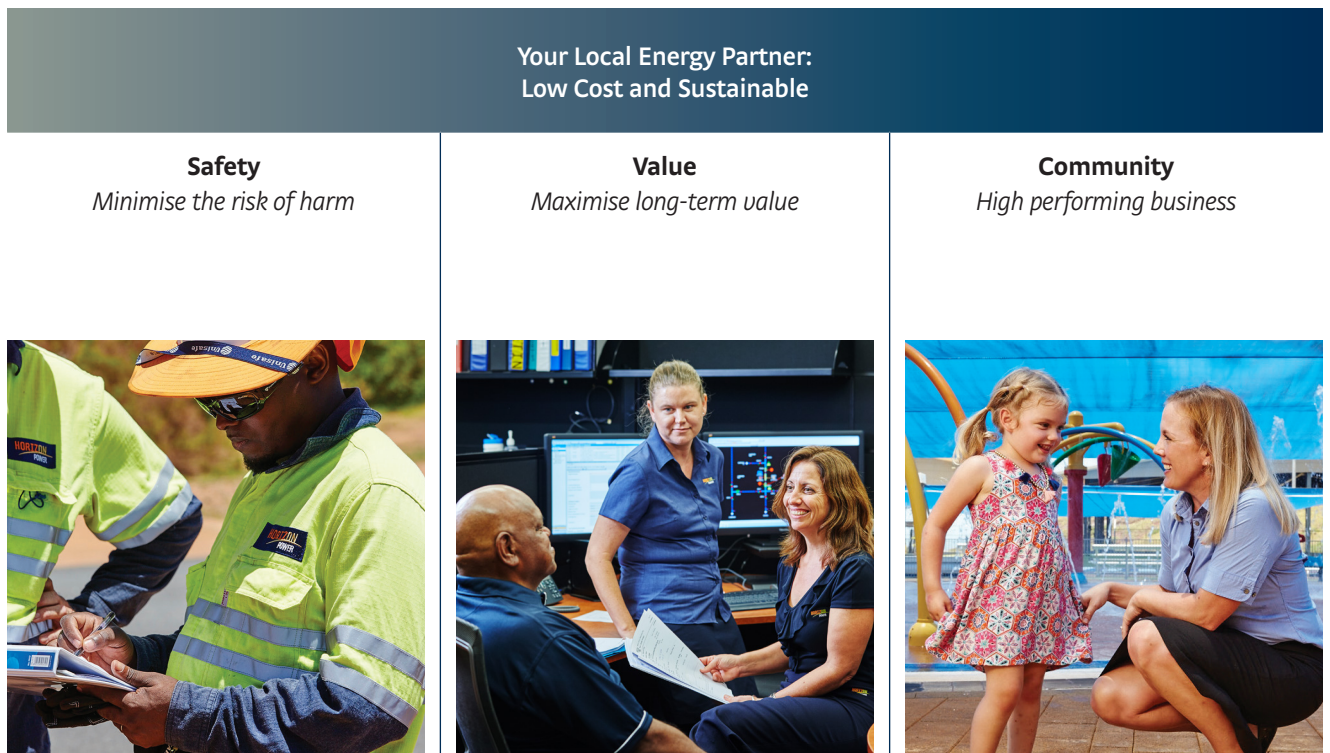


Figure 2 - Horizon Power Vision and Objectives 2016/17.

For SCI purposes, Horizon Power has selected a high-level set of critical business outcomes and key performance indicators (KPIs) to measure its success in delivering its Vision. These are set out in Appendix B.

5. Initiatives (Inc. Capital And Asset Management)

5.1 Approved Asset Investment Program

Horizon Power's State Government-approved asset investment program for the SDP period is forecast at \$346 million as shown in the table below.

Government Approved Major Projects	2016/17 (\$000)	2017/18 (\$000)	2018/19 (\$000)	2019/20 (\$000)
6.1.1 Asset Management Plan				
- Asset Replacement	11,999	14,043	14,542	14,851
- Capacity	3,679	2,820	2,920	2,982
- Regulatory Compliance	286	320	331	338
- Reliability	2,680	1,624	1,681	1,717
- Safety	6,696	5,639	5,839	5,963
- Other*	9,431	11,602	12,877	13,149
6.1.2 Onslow Power Station Network Connection	0	6,400	0	0
6.1.3 Onslow Power Infrastructure Project	36,757	46,369	18,452	2,806
6.1.4 Murchison Radio Observatory Power Station	0	0	0	0
6.1.5 Advanced Metering Infrastructure	8,152	198	0	0
6.1.6 Midwest and Norseman Network Augmentation	300	0	0	0
6.1.7 Pilbara Power Project	15,261	166	46	0
6.1.8 Pilbara Underground Power Project	29,523	21,523	0	0
Other Customer Driven Works	3,069	3,146	3,225	3,470
TOTAL	127,833	113,850	59,913	45,276

*Knowledge and technology Investment, Mobile Plant & Operational Fleet and Property Management

Table 1 - Government Approved Major Projects (2020/21 is beyond the forward estimate period)

5.1.1 Asset Management Plan (AMP)

Horizon Power's Asset Management Plan (AMP) ensures the safe and reliable supply of electricity and contributes towards ensuring regulatory compliance and capacity of all of Horizon Power's systems to support the development and enhancement of communities throughout regional Western Australia.

The AMP utilises Horizon Power's Risk Management Framework; which has been enhanced during the previous year to maximise Risk Adjusted Value; to manage expenditure by balancing the cost of mitigating risk with the value gained in the reduction of the risk (Risk Adjusted Value). By reducing risk to as low as is reasonably practicable

Horizon Power is able to significantly reduce expenditure without impacting safety and reliability.

By prioritising investments based on Risk Adjusted Value, Horizon Power is able to maintain or improve Horizon Power's aggregate risk position with a significantly reduced recurrent capital spend, when compared to previous AMP forecasts.

5.1.2 Onslow Power Station Network Connection

The Onslow Power Project includes the Onslow Power Station Network Connection Project and the Onslow Power Infrastructure Project. Approved funding relates to the temporary generation and the network connection projects.

Demand in Onslow is forecast to increase from 3MW in 2015, to approximately 5MW in 2019. Forecasts have been reduced to take account of a slower build up and decisions pertaining to the location of the Chevron operations village. The overall increase from historical growth levels in energy demand is a result of the town rapidly expanding to service construction and operational activities of nearby gas processing facilities, in particular Chevron's Wheatstone plant.

Horizon Power is working to ensure both short-term and long-term energy solutions are delivered for the Onslow community. Delays in securing land tenure and a request from Cabinet to defer the desalination plant component of Chevron's Ashburton North State Development Agreement (SDA) infrastructure obligations has had a significant impact on the delivery schedule of the new power infrastructure works for Onslow.

With consideration to the delay and the fact that Onslow's demand and energy forecast has reduced significantly from previous forecasts, Horizon Power is working with the Department of State Development (DSD) on an alternative proposal to Chevron whereby Horizon Power design and deliver a contemporary power solution for Onslow and Chevron fund a capped contribution to the State for the works. This has been approved by Cabinet.

Onslow Power Station Network Connection

The Onslow power station network connection will facilitate connection of the existing distribution network to the new power infrastructure being installed as a part of the Chevron funded works. These combined works will be delivered with an integrated schedule and will support the growing population of Onslow.

5.1.3 Onslow Power Project – Infrastructure Project

Onslow Power Infrastructure Project (Onslow DER Project)

Under the Onslow Ashburton North (Wheatstone Project) State Development Agreement (SDA), Chevron is required to build a 9MW firm capacity power station and associated infrastructure that is expandable to service the town of

Onslow. Horizon Power will be gifted this infrastructure to own and operate.

Due to delays in securing land for the new power station, a reduced demand and energy forecast, Horizon Power's System Blueprint economic modelling work and a Cabinet decision to request deferral of the construction of the proposed desalination plant in Onslow (another obligation on Chevron under the SDA); an opportunity emerged for Horizon Power to propose an alternative supply model for Onslow which evolved into an alternative funding arrangement between the State and Chevron.

Following Horizon Power's engagement on this option, the Minister for State Development and the Minister for Energy gained Cabinet approval on 21 March 2016 to vary the SDA; whereby Horizon Power replace Chevron as the proponent for delivering the required Onslow power infrastructure upgrades and Chevron fund Horizon Power a capped amount for being released from its delivery obligation.

The works Horizon Power will be required to deliver includes two stages. Stage one is conventional backbone infrastructure and includes a 5.25 MW firm capacity modular power station, transmission line, zone substation and distribution network extensions (note: distribution network extensions to be funded separately by the State). Stage two includes deploying an optimised Distributed Energy Resources (DER) solution and delivery of a solar farm. The focus on DER in these works has driven a revision of the project name to Onslow DER.

5.1.4 Murchison Radio Observatory Power Station (MRO)

In order to demonstrate Australia's capability to deliver the Square Kilometre Array (SKA) project, CSIRO determined that a pilot facility was required. This pilot facility is the Australian Square Kilometre Array Pathfinder (ASKAP) Project. Horizon Power was selected to deliver the power station for this pilot facility.

The power station will be built at the Murchison Radioastronomy Observatory (MRO) at Boolardy Station, approximately 400 kilometres north east of Geraldton.

The original tender submissions in January 2013 for the power station works which required that the market develop innovative solutions to deal with radio quietness were in excess of budget and so the tender process was terminated. Since that time, CSIRO and Horizon Power have held a number of workshops to identify possible power supply options.

CSIRO's preferred power supply option is a conventional diesel hybrid power station on the southern boundary of the existing MRO site, connecting to the MRO distribution network by a screened underground cable and facilitating connection of renewable and other future power sources onto their installed network.

The MRO power station has the ability to supply some or all of the SKA's power requirements, subject to the SKA's final requirements. Due to the revised project scope, Horizon Power entered into a revised funding agreement with the Department of Regional Development in 2015.

Horizon Power reached commercial agreement with CSIRO in September 2015. A Section 68 and Cabinet Submission seeking approval to enter into a Power Purchase Agreement with CSIRO was approved by Cabinet on 16 November 2015.

On receiving Cabinet and Ministerial approval Horizon Power executed the necessary construction and operational agreements to begin construction of the power station (noting that execution of the State funded solar farm contract is planned for Q1 2016).

As per the defined agreements with CSIRO, the power station start-up is scheduled for eight months from execution of the contracts (mid July 2016) with extensions for predefined contractual events.

5.1.5 Advanced Meter Infrastructure

A project has been approved and funded to deploy Advanced Metering Infrastructure (AMI) across Horizon Power's service areas. The objectives of the AMI project are to reduce operating costs, address compliance issues that exist with the current fleet of meters, provide a compliant pre-payment metering solution and reduce lost revenue.

Horizon Power's isolated network coverage results in a high cost of managing the existing metering infrastructure, especially the costs of physical meter reading, connections and disconnections and general meter management.

For some years Horizon Power has investigated the value of advanced metering and smart grid initiatives, which led to the development of foundation technology for a pre-payment meter (PPM) solution for Aboriginal communities. In May 2014 this PPM solution was introduced at Mungullah and in August 2014 to seven Fitzroy Crossing Aboriginal Communities. The pilot has met project expectations for financial performance, technical reliability and customer acceptance.

The AMI project now seeks to leverage the technology used in the PPM project to replace remaining 'old' PPMs as well as all credit meters throughout Horizon Power's service area. To reduce project risk in developing the AMI Project, Horizon Power has applied findings from the Western Power Solar Cities project and the Victorian advanced meter deployments.

The AMI project will address two major issues: firstly address the accuracy and hence compliance and lost revenue from old meters; and secondly dramatically reduce the cost of metering field services.

The AMI project will provide \$7.6 million of direct cost savings per annum whilst providing other benefits, such as addressing meter compliance obligations and allowing Horizon Power to promptly identify whether faults are on the customer or Horizon Power side of the meter.

The very nature of the meter replacement program will necessitate a forensic review of all meter installations across the State. This will undoubtedly uncover a number of incorrect installations which may go back as far as the life of existing meters (up to 40 years old) be desirable (whether they favour customers or otherwise) for the public good.

The AMI project is progressing well and as at the end of March 2016 has replaced approximately 80% of Horizon Power's meters. The project is on schedule and budget.

5.1.6 Mid West and Norseman Network Augmentation Project

The Mid West and Norseman Network Augmentation project involved the negotiation of a new power purchase agreement with Contract Power Australia and the replacement of the existing generation owned by the former independent power producer in six towns (Cue, Meekatharra, Mt Magnet, Sandstone, Wiluna and Yalgoo) within the Mid West and Norseman in the Goldfields. This also required network augmentation work to enable switching between the old and new generators.

Generation at five of the towns was replaced in April 2015. Network augmentation was completed in March 2015. Reliability upgrades will be installed at Norseman by December 2015 and the installation of gas-fired generation at Mt Magnet by November 2016 will complete the project.

The new power purchase agreement has resulted in lowering the balance sheet liabilities of Horizon Power and will result in a \$36M reduction in net state debt over the life of the contract to the state.

5.1.7 Pilbara Power Project 2016 (PPP16)

Pilbara Power Project

To meet the forecasted shortfall in energy supply in the Pilbara region, Cabinet has approved Horizon Power investing \$138 million to develop a new power station site in South Hedland and develop associated network infrastructure. This project has been completed below budget to meet performance requirements (and despite the liquidation of Forge Group) and APR Energy is providing temporary generation from the site. The basis of the approval is that 100% of the capital cost would be recovered during the forward estimates period from the eventual independent power producer (IPP).

On 21 July 2014 Cabinet approved Horizon Power entering into contractual arrangements with the chosen IPP, TEC Hedland Pty Ltd (TransAlta), for 110 MW of new generation capacity; and a Network Access Contract with FMG. This arrangement ensures the recovery of capital to the State and removes the risk associated with asset ownership.

Augmentation of Transmission Network

The 21 July 2014 Cabinet's decision for the Pilbara Power Project also noted the requirement to upgrade the transmission system to accommodate the increased generation capacity of the new power station and to accommodate the greater load of the Pilbara Infrastructure Group (FMG). Horizon Power has signed a 25 year Electricity Transfer Access Contract (ETAC) with FMG to allow access to the new infrastructure.

The network augmentation funding has been approved as part of the current State Budget Forecast. The Department of Treasury is holding the administered funds until it receives the outcomes of the financial evaluation.

5.1.8 Pilbara Underground Power Project (PUPP)

The PUPP will provide cyclone affected North West towns with a safer and more reliable electricity supply by replacing ageing overhead electricity infrastructure with underground networks.

The scope of the Project includes the towns of Karratha, Roebourne, Onslow, South Hedland and Wedgefield. Port Hedland was undergrounded as a part of the State Underground Power Project in 2005/06 by Western Power.

The PUPP was originally estimated to cost \$130 million to complete. It was to be funded by way of a \$100 million contribution from the Royalties for Regions program and the balance from the relevant local Government Authorities. During 2012 the Project was subsequently proven to require a capital budget of \$230 million to complete the works. This has been independently verified by a third party international engineering consultant and audited by the Office of the Auditor General.

The Project is now funded with a \$175 million equity injection from the Royalties for Regions program (approximately 76%), contributions from the relevant Local Government Authorities (approximately 21%) and Horizon Power (approximately 3%). As agreed in 2012 with the then Minister for Energy and External Steering Committee, Horizon Power will continue with the revised and successful strategy to deliver the project in accordance with the revised time and budget.

By June 2014 Horizon Power completed the portion of the works that were within the originally approved budget of \$130 million for Phase 1. This included connection of 3,035 Lots to the new underground networks, installation of new streetlights and removal of the redundant overhead network across South Hedland, Wedgefield and parts of Karratha. It also includes completion of most of the Karratha voltage upgrade works.

In 2015 Horizon Power executed a new funding agreement with the Department of Regional Development for Phase 2 works.

The first tenders for Phase 2 works were issued and site works have re-commenced in Karratha and the remaining suburbs will continue through to and be completed in 2018. Roebourne and Onslow will commence in 2016 and 2017 respectively. Works in Onslow will consider developments connected with the Onslow Power Station Network and Infrastructure projects. Overall project completion is scheduled for June 2018. Delivery of the project is on track and in line with the revised budget.

5.2 Projects Under Evaluation

Horizon Power is in the process of evaluating options to mitigate risks and realise opportunities across the business. Some of these opportunities are included in work streams under the present Strategic Review and others are strategic projects that may result in recommendations that relate to existing projects or form entirely new projects.

In August 2013, Horizon Power set up a dedicated Strategic Review team, reporting to the Executive, to identify,

recommend and, where approved, implement changes to Horizon Power's business to significantly reduce the subsidy Horizon Power receives from the State Government.

The Strategic Review has implemented a number of changes and Horizon Power is well on the way to achieving its target of reducing annual subsidy by \$100 million without compromising safety, reliability and services or detrimentally impacting the State's financial position. Under its Strategic Review, Horizon Power is focused on various streams of work, including: considering the effectiveness and impact of various pricing and subsidy reforms on customer segments and systems through its Regional Price Reform project (Revenue); developing economic system blueprints to understand and prepare for future energy requirements (System Blueprints); and ensuring its NWIS business is positioned to drive the most economically beneficial outcomes for Government and its customers (NWIS Reform).

The Revenue stream encompasses the Pricing Reform project that seeks to reduce operating subsidy and improve the State's financial position by delivering a pricing and subsidy framework to minimise peak load growth and support appropriate third party investment in distributed generation. This includes investigating changes to pricing structures and tariff levels.

The System Blueprints stream seeks to deliver the most economically efficient method of supplying electricity in Horizon Power's service areas. The intent of this work will be to guide future investment decision making and inform the direction of new products and services. This includes assessing alternatives to conventional electricity systems,

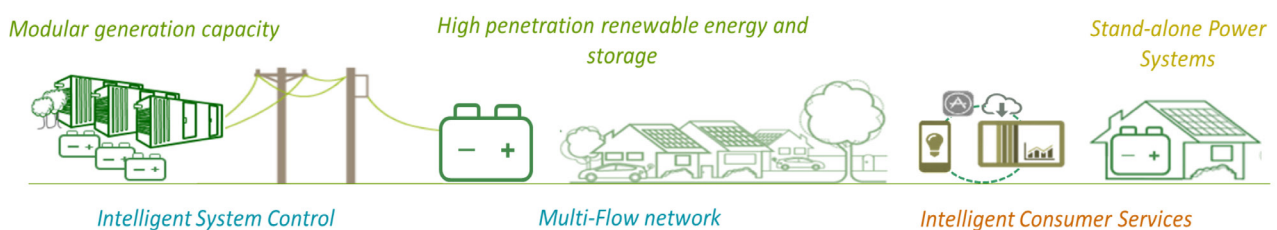


Figure 3 – Distributed Energy Resource (DER) system

such as distributed generation and storage. The System Blueprint work has resolved that, for many systems, a supply model embracing high penetration distributed renewables represents the most economically efficient operating model.

Horizon Power is undertaking a program to comprehensively design a Distributed Energy Resource (DER) model of the future, with the express purpose of further driving down the supply cost of this business future. The model is comprised of six key elements: modular generation capacity; intelligent system controls; high penetration renewable energy and storage; multi-flow network; intelligent consumer services and standalone power systems. The System Blueprint and DER work will identify the priorities of the business in terms of economic solutions for our systems.

The NWIS Reform stream seeks to increase private participation and maximise the Government's value of assets in the NWIS. Horizon Power is committed to expediting the market evolution and future requirements of the NWIS by ensuring it is positioned to drive the most economically beneficial outcomes for Government and its customers. Horizon Power will achieve this via various means such as; a review of large enterprise pricing to encourage the most effective and economical use of generation; by continuing to work closely with Government to ensure fit for purpose outcomes in relation to volumes and customer composition; and by looking to supply new commercial loads to greater

utilise its installed capacity. A recommendation to open up the Pilbara market to competition is currently before Government and will change the dimensions of that market as well as require Horizon Power to consider additional strategies to ensure long-term sustainability.

In addition to streams of work under its strategic review Horizon Power has installed 5 stand-alone power systems in Esperance following the devastating bushfires there in November 2015 to take account of cost effective bush fire rectification work on assets. The new systems are at the end of long spur lines and ensure reliability for the customer as well as reduce maintenance costs for Horizon Power. In parallel Horizon Power is working with Western Power to provide technical and commercial support to help with the deployment of similar stand alone power systems.

New technology and changing consumer behaviours present a value opportunity for Horizon Power, specifically in the growing consumer end energy products and services market. Horizon Power is progressing a Consumer Energy study to consider benefits to the State and Horizon Power's role in the development of stand-alone energy solutions and facilitating consumer uptake of solar solutions.

6. Financial Statements

Accounting standards/policies

Horizon Power's Financial Statements are prepared in accordance with the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and are consistent with the financial requirements of the *Electricity Corporations Act 2005*.

Payments to Government

Horizon Power's payments to Government include:

- Payment of dividend in line with the Dividend Policy,

- Payment of income tax under the National Tax Equivalent Regime, representing 30 per cent of taxable profit.

Dividend Policy

Horizon Power complies with the Government's dividend policy of paying 65 per cent of Net Profit After Tax for the year. Dividends are declared in consultation with the Minister for Energy, 75% of the projected financial year dividend will be paid in the financial year the dividend is declared, whilst 25% will be paid in the subsequent year this is subject to satisfying a solvency test.

7. Ministerial Reporting

To meet the reporting requirements as outlined in the *Electricity Corporations Act 2005*, Horizon Power will provide the Minister for Energy the following information.

Quarterly Report

Horizon Power will provide to the Minister for Energy and the Western Australian Treasurer a report on performance for each three-month period. These quarterly reports will detail the actual quarterly and year-to-date performance of the business, provide comparisons to Statement of Corporate Intent targets and highlight any significant issues. The business will submit the quarterly reports in accordance with the requirements of Section 106 of the *Electricity Corporations Act (2005) WA*.

The quarterly reports will be provided to the Minister for Energy and the Western Australian Treasurer within one month after the end of a quarter.

Annual Report

Horizon Power will prepare and deliver an annual report on its performance for the full year to the Minister for Energy. The report will follow the end of the financial year and will be provided to the Minister for Energy in accordance with the requirements of Section 107 of the *Electricity Corporations Act (2005) WA*. The report will include:

- consolidated statutory financial statements and other statutory information required of any company under the Corporations Law;
- an overview of major achievements and an appraisal of future prospects;
- a comparison of performance with Statement of Corporate Intent targets; and
- other information required by the Act to be included, such as the particulars of any directions given by the Minister for Energy.

In addition to quarterly and annual reports, the Act requires that the Minister for Energy be provided with:

- a five-year Strategic Development Plan and a one-year Statement of Corporate Intent;
- a report on staff compliance with any Board issued codes of conduct; and
- any information in Horizon Power's possession requested by the Minister.

8. Community Service Obligations

Section 99(1) of the *Electricity Corporations Act 2005* defines community service obligations as “obligations to perform functions or to meet performance targets that is not in the commercial interests of the corporation concerned to perform or meet”.

Horizon Power receives payments or subsidies from Government for a number of community service obligations, including:

- Remote Service Extensions such as ARCPSP Phase 1 and Phase 2: ensures regularised communities receive the same quality, reliability and cost of power as customers in the South West and other regional areas. Horizon Power receives funding for the operating shortfall for regularising these communities.
- Air Conditioning Allowance: provided to eligible customers to assist with the costs of air conditioning from August to May depending on the location of the town.
- Dependent Child Rebate: supports customers who receive concessions with the increased energy cost of raising children.
- Cost of Living Assistance Payment: replaces the Supply Charge Rebate and assists concession card holders in paying their electricity bills.
- Feed-in Tariff: Horizon Power administers the scheme on behalf of the State Government via the Public Utilities Office (PUO) and receives a subsidy from Government to compensate for the operating cost of the scheme.
- Tariff Adjustment Payment: compensates Horizon Power for the difference between the cost reflective price of electricity in the South West Interconnected System and the uniform tariff paid by customers.
- Tariff Migration: The A2 subsidy compensates Horizon Power for the difference between charging Caravan Park residents the residential tariff (A2) instead of the commercial rate.

Operating Subsidy	2016/17 (\$m)	2017/18 (\$m)	2018/19 (\$m)	2019/20 (\$m)
Aboriginal and Remote Communities Project - Stage 1	9.1	9.0	8.8	9.1
Aboriginal and Remote Communities Project - Stage 2	1.9	1.9	1.8	1.8
Air Conditioning Allowance	0.6	0.6	0.7	0.7
Dependent Child Rebate	0.5	0.5	0.6	0.6
Cost of Living Assistance	1.1	1.1	1.2	1.3
Feed-In Tariff	0.0	0.0	0.0	0.0
Tariff Adjustment Payment	30.9	15.9	9.3	3.6
Tariff Migration - Caravan Park subsidy	0.2	0.2	0.2	0.2
TOTAL	44.3	29.3	22.6	17.5

Table 8 - Horizon Power's Community Service Obligations.

Appendix A: Business Values And Vision

Horizon Power has a Primary KPI of delivering ‘initiatives which will reduce our annual operating subsidy by \$100 million per annum by 2017/18.’



Horizon Power’s Purpose, our fundamental reason for being is Energy for Life.

Our Vision ‘Your Local Energy Partner, Low Cost and Sustainable’ underpins our operating model.

Our objectives are Safety: Minimise the risk of harm; Value: Maximise long-term value; and Community: Be a high performing business.

Our Strategy focuses on Business Excellence, System Blueprints, Capital Productivity, Customer, Pilbara Integrated Market and Leadership.

We track and measure performance via Business Key Performance Indicators (KPIs) which are tied to objectives. Our focus remains on our PRIMARY KPI of delivering ‘initiatives which will reduce our annual operating subsidy by \$100 million by 2017/18’. It serves as a lead indicator of our ability to be low cost and sustainable in the long term.

Appendix B: Key Performance Indicators

Horizon Power has reassessed its Key Performance Indicators and revised the targets in line with current financial constraints and corporate strategic objectives. They are shown in the tables below.

Critical Business Outcomes	2015/16 YTD Actuals	2016/17	2017/18	2018/19	2019/20
Safety – Minimise the risk of harm					
Lost Time Injury Frequency Rate	33	0.0	0.0	0.0	0.0
Total Number of Notifiable Public Safety Incidents	3.0	8.0	8.0	8.0	8.0
Unassisted Pole Failure rate	1.33	1.0	1.0	1.0	1.0
Value – Maximise long-term value					
Cost to Supply Unit Cost (cents / kWh)	31.0	34.6	38.4	38.7	38.9
Return on Assets (%)	5.97	6.59	10.74	5.02	5.39
NPAT (\$M)	20.2	31.8	92.8	19.4	24.2
Community – Be a high performing business					
Customer Satisfaction (%)	82.0	70.0	70.0	70.0	70.0
Number of compliant systems	33/38	33/38	33/38	33/38	33/38
System Average Interruption Duration Index - SAIDI (Minutes)	155	290	290	290	290
System Average Interruption Frequency Index - SAIFI	3.70	6.6	6.6	6.6	6.6
Major Project Completion Within +/- 5% of approved budget (%)	100.0	100.0	100.0	100.0	100.0

Table 9 - Horizon Power's Key Performance Indicators and targets for the SDP period.

Definitions and assumptions behind the metrics are outlined in the table below.

Term	Definition	Formula	Unit
Lost Time Injury Frequency Rate (LTIFR)	Lost Time Injury Frequency Rate is a formula to provide the number of Lost Time Injuries to be sustained, per one million hours worked, over a given 12 month period.	The sum of LTI incidents sustained over the given 12 month period, divided by the sum of exposure hours worked over the 12 month period, multiplied by one million.	#
Notifiable Public Safety Incidents	A network operator must notify the Director of any incident or event that is caused, or significantly contributed to, by electricity and that results in serious injury; or serious damage.	Serious damage means damage to private property > \$5 000 in total; or damage to a facility or property caused by a fire or explosion or the value of the damage is > \$50 000 in total. Serious injury means an injury that is fatal or requires the victim to be admitted to hospital.	#
Unassisted Pole Failure	An unassisted pole failure: 1) is not caused by customer installation, lightning, vehicle, water ingress or vandalism; 2) occurs when the pole failed under forces that were less than its design specification.	Number of pole failures divided by 10,000 over a 12 month rolling average.	#
Cost to Supply Unit Cost	All cost associated with Horizon Power's customers divided by kilowatt hours sent out.	Includes costs to provide energy to customers, but specifically excludes business development, finance lease adjustments and interest expenses.	¢ / kWh
Return on Assets	Return to investors for every dollar of assets under the company's control.	Earnings before interest and tax (EBIT) divided by total assets.	%
NPAT	Net Profit After Tax	Does not exclude operating subsidies including Government subsidies and subsidy from the Tariff Equalisation Contribution collected from SWIS customers. EBIT minus finance charges, non-cash movements and tax.	\$M
Customer Survey Rating	Customer satisfaction is measured by an annual survey, undertaken by an external agency, amalgamating customer perceptions of reliability, service quality and product offering.	Average measurement of survey response on a scale of 1 to 7 (very poor, poor, somewhat poor, neither good nor poor, somewhat good, good and very good). Horizon Power's KPI for customer satisfaction is a combination of all positive responses i.e %somewhat good + %good + %very good, Over the last five years, overall customer satisfaction (across residents, businesses and stakeholders) has ranged between 77% and 83%, with the most recent score being 78% in 2013. Based on recent performance trend, customer satisfaction scores of 80%-85% are classified as high performance, and a score of over 85% would be aspirational.	%

Term	Definition	Formula	Unit
Number of compliant systems	<p>Achievement of SAIDI and SAIFI system reliability performance (as agreed or per the Reliability Code) for each system.</p> <p>These measures exclude momentary interruptions of one minute or less.</p> <p>SAIDI / SAIFI events are normalised to exclude incidents due to:</p> <ul style="list-style-type: none"> - Customer equipment - Planned work - Vehicle / Mobile equipment - Water / Flood - Wilful damage - Major events <p>These events are outside the control of Horizon Power.</p>	Performing systems count	#
SAIDI	The System Average Interruption Duration Index measures the duration sustained customer interruptions.	Sum of the duration of each sustained customer interruption divided by the total number of distribution customers over a 12 month average.	Minutes
SAIFI	The system average interruption duration index measures the frequency of interruptions to customers.	The total number of sustained customer interruptions divided by the total number of customers over a 12 month average.	#
Major Project completion within approved budget	Percentage of Government Approved Projects that have been completed within the approved state budget.	Percentage of Government Approved Projects that have been completed within the approved state budget.	%



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