



**HORIZON**  
**POWER**  
*energy for life*

ANNUAL REPORT  
2012/13





## OUR PROFILE

Horizon Power is a State Government-owned, commercially-focused Corporation that provides high quality, safe and reliable power to approximately 100,000 residents and 10,000 businesses, including major industry, across regional and remote Western Australia.

Horizon Power is responsible for generating, procuring, distributing and retailing electricity supplies.

As at 30 June 2013, Horizon Power services 45,164 customer connections in the Pilbara, Kimberley, Gascoyne, Mid West and southern Goldfields (Esperance) regions, dispersed across an area of approximately 2.3 million square kilometres – about 10 times the size of the state of Victoria.

Horizon Power manages 38 systems: the North West Interconnected System (NWIS) in the Pilbara and the connected network between Kununurra, Wyndham and Lake Argyle, and 34 stand-alone systems in regional towns and remote communities.

Horizon Power's value proposition is unique among organisations delivering regional services in that it is led from the regions. Horizon Power has a decentralised management structure with senior decision-making staff located in six regional centres: Karratha (Head Office), Port Hedland, Broome, Kununurra, Carnarvon and Esperance. An administration centre in Bentley provides support to the the regional offices.

District teams understand their community's needs, aspirations and their unique characteristics. Thus Horizon Power strikes a balance between centralising systems, standards and processes and optimised local delivery of services.

Horizon Power's strategy has regional communities and enterprises at its centre. The organisation is differentiated by the fact its offices and staff are located in the regional communities it serves. This offers real benefits to communities through on-the-ground response to cyclones, storms and other natural disasters; an ability to manage services at a local level in growing regional communities; and a coordinated approach to regional development.

Horizon Power operates under the *Electricity Corporations Act 2005* and is led by a Board of Directors accountable to the Minister for Energy, representing all Western Australians.

## FAST FACTS

### CUSTOMER CONNECTIONS

45,164

45,164 customer connections supplying more than 100,000 residents and 10,000 businesses

### CUSTOMER CALLS

96,708

96,708 customer calls in 2012/13

### NEW CUSTOMER CONNECTIONS

2,401

2,401 new customer connections in 2012/13

### ASSETS

\$1.5B

\$1.5 billion in assets

## TRANSMISSION & DISTRIBUTION

7,377KM

7,377 kilometres of overhead and underground transmission and distribution lines<sup>1</sup>

## POLES & TOWERS

60,246

59,144 distribution poles, 240 transmission poles and 862 transmission towers in service

## KILOWATT HOURS OF RENEWABLE ENERGY

4,480,000

4,480,000 kilowatt hours of renewable energy imported into Horizon Power's network

## NETWORKS

38

38 networks, including the North West Interconnected System (NWIS) in the Pilbara and the East Kimberley connected System, a transmission network including Kununurra, Wyndham and Lake Argyle

## INTERCONNECTED SYSTEMS

2

## TRANSMISSION & DISTRIBUTION

2.3M KM<sup>2</sup>

2.3 million square kilometres service area, which includes the Kimberley, Pilbara, Gascoyne, Mid West and Southern Goldfields (Esperance, Hopetoun and Norseman)

# SUPPLY AREA



<sup>1</sup> The carrier kilometre data was obtained from Horizon Power's Geographical Information Services (GIS) program on 28 November 2012, before upgrading GIS. Horizon Power is making adjustments to its current GIS to ensure this information is accurate and available for the next annual report.

# EXECUTIVE SUMMARY

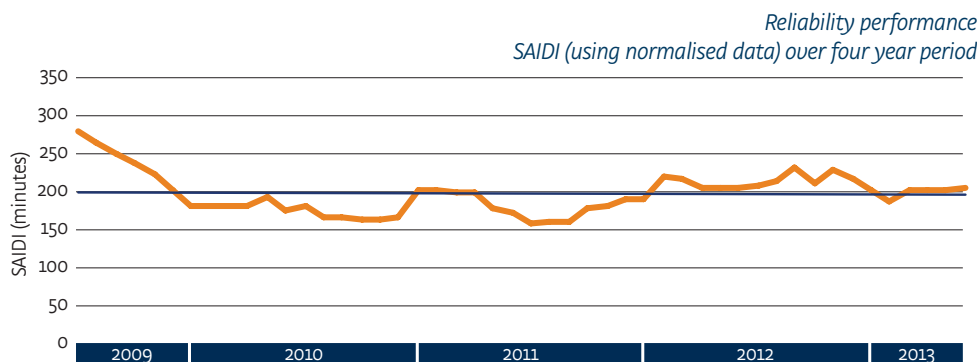
Horizon Power has achieved consistent reliability of supply over the past four years by effectively managing our assets.

The number of systems meeting reliability targets increased in 2012/13 to 31 out of our 38 systems, compared to 29 in 2011/12, in spite of a reduction in capital funding received for asset management program delivery.

Customers experienced an average 3.4 interruptions during the year, well below the regulated limit of 6.6 interruptions per annum (System Average Interruption Frequency Index – SAIFI). The average length of an interruption to power supplies in Horizon Power’s service area (the System Average Interruption Duration Index – SAIDI) was 202 minutes in 2012/13 compared with the regulated limit of 290 minutes.

We achieved ‘below target results’ for notifiable public safety incidents, five of which occurred throughout 2012/13. All these incidents resulted from small fires, attributed to severe weather events, and were considered low risk. There were no injuries to the public or Horizon Power personnel as a consequence of these incidents.

During the 2011/12 State Budget process, Cabinet agreed to the introduction of the Minister for Energy’s five per cent efficiency dividend on the discretionary operating expenditure of Government Trading Enterprises (GTEs) which was to be applied in the 2011/12 financial year and each year thereafter to 2014/15. Further efficiency dividends



for GTEs were approved as part of the 2012/13 State Budget and this requirement is additional to that approved by Cabinet during the 2011/12 State Budget process.

In 2012/13, we achieved the combined efficiency targets of 75 per cent or \$10.4 million. We continue to identify and evaluate activities throughout all areas of the business to continue meeting this target.

Horizon Power recorded a net profit after tax in 2012/13 of \$51.2 million, an increase from \$33.3 million in 2011/12. The key drivers behind this positive result include higher sales of electricity and cost savings. Cost savings were achieved through efficiency initiatives and tight fiscal measures which, in an environment of rising cost pressures, was a pleasing outcome resulting in a lower overall operating expenditure than the previous year.

Sales revenue was up by \$41.8 million, mainly from an increase in electricity tariffs in July 2012. Increases were also recorded for developer and customer contributions

and Community Service Obligations (CSO) which were partly offset by a net decrease in the Tariff Equalisation Contribution (TEC), the subsidy provided by the State Government that compensates Horizon Power for the additional costs associated with operating in a regional service area.

During the year, Horizon Power declared and paid dividends of \$41.1 million to the State Government in respect of the 2010/11 and 2011/12 financial years.

Horizon Power’s net contributions from the State Government, representing payments received in respect of CSO and TEC less income tax and dividend, were down by almost \$60 million from \$200.7 million in 2011/12.

The TEC payment to Horizon Power was \$154.0 million in 2012/13, a decrease from \$181.2 million in the previous year.



## CHAIRMAN'S REPORT

Horizon Power launched its new strategy in October 2012. With this clearly defined purpose, vision and strategic focus, the business has been able to tackle the challenges this year while delivering significant outcomes. In considering our strategic direction, Horizon Power has strengthened its alignment to the needs of our customers, stakeholders and our business.



### YOUR LOCAL ENERGY PARTNER

Our purpose is simple: *provide energy for life*. Our strategy to achieve this is to be the local energy partner for the communities we serve. We have three key areas that underpin our strategy: the Safety of our employees, contractors and customers, maximising stakeholder Value and being part of the Community.

This purpose and strategy means creating value in all of our activities, reaching beyond our current generation and the construction and operation of physical assets. In short, we want to leave a lasting positive economic, social and environmental legacy for future generations.

We are in a unique position as an energy provider. Our decentralised model enables our employees to be part of our communities. Other companies can provide energy but Horizon Power is well placed to provide more than that.

We create opportunities that assist in the development of communities by providing training and employment, sponsoring community events and programs and delivering education programs to local schools.

Horizon Power formalised its commitment to becoming more representative of our customer base in our Aboriginal Engagement and Employment Strategy in 2011. I am proud to report that we have successfully employed, throughout various divisions within the business, 38 Aboriginal people.

This is more than double the number of Aboriginal people employed in 2009/10, and approximately eight per cent of our workforce. We will continue to strive for our target of 20 per cent of our workforce being Aboriginal by 2015.

“ **RENEWABLE ENERGY, SMART GRID AND EMPOWERING CUSTOMERS TO MAKE BEHAVIOURAL CHANGES TO THE WAYS THEY CONSUME ENERGY WILL CONTINUE TO BE SUPPORTED IN THE COMING YEAR** ”

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### SUSTAINABLE ENERGY SOLUTIONS

Horizon Power is acutely aware of the need to be the developer of sustainable energy solutions. Scrutiny of our operational costs has increased and there has been a reduction in the extent of capital funding received for asset management program delivery.

We rightly have to justify the benefit of every dollar we spend. We have delivered the State Government's efficiency dividend for 2012/13 and are confident that we will deliver again in 2013/14.

We will continue to responsibly expend the capital funding we receive and balance investment in prioritised risk areas across the business.

Horizon Power relies on subsidies to fund the shortfall between uniform tariffs and our cost to serve. We are faced with great challenges in reducing our reliance on State Government funding and we know that these challenges will be exacerbated over time. Higher fuel costs for power generation, capital funding requirements and forecast energy demand growth will increase the cost to serve. We know there is a need to think outside the box and develop innovative solutions to address these challenges.



Renewable energy, smart grid technology and empowering customers to make behavioural changes to the ways they consume energy will continue to be supported in the coming year.

### SAFE AND RELIABLE POWER

In spite of our challenges, Horizon Power continues to provide safe and reliable power supplies to our customers. Residents in Port Hedland and Karratha have already benefited from underground power supplies.

In the south of the State, the completion of a seven-year network upgrade program of works in the Esperance district has delivered more than a 70 per cent improvement in rural network reliability.

### CULTURE

Horizon Power's new business culture, *'Our Horizon Way'* includes performance drivers that provide clear direction to employees as to how they can achieve our purpose of providing energy for life.

We now have seven performance drivers to help us with this: safety, leadership, communications, customer, performance, capability and teamwork. I have every

**“ WE NOW HAVE SEVEN PERFORMANCE DRIVERS TO HELP US WITH THIS: SAFETY, LEADERSHIP, COMMUNICATIONS, CUSTOMER, PERFORMANCE, CAPABILITY AND TEAMWORK**

confidence that this embedded culture will enable us to achieve even more in the coming year.

I would like to take this opportunity to thank my fellow board members and all those associated with our business – our shareholder, customers, stakeholders and staff – for their continued commitment to achieving our purpose.



**BRENDAN HAMMOND**  
**CHAIRMAN**

## MANAGING DIRECTOR'S REPORT

Our business has delivered strong results in all areas this year, driven by a redefined strategy and purpose of being our customer and stakeholders' local energy partner and providing energy for life.



That these results have been delivered despite a challenging geographical service area, increased energy demand, and significant pressure to deliver financial efficiencies and reduced capital funding, is an achievement.

We continue to set ourselves high performance standards, particularly in the area of safety, where our performance for notifiable public safety incidents was better than our target. We have also achieved 1.3 million hours without a lost time injury and work continues to support this positive result.

In addition, we continue to see improvement in the performance of our systems, with 31 out of 38 meeting reliability standards – an increase from 29 systems in 2011/12.

### TODAY'S ENVIRONMENT

Our focus on delivering safe and reliable power supplies to our customers will continue in the coming year, balanced with an awareness that every dollar we spend has to deliver maximum benefit. We are acutely aware of the challenges we face in delivering continued efficiencies and ultimately a reduction in our cost to serve. Increased fuel costs, essential network maintenance and upgrade work together with capital expenditure to meet increasing demand will continue to exert pressure on our ability to meet targets.

In spite of these challenges, we are committed to using funds efficiently and effectively. We have met the State Government's efficiency dividend,

with savings achieved primarily in discretionary travel and consultant expenditure.

A number of capital projects were completed in 2012/13 within budget and to schedule, including new generation at Karratha, our wood pole asset replacement and reinforcement program and the transformation of all our IT systems.

Over the next two years we will manage and oversee the delivery of more than \$700 million of capital investment.

### RESPONSIBLE PROJECT DELIVERY

We have ensured increased energy demand in the Pilbara is met in the short term with the successful installation and commissioning of an additional 20 megawatts (MW) of generation on the North West Interconnected System (NWIS). Installed in Karratha, this additional generation capacity, combined with the renewal of existing contracts with Independent Power Producers, boosts the total capacity on the NWIS to approximately 160 MW, suitable to meet the maximum electricity demand of the region for the 2012/13 summer period.

We are now focused on delivering a long-term solution to meet increased demand on the NWIS. Work has commenced on a new \$138 million power project in South Hedland to further boost energy supplies to the Pilbara region. When completed in early 2014 and running at full capacity, this new power station will increase electricity supply to the region by an 67 MW.

In the south of the State, we completed the third and final program of network upgrade works in the Esperance district to ensure compliance with all regulatory and safety requirements. Approximately \$30 million was invested in the Esperance Network Rural Upgrade Program and associated single-phase network upgrade programs between 2006 and 2012 and a further \$14 million was received in the 2012/13 budget to complete a two-year wood pole replacement/reinforcement program of works.

This wood pole replacement/reinforcement program was completed in June 2013, within budget and ahead of schedule. In total, 1,845 wooden power poles have been replaced and an additional 5,988 power poles reinforced in a two-year period through this program. Importantly, the safety risks associated with older poles have been addressed, the network complies with relevant Australian Standards, reliability has improved by more than 70 per cent and we are now able to manage the asset base within the Esperance district through the normal asset management process.

#### UNDERGROUNDING WORKS DELIVERING IMPROVED SAFETY AND RELIABILITY

The safety and reliability benefits of undergrounding power infrastructure are well known, and we continue to carry out this work in cyclone prone areas of the State where a long-term cost-benefit can be demonstrated.

Work on the Chinatown Underground Project began in Broome in August last year and the final changeover to

underground operation was completed at the end of April this year. Undergrounding has not only improved the visual amenity but will increase security of power supply by reducing exposure to bad weather, vegetation and high winds. By working closely with the Shire, the Chinatown Action Group and the Broome community, we successfully worked through heritage, environmental and cultural issues to finish this important piece of work.

Work also continues on the Pilbara Underground Power Project (PUPP) to underground the overhead power systems in Karratha, South Hedland, Wedgefield, Onslow and Roebourne. A major change in approach and contract management was made in February 2012. Since then the project has been managed to the revised budgets and schedules and over 60 per cent of the project scope will be completed with the current expenditure cap. We continue to work with the Pilbara Development Commission, local government authorities and the State Government to discuss options to progress the project.

#### THE YEAR AHEAD – INNOVATIVE SOLUTIONS TO DELIVERING GREATER EFFICIENCIES

Horizon Power's decentralised model places us within the communities we serve and provides an opportunity to remain our customers' local energy partner.

In the next year I look forward to collaborating with the communities we serve to investigate innovative solutions to the challenges we face. Renewable energy will be a focus. We will work with the renewable energy industry

“ **THE SAFETY AND RELIABILITY BENEFITS OF UNDERGROUNDING POWER INFRASTRUCTURE ARE WELL KNOWN, AND WE CONTINUE TO CARRY OUT THIS WORK IN CYCLONE PRONE AREAS OF THE STATE WHERE A LONG-TERM COST-BENEFIT CAN BE DEMONSTRATED** ”

to encourage the take-up of renewable energy in our high cost to serve towns to reduce the extent of the State Government subsidy required. We will respond to our customers' appetite for renewable energy, even in towns where network limitations prohibit the installation of additional renewable energy. Community willingness to trade some performance measures in order to accept more renewable energy will be explored.

Above all else, we will continue to provide energy for life – and importantly do so in the most financially prudent way possible.



**FRANK TUDOR**  
**MANAGING DIRECTOR**

# STRUCTURE AND STRATEGY

## ORGANISATION STRUCTURE

Horizon Power’s organisation structure is designed to support its strategy of being our customers’ local energy partner.

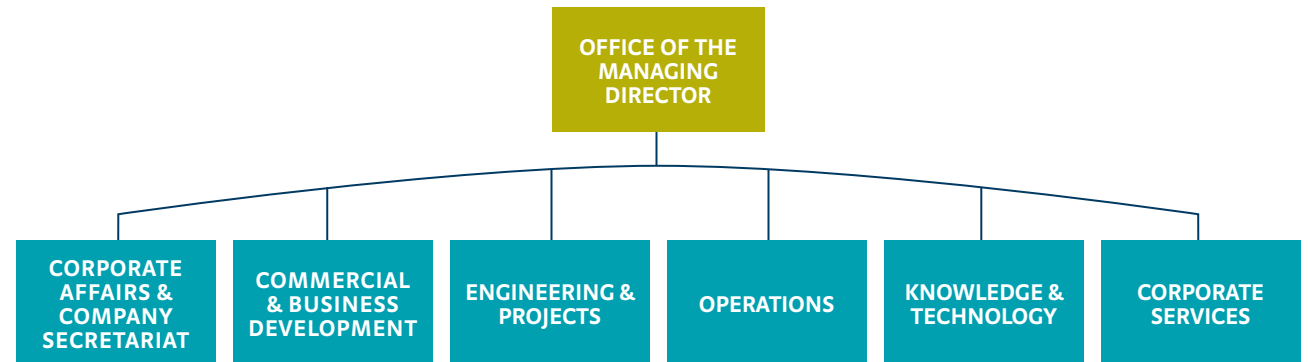
### CORPORATE AFFAIRS AND COMPANY SECRETARIAT

The Corporate Affairs and Company Secretariat division protects and promotes Horizon Power and our brand; drives public safety awareness campaigns; and builds strong, successful relationships with our main stakeholder, the Western Australian Government, other key stakeholders and the media. Changes in legislation and industry policy that influence our operations are closely monitored and the team engages with high-level stakeholders to ensure the needs of our Aboriginal customers and stakeholders are met.

The Company Secretariat assists in the effective operation of the Board and acts as the interface between Board and the Executive team.

### COMMERCIAL AND BUSINESS DEVELOPMENT

The Commercial and Business Development division is responsible for the demand and energy forecasting framework and the associated systems and generation planning that ensure our infrastructure keeps pace with market and customer needs. The division identifies and brings to market new energy products and services; it develops new business opportunities and key relationships, and manages energy and commodity purchasing and contracts.



It also oversees pricing and carbon management and manages the implementation of renewable energy policy and infrastructure.

### ENGINEERING AND PROJECTS

The Engineering and Projects division is responsible for the implementation of generation and network projects in accordance with Horizon Power’s project management methodology; the provision of engineering, technical and project services to the Operations and Commercial and Business Development divisions; and the development and maintenance of generation, transmission and distribution design and technical standards.

### OPERATIONS

The Operations division is responsible for the business-as-usual operation and maintenance of our electricity

networks and power stations, distribution voltage feeder powerlines, the North West Interconnected System (NWIS) transmission voltage power system and the power supply to isolated power systems across our service areas.

It is also responsible for customer service and the customer contact centre.

We follow a ‘decentralised’ organisational structure. Local managers oversee the East and West Kimberley districts, the East and West Pilbara districts, and the Gascoyne/Mid West and Esperance regions.

### KNOWLEDGE AND TECHNOLOGY

The Knowledge and Technology division manages our corporate knowledge and information technology services, providing staff with the information and tools to work more efficiently.

Overall the division is responsible for maintaining Horizon Power's information technology and telecommunications (IT&T) architecture.

Internally, the Knowledge and Technology division delivers IT&T solutions; develops related management and security policies and oversees sourcing partnerships and contracts.

#### **CORPORATE SERVICES**

The Corporate Services division provides services to support the business in the delivery of our strategy, such as strategy development; project management methodology and business improvement initiatives; identifying and securing financing options; financial planning and reporting systems; people strategy and systems; safety and health culture development and initiatives; procurement of non-energy products and services; business services such as fleet and properties; environmental compliance programs and initiatives; native title and heritage issues and initiatives; governance and legal requirements; and risk policies and frameworks.

#### **STRATEGY**

Horizon Power's strategic planning framework is based on a five-year period, encompassing the Strategic Development Plan period of 2012/13 to 2016/17 and a longer-term business outlook. This ensures that business objectives deliver energy solutions for current and future generations of regional Western Australians.

Horizon Power continues to have a strong focus on delivering safe, reliable, efficient and cost-effective services to our customers while building stakeholder value. In line with this commitment, Horizon Power launched its new strategy in October 2012.

Our strategy centres on regional communities and enterprises, underpinned by our three key areas of Safety, Value and Community.

#### **PURPOSE – ENERGY FOR LIFE**

Our purpose 'energy for life' drives and differentiates the business. Horizon Power seeks to create value for future generations of Western Australians and to make a difference to the lives of the people in the regions it serves. We want to leave a legacy by supporting communities in terms of energy provision, energy safety, energy efficiency education and employment opportunities.

We are focused on creating value beyond the current generation and seek to quantify this value, both tangible and intangible, in decision making processes.

#### **VISION – THE ARCHITECT AND DEVELOPER OF SUSTAINABLE ENERGY SOLUTIONS**

Horizon Power's vision is to be 'the architect and developer of sustainable energy solutions' by facilitating outcomes that benefit the State and contribute to regional development through the delivery of high quality and reliable energy supply.

Horizon Power seeks to be respected internally by its staff, and externally by its shareholder, the State Government, and its stakeholders for achievement of the strategic focus of being 'respected for delivery', both in terms of core energy services and projects to facilitate the delivery of energy.

#### **STRATEGY – YOUR LOCAL ENERGY PARTNER**

Horizon Power is differentiated by the fact that our offices and staff are located in the regional communities we serve. Our strategy is to be the 'local energy partner' for our customers and stakeholders.

Our role is to support, develop, advocate on behalf of and deliver value to customers and stakeholders. We develop partnerships with our regional customers and stakeholders to ensure they are fully informed about plans for energy in their region.

Horizon Power seeks to manage and maintain its assets at a local level while providing centralised oversight of policies, procedures and processes.

## STRATEGIC AND CORPORATE OBJECTIVES

### STRATEGIC OBJECTIVE

Horizon Power's purpose and vision is reflected in our overarching strategic objective: *"to maximise long-term value in its regional energy business by being the local energy partner"*.

### CORPORATE OBJECTIVES

Aligned to the Horizon Power strategy are three key areas, Safety, Value and Community that underpin Horizon Power's corporate objectives.

#### *Safety*

Proactively manage safety to minimise harm to employees, contractors and the community.

#### *Minimise the risk of harm to employees, contractors and the community*

The hazardous nature of the electricity industry requires the highest standards of safety and health. To minimise harm to employees, contractors and the community, Horizon Power takes deliberate and considered action and uses a risk-based methodology to proactively manage and resolve safety and health issues.

#### *Value*

Maximise long-term value from its regional energy business.

#### *Increase enterprise value*

Horizon Power is seeking to improve its enterprise value, a key factor in achieving the strategic objective

of providing value in regional Western Australia. Horizon Power is increasing the value of the services it provides customers and the returns it provides to its shareholder, through effective and value-based decision-making. Horizon Power is focused on implementing efficiency throughout the business.

#### *Manage business risk*

Horizon Power is minimising adverse impacts and maximising opportunities associated with uncertainties by developing a shared understanding and communication of key risks to achieve objectives.

#### *Community*

Recognising the central role of customers, Horizon Power puts regional communities and enterprises at the centre of everything we do.

#### *Be respected for delivery*

In order to be respected for its delivery, Horizon Power is focusing on timely and effective delivery of projects as well as its day-to-day business of being *"your local energy partner"* in the regions.

#### *Be a high-performing business*

Being a high-performing business means delivering on commitments, striving for excellence and partnering with customers to ensure business sustainability. This is achieved through increased capability and performance and alignment with Horizon Power's culture, referred to as *"Our Horizon Way"*.





# OPERATIONAL PERFORMANCE REPORT

CRITICAL BUSINESS OUTCOMES	TARGET PERFORMANCE RESULT FOR 2012/13	ACTUAL PERFORMANCE RESULT IN 2012/13	TARGET ACHIEVED	ACTUAL PERFORMANCE RESULT IN 2011/12	NOTES TO THE TABLE	FOR MORE INFORMATION SEE PAGE
<b>EMPLOYEE SAFETY</b> Lost Time Injury Severity Rating	0.0	0.0	✓	6.9	1	25
<b>PUBLIC SAFETY</b> Total number of Notifiable Public Safety Incidents	8	5	✓	2	2	4
<b>NPAT (\$M)</b> Profit for the year after income tax expenses and excludes operating subsidies including Government subsidies and subsidy from the Tariff Equalisation Contribution collected from SWIS customers	-198	-151.5	✓	-179.7	3	55
<b>EFFICIENCY DIVIDEND</b> Incorporates the Minister's 5% Efficiency Dividend (2011/12) plus the GTE Efficiency in 2012/13	10.4	10.4	✓	Not reported	4	57
<b>COST MANAGEMENT</b> Cost to Supply Unit Cost (cents/kWh)	35.2	36.1	✗	32.2	5	NA
Operational Unit Cost (cents/kWh)	12.5	14	✗	Not reported	6	NA
<b>CUSTOMER SATISFACTION</b> Survey Rating (%)	70	78	✓	81	7	39
<b>RELIABILITY</b> Reliability Performance of each system	33/38	31/38	✗	29/38	8	16
<b>REGULARISED TOWNS</b> Number of Remote and Indigenous Communities regularised per year	4	2	✗	2	9	29
<b>EMISSIONS</b> Greenhouse Gas Intensity (kg CO <sub>2</sub> -e / kWh sent out)	0.65	0.55	✓	0.60	10	42
<b>RETURN ON ASSETS (%)</b>	-11.1	-10.8	✓	Not reported	11	NA



## PERFORMANCE OVERVIEW

Horizon Power has established and agreed with the State Government a balanced set of critical business outcomes against which to measure our success in delivering social, environmental and economic benefits. Horizon Power's performance against targets published in the publicly available Statement of Corporate Intent (SCI) is shown below.

The SCI targets are consistent with Horizon Power's five-year Strategic Development Plan and represent the key strategic measures of success.

### NOTES TO THE PERFORMANCE OVERVIEW TABLE

- 1 Incident rates throughout the business are falling and this is reflected by our achievement of zero lost time injury severity rating. Horizon Power has achieved 1.3 million hours without a lost time injury and work continues to support this positive result.
- 2 The notifiable public safety incidents have increased from last year; however remain well below our target. There have been five notifiable public safety incidents against our target of eight. These incidents were small fires ignited by infrastructure damaged by local weather events such as storms or a combination of high temperatures with strong winds. There were no resulting injuries to the public or Horizon Power personnel as a consequence of these incidents.
- 3 NPAT excluding Government's subsidies compared favourably to target due to higher margin on sales of electricity and costs savings.
- 4 The Efficiency Dividend target was achieved through continued focus and monitoring of efficiencies undertaken during the year.
- 5 The Unit Cost to Supply (cents/kWh) is higher than target by 2.5 per cent mainly because of the impact of fixed costs on lower volume, which was down by 6.4 per cent compared to target.
- 6 The Operational Unit Costs (cents/kWh) was higher than target mainly because of the impact of fixed costs on lower volume sent out than targeted.
- 7 Horizon Power this year exceeded its target for customer satisfaction. However, we will always focus on this important area to ensure we continue to meet our customers' expectations.
- 8 Horizon Power's performing systems increased from 29 last year to 31 this year, with the Broome and Lake Argyle systems now achieving reliability targets. Most non-performing systems are due to power station incidents impacting our system's reliability. Reliability for Hopetoun Rural and Esperance Rural has improved significantly over the last 12 months as a result of pole replacement, network enhancement, and insulator replacement programs. System outages caused by power station operations have impacted the reliability performance for Onslow, Kununurra, Wyndham, Mount Magnet and Hopetoun. The recent completion of the Wyndham reliability enhancement program will improve reliability in Wyndham.
- 9 The regularisation of Bayulu and Mowanjum took place in 2012/13. Looma was delayed until July 2013.
- 10 Based on data available as at 5 July 2013, the 2012/13 carbon intensity is calculated at 0.55 kgCO<sub>2</sub>e/kWh sent out. This is a decrease in overall carbon intensity from the previous year and is primarily due to decreases in carbon intensity reported for Broome Power Station and the North West Interconnected System.
- 11 Return on Assets was slightly better than target due to a higher actual profit compared to target.



## OPERATIONAL PERFORMANCE

Horizon Power continued to deliver safe and reliable electricity supplies to customers throughout 2012/13 despite the challenges posed by reduced funding for capital projects and the impact of Tropical Cyclones Narelle, Peta and Rusty.

Of our 38 systems, 31 met performance reliability standards. Onslow, Kununurra, Wyndham, Mount Magnet, Leonora, Esperance Rural and Hopetoun Rural systems did not meet their reliability targets in the 2012/13 financial year.

These results are consistent with the previous four year average, highlighting our commitment to maintaining the reliability of our power supplies.

Whole-of-system outages caused by power station operations impacted the reliability performance for Onslow, Kununurra, Wyndham, Mount Magnet and Hopetoun. Horizon Power continues to work with the Independent Power Producers of these systems to identify and further improve their performance for the communities serviced.

Horizon Power is continuing our Fit for Purpose Asset Management Strategy. This strategy looks at the following drivers: Safety, Regulatory, Capacity, Reliability, Asset Service, Economics and Quality. The Asset Service driver is being shifted from age-based to condition-based.

The long-term programs associated with the Fit for Purpose Strategy are designed to deliver sustained improvements in the safety and delivery of reliable power supplies to our customers.

The outcomes of Horizon Power's State Budget forecast submissions resulted in a lower than requested capital funding amount for Horizon Power in the outer years of the forward estimates.

This means less capital has been allocated to the Asset Management Plan (AMP) than required to address all currently classified high risk matters in accordance with the Board's approved Risk Mitigation Strategy in the financial year's post 2012/13.

Horizon Power is reassessing the risk rating and, where required, enhancing business cases to justify additional capital requirements for discussion and re-submission to the State Government.

The Capital Works Program has been delivered against our agreed AMP. Extreme and High Risk mitigation works are all in progress, with significant progress being made on:

- transmission protection;
- pole replacement program;
- pole reinforcement program;
- thin copper conductor replacement;
- generation and network capacity issues in Wyndham;
- replacement of ageing SCADA assets; and
- works to address short term capacity issues in Karratha and Port Hedland.

TABLE 1: NETWORK ASSETS

NETWORK TYPE	CARRIER	KILOMETRES
<b>TRANSMISSION</b>	220 kV	196.71
	132 kV Underground	1.83
	132 kV Overhead	109.49
	66 kV Overhead	150.00
	66 kV Underground	0.54
<b>DISTRIBUTION</b>	HV 3-Phase Overhead	2074.44
	HV 3-Phase Underground	578.26
	HV Single Phase Overhead	2731.34
	HV Single Phase Underground	0.32
	LV Overhead	664.75
	LV Underground	869.63
<b>TOTAL</b>		<b>7,377.31</b>
<b>TOTAL TRANSFORMER CAPACITY</b>		671 MVA
<b>TOTAL TRANSFORMER CAPACITY</b>		671 MVA
<b>NUMBER OF TRANSFORMERS</b>		4,241
<b>NUMBER OF DISTRIBUTION POLES</b>		59,144
<b>NUMBER OF TRANSMISSION POLES</b>		240
<b>NUMBER OF TRANSMISSION TOWERS</b>		862

Note: The carrier kilometre data was obtained from Horizon Power's Geographical Information Services (GIS) program on 28 November 2012, prior to the implementation of the GIS upgrade. Horizon Power is making adjustments to its current GIS to ensure this information is accurate and available for reporting in the next Annual Report.

TABLE 2: ASSET MANAGEMENT PLAN DRIVERS

AMP DRIVER	ACTUAL (\$)	BUDGET 2012/13 (\$)
<b>SAFETY</b>	12,475,753	14,767,763
<b>REGULATORY</b>	9,817,125	9,273,644
<b>RELIABILITY</b>	7,583,605	5,744,558
<b>CAPACITY</b>	4,928,141	3,171,873
<b>ASSET SERVICE</b>	6,882,322	8,937,119
<b>ASSET MANAGEMENT SUPPORT</b>	1,673,244	2,182,043
<b>ECONOMICS</b>	-	160,000
<b>TOTAL</b>	<b>43,360,190</b>	<b>44,237,001</b>

ELECTRICITY GENERATION AND SALES

JUNE 2012/13 POWER STATION	GENERATED POWER (KWH)	GENERATED POWER-WIND/ SOLAR (KWH)	PURCHASES (KWH)	TOTAL POWER PURCHASED/ GENERATED (KWH)	USED IN WORKS	SENT OUT (KWH)	RE BUYBACK IMPORT INTO HP NETWORK (KWH)
Ardyaloon	-	-	1,696,526	1,696,526	-	1,696,526	-
Beagle Bay	-	-	1,578,246	1,578,246	-	1,578,246	4,416
Bidyadanga	-	-	2,707,944	2,707,944	-	2,707,944	-
Broome	-	-	130,238,468	130,238,468	-	130,238,468	1,110,873
Looma	-	-	2,691,550	2,691,550	-	2,691,550	-
Carnarvon	49,044,177	-	-	49,044,177	2,429,268	46,614,909	902,356
Coral Bay	-	-	3,079,960	3,079,960	-	3,079,960	-
Cue	-	-	2,015,904	2,015,904	-	2,015,904	10,258
Denham	3,388,558	2,139,710	-	5,528,268	235,596	5,292,672	201,673
Derby	-	-	36,195,913	36,195,913	-	36,195,913	138,607
Djarindjin	-	-	1,612,756	1,612,756	-	1,612,756	-
Esperance	-	-	70,256,501	70,256,501	-	70,256,501	705,382
Exmouth	-	-	24,991,962	24,991,962	-	24,991,962	576,063
Fitzroy Crossing	-	-	14,100,378	14,100,378	-	14,100,378	-
Gascoyne Junction	-	-	631,093	631,093	-	631,093	16,012
Halls Creek	-	-	11,221,308	11,221,308	-	11,221,308	1,259
Hopetoun	-	-	5,852,945	5,852,945	-	5,852,945	159,100
Kalumburu	539,878	-	-	539,878	35,508	504,370	-
Kununurra	1,681,450	-	62,083,063	63,764,513	2,559,157	61,205,356	198,961
Lake Argyle	-	-	222,154	222,154	-	222,154	186
Laverton	-	-	4,598,169	4,598,169	-	4,598,169	20,101
Leonora	-	-	10,881,193	10,881,193	-	10,881,193	7,223
Marble Bar	1,758,712	605,828	-	2,364,540	413,743	1,950,797	3,986

JUNE 2012/13 POWER STATION	GENERATED POWER (KWH)	GENERATED POWER-WIND/ SOLAR (KWH)	PURCHASES (KWH)	TOTAL POWER PURCHASED/ GENERATED (KWH)	USED IN WORKS	SENT OUT (KWH)	RE BUYBACK IMPORT INTO HP NETWORK (KWH)
Meekatharra	-	-	7,402,355	7,402,355	-	7,402,355	7,568
Menzies	-	-	705,970	705,970	-	705,970	1,921
Mount Magnet	-	-	4,103,010	4,103,010	-	4,103,010	39,245
Norseman	-	-	4,148,108	4,148,108	-	4,148,108	18,551
Nullagine	1,133,050	363,127	-	1,496,177	325,611	1,170,566	19,267
Onslow	3,395,985	-	4,762,940	8,158,924	-	8,158,924	5,086
Sandstone	-	-	709,097	709,097	-	709,097	6,000
Warmun	-	-	2,927,426	2,927,426	-	2,927,426	-
Wiluna	-	-	2,851,018	2,851,018	-	2,851,018	-
Wyndham	391,654	-	9,080,552	9,472,206	392,385	9,079,821	112,405
Yalgoo	-	-	943,421	943,421	-	943,421	-
Yungngora (Noonkanbah)	334,362	-	-	334,362	-	334,362	-
NWIS	1,757,000	-	546,016,000	547,773,000	123,166	547,649,834	213,501
<b>TOTALS</b>	<b>63,424,825</b>	<b>3,108,665</b>	<b>970,305,929</b>	<b>1,036,839,419</b>	<b>6,514,434</b>	<b>1,030,324,986</b>	<b>4,480,000</b>

SAFETY

POLE MANAGEMENT PROGRAM

Wood pole replacement and reinforcement

Horizon Power poles now meet the requirements of the Australian Standard AS1720, as required by State regulations.

We have set a target to replace 1.5 per cent of our population of wood poles each year and exceeded this target in 2012/13, replacing 2.9 per cent of our total wood pole asset base.

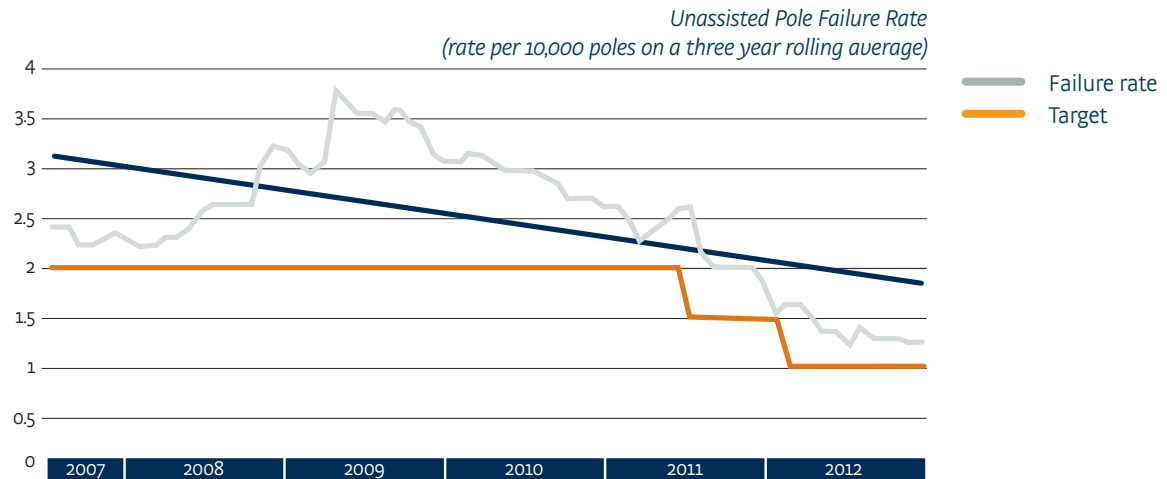
Pole testing methodology

In 2009, EnergySafety issued an Order to Western Power to improve the inspection, assessment and management of wood poles and subsequently advised Horizon Power, at the time utilising the same system of pole management, that it would also be required to comply with the requirements of the Order.

Horizon Power initiated a program to address each of the elements identified by EnergySafety in the Order, one component of which was a revision of pole inspection techniques to determine the strength of poles in service.

In 2012, Horizon Power commenced a trial to collect data over a 12-month period on the effectiveness of two new pole inspection techniques, which are being used in parallel with the current technique.

The new techniques test the strength of wood poles without physical intervention to reduce incidences of



unexpected failure of these assets. These new techniques use gamma rays and ultrasonic technology, rather than the old method of drilling holes directly into the pole; which provides an opportunity for fungal attack through the inspection holes.

The new technology was selected following a trial evaluation program developed in consultation with EnergySafety and run in conjunction with seven companies from Australia and New Zealand on sections of decommissioned network in Esperance.

The technology used is a first in Australia and one that will be significant for reducing unassisted pole failure rates throughout Horizon Power's service area.

These techniques have been embedded into the business to improve the reliability and consistency of pole testing.

The results from the new methodology will result in a network that is more capable of resisting environmental conditions and one where poles are replaced in a timely manner.

The new techniques provide a much higher level of confidence in pole strength assessment than previously available.

Initial work has indicated that the new techniques allow us to better determine the strength of the pole and how long it might remain in service. The impact of Horizon Power's pole management work throughout the year can be seen in the improving unassisted pole failure rate graph.

Horizon Power has nearly reached its target of 1.5 in 10,000 unassisted failing poles. We expect to achieve an Unassisted Pole Failure rate that meets industry standards by February 2014.

## SPOTLIGHT ESPERANCE NETWORK UPGRADES

Approximately \$44 million has been invested in three network upgrade programs in Esperance, Hopetoun and Norseman in the last seven years to ensure compliance with all regulatory and safety requirements.

Investment by State Government in these upgrade programs has also delivered significant improvements to reliability and safety of power supplies, in particular on the rural networks, where reliability has increased by more than 70 per cent. The \$14 million wood pole replacement and reinforcement program – the third and final program of the Esperance region network upgrade programs – was completed in June 2013, ahead of schedule and within budget.

Approximately \$30 million was invested in the Esperance Network Rural Upgrade Program and associated single-phase network upgrade programs between 2006 and 2012. These upgrades focused on upgrading infrastructure on the rural networks. Wooden poles were upgraded to steel and ageing poles replaced; the length between poles was reduced and ground clearance issues were rectified. The rural network now complies with relevant Australian Standards and reliability has improved significantly.

A further \$14 million was received in the 2012/13 budget to complete a two year wood pole replacement/reinforcement program of works. This wood pole replacement/reinforcement program was completed in June 2013, within budget and ahead of schedule. In total, Horizon Power has replaced 1,845 wooden

power poles and reinforced an additional 5,988 power poles in a two year period through this program. The serviceable life of wooden poles is extended by 15 years when reinforced.

As a result of the program, the safety risks associated with poles older than 40 years and unreinforced poles older than 25 years have been addressed. We have enhanced and continue to improve community safety with the considerable reduction in the unassisted pole failure rate in the region. Horizon Power has adopted a system for the management of poles that is now aligned with community expectations.

This is a significant milestone for Horizon Power. Poles are now up to the Australian standard and we will be able to continue to ensure the local networks are Fit for Purpose through our business as usual asset management planning. We expect to achieve an Unassisted Pole Failure rate that meets industry standards by February 2014.



“ WE HAVE ENHANCED AND SAFETY CONTINUE TO IMPROVE COMMUNITY WITH THE CONSIDERABLE REDUCTION IN THE UNASSISTED POLE FAILURE RATE IN THE REGION

#### CONDUCTOR MANAGEMENT

Conductor (powerline) management has been identified by national safety regulators as a major risk to electricity network businesses across Australia.

Horizon Power is developing a condition-based monitoring process to assess the condition of our conductors to develop a risk-based replacement program. Initial work has confirmed that conductor management will be the next major program for the business.

The first phase of this program involves the replacement of small copper conductors with:

- the removal of the highest risk conductors (all 7/18 and 7/20 copper streetlight wire) was completed in 2011/12;
- a program to remove 7/16 copper streetlight conductor by 2015;
- replacement of 7/16 distribution high voltage conductor by 2018; and
- development of a conductor condition and criticality assessment methodology for the management of the remaining conductors in service.

The Streetlight Thin Conductor Program has been completed in all areas except Karratha where thin conductors will be removed in 2013/14.

#### BROOME CBD ASSET REPLACEMENT PROGRAM

In April 2013, Horizon Power completed its Broome CBD Electrical Distribution Asset Replacement Program which included the undergrounding of overhead electrical network and installation of new streetlights in the central business district (CBD) and Chinatown precincts. The

program of work was initiated to improve the town's aesthetics and replace aged assets that were proven to be at the end of their life. Horizon Power worked closely with the Shire of Broome to deliver this project.

A total of 53 installations in this area have been changed over to the new underground network, however the number of residents and retailers benefitting from the completion of this project are many more; with underground power supply offering many benefits in terms of improved reliability and aesthetics.

This is a significant milestone for Horizon Power and for the Broome community due to the management of numerous heritage, environmental and Aboriginal cultural issues that were collaboratively managed without major incident.

The greatest advantage is the relationships developed between key stakeholders. In particular, Horizon Power has worked closely with the local Aboriginal people throughout the project. Cultural Monitors worked with Horizon Power line crews and contractors to ensure cultural, heritage and native title requirements were observed.

#### PILBARA UNDERGROUND POWER PROJECT

The Pilbara Underground Power Project (PUPP) involves the undergrounding of power supplies to approximately 5,000 properties in Karratha, South Hedland, Wedgefield, Onslow and the remainder of Roebourne.

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 project will dramatically

improve the provision of an essential service to regional residents and businesses during, and immediately following, adverse weather events.

The original budget estimate for the program was \$130 million and was to be funded through \$100 million from Royalties for Regions and \$30 million, or approximately 25 per cent of the project, from local government contributions. In 2012 it became clear the project could not be completed within budget due to the high cost of delivery in the Pilbara. Accordingly, the Minister for Energy was notified in August 2012 that the total cost to complete the project would now be \$230 million; the scope was reduced to complete as much as possible within the available budget while additional funds were sought.

The original budget of \$130 million will enable the completion of approximately 60 per cent of the project, including all of South Hedland and Wedgefield, together with the Karratha suburbs of Millars Well and parts of Bulgarra. At the time of publication, South Hedland and Wedgefield are nearing completion, Millars Well has been completed and completion of Bulgarra East is anticipated by the second quarter of 2014. Works will move to Bulgarra West and the Karratha Light Industrial Area once further funding is secured.

Funding to complete the remainder of the project remains to be secured and will be sought from additional contributions from local government and through working with the State Government through the State Budget process.



# SPOTLIGHT

## RESPONDING TO CYCLONES AND EMERGENCIES

**Horizon Power's Emergency Management Team (EMT) and local response teams were on a state of heightened operational readiness over the cyclone season (November 2012 – April 2013).**

The EMT was active for 19 days in 2012/13 to protect communities and restore systems impacted by severe weather events. Horizon Power works closely with the Department of Fire and Emergency Services and other State services through the State Emergency Coordination Group.

### **SEVERE TROPICAL CYCLONE NARELLE – JANUARY 2013**

Severe Tropical Cyclone (TC) Narelle (a Category 4 cyclone with winds of 185 kilometres per hour) passed approximately 330 kilometres northwest of Exmouth but did not make landfall. Our communities in West Pilbara and North Gascoyne were impacted by severe weather (lightning, wind and heavy rain) associated with TC Narelle only resulting in a few minor unplanned power interruptions in Exmouth and Roebourne.

### **TROPICAL CYCLONE PETA – JANUARY 2013**

TC Peta made landfall near Point Samson, near Karratha on 23 January. Across much of the West Pilbara district, TC Peta dropped heavy rains that caused widespread flooding. Despite the severe weather associated with TC Peta in the West Kimberley and Pilbara, Horizon Power was able to maintain reliable power supply to our customers in these areas. The benefits of underground power supplies in cyclone prone areas were clearly demonstrated during this severe weather event.

### **SEVERE TROPICAL CYCLONE RUSTY – FEBRUARY 2013**

Severe TC Rusty reached Category 4 strength and made landfall on 27 February east of Port Hedland, near Pardoo. Due to the slow-moving nature of the cyclone, Port Hedland experienced 39 hours of winds of at least gale-force strength (with the maximum gust of 119 kilometres per hour) and very high rainfall. There were some recorded outages affecting approximately 25 per cent of our customers in Port Hedland. Three quarters of our customers were restored within four hours and the remaining customers were restored within 24 hours.

### **SHARING RESOURCES WITH WESTERN POWER**

Horizon Power again this year provided support crews to Western Power during severe storms experienced in the South West Interconnected System (SWIS) in the third quarter of 2012. Western Power crews were on standby to provide assistance in the wake of TC Rusty in February 2013. This year we again demonstrated our ability to work effectively with State emergency organisations and other utilities to restore power supplies as quickly as possible following these severe weather events. Our emergency response is one we are proud of.



**“ THIS YEAR WE AGAIN DEMONSTRATED OUR ABILITY TO WORK EFFECTIVELY WITH STATE EMERGENCY ORGANISATIONS AND OTHER UTILITIES TO RESTORE POWER SUPPLIES AS QUICKLY AS POSSIBLE FOLLOWING THESE SEVERE WEATHER EVENTS**

#### ADVERTISING CAMPAIGNS

Horizon Power's advertising strategy complements and reinforces Horizon Power's brand attributes of being a visible local community partner, operating as a safe and reliable local energy partner and demonstrating resolve in a crisis.

Horizon Power promotes and advertises these themes through the following campaign messages:

- Local community member and supporter;
- Safety
  - Cyclone and Storm - How Ready Are You?
  - Be Aware of Electricity; and
- Energy efficiency - Switch the Future.

#### *Local community member and supporter*

At Horizon Power, we believe that in order to provide exceptional service we need to be close to our customers; our people live and work in the communities of regional Western Australia.

'We're your local energy partner' advertisements are promoted locally to showcase our office contact details, range of services and information about energy efficiency, energy safety, account details, rebates and subsidies. The advertisements feature Horizon Power staff and are promoted locally in the communities they live in.

'What's on the Horizon' is a bi-monthly information advertisement used to notify Horizon Power customers and stakeholders of electrical works, safety messages,

energy saving messages, partnerships and events. Local Community and Customer Relations Managers provide content to ensure each advertisement is relevant to the region where it appears. This communication channel provides a unique opportunity to engage with the community at a local level and provides visibility of works occurring in each region.

#### *Safety*

As a generator, distributor and retailer of electricity, Horizon Power has an obligation to promote public safety. Horizon Power's Inspection System Plan, which is approved by EnergySafety, includes obligations to provide information to electricity consumers via our website, marketing and customer service channels to promote electrical safety.

Safety is the number one performance driver at Horizon Power and we have embarked on educating the public on potential hazards associated with the use of, and interaction with electricity, and seasonal issues such as cyclone and storm awareness.

#### *Cyclone and Storm – How Ready Are You?*

Horizon Power has been actively promoting cyclone and storm safety since 2007. The cyclone and storm advertising campaign is a public awareness and safety campaign to promote safety strategies during the cyclone and storm seasons.

The current campaign was launched for the 2011/12 cyclone and storm season and recommenced in September 2012

#### “ INDEPENDENT BRAND AWARENESS RESEARCH SHOWS THAT SPONTANEOUS RECALL OF ANY HORIZON POWER ADVERTISING IS STRONG

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for the 2012/13 cyclone and storm season. This community awareness campaign uses Horizon Power employees and customers to promote cyclone preparation as a shared responsibility and highlights the personal contribution individual householders should make towards helping to keep their community safe.

Independent brand awareness research shows that spontaneous recall of any Horizon Power advertising is strong. Seventy five per cent of customers in the north of the State and 57 per cent of customers in the south of the State recalled seeing at least one component of the Cyclone and Storm campaign, with 70 per cent of respondents recalling the television advertisements. In addition, two thirds of those recalling Horizon Power campaigns also recalled Cyclone and Storm campaign messages when prompted. Of those, 87 per cent agreed that the campaigns acted as a reminder to prepare for cyclones and storms. This suggests Cyclone and Storm reminder campaigns are a valid component of the marketing expenditure for Horizon Power.

#### *Be Aware of Electricity*

The aim of our public safety campaign is to inform the public about safely interacting with electricity and in doing so, enhance Horizon Power's overall corporate reputation in the community.

“ SAFETY IS THE NUMBER ONE PERFORMANCE DRIVER AT HORIZON POWER AND WE HAVE EMBARKED ON EDUCATING THE PUBLIC ON POTENTIAL HAZARDS ASSOCIATED WITH THE USE OF, AND INTERACTION WITH ELECTRICITY

The latest campaign aims to continue to help the community:

- identify risks or potential hazards associated with interacting with electricity, including with Horizon Power’s assets;
- consider mitigating measures for the identified risks or hazards;
- keep electrical risks, hazards and preventative measures ‘top of mind’;
- understand the best way to act when confronted with a hazard or event (convert knowledge into action); and
- understand that Horizon Power values safety.

In addition, the campaign intends to further raise awareness of electrical poles and wires, after recent accidental damage by the public of these assets.

#### *Energy efficiency - Switch the Future*

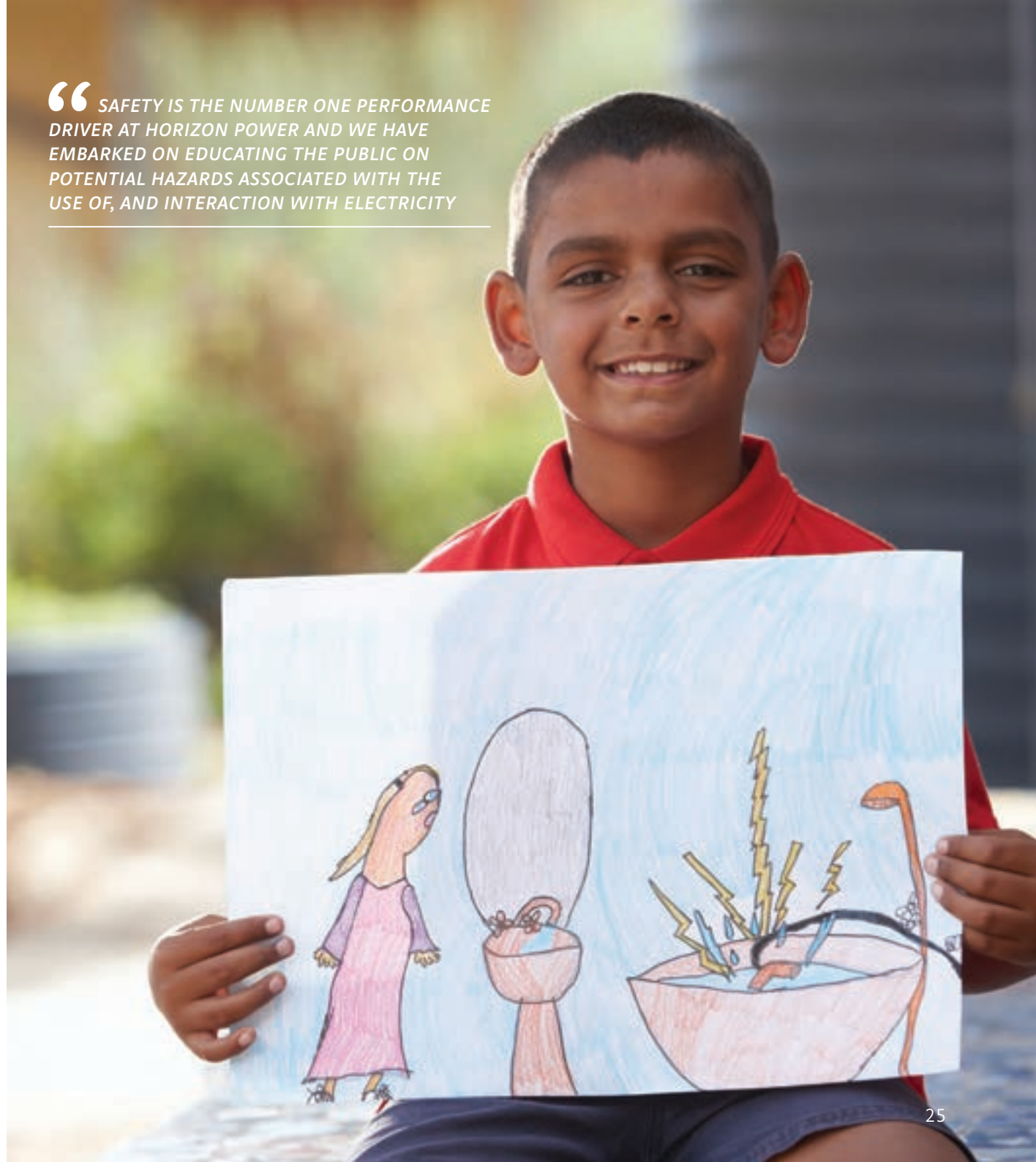
Horizon Power, Western Power and Synergy have formed the Future Energy Alliance (FEA) to deliver a joint State Government energy efficiency campaign. The purpose of the FEA is to create and deliver a strong, sustainable energy efficiency campaign that changes customer behaviour and endures into the future.

The *Switch the Future* advertising campaign promotes energy efficiency messages across the State under one banner.

#### **SAFETY WITHIN HORIZON POWER**

Horizon Power has achieved 1.3 million employee hours without a lost time injury, with the latest lost time injury

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occurring in December 2011. We have achieved no lost time injuries in Karratha for two years, Port Hedland for 13 years, in Kununurra for 12 years, in Carnarvon for seven years, in Broome for six years and in Esperance for three years.

Horizon Power has embarked on a series of strategic safety activities. These activities have included the following:

- Restructuring the Safety and Health group to provide appropriate customer facing services.
- Review of the existing Health and Safety Policy to create operational robustness and pave the way for increased Health and Safety Management System performance.
- Activities have commenced with re-energising our business system controls with the introduction of Health and Safety Management Principles; the foundation for our renewed Health and Safety Management System.
- An organisational review of health and safety performance has been achieved with a Current State Analysis. The results of this analysis will be used as one decision making tool for our health and safety strategy for the next three years.

Horizon Power continues to meet WorkSafe performance criteria for the WorkSafe Plan and has maintained Gold Award status. Further refinements of our health and safety management system will promote a certification to Australian Standard.

The Operations division has recorded a 0.0 lost time injury frequency rating, down from the previous year's rating of

7.6 and significantly lower than the Western Australian industry three year average 3.47.

### VALUE

Horizon Power is committed to providing the best possible service to its customers, in the most economically efficient manner, while also, importantly, complying with regulatory obligations.

### MANAGING OUR ASSETS

Horizon Power is acutely aware of the critical nature of our obligations as an asset manager of electrical infrastructure and undertakes a rigorous process to determine the funding requirements to maintain and upgrade its asset base to ensure safe and reliable power supply to our customers.

Horizon Power's management of assets is aligned to international best practice standards. The Asset Management Framework (AMF) addresses the safety and regulatory obligations of an asset manager, with ongoing asset replacement that will improve the reliability of networks and ability to serve our customers.

In relation to the Asset Management Plan (AMP), the Risk Management Framework ensures that resources are applied where there is the greatest reduction in risk for each dollar invested. The asset management strategy is moving from an age-based approach where decisions are driven based on the assets date of installation to a more efficient condition-based approach.

Knowing what affects an asset's condition can help us maximise its life. Horizon Power continues to balance investment in prioritised risk areas across the business while ensuring maintenance of a safe and reliable network. These asset risks can be difficult to assess and measure, but their mitigation is closely linked to ongoing, regular investment in the asset base to ensure adverse outcomes can be prevented.

The most significant risk to the business is adequate funding to deliver the AMP and other initiatives that will mitigate prioritised risks. The major implication of this is a substantial increase in the build-up of contingent risk (operational and economic risk), manifesting itself as a future bow wave of expenditure on assets, such as that required to bring Esperance region assets to Australian Standards.

We continue to refine the means by which we manage our asset base to ensure optimised application of scarce resources. It is critical that Horizon Power receives the financial resources necessary to adequately maintain the asset base; both of which are fundamental to the achievement of the organisation's objectives and ensure public safety.

The AMF addresses the following areas of Horizon Power's assets:

- *Energy Asset Management:* provision of electrical infrastructure to support the development and enhancement of communities of regional Western Australia by addressing safety issues, ensuring regulatory compliance, reliability, quality, economics,

serviceability and capacity of all Horizon Power's networks;

- *Non-Energy Asset Management:*
  - *Fleet and Commercial/Residential Properties:* assets are managed and maintained by Horizon Power to ensure safe, fit-for-purpose properties with sufficient capacity to meet business requirements throughout Western Australia;
  - *Knowledge and Technology Asset Management:* continued asset management of information technology assets to ensure safety, financial viability, information security and regulatory compliance.

### **PILBARA POWER**

Horizon Power has been evaluating options to address the forecast generation capacity shortfall in the Pilbara. The strategy adopted has been to extract as much capacity as possible from existing suppliers while seeking to defer the cost of new generation for as long as possible.

Horizon Power is working with the State Government, through the Pilbara Power Procurement Board (PPPB), to ensure forecast demand is met by securing firm capacity as soon as practicable.

#### *Karratha Generation Project*

Horizon Power received \$43.5 million from the State Government in the 2012/13 State Budget to install a 20 megawatt (MW) generator in Karratha in order to meet short term energy demand.

The new gas turbine generator, commissioned in January and owned and operated by Horizon Power, boosts the total generation capacity on the North West Interconnected System (NWIS) to approximately 160 MW.

In addition to implementing this generation solution, network interconnection infrastructure in Karratha was upgraded which provided sufficient capacity to meet the 2012/13 peak summer demand on the NWIS.

#### *Pilbara power solutions*

Horizon Power is working with the PPPB to assist in the selection of the most cost effective permanent solution to address the long term forecast generation capacity shortfall in the Pilbara.

Horizon Power has been funded by the State Government to install 67 MW of generation capacity in South Hedland to meet peak summer demand for power in the region for 2013/14. This work was awarded to Forge Power Group on 23 January 2013 and the project is on track for the new station to be delivering power to the Pilbara early 2014.

Site works are complete and major equipment will soon be delivered for the South Hedland Power Station at the Boodarie Industrial Estate.

The second stage of the project encompasses the construction of a 220 kV transmission line between the new South Hedland Power Station switchyard and the existing Port Hedland 220 kV terminal, scheduled to be operational by November 2014.

A permanent Pilbara Power station will be built on the same site as the South Hedland Power Station and will

utilise the infrastructure and balance of plant installed for the temporary power station. The Pilbara Power Project will deliver an Independent Power Producer (IPP) developed, owned and operated efficient and reliable power station to replace the South Hedland Power Station in January 2016 and provide long term generation capacity on the NWIS.

At commencement of operations, the IPP will reimburse the capital cost expended by the State.

The formal procurement process for selecting the IPP commenced in January 2013 and it is estimated that a Power Purchase Agreement and related contracts is ready for execution in December 2013.

Most of the assets from this project will be utilised in the permanent solution which will be determined by a request for proposal process currently underway. It is intended that the new permanent facility will be fully operational by January 2018.

### **ABORIGINAL AND REMOTE COMMUNITY POWER SUPPLY PROJECT**

The Aboriginal and Remote Communities Power Supply Project (ARCPSP) is a program designed to improve the quality, safety, reliability and affordability of electricity supplies in large service hub remote Aboriginal communities.

The project replaces ageing diesel-fired power stations and upgrades of network infrastructure in selected remote communities. It also includes inspection and upgrade of internal house wiring, the installation of pre-payment meters, installation of streetlights, education on energy

## SPOTLIGHT RENEWABLE ENERGY

### Our focus at Horizon Power is to create energy for life by being the architects and developers of sustainable energy solutions.

We are examining solutions to meet customer demand for renewable energy. We want to offer an attractive proposition to customers balanced with a long term vision that ensures we continue to offer renewable energy without increasing our overall cost of supply, and without compromising quality and reliability requirements.

Given Horizon Power's unique operational environment, we believe we are able to lead the way with our innovative, long term approach to renewable energy. Our geographically dispersed, isolated networks have set 'hosting capacities' for renewable energy. This ensures we can continue to provide a safe and reliable power supply to all our customers. In 2012/13 customer demand for renewable energy meant that a number of towns exceeded set hosting capacity limits. This means we are now unable to accept unmanaged renewable energy in Esperance, Carnarvon, Exmouth, Broome and a number of other towns.

Rather than accept that the capacity for small scale renewable energy has been reached in these towns, we are working hard to meet customer demand.

Based on this increasing demand, we re-launched our buyback product in July 2012. Customers are now offered a town-by-town buy-back and cost neutral price, aligned to the cost savings in the buyback price. We set a requirement for 'generation managed' renewable energy systems in towns within our service area (excluding Renewable Energy

Buyback Scheme customers) to enable the approval of more renewable energy where hosting capacity limits are near or exceeded. Generation managed systems smooth the fluctuating output of renewable energy. This extends the time available at the power station to ramp up output when renewable energy systems are unable to meet customer demand.

A generation managed system for the residential market is not yet available but Horizon Power, in collaboration with the Department of Commerce and Pilbara Cities, is driving the development of a suitable product. The Renewable Energy Technology Challenge was held in early 2013 and many innovative solutions were presented, providing confidence that a suitable product will be available in the near future.

Our variable pricing structure sends a clear pricing signal to the market to encourage uptake of renewable energy in towns where the cost to supply is high. This is a win-win situation for our customers and Horizon Power because it reduces our reliance on State Government subsidies through the Tariff Equalisation Fund.

We are promoting the take-up of renewable energy in these high value solar towns, with road-shows and collaboration with the renewable energy installer industry. In 2013/14 we will target a number of high value solar towns to further encourage the take up of renewable energy.



In the longer-term, Horizon Power will explore potential opportunities, with community support, to maximise opportunities for customers to install renewable energy; in towns where hosting capacities have been reached by trading more traditional performance measures.

We acknowledge that at present there are limitations in our ability to meet customer demand for renewable energy but we are confident with our long-term vision, we will be seen as a leader in the field.

efficiency and electrical safety and the employment of community-based Remote Community Utilities Workers.

ARCPSP phase one involved network upgrades and five new power stations servicing six communities and was completed in December 2007. ARCPSP phase 2.1 involves network upgrades and new power stations in Kalumburu and Yungngora (Noonkanbah).

In October 2011, Horizon Power took responsibility for the Kalumburu electricity network and installed underground power to improve safety and reliability of power supplies, particularly important in cyclone-prone areas. In November 2011, residents in the west Kimberley community of Yungngora were connected to the upgraded network.

The new power station in Yungngora is scheduled to be operational in October this year and in Kalumburu by January 2014.

As part of ARCPSP, Horizon Power has also delivered education on safety, energy efficiency and the new way of paying for power to the residents of Kalumburu and Yungngora. As Horizon Power customers, residents will pay the same price per unit of electricity as most other Western Australians under the Uniform Tariff Policy and are now able to apply for State Government energy rebates and subsidies.

At the completion of this project, 8 of the listed 15 large remote communities will have received upgrades to their infrastructure.

### **REGULARISATION OF TOWN-BASED COMMUNITIES**

The Town Reserves Regularisation Program (TRRP) is funded by the State's Department of Housing and is designed to deliver safe and reliable power systems to town-based communities.

Town Reserve communities originated in the 1920s and were developed as a place for Aboriginal people to reside close to, but removed from, mainstream towns. Historically, Town Reserve communities have not had access to similar standards of municipal and essential services as their mainstream counterparts.

Under phase one and two of TRRP, Horizon Power upgraded networks and established direct customer arrangements in 25 town-based communities, as well as auditing and upgrading internal house wiring. As part of phase three, Horizon Power completed works at Bayulu in October 2012 and Mowanjum in June 2013. Network upgrades were completed in 2012/13 in Looma; however the Go Live date was postponed until July 2013 to enable the change-over to coincide with re-programming of meters.

Horizon Power is working with the Department of Housing on developing new approaches to improvement works that minimise capital expenditure and reduce operating expenses.

### **REMOTE INDIGENOUS ENERGY PROGRAM**

In November 2012, Horizon Power was successful in a competitive tender process for the Remote Indigenous Energy Program (RIEP), a Commonwealth-funded program that supports the establishment of solar or solar-diesel

hybrid power systems in selected mid-sized remote communities commencing in 2013/14.

The program also supports the provision of energy efficiency and safety education for power consumers in the selected communities.

RIEP does not provide for full regularisation of services or network upgrades. Horizon Power will implement its projects in collaboration with private sector companies which will provide an opportunity for training and employment of local Aboriginal people.

### **MUNGULLAH POWER STATION PROJECT**

Mungullah Power Station is an energy-efficient station is being built at Brown Range, about 6.5 kilometres from Carnarvon's residential areas. It will replace the existing Carnarvon Power Station which can no longer keep up with the growing region and its power needs.

In September 2012, the Mungullah site was connected to the Dampier to Bunbury Gas Pipeline. This will enable the power station to generate electricity efficiently using natural gas as its main fuel source. Ten engine generator units were delivered and installed over a three-month period in early 2013 and the commissioning and testing of the generation units are due to commence in late 2013 for a 30-day period.

Horizon Power has worked alongside traditional owners and custodians, the Yinggarda People, throughout the project. In February this year, the Mungullah Community Aboriginal Corporation presented Horizon Power with

a painting by local Aboriginal artist and Mungullah community member, Mr Dougy Walley, to celebrate the naming of Carnarvon's new power station after the hill on which it has been built. The painting will be displayed at the Mungullah Power Station office.

Once the Mungullah Power Station is in service, power will cease to be generated from the existing Carnarvon Power Station. Carnarvon Power Station will be retained as an emergency standby generation facility for a period of time and then decommissioned.

#### **SQUARE KILOMETRE ARRAY**

In December 2011, Horizon Power received \$15.5 million in funding, from the Royalties for Regions and the Science and Innovation portfolios, to construct a 1 MW power station for the CSIRO's Australian Square Kilometre Array Pathfinder project (ASKAP).

The CSIRO selected Horizon Power to design, build, operate and maintain the diesel station at Boolardy Station, close to the ASKAP site at the Murchison Radio Observatory, approximately 400 kilometres north-east of Geraldton.

The ASKAP is a pilot project for what will be the largest telescope on the planet: the Square Kilometre Array (SKA) which will be co-hosted with New Zealand and South Africa. SKA will ultimately involve the installation of radio telescopes over vast areas of Australia and New Zealand with the majority located within Horizon Power's service area. The SKA will require up to 50 islanded power systems

to be dispersed from the core site plus a 50-100 MW power solution at the core site.

Horizon Power is currently working with the CSIRO to finalise the detailed scope of the power station, following which a power purchase agreement will be executed, signalling the commencement of construction. Completion is anticipated to be in early 2015 in keeping with CSIRO's requirements.

#### **FUEL PROCUREMENT STRATEGY**

Horizon Power has engaged in lengthy negotiations with gas suppliers for supply post the expiration of its gas contracts in 2016. Horizon Power continues to work with the State Government and its Government Trading Entities, regarding its future gas supply.

#### **CHANGES TO HORIZON POWER'S CONTRACTOR CONNECT SCHEMES**

Horizon Power reviewed its own Schemes following EnergySafety's audit of Western Power's Service Connect Scheme. As Horizon Power manages its Schemes in a similar manner, it was likely Horizon Power would receive similar audit recommendations if its own Service Connect Scheme were audited.

Following an internal review of our Service Connect and Contractor Connect Schemes, Horizon Power decided to discontinue both Schemes effective 1 January 2013 and bring these services in-house. The Contractor Authorised Changeover Scheme and the Portable Builders Supply Pole Scheme also ceased on this date as they are reliant on the

authorisation of contractors under the Contractor Connect Scheme.

The authorisations issued under Horizon Power Connection Schemes entitled electrical contractor personnel to fit meters, connect to the network and energise installations where Horizon Power is network operator. Horizon Power now performs those activities.

Horizon Power's capacity to implement the audit recommendations made by EnergySafety, and the financial implications of doing so, formed part of the review.

Horizon Power's established that the additional costs imposed by implementing the recommendations made continuing the schemes unviable.

#### **MANAGE BUSINESS RISK**

Horizon Power's Corporate Risk Management Framework is aligned to the ISO 31000:2009 standard and includes processes to identify, assess, report and escalate risk exposures to management. Strategic risks are managed by the executives and are reported to the Audit and Risk Management Committee (ARMC) on a bi-monthly basis.

The risk management framework has been enhanced to integrate risk and utilise risk management as a key driver of the strategic planning and corporate budgeting processes. This approach facilitates the prioritisation of key initiatives and adequate investment in risks.



## SPOTLIGHT BUSINESS TRANSFORMATION

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The Business Transformation Program began in 2008 and was designed to separate core operating systems and business processes that were inherited from Western Power following disaggregation. Separating this infrastructure allowed us to implement resource management and planning systems more suited to the size and scale of Horizon Power.

By 2012, two of the largest and most complex systems were the last to be separated. They were the key to removing reliance on Western Power and centred on creating an independent and standardised Enterprise Resource Planning system that would better suit our diverse customer base and service area.

The two systems went live on 3 December 2012, with the delivery of a new field mobility solution and reporting systems. While software issues impacted some projects, the four year program was completed on time and within budget.

Because core processes and technology had been so heavily re-engineered, the impact on Horizon Power staff was significant in terms of learning new systems and processes.

Despite the magnitude of change and the difficulty of adjusting to a new way of working, the Program was necessary so we could own business processes and technology but also, we will now avoid almost

\$6.5 million every year in maintenance and support costs that would have been incurred had we remained on the legacy mainframe technology.

We now have IT systems that meet the needs of our business and our customers.

**“ WE WILL NOW AVOID ALMOST \$6.5 MILLION EVERY YEAR IN MAINTENANCE AND SUPPORT COSTS THAT WOULD HAVE BEEN INCURRED HAD WE REMAINED ON THE LEGACY MAINFRAME TECHNOLOGY**

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## COMMUNITY

### ABORIGINAL ENGAGEMENT

In October 2011, Horizon Power's Board endorsed the Aboriginal Engagement and Employment Strategy (AEES) formalising Horizon Power's commitment to improving the standard of living for Aboriginal Australians and setting clear measures of success. During the year, Horizon Power continued to implement the AEES particularly focusing on employment, training and contracting opportunities and ensuring we are better positioned to deliver culturally-appropriate and fit-for-purpose energy solutions.

#### *Aboriginal Community Advisory Council*

In July 2012, Horizon Power's Managing Director established an advisory group comprising respected Aboriginal community and business leaders to advise him on the Aboriginal Employment and Engagement Strategy (AEES).

Through 2012/13 the Aboriginal Community Advisory Council (Council) met regularly to assess progress, provide advice and inform two way advocacy. Key Council functions include:

- Advise the Managing Director on effective processes and protocols for consultation and engagement with Aboriginal communities;
- Provide advice on the design and delivery of services to Aboriginal communities; and
- Facilitate the exchange of cultural knowledge and information to internal and external stakeholder groups.

#### *Aboriginal Employee Reference Group*

The Aboriginal Employee Reference Group (AERG) provides a forum at which Aboriginal employees can provide feedback and input about the implementation of Horizon Power's Aboriginal Employment and Engagement Strategy and the company's Reconciliation Action Plan.

Terms of reference for the group include:

- Provide high level advice to the Managing Director on emerging issues pertaining to the employment, retention and training of Aboriginal staff;
- Monitor reports about Horizon Power's Aboriginal employment and engagement outcomes; and
- Assist Horizon Power to engage with Aboriginal communities and key stakeholders.

#### *Cultural Awareness Training for Horizon Power staff*

Between January and June 2013, Aboriginal cultural awareness training was provided to all employees. Local providers were engaged throughout the various regions to ensure understanding of Aboriginal heritage and culture relevant to the regions was delivered. The training has enabled our staff to be better placed to deliver customer-focused services to Aboriginal people in regional and town-based communities.

Feedback from the participants was positive, in particular that the training was informative and useful. All new employees now attend an Aboriginal Cultural Awareness session as part of corporate induction. Team members based in the various regions will receive a further one day training program specifically designed to include local knowledge, heritage and culture.

#### *Procurement opportunities for Aboriginal businesses*

To ensure Aboriginal-owned companies can participate in procurement opportunities, Horizon Power initiated a scoping exercise in 2012/13 to gain a better understanding the Aboriginal supplier marketplace (extrinsic), identify areas in the procurement processes for improvement (intrinsic) and benchmark peers' attempts to successfully engage Aboriginal businesses. Using this valuable information, we are developing practical procurement strategies to facilitate the sustainable engagement of Aboriginal suppliers.

#### *Gnulli – Heritage Agreement Obligations*

Horizon Power has a Heritage Agreement with the Gnulli Native Title Claim Group in relation to the construction and operation of Carnarvon's new Mungullah Power Station. A key obligation within the agreement is the provision of apprenticeships and scholarships for the traditional owners within the Gnulli Native Title claim group. Horizon Power is working closely with the Gnulli people to realise these benefits for the traditional owners.

### COMMUNITY INVESTMENT PROGRAM

Our focus is to create value for future generations of Western Australians and to make a difference to the lives of people in the communities we serve.

We firmly believe that our role in communities should not stop with the tangible assets we create and upgrade, such as new power stations and upgraded networks, but that equal importance should be placed on employment

opportunities and continued engagement with communities at a local level.

We are focused on creating opportunities to assist in the development of communities, whether it is through providing employment opportunities, sponsoring community initiatives or delivering our Horizon Discovery Zone education program to school children in regional Western Australia.

We develop and support partnerships with community organisations that have activities, interests and values compatible with our own. The focus of our Community Investment Program is to identify and support initiatives that contribute to Horizon Power's intent to maximise social, environmental and economic intergenerational assets to the communities we serve and involve Horizon Power as part of the community.

We support a broad range of not-for-profit organisations and events that encompass areas of strengthening communities and that align with our corporate objectives: *Safety, Value and Community*. Programs and initiatives that we have supported this year include:

### **Safety**

#### *Esperance Goldfields Surf Life Saving Club – Cadet Program*

Esperance Goldfields Surf Life Saving Club (EGSLSC) provides programs aimed at youth development, training and education, and beach awareness. Development of junior members is imperative for the survival and growth of the organisation.

Horizon Power has partnered with EGSLSC to support their Nipper and Youth Involvement Programs. The programs are designed as a fun and educational outlet for young people with a strong emphasis on general water safety and surf skills. The programs also contain an educational component specifically relating to the identification of the many dangers presented on the beaches and appropriate actions to take.

### **Value**

#### *Teach, Learn, Grow*

Teach, Learn, Grow (TLG) provides free tutoring and mentoring services to primary students living in small remote rural communities. Perth university students volunteer their time and energy to help improve opportunities for young regional students.

Horizon Power has partnered with TLG to deliver *LEAP!* to the Cue community and surrounding primary schools. Students are tutored one-on-one in maths and English and mentored to consider their goals and aspirations and follow further education.

#### *Fair Game Mid West Program*

This program inspires healthy communities through the use of recycled sporting equipment. The partnership provides unique sport and fitness participation programs to the Mid West regions (yoga, team building and fitness testing).

The program replenishes stock of football boots and sporting shoes and reinforces hygiene programs through nutrition sessions.

### **Out There Program**

The *Out There* program is designed to increase opportunities for young people in the Burringurrah community, located 430 kilometres east of Carnarvon, to engage in arts projects over a three-year period (2011-2013).

The leadership program aims to increase the involvement of young people in the arts, build their sense of place and identity, develop new skills, strengthen community relationships, increase confidence and establish structures within communities that support young people and the arts.

## SPOTLIGHT SCHOOL EDUCATION PROGRAM

Horizon Power's electricity education program, Horizon Discovery Zone (HDZ), and Gilbert our frill-necked lizard have been very busy throughout Western Australia, delivering messages of electrical safety and energy efficiency to 5,000 students at 33 schools.

This year HDZ began revisiting schools as the two year tour schedule began again. A new set of student workshops with a renewable energy theme which involved students have been developed with experiments to investigate the effect of water pressure on hydroelectricity output, wind speeds on wind turbine electrical generation and the effect of multiple appliances on these generators now included. With a clearer understanding of increased load on our power stations, the messages of energy efficiency made a big impact.

Over the year Horizon Power's Education Officer visited schools in the Midwest, Goldfields and the Kimberley. In addition to this, Gilbert attended Karratha and Esperance schools to deliver safety messages to the students and also represented Horizon Power at the North West Expo in Broome, the Esperance Agricultural Show and the Telethon mascot race.

"Our Lady Star of the Sea Catholic Primary, Esperance welcomed Horizon Power to our school to present to students good safety procedures when dealing with electricity and inform our students of the work Horizon Power's employees do in keeping us safe and maintaining a power supply to homes and schools," Sheldon Carey, Principal, Our Lady Star of the Sea Catholic primary school Esperance said.

"The presentations were very informative, fun and the children just loved Gilbert and the wonderful gifts they left us with."

In March 2013, 26 students from Carnarvon Christian School toured the Carnarvon Power Station as part of their science studies.

The tour commenced with a walk through the power station generation centre, switch room and control centre. Students then visited the depot and interacted with Horizon Power's Discovery Zone website to learn more about energy efficient behaviour.

This year HDZ entered the second year of a successful partnership with Rio Tinto. The aim of this partnership is to visit students in Rio Tinto town schools to ensure our messages of electrical safety, energy efficiency and renewable energy are conveyed in an interactive hands-on workshop.

Our education program embodies all that we do at Horizon Power. Beyond providing safe and reliable power supplies through the maintenance and upgrades of our asset infrastructure, we're leaving a lasting legacy in the communities we serve.



“ BEYOND PROVIDING SAFE AND RELIABLE POWER SUPPLIES THROUGH THE MAINTENANCE AND UPGRADES OF OUR ASSET INFRASTRUCTURE, WE'RE LEAVING A LASTING LEGACY IN THE COMMUNITIES WE SERVE

## Community

### *Kimberley Girl and Pilbara Girl*

The Kimberley Girl and Pilbara Girl projects instigate positive change in the personal and professional capacity of young Indigenous women while offering an avenue for the ongoing development of Indigenous youth.

The projects also promote an understanding and respect for the Indigenous culture from the wider community by representing Indigenous people in a positive and contemporary environment, aiding in the overall process of reconciliation.

### *Techtrails*

Techtrails is run by Women in Technology Western Australia (WITWA), a not-for-profit organisation that is designed to encourage high school students to consider careers in technology.

In October 2012, we supported a Techtrails event at Karratha Senior High School. Students were able to take part in fun activities as well as engage with and be inspired by local speakers about the diversity present in the broader technology industry. Feedback from students was very positive, with over 15 per cent now considering a career in technology (who were not prior to the event); and over 90 per cent wanting to know more about a wide range of different career paths.

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## INDUSTRY COLLABORATION

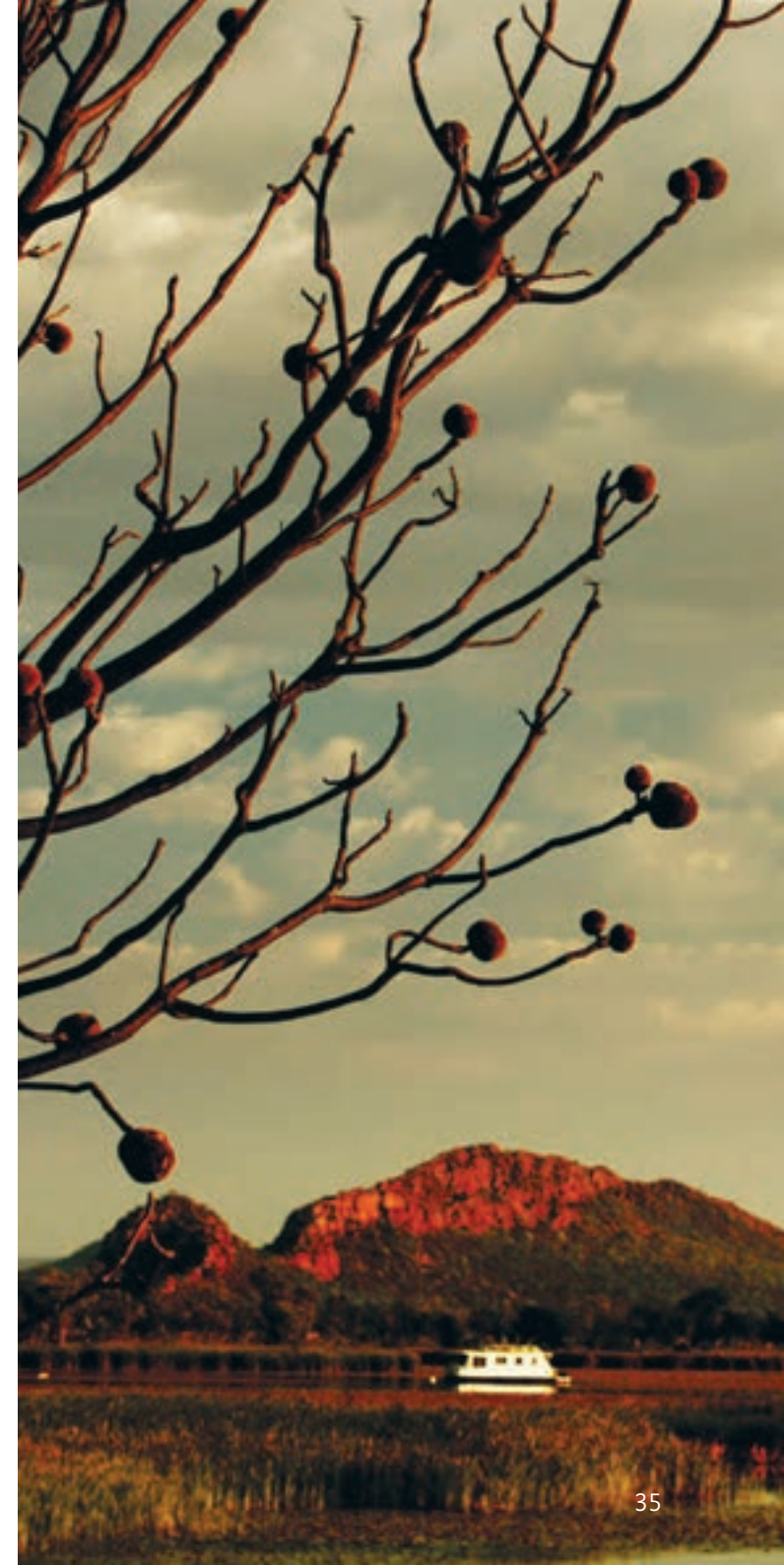
### **MEMORANDUM OF UNDERSTANDING WITH WESTERN POWER**

Since disaggregation in April 2006, Horizon Power has maintained a collaborative relationship with Western Power, with both utilities assisting each other in emergency situations by providing staff and equipment to restore power following severe storm and cyclone events. At the end of November 2012, Horizon Power signed a Memorandum of Understanding (MOU) with Western Power to formalise the collaborative arrangements between the two utilities.

Specifically the MOU aims to: “promote cooperation, sharing of information, cost sharing and mutual assistance between Western Power and Horizon Power to facilitate the efficient discharge of their respective roles and responsibilities under Western Australian legislation and regulations.”

The Managing Director of Horizon Power and the Chief Executive Officer of Western Power meet regularly to discuss opportunities to share information and collaborate on projects as well as provide assistance to each organisation where needed.

Horizon Power provided support crews to Western Power during severe storms experienced in the South West Interconnected System (SWIS) in the third quarter of 2012 and Western Power crews were on standby to provide assistance in the wake of Cyclone Rusty in February 2013.



Horizon Power has also provided information and support in wood pole management following the successful replacement program recently completed in Esperance. A wood pole reference group has been established to share knowledge and information relevant to managing wood pole assets. This group will provide guidance and feedback to the executive working group of Horizon Power and Western Power.

Horizon Power and Western Power have also collaborated on a number of edge of grid communities including Ravensthorpe and Bremer Bay.

Western Power has assisted Horizon Power with various works, including the providing additional resources for the Pilbara Underground Power Project and the Karratha Generation Project.

In order to meet extremely tight deadlines on the Karratha Generation Project, which boosted generation capacity on the North West Interconnected System (NWIS) by 20 megawatts (MW) for the 2012-13 peak summer demand period, a team of Western Power commissioning technicians assisted Horizon Power in the commissioning phase.

In January 2013, the Independent Power Producer (IPP) at the hydro power plant supplying Kununurra and Wyndham, experienced damage to a circuit breaker at its switchyard, causing an hour long interruption while Horizon Power's back-up supply was brought up to full capacity. A Western Power employee provided technical support to Horizon Power at this time.

Horizon Power greatly values this ongoing, collaborative relationship with Western Power.

#### **FUTURE ENERGY ALLIANCE**

The Future Energy Alliance (FEA) is formed by Horizon Power, Western Power and Synergy. In combination, the three utilities are working together to deliver coordinated advertising campaigns to encourage energy users in Western Australia to reduce energy consumption.

Horizon Power is also involved in the FEAs education program and has helped to inform the public and children of energy efficiency measures.

#### **HIGH VALUE SOLAR PANEL OF RENEWABLE ENERGY INSTALLERS**

In April 2013, Horizon Power selected a panel of Australian renewable energy installers to overcome barriers to renewable energy uptake in 18 towns of high cost to supply and high renewable energy potential.

These installers will work to increase renewable energy uptake in 18 towns across the Kimberley, Gascoyne/Mid-west and Esperance regions. These towns have high solar irradiation and relatively low levels of solar penetration. This presents an excellent opportunity for our customers to take advantage of solar power to receive benefits such as reduced electricity bills, decreased emissions and access to Horizon Power's buyback scheme.

#### **RENEWABLE ENERGY TECHNOLOGY CHALLENGE**

Horizon Power, in conjunction with Pilbara Cities and the State Government, recently ran a Renewable Energy Technology Challenge. This competition offered a \$50,000 prize to the company or individual that best demonstrated a solution to connect up to five kilowatt (kW) size renewable energy systems with a generation management capability.

Horizon Power requires all commercial customers and residential customers in towns where the networks capacity for renewable energy has been reached to install renewable energy systems with generation management capability. Generation managed installations enable the electricity output from renewable energy systems to be stored or otherwise managed. This requirement increases the total amount of renewable energy that can be connected to our electricity systems and ensures we continue to provide safe and reliable power supplies to all our customers.

The successful development of a 5 kW system will enable Horizon Power's customers to connect renewable energy systems that comply with our technical requirements. Horizon Power currently has 16 MW of available renewable energy hosting capacity and there is strong demand from regional customers for renewable energy.

#### **OPCON POWERBOX AT CARNARVON POWER STATION**

Horizon Power has agreed to trial the Enerji Ltd (Enerji) Opcon Powerbox (a waste heat recovery system that uses an Organic Rankine Cycle to convert discarded heat energy from generator exhausts to emission free electricity) at the



existing Carnarvon Power Station. The cost of the trial, with the exception of a new transformer, is being borne by Enerji.

Enerji has estimated that the Opcon Powerbox could generate up to a maximum of 700 kW of electricity at Carnarvon Power Station, reducing reliance on gas and diesel and improving efficiency by up to 18 per cent.

The design of the Opcon Powerbox has been modified to suit Australian conditions. The technology has not been trialed in Australia before but has been operational at four sites in Sweden for two years.

The trial commenced in July 2013 and will cease when Mungullah Power Station is operational.

#### **HIGH VOLTAGE TRANSMISSION UNDERGROUND PROJECTS**

Horizon Power has undergrounded high voltage transmission lines in Port Hedland to facilitate high and wide load transportation and overcome the impediment powerlines posed to resource companies in the Pilbara.

Horizon Power was engaged by Main Roads to underground six 66 kV operated overhead transmission lines at locations where they cross the proposed Great

Northern Highway to Wedgefield realignment heavy haulage route. This work was completed in November 2012.

Horizon Power was also contracted by BHP Billiton to arrange undergrounding of the Anderson Street Substation to Mount Newman Mines Substation 66 kV overhead transmission line where it crosses Gilbert Street in Port Hedland.

The lines operate at 66 kV however the cable installations were designed and constructed at 132 kV to allow for future upgrading of the Port Hedland transmission system.

SKM was engaged by Horizon Power to carry out the design, documentation and technical support for the works. Horizon Power oversaw the construction and commissioning of works, which were completed in July 2012.

#### **ALLIANCE PARTNERSHIP WITH TRANSFIELD SERVICES**

Horizon Power awarded Transfield Services a contract to undertake network upgrade programs in the Esperance district between December 2006 and June 2013.

Horizon Power adopted a collaborative or hybrid alliance contracting strategy due to the complex and long-term nature of these projects.

Transfield Services was awarded the contract to undertake the Esperance Networks Rural Upgrade Program (ENRUP) body of works and the contract was extended to enable Horizon Power to undertake the single phase upgrade program of works and age-based wood pole replacement program.

The contract has now expired and Horizon Power intends to implement a new consolidated, long term hybrid alliance contracting arrangement in the Esperance and Gascoyne/Mid-West districts to deliver our asset management programs.

**CUSTOMER SERVICE**

Customer is one of Horizon Power’s seven key performance drivers. The Customer Service Strategy focuses on understanding the reality of the customer service delivered and how this can be transformed to ensure Horizon Power is respected for its delivery of customer service.

Key initiatives of the strategy are:

- Improving usability of systems and training regional staff to allow for some local resolution of customer enquiries;
- Documenting process and defining responsibilities of all deliverers; and
- Visible monitoring and reporting of processes and performance.

**FINANCIAL HARDSHIP**

Horizon Power’s new financial hardship brochure, ‘Financial hardship and your electricity bill: we’re here to help’ was successfully rolled out at WACOSS’ 2013 divERSity Conference in May 2013.

The conference provided opportunity for us to explain the financial support we offer to key stakeholders including representatives from Financial Counselling Services and the Department of Families, Housing, Community Services and Indigenous Affairs.

The brochure is available for customers on our external website, in local depots and by mail.

**OUR PEOPLE**

We want Horizon Power to be known as a company that is respected for delivery and recognises talented and high performing people with opportunity, challenge and rewards. To achieve this, we recruit, develop and retain talented high performing employees that are motivated and who share our vision and organisation culture.

**ORGANISATIONAL CULTURE DEVELOPMENT PROGRAM**

As a result of Horizon Power’s review of corporate strategy and an assessment of corporate climate, a program to develop a high performance organisation culture is underway. We now have seven performance drivers to assist in focusing attention on delivery of business outcomes and succeed in providing energy for life:

PERFORMANCE DRIVER	BEHAVIOUR
Safety	Safe
Leadership	Accountable
Communication	Open
Customer	Respected
Performance	Focused
Capability	Balanced
Teamwork	Collaborative

A three-year road map has been developed to establish the pathway from the current culture to the desired culture.

The key focus in the next 12 months will be on Safety, Leadership, Customer and Capability.

**CULTURE SURVEY**

The results of the employee cultural survey (July 2012) indicated that we were tracking lower than the expectations of a high performing culture. A number of initiatives are planned around our performance drivers, and we expect results will improve. Gaining commitment and driving change in any culture change context takes time. The business will set Key Performance Indicators regarding cultural performance in the 2013/14 financial year.

**TRAINING OUR PEOPLE**

*Learning and development*

Horizon Power is reviewing its learning and development programs to align with the development of the organisation’s culture. Once implemented, these programs will contain core training and development modules. Our technical workforce continues to be trained in the core competencies required to maintain appropriate certification.

*Training*

We’re committed to developing our employees and in 2012/13 apprentices, graduate engineers and administration trainees participated in the following training programs: Certificate II, III and IV Business Administration, Certificate III Apprentice Remote Utility Community Workers, Certificate III Apprentice Distribution Workers and Graduate Engineer development.



## SPOTLIGHT CUSTOMER SERVICE

Customer service is one of Horizon Power's key performance drivers. In order to deliver excellent customer service we need to ensure our processes are working well and our employees have the support they require.

Horizon Power has offices and staff located in the regional communities we serve. Local employees are able to assist customers on a range of topics, from energy efficiency to financial hardship. We have local Community and Customer Relations Managers in each regional office to engage with the community and stakeholders we serve. To meet the needs of the community in Karratha we opened a new customer service office in 2012/13, located in the central business district.

In 2011/12 Horizon Power recorded 55 general customer complaints and that increased to 377 complaints in 2012/13. The number of complaints to the State Ombudsman increased from 96 in 2011/12 to 120 in 2012/13. Overall customer satisfaction reduced slightly from 81 per cent to 78 per cent.

In 2012/13, we rolled out a centralised complaints process through our billing system which allows us to thoroughly monitor general and Ombudsman complaints. Since this was introduced in August 2012, general and Ombudsman complaints have increased, compared to previous years.

The increase in complaints can partly be attributed to a refinement in our reporting processes; however, we recognise that we can reduce the number of complaints by improving our service to customers.

Horizon Power has identified an increase in the number of estimated bills and bills issued for a longer than normal billing period. By reviewing both metering and billing processes, the number of customers receiving bills that are higher than normal has reduced significantly.

Horizon Power is implementing changes to address these problems, including providing additional training and resources and streamlining processes to ensure bills are issued every two months and not for longer periods of time.

We are also improving our communication with customers, extending the communication channels we use to include social media, recognising that many of our customers now use Twitter and Facebook as a primary source of information. Rather than the old one-to-many mass communications style, customers now expect a personal one-to-one relationship. In 2012/13 we started engaging with customers through social media and will build on this in 2013/14.

We also recognise that we can improve our customer service with regards to new connections and electrical upgrades, particularly in the Pilbara. Limited available generation capacity combined with high demand has resulted in projects not being delivered to our



customers' required deadlines. In 2012/13 we commenced a project to streamline our internal processes for such work to reduce our turnaround times. This work will continue in 2013/14 to further improve the service we provide.

**“ WE ARE ALSO IMPROVING OUR COMMUNICATION WITH CUSTOMERS, EXTENDING THE COMMUNICATION CHANNELS WE USE TO INCLUDE SOCIAL MEDIA**

In total, 27 trainees were employed in various roles throughout the business, from Operations to Administration.

The six 2009 Certificate III Dist Linesmen Apprentices intake completed their training this financial year and official graduation presentations of Certificates and Statements of Attainment were held at the Horizon Power Service Awards night in October 2012.

Three of the Certificate IV Business Administration trainees' have completed their training this financial year and have been presented with Certificates and Statements of Attainment.

*Employment statistics*

**TABLE 3: TRAINING PROGRAM STATISTICS**

TRAINING PROGRAM	NUMBER OF EMPLOYEES	NUMBER OF ABORIGINAL EMPLOYEES
Apprentice Distribution Workers	11	3
Remote Community Utility Workers	5	5
Administration trainees	7	4
Graduate Engineers	4	

**ABORIGINAL EMPLOYMENT**

Horizon Power services regions of the State where significant proportions of the population are Aboriginal. The objective of the Aboriginal Engagement and Employment Strategy (AEES) is to have a workforce which is representative of our customer base. We want to provide Aboriginal people sustainable long term career paths and opportunities within the organisation.

Through our AEES, we have successfully employed, throughout various divisions within the business, 38 Aboriginal people.

**ABORIGINAL LEADERSHIP DEVELOPMENT PROGRAM**

Horizon Power recruited its first Aboriginal Leadership Development Program (ALDP) candidate in 2012. This program commenced in January 2013. The program is aimed at enhancing the representation of Aboriginal people in leadership roles and select occupational categories at Horizon Power. Appropriate support and coaching is provided to participants as they rotate through a range of functional areas in the business.

**TABLE 4: EMPLOYMENT STATISTICS**

	ACTIVE FULL-TIME EQUIVALENTS (FTE)			
	PERMANENT FULL-TIME	PERMANENT PART-TIME	FIXED-TERM, TEMPORARY	TOTAL
Overall Horizon Power	439	7.69	51.51	<b>498.2</b>
Corporate Services	94	3.09	5	<b>102.09</b>
Engineering and Projects	50	0	15	<b>65</b>
Commercial and Business Development	34	0	3	<b>37</b>
Knowledge and Technology	27	0.6	4	<b>31.6</b>
Office of Managing Director (including Corporate Affairs and Company Secretary)	13	3.4	2.51	<b>18.91</b>
Operations	221	0.6	22	<b>243.6</b>

Note: The figures are inclusive of contractors who are performing FTE roles.

### **HORIZON POWER PARTNERS WITH HIGH SCHOOLS**

Horizon Power has 'adopted' Kent Street Senior High School in Kensington; the school is located minutes from Horizon Power's office in Bentley, Perth. The partnership has seen two school graduates employed by Horizon Power.

Through its regional offices, Horizon Power also intends to build more partnerships with high schools in 2012. Through these partnerships, Horizon Power can offer local students encouragement and support by presenting achievement awards, and where possible, by providing learning and work experience opportunities.

We supported the 'Follow the Dream' program through Curtin University. This program targets high school students with an interest in science, technology, engineering and maths. The objective of the program is to increase the number of Indigenous students within these fields of study at Curtin University.

### **BUSINESS TRAINEES AT HORIZON POWER**

Horizon Power has appointed Aboriginal business trainees in its Bentley, Carnarvon and Kununurra offices.

An Aboriginal information technology trainee has been employed under a contract with Fujitsu Australia Limited; this appointment is an example of Horizon Power working with a supplier to create job opportunities for Aboriginal people.

### **ENERGY INFRASTRUCTURE IN ONSLOW**

Power supplies to the Pilbara town of Onslow have become more reliable, following 30 power interruptions between June 2012 and 31 March 2013. The rapid population growth in Onslow, driven by the development of a gas processing facility by Chevron, has put increased pressure on the existing station and Horizon Power has completed several system studies to determine how best to deal with the situation. Horizon Power has been working closely with the Independent Power Producer (IPP) which operates the existing Onslow station, to fix immediate generation, gas supply and network issues which were impacting on supply.

Horizon Power is now in the process of securing funding to implement a short term power solution while continuing to work with the Department of State Development, under the State Development Agreement for the Wheatstone Project, to assist in delivering a permanent, new power station for the town.

The new station, which will be owned and operated by Horizon Power, is currently in the planning and development stages. Horizon Power expects the new station to be delivering power from the middle of 2016. The new station will help support the increase in demand for energy which Horizon Power predicts will more than triple over the next three years as a result of the Wheatstone project and related developments in the area.

The scheduled delivery of the new power station means the existing station needs to be expanded to supply the town load for the next three years. Horizon Power has reviewed the medium term energy requirements in

Onslow based on the 2013 demand energy forecast and is proposing to deliver an incremental short term generation solution to be funded by government.

Horizon Power has included the capital funding requirement for delivery of the short-term generation solution for Onslow in the current Asset Management Plan.

### **WORKS TO IMPROVE RELIABILITY IN KUNUNURRA AND WYNDHAM**

The Wyndham and Kununurra communities are supplied with power from the IPP power system. The IPP own and operate the 30 MW hydroelectric power station and the 132 kV transmission line from the Ord River Dam to the Kununurra town site. Horizon Power takes ownership of power at a substation in Kununurra where a distribution network reticulates power to Kununurra and surrounds and a Horizon Power-owned transmission line (66 kV) takes power to Wyndham.

As at 30 June 2013, the 12 month System Average Interruption Duration Index was 760 and 787 minutes in Kununurra and Wyndham respectively, well above Horizon Power's target of 350 minutes for Wyndham and 290 minutes for Kununurra). The 12 month System Average Interruption Frequency Index was 19 and 18 respectively, above the Horizon Power's limit of 6.6.

The Kununurra and Wyndham systems do not meet reliability standards. The power systems in the Kimberley area face significant reliability challenges, as the area is prone to severe weather events including cyclones,

destructive winds, heavy rain, and lightning storms, however 80 per cent of outages in Kununurra, Wyndham and Lake Argyle are attributed to the IPP generation and transmission assets.

Horizon Power owns back-up diesel power stations in Kununurra and Wyndham. The Kununurra power station is approximately 50 years old and is required frequently to cover for the loss of generation supply. Horizon Power has positioned a large amount of mobile generation into Wyndham and Kununurra to provide a short term solution to maintain reliability and capacity of power supply. Network automation, reinforcement projects and improvements to the control system of the Wyndham standby generator have been completed to ensure the automatic restoration upon loss of power supply from the IPP.

Through our asset management planning process, we have identified capital projects that will improve the reliability at Wyndham and Kununurra. Work to improve Wyndham power system began in early 2013 but Kununurra has been delayed due to budget constraints. Additional funding is required to significantly improve the reliability of the back-up power stations and distribution networks in Kununurra and Wyndham.

**ENVIRONMENT AND HERITAGE**

**GREENHOUSE GAS AND CARBON INTENSITY**

Horizon Power reports total carbon emissions per financial year in accordance with the *National Greenhouse and Energy Reporting Act 2007* (NGER). Horizon Power’s 2012/13 NGER’s report is made publicly available in the first quarter of 2013. An estimate is made for the Scope 1<sup>2</sup> emissions (direct emissions) in Table 5 for 2012/13, based on the most up to date information as at 5 July 2013. Greater complexity exists in establishing Scope 2 emissions<sup>3</sup> (indirect emissions) therefore it is too early to accurately estimate this value at the time of publishing.

The increase in Scope 1 emissions from the previous year’s reporting is attributed to:

- An increase in diesel burned throughout the reporting year, attributed to increased usage of the Kununurra power station, the increasing demand for power in Onslow and the commissioning of the Karratha Generation Project.
- A reduction in natural gas burned at the Carnarvon Power Station.

Carbon intensity, measured as kgCO<sub>2</sub>-e/kWh sent out, of Horizon Power’s total operations provides the key performance indicator (KPI) for greenhouse gas emissions.

**TABLE 5: GREENHOUSE GAS EMISSIONS**

REPORTING YEAR	GREENHOUSE GAS EMISSIONS (TONNES CO <sub>2</sub> -e)		
	DIRECT EMISSIONS (SCOPE 1)	DIRECT EMISSIONS (SCOPE 2)	TOTAL ENERGY CONSUMPTION (GJ)
2010/11	37,460	40,491	922,464
2011/12	36,370	34,110	894,503
2012/13	42,112 <sup>4</sup>	Reported to CER by 31 October 2013, publicly available Q1 2014	

<sup>2</sup>Emissions of greenhouse gas into the atmosphere as a direct result of an activity or series of activities (including ancillary activities) that constitutes the facility.

<sup>3</sup>Emissions of greenhouse gas, in relation to a facility, as a direct result of one or more activities that generate electricity, heating, cooling or steam that is consumed by the facility but do not form part of the facility.

<sup>4</sup>Estimated 2012/13 greenhouse gas emissions (as carbon dioxide equivalent) Final figures submitted to the Clean Energy Regulator (CER), by 31 October each year.

Due to the relative contributions to electricity sent out, carbon intensity is primarily affected by independent power producers, with power stations operated by Horizon Power having a lesser impact.

Based on data available as at 5 July 2013, the 2012/13 carbon intensity is calculated at 0.55 kgCO<sub>2</sub>e/kWh sent out. This is a decrease in overall carbon intensity from the previous year and is primarily due to decreases in carbon intensity reported for Broome Power station and the North West Interconnected System.

**TABLE 6: CARBON INTENSITY**

REPORTING YEAR	CARBON INTENSITY KGCO <sub>2</sub> /KWH SOLD	TARGET KGCO <sub>2</sub> /KWH SOLD
2010/11	0.58	0.68
2011/12	0.60	0.68
2012/13	0.55 <sup>5</sup>	0.65

<sup>5</sup>Estimate only.

### MANAGEMENT OF CONTAMINATED SITES

We are actively managing 29 sites reported under the *Contaminated Sites Act 2003*. The sites are typically former power stations where historical spills and/or leaks of hydrocarbons have resulted in soil and/or groundwater impacts. [Table 7](#) provides a summary of key investigations completed during 2012/13.

Several sites are classified as 'source' sites by the Department of Environment and Conservation (DEC) as required by the *Contaminated Sites Act*. We have appointed accredited Contaminated Sites Auditors to oversee the investigations of these sites. Two additional sites were deemed as source sites during the reporting year and are now subject to auditor review; these are the sites of the former Redbank and Marble Bar power stations.

We developed a comprehensive management strategy during 2012/13 to guide the ongoing contaminated sites management program as the program moves from investigation phase to remediation and site close out.

Three sites were subject to reclassification by the DEC during the 2012/13 reporting year, as per [Table 8](#).

### ENVIRONMENTALLY SENSITIVE AREAS REVIEW PROGRAM

We are continuing the comprehensive review of the Environmentally Sensitive Areas (ESA) Program. The program identifies conservation significant species that intersect Horizon Power assets and provides staff and contractors with processes and procedures to follow when working within these areas.

This review is being undertaken on a regional basis with desktop assessments being completed for Horizon Power networks within the Pilbara and Midwest/Gascoyne Regions and field based surveys completed within the Pilbara Region during the 2012/13 financial year. Site specific procedures have been developed in consultation with the Department of Environment and Conservation

(DEC), to minimise the risk of Horizon Power activities impacting these areas.

Field surveys within the MidWest / Gascoyne networks are scheduled to occur within the 2013/14 financial year. This is to coincide with the flowering periods of those potential ESA flora species identified in the desktop review.

### ENVIRONMENTAL MANAGEMENT SYSTEM

A key principle of Horizon Power's Environmental Management System (EMS) is continuous improvement. Accordingly site Environmental Management Plans (EMPs) have been reviewed during 2012/13 resulting in the development of improved site EMPs ensuring best practise environmental management and consistency with current operations.

The Corporate Environmental Policy was revised in 2013 to better align with the revised corporate strategy. Importantly the policy has incorporated the commitment to actively investigate new technologies in clean energy generation and storage.

### AIR EMISSIONS

Horizon Power reports annual air emissions for the period 1 July – 30 June to the National Pollutant Inventory (NPI). These reports are made publicly available on the NPI website ([www.npi.gov.au](http://www.npi.gov.au)). An estimate of combined air emission data from the Horizon Power generation facilities is provided below. This estimate is based on information available as at 5 July 2013. It should be noted that the emission reductions are a result of improved accuracy in calculation techniques, rather than changes to operational

performance. The final data supplied to the NPI may alter slightly from the estimated emissions and shall also include additional reporting parameters.

**NOISE**

The Environmental Protection (Carnarvon Power Station Noise Emissions) Approval 2010 sets allowable noise emissions for the Carnarvon Power Station while the construction of the new power station is completed. This approval allows the power station to operate within a set of approved noise limits. Annual compliance monitoring was

completed in February 2013 to coincide with the highest load and therefore worst case noise emissions. Noise levels at all receivers were within allowable noise emissions.

**ENVIRONMENTAL INCIDENTS**

No reportable spills occurred during the reporting year.

**NATIVE TITLE AND HERITAGE COMPLIANCE**

The new Heritage Management System (HMS) includes well established Native Title and cultural heritage approval processes. The success of this system is reflected in the consistent number of requests for Native Title and

Heritage clearances from across the business, for both low and high impact projects.

Horizon Power is undertaking a comprehensive review of its networks to identify where its assets intersect registered and unregistered heritage sites. This review includes consultation with local Aboriginal groups, Department of Aboriginal Affairs and will lead to the establishment of heritage protection agreements. This project will ensure we continue to improve our Native Title and Heritage approvals processes.

**TABLE 7: FORMER POWER STATION SITES SUBJECT TO CONTAMINATION INVESTIGATIONS**

GROUNDWATER MONITORING EVENTS (GME)		
Broome	Carnarvon Power Station (Operational)	Derby
Esperance	Exmouth	Fitzroy Crossing
Meekatharra	Onslow (x2)	Redbank
Wiluna		
DETAILED SITE INVESTIGATIONS (DSI) (INCLUDING ADDITIONAL DSI'S)		
Camballin	Cue	Halls Creek
Kununurra	Menzies	Sandstone
OTHER INVESTIGATIONS		
Fitzroy Crossing – Human Health Risk Assessment (Lot 274)	Halls Creek – (Limited) Soil Sampling	Marble Bar – Health and Environmental Risk Assessment
Redbank – Monitoring Bore Condition Survey		



TABLE 8: FORMER POWER STATION SITES INVESTIGATIONS SUBJECT TO EXTERNAL AUDITOR REVIEW

SITE	PREVIOUS CLASSIFICATION	NEW CLASSIFICATION	END-POINT CLASSIFICATION REACHED
Broome 12 Mile	Possible Contaminated – Investigation Required	Decontaminated	Yes
Hopetoun	Possible Contaminated – Investigation Required	Remediated for Restricted Use	Yes
Laverton	Possible Contaminated – Investigation Required	Contaminated – Restricted Use	Yes

TABLE 9: AIR EMISSIONS

PERFORMANCE INDICATORS (SUBSTANCE)	2012/13 (ESTIMATE)	2011/12	2010/11
Sulphur Dioxide (SO <sub>2</sub> )	Total (tonnes)	0.3	0.3
	kg/MWh (generated)	0.004	0.005
Oxides of Nitrogen (NO <sub>x</sub> )	Total (tonnes)	516	916
	kg/MWh (generated)	8.10	16.46

# DIRECTORS' REPORT

## CORPORATE GOVERNANCE

Corporate governance is the system by which our organisation is directed and managed. It influences how:

- the organisation's business objectives are set and achieved;
- risk is assessed and managed;
- corporate fairness, transparency and accountability are promoted; and
- performance of the organisation is optimised.

To best reflect the expectations of our people, stakeholders and customers, Horizon Power has sought to adopt recognised best practice for corporate governance through the implementation of a Corporate Governance Framework. In practical terms, our Framework:

- provides structure and consistency to the way we do business with our customers and stakeholders;
- allows employees to respond to situations as they arise with confidence that we understand the requirements of the business;
- promotes our performance drivers and corporate governance principles, systems and practices, including the roles, responsibilities and authorities of the Board and Executive;
- encourages the creation of intergenerational assets, consistent with our Business Model;
- is aligned with our Strategic and Business Plans;
- provides accountability and control systems commensurate with the risks involved; and
- is an essential component to the overall success of the business.

The Governance Framework is underpinned by governance principles driven by the importance placed upon providing our staff with the necessary knowledge (supported by structure, systems and processes) to allow them to appropriately respond to circumstances, issues and opportunities with a clear understanding of Horizon Power's context.

This means that employees are able to perform their activities in a responsible, thoughtful, knowledgeable and consistently professional manner, contributing to the overall direction and success of the business.

Our Risk Management Framework is designed to encourage and support the development of an appropriately risk-aware culture within the organisation and assist Horizon Power to realise the benefits that will accrue from a conscious, structured and dynamic approach to the management of risk.

## BOARD OF DIRECTORS

In accordance with the *Electricity Corporations Act 2005*, Horizon Power must be governed by a Board of between four and six Directors appointed by the Governor on the nomination of the Minister for Energy. The Board is responsible to the Minister for Energy for the performance of the business.

The primary role of the Board is to set the strategic direction of the organisation, approve major expenditure and provide advice to the Minister for Energy on regional power issues.

The Board formally delegates the day to-day management of Horizon Power to the business' Managing Director and Executive management team.

Horizon Power's Board consists of the following people:

*Mr Brendan Hammond, Chairman*

*Mr Ian Mickel, Deputy Chairman*

*Ms Lynne Craigie, Director*

*Mr Ron Johnston, Director*

*Ms Rosemary Wheatley, Director*

### **BRENDAN HAMMOND (CHAIRMAN)**

Brendan brings with him a wealth of experience as Horizon Power's inaugural Chairman. He has worked in large mining corporations for most of his career, progressing through all levels of line management, and until recently, served as Managing Director of Argyle Diamond Mines in Western Australia.

In 2011, Brendan was appointed Adjunct Professor of Sustainability at Curtin University.

Also in 2011, Brendan was awarded WA Citizen of the Year under the category of the Governor's Award for Regional Development.

### **IAN MICKEL (DEPUTY CHAIRMAN)**

Ian has been a farmer and grazier in the Esperance region for more than 30 years. He has a strong focus on local government, especially in the areas of finance and economic development. Ian was elected to the Esperance Shire Council in 1989 and has served as Vice President from





**BRENDAN HAMMOND**  
**CHAIRMAN**

1991 to 1993 and as President from 1994 to 2001 and again from 2003 until October 2011 when he retired from Local Government.

Ian has served as President of the Country Shire Councils' Association and President of the WA Local Government Association. He was awarded an Order of Australia Medal in Australia Day 2007 Honours list for his service to local government.

Ian is a Fellow of the Australian Institute of Company Directors. Ian was made a Freeman of the Shire of Esperance in 2012 in recognition of his significant contribution to the Shire.

#### **LYNNE CRAIGIE**

Lynne was appointed a Board Director in October 2011. Lynne worked as a psychologist providing counselling, employee assistance programs and training programs in Newman for 14 years.



**IAN MICKEL**  
**DEPUTY CHAIRMAN**



**LYNNE CRAIGIE**

Lynne was elected to the East Pilbara Shire in 2003 and was elected Shire President in 2005. She was also appointed to the Board of the Pilbara Development Commission in early 2011. Lynne is Chairperson for the Pilbara Regional Council and is on the Deputy State President for the West Australian Local Government Association. Lynne also sits on the Australian Local Government Association Board.

#### **RON JOHNSTON**

Ron has worked in most North West and Kimberley towns through his former employer, Ansett Australia, and at the time of its demise was the Kimberley Regional Manager. Since then he has become involved in property development and construction in Karratha, Broome, Derby and Kununurra.

Ron has served his Community as a Broome Shire Councillor and President for a combined 16 years. He has also been President of the Broome Chamber of Commerce, Kimberley Tourism Association and remains President of



**RON JOHNSTON**

the Broome Turf Club. Ron received the Sir David Brand Medal for Tourism in 1995 and was also awarded a Centenary Medal.

#### **ROSEMARY WHEATLEY**

Rosemary has a wealth of legal experience having been a commercial lawyer for more than 35 years. During her legal career she acted for many years on behalf of a major bank, a major insurance company, on behalf of several of the larger charities in Australia as well as for numerous smaller businesses and individual clients all over Western Australia. She developed specialist expertise in the areas of company law, banking securities, property law, trusts, estate planning and superannuation law.

Rosemary is currently the Government appointed independent director of Guumbarr Limited, a trustee company set up under the Browse LNG Precinct Project Agreement. She was a member of the Metropolitan Cemeteries Board for seven years.



**ROSEMARY WHEATLEY**



**DAVID POWELL**  
**SPECIAL ADVISER TO**  
**THE BOARD**

**DAVID POWELL (SPECIAL ADVISER TO THE BOARD)**

The Horizon Power Board has retained the services of David Powell as a Specialist Adviser to enable the Board to prudently discharge its Audit and Risk obligations.

David has 30 years accounting industry experience, including 10 years as a partner in consulting to clients in a range of industries on risk management, corporate governance and internal, external and IT auditing.

In particular, he has been involved with some of the largest corporate and government internal audit assignments in Australia providing advice to management and Boards of major Australian enterprises in both the private and public sector.

David is a Chartered Accountant, Certified Internal Auditor, Certified Information Systems Auditor and a Graduate Member of the Australian Institute of Company Directors.



**IAN FLETCHER**  
**SPECIAL ADVISER TO**  
**THE BOARD**

David is the Chair of Horizon Power's Audit and Risk Management Committee.

**IAN FLETCHER (SPECIAL ADVISER TO THE BOARD)**

Horizon Power has retained the services of Ian Fletcher as a Special Adviser to the Board. Most recently with BHP Billiton, Ian brings with him a wealth of experience, with over forty years in the private sector, and in local, State and Federal Government.

Ian was responsible for media and investor relations and the ongoing working relationship between BHP Billiton and the West Australian Government, as well as the Federal Government and local governments.

Ian was Executive Chair of the Regional Development Council from October 2011 to April 2012, the peak advisory body for regional development across Western Australia, which is also responsible for the delivery of the Royalties for Regions programs.



**FRANK TUDOR**  
**MANAGING DIRECTOR**

Ian's involvement in regional Western Australia and with the State Government places him in a very significant position to assist Horizon Power to achieve its long term, strategic goals. Ian is Chair of Horizon Power's Corporate Affairs and Communications Committee.

**FRANK TUDOR (MANAGING DIRECTOR)**

Frank Tudor has held various executive management roles over the last 25 years in the European, Asian and Australian oil, gas and power industries with BP, Woodside and most recently Horizon Power.

Frank holds first class degrees in engineering, economics and business administration from Curtin University (WA), London School of Economics (UK) and AGSM (University of NSW). Frank also completed the eight week Advanced Management Program at Harvard Business School in September and October 2008.



**DAVID TOVEY**  
**COMPANY SECRETARY**

TABLE 10: BOARD MEETINGS

	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS ELIGIBLE TO ATTEND DURING THE TIME THE DIRECTOR HELD OFFICE DURING THE YEAR
Brendan Hammond	12	15
Lynne Craigie	14	15
Ron Johnston	15	15
Ian Mickel	15	15
Rosemary Wheatley	11	11
David Powell	9	9
Ian Fletcher	9	9

Frank has been the National President of the Australia China Business Council (ACBC) since November 2008. Frank has also lectured in Oil and Gas Economics and Legal Frameworks at the University of Western Australia over the last 10 years, is Vice Chairman of the Chamber of Commerce and Industry's Energy and Resources Forum and a member of the ANU China in the World Advisory Board.

#### DAVID TOVEY (COMPANY SECRETARY)

David was appointed as Company Secretary in May 2011 and is also General Manager Corporate Affairs.

David has extensive experience in the electricity industry in a variety of strategic, business development, operational and corporate governance roles.

He is a Member of CPA (Certified Practising Accountant) Australia, the Australian Institute of Company Directors and an Associate of Chartered Secretaries Australia.

The Company Secretary provides administrative services to the Board and oversees the corporate governance systems.

#### ATTENDANCE AT BOARD MEETINGS

The Board meets bi-monthly; however there were a number of circular resolutions during the year which are recognised as duly constituted Board meetings.

#### AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee (ARMC) is a sub-committee of Horizon Power's Board of Directors. The ARMC's role is to assist the Board to discharge its responsibility of oversight and corporate governance of the organisation. In doing so, the ARMC is responsible to the Board.

A key role of the ARMC is to provide reasonable assurance to Directors that Horizon Power's core business goals and objectives are being achieved in an efficient and economical manner, within an appropriate framework of internal control and risk management.

#### FINANCIAL REPORTING

The ARMC performs an overview function in financial reporting as follows:

- considers the appropriateness of Horizon Power's accounting policies and principles;
- assesses significant estimates and judgements in the financial reports;
- reviews management's process for ensuring compliance with laws, regulations and other requirements relating to the external reporting of Horizon Power;
- assesses information from the internal and external auditors regarding the quality of financial reports; and
- reviews the management of Treasury operations.

**TABLE 11: HORIZON POWER'S DIRECTORS' TERMS OF APPOINTMENT**

DIRECTOR	APPOINTED	EXPIRES
Brendan Hammond	1 December 2005	31 March 2009
	Second Term 1 April 2009	31 March 2012
	Third term 1 April 2012	2 April 2015
Lynne Craigie	1 October 2011	30 September 2014
Ron Johnston	1 May 2011	30 April 2013*
Ian Mickel	1 May 2011	30 April 2013*
Rosemary Wheatley	13 November 2012	July 2015

SPECIAL ADVISERS TO THE BOARD	APPOINTED	EXPIRES
David Powell (Chair Audit and Risk Management Committee)	11 February 2011	10 February 2012
	Second Term 11 February 2012	Ongoing
Ian Fletcher	30 January 2012	Ongoing

\*Directors' terms continue until the Director resigns or is replaced.

**TABLE 12: ARMC MEETINGS ATTENDED**

	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS ELIGIBLE TO ATTEND DURING THE TIME THE DIRECTOR HELD OFFICE DURING THE YEAR
David Powell (Chair)	7	7
Ian Mickel	6	7
Lynne Craigie	6	7

**INTERNAL CONTROL AND RISK MANAGEMENT**

The ARMC provides oversight of the identification of risks and threats to Horizon Power and the processes by which those risks and threats are managed. The ARMC also assesses and adds value to Horizon Power's Directors' report corporate governance, including its systems of internal control and internal audit function.

**COMPOSITION OF THE ARMC**

The ARMC comprises:

- David Powell, Chair
- Ian Mickel, Director
- Lynne Craigie, Director

ARMC meetings in the 2012/13 financial year were attended by:

- Frank Tudor, Managing Director
- David Tovey, General Manager Corporate Affairs and Company Secretary
- Ben Hamilton, General Manager Corporate Services
- James Deacon, General Manager Knowledge and Technology
- Craig Young, Manager Risk, Audit and Governance (until January 2013)
- Christo van Rensburg, Manager Risk, Audit and Governance (from January 2013)
- Liang Tay, Risk and Audit Manager
- Henry Thong, Chief Financial Officer

TABLE 13: CAC COMMITTEE MEETINGS ATTENDED

	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS ELIGIBLE TO ATTEND DURING THE TIME THE DIRECTOR HELD OFFICE DURING THE YEAR
Ian Fletcher (Chair)	4	4
Ron Johnston	4	4

### CORPORATE AFFAIRS AND COMMUNICATIONS COMMITTEE

The Corporate Affairs and Communications Committee (the CAC Committee) is a Committee of the Board of Directors of Horizon Power. The CAC Committee's role is to assist the Board of Directors in discharging the Board's responsibility of oversight of the corporate affairs and communications function and the maintenance and enhancement of the Corporation's reputation. In doing so, the CAC Committee is responsible to the Board.

A key role of the CAC Committee is to provide reasonable assurance to the Directors that Horizon Power's communications and corporate affairs objectives are being discharged in an efficient and effective manner, within appropriate frameworks.

#### COMPOSITION OF THE CAC COMMITTEE

The CAC Committee comprises:

- Ian Fletcher, Chair
- Ron Johnston, Director

CAC Committee meetings in the 2012/13 financial year were attended by:

- Frank Tudor, Managing Director Elect
- David Tovey, General Manager Corporate Affairs and Company Secretary
- Tracy Armson, Manager Public Affairs and Communications
- Brendan Bourke, Manager Stakeholder Relations

### GOVERNANCE AND CORPORATE COMPLIANCE DISCLOSURES

In compliance with the accountability provisions of the *Electricity Corporations Act 2005* (the Act), Horizon Power has provided the Minister for Energy with a Quarterly Performance Report for the first three quarters of the 2012/13 financial year and this Annual Report for the entire financial year.

Each of the Quarterly Performance Reports were submitted to the Minister for Energy one month after the end of the quarter, with the exception of one report which was

submitted one month and one day after the end of the quarter. Each report included an overview of performance and highlights of important achievements. This Annual Report will be provided to the Minister for Energy within the time specified by the Act and includes:

- consolidated statutory financial statements and other statutory information required of any company under the Act;
- 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 the Minister for Energy be provided with:

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

A copy of the Annual Report will also be provided to the Public Sector Commissioner, as required by the Act.

#### MINISTERIAL DIRECTIONS

No Ministerial Directions were received by Horizon Power during the year.

### **SHARES IN STATUTORY AUTHORITIES**

N/A

### **SHARES IN SUBSIDIARY BODIES**

N/A

### **DECLARATIONS OF INTEREST**

Horizon Power's Code of Conduct and Conflicts of Interest Guidelines are endorsed by the Board and Executive, and provide all employees with information on what constitutes a conflict of interest and how they should be managed. The policy states that a conflict of interest may arise in a number of situations involving a disparity between the interests of Horizon Power and the interests of an employee.

Horizon Power is committed to avoiding such disparities as they may:

- affect an employee's ability to carry out their duties and responsibilities to Horizon Power due to a perception the employee is receiving more benefits than another; and/or
- create an unfavourable image (actual or perceived) for either the employee or Horizon Power.

Members of the Board are required to declare any interests at all Board meetings.

#### ***Brendan Hammond***

- Seymour Associates (Director/ Owner)
- Dampier Port Authority (Chairman)
- Adjunct Professor of Sustainability, Curtin University

#### ***Lynne Craigie***

- Chair of Pilbara Regional Council
- President of Shire of East Pilbara
- Holds BHP Billiton shares and spouse works for BHP Billiton

#### ***Ron Johnston***

- Owns properties in Karratha and leases properties through the Kimberley and Pilbara

#### ***Ian Mickel***

- Holds Commonwealth Bank shares

#### ***Rosemary Wheatley***

- Holds Commonwealth Bank shares
- Holds APA shares
- Has investment property holdings in Karratha

#### ***Frank Tudor***

- National Chair of Australia China Business Council
- UWA lecturer
- Chamber of Commerce and Industry Energy and Resources Forum Vice-Chairman
- Member of the ANU China in the World Board

#### ***Ian Fletcher***

- Former Chair of the Regional Development Council
- Holds BHP Billiton and Commonwealth Bank shares

#### ***Indemnification of Directors***

The Directors' and Officers' Liability Insurance Policy is

in place to ensure that the Directors and Officers of the Corporation have adequate coverage.

The Directors' and Officers' Liability Insurance Policy forms part of the Corporations' Third Party Liability Policy.

At the date of this report no claims have been made against the Directors and Officers component of the policy.

### **EMOLUMENTS PAID TO BOARD MEMBERS AND SENIOR EXECUTIVES**

Board members are appointed under the *Electricity Corporations Act 2005* following State Government approval processes that also outline the compensation payable for their services. Senior executive salaries are determined and paid in alignment with Horizon Power's internal human resource policies.

Details of payments made to Board members and key management personnel can be found in the 2012/13 Financial Report.

### **LEGISLATION**

The *Electricity Corporations Act 2005 (WA)* establishes Horizon Power as a corporation with responsibility of the provision of electricity outside the South West Interconnected System and sets out the powers and duties of the corporation.

### **ELECTRICITY LICENCES**

The *Electricity Industry Act 2004 (WA)* requires participants who generate, transmit, distribute or retail electricity in Western Australia to obtain a licence to operate. Licences

are issued by the Economic Regulation Authority. Horizon Power was issued an Integrated Regional Licence on 30 March 2006.

The Integrated Regional Licence requires Horizon Power to comply with a number of Codes, including:

- *Code of Conduct for the Supply of Electricity to Small Use Customers 2012*;
- *Electricity Industry (Network Reliability and Quality of Supply) Code 2005*; and
- *Electricity Industry Metering Code 2005*.

Horizon Power is also required to submit a Licence Performance Audit and an Asset Management System Review to the Economic Regulation Authority at intervals determined by the Authority. The next Licence Performance Audit will be for 1 April 2011 to 31 March 2013. The next Asset Management System review will be for the period 1 April 2011 to 31 October 2013.

#### **FREEDOM OF INFORMATION ACT 1992**

The *Freedom of Information Act 1992* requires Horizon Power to publish an Information Statement. Our Information Statement is available online at [www.horizonpower.com.au/foi.html](http://www.horizonpower.com.au/foi.html). Seven information applications were made during the 2012/13 financial year.

#### **COMPLIANCE WITH OTHER LEGISLATION**

Horizon Power has a number of controls and systems in place which support the business in complying with all legislation and regulations affecting its activities. They include an online compliance register as well as compliance mapping and monitoring software.

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#### **RESTRICTION ON THE AREA WITHIN WHICH HORIZON POWER MAY OPERATE**

Within Western Australia, the performance of Horizon Power's functions is limited to those parts of the State that are not serviced by the South West Interconnected System.

#### **OBSERVANCE OF THE CODE OF CONDUCT**

Section 33 of the *Electricity Corporations Act 2005 (WA)* (the Act) requires the Board of Horizon Power to provide to the Minister for Energy, at the same time as delivering its annual report, a separate report on the observance of its Code of Conduct by members of staff.

The Board confirms, consistent with section 31 of the Act, Horizon Power's Code of Conduct was developed after consultation with staff and the Commissioner for Public Sector Standards and was adopted by the Board at its meeting on 18 October 2006. The Code of Conduct was revised and signed off by the Board on 18 April 2013. Our Code of Conduct is due to be reviewed again in 2014.

The Code of Conduct has been circulated to all employees of Horizon Power and is available on Horizon Power's intranet for employee reference. The Board and the Managing Director, under delegated authority, assign accountability to Managers in the organisation to ensure observance of the standards of conduct and integrity by members of staff.

During the 2012/13 financial year there were six breaches of the Code of Conduct and they were reported as required under the *Electricity Corporations Act 2005*.

#### **PUBLIC INTEREST DISCLOSURE ACT 2003**

Public Interest Disclosures help mitigate the adverse effects of corruption and other improper conduct. Horizon Power has a Disclosures of Public Interest Policy that encourages the disclosure of information in the public interest.

The principles of the policy ensure personnel will be supported and protected by Horizon Power when making disclosures about corruption or other improper conduct. They also provide protection for those who are the subject of a disclosure, thus protecting the assets, profitability, performance and reputation of Horizon Power.

There were no public interest disclosures in relation to the activities of Horizon Power during the 2012/13 financial year.

#### **DISABILITY SERVICES ACT 1993**

Horizon Power has a current Disability Access and Inclusion Plan in accordance with the *Disability Services Act 1993*. The plan facilitates the provision of accessible services, facilities and information for people with disabilities.

To effectively engage with the all of our stakeholders we make sure our information, services and facilities are accessible to all of our stakeholders throughout the state. Our Disability Access and Inclusion Plan provides the guidance as to how we achieve this.

Key aspects of the Plan are:

- all stakeholders have equal opportunity to access the services of Horizon Power;
- all stakeholders to be able to access Horizon Power premises;

- information will be available in a format to ensure access to all stakeholders;
- all stakeholders will have access to Horizon Power for consultation and complaint resolution;
- the same level of services will be provided to all stakeholders by Horizon Power; and
- employment opportunities are open to all interested persons.

We have recognised that the environment we operate in is changing continuously and we have continued to make improvements to the plan since it was initially implemented.

We are engaged in updating and improving the Plan for the next period as we are committed to working with our employees and stakeholders to raise the awareness of access and inclusion issues, to strengthen our customer relationships and meet the needs of the diverse range of stakeholders.

As new facilities are designed or older facilities re-developed, we assess whether each meets the requirements of the Act to ensure compliance. The new Mungullah Power Station, for example, has been designed for disability access.

#### **STATE RECORDS ACT 2000**

Horizon Power maintains and supports quality record-keeping practices in its day-to-day business activities. The function of managing records resides within the Knowledge and Technology division.

All records are managed according to the requirements of the *State Records Act 2000* and Horizon Power's approved record keeping plan. Horizon Power's record-keeping plan is reviewed annually to ensure currency and any updates are submitted to the Minister for Energy for approval. The approved plan is then presented to the State Records Office for approval.

Regular reviews of record keeping systems and practices are conducted to ensure efficiency and effectiveness. New employees and contractors are provided with information on record-keeping systems both at induction and training in the use of the system. Training programs are reviewed to ensure they reflect any new business requirements.

#### **WESTERN AUSTRALIAN ELECTORAL ACT 1907**

In accordance with the requirements of Section 175ZE of the *Western Australian Electoral Act 1907*, the following information in respect to expenditures (excluding GST) incurred by Horizon Power during the period 1 July 2012 to 30 June 2013 is presented. This expenditure includes costs associated with public safety advertising campaigns, planned outage notifications, self-read meter mail outs and recruitment.

- **Advertising agencies:** \$320,044.75: Mindfield, ICON Illustrations, Vast Print, SHED, Advance and Geon Print
- **Market research organisations:** \$58,250: Metrix
- **Direct mail organisations:** NA
- **Media advertising organisations:** \$376,418.39: Adcorp, Mitchell, Market Creations, Britel, Farmguide, Western Power and Synergy.

- **Future Energy Alliance:** \$50,000: Western Power and Synergy
- **Total expenditure: \$805,713.14**

#### **ENVIRONMENTAL REGULATIONS**

The primary environmental legislation in Western Australia is the *Environmental Protection Act 1986*. The Act gives rise to many regulations.

The main regulations relevant to Horizon Power include, but are not limited to:

- Environmental Protection Regulations 1987 provide generally for the prevention and control of pollution and ensure that appropriate processes are established to manage pollution, noise and other environmental impacts generated by construction and operations.
- Environmental Protection (Controlled Waste) Regulations 2004 provide for the licensing of carriers, drivers and vehicles involved in the transportation of controlled waste on public roads.
- Environmental Protection (Native Vegetation Clearing) Regulations 2004 protects all native vegetation in Western Australia. Clearing native vegetation is prohibited, unless a clearing permit is granted by the Department of Environment and Conservation (DEC) or the clearing is for an exempt purpose. Horizon Power obtains Native Vegetation Clearing Permits where exemptions do not apply and provided annual reports to the DEC in accordance with permit conditions.
- Environmental Protection (Unauthorised Discharge)



Regulations 2004 provide for the prevention of unauthorised discharge of potentially environmentally harmful materials.

- Environmental Protection (Noise) Regulations 1997 provide for noise emitted on a premises or public place and received on another premises. There is a special provision allowing persons who are unable to reasonably comply with the assigned levels to apply to the Minister for approval to vary from the assigned levels, via an Environmental Protection Authority (EPA) assessment process (regulation 17). This process applies to Carnarvon Power Station providing for a reduction in noise emissions from this facility as of 31 March 2013. The ability to meet the reduced levels is unlikely at full operations due to ongoing operation of the existing power station arising from project delays in construction of the new power station. Horizon Power discussed this issue with the DEC in January 2013 and provided an updated construction schedule which provides for complete shut-down of the existing power station several years ahead of the schedule within the regulation 17 approval.

Horizon Power operates in accordance with other relevant environmental obligations which include, but are not limited to:

- *Environmental Protection and Biodiversity Conservation Act 1999 (Commonwealth)*;
- *Contaminated Sites Act 2003*;
- *Dangerous Goods Safety Act 2004*;

- *National Greenhouse and Energy Reporting Act 2007*; and
- *National Environment Protection (National Pollutant Inventory) Measure*.

Horizon Power has a site-specific licence to operate the existing power station at Carnarvon. Licence conditions relating to air emissions, air and noise emissions monitoring, guidelines for storing liquid fuels and chemicals and supplying an annual report to the DEC on power station operations were met during 2012/13.

The performance of Horizon Power in relation to environmental obligations is discussed further in the [Environment and Heritage section](#) commencing on [page 42](#).

#### **CLEAN ENERGY ACT 2011**

A price on carbon took effect on 1 July, 2012 with the introduction of the Federal Government's Clean Energy Future legislation. In the first year, the price per tonne of carbon dioxide-equivalent greenhouse gases was \$23 increasing to \$24.15 in 2013/14. Horizon Power is directly liable for the cost of carbon due to; its emissions from the Carnarvon Power Station, as a natural gas supplier to Mt Magnet power station, and for the diesel fuel that it burns within its power stations.

Horizon Power also purchases energy from its suppliers, many of whom are also liable entities, and they have passed the cost of carbon through to Horizon Power. The total increased operating cost due to the cost of carbon

for 2012/13 is expected to be in the order of \$15.5 million. Final costs will not be known until the end of the first year's compliance cycle which will be in February 2014.

In 2012, Horizon Power launched a comprehensive program of work aimed at achieving compliance with the carbon pricing mechanism, and ensuring accurate and transparent cost pass-through of the carbon costs to its customers. The cost to implement this program of work was \$273,000 for the 2012/13 financial year.

#### **OPERATIONS DURING THE 2012/13 FINANCIAL YEAR**

The *Electricity Corporations Act 2005* stipulates the specific and general information that is to be reported within the Directors' Report for the current financial year. To avoid duplication of content, please refer to the [Operational Performance Report section](#) commencing on [page 14](#) for a review of Horizon Power's operations during the financial year and the results of those operations.

#### **FINANCIAL PERFORMANCE**

Horizon Power ended the year with a net profit after tax of \$51.2 million (2012: \$33.3 million).

Total revenue and other income for the year was \$520.8 million, an increase of \$50.1 million compared to 2011/2012. Increases in the sources of revenue included higher sales of electricity of \$41.8 million being the combined effect of tariffs increases and higher consumption and higher developer and customer contributions and recognition

of gifted assets of \$17.3 million. The State Government revenue contributions for the year decreased by \$10.3 million being a reduction of \$27.2 million in the Tariff Equalisation Fund partly offset by an increase in the Community Service Obligation of \$16.9 million.

During the year, Horizon Power intensified its fiscal restraint on costs through efficiency initiatives and measures which resulted in the achievement, for the second year in a row, of the efficiency dividend target set by the State Government. As a result, the total operating expenditure recorded a net savings of five per cent compared to the previous year.

Energy purchases increased by 20 per cent due higher volume and rising prices resulting mainly from carbon cost which has been recovered from customers and higher renewable energy purchases.

Depreciation and Amortisation remained stable compared to last year, while finance costs increased by \$3.1 million to reflect the net higher debt levels.

#### **BALANCE SHEET**

Horizon Power has a strong asset-backed balance sheet; however, it is highly geared. Horizon Power is vigilant in the management of its balance sheet by ensuring its liquidity and funding risks are managed within acceptable boundaries.

Horizon Power's net assets increased by \$16.5 million representing profit for the year after paying a dividend of \$ 41.1 million and an equity injection of \$6.3 million,

mainly for the funding of the Aboriginal Reserves and Communities Project Phase 2.

Total asset base increased by \$185.9 million to \$1,492.6 million mainly made up of Property, Plant and Equipment at \$1,347.3 million. Major projects undertaken during the year are listed in the capital expenditure program below.

Horizon Power's interest bearing loans with the Western Australian Treasury Corporation, which increased by \$184.2 million to \$576.4 million, were the primary source of finance for the capital program.

As at 30 June 2013, cash at bank was \$30.6 million which, along with unused credit capacity of \$91.4 million, maintain Horizon Power in a strong liquid position at the commencement of the new financial year.

#### **CAPITAL EXPENDITURE**

Horizon Power delivered a \$231.3 million capital expenditure program for 2012/13, up by \$94.3 million from previous year. Significant expenditures for the year were \$49.7 million on the Asset Management Plan for the maintenance of safety and reliability of Horizon Power systems, \$42.4 million on transmission network in the North West Integrated System and on generation capacity in South Hedland, \$36.0 million on the Pilbara Underground Power Project (PUPP), \$34.7 million on additional generation capacity in Karratha, \$23.4 million on Mungullah Power Station and \$19.0 million on other projects funded by customers.

#### **DIVIDENDS**

During the year, Horizon Power declared and paid dividends of \$41.1 million to the State Government representing 65 per cent of the net profit after tax for the financial years 2010/11 and 2011/12.

No dividends have been declared or paid for on the profit of the current year.

#### **SIGNIFICANT CHANGES IN HORIZON POWER'S AFFAIRS**

##### **TARIFF EQUALISATION CONTRIBUTION**

In participating in the consultation process for the revised Tariff Equalisation Contribution (TEC) methodology, Horizon Power identified several parameter, forecasting, new investment, tariff and cost allocation modelling issues that materially affect the quantum of the TEC to be received by Horizon Power. In addition, certain methodological improvements have been identified that Horizon Power suggests could better deliver the objectives of the TEC. The Department of Treasury has acknowledged this and agreed that changes to the gazetted TEC will be required to correct for manifest errors and have also agreed to continue the consultation work on of the methodology itself.

Horizon Power continues to work with the Public Utilities Office and the Department of Treasury to address the issues identified with the financial model and the final design of the methodology and to finalise a funding agreement with the Department of Treasury to more formally implement the new arrangement. The current uncertainty on this material revenue source represents a considerable risk for Horizon Power.

### PILBARA POWER PROCUREMENT BOARD

Following a decision by the State Government through the 2012 State Budget process, the Pilbara Power Procurement Board (PPPB) was established to ensure adequate generation capacity was available to meet expected demand in the North West Interconnected System.

The PPPB is comprised of representatives from the Department of Finance (Chair), Horizon Power, Department of Treasury, Department of Regional Development and Lands and the Department of State Development.

The matters described above represent the significant changes in the state of affairs of the Corporation for the year ended June 2013.

### GAS SUPPLY

In July 2013, the State Government notified Horizon Power it would not provide its approval for a proposed contract between Horizon Power and the Gorgon Joint Venture partners. Pursuant to a request by the State Government, Horizon Power is progressing alternate supply arrangements for natural gas post the termination of current contracts through Synergy.

### EFFICIENCY DIVIDEND REPORT

Horizon Power was successful in achieving and delivering the State Government's Efficiency Dividend targets due to the application of a downward pressure on costs when reviewing the 2012/13 operational budget review. This

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TABLE 14: EFFICIENCY DIVIDEND PERFORMANCE

EFFICIENCY DIVIDEND TARGETED AREAS	FINANCIAL YEAR 2013 EFFICIENCY DIVIDEND TARGET (\$ MILLION)	FINANCIAL YEAR 2013 FULL YEAR ACHIEVEMENT (\$ MILLION)
Materials, Service, Fleet and Property	5.6	13.3
Advertising	0.8	0.7
Consultants	0.6	1.0
Contractors	3.4	-8.9
Other Expense Elements	-	4.3
<b>SUM EFFICIENCY DIVIDEND</b>	<b>10.4</b>	<b>10.4</b>

process resulted in the rigorous assessment of services and proposed initiatives to be delivered across the business.

Some key focus areas were identified:

- Discretionary travel analysed to ensure only essential travel was undertaken.
- Consultation expenditure assessed and reduced across several areas of the business.
- The rationalisation of materials and services relating to IT hardware and software provision, a review of communications and advertising costs, deferral of non-essential property maintenance and the implementation of new fleet life cycle policy standards resulted in a reduction in incremental maintenance costs.

### EFFICIENCY DIVIDEND PERFORMANCE

#### *Materials, Service, Fleet and Property*

This area of focus resulted in above expected full year savings with a \$7.7 million positive variance partly due to material supplies being budgeted for but not required as contractors supply materials directly within their contract arrangements. This is offset by a negative variance in the contractor line which is directly related to higher than budgeted contractor expenses due to the inclusion of these materials.

#### *Advertising*

The end year result for 2012/13 was \$0.1 million above the \$0.7 million target. This is based on our need to ensure that customer communication and education is timely

and effective especially with regards to safety campaigns during storm and cycle season.

#### *Consultants*

Scrutiny of proposed consultant spend is an embedded and continuing practice throughout the business allowing Horizon Power to track above the original identified target. This positive variance was applied to the overall target to offset overspend in the area of Contractors.

#### *Contractors*

Contractor negative variance was partly offset by a \$7.7 million saving against materials due to them being a contractor encumbrance. The remaining negative variance was offset by other expense elements identified across all divisions, namely labour expense. Labour Expense experienced unexpected underspend due to difficulty in filling specialist and technical roles and opportune appraisals of structural following employee movement. Contractors have been engaged to cover vacancies in critical roles that were difficult to fill. Given this change in the final quarter position, Horizon Power is finalising internal plans and budgets to establish additional opportunities for efficiency and cost reductions to be implemented in 2013/14.

#### *Conclusion*

In order to achieve the target savings, Horizon Power closely monitored the impact of its efficiency initiatives to ensure the identified benefits did not reduce services or negatively impact Horizon Power's customers.

Monitoring also enabled Horizon Power to identify any slippage in focus areas, allowing us to identify the cause and take corrective action.

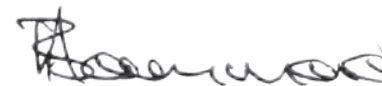
#### **DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of the Regional Power Corporation (trading as Horizon Power), we state that:

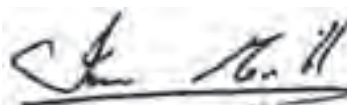
In the opinion of the Directors:

- a) the financial statements and notes of the Corporation are in accordance with Schedule 4 of the *Electricity Corporations Act 2005*, including:
  - i. giving a true and fair view of the Corporation's financial position as at 30 June 2013 and of its performance for the 12 month period ended on that date; and
  - ii. complying with Accounting Standards, AASB Interpretations and Corporations Regulations; and
- b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**BRENDAN HAMMOND**  
**CHAIRMAN**



**IAN MICKEL**  
**DEPUTY CHAIRMAN**

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