



# Statement of Corporate Intent

2018/19

## Purpose of the document

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

The document reflects the business intentions of Regional Power Corporation, trading as Horizon Power, for the 2018/19 financial year.

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

The SCI is consistent with the Corporation's Strategic Development Plan (SDP) 2018/19 – 2022/23. The SDP sets out Horizon Power's economic and financial objectives and operational targets over the medium term, and the commercial strategies and initiatives it will pursue.

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## Executive summary

Horizon Power is a commercially focused, State Government owned energy utility that serves residents and businesses in remote and regional Western Australia by generating, procuring, distributing and retailing electricity. Our role is to provide reliable power to our customers at the lowest possible cost.

Serving the world's largest and most sparsely populated utility territory, Horizon Power has a high cost to serve, resulting in a Government subsidy of \$208 million for the 2018-19 financial year (around \$3,800 per customer connection). With only one customer per 50 square kilometres, Horizon Power's service area is home to diverse demographic groups and a significant indigenous population across a wide range of terrains and climate zones, often requiring small and isolated systems, posing particular challenges for ensuring electricity provision at the lowest possible cost. Following an extensive and effective strategic review process that has successfully realised over \$100 million in subsidy reductions per annum across the business, Horizon Power recognises it must continue to address the emerging challenges confronting the electricity sector.

Electricity systems and their regulatory frameworks in Australia have experienced mostly gradual, incremental change over the last hundred years. Electricity has flowed in one direction, from centralised generation, through transmission and distribution networks, into the homes and businesses of passive customers. Tariffs have been uniform and reflective of the cost structures of a centralised, fossil fuel electricity system which was expected to see sturdy, year on year growth in demand.

Rapid penetration of renewable energy, including rooftop solar PV, is universally challenging the traditional power system business model. Customers have historically been viewed as only recipients of energy, and operating and regulatory frameworks were not designed for the customer to participate in the energy system. Power systems were also never designed to accommodate customer distributed energy resources (DER), which are giving rise to technical and transition challenges for system security and whole-of-system optimisation.

Navigating these changes, whilst challenging, can also create new opportunities. In particular, as Australia's only vertically integrated utility with advanced metering deployed across our regions, Horizon Power is uniquely placed to leverage new and emerging technologies to improve reliability and reduce costs to serve.

For the 2018/19 year, Horizon Power has prioritised several projects to achieve these outcomes, including:

- Further deployment of MyPower – our innovative pricing product that realigns tariff structure to the system cost structure and provides an incentive for customers to reduce their peak demand. A wider launch of the product that makes its use mandatory is required to capture the full benefits and deliver subsidy savings.
- Design blueprints – the process by which Horizon Power seeks to reduce its cost to supply by driving the integration of DER and re-negotiating power purchase agreements.
- Digitisation – the optimisation of our network operational and maintenance costs by leveraging data science and new technologies to reduce cost to serve, as well as supporting greater customer choice.
- DER management trials – exploring how best to manage systems with high penetration levels of DER, including feed-in-management systems, weather forecasting, and demand side management.
- Customer product innovations – a focus on innovations for customer groups such as tenants and vulnerable customers to increase penetration of renewables, including new financing models to reduce debt levels.
- Micro Power Systems (MPS) – a new asset class for off-grid customers, capable of reducing cost to supply.
- Commercial opportunities – pursuing opportunities to leverage our expertise and expand our products and services to existing and new customers across our service area (e.g. providing metering as a service to industrial customers and other utilities).

**Our strategic priorities embrace the opportunities provided by our remote operations**

With 38 small and remote systems, Horizon Power sees itself at the forefront of the innovations occurring in the energy industry. Working closely with its Board, Horizon Power has refined its strategy and consolidated its major projects under three strategic pillars:

- A leader in advanced microgrid design and operations
- Enabling access to distributed energy solutions
- Creating enterprise value for the State

These pillars and the ongoing focus on cost efficiency and improved service delivery will serve as a platform for Horizon Power to continue to reduce costs and deliver safe and reliable power and choice to customers.

**Stephen Edwell**  
Chairman  
31 July 2018

**Mike Houlahan**  
Acting Chief Executive Officer

Figure 1: Horizon Power’s Service Area



## Current state

Horizon Power is responsible for generating, procuring, distributing and retailing electricity supplies to more than 100,000 residents and 10,000 businesses in Western Australia outside the SWIS across approximately 2.3 million square kilometres. This vast service area has the fewest customers per square kilometre in the world – with Horizon Power having one customer for every 50 square kilometres in its service area, less than 10 per cent of the number of customers in the SWIS spread over an area 10 times greater.

These customers range from inhabitants of remote, isolated communities with fewer than 100 people to large enterprise customers in some of the Australia's major mining centres. Our interconnected systems and our islanded systems (known collectively as microgrids) are exposed to intense heat and cyclonic conditions in the north and severe storms in the south.

Horizon Power is currently structured into seven divisions – each with a focus on delivering aspects of our operations, customer services, and ongoing business developments. Being a regionally focused utility, Horizon Power has two regional divisions, one that manages the network and one that manages the generation contracts and retail book (Generation and Retail). A support centre in Bentley assists the regional divisions, along with: a division focused on IT, strategy, marketing and finance (Commercial Services & Finance); a division providing legal, procurement,

communications and safety services (Corporate Services & Company Secretary); a division providing core engineering services and supporting operations (Power Systems); and two divisions focused on developing our emerging products and services for the customer (Consumer Energy) and to enhance our network and system operations (Advanced Microgrid Developments).

While each of Horizon Power's systems is unique in its customer type, generation contracts, network requirements and operating environment – in general, the cost to serve is high for the majority of our remote towns, particularly those fueled by diesel (e.g. Menzies). This range of total cost to supply is from 32c/kWh to 249c/kWh.

With this high cost to serve and challenges in providing power in such a remote and diverse area, Horizon Power has developed a blueprint future for its 38 systems. Our system blueprint modelling suggests that by 2050, the most economic supply model will deliver up to 80 per cent of the energy through DER in many of our microgrids.

Recognising the importance of the shifts driven by both consumers and technology, Horizon Power is striving to help customers navigate a new energy landscape in a way that benefits them and our network business. We are also focused on resolving economic, technical and transition barriers to a DER future through the development of new technologies, capabilities and operating practices.

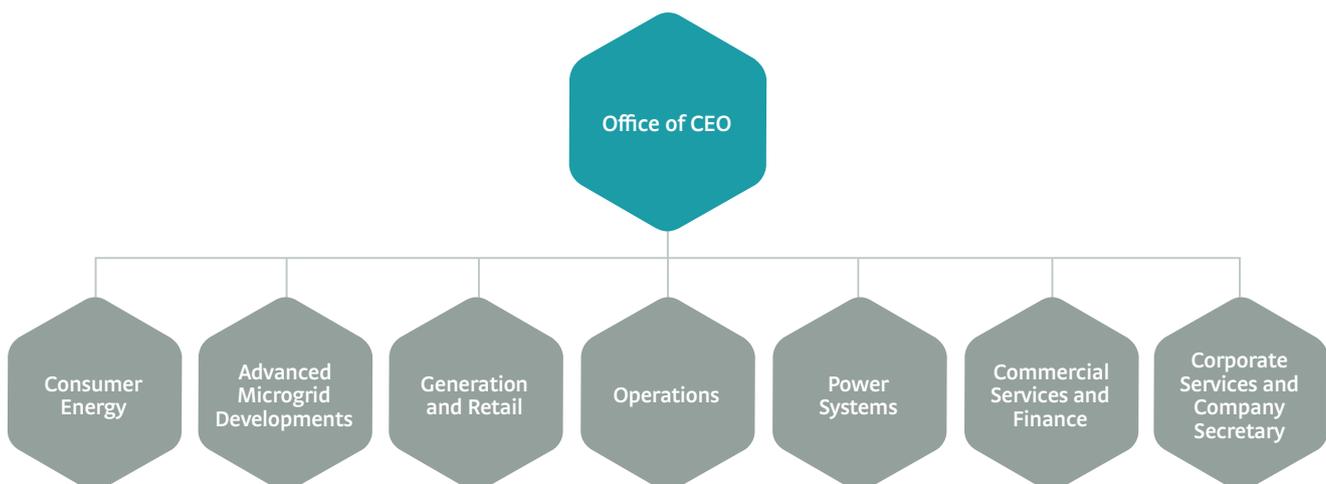


Figure 2: Horizon Power's organisation structure

Horizon Power continues to face several challenges over the forward estimates period: continued slowdown in economic activity and corresponding decreased electricity demand, ongoing uptake of renewables, market contestability and competition, and reliability and capacity requirements that must be uniquely considered and designed for each system. These factors directly influence Horizon Power's operational subsidy and recurrent funding requirements.

In March 2017, Horizon Power achieved the primary aim of the Strategic Review: to reduce its operating subsidy against business as usual by \$100 million annually, by 2018/19. This represents an annual saving in 2018/19 of \$105 million, and cumulative savings from inception in 2013/14 to the end of the forward estimates of \$628 million.

This significant achievement comes from a high level of commitment and innovation across all of Horizon Power's business units. The organisation has become more commercially astute and efficient, with well-established business practices and a positive culture, helping to prepare it for a challenging future in a rapidly evolving industry.

### **Current (Non-Financial) performance**

Horizon Power's non-financial performance, as tracked by the Key Performance Indicators (KPIs) – see Appendix B - shows that targets relating to safety and community objectives are being met across the board. Customer satisfaction levels have increased year on year from 77 per cent in 2016/17 to 80 per cent in 2017/18. A lack of issues with power delivery and good, prompt service are the key reasons cited in customer surveys that underpin the positive ratings for Horizon Power. Ratings of Horizon Power's customer service have also continued to improve across all customer segments this year – in large part, driven by the advantages offered through online billing and products such as Horizon Power's mobile phone app.

## Objectives

Our primary objective is to reduce our cost and improve reliability of electricity supply. In October 2016, Horizon Power launched a new vision: "creating customer choice by being the world's best microgrid company". Having served customers in remote microgrids for over ten years, Horizon Power is already a microgrid company with demonstrable experience and expertise.

A customer and value focused vision is at the core of Horizon Power's strategy to continue to deliver our objectives. An escalating challenge for the business is revenue at risk - posed by new retail competition from third parties, customers self-generating through solar PV, and energy efficiency driving changes in consumer behaviour. The challenge for Horizon Power is to reduce fixed costs alongside revenue losses. While revenues can be rapidly eroded, costs are largely tied to long-life assets or contracts, presenting limited flexibility to reduce them in parallel, and presenting a financial threat to asset values.

Horizon Power has adopted a set of KPIs to measure its success in achieving its vision. These are set out in Appendix B. Horizon Power's primary KPI has been to pursue initiatives that would reduce its operating subsidy by \$100 million a year (against business as usual) by 2018/19. Horizon Power achieved this in March 2017 by completing the remaining initiatives under its Strategic Review of 2013. Horizon Power will continue to pursue initiatives to reduce its cost to supply, however, any savings associated with these initiatives will only be included once achieved (and as a result, Appendix B financial figures include a slight rise in costs across the forward estimates, reflecting a declining forecast for sent out energy).

The organisation has now launched a new KPI – creating Enterprise Value. Enterprise Value measures the value of the ongoing operations of a company and will provide Horizon Power and government a clear indicator of the impact that strategic projects, economic drivers and policy changes have on the overall value of Horizon Power. The Board will enact measures to monitor the effectiveness of ongoing implementation of this new KPI. A financial model has been developed by Horizon Power, and reviewed by Western Australian Treasury Corporation, to estimate the Enterprise Value of the business to Treasury and the State Government. It includes a breakdown of Enterprise Value for the NWIS and the Non Interconnected Systems (NIS) at the level of generation, distribution, and retail. These components are aggregated to provide a total Enterprise Value for Horizon Power's operations. Horizon Power intends to update the model regularly to monitor changes in the Enterprise Value over time as part of a newly developed internal KPI to guide decision making.

## Approved asset investment program

Horizon Power's State Government-approved asset investment program for the next four financial years is forecast at \$260 million, as shown in the table below.

| Government approved major projects                   | 2018/19<br>(\$m) | 2019/20<br>(\$m) | 2020/21<br>(\$m) | 2021/22<br>(\$m) |
|--|------------------|------------------|------------------|------------------|
| Asset Management Plan ( <i>refer to 5.1</i> )        |                  |                  |                  |                  |
| - Asset replacement                                  | 14.5             | 14.9             | 15.4             | 15.8             |
| - Capacity   | 2.9              | 3.0              | 3.1              | 3.2              |
| - Regulatory compliance                              | 0.3              | 0.3              | 0.4              | 0.4              |
| - Reliability  | 1.7              | 1.7              | 1.8              | 1.8              |
| - Safety   | 5.8              | 6.0              | 6.2              | 6.3              |
| - Other*   | 12.9             | 13.1             | 13.6             | 14.0             |
| Onslow Power Upgrade Project ( <i>refer to 5.2</i> ) | 48.0             | 2.8              | 0.0              | 0.0              |
| Perth Office Accommodation Project                   | 0.9              | 0.0              | 0.0              | 0.0              |
| Pilbara Power Project                                | 0.0              | 0.0              | 0.0              | 0.0              |
| Other customer driven works                          | 12.4             | 13.5             | 11.7             | 11.7             |
| <b>TOTAL</b>   | <b>99.5</b>      | <b>55.3</b>      | <b>52.2</b>      | <b>53.1</b>      |

\* Knowledge and Technology investment, Mobile Plant and Operational Fleet, and Property Management

Note: Due to rounding, some totals may not correspond with the sum of the separate figures.

Table 1: Government-approved major projects

*Initiative name*

**5.1 Asset Management Plan (AMP)**

|  |  |
|--|--|
| <i>Key objective:</i>                  | Minimise the risk of harm<br>Be respected for delivery |
| <i>Key CR(s):</i>                      | S1, S2, R1, C2, F2                                     |
| <i>Project completion date:</i>        | June 2021  |
| <i>Key Performance Indicators:</i>     | SAIDI <290, SAIFI <6.6, LTIFR                          |
| <i>Approved budget (SBF):</i>          | \$163.8M   |
| <i>Additional funding requirement:</i> | N/A  |

Horizon Power’s Asset Management Plan (AMP) has seven fit-for-purpose objectives: safety, regulatory compliance, capacity, reliability, quality, economics, and asset service.

The AMP uses Horizon Power’s Risk Management Framework, which has been enhanced to manage expenditure by balancing the cost of mitigating risk with the value gained in the reduction of the risk (risk-adjusted value, or RAV). By reducing risk to as low as is reasonably practicable, Horizon Power can reduce expenditure without affecting safety and reliability.

By prioritising investments based on RAV, Horizon Power can maintain or improve its aggregate risk position with a significantly reduced recurrent capital expenditure when compared to previous AMP forecasts.

Horizon Power is forecast to invest \$39.1 million in 2018/19 and a total of \$160.5 million across the forward estimates period to mitigate prioritised risks associated with Horizon Power’s energy and non-energy assets. This includes addressing the customer interruption risks in Kununurra, which are being mitigated through the AMP and are substantially complete.

AMP expenditure is having positive impacts on reliability (as measured by SAIDI and SAIFI) in Kununurra and Hopetoun rural areas particularly, and we are expecting further improvements to drive up the reliability of our systems elsewhere.

With the introduction of the *Electricity (Network Safety) Regulations 2015*, Horizon Power reports on objectives to *EnergySafety* over a 12-month period. These objectives centre on the safety of our network assets and the impact they have on workers and the public.

The AMP develops plans to reduce the business’ risk profile. For 2017/18, the activities it identified were delivered with the allocated funding.

Through a bottom-up planning process, the asset management process will be reviewed in line with the changes affecting the sector and Horizon Power. Specifically, we plan to apply the outcomes of initiatives in other parts of the business, such as the examination of standalone power systems, to the AMP. The AMP will thus be better positioned to look at a variety of options for solving network challenges, especially capacity and reliability.

*Initiative name*

**5.2 Onslow Power Upgrade Project**

|  |                           |
|--|---------------------------|
| <i>Key objective:</i>                  | Be respected for delivery |
| <i>Key CR(s):</i>                      | C1, C2                    |
| <i>Project completion date:</i>        | June 2019                 |
| <i>Key Performance Indicators:</i>     | SAIDI <290, SAIFI <6.6    |
| <i>Approved budget (SBF):</i>          | \$103.6M                  |
| <i>Additional funding requirement:</i> | N/A                       |

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

Demand in Onslow is forecast to increase from 3MW in 2016 to approximately 5MW in 2019. The growing demand is influenced by the Wheatstone LNG project and other developments in the area.

**Onslow Power Station Network Connection Project**

This project will facilitate connection of the existing distribution network to the new power infrastructure being installed as a part of the Chevron-funded works.

**Onslow Power Infrastructure Project**

Through an agreement with the State of Western Australia, Horizon Power is obligated to deliver power infrastructure upgrades in Onslow for a capped funding contribution underpinned by the State’s Ashburton North (Wheatstone Project) State Development Agreement with Chevron.

The works are in two stages:

- Stage one, delivered in 2017, saw the installation of a modular power station, connecting 33kV transmission circuits, and a zone substation.
- Stage two, to be delivered in 2018, is anticipated to include renewable generation (solar farm) and battery storage components distributed away from the main power station.

## Strategic projects

Horizon Power regularly evaluates options to mitigate risks and realise opportunities across the business. Such options include undertaking strategic projects that may result in approaches or initiatives to improve business performance.

In March 2017, Horizon Power achieved its target of reducing its annual subsidy (against business as usual) by \$100 million without compromising safety, reliability and services, or detrimentally affecting the State's financial position.

### **Our Strategic Priorities embrace the opportunities provided by our remote operations**

Horizon Power has refined its strategy into three strategic pillars:

The three strategic pillars also enable the prioritisation and grouping of Horizon Power's priority projects, further outlined below.

#### **1) A leader in advanced microgrid design and operation**

Horizon Power will continue to develop its capabilities to operate its microgrids safely, reliably and efficiently. Onslow will be a pivotal project to demonstrate how a distributed energy system can lead to lower cost whilst, maintaining or improving reliability.

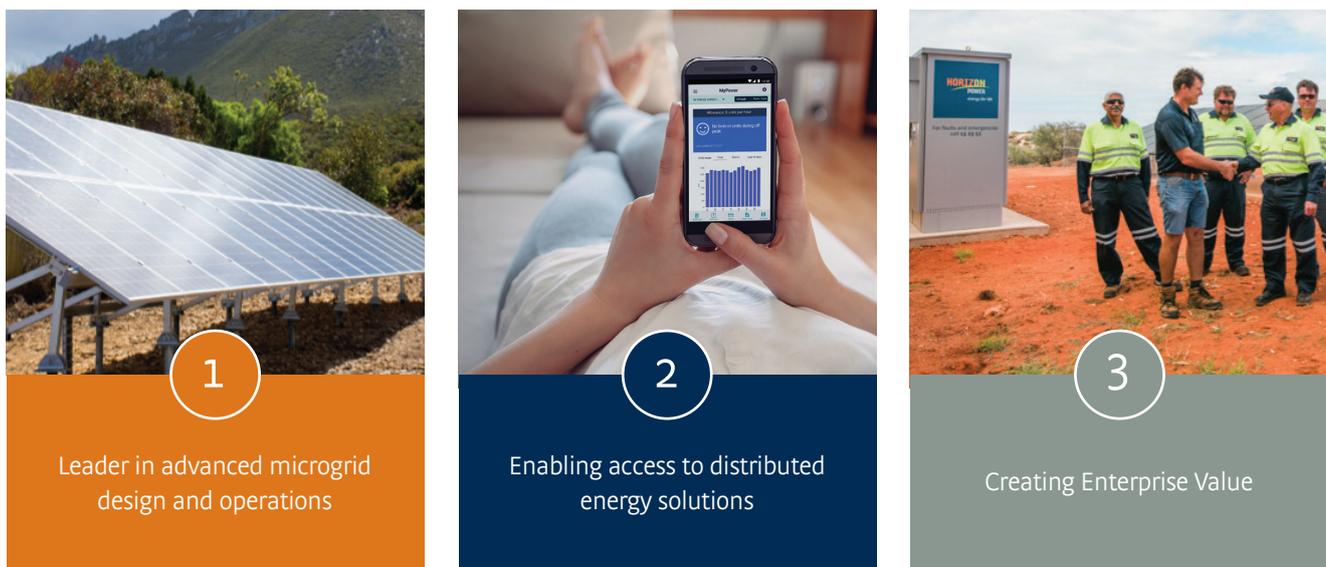
#### **2) Enabling access to distributed energy solutions**

Customers will continue to play a critical role in shaping how the energy system evolves. This will require Horizon Power to have a clear understanding of the needs and relevance of emerging DER products and services in order to deliver a high DER future at the lowest total system cost. This will also require an optimised business model that reflects a fair and efficient value for all participants. As a result, Horizon Power will continue to focus on the roll out of its pricing product, MyPower, along with the development of new DER solutions. These solutions will include financed solar, demand side management services, and micro power systems for the customers at the fringe of grid.

#### **3) Creating enterprise value for the state**

Horizon Power will continue to prioritise its projects according to the value they return to the state. Horizon Power will aim to find sources of new revenue growth in the NWIS, by providing competitive energy prices to industry. Horizon Power will also focus on its cost to supply and cost to serve, through its design blueprint process, by rolling-out micro-power systems to customers at the end of long feeder lines, and by optimising its operational and maintenance expenses through the use of digital technologies.

Figure 3: Horizon Power's strategic pillars and focus areas 2018/19



Design and deliver microgrid solutions across our customer area to reduce cost to serve and improve reliability

Lift the technical and commercial hurdles for a high distributed energy future with our partners and communities

Lead the microgrid revolution in Australia and create value for the State

## Financial statements

### *Accounting standards/policies*

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

### *Payments to Government*

Horizon Power's payments to Government include:

- Payment of dividend in line with the Dividend Policy
- Payment of income tax under the National Tax Equivalent Regime, representing 30 per cent of taxable profit
- Payment of Loan Guarantees.

### *Dividend Policy*

Horizon Power complies with the Government's dividend policy of paying 75 per cent of Net Profit After Tax. Dividends are declared in consultation with the Minister for Energy; 75 per cent of the projected financial year dividend will be paid in the financial year the dividend is declared, and 25 per cent will be paid in the subsequent year, subject to satisfying a solvency test. Note that the interim dividend for 2016-17 was deferred and instead paid as part of the full dividend in 2017-18.

## Ministerial reporting

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

### *Quarterly Report*

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

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

### *Annual Report*

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

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

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

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

## Community service obligations

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

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

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

| Operating subsidy                                   | 2018/19<br>(\$m) | 2019/20<br>(\$m) | 2020/21<br>(\$m) | 2021/22<br>(\$m) |
|---|------------------|------------------|------------------|------------------|
| Aboriginal and Remote Communities Project - Stage 1 | 5.0              | 4.8              | 4.8              | 4.9              |
| Aboriginal and Remote Communities Project - Stage 2 | 2.0              | 2.0              | 1.9              | 2.0              |
| Air Conditioning Allowance                          | 0.6              | 0.7              | 0.7              | 0.7              |
| Dependent Child Rebate                              | 0.6              | 0.7              | 0.7              | 0.7              |
| Cost of Living                                      | 1.3              | 1.3              | 1.3              | 1.4              |
| Feed-In Tariff                                      | 0.0              | 0.0              | 0.0              | 0.0              |
| Tariff Adjustment Payment                           | 0.2              | 0.0              | 0.0              | 0.0              |
| Tariff Migration - Caravan Park subsidy             | 0.0              | 0.0              | 0.0              | 0.0              |
| <b>TOTAL</b>  | <b>9.7</b>       | <b>9.4</b>       | <b>9.5</b>       | <b>20.2</b>      |

Table 2: Horizon Power's community service obligations

## Appendix A: Business values and vision

Horizon Power will continue to focus on cost reduction and reliable and safe power supply, along with an additional KPI – creating Enterprise Value - that supports the new vision of creating customer choice by leading edge deployment of microgrid systems.

*Our Horizon Way*, incorporated into our Code of Conduct, sets out our values that guide our decisions and behaviours and is foundational to driving a high performance culture aligned to our strategy and includes:

- Safety – we look after each other and our communities
- Integrity – we do the right thing and build trusted relationships
- Team – we openly collaborate on solutions and achieve shared goals
- Customer – we partner with customers to deliver improved and sustainable choices

Our strategy focuses on building leading capabilities in the deployment of microgrid technology, enabling access to distributed energy solutions, and creating enterprise value.

## Appendix B: Key Performance Indicators

Horizon Power has reassessed its key performance indicators and revised the targets in line with current financial constraints and corporate strategic objectives. They are shown in the table below.

| Critical business outcomes                                    | 2017/18<br>YTD Actuals | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|------------------------|---------|---------|---------|---------|
| <b>Safety – Minimise the risk of harm</b>                     |                        |         |         |         |         |
| Lost Time Injury frequency rate                               | 1.8                    | 0.0     | 0.0     | 0.0     | 0.0     |
| Total number of notifiable public safety incidents            | 7.0                    | 8.0     | 8.0     | 8.0     | 8.0     |
| Unassisted pole failure rate                                  | 0.75                   | 1.0     | 1.0     | 1.0     | 1.0     |
| <b>Value – Maximise long-term value</b>                       |                        |         |         |         |         |
| Cost to supply unit cost (cents / kWh)                        | 36.3                   | 35.1    | 36.2    | 37.2    | 38.2    |
| Return on assets (%)  | 10.70%                 | 6.57%   | 4.24%   | 3.62%   | 3.81%   |
| NPAT (\$M) <sup>1</sup>                                       | 92.9                   | 41.5    | 12.1    | 4.8     | 8.5     |
| <b>Community – Be a high performing business</b>              |                        |         |         |         |         |
| Customer satisfaction (%)                                     | 80.0                   | 70.0    | 70.0    | 70.0    | 70.0    |
| Major project completion within +/- 5% of approved budget (%) | 100.0                  | 100.0   | 100.0   | 100.0   | 100.0   |

\* above values are draft and subject to change dependant on government tariff decisions.

<sup>1</sup> lower profitability in the outer years is driven by the required Tariff Equalisation Contribution (TEC) not being updated. This update to TEC will occur once the Department of Treasury's review of the impacts of Competition in the Pilbara is approved by the State Government.

Table 3: Horizon Power's key performance indicators and targets

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

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

Table 4: Horizon Power's KPI definitions and metrics



[www.horizonpower.com.au](http://www.horizonpower.com.au)