

Annual Report

2015-16



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Our profile

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

The business continues to reduce the subsidy it requests from the State Government, while strategically working towards an innovative and sustainable business that meets customers' needs and provides a reliable and, safe power supply.

Horizon Power services the biggest area with the least amount of customers in the world – a service area of approximately 2.3 million square kilometres and an average of one customer for every 53.5 square kilometres of terrain.

Our customers range from people living in remote, isolated communities with less than 100 people, to residents and small businesses in busy regional towns and major businesses in the resource-rich Pilbara region. Horizon Power's interconnected and isolated networks are exposed to intense heat and cyclonic conditions in the north, and severe storms in the south.

As at 30 June 2016, Horizon Power services 47,168 customer connections in the Pilbara, Kimberley, Gascoyne, Mid West and Goldfields/Esperance regions. Horizon Power manages 38 systems: the North West Interconnected System (NWIS) in the Pilbara; the connected network covering three systems including Kununurra, Wyndham and Lake Argyle; two rural systems in Esperance and Hopetoun; and 32 non-interconnected systems in regional towns and remote communities

Horizon Power's regional business is based on four profit centres, namely

the North West Interconnected System and the Non-interconnected Systems of the Kimberley, Mid West and Esperance, supported by the administration centre in Bentley.

Horizon Power's commitment to regional Western Australia is to be their local energy partner: low cost and sustainable. During the coming year, we will continue to reduce our annual subsidy, to reach our target of \$100 million per annum by 2018, by focusing on the strategic pillars of Safety, Value and Community. The business continues to play a key role in the development of regional infrastructure, supporting future growth in the State.

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.

Kununurra, in the East Kimberley region



Our supply area

- Office
- Current Supply Areas



Fast facts

CUSTOMER CONNECTIONS

47,168

47,168 customer connections supplying more than 100,000 residents and 10,000 businesses

CUSTOMER CALLS

108,484

108,484 customer calls in 2015/16

NEW CUSTOMER CONNECTIONS

860

860 new customer connections in 2015/16

ASSETS

\$1.6B

\$1.6 billion in assets

REVENUE

\$490M

\$490 million in 2015/16

SERVICE AREA

2.3M_{KM}²

2.3 million square kilometres service area, which includes the Kimberley, Pilbara, Gascoyne/Mid West and Goldfields/Esperance

TRANSMISSION & DISTRIBUTION

8,356_{KM}

8,356 kilometres of overhead and underground transmission and distribution lines

POLES & TOWERS

59,451

57,590 distribution poles, 1,004 transmission poles, 857 transmission towers in service

KILOWATT HOURS OF RENEWABLE ENERGY

7,284,964

7,284,964 kilowatt hours of renewable energy imported into Horizon Power's network

TOTAL SYSTEMS

38

38 systems consisting of:

- 32 Non-Interconnected Systems
- 3 systems connected in the East Kimberley (Kununurra, Wyndham and Lake Argyle)
- 2 rural systems (Esperance and Hopetoun)
- the North West Interconnected System

Executive summary

Horizon Power has reduced the average amount of time customers were without power over the past four years by effectively managing our assets. Of our 38 systems, 28 met performance reliability standards, down from 31 in 2014/15.

The increase in non-performing systems was largely due to isolated outages in Broome and Esperance rather than a longer term trend and Horizon Power remains confident that reliability will continue to improve.

Customers experienced an average 3.08 supply 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 reduced to 199 minutes in 2015/16 compared with the regulated limit of 290 minutes.

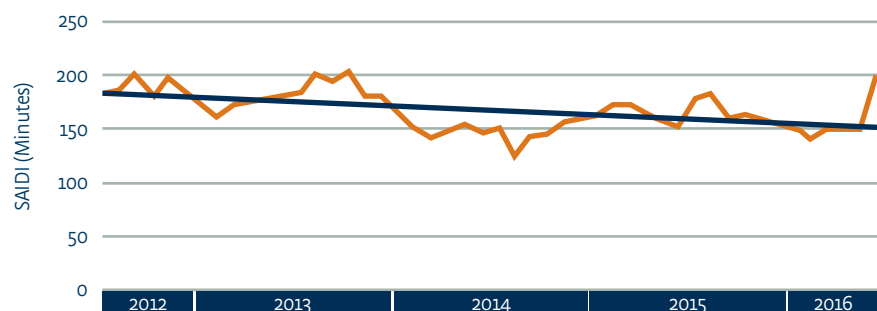
Horizon Power this year exceeded its target of 70 per cent for customer satisfaction with a result of 73 per cent; down from 83 per cent in 2014/15. This year’s survey showed clearly that rising energy costs and growing demand for solar are playing an increasingly significant role in customer perceptions of Horizon Power. Our reputation with stakeholders has improved, increasing from 76 per cent in 2014/15 to 83 per cent this year.

The number of notifiable public safety incidents remained stable at five, both this financial year and in 2014/15, despite a significantly more onerous reporting regime under the new network safety regulations. The incidents were related to adverse weather events and equipment failures.

Horizon Power recorded a net profit after tax in 2015/16 of \$36.7 million compared to \$38.1 million in 2014/15. Revenue recorded a drop of \$26.7 million during the year, mainly due to lower income from customer-funded works, which was offset by lower costs of \$25.2 million achieved through tight cost control and efficiency initiatives. During the year, Horizon Power continued to make significant progress towards meeting its strategic goal of a reduction in Government subsidy of \$100 million per annum by 2018.

During the year, Horizon Power paid dividends of \$32.2 million to the State Government, representing a dividend of \$24.7 million based on the result from 2014/15 and an interim dividend of \$7.5 million for the 2015/16 financial year.

Reliability Performance
SAIDI (using normalised data) over four year period



Chairman's report

Opportunities ahead

Horizon Power has once again enjoyed strong performance, reflected in a continued decrease in operating subsidies by over \$90 million per annum, and net profit after tax of \$36.7 million. We continue to drive efficiencies and focus on innovation to ensure we take advantage of the opportunities presented by the unprecedented levels of change affecting our industry. New, more cost effective technology, combined with an emerging class of consumers armed with their own distributed energy resources, in particular photovoltaics and batteries, is driving a shift away from traditional energy sources to a new future and Horizon Power is well-placed to maximise the opportunities presented.

As I foreshadowed in my report last year, Horizon Power has continued to develop expertise in distributed energy resources and we are confident that we are ready to take advantage of the global growth opportunity presented by remote microgrids. Horizon Power has significant expertise and experience in managing remote microgrids with 36 out of our 38 systems categorised as such. We operate a microgrid business model that is distinct from the grid-based utility business models operating within Australia. This model, in combination with our work to determine the most economically efficient generation, enables us to

define the optimal supply, customer and operating frameworks for remote microgrids, and strengthen our reputation as a trusted advisor, while building a solid platform for growth.

A focus on innovation

Our regional focus continues to underpin our operating model as we strive to provide the lowest cost and most sustainable service to our customers. This is supported by our strategy, focused on the continued development of microgrid capability, which sees us recognised as a leader in this area. We manage existing business while ensuring we take advantage of future opportunities so we remain relevant to existing and new customers and markets. We look forward to demonstrating our commitment to renewable energy as we finalise designs for a high-penetration, renewable distributed energy resource solution for Onslow, and continue to bring more reliable power to remote customers and communities through targeted delivery of stand-alone power systems. These systems, which evolved rapidly out of necessity following the devastating Esperance bush fires, combine solar with battery storage and a back-up generator and have proven invaluable in providing a reliable power service.

We know that our customers want to be able to access more renewable energy, which is why we are exploring how we can increase the amount

of solar that can be installed in all towns including Carnarvon, Broome and Esperance. In the meantime, we are exploring other programs which will enable Horizon Power to increase the amount of renewable energy generated in Western Australia, reduce reliance on diesel generation and give customers the opportunity to buy renewable energy without the higher cost of investing in their own solar panels.

We are recruiting both residential and business customers in Port Hedland to trial innovative tariff structures which will give them the ability to access reductions in energy bills through a change in their energy usage. Our Power Ahead research pilot is aiming to develop a new, fairer and more sustainable way of charging electricity that gives customers more control over their energy costs. The trial will run for four months from December 2016 and the results of the trial will assist the State Government in formulating future tariff policy.

We continue to prepare for the onset of competition in our largest market, the Pilbara, and at the same time provide Government with information to assist in preparation for a potential sale of the transmission and distribution network in this region. Our Minister has flagged that any sale would only proceed if it was in the best interests of customers and taxpayers.

Our deployment of advanced meters is complete and our customers are already seeing the benefits of more timely bills. The project also provides us with an enormous amount of data which will help us deliver better products and services to our customers at a lower cost.

These exciting projects serve to illustrate our ability to respond to the dynamic nature of our market, our nimbleness and also the capability of our people.

Unrelenting approach to safety

The safety of our people is of the utmost importance to me and the Board. Last year I referred to the effort involved in ensuring we operate with good practice associated with safety. I am delighted that in May we launched our new Health and Safety Management System to staff and contractors, which ensures we are compliant with national standards. By combining all our policies and procedures into one system, our staff can always access the latest information on safe work practice. Our approach to safety is unrelenting and we make no apologies for this rigorous approach. We are dealing with a highly dangerous product every day and nothing is more important than the safety of our people and the community.

Praise for our people

The dedication of the Horizon Power team, including contractors, has been humbling over the past year. I have continually observed how they have delivered so much more, with less resource, and this was no more apparent than in response to the catastrophic Esperance fires last November. Crews and contractors came in from all over the State to restore and rebuild in record time. What's more their reaction to challenges in the business has been stoic and I recognise and acknowledge their efforts.

Our Managing Director Frank Tudor continues to lead his talented Executive with vision and a practical approach to achieve outstanding results. Our achievements this year are a credit to his stewardship.

Finally I'd like to thank my fellow Board members, our Minister, customers, stakeholders and suppliers who have continued to support us as our business evolves.



Ian Mickel
Chairman

Managing Director's report

Whilst the reference to technology disruption is thrown around readily, there is no doubt that the electricity industry is indeed at a cross roads and is undergoing an unprecedented and rapid transformation – the traditional way of generating and supplying electricity is changing.

Our customers are looking to us to provide solutions which incorporate more renewable energy and allow greater choice about how and where they source energy. I am incredibly excited about this future state and the business is developing these solutions.

Horizon Power is well placed to lead this work. We are one of the largest managers of microgrids in Australia, a fact of which I am very proud. We are unique in that we are vertically-integrated and have a decentralised model that ensures careful management of these assets at the local level. Our microgrid systems are the perfect hosts for intelligently integrated and optimally located distributed energy resources such as solar and batteries

We envisage and positively embrace a future where our advanced meter infrastructure intelligently integrates our customers as both consumers and exporters of power and an increasingly

intelligent grid, which sits at the base of the microgrid operating platform, facilitates real time information to users so that they can optimise their interaction with the system and genuinely 'experience' the microgrid through any device, anywhere, anytime.

It is important our customers, and the community of Western Australia as a whole, understand the financial costs and reliability risks renewable energy can pose to Horizon Power's microgrids and how we plan to overcome these.

We are proceeding carefully to ensure we pursue options which make economic sense and benefit all our customers. Due to the small size of many of our systems, renewable energy presents us with unique technical and operational challenges; too much can destabilise the systems and impact the safety and reliability of supply.

Having said this, it is challenges such as these which Horizon Power thrives on – overcoming challenges is pretty much our bread and butter. Our service area is the largest in the world with the least amount of customers, we service many isolated and remote communities and we cover vast distances over rugged terrain to restore power and maintain our networks, all of which is often in extreme weather conditions.

In the coming months, we begin battery storage trials at both a power station and at the homes of some customers. These trials will explore the benefits battery storage can deliver in

terms of reducing the cost of providing back up power in the event load drops and to test hosting capacity limits and whether they can be lifted if we can better control load.

We continue to deliver options for stand alone power systems as an alternative to rebuilding networks. I am immensely proud of our work with four Esperance customers, who have been benefiting from reliable renewable energy for more than six months from solar arrays backed up with battery storage and diesel generation and with no grid connection or support. They have been truly off grid with reliable, utility-backed power for six months. This solution is an alternative to rebuilding the poles and wires destroyed by fires in late 2015 and the project was the first of its kind for Western Australia. Again, the fact that we are your local regional energy partner ensures the development of solutions that are suited to the local environment and other conditions. What works for farmers in Esperance is different to the model we might develop for a remote Aboriginal community in our far north – and we have the expertise to deliver both.

Cost is a critical factor. Looking at how we charge customers gives us the opportunity to adapt to a changing environment without increasing costs. Importantly, it also provides an opportunity to give customers more control over their electricity bills and ensure they pay a fair price for power.

We have spent the past few years researching a number of pricing options. We looked at how other utilities around the world are changing and our technical experts have evaluated which options could work in Horizon Power's operating area. We carried out research with customers to better understand when and how they use electricity and what they want to see in the future.

This research suggested that a pricing structure akin to mobile phone plans is the most suitable. This means moving from a simple supply charge plus consumption charge for each kilowatt hour used, regardless of the time of the day and network demand, to a more sophisticated model in which the pricing structure is aligned with our cost structure. This model would have different plans tailored to different customer demographics and financial incentives to reduce consumption at certain times of the day.

This pricing model is potentially fairer, ensuring customers are charged relative to costs which are their responsibility. It provides an incentive for customers to change their behaviour in order to reduce costs. I believe it is a more sustainable pricing option, adaptable to changing consumer behaviour and the continued demand for renewable energy and new technologies.

We will pilot this pricing model with up to 500 Port Hedland residents and businesses between December 2016 and April 2017. Results will test and shape our final pricing model and will be shared with the Minister for Energy to help inform future policy decisions.

Value

While we are focused on developing solutions and pricing models to future proof the electricity network of regional WA, at the same time we have been busy cementing the changes we introduced after our strategic review in late 2013 with the intention of reducing the State Government subsidy to Horizon Power by \$100 million a year. We have already exceeded our first target which was to reduce our subsidy by \$85 million by 2016-2017. At the end of this financial year we had reduced the subsidy by \$90 million and we are well on our way to achieving the second target of \$100 million a year by 2017-18.

The outsourcing of engineering services in 2014 without any commitment to a minimum level of work has saved in the order of \$7 million a year. The advanced metering project, which automates meter reading, disconnections and reconnections, will further cut costs by a similar amount each year.

The advanced metering project reduces business costs, while delivering customer benefits including faster reconnection and faster and improved fault identification. The number of customers receiving estimated bills has been cut from up to 20 per cent to about two per cent of customers – those remaining on estimated reads are mainly in areas with poor telecommunications coverage. Unfortunately, whilst this project was in progress earlier this year, the Kimberley region experienced one of its driest and hottest wet seasons in a long time and at the same time, 1,200 customers in the region received bills that contained errors associated with the final physical meter read. This, combined with a few administrative errors impacting a handful of business customers with current transformer meters, has led to some suspicion about the new meters.

I reassure all customers that these meters are the very latest in metering technology. They are accurate and allow us to deliver more benefits in the future including energy efficiency tools, better management of our systems and tailored pricing products.

Community

Horizon Power is our customers' local energy partner and we take great pride in investing in communities and programs that support them.

This year we have again supported events showcasing regional Western Australia – the Esperance and Kununurra Agricultural Shows, the Pilbara Fenacling Festival, the Kimberley Shinju Matsuri and the Gascoyne Games in Carnarvon.

We developed an online calculator allowing customers to make changes to reduce energy use and a popular energy efficiency campaign. The *Easy Ways to Save* campaign is sparking conversations on energy use behaviour and we hope will ultimately break the culture of habitual energy-wasting within the home.

Our social media presence is growing and we interact daily with customers to ensure they have the latest information about outages, they know what we are doing to improve power reliability and they have energy efficiency tips and tools as well as information about local community events and sponsorships.

Safety

Horizon Power spent the better part of two years overhauling our safety and health management system to ensure staff go home safe at the end of each day. The safety of our systems and improved compliance ensures public safety also. This significant work is driven by our commitment to develop

a business safety culture through visible safety leadership, health management systems and compliance and our desire to be a safety leader in our industry.

To help us achieve this outcome, we developed a strategy that focuses on three key areas: systems, symbols and behaviours.

A key component is the Safety and Health Management System (SHMS) that makes it easier for staff to follow safety processes while improving compliance with up to date safety or health information.

The SHMS identifies Horizon Power's fatal risks, assists us to meet strategic and health objectives and positions our business with proposed harmonisation of Occupational Health and Safety (OHS) laws through the *Work Health and Safety (WHS) Act*.

Grateful thanks

I cannot overstate how grateful I and my fellow Executive members are to have such a supportive and skilled Board, led by our Chairman Ian Mickel. Ian is not only integral to his community of Esperance but to Horizon Power.

I would also like to thank the Minister for Energy, Dr Mike Nahan, for providing us clear direction, for supporting our innovative approach to reducing costs and improving service, as well as encouraging us to develop the management of distributed energy and microgrids.

Finally, I would like to acknowledge the talent, energy and commitment demonstrated by the staff and contractors of Horizon Power which allow us to continue to provide exceptional service to our customers and stakeholders.



Frank Tudor

Managing Director

Horizon Power's strategy and structure

Strategy

Horizon Power continues to maximise long-term value in the business whilst at the same time improving efficiencies in the short-term through management of the challenges of increasing fuel prices and a slowdown in economic activity in key parts of our service area.

Maximising long-term value means not only ensuring a viable business into the future but also ensuring the provision of sustainable electricity supplies using new technologies, where economically appropriate, to enhance the development capabilities of regional Western Australia.

Horizon Power is committed to being a forward-looking business that is sustainable in the long-term. It is achieving this through targeted investment in technologies and systems which enable the business to adapt and evolve to a changing economic environment and customer needs.

We are trialling technology that is driving down the cost of generation and exploring alternatives to conventional electricity systems. This is being achieved through streams of work focused on reforming prices and subsidy, reducing operating costs, driving embedded renewable systems to reduce pressure on peak demand growth and empowering consumer choice by providing appropriate economic signals. Delivery of these work streams is reducing the cost to supply that is central to Horizon Power's strategy.

Horizon Power's primary key performance indicator is to pursue initiatives which reduce operating subsidy by \$100 million per annum by 2017/18.

Horizon Power is differentiated by being a vertically integrated supplier responsible for generating, procuring, distributing and retailing electricity

supplies and services and by the fact that it has offices and staff located in the regional communities it serves. In order to achieve our vision to be 'Your Local Energy Partner' for its customers and stakeholders, Horizon Power's role is to support, develop, and deliver value to its customers and stakeholders.

During 2015/16 Horizon Power delivered our vision of 'Your Local Energy Partner, Low Cost and Sustainable' through our strategy, which focuses on six key areas as shown below. Business Excellence means providing an efficient and fit for purpose operating model using real time analytics enabling us to make decisions at the lowest level possible and improve our ability to change and adopt new work practices. Capital productivity means continuing to optimise our return on capital and empowering our customers through provision of the right economic signals. We are developing system blueprints to enable us to deliver the most

Your Local Energy Partner: Low Cost and Sustainable

Business Excellence

To provide an efficient (fit for purpose) operating model using real time analytics.

Capital Productivity

Future proof the business and optimise return on capital.

Customer

Empower consumer choice through appropriate economic signals.

System Blueprints

Deliver the most economically efficient model for supplying electricity.

Pilbara Intergrated Market

Maximise value of our NWIS business whilst supporting the Government reform agenda.

Leadership

Achieve a performance culture as described in Our Horizon Way.

economically efficient supply model and we continue to maximise our North West Interconnected System business, while supporting Government reform. Finally, we develop and maintain a high performing culture by ensuring we attract and retain the critical skills and leadership capabilities we need to achieve our vision. The coming 2016/17 financial year will see the business evolve its vision, strategy and structure to meet future customer requirements and industry changes and exploit its leadership in the management of microgrids, while continuing to provide safe and reliable power.

Vision and corporate objectives

Horizon Power’s purpose, our fundamental reason for being remains ‘Energy for Life’.

Our vision of being ‘Your Local Energy Partner’ continues to underpin our operating model whilst providing a focus on being low cost and sustainable.

Our objectives of Safety, Value and Community remain the same. How we define these has been simplified:

- **Safety** – minimise the risk of harm
- **Value** – maximise long term value
- **Community** – be a high performing business

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

We track and measure performance via business key performance indicators (KPIs) which are tied to objectives. Our focus remains on our primary KPI of delivering ‘initiatives which will reduce our annual operating subsidy by \$100 million by 2017/18’. It serves as a lead indicator of our ability to be low cost and sustainable.

Your Local Energy Partner: Low Cost and Sustainable

Safety

Minimise the risk of harm



Value

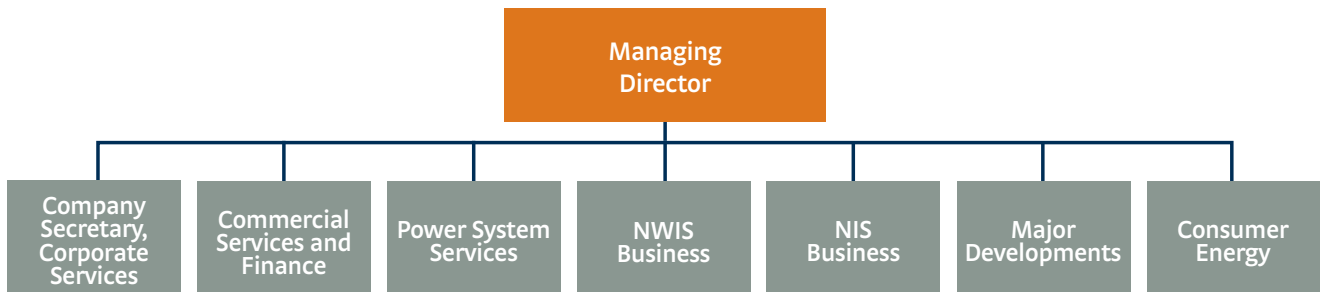
Maximise long-term value



Community

High performing business





Organisational structure

Horizon Power's operating model is designed to support its current vision of being 'Your Local Energy Partner: Low Cost and Sustainable.'

Company Secretary, Corporate Services

The Company Secretary, Corporate Services division provides support services within Horizon Power. It sets service offerings, standards and policies which promote regional accountability and capability. It also provides lowest-cost human resources, communications, risk, legal, health and safety, procurement, facilities and fleet management services.

The Company Secretary provides advice and administrative services to the Board, and assists in its effective operation, as well as being the interface between the Board and the Executive team.

Commercial Services and Finance

The Commercial Services and Finance division provides customer service, energy and analytics, digital, finance and strategy services. It develops energy delivery blueprints which include disruptive technologies (distributed energy/storage and

digital based initiatives). It drives the decentralisation of decision making and accountability and ensures business objectives are achieved.

Power System Services

The Power System Services division supports Horizon Power's regional businesses, including engineering and project delivery, capacity planning, land, heritage, native title and environmental advisory services, asset management frameworks, policies, guidelines and standards and Economic Regulation Authority and EnergySafety reporting.

NWIS Business

The NWIS Business division oversees the holistic performance of the Pilbara North West Interconnected System (NWIS). It manages customers, stakeholders, assets and the provision of energy to meet the demands of the NWIS. The NWIS Business includes Port Hedland, South Hedland, Wedgefield, Point Samson, Roebourne and Karratha. The NWIS Business division supports Government led market reforms.

NIS Business

The NIS Business division provides safe and reliable operational performance in the Non Interconnected System (NIS). Within the NIS are three regional centres: Kimberley (Kununurra and Broome), Gascoyne/Mid West (Carnarvon) and Esperance/Goldfields (Esperance). As with the NWIS Business, the NIS Business is responsible for the management of assets, customers and stakeholders.

Major Developments

The Major Development division was formed in July 2015 with a view to focus on large scale capital projects and business development activities for medium and large enterprise customers.

Consumer Energy

The Consumer Energy group was formed in early 2016 with a focus on exploring and delivering products and services to consumers beyond the traditional utility business model.

Performance overview

Horizon Power has established and agreed with the State Government on a balanced set of critical business outcomes to measure our success in delivering social, environmental and

economic benefits. Horizon Power's performance against targets published in our Statement of Corporate Intent (SCI) is shown below.

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

Critical Business Outcomes	Target performance result for 2015/16	Actual performance result in 2015/16	Target achieved	Actual performance result in 2014/15	Notes to the table	For more information see page
Employee Safety Lost Time Injury Frequency Rating	0.0	1.9	✘	3.3	1	30
Public Safety Total number of Notifiable Public Safety Incidents	<8	5	✔	5	5	5
NPAT (\$M) Profit for the year after income tax	275	36.7	✔	38.1	3	73
Efficiency Dividend Incorporates the Minister's 5% Efficiency Dividend plus the 2.5% GTE Efficiency	8.8	16.8	✔	18.5	4	76
Cost Management Cost to Supply Unit Cost (cents/kWh)	32.4	27.9	✔	30.4	5	N/A
Unassisted Pole Failure Rate	<1	1.68	✘	1.67	6	24
Customer Satisfaction Survey rating (%)	>70	73	✔	87	7	46
Reliability Reliability performance of each system	33/38	28/38	✘	31/38	8	19
System Reliability and Electricity Delivery System Average Interruption Duration Index – SAIDI	290	199	✔	153	8	19

Critical Business Outcomes	Target performance result for 2015/16	Actual performance result in 2015/16	Target achieved	Actual performance result in 2014/15	Notes to the table	For more information see page
System Average Interruption Frequency - SAIFI	6.6	3.08	✓	2.7		19
Return on Assets (%) Earnings before interest, and tax	7.1%	7.6%	✓	8.0%	9	N/A
Project Management Major project completion within ±5% of approved budget (%)	100	100	✓	100	10	N/A

Notes to the Performance overview table

- Horizon Power has recorded a 1.9 lost time injury frequency rate this financial year; a decrease from the 2014/15 rating of 3.3. This downward trend is reflective of the continued focus on safety in the business, which has been reinforced this year through the introduction of a new Health and Safety Management System.
- Five Notifiable Public Safety Incidents occurred in 2015/16; performance is maintained from previous year and remains well below our target of eight. These incidents were mainly due to equipment failure.
- NPAT compared favourably to target due mainly to lower operating costs through tight cost control and the realisations of efficiency initiatives.
- The Efficiency Dividend target was exceeded through continued focus and monitoring of cost efficiencies and outworking of strategic review roadmaps.
- The Unit Cost to Supply (cents/kWh) - lower cost of goods sold and operating expenditure contributed to a favourable variance in the Unit Cost to Supply (cents/kWh) compared to target.
- The Unassisted Pole Failure Rate remained the same as 2014/15 with five new unassisted pole failures and five poles removed from the three-year rolling statistics.
- Horizon Power exceeded its target for customer satisfaction. However, this year, electricity bills were the single greatest driver of performance ratings amongst residential customers. While bills have always been an important influence on performance ratings, issues arising from advanced meters and billing adjustments, combined with increasing energy costs, have had an even greater influence on satisfaction than previous years.
- Horizon Power's performing systems were 28 in 2015/16 down from 31 in 2014/15. Generation outages during the past 12 months contributed to Broome, Esperance, Marble Bar and Onslow not meeting the reliability target for this year. Kununurra's reliability improved slightly but still experienced a number of generation failures. Carnarvon has attained performing system status with no generation incidents and only network faults in the past 12 months.
- Return on assets compares favourably to the target as a result of higher profit from operating cost savings.
- No major projects were completed or expected to be completed during this financial year.

Operational performance

Horizon Power delivered safe and reliable electricity throughout 2015/16 and exceeded its reliability targets for the aggregate portfolio of systems. Of our 38 systems, 28 met performance reliability standards, down from 31 the previous year. Power station outages impacted reliability in Broome, Esperance and Wyndham.

Broome, Esperance, Marble Bar and Onslow's performance reflects generation issues which resulted in the towns being non-performing.

SAIDI and SAIFI performance in Kununurra fluctuated during 2015/16, resulting with the town having the same performance as the previous year. Work has started on the Kununurra back-up power station which will improve reliability in the new year.

Equipment malfunction in the Wyndham standby power station caused the automated system to fail and the town becoming non-compliant.

There has been a significant improvement in Carnarvon after initial issues at Mungullah Power Station were resolved post its commissioning.

The business' asset management processes have continued to mature since the strategic review in 2013. The process requirements accurately reflect the financial requirements to augment and improve assets, even during the current economic down turn. This has resulted in targeted activities being performed on the network. A risk-adjusted value model is now applied to all growth-related projects, aligning long-term programs designed to deliver sustained safety and reliability improvements within economic conditions. Horizon Power has the ability to adjust the Asset Management Strategy without compromising safety.

Horizon Power realised the capital expenditure for the 2015/16 Capital Works Program. However the business overspent its budget, due predominantly to significant repair

works required following bushfires in the Esperance region. Forward planning was also an expense factor, with the business preparing for works in the coming financial year. Overall the expenditure was deemed appropriate to mitigate known asset issues and risks.

In 2015/16 Horizon Power spent \$14 million more than 2014/15 due to reparations following the Esperance bushfires, upgrading Kununurra back-up power station and feeders and switchboard and pole replacement in the Mid West.

Note: In Table 2, the capital expenditure overspend was driven by the Esperance bushfires remediation works, which resulted in an additional spend of \$5.7 million. Horizon Power has delivered the 2015/16 works program under budget when this remediation expenditure is excluded.



Table 1: Network assets

Network type	Carrier	Kilometres
Transmission	220 kV	197.1
	132 kV Overhead	1.8
	132 kV Underground	109.7
	66 kV Overhead	150.7
	66 kV Underground	1.5
Distribution	HV 3-Phase Overhead	2,134.2
	HV 3-Phase Underground	824.8
	HV Single Phase Overhead	2,777.0
	HV Single Phase Underground	18.4
	LV Overhead	647.8
	LV Underground	1,493.3
Total		8,356.5
Total transformer capacity	786 MVA	
Number of transformers	4,452	
Number of distribution poles	57,590	
Number of transmission wood poles	236	
Number of transmission steel poles	768	
Number of transmission towers	857	

Table 2: Asset Management Plan drivers

AMP driver	Budget (\$) FY 15/16	Actual (\$) FY 15/16
Asset Service	\$14,910,000	\$13,021,885
Safety	\$8,301,000	\$13,182,364
Regulatory/Compliance	\$3,938,000	\$1,635,923
Reliability	\$6,513,000	\$12,530,030
Capacity	\$3,046,000	\$1,727,386
Total	\$36,708,000	\$42,097,587

Electricity generation and sales

June 2015/16 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	-	-	1,932,785	1,932,785	-	1,932,785	18,804
Beagle Bay	-	-	1,781,395	1,781,395	-	1,781,395	
Bidyadanga	-	-	3,018,297	3,018,297	-	3,018,297	
Broome	-	-	141,582,805	141,582,805	-	141,582,805	1,089,743
Looma	-	-	2,821,841	2,821,841	-	2,821,841	10,380
Carnarvon	44,694,695	-	307,710	45,002,405	1,527,935	43,474,470	1,636,174
Coral Bay	-	-	3,298,818	3,298,818	-	3,298,818	
Cue	-	-	2,373,972	2,373,972	-	2,373,972	46,639
Denham	3,467,307	1,950,022	-	5,417,329	194,990	5,222,339	97,142
Derby	-	-	36,502,438	36,502,438	-	36,502,438	150,651
Djarindjin	-	-	1,794,530	1,794,530	-	1,794,530	
Esperance	-	-	66,083,847	66,083,847	-	66,083,847	1,401,736
Exmouth	-	-	22,296,862	22,296,862	-	22,296,862	578,108
Fitzroy Crossing	-	-	14,273,926	14,273,926	-	14,273,926	
Gascoyne Junction	-	-	755,025	755,025	-	755,025	5,056
Halls Creek	-	-	11,556,056	11,556,056	-	11,556,056	
Hopetoun	-	-	5,626,667	5,626,667	-	5,626,667	174,708
Kalumburu	2,387,081	-	-	2,387,081	102,950	2,284,131	
Kununurra	483,674	-	63,164,215	63,647,889	483,674	63,164,215	892,666
Lake Argyle	-	-	634,771	634,771	-	634,771	57
Laverton	-	-	3,479,358	3,479,358	-	3,479,358	35,619
Leonora	-	-	8,039,527	8,039,527	-	8,039,527	12,938
Marble Bar	2,060,453	250,172	-	2,310,625	20,881	2,289,744	13,907
Meekatharra	-	-	7,295,218	7,295,218	-	7,295,218	82,907
Menzies	-	-	650,382	650,382	-	650,382	30,754
Mount Magnet	-	-	4,033,963	4,033,963	-	4,033,963	97,426
Norseman	-	-	3,802,530	3,802,530	-	3,802,530	53,819
Nullagine	1,055,040	335,712	-	1,390,752	196,030	1,194,722	14,621
Onslow	6,587,394	-	4,561,498	11,148,891	32,037	11,116,855	10,462
Sandstone	-	-	590,695	590,695	-	590,695	23,911
Warmun	-	-	2,824,985	2,824,985	-	2,824,985	
Wiluna	-	-	2,615,965	2,615,965	-	2,615,965	
Wyndham	93,266	-	8,468,423	8,561,689	93,266	8,468,423	34,135
Yalgoo	-	-	1,065,526	1,065,526	-	1,065,526	22,629
Yungngora	1,536,656	238,922	-	1,775,578	44,515	1,731,063	
NWIS			527,786,978	527,786,978	30,665,186	497,121,792	749,972
TOTALS	62,365,565	2,774,828	955,021,007	1,020,161,400	33,361,464	986,799,937	7,284,964

**Due to increasing penetration of renewables data no longer reflects all demand

Safety

Pole management program

Pole replacement and reinforcement

Horizon Power continues to reinforce or replace poles in line with its condition-based strategy. The business has dealt with high risk poles in areas around the Esperance region and efforts are now focused on Carnarvon and the Mid West regions. This is a continuation of work conducted over the past seven years to ensure significant improvement in our unassisted pole failure rate.

Pole testing methodology

Horizon Power has worked systematically with all experts, suppliers and stakeholders to ensure the most effective pole testing techniques are approved and are being used. In 2015/16, Horizon Power adjusted these techniques based on the experience gained by its pole inspectors. During the year pole inspectors were recognised with a Certificate II ESI Asset Inspection. This qualification recognises Horizon Power's advanced and innovative testing techniques.

Horizon Power nearly reached its target of 1 in 10,000 unassisted pole failures. The graph below highlights Horizon Power's unassisted pole failure rate over three years and demonstrates the impact of environmental aspects which affect our pole population. In spite of their lower risk profile, Horizon Power includes streetlight failures in its unassisted pole failure statistic. Four streetlight poles are included in the statistics for 2015/16.

Conductor management

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

Horizon Power has recognised this as being a multi-year conductor replacement program with full visibility of EnergySafety and focused on high priority risk areas. Two additional replacement programs for low voltage copper conductor and high voltage

copper conductor continue, with completion scheduled for 2021. This program of work is on target to be completed by this date.

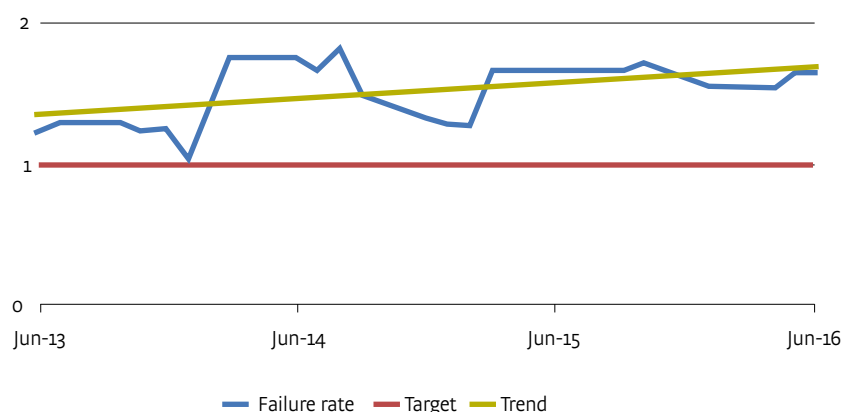
Horizon Power's Asset Management team is quantifying the risk of other conductor types across the Esperance network and developing a strategy for this region.

Following an incident in the Mid West region, the local depot staff reviewed in detail the condition of the conductors and attachments in Denham. Funding has been allocated to undertake further detailed investigations and to reprioritise and commence targeted conductor replacements in Denham and Carnarvon.

Horizon Power continues with its arrangement with Western Power to share information derived from studies performed on all our assets.

Unassisted pole failure rate

(rate per 10,000 poles on a three year rolling average)



Kununurra Generation and Reliability and Network Upgrade Projects

Horizon Power is investing \$14.4 million to upgrade its back-up power station, in addition to the \$5,578 million invested into network upgrades, in Kununurra.

The Kununurra Network Upgrade Project is improving network performance and safety through an upgraded distribution network and by reducing the ability of external factors such as weather and wildlife to impact power supply.

Further safety and reliability improvements are underway as a part of the Kununurra Generation and Reliability Upgrade Project for the Kununurra back-up power station. This work is replacing the aged generation assets and upgrading the associated protection and control systems.

As a result, the back-up station will automatically start generating power when there is an interruption in the supply from the independent power provider. This means the duration of generation outages at the primary power station will be significantly reduced.

Along with the Kununurra Network Upgrade Project, this additional project will deliver a holistic solution for the reliability issues and safety risks in Kununurra.

Safety advertising campaigns

As a generator, distributor and retailer of electricity, Horizon Power has an obligation to promote public safety. Horizon Power's Inspection System Plan was approved by EnergySafety in January 2016. It includes obligations and performance requirements for Horizon Power to inspect electrical work completed within consumer installations connected to our networks. Aligned with the Inspection System Plan, to promote electrical safety, information is provided to electricity consumers via our website, marketing and customer service channels.

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:

- Safety – Be Aware of Electricity
 - Stay safe at home, work and play
 - Safety around electrical assets
 - Cyclone and storm safety
 - Farm safety
- Energy efficiency
 - Easy ways to save

Be Aware of Electricity - stay safe at home, work and play

The Be Aware of Electricity public safety campaign is our principal public safety message product.

Public safety is something everybody in our service area can relate to and recognise as an important part of everyday life. The aim of our campaign is to help educate the public on safely interacting with electricity and associated assets. Protection of assets remains an important part of the messaging equation, but not to the detriment of genuine care for the well-being of people in our community. Safety messages focus on:

- avoiding infrastructure
- home maintenance safety
- appliance safety

Be Aware of Electricity - cyclone and storm safety

Horizon Power has been actively promoting cyclone and storm safety since 2007. This campaign promotes safety strategies during the cyclone and storm seasons.

The latest campaign was launched for the 2014/15 cyclone and storm season and takes a new approach by focusing on the dangers of fallen powerlines, to reduce the risk of electrocution. The risk of injury or death increases exponentially the closer a person is to a fallen powerline. The campaign promotes a simple two-part message – stay well clear of fallen powerlines and call Horizon Power immediately.

Be Aware of Electricity - underground power

More and more of Horizon Power's electricity network supply is distributed through an underground network. Mini-pillars, or green domes, connect homes to this underground network and are located just inside the boundary of a property. A newspaper and digital advertising campaign, provided safety messaging to inform customers that green domes contain live wires, they should never be tampered with and to immediately report any damaged domes to Horizon Power.

Safety within Horizon Power

The Horizon Power health and safety strategy and planned health and safety initiatives continue to be implemented as scheduled. In 2015/16 the strategy focused on finalising enterprise consultation and implementation of the fit-for-purpose safety and health management system, branded *The Zone*. *The Zone* serves as a one stop information portal for everything related to safety and health and includes policies, procedures and work instructions and supports the business to meet our strategic approaches of systems, symbols and behaviours.

During the past year, the implementation of the health and safety strategy has continued, including:

- Finalising business consultation and launching our new safety and health management system, *The Zone*. *The Zone* will continue to support Horizon Power through the transition of new work health and safety legislation currently under industry consultation.
- Development of leading indicators to focus business towards positive safety activity to promote safety and health performance.
- Development, consultation and implementation of new Fit for Work Policy to manage risks associated with being unfit for work, including fatigue, injury management and the management of alcohol and other drugs in the workplace.

The continued implementation of the health and safety strategy has provided increased safety and health performance in the 2015/16.

Horizon Power has recorded a 1.9 lost time injury frequency rate for this financial year. This represents an improvement in safety and health performance from the result occurring in 2014/15 of 3.3.

Further to this, the Non Interconnected Systems Business division has recorded zero LTIs.

Three significant projects in the Pilbara have also recorded a zero LTI result:

- Pilbara Power Project (120 project staff on site)
- Pilbara Underground Power Project (65 project staff)
- Advanced Metering Infrastructure Project (50 project staff)

Esperance farming region



Value

Managing assets: Electricity Network Safety Management System

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

Horizon Power's asset management policy and standards are aligned to international best practice standards, and meet requirements set by the Economic Regulation Authority (ERA).

In light of ERA regulation changes in 2015, Horizon Power is establishing an electricity network safety management system (ENSMS). The new system will allow Horizon Power to meet its regulatory obligations under the *Electricity (Network Safety) Regulations 2015*, to ensure compliance with industry safety standards regarding network assets. The ENSMS must be operational by August 2017.

The ENSMS will deliver processes and systems to help Horizon Power maintain a network that is safe for both its workforce and the public. In addition it will enable the organisation to take increased responsibility for identifying, assessing and managing safety risks on the networks.

Horizon Power's asset management system is adjusting to the challenges facing the industry and the evolution of Horizon Power's future strategy. Our asset management strategy principals of safety, commercial value and community/reliability performance continue to meet the needs of the business at this time.

Horizon Power continues 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; which are fundamental to the achievement of the organisation's objectives and ensure public safety.

The business annually reviews projects and adjusts its approach to funding applications to ensure we meet financial targets set by Treasury, and best practice targets regarding safety and commercial value.

Advanced Metering Infrastructure Project

Horizon Power has replaced more than 45,000 aging electricity meters throughout regional and remote Western Australia with advanced meters, as part of this State Government-funded project. A further 2,000 or so meters which required specialised work remain to be installed, with the project due for completion by the end of 2016.

The meter installation is at no cost to customers and has provided many benefits including, more timely and accurate billing, with the number of customers receiving estimated bills dropping from an average 20 per cent to about two per cent. As Horizon Power improves communications in some remote areas, this number is expected to reduce further.

Powering the Pilbara

The construction of the long-term power station by TransAlta Energy (Australia) Pty Ltd in Port Hedland

continues to progress well and is on target for commissioning in April 2017. The 150 megawatt (MW) station will incorporate the short-term power plant built by Horizon Power in late 2014, the Hedland Precinct Power Project (HPPP). The project included construction of a second 220 kilovolt (kV) transmission line from the South Hedland Terminal to the Hedland Terminal.

Horizon Power has a contract with TransAlta Energy to purchase 110 MW of the generation capacity from the new station. Fortescue Metals Group is also contracted to buy power.

The appointment of TransAlta Energy as the successful proponent to build the station followed two years of negotiations, designed to deliver power to the Pilbara at the lowest possible cost to taxpayers. Horizon Power was funded \$138 million by the State Government to build the HPPP. The cost of HPPP will be recovered from TransAlta.

Work is also progressing well on a 132/66 kV transmission line project which will further augment and strengthen the North West Interconnected System (NWIS). The construction of this transmission line will support Fortescue Metal Group's electricity needs and will reinforce the network in and around Port Hedland.

Horizon Power continues to prepare for the onset of competition in the Pilbara, and at the same time is providing Government with information to assist in preparation for a potential sale of the transmission and distribution network in this region.

Onslow power supply

With construction of Chevron's Wheatstone project underway in the Pilbara town of Onslow, power supply is a critical piece of infrastructure that needs to be further developed, which offers Horizon Power a significant opportunity to showcase innovation in Distributed Renewable Energy Resources and microgrids. Horizon Power will deliver Western Australia's first distributed energy resource microgrid in Onslow which will aim to deliver more than 50 per cent of Onslow's electricity needs by renewable supply.

Changes in Onslow's forecast electricity consumption, together with technological advances in the renewables sector, have offered the chance to re-think the approach previously negotiated under the State Development Agreement for the Chevron-operated Wheatstone liquefied natural gas project.

Together, the State Government, Horizon Power and Chevron have agreed to build a smaller, gas-fired modular power station than originally planned which will meet Onslow's more immediate energy needs, and then be supplemented with innovative distributed energy resources including solar and battery infrastructure.

As part of its obligations under the State Development Agreement, Chevron will provide a capped financial contribution for Horizon Power to construct the power infrastructure.

The project includes essential electricity network infrastructure including a new transmission line and substation, and a 5.25 megawatt gas-fired modular power station designed to efficiently

contract in size as the renewable energy contribution expands to meet energy needs requirements.

The Onslow design will include a mix of distributed solar generation and battery storage aimed at achieving a high level of renewable energy across the town. These distributed resources will be accessible to both residential and business customers and create a new era of energy competition and efficiency.

System blueprints: driving down the cost of generation

Building on the benefits of new contracts and power stations for Mid West towns last year, Horizon Power has invested in the development of system blueprints, which resulted from a strategic review in 2013.

The blueprints identify the most economically efficient way to deliver energy to each of our systems now, and in the future, and a framework to manage the transition from current to future supply models.

This work coincides with the biggest transformation in the traditional delivery of electricity we have seen for many years. Horizon Power is investing in resolving technical and transition barriers to lower system costs to achieve high penetration, distributed energy resources.

In particular, the infrastructure planned for Onslow presents a unique opportunity to implement this business future to ensure that demand for electricity and renewables is delivered in a sustainable way.

Renewable energy: industry recognition

Horizon Power has set hosting capacity requirements for renewable energy installations and stipulated generation management technical specifications such as battery storage since 2012. This ensures we are able to work with customers in their desire to install renewable energy without compromising on the reliability and security of power supply to all customers. Whether generation management is required, and the type of generation management, depends on the amount of hosting capacity available on each network, the customer category and the size of system that the customer wishes to install.

The isolated structure of Horizon Power's network combined with a high demand for renewable energy from a relatively small customer base drove this requirement much sooner than for many other utilities; however, our innovative approach and experience in this area has now been recognised by others within the industry.

Square Kilometre Array and Murchison Radio-astronomy Observatory Power Supply Projects

In November 2015 Horizon Power reached final agreement with the CSIRO to build, own and operate a 2MW solar diesel power station on Boolardy Station, close to the Australian Square Kilometre Array Pathfinder Project (ASKAP) site at the Murchison Radio-astronomy 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. The SKA will involve the installation of radio telescopes over vast areas of Australia and New Zealand, with the majority located within Horizon Power's service area.

Horizon Power has now constructed the power station, and start-up of the State funded 250 kW solar farm is on schedule for September 2016.

Horizon Power's power station that will power the Australian Square Kilometre Array Pathfinder Project

Core Systems Review Project

This project was implemented to improve IT core systems with a focus on asset management and customer services.

Elements of this project have included changes to customer funded works processes which has driven efficiency in the business and increased visibility of key governance steps and metrics.

The alignment of our financial fixed asset register with our equipment register will facilitate improved financial efficiency in our asset replacement program and improve the operation of the models used to price our network services.

Managing 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. The aggregated corporate risks are managed by the Executive and are reported to the Audit and Risk Management Committee (ARMC) throughout the year.

The Framework is integrated with various key corporate and operational frameworks, in particular the strategic planning and corporate budgeting processes. This approach facilitates the prioritisation of key initiatives and adopts a risk based approach to investments.



Community

Power Ahead pilot

Horizon Power is working towards developing a series of packaged pricing plans tailored for residential and small business customers. The *Power Ahead* research pilot is aiming to develop a new, fairer and more sustainable way of charging for electricity that encourages customers to think about when and how they use electricity to reduce their costs.

The business has completed impact assessments, with an emphasis on vulnerable customers and regional development. This research, supported by several independent reports, favours a pricing structure where capacity is packaged into a plan akin to a mobile phone or broadband plan linked to customer maximum demand.

Importantly, the mobile phone style pricing structure empowers customers to take control over their bills. Customers who make behavioural changes and shift use to the off peak period will benefit with lower cost plans. Bills will also be more predictable enabling better budget management.

The product will be tested and shaped during the *Power Ahead* research pilot that was launched in May 2016 and will begin in December 2016. Up to 500 residents and businesses in Port Hedland will participate in the research pilot and Horizon Power will collaborate with them to finalise the pricing and plan design.

The pilot will evaluate customer responses to the concept and their

ability/desire to make behavioural change to reduce their costs. The pilot program will also develop and assess a range of tools in order to assist customers manage their plans, including a smart phone app that provides near real time usage data.

The pilot results will help test and shape Horizon Power's final pricing model and will be shared with the Minister for Energy to help inform policy decisions about potential changes to the existing pricing structure.

The Energy Networks Association (ENA) has said that Horizon Power is leading the way in its approach to price reform, using a sophisticated model that is easily understood by consumers. Importantly, the ENA believes the model can evolve and remain sustainable into the future and that other utilities are paying close attention as to how this model could potentially work in their service areas.

Stand-alone power systems

Horizon Power had the opportunity to assist customers in Esperance, and become their energy partner in the truest sense of the phrase, by developing an innovative energy solution in response to devastating bushfires at the end of 2015.

The business rebuilt the vast majority of the network, including hundreds of kilometres of powerlines, reconnecting more than 400 customers within 10 days of the fires. However, it also developed five solar-powered, stand-

alone power systems for the customers in rural Esperance whose properties lost power when the network servicing them was destroyed. The systems consist of solar panels and batteries and are backed up by diesel generation.

Since the end of March 2016, the systems have been providing reliable power at the same price these customers were paying when connected to our network.

The project is allowing Horizon Power to explore whether these units can be a viable alternative to the network for customers in very remote areas, or in areas where the network has been destroyed. The business is also exploring the benefits of a scheme where customers, who are unable to install solar for reliability reasons, could invest in solar systems in other parts of our service area.

Pilbara Underground Power Project

The Pilbara Underground Power Project has dramatically improved the provision of an essential service to regional residents and businesses during, and immediately following, adverse weather events.

The project is now close to completion in Karratha, and local residents, along with those in Port Hedland and Roebourne, are now enjoying the benefits of this work.

The project is estimated to be fully completed by 2018 including the remainder of Karratha and Onslow.

Community advertising, programs and sponsorships

Horizon Power provides so much more than electricity; our staff live and work in the communities we serve and we provide sponsorship and support for causes close to the hearts of those communities.

The business continues to develop and support partnerships with community organisations that have activities, interests and values compatible with our own. Advertising, programs and initiatives which Horizon Power has run and supported this year include:

Energy Efficiency - Easy Ways to Save

Horizon Power believes it is an important requirement to provide customers with energy efficiency advice to help them save money and energy and help strengthen its community standing as being the 'local energy partner'.

The purpose of our energy efficiency campaign is to:

- provide simple energy efficiency messages to help customers reduce their energy use and save money on their power bills;
- help Horizon Power deliver on our strategy and purpose; and
- assist with customer queries and reduce complaints.

The main objective of *Easy Ways to Save* is to elevate awareness of efficient energy use and the subsequent savings.

The creative concept focuses on typical everyday domestic scenarios

which demonstrate inefficient energy use by members in a household. The execution uses humour to highlight the 'silliness' of these more obviously wasteful power usage habits and promote conversation within a household on the savings that can be made by changing behaviour.

Kidsafe WA

Kidsafe WA is the leading independent not-for-profit organisation dedicated to promoting safety and preventing childhood injuries and accidents in Western Australia. Kidsafe WA and Horizon Power teamed up to promote electrical safety messages to regional communities.

The Smith Family

To show support for young people in the Pilbara, Horizon Power has joined with The Smith Family to support the Learning for Life program, which helps disadvantaged children with much needed education support. The program gives students financial support for education essentials, such as books, uniforms and school excursions.

Ronald McDonald House

Ronald McDonald House works to improve the health and wellbeing of seriously ill children and their families from regional Western Australia. This is achieved by creating, finding, operating and supporting programs which help seriously ill children and their families while they receive medical treatment and assist recovering children return to normal life. Horizon Power has been

a long-term partner of *The Learning Program*, a core program supporting the educational needs of regional children recovering from serious illness, by providing individual learning programs.

Customer service: new online tools introduced

Horizon Power is committed to continuously looking at ways to improve customers' experience when dealing with us. The introduction of the online customer portal *My Account* and paperless billing in 2015/16 demonstrates this commitment. *My Account* allows customers to perform a number of simple self-service functions online at their convenience. *My Account* is available 24 hours a day, 7 days a week and enables customers to remotely open an electricity account, pay their power bills, update account information (including change of supply address) and register for paperless billing.

My Account and paperless billing provide more options about how customers and Horizon Power interact, supporting the customer service functions already provided by the local regional offices and the customer contact centre.

As at the end of June 2016, 1,900 customers had signed up for *My Account*.

In addition to the online portal, more than 6,000 customers had registered for paperless billing, allowing them to receive and pay their bills online.

Complaints

In total, 465 complaints were received in 2015/16; an increase of 244 from the previous year. Of these, 58 per cent were resolved within 15 days. Horizon Power's standard business process for complaints determines that complaints are not closed until customer satisfaction is reached and all appropriate actions have been completed. This ensures customer complaints are acknowledged, investigated and resolved to the customer's satisfaction.

Of the complaints received, 84 related to a meter reading error in Broome. Investigation of these complaints, including special meter reads, meter testing, and historical consumption analysis was often complex. Throughout these investigations, customers were kept informed about the progress of the investigation.

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 opportunities, challenges and rewards. To achieve this, we recruit, develop and retain talented, high-performing employees who are motivated and who share our vision and organisation culture. This is measured through our annual performance appraisals which includes a focus on outcomes and demonstrated behaviours.

Performance leadership

Horizon Power continues to focus on the importance of high performance and leadership. Our Horizon Way, which contains seven performance drivers, assists in focusing attention on delivery of business outcomes and providing energy for life:

These performance drivers and the associated expected behaviours

Performance Driver	Behaviour
Safety	Safe
Leadership	Accountable
Communication	Open
Customer	Respected
Performance	Focused
Capability	Balanced
Teamwork	Collaborative

underpin the performance appraisal system and our rewards and recognition program.

Training and development

Horizon Power is committed to investing in the continuous capability of its people and offers a range of internal and external learning linked to development objectives as agreed through the annual performance and development planning process.

When positions become available, Horizon Power develops apprentices and administration trainees in the

following training programs: Certificate II, III and IV Business Administration, Apprentice Certificate III ESI Remote Utility Community Workers, Apprentice Certificate III ESI Distribution Linespersons.

Horizon Power has four employees from remote Aboriginal communities who maintain our assets and who are participating in the Apprentice Certificate III ESI Remote Utility Community Workers

In 2015/16, development opportunities were focused on the completion of the 'on the job' components of the Remote Community Utility Worker qualification. It is anticipated this training will continue into 2016/17.

Other development opportunities include participation in project work or secondments in various departments throughout the business.

Culture

Our Horizon Way describes the expected behaviours for each of our performance drivers which contribute to Horizon Power's desired culture. These behaviours continue to be reinforced through the performance appraisal process and form the criteria for employee recognition. In 2015, the results of a staff cultural survey indicated that while the business is performing well, we could improve the way our divisions work together. Key improvement initiatives included cross-functional skill building focused on holistic problem solving and constructive conversations.

Employment statistics

Table 3: Training program statistics

Training program	Number of employees	Number of Aboriginal employees
Remote Community Utilities Workers	4	4

Table 4: Employment statistics

	Active full-time equivalents (FTE)				Total
	Permanent full-time	Permanent part-time	Fixed-term full-time	Fixed-term part-time	
Overall Horizon Power	267	9	19	2	297

Note: Figures as at June 2016. The figures are inclusive of employees only.

Aboriginal employment

Horizon Power services regions of the State where significant proportions of the population are Aboriginal. Horizon Power employs 20 Aboriginal employees (6.6 per cent of the workforce) and seeks to continue to offer direct employment opportunities where possible, while focusing on indirect opportunities by supporting Aboriginal businesses, contractors and suppliers and allocating sponsorships such as those listed on page 26. In addition, Horizon Power has four employees from remote Aboriginal communities who help maintain our assets. These staff are close to completing the qualification Certificate III ESI Remote Community Utilities Workers.



Environment and heritage

Greenhouse gas and carbon intensity

Horizon Power reports total greenhouse gas emissions per financial year in accordance with the *National Greenhouse and Energy Reporting Act 2007* (NGER). Greenhouse gas emissions attributed to Horizon Power were 99,516 tonnes of carbon dioxide equivalent (CO₂-e) for the year. Emissions have increased due to contributions from a full year's production at South Hedland Power Station (under Horizon Power's operational control) versus eight months in the previous year; and increased gas use at Onslow to meet increasing demand.

Horizon Power's 2015/16 NGER's report is made publicly available in the first quarter of 2017, through the Clean Energy Regulator (CER). An estimate is made for the Scope 1 emissions¹ (direct emissions) in Table 5 for 2015/16, based on available information as at 8 July 2016. Greater complexity exists in establishing Scope 2 emissions² (indirect emissions) in accordance with the NGER, therefore it is too early to accurately estimate this value at the time of publishing.

Carbon intensity, measured as kgCO₂-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 ₂ -e)		
	Direct emissions (Scope 1)	Direct emissions (Scope 2)	Total energy consumption (GJ)
2012/13	43,547	36,562	1,000,839
2013/14	40,625	38,167	970,032
2014/15	82,670	38,543	1,842,181
2015/16	99,516 ³	Final figures are reported to CER by 31 October 2016 and published Q1 2017.	

Table 6: Carbon intensity

Reporting year	Carbon intensity kgCO ₂ /kWh sent out	Target kgCO ₂ /kWh sent out
2012/13	0.55	0.65
2013/14	0.58	0.65
2014/15	0.58	0.65
2015/16	0.56	0.65

1. Direct emissions of greenhouse gas into the atmosphere from sources that are owned or controlled by the company. For example, emissions from combustion in owned or controlled engines or equipment.

2. Indirect emissions of greenhouse gas from the generation of purchased electricity consumed by the company. This includes purchased electricity consumed in depots/offices, as well as line losses in networks operated by Horizon Power.

3. Estimated figure based on available information as at 8 July 2016.

Due to the relative contributions to electricity sent out, carbon intensity is primarily influenced by Independent Power Producers (IPP), with relatively minor influence from Horizon Power operated power stations. The carbon

intensity improved slightly between 2014/15 and 2015/16. Carbon intensity remained within the internal target of 0.65 kgCO₂-e /kWh sent out, as shown in Table 6.

Air emissions

Horizon Power reports annual air emissions for the period 1 July – 30 June to the National Pollutant Inventory (NPI) for sites exceeding the NPI reporting thresholds. These reports and information on reporting requirements are publicly available on the NPI website (www.npi.gov.au). An estimate of combined air emission data from all Horizon Power generation facilities is provided in Table 7.

Total sulphur dioxide (SO₂) and normalised SO₂ emissions, shown as kg/MWh (generated) remain comparable to previous reporting years.

An increase in total emissions of oxides of nitrogen (NOx) is consistent with increased gas consumed at South Hedland and Onslow Power Stations in line with a corresponding increase in electricity from generators under Horizon Power's operational control. Normalised NOx emissions, shown as kg/MWh (generated), decreased primarily as a result of increased use of lower NOx emitting gas generation (e.g. water injection in use at South Hedland). Final data supplied to the NPI may differ slightly from the estimated emissions and shall also include additional statutory reporting parameters.

Noise

No noise complaints were received during the year.

Table 7: Air emissions summary

		2015/16	2013/14	2012/13
Sulphur Dioxide (SO₂)	Total (Tonnes)	0.5	0.5	0.3
	kg/MWh (generated)	0.004	0.004	0.004
Oxides of Nitrogen (NOx)	Total (Tonnes)	616	538	506
	kg/MWh (generated)	4.27	4.61	8.08

Table 8: Key investigation and activities undertaken at contaminated former power station sites.

Groundwater monitoring events (GME)		
Broome	Camballin (2)	Carnarvon
Cue	Derby	Exmouth
Fitzroy Crossing	Kununurra	Marble Bar
Meekatharra		
Detailed site investigations (DSI)		
Camballin	Exmouth	Meekatharra
Other investigations		
Derby – Excavation and offsite disposal of contaminated soil		
Fitzroy Crossing – Development of a Remedial Action Plan (for implementation in late 2016)		
Halls Creek – Soil sampling		
Marble Bar – Detailed site investigation		

Management of contaminated sites

Horizon Power's land portfolio includes 30 sites reported and managed under the *Contaminated Sites Act 2003* (CS Act). The sites are typically former power stations where historical spills and/or leaks of hydrocarbons have resulted in soil and/or groundwater impacts. The portfolio of sites is managed in accordance with a risk-based strategy where key objectives

are to achieve remediation targets and end-point classification. This is achieved when no ongoing assessment and/or remediation is required on the basis the land use remains unchanged. During the year, a further three former power stations (Esperance, Onslow and Redbank) achieved end-point classification reducing the number of sites requiring ongoing active management to 17.

The hydrocarbon contamination on several sites has migrated offsite. In these instances, Horizon Power has appointed accredited Contaminated Sites Auditors to independently oversee the investigations of these sites. Table 8 provides a summary of key investigations and site works completed during 2015/16.

Horizon Power is continuing to progress the program to fully decommission and demolish obsolete infrastructure from former power station sites, in addition to the contamination assessment and clean-up. Works under this program were completed in Halls Creek, Fitzroy Crossing, Camballin, Derby, Marble Bar and Nullagine and included removal of generators, switchgear, transformers, bulk fuel tanks and buildings. The Derby works included the remediation of almost 200 tonnes of hydrocarbon contaminated soils.

Environmentally Sensitive Areas Program

The Environmentally Sensitive Areas Program continued this year. The program subjects all ground disturbing activities to a desktop assessment prior to undertaking the works. It provides staff and contractors with processes and procedures to follow when working within these areas and ensures licences or permits are obtained as applicable.

Regulatory instruments

Horizon Power applied to amend the environmental licence for the Karratha Temporary Generation Project⁴ to reflect the reduced operating hours of the power station. The amendment is currently being finalised by the

Department of Environmental Regulation at the time of reporting. All reporting obligations required under the licence were met during the year. Mungullah Power Station remains as a registered premises⁵ with no associated reporting requirements. None of Horizon Power's other operating sites meet the threshold for an environmental licence or registration.

Horizon Power holds 16 Native Vegetation Clearing Permits issued by the Department of Environmental Regulation, of which five have reporting requirements. Reports were submitted to the Department of Environmental Regulation in accordance with Native Vegetation Clearing Permit conditions. Horizon Power was also granted a Permit to Take Declared Rare Flora during the year, to facilitate recovery works following the Esperance bushfires. No reporting was required for this Permit during the year.

Environmental incidents

In May 2016, Horizon Power reported a diesel spill to the Department of Environmental Regulation under the *Environmental Protection Act 1986*, when diesel fuel leaked from a faulty valve on a Yungngora Power Station fuel delivery line. The majority of soil impacted has been removed for offsite disposal and the site is undergoing validation testing prior to the completion of remedial measures at the time of reporting. The site has been reported under the *Contaminated Sites Act 2003* but is yet to be classified.

There were no other reportable environmental incidents during the year.

Native title and heritage compliance

This year Horizon Power adhered to the Heritage Management System. The system's success is reflected in the consistent number of native title and heritage clearance requests from across the business, for both low and high impact projects, ensuring we continue to improve native title and heritage approval processes. No potential or actual breaches of the *Aboriginal Heritage Act 1972* were recorded for this period.

Aboriginal heritage monitors were engaged to assist in protecting Aboriginal cultural values during ground disturbing works.

Horizon Power was consulted by the State and provided responses for the following Native Title claims:

- Dampier Peninsula Cluster Native Title Claim
- Ngarlawangga Native Title Claim
- Directors' report

4. Licence L8745/2013/1 granted under Part 5 of the *Environmental Protection Act 1986* (EP Act) for a category 52 prescribed premises as defined by Schedule 1 Part 1 of the Environmental Protection Regulations 1987.

5. Registration R2385/2014/1 granted under Part 5 of the (EP Act) for a category 84 prescribed premises as defined by Schedule 1 Part 2 of the Environmental Protection Regulations 1987.

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, with the confidence that they 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 of providing our staff with the 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 accrue from a conscious, structured and dynamic approach to the management of risk.

Board of Directors

In accordance with the *Electricity Corporations Act 2005 (VWA)*, Horizon Power must be governed by a Board of between four and eight Directors appointed by the Governor on the nomination of the Minister for Energy. The Board is responsible to the Minister 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 Managing Director and Executive management team.

Horizon Power's Board consists of the following people:

- Mr Ian Mickel, Chairman
- Ms Rosemary Wheatley, Director
- Ms Lynne Craigie, Director
- Mr Ron Johnston, Director
- Mr Peter Oates, Director
- Professor Ray Wills, Director



Ian Mickel (Chairman)

Appointed acting Chairman from 1 June 2014. Appointed Chairman for a term of three years from 10 November 2014.

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 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 2007 for his service to local government. Ian was made a Freeman of the Shire of Esperance in 2012 in recognition of his significant contribution to the Shire.

Ian is a Fellow of the Australian Institute of Company Directors and also the Royal Association of Justices of Western Australia (Inc).



Rosemary Wheatley

Appointed in November 2012.

Rosemary has 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, and 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 the Government appointed independent director of Guumbarr Limited, a trustee company set up under the Browse

LNG Precinct Project Agreement. She was a Metropolitan Cemeteries Board member for seven years.

Rosemary holds a Bachelor of Laws (Honours) and a Master of Laws.



Lynne Craigie

Appointed in October 2011.

Lynne is a small business owner in Newman. Lynne worked as a psychologist providing counselling, employee assistance programs and training programs in Newman for 14 years.

Lynne was elected to the East Pilbara Shire in 2003, was elected Shire President in 2005 and still holds this position. Lynne is Chairperson for the Pilbara Regional Council and is the State President for the West Australian Local Government Association. Lynne also sits on the Australian Local Government Association Board.

Lynne holds a Bachelor of Social Science (Double Major Sociology & Psychology) and a Postgraduate Diploma in Psychology.



Ron Johnston

Appointed in May 2011.

Ron has worked in most North West and Kimberley towns since 1971 through his then employer, Ansett Australia, and at the time of its demise was the Kimberley Regional Manager.

Since then he has been involved in property development and construction in Karratha, Broome, Derby and Kununurra.

Ron served his community as a Broome Shire Councillor and President for a combined 16 years (1981-1997). Last October, Ron was elected by his fellow Councillors as Broome Shire President. He has been President of the Broome Chamber of Commerce, Kimberley Tourism Association and President of the Broome Turf Club.

Ron received the Sir David Brand Medal for Tourism in 1995, was awarded a Centenary Medal and is a Paul Harris Fellow.



Peter Oates

Appointed in November 2014.

Peter has more than 36 years' experience in the Western Australian electricity industry. Most of this experience is in Western Power's financial area, including General Manager Finance and Administration and General Manager Emerging Business.

He was a Board Director of Eneabba Gas Pty Ltd from 2006 to 2010. More recently he was Chairman of the Merger Implementation Group, which was responsible for the merger of Verve and Synergy.

Peter holds a Bachelor of Economics and Master of Business Administration from the University of Western Australia and is a Fellow of the Certified Practising Accountants.



Professor Ray Wills

Appointed in November 2014.

Professor Wills is a commentator and adviser on sustainability and technology across the built

environment, cleantech, energy infrastructure, industrials, manufacturing, resources, transport, and water sectors. His research includes adoption rates of technology, disruptive technology including automation, robotics and additive manufacturing and the impact of social media on markets.

Professor Wills is Managing Director of the advisory firm Future Smart Strategies; Partner and Director of the cleantech business, Sun Brilliance Power; Leader of the 'blue economy' startup Blue Australasia; and Director of the bioenergy startup BioTek Fuels Pty Ltd. He is also Adjunct Professor at The University of Western Australia (UWA) and comments on behalf of UWA on climate change and sustainability. He is Principal Strategic Advisor to Careers Australia.

Professor Wills was recognised by Singapore-based ABC Carbon as one of the Top 100 Global Leaders in Sustainability in 2011, an honour renewed each year since, and from 2014 listed by UK-based SustMeme Magazine as one of the top 100 Global Influencers in Social Media on Climate Change and Energy. Further, in 2016, analytics firm Analytica listed Professor Wills in the Top 100 Influencers and Brands for Renewable Energy in the world.

Professor Wills holds a Bachelor of Science (Honours) (Mycology) and a Doctorate of Philosophy (Ecology).

He is a member of the Australian Institute of Company Directors, the Ecological Society of Australia and

is a fellow of the Australian Institute of Energy.

John Le Cras

John Le Cras is Chair of the Corporate Affairs and Communications Committee.

John has more than 30 years' experience as a journalist, news editor, marketing executive and strategic communications consultant. John spent 14 years in senior roles with the Seven Network, including Director of News and Current Affairs. John held senior corporate communications and marketing roles at HBF and Murdoch University, before launching his strategic communications business in 2011.

John provides strategic communications and marketing services across banking, education, healthcare, mining, utilities, energy, manufacturing and local government sectors.

John is a member of the Public Relations Institute of Australia.

Managing Director Elect and Company Secretary

Frank Tudor (Managing Director Elect)

Frank 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 Horizon Power.

Frank lectured in oil and gas economics and law at the University of Western Australia for over 10 years. He is Vice Chairman of the Chamber of Commerce and Industry's (CCI) Energy

and Resources Forum. He was the National Chairman of the Australian China Business Council from 2008-2013 and is currently a Board member of the Federal Government's Australia China Council and a member of the ANU China in the World Advisory Board (supported by the Federal Government), a member of the ANU China in the World Advisory Board (supported by the Federal Government); and a member of the WA Museum taskforce.

David Tovey (Company Secretary)

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

David has extensive electricity industry experience, in strategic, business development, operational and corporate governance roles. He is a Member of CPA Australia, the Australian Institute of Company Directors and an Associate of the Governance Institute of 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.

Table 9: Board meetings

	Number of meetings attended	Number of meetings eligible to attend during the time the Director held office during the year
Ian Mickel	12	12
Rosemary Wheatley	12	12
Lynne Craigie	10	12
Ron Johnston	11	12
Peter Oates	12	12
Professor Ray Wills	11	12

Table 10: Horizon Power Directors' terms of appointment

Director	Appointed	Expires
Ian Mickel	1 May 2011	30 April 2013
	<i>Second term</i> 11 November 2014	10 November 2017
Rosemary Wheatley	13 November 2012	30 July 2015
Lynne Craigie	1 October 2011	30 September 2014
	<i>Second term</i> 11 November 2014	10 November 2017
Ron Johnston	1 May 2011	30 April 2013
	<i>Second term</i> 11 November 2014	10 March 2015
Peter Oates	11 November 2014	10 November 2017
Professor Ray Wills	11 November 2014	10 November 2016

Note: The *Electricity Corporations Act 2005* states that a Director continues in office until their successor comes into office, even if the period for which the Director was appointed has expired.

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. 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: ARMC meetings attended

	Number of meetings attended	Number of meetings eligible to attend during the time the Director held office during the year
Peter Oates	6	6
Lynne Craigie	5	6
Rosemary Wheatley	6	6

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 corporate governance, internal control and internal audit function.

Composition of the ARMC

The ARMC comprises of:

- Peter Oates, Chair
- Lynne Craigie, Director
- Rosemary Wheatley, Director

ARMC meetings in the 2015/16 financial year were mainly attended by:

- Frank Tudor, Managing Director Elect
- David Tovey, Company Secretary and General Manager Corporate Services
- Ben Hamilton, General Manager Commercial Services and Finance
- Frank van der Kooy, General Counsel
- Liang Tay, Manager Risk and Audit
- Mike Houlahan, Manager Finance
- Lance Roberts, Manager Safety and Health

Corporate Affairs and Communications Committee

The Corporate Affairs and Communications Committee (the CAC Committee) is a sub-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:

- John Le Cras, Chair
- Ron Johnston, Director
- Professor Ray Wills, Director

Table 12: CAC Committee meetings attended

	Number of meetings attended	Number of meetings eligible to attend during the time the Director held office during the year
John Le Cras (Chair)	6	6
Ron Johnston	4	6
Prof Ray Wills	6	6

CAC Committee meetings in the 2015/16 financial year were attended by:

- Frank Tudor, Managing Director Elect
- David Tovey, Company Secretary and General Manager Corporate Services,
- Tracy Armson, Manager 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 report for the first three quarters of the 2015/16 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. 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 financial statements and other statutory information required of Horizon Power under the Act;
- a comparison of performance with Statement of Corporate Intent targets; and
- other information required by the Act to be included.

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 issued codes of conduct; and
- any specific 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.

Likely developments in operations in future years

At the time of publishing this document, Horizon Power was finalising the development of an Electricity Transfer Access Contract to enable other energy providers to utilise the North West Interconnected System's transmission and distribution network. Entry of competition into this market is likely to impact Horizon Power's revenue significantly in future years and the Horizon Power Board anticipate a Ministerial direction to execute any contracts with other energy providers.

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 Policy 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. A conflict of interest may arise in a number of situations involving a disparity between the interests of Horizon Power and the interests of the relevant individual.

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

Ian Mickel

- Director of Telac Pty Ltd
- Director of Esperance Tjaltjraak Aboriginal Corporation (resigned during the year)

Rosemary Wheatley

- Director of Guumbarr Ltd

Lynne Craigie

- Chair of Pilbara Regional Council
- President of Shire of East Pilbara
- President of Western Australia Local Government Association (WALGA)
- Member Australian Local Government Association Committee (State Representative)
- Deputy Chair, Regional Development Australia Pilbara
- Chair Newman Senior High School Board

Ron Johnston

- Shire President, Shire of Broome

Peter Oates

- None declared

Professor Ray Wills

- Professor Ray Wills is Managing Director of the advisory firm Future Smart Strategies; Leader (MD) of Blue Australasia Pty Ltd; Partner and Director of the energy company, Sun Brilliance Power Pty Ltd and its subsidiary Sun Brilliance Energy (India) PL; Director of the

bioenergy firm BioTek Fuels Pty Ltd; and Adjunct Professor at The University of Western Australia (UWA) contributing to the academic program and providing advice to UWA on sustainability, and one of UWA's media spokespersons on climate change and new technology.

Frank Tudor

- Vice Chairman of the Chamber of Commerce and Industry's Resources and Energy Forum
- Member of the Australian National University China in the World Committee Advisory Board
- Facilitator of the Gas Fundamentals Conference for Informa Learning
- Board member - Federal Government Australia-China Council
- Member of the WA Museum Taskforce

Indemnification of Directors

The Directors' and Officers' Liability Insurance Policy insures (amongst others) Horizon Power's Directors and Officers, shadow Directors and employees and covers all loss resulting from a claim made against an insured person during the policy period subject to any exclusions set out in the policy.

Horizon Power does not indemnify any Director or Auditor.

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 by the State Government under the *Electricity Corporations Act 2005* following State Government approval processes that also outline the compensation payable for their services. Senior executive salaries are subject to annual review and market evaluation and are determined and paid in alignment with Horizon Power's internal human resource policies.

The Managing Director's remuneration is subject to review by the Board annually and performance is assessed against key performance indicators included in the Strategic Development Plan.

Principles used to determine the nature and amount of compensation

Compensation approval protocols are as follows:

The compensation policy is to:

- provide market competitive remuneration to employees having regard to both the level of work assigned and the personal effectiveness in its performance;
- allocate remuneration to employees on the basis of merit and performance; and
- adopt performance measures which align the interests of employees with the interests of key stakeholders.

Non-Executive Directors

Payment to Non-Executive Directors consists of base remuneration and superannuation.

Managing Director and Executives

The Managing Director and Executives compensation framework is based on a total package that includes total fixed remuneration structures with:

- Cash
- Selection of prescribed non-financial benefits
- Superannuation
- Remote location and housing benefits where applicable
- Cost of fringe benefit tax

Total fixed remuneration

The compensation framework is market competitive and performance based with flexibility for the package to be structured at the Executive's discretion upon a combination of cash, a selection of prescribed non-financial benefits, superannuation and cost of fringe benefits tax. External remuneration consultants provide analysis and advice to ensure remuneration is set to reflect the market for a comparable role. Remuneration for Executives is reviewed annually to ensure the level is market competitive. There are no guaranteed remuneration increases included in any Executive contracts.

Table 13: Board and Executive remuneration*

Remuneration 2015/16	Cash salary and fees \$	Super annuation \$	Total \$
Non-Executive Directors			
I Mickel (Chairman)	98,654	9,372	108,026
R Johnson (Director)	46,731	4,440	51,171
L Craigie (Director)	46,731	4,440	51,171
R Wheatley (Director)	46,731	4,440	51,171
R Wills (Director)	46,731	4,440	51,171
P Oates (Director)	46,731	4,440	51,171
Executives			
F Tudor (Managing Director Elect) ⁽ⁱ⁾	481,361	45,446	526,807
B Hamilton (General Manager Commercial Services and Finance)	391,287	37,172	428,459
Z Wilk (General Manager NWIS Business) ⁽ⁱⁱ⁾	389,727	34,728	424,455
T Brereton (General Manager Major Developments) (retired 26 February 2016)	325,162	24,479	349,641
D Tovey (Company Secretary and General Manager Corporate Services)	335,581	31,880	367,461
C Julian (General Manager NIS Business) ⁽ⁱⁱⁱ⁾	291,453	27,688	319,141
L Curro (Acting General Manager Power System Services appointed 20 July 2015)	237,379	24,730	262,109
D Hill (Acting General Manager Major Developments appointed 7 January 2016)	135,810	12,902	148,712

(i) In addition to cash remuneration paid, a regional travel allowance was provided to the Managing Director of \$43,954 (2015: \$42,083).

(ii) In addition to cash remuneration paid, a regional travel allowance was provided to the Z Wilk of \$18,549 (2015: \$17,374). Non-monetary benefits such as housing and air-conditioning subsidies of \$54,777 (2015: \$67,917) were provided to Z Wilk for the higher cost of living in regional areas. These benefits are common to a wide range of industries operating in regional locations.

(iii) In addition to cash remuneration paid, a regional travel allowance was provided to C Julian of \$60,000, including a back payment of \$16,200 for 2014/15.

* Please note that due to the course of fortnight pay cycles, there were twenty-seven pay runs in the financial year 2015/16 instead of twenty-six. Consequently, the amounts shown in the above table are proportionately higher than the annual remuneration package of the Board members and Executives.

All contracts provide for no entitlement to termination payments in the event of termination for serious misconduct.

Non-financial benefits

Selection available: cost of novation of selected motor vehicle and the cost of fringe benefits tax. As stated above, housing benefits are also provided to Executives who are resident in remote locations.

Superannuation

Paid in accordance with the amount that is required under the *Superannuation Guarantee (Administration) Act 1992* (Cth), on the Executive's behalf to a superannuation fund that is a complying superannuation fund within the meaning of that Act.

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*
- *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 (ERA) at intervals determined by the Authority. The next Asset Management System Review will be for the period 1 July 2014 to 30 June 2017 and the next Performance Audit Report will be for the period of 1 April 2015 to 31 March 2017.

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.

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 which 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, that Horizon Power's Code of Conduct was updated after consultation with the Public Sector Commissioner and was adopted by the Board at its meeting in December 2015.

The updated Code of Conduct has been circulated to all Horizon Power employees and is available on its 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 2015/16 financial year there was one matter that was reported to the appropriate authorities.

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 individual business divisions.

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 updates are submitted to the Minister for Energy for approval.

Regular reviews of record keeping systems and practices are conducted as required to ensure efficiency and effectiveness. Training programs for core systems (including the provision of relevant information on the business' intranet site) are provided and reviewed as required to ensure they reflect any new business requirements.

Horizon Power's online staff induction includes the business' Code of Conduct which explains employees' responsibilities with respect to Information and Knowledge Management. Horizon Power regularly reviews its induction process to ensure it includes all relevant information for staff and will continue to refine this process as required. Additional information about this is contained within Horizon Power's intranet.

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 2015 to 30 June 2016 is presented. This expenditure includes costs associated with public safety advertising campaigns, planned outage notifications, self-read meter mail outs and research and recruitment.

- **Advertising agencies:** \$144,399: Mindfield, Lynne Stonehouse Graphic Design
- **Market research organisations:** \$159,660: Metrix Consulting

- **Polling organisations:** N/A
 - **Direct Mail organisations:** \$0
 - **Media advertising organisations:** \$231,499: Adcorp, Media 365, Market Creations
- Total expenditure was \$535,558**

Environmental regulations

The primary environmental legislation in WA is the *Environmental Protection Act 1986*. That gives rise to many regulations. The main regulations relevant to Horizon Power include, but are not limited to:

- *Environmental Protection Regulations 1987* provides 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* provides 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 Regulation or the clearing is for an exempt purpose.
- *Environmental Protection (Unauthorised Discharge) Regulations 2004* provides for the prevention of unauthorised discharge of

potentially environmentally harmful materials.

- *Environmental Protection (Noise) Regulations 1997* provides for noise emitted on a premises or public place and received on another premises.

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*
- *National Environment Protection (National Pollutant Inventory) Measure 1998*

The performance of Horizon Power in relation to environmental obligations is discussed further in the Environment and Heritage section on page 29 to 31.

Operations during the 2015/16 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 16 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 \$36.7 million (2015: \$38.1 million).

Total revenue for the year was \$490.4 million, a decrease of \$26.7 million, (- 5 per cent), due mainly to lower contributions of \$24.3 million from customer funded works.

Overall, operating expenses recorded a savings of \$25.2 million compared to last year, resulting from cost control and efficiency initiatives.

Depreciation and Amortisation increased by \$7.0 million compared to last year (\$83.3 million v \$76.3 million) mainly as a result of property, plant and equipment capitalised in the year. Financing costs decreased by \$2.5 million as a result of lower interest rates and reduction in finance lease liabilities.

Balance sheet

Horizon Power's net assets increased by \$48.7 million, mainly resulting from additions to property, plant and equipment. The increase in net asset was financed by a mix of equity contributions of \$44.2 million, debt and by retained earnings.

Total asset base increased slightly by \$37 million to \$1,640 million, mainly made up of property, plant and equipment at \$1,524 million. Major projects undertaken during the year are listed in the Capital Expenditure Program.

Table 14: Efficiency Dividend performance

Efficiency Dividend targeted areas	Financial Year 2016 Efficiency Dividend savings target (\$ million)	Financial Year 2016 full year achievement (\$ million)
Sum Efficiency Dividend	8.8	16.8

As at 30 June 2016, cash at bank was \$6.4 million with unused borrowing capacity of \$49.2 million.

Capital Expenditure Program

Horizon Power delivered a \$139.7 million Capital Expenditure Program for 2015/16. Significant expenditures for the year were \$49.8 million on the Asset Management Plan, for the maintenance of safety and reliability of Horizon Power systems; \$25.9 million on the Advanced Metering Infrastructure Project, for the deployment of advanced meters across Horizon Power's service area; \$22.8 million on the Pilbara Undergrounding Power Project; \$14.5 million for the Hedland Precinct Power Project; and \$7.2 million on the Murchison Radio Observatory Power Station Project.

Dividends

During the year, Horizon Power paid a total dividend of \$32.2 million to the State Government of which \$24.7 million was based on the profit achieved in the previous financial year, and \$7.5 million as an interim dividend for the financial year 2015/16.

Efficiency Dividend Report

Horizon Power was successful in achieving and delivering the State Government's Efficiency Dividend targets. The outcomes of the 2013 strategic review boosted the efficiency initiatives already in place and resulted in significant savings.

Savings were achieved by outworking the strategic review roadmaps relating to:

- Procurement rationalisation
- Technology rationalisation
- Regional efficiency roadmaps
- Mid West generation
- Roll out of Advanced Metering Infrastructure Project
- Outworking of the revenue leakages roadmap

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.

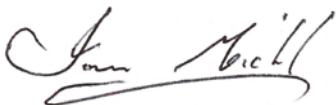
Directors' declaration

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 2016 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



Ian Mickel

Chairman



Rosemary Wheatley

Director

7 September 2016

