



HORIZON
POWER

Annual Report

2009 /10

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Horizon Power is focused on the reliability, safety and affordability standards of power supplies in regional Western Australia. In addition, we measure ourselves on our ability to deliver social objectives and contribute lasting value to the communities we service.

The business continues to improve the way we service our customers and much work is being done to ensure our assets are safe and do not pose a risk to the public.

Community regularisation is a critical component of Horizon Power's Remote Service Extension strategy. This year, Horizon Power has been able to regularise 10 town-based Aboriginal communities and work has begun in two remote Aboriginal communities on upgrading networks and next year, building new power stations.

It was a great privilege to have His Excellency, Dr Ken Michael AC, Governor of Western Australia accompany me and Horizon Power executives earlier this year to the remote Aboriginal community of Warmun, in which the Aboriginal and Remote Communities Power Supply Project first began. It was in this community that Horizon Power launched phase two of the program which incorporates the communities of Kalumburu and Yungngora.

This is work of which I am immensely proud. It is not just about improving power supplies but improving the quality of life of Aboriginal people who had come to expect second-rate systems.

The State Government should be commended for supporting the Aboriginal and Remote Communities Power Supply Project and Horizon Power will continue to work cooperatively with Government, both Federal and State, to make the case for the importance of improving living standards and providing greater opportunity through the regularisation of more remote Aboriginal communities.

Horizon Power is also committed to the implementation of an Aboriginal and Torres Strait Islander Employment and Engagement Strategy to ensure we genuinely add lasting value to communities in the area of job creation and small business development.

The Pilbara region is an integral part of Horizon Power's business strategy – just as it is integral to the country's economy. Horizon Power looks to continue playing a key role alongside the government and industry in the planning and delivery of critical infrastructure to underpin the long term sustainability of the Pilbara.

Horizon Power continues to work closely with its stakeholders, customers and the State Government to ensure energy and community infrastructure across regional Western Australia is focused on long-term lasting benefits rather than short-term imperatives.

The lessons learned and achievements made during 2010 will help refine our approach to the delivery of excellent service and lasting value in regional and remote Western Australia into the future.

I would like to thank my fellow Board members and the dedicated management and staff of Horizon Power for the significant achievements they have made this year, particularly in the area of reliability, regularisation and the development and construction of new power stations.

We hope you find this report an insight into the delivery of Horizon Power's strategy and that it gives a solid representation of the platform upon which Horizon Power will continue to deliver in the future.

A handwritten signature in blue ink that reads "Brendan Hammond".

Brendan Hammond
Chairman



Since our inception four years ago Horizon Power has had a passionate focus on improving the way it does business so that we can safely, reliably and affordably deliver

electricity to our customers in regional and remote Western Australia. Over the last four years the entire business has worked diligently to improve our asset management, our safety management and our customer service capability. Through 2009/10 we continued to invest heavily in our people, our assets and our systems of doing business.

The results of that focus, effort and investment have been extremely positive. At the end of this year, of the 36 systems we operate, 32 are performing in accordance with our reliability targets and standards. This is a significant improvement on the 24 systems that were performing against our last financial year's targets.

In 2006, regional customers across our entire service area experienced an average of six interruptions a year to their power supply. In 2010 that number was reduced to two interruptions a year.

That said, we will not be satisfied until the remaining four systems – the Esperance rural network, the Hopetoun rural network, Norseman and Wyndham – are compliant with the standard of delivering power without interruptions of more than 290 minutes in a year.

This year our employee safety performance was amongst the best in the Australian electricity industry. That result is the outcome of real efforts and improvements inside the business and I look forward to continuing to work together with our employees and contractors to continuously improve our safety mindset and systems.

Doing business in regional and remote Western Australia comes with many challenges and in particular substantial cost pressures. Horizon Power has been very focused on ensuring that every dollar we spend represents good value. So, despite our substantial investments in both our assets and our capability, we have been able to very effectively manage the costs of producing and delivering a unit of electricity. In fact, our unit costs at the end of 2009/10 are lower, after adjusting for inflation at Perth CPI, than they were in 2006.

We understand that despite these improved cost efficiencies, many customers are concerned about the increases in the last two years in the State's uniform tariffs for power. While we will continue to work hard to manage the costs of energy, we also recognise the need, and are committed to doing more with our customers to assist them in reducing their power use, and therefore, their costs.

Unlike many companies that deliver services to regional WA, Horizon Power has a decentralised approach which ensures the people we employ, who live and work in the regions, work closely with our customers to ensure their energy requirements are met.

That approach has allowed us to build close connections with the communities we serve, and to understand our assets and our issues. We remain convinced this is the way to service regional Western Australia.

We've done many things this year, including many significant projects. One project of which I am extremely proud is the Marble Bar "Pippunyah" Power Station. The town of Marble Bar began receiving power from this state-of-the-art station in May and residents in Nullagine will receive power from a slightly smaller station with the same design, from October 2010.

The stations incorporate a world-first application of technology – having the largest tracking solar photovoltaic array in Australia. It has been developed by Horizon Power as a sustainable generation solution for remote communities and is suitable for similar communities throughout Australia.

Horizon Power is also focused on securing generation and developing network infrastructure in the Pilbara through our Pilbara Energy Plan. We played an integral role in the development of the new ATCO-owned Karratha Power Station which began delivering power in March this year to our customers.

Horizon Power is also delivering the Pilbara Undergrounding Power Project on behalf of State and Local Government. Construction work will begin in 2010/11.

Because Horizon Power is a skilled utility provider in remote Western Australia, we are also exploring opportunities to extend our service provision to remote communities to include the supply of water and other utility services.

This financial year we were successfully awarded preferred proponent status by the Rottneest Island Authority (RIA), following our bid to supply multi utility services on Rottneest Island. We are currently negotiating with the RIA to develop a long-term agreement for this service provision.

When I look at the business's achievements this year I couldn't be more proud of the team of exceptional individuals who make up Horizon Power and who are passionately committed to our purpose of providing value to the customers and communities we service.



Rod Hayes
Managing Director

Vicki Ward, Community Development Officer, in Bondini.



Executive Summary of Horizon Power's performance in 2009/10

Horizon Power is delivering a more reliable service to our customers in regional and remote Western Australia as a result of our long term strategy since 2006 to improve the condition and reliability of our assets, with the outcome realised this financial year.

In fact, Horizon Power has exceeded reliability standards and our customers are receiving a service that is 30 per cent more reliable than that delivered four years ago when Horizon Power was first created.

Of the 36 electricity systems operated by Horizon Power throughout regional and remote Western Australia, 32 delivered a reliable power service, with outages of no more than 290 minutes in duration.

In 2006, regional customers across our entire service area experienced an average of six interruptions a year to their power supply. In 2010, that number was reduced to two interruptions a year.

This improvement has been realised through our decentralised and integrated Asset Management Framework, which gives responsibility to our local asset managers to respond to local issues in a timely manner. This approach has allowed Horizon Power to target problem areas with accuracy and mitigate ongoing asset failures. The graph below shows the improvement in Horizon Power's reliability (all faults) since 2007.

Horizon Power recorded 12 public safety incidents this financial year. Nine of those were notifiable incidents that are reported to Energy Safety and three were minor non-reportable incidents. In the context of the Australian electricity industry, this figure is particularly low. It follows a year of zero public safety incidents which was an exceptional result. Details of actions being taken to overcome these issues are outlined further in this report. Horizon Power also, commendably, recorded zero lost time injuries for the year.

Horizon Power has also managed to improve efficiencies in the generation of electricity, despite input costs such as labour and fuel continuing to increase in the face of strong growth in the mining sector.

Horizon Power's cost of producing power has fallen in real terms in the four years since it was created. Taking into account consumer price index increases, the cost of an average unit of electricity in 2006/07 was 29 cents per kWh. In 2009/10 the average cost of producing power was 31 cents per kWh, which is a nominal increase of 7% but in real terms, the cost has fallen by 5% from 2006/07.

Horizon Power's net profit after tax in 2009-10 is \$25.5 million, a significantly stronger result from last year's net loss of \$42.3 million. Our performance this year also exceeded budget expectations.

In total, \$148 million was spent on capital expenditure this year (with \$38 million of that funded from external sources), including upgrading the Esperance systems and building the new Marble Bar and Nullagine solar-diesel power stations. The budget estimated for the Marble Bar and Nullagine project was exceeded, mainly due to the fact the stations were world-first and were constructed from a concept design, rather than a fully costed detailed design. The learnings from this project provide a valuable platform to incorporate renewable technologies into other remote settings.

Horizon Power also received external funding to upgrade electricity supplies in 10 town-based Aboriginal communities and work began this financial year on upgrading networks in two remote communities, Kalumburu and Yungngora.

Improved (shorter) Duration Annual Electricity Supply Failure



Dark Blue line - Actual System Average Interruption Duration Index (SAIDI) for each month
Light Blue (Straight) line - Average improvement

Performance Overview Table

Key performance indicators (as outlined in Horizon Power's statement of corporate intent) compared with actual performance.

Key result area	Objectives	Performance target	Target for 2009/10	Performance results in 2009/10	Performance results in 2008/09
Social benefit					
Customer value	Increase customer value through safe, reliable and efficient generation, transmission and distribution systems combined with effective customer service.	Operational performance System Average Interruption Duration Index (SAIDI) - Performing systems:	31/36	32/36	24/34
		Operational impact on customers: Percentage of customers with outages of less than 290 minutes duration.	80	85	77
		Customer satisfaction Customer satisfaction survey result (per cent)	70	77	83
		Stakeholder satisfaction Stakeholder satisfaction survey result (per cent)	77	100	75
		Corporate reputation Corporate reputation index (per cent)	70	65	75
Community value	Enhance community value by safely building human capacity, capability and opportunity within the communities we serve.	Public Safety Number of public safety incidents related to Horizon Power performance	4	12	0
		Safety LTIFR - Lost time injuries per one million hours worked	0	0	2
		AMIFR - Number of workers compensation claims per one million hours worked	12.8	2.8	6.6
		Power supply regularisation Number of remote and Aboriginal communities	11	16	10
		Training Number of Indigenous or local people in a Horizon Power training program	16	17	19
Environmental benefit					
Abate emissions	Proactively minimise emissions from current and future operations and drive towards emission level below the industry standard.	Greenhouse emissions Greenhouse Intensity kgCO ₂ /kWh sold	0.80	0.68	0.77
		Renewable Generation Generation from renewable sources (GWh)	82	93	87
Economic benefit					
Business value	Grow our profitability and build the value of the business.	Net Profit after Tax or (\$million)	-\$9.5 million	\$25.5 million	-\$42.3 million
Capability to execute strategy					
Develop people and learning	Deliver a successful, balanced and sustainable business performance	Organisational development Personal development programs (per cent of modules successfully completed by designated attendees)	90	100	100
		Employee perception Mean result (per cent) of Pulse survey questions relating to employee perception	79	79	80

Who we are

Horizon Power is Western Australia's regional electricity provider.

What sets us apart is our passion and ability to deliver reliable, safe and affordable services in the most challenging of environments.

Our service area is vast, approximately 2.3 million square kilometres. Horizon Power services the biggest area with the least amount of customers in the world – for every 56.5 square kilometres of terrain, we have one customer.

The communities we service range from remote, isolated communities with less than 100 people, to busy regional towns and major mining centres.

The energy systems we operate are exposed to intense heat and cyclonic conditions in the north, and ravaging storms in the south.

It is these challenges that drive the innovation and commitment of our agile, professional and engaged team of more than 380 employees.

Although Horizon Power is a relatively new business, we have the benefit of a long history as part of the State-owned energy company in its various forms. Horizon Power is a Government Trading Enterprise which operates on a commercial basis.

We focus on delivering the best possible set of economic, environmental and social outcomes to the communities we serve while applying a commercial discipline and focus to the way we do it.

What we do

Horizon Power currently delivers power to more than 43,000 customer connections, supplying more than 100,000 residents and 8,000 businesses with power.

Our staff live in many of the communities in which our customers live, so we take pride in ensuring that customer's needs are met locally.

We operate in the Pilbara, Kimberley, Gascoyne, Mid West and the Southern Goldfields regions, including Esperance, Hopetoun and Norseman. Our head office is in Karratha, with administration provided out of Bentley.

Our service area includes two networks – the North West Interconnected System (NWIS) in the Pilbara, and a smaller regional network connecting the towns of Kununurra and Wyndham, as well as 34 islanded or isolated systems which power towns.

We are constantly exploring new ways of not only doing things better, but of extending our reach, developing new business opportunities and products, making sure we use new and cutting-edge technology to do so.

At Horizon Power we are increasing our capability of delivering services other than electricity to regional Western Australia and beyond. We have developed energy systems that are capable of sustainably powering remote communities anywhere.

Marble Bar Pippunyah solar-diesel power station.



What we believe in

Horizon Power is committed to creating lasting value for all of our customers by maximising the economic, social and environmental benefits for the communities in which we operate and live.

Replacing and managing ageing infrastructure and building sustainable systems with additional capacity to meet growing demands for energy into the future is a key objective.

The resource-rich Pilbara region creates much wealth for this State and the rest of Australia. It is paramount that industry can access reliable and efficient sources of power.

Horizon Power is playing an integral role in the development of a more sustainable energy supply to the Pilbara through the development and expansion of the Pilbara Energy System.

How we do it

Generation

The way in which we generate electricity varies across our systems, with most mainstream towns serviced by gas-fired power stations and remote communities and other towns serviced by diesel generators and, increasingly, renewable forms of energy.

Marble Bar is now receiving electricity generated by a state-of-the-art solar-diesel hybrid power station and work on the same application of technology in Nullagine is almost complete. In the near future, the Kimberley Aboriginal communities of Kalumburu and Yunggora will also receive new power stations which will be partly powered by solar energy. In Hopetoun, Esperance, Coral Bay, Exmouth and Denham electricity is supplied by wind farms which are connected to traditional generators.

In Karratha, Horizon Power has joined forces with its supply partners to build the most efficient gas-fired power station on the North West Interconnected System – the ATCO Power-owned Karratha Power Station.



Business structure

Our business is structured to ensure we are best placed to deliver excellent service to our customers.

Operations – Delivers balanced, consistent and sustainable operational performance in each district.

Islanded Systems Development – Develops, sells and implements islanded system opportunities.

Strategy and Business Development – Leads strategy development, pursues new opportunities to grow, and commercially manages the North West Interconnected System and contracts with Independent Power Producers from which we buy power.

Governance and Company Secretariat – Develops and implements effective systems of governance, monitors and reports on compliance and legislative obligations, manages risk and maintains the company's policies and procedures. The Division also provides support to the Board.

People and Corporate Services – Develops and ensures effective deployment of key corporate services such as public affairs, human resources, marketing, product development and safety and health management.

Shared Services – Develops and maintains a range of internal retail, technical consulting and business support solutions.

Knowledge and Technology – Creates, deploys and manages a strategy to position the business as an innovative and effective user of technology.

Finance Services – Leads and secures appropriate funding and ensures sound financial management and reporting.

Sustainable Practice Framework

The sustainability of our business, our network and our relationship with our customers is a principle guiding factor at Horizon Power.

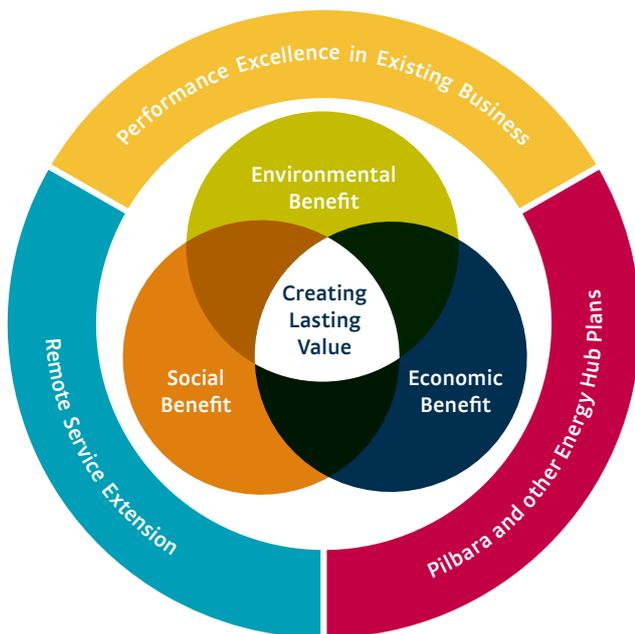
Horizon Power committed to the Sustainable Practice Framework developed by Energy Supply Association of Australia in 2009. The framework sets out a map for achieving sustainability in the energy supply sector.

The nine principles in the framework that Horizon Power has committed to are set out below:

- maintain good corporate governance practices
- deliver value to shareholders, customers and the community
- provide a safe, secure and reliable energy supply
- engage key internal and external stakeholders on significant sustainability matters
- maintain and enhance workforce health, safety, wellbeing and development
- develop and implement climate change responses
- improve environmental performance and resource efficiency
- foster and support community programs
- promote measurement and reporting of sustainability performance



Operating within the legislative framework and the external environment, Horizon Power's purpose is to create lasting value from its activities by maximising the social, environmental and economic benefit for the company and the communities it serves. Horizon Power will continue to create lasting value in regional Western Australia by successfully implementing its strategies of delivering performance excellence in existing operations, developing the Pilbara Energy System and extending both the suite of services we offer and the areas in which we operate.



Details of our major projects and initiatives undertaken to deliver our strategic intent are outlined below:

1.0 Social benefit

Horizon Power's social objectives are divided into delivering customer value and community value. The objective of customer value is to increase value through safe, reliable and efficient generation, transmission and distribution systems combined with effective customer service. Community value is enhanced by safely building human capacity, capability and opportunity within the communities we serve.

1.1 Community Value - Safety above all

Horizon Power places safety above all it does in the service of customers in regional and remote Western Australia. In the context of the Australian energy industry, Horizon Power has an excellent safety record and has had a considerable focus on risk reduction throughout the business.

Horizon Power ended the financial year with zero lost time injuries and two medical treatment injuries – a reflection of the tremendous effort and diligence of our employees who work with an inherently dangerous commodity in the extreme environments and conditions of regional Western Australia.

Horizon Power changed its method of reporting public safety incidents during the financial year to include low impact incidents, such as minor electric shocks not requiring treatment. This is to ensure that we are fully accountable for any incident which affects a member of the public. In previous years we recorded zero public safety incidents. This year Horizon Power reported 12 public safety incidents – nine notifiable incidents and another three incidents which were minor in nature and did not require reporting to an external agency. Horizon Power has existing strategies in place to address causes of incidents which are within our control.

The public safety incidents were:

- Three small brush fires caused by our assets which were notifiable incidents. No damage was caused to property.
- Five pole top fires in the Esperance rural network which were notifiable incidents.
- One notifiable electric shock where a customer was admitted to hospital overnight for observation.
- Three minor electric shocks (known as tingles) which are not notifiable incidents.

The investigations into the public safety incidents have identified a number of actions to reduce the risk of re-occurrence, which have already been started this financial year. We have undertaken a pole inspection program which highlighted a deficiency in the double insulation program and resulted in an interim instruction being issued to identify any further live poles, any poles with compromised wiring, and any poles with non conforming wiring. Since this investigation, 15 live poles have been found and rectified. We are also reviewing our pole top fire mitigation strategy.

Key programs of work to improve public safety outcomes include:

- **Customer Service Lead Replacement**

Horizon Power continued its customer service lead replacement program this financial year. The program began in 2005 under Western Power and was adopted by Horizon Power when it was formed in 2006. It involves the phased replacement of all PVC-insulated and bare conductor leads and more inspections to identify faults. The Horizon Power commitment to replace overhead customer service leads throughout regional Western Australia is well ahead of schedule with more than 3,200 leads being replaced this financial year, above the target of 2,500. In total, 15,585 leads have been replaced since the program began and 1,650 leads remain to be replaced.



- **Esperance Network Rural Upgrade Program**

The Esperance Network Rural Upgrade Program is designed to improve the safety of our assets which supply power to rural customers, and at the same time, improve reliability. Wooden poles have been replaced with steel poles and the distance between poles has also been reduced to minimise the risk of clashing conductors. Large sections of powerlines have also been upgraded. To date, over 2,000 wooden poles and 6,000 insulators have been replaced and a 20 kilometre section of the network in the Dalyup/Munglinup area has been completely upgraded.

These works have dramatically reduced the risk of fires caused by clashing conductors. This summer no fires caused by clashing conductors were experienced even during a number of days with catastrophic weather conditions that would normally cause these fires.

The number of insurance compensation payments has dramatically reduced since 2008.

The three phase network upgrade undertaken by Horizon Power in partnership with Transfield Services is now complete and the focus will now shift to the single phase network. The work on the single phase network is scheduled for completion in 2012.

1.2 Customer Value - More systems meeting reliability standards

In 2009/10, Horizon Power achieved excellent reliability results, exceeding its targets for performing systems and outage frequency.

Using normalised data (excluding events such as cyclones which are outside Horizon Power's control) 32 of the 36 power systems we operate met reliability standards, exceeding our internal target of 31. That is, customers in those towns experienced outages of less than 290 minutes (a regulation set by the Economic Regulation Authority) and interruptions were less frequent than the target of 6.6 incidents a year. In 2010, regional customers across our entire service area experienced an average of two interruptions a year to their power supply, down from six in 2006.

The improved performance results reflect Horizon Power's decentralised asset management process which requires a plan to be developed every five years for each system we operate, or earlier if a new major load is coming online. The planning criterion assesses generation, fuel provision, transmission and distribution against the proposed energy demand forecast. Such a plan did not exist before the inception of Horizon Power in 2006.

The decentralised approach has been highly successful with local staff responsible for the management of their assets and for identifying new loads that feed into the demand forecast.

Horizon Power is firmly focused on improving reliability in four further towns – particularly in rural Esperance, rural Hopetoun, Norseman and Wyndham by 2014/15. Faults in the Esperance region this financial year were the result of damage from several electrical storms. The storms caused a number of outages and access to certain areas was limited, prolonging outage times. The Esperance Network Rural Upgrade Program Three Phase Project has assisted in the overall improvement of the network by addressing unserviceable and skinny poles, which will take time to be reflected in performance measures. Horizon Power's long term plan is to improve Esperance's reliability through sectionalising and automating rural networks.

Horizon Power continues to work with its Independent Power Producers (IPPs) to ensure the security and reliability of generation. There were two complete and prolonged outages in Kununurra in February 2010, due to equipment failure at the Ord Hydro power station.

In Wyndham, reliability has been adversely impacted by both the performance of the Ord Hydro power station and the lengthy transmission line from Kununurra. In June 2010, a project was completed and commissioned successfully to enable automatic restoration via the local generators and as a result, reliability is expected to improve.

Horizon Power is also considering further enhancements to improve the long term reliability and capacity for Wyndham's needs.

Horizon Power spent \$41 million on operational assets this financial year and \$6 million on asset management work that relates directly to reliability. We have also made efficiencies in our operating costs.

Horizon Power has constructed a number of significant infrastructure projects including new power stations that replace ageing stations with modern, efficient, quieter and more environmentally-friendly power stations. These projects will ensure we meet the future energy needs of local communities. Key projects include:

- **Marble Bar and Nullagine Power Stations Project**

In 2009-10 Horizon Power developed and built its first power station in Marble Bar. The Marble Bar and Nullagine solar-diesel hybrid power station project was funded by the State Government and Federal Government. The Federal funding was from the Renewable Remote Power Generation Program implemented by the Office of Energy in Western Australia.

The Marble Bar Pippunyah Power Station is not only the first ever built by Horizon Power, it is also the first of its kind in the world, incorporating the largest tracking solar photovoltaic array in Australia, with an energy control system which maximises renewable energy and minimises the use of diesel.

The station, named Pippunyah by the traditional custodians of the area, the Njamal people, began powering the town in May 2010. On July 23, 2010, it achieved 60 days continuous operation without interruption to service. The combination of technology provides up to 90 per cent renewable penetration.

The Nullagine power station is expected to be powering the town in October 2010.

The project includes the installation of more than 2,000 solar panels across both towns with a total capacity of over 500 kW. The solar energy systems will generate over 1,048 MWh of renewable energy per annum, supplying 30 per cent of the annual energy for both towns, up to 60 per cent of day-time energy, resulting in savings of 405,000 litres of fuel and 1,100 tonnes of greenhouse gas emissions each year.

SunPower Australia and Powercorp Pty Ltd were contracted by Horizon Power to supply the single axis tracking panels, energy storage and control system technology.

- **Karratha Power Station**

The new Karratha Power Station, part of Horizon Power's West Pilbara Power Project (WPPP), was officially opened in March by the Minister for Energy, Peter Collier MLC. Horizon Power developed the WPPP to ensure the energy needs of the region were met and has overseen the Karratha Power Station Project which will deliver power to our customers in the Karratha region.

The 86 MW station is owned and operated by ATCO Power. Horizon Power carried out extensive testing of the station to ensure its reliability. The project was delivered on time and on budget.

The gas-fired power station uses less gas than similar sized stations. With 35 per cent less gas used, 35 per cent less carbon dioxide is emitted. At the same time, with the advanced technology being installed, other pollutants such as nitrous oxide and sulphur dioxide are even further reduced. Pollution prevention, energy efficiency and waste minimisation are integral components of the station.

- **Carnarvon Power Station**

Horizon Power is building a new power station for Carnarvon to ensure compliance with Department of Environment and Conservation regulations and to replace ageing generators to meet the energy needs of the town for the next 20 years.

To date, Horizon Power has been working to procure a suitable site for the new station. Three locations have been considered but the first two sites chosen were deemed inappropriate after further analysis.

Negotiations to procure the preferred site are progressing well and the site is expected to be secured by the end of 2010. Due to the issues in procuring a suitable site for the power station, the expected completion date for stage one of construction has been revised to the end of 2011. The second stage of construction is expected to be completed by September 2012.



New subdivision in Karratha.

- **Pilbara Underground Power Project**

The Pilbara Underground Power Project is an exciting project for the Pilbara with benefits including improved power supply reliability and a more secure supply, improved aesthetics of streetscapes, an improved standard of street lighting and a safer public environment with the removal of poles and wires.

The project will underground the entire distribution network within Karratha, South Hedland, Roebourne and Onslow. The old network will be removed and streetlights will be replaced. The Karratha stage of the project is expected to be completed by March 2012 and South Hedland towards the end of 2012. Completion dates for Onslow and Roebourne are yet to be determined.

One hundred million dollars of the project cost has been funded by the State's Royalties for Regions program and contributions of approximately \$30 million will be made available by the relevant local Shires.

- **Karratha voltage upgrade**

The Karratha voltage upgrade is a vital project to meet the future energy demands of this rapidly growing area. In late June, the project entered its construction stage, which is expected to be completed by mid-2011.

The purpose of this work is to transform the Karratha distribution voltage from 11 kV to 22 kV and involves the augmentation and upgrade of the two zone substations in Karratha: Bulgarra Substation and Pegs Creek Substation.

This work will install four new 45 MVA 132/22 kV transformers (these will be the largest transformers in Horizon Power's asset base) and will bring the substations in line with best practice, Horizon Power policy and Australian Standards.

- **Broome sub-station**

Broome continues to experience rapid growth as the major tourist and regional service centre for the Kimberley region. Demand for power is predicted to increase at a rate of seven per cent each year until at least 2017, making it one of Horizon Power's fastest growing systems.

In order to meet the growth and future demand, Horizon Power has begun work on the new Fairway Drive Substation. The new 33 kV substation is located on the corner of Magabala Road and Fairway Drive. Stage one has seen both feeders successfully installed, with express cables and fibre optics, to allow for additional capacity by 2013.

One of the feeders has already been energised and will be available where necessary to assist with future projects. The project is expected to be completed by 2013.

13 Community and Customer Value- Upgrading safety and reliability of supply

Horizon Power is dedicated to regularising power supplies in regional and remote communities to make them equivalent to standards elsewhere in our service area. This is delivered through various programs, including:

- **Aboriginal and Remote Communities Power Supply Project**

Horizon Power has been funded for the Aboriginal and Remote Communities Power Supply Project Phase 2.1A by the State Government. This will allow network upgrades to be undertaken and new power stations, which incorporate renewable energy, to be built in the remote Aboriginal communities of Kalumburu and Yungngora (Noonkanbah). An upgrade of the network and internal house wiring has begun in Kalumburu and work will begin in Yungngora before the end of 2010.

Prepayment meters have brought significant advantages to remote communities.



The project is designed to improve the quality, safety, reliability and affordability of supplies in remote Aboriginal communities.

The project also includes:

- close liaison with the communities, their leadership groups and relevant stakeholders including third party land holders;
- installation of new streetlights;
- inspection and upgrade of house wiring to meet regulated standards on behalf of the Department of Housing;
- access to the full range of Horizon Power retail services and Government rebates and discounts;
- education on electrical safety, what to do in the event of a power interruption, budgeting and how to use the pre-payment meters; and
- employment of community liaison officers and community-based Essential Services Officers.

• **Town Reserves Regularisation Project**

Horizon Power completed upgrades to electrical networks in 10 town-based Aboriginal communities under phase two of the Town Reserves Regularisation Project this financial year. Phase two, funded by the Department of Housing, included upgrades in four communities in Fitzroy Crossing and at communities near Carnarvon, Roebourne, Onslow, Nullagine and Marble Bar. In partnership with Western Power, Horizon Power also regularised power supplies to the community of Ninga Mia, in Kalgoorlie.

The project, like its counterpart for remote Aboriginal communities, is not just about upgrading power supplies – it is about improving the quality of life in Aboriginal communities.

The project included:

- upgrading internal wiring of all community dwellings;
- upgrading electricity supply network;

- establishment of direct retail arrangement with customers (pre-payment meters) instead of the existing master meter arrangement, which includes access to retail services and Government rebates and discounts;
- providing an education program that informs residents about worksite safety, pre-payment meter usage, energy efficiency, rebates and charges, reporting faults and project schedule.

• **Rottnest Island – multi utility contract**

In July 2009, Horizon Power submitted a competitive bid to supply utility services on Rottnest Island. Although the Island is situated just off Perth, it is similar to many of the communities that Horizon Power currently serves in regional and remote Western Australia due to its isolated (or off grid) electricity supply and unique geographical and demographical conditions.

The Rottnest Island Authority (RIA) awarded Horizon Power preferred proponent status in March 2010. Horizon Power is currently negotiating with the RIA to establish a long-term agreement to manage the electricity, potable water, wastewater and supply of LPG gas at Rottnest Island.

• **Remote water services**

Horizon Power is constantly seeking opportunities to fulfil its commitment to improve the quality of life in regional Western Australia.

Power and water are both essential services. Because Horizon Power is a skilled utility provider in remote Western Australia, we are now exploring the possibility of using that capability to extend our service provision to remote communities to include the supply of water services. To this end, Horizon Power is currently collaborating with the Water Corporation to enable water regularisation to remote communities.

1.4 Customer Value - Service

Horizon Power seeks to provide effective high quality customer service and conduct business in ways that benefit our local communities and ultimately the State by enhancing local capacity, capability or opportunity. We use our role and expertise as an energy provider to work with government agencies, communities and other local stakeholders to ensure reliable and commercially viable energy solutions are developed to enable regional development opportunities.

Horizon Power has a customer satisfaction rating that exceeds our targets and has remained steady over the past two financial years. At the beginning of the 2009/10 financial year, Horizon Power successfully completed the transition from Synergy to Serviceworks to manage the customer information and billing for our 43,000 customers to provide a platform for increased performance and effectiveness.

As a result of the transition, a very small percentage of both residential and business customers did not receive a bill for power used over a period of 68 and 130 days. After an in-depth investigation, the customers were billed correctly for the affected periods. Horizon Power continues to monitor our customer's feedback to provide timely and personal service.

Our strategy is to understand and work with our customers to deliver better outcomes through product development, targeted sponsorships, education and training programs so that we can better deliver safe, low cost electricity. Key initiatives include:

- **Demand Side Management**

Demand Side Management (DSM) refers to activities that allow customers to change the way in which they use energy to improve the electricity demand profile of an electricity network, thereby lowering the cost of providing power. Horizon Power is developing a suite of DSM products that will:

- reduce and assist in the management of capital expenditure
- reduce operating costs
- deliver reduced environmental impacts and

- deliver social benefits and leadership in the areas of energy efficiency, renewable energy generation and overall sustainability.

With a focus on reducing the high costs of energy generation in some areas of WA, Horizon Power is aiming to be a national leader in developing DSM technologies. A number of DSM products are in development with the Grid Support Service product undergoing market trials.

The Grid Support Services (GSS) – a load curtailment program whereby participating customers reduce their demand for energy from the network during peak periods in return for a financial reward. GSS can reduce the rate of demand growth, increase the periods between capacity expansions, manage peak demand and improve network security between those periods.

1.5 Community Value – Local Opportunity

Our Community Partnership/Sponsorship program identifies and supports initiatives that contribute lasting value to the communities we serve.

- **Sponsorships**

Horizon Power aims to support a broad range of not-for-profit organisations and events that encompass education, environment, arts and culture, sporting development and community themes. From July 2009 to June 2010 Horizon Power supported and sponsored the following causes and events:

Education and Business

Constable Care, Leadership Western Australia 'Place Scholar', Carnarvon Chamber of Commerce Business Awards, Port Hedland Chamber of Commerce Business Awards, Karratha and Districts Chamber of Commerce and Industry Business Excellence Awards, Esperance Chamber of Commerce and Industry Business Awards, Energy Safety School Initiatives, and North West Expo.

Environment

Esperance Incident Control Vehicle and Esperance Volunteer Fire and Rescue.

Arts and Culture

Cossack Art Awards, Mungullah Aboriginal Community Pottery Exhibition, Shinju Matsuri Festival, Opera Under The Stars, FORM Port Hedland Arts Partnership, Mad Itch Musical Festival, Ord Valley Muster and NAIDOC celebration at Gwoonmardu Mia (Gascoyne Aboriginal Heritage and Cultural Centre).

Sporting

Exmouth Golf Club Open, Far Western Championships, Carnarvon Golf Club Open, GWN Trek, Burrup Mountain Bike Marathon, North West Tee Ball Championships, 10,000 Steps Challenge, Esperance Sports Star of the Year Awards, Esperance Taekwondo Championships, Carnarvon Junior Cricket Association, Esperance Open Squash Tournament, Lake Argyle Swim, Esperance Soccer Association, Esperance Football League and Umpire of the Year, Gascoyne Football Association and Leonora Golden Gift.

Community

Derby Boab Festival, Kununurra Agricultural Show, FeNaCING Festival, Meekatharra Festival, Esperance Royal Agricultural Show, State-wide Christmas Lights Competitions, Regional Achievement and Community Awards, Hopetoun End of Summer Festival, Yalgoo Anzac Day BBQ, Shire of Roebourne Australia Day Awards and Teddy Bears Picnic.

- **Award-winning Aboriginal Communities Training program**

Horizon Power developed the Aboriginal Communities Training (ACT) program in 2008 to create local employment and enhance skills development in Aboriginal communities and to improve the safety and reliability of power supplies.

Shane Eeles, Workforce Capability Improvement Manager, Premier Colin Barnett and Frank Tudor, General Manager Strategy and Business Development, receiving a Premier's Award for the Aboriginal Communities Training Program.



The ACT program is an enterprise-based traineeship developed by Horizon Power to meet the specific requirements of remote Aboriginal communities. Members of Aboriginal communities are employed full time as Horizon Power's Essential Services Officers (ESO's) and commence training to carry out basic construction and maintenance tasks in their local communities.

This financial year, Horizon Power was recognised for its work with two Premier's Awards in October 2009. The program currently employs four ESO's who are Aboriginal people living in remote communities. Work is underway to employ another four trainees in the immediate future.

Horizon Power has developed the framework and competency standard units for a new national qualification – Certificate III in ESI – Remote Communities Utility Worker. This framework has been presented to EE-Oz Training Standards, the Australian Government declared Industry Skills Council for the Australian ElectroComms and Energy Utilities Industries for review.

Horizon Power is currently working with EE-Oz Training Standards in seeking approval to pilot the new Certificate III Remote Communities Utility Worker qualification.

At present, our ESOs receive Certificates of Attendance for enterprise-based training units they complete and Statements of Attainment where they complete Nationally Recognised Units of Competency. If approval is given, our ESOs will become part of the pilot program and have the opportunity to become qualified tradesmen known as Remote Communities Utility Workers.

This year, Horizon Power also began to develop and implement an Indigenous Employment Strategy and has appointed a Native Title and Heritage Coordinator, an Indigenous Community Liaison Officer, an Indigenous Metering and Field Services Officer and a Hardship Utilities Grants Officer.

These achievements form part of the refreshed Reconciliation Action Plan (RAP) for 2009/2010. Horizon Power signed up to the RAP in 2008 to ensure its business was operated in accordance with the principles of reconciliation.

- **Community Education**

Horizon Power has created an education program called Horizon Discovery Zone which will be rolled out in regional Western Australian schools from August 2010.

The program aims to provide school children with interesting and interactive sessions on electrical safety, energy efficiency, and renewable energy, and highlights opportunities for a career in the energy industry. Through actively seeking a positive relationship with school communities, we aim to develop a lasting and successful link between the students, parents, teachers and the team at Horizon Power.

In 2009/10, materials have been developed to support teachers in providing a comprehensive hands-on curriculum. Schools are encouraged to book one of our project kits for their school which contains approximately 30 lessons along with all the equipment a teacher requires to carry out the activities in their classroom.

Horizon Power's Education Officer will deliver a variety of workshops and presentations in schools and at various expos in regional WA. A micro-internet site for children and teenagers will also be developed. The site will feature Gilbert, our frilled neck lizard education mascot.

2.0 Economic benefit

Horizon Power aims to build the value of our business by creating new business opportunities and improving operating efficiency, as well as delivering and driving value by working with our stakeholders to deliver regional development. This will provide the Government, as Horizon Power's owner, with future flexibility and choice in regard to funding levels, dividend yields and business reinvestment.

2.1 Business Value - Improving our Operating Efficiency

- **Economic Regulation Authority Review**

The Economic Regulation Authority was requested by the State Treasurer to inquire into Horizon Power's funding arrangements in May 2010. The Terms of Reference for the Inquiry is focused on determining the efficient expenditures for the supply of Horizon Power's regulated services. This will inform the setting of Horizon Power's funding.

The provision of essential infrastructure in sparsely populated regions is a significant challenge for Horizon Power and the State Government and it is acknowledged that it is not appropriate to recover the costs solely from people using the service.

In undertaking the Inquiry, the Authority will review the efficiency of Horizon Power's operating and capital expenditure programs and its procurement processes, with consideration given to Horizon Power's service delivery mandate, model and standards. The Authority has also been asked to identify opportunities for alternative arrangements for service delivery in remote regions and how other efficiency measures can be made.

Horizon Power is working cooperatively with the Authority on the Inquiry, valuing the rigour that it will bring to the business, as the Authority assesses performance through the lens of economic efficiency.

- **Business transformation**

Since disaggregating from Western Power in 2006, Horizon Power has been transforming business systems to simplify and standardise processes and technology. This is done with a view to providing a cost-effective platform for performance excellence in our business. The customer information and billing system separation took place in 2008/09. In 2010 Horizon Power has focused on planning the separation and transformation of the remaining IT systems inherited from Western Power and the continued implementation of an independent power network management system and outage management system.

A new outage management system was implemented in November 2009. It is used by the Horizon Power Control Centre in Karratha and regional staff in other districts to manage and respond to customer fault notifications in real-time. This system allows Control Centre staff to monitor our entire network in real-time, providing improved management of network outages and faults in conjunction with our district staff.

We continued our expansion of the Network Management System in May 2010 to Esperance. This was the first of the non-interconnected system districts to receive this functionality. This expands the areas that are actively managed by the Control Centre, 24 hours a day, seven days a week; enhancing safety, system security and fault response with the System and Control Centre. The Network Management System will be deployed in Broome later this year and the remaining districts are expected to be online by the end of 2011.

Work has been undertaken to replace our Metering and Inspections systems and we will shortly also move to a new Fault Call Handling provider. These projects will allow our customer service staff improved access to information to assist customers more effectively.

We have also been reviewing and improving our decision making processes. For example, the financial reporting project involved an update of internal financial reporting methods to more accurately reflect current trends and future business needs – and to better capture and analyse costs and revenues. The change means that Horizon Power has a greater sense of confidence in its business planning outcomes.

2.2 Growing business opportunities

- **Pilbara Energy Plan**

The Pilbara region is a source of significant wealth for the State and national economy. It is a key strategic focus for Horizon Power with electricity supply to the region a major contributor to Horizon Power's commercial viability.

Recent estimates suggest that total energy demand in the Pilbara will reach 10,500 GWh per annum by 2015, doubling current consumption.

Horizon Power's strategy in the Pilbara region aims to:

- Secure generation for existing customers. As this is achieved, pursue additional generation supply arrangements to facilitate regional growth and, through aggregation, seek economies of scale.
- Grow the retail business in the Pilbara for customers that can be connected cost effectively to the North West Interconnected System with a profit margin.
- Facilitate the development of network infrastructure to support growth.

Generation

The Karratha Power Station is an integral component of the Pilbara Energy Plan with the delivery of an extra 86 MW of capacity into the Pilbara system.

Horizon Power has conducted a major study into expected generation loads in the Pilbara. This study has identified definite requirements of at least another 100 MW of new or replacement generation capacity. This additional capacity will need to be operational by 2013.

The new Karratha Power Station.



Transmission

The development of a coordinated transmission solution in the Pilbara will allow the delivery of electricity from efficient large scale power stations in Karratha and Port Hedland to individual projects in the region.

Horizon Power currently owns one third of the electricity transmission assets in the region and is focused on supplying energy to the growing mining and industrial base in the East Pilbara region.

A coordinated approach to a transmission solution represents a more cost effective and carbon-efficient outcome when compared with onsite diesel or open-cycle gas-fired generation, and provides greater potential to build renewable generation into the network.

- **Square Kilometre Array**

Horizon Power is proud to be involved in the most significant radio-astronomy 'mega science' project ever developed – the Square Kilometre Array (SKA) project. Australia and South Africa are in the running to be the preferred site for an international, next generation radio astronomy project that will be 50 times more powerful than the world's largest existing telescope.

This groundbreaking initiative will enable astronomers to see the formation of the early universe, including the emergence of the first stars, galaxies and other structures. In 2006, South Africa and Australia were short listed as acceptable sites to host the SKA project. If Australia is chosen, it will put Western Australia on the cosmic map and at the forefront of the world's radio astronomy industry.

As part of Australia's bid for the project, a demonstration project is being built in Western Australia. This is known as the Australian SKA Pathfinder (ASKAP) and represents approximately one per cent of the total SKA project. It is located at the Murchison Radio-astronomy Observatory (MRO) on the isolated Boolardy Station within the Shire of Murchison, approximately 400 kilometres north east of Geraldton.

Horizon Power is focused on delivering the energy needs for ASKAP and the potential SKA project and intends to enter into a Power Supply Agreement (PSA) with CSIRO for development of a 1 MW hybrid solar diesel power station to supply all electricity requirements of the MRO. The MRO includes the ASKAP Project and related radio astronomy projects resident within the MRO such as the Murchison Widefield Array.

If the Australian bid for SKA is successful, it will involve the installation of radio telescopes over vast areas of Australia and New Zealand with over 60 per cent of the telescope being in Horizon Power's service area. The current configuration for the SKA requires a central core load of approximately 70 MW in the Murchison region with up to 40 isolated power stations to provide energy to the remote clusters of antennae.

3.0 Environmental benefit

Horizon Power's environmental objectives are to:

- proactively minimise emissions from operations
- sustain the environment by preserving and enriching the ecological areas and heritage in our communities
- reduce the consumption of materials internally and externally of Horizon Power.

3.1 Reducing Energy Consumption

Horizon Power provides *Betterways* of using energy by providing customers with information about energy saving options and encouraging them to better manage their overall usage to save on power bills. Customers can access information through a dedicated *Betterways* website and energy efficiency tips are also communicated through regional newspapers, TV, and the Horizon Power newsletter, "On the Horizon", which is sent to customers with their bills. Improvements to the energy efficiency of houses and appliances in remote communities are of great benefit because they can result in more affordable energy for residents and reduced energy delivery costs for Horizon Power and Government.

Horizon Power was funded by the Office of Energy to carry out energy efficiency assessments and behavioural change education in 417 homes in 16 town-based and remote Aboriginal communities in Western Australia. The Energy Efficiency project was extremely successful and involved engaging with residents of each home on their use of appliances, particularly those drawing a lot of energy such as air conditioning, heating, refrigeration and water heating systems. During the audits, information was collected on each home to assess and identify opportunities to improve its energy efficiency.

The WA Sustainable Energy Association honoured Horizon Power with two Awards in March 2010, one for Regional and Community Programs, which recognised Horizon Power's energy efficiency assessment and behavioural change education program. Horizon Power also won the overall top Award for demonstrating 'Excellence in Innovation'.

In another partnership with the Office of Energy, Horizon Power continued to offer energy audits to business customers throughout WA. About 50 customers in the Pilbara, Kimberley, Gascoyne and Goldfields/Esperance have now had an energy audit to identify savings and help manage their energy use. The audits provided business with recommendations and financial support for upgrading to more energy efficient appliances, insulation, hot water systems and overall efficient practices.

3.2 Offsetting Energy Consumption with Renewable Energy

The Renewable Energy Buy-back Scheme (REBS) is currently available to all Horizon Power residential customers on the A2 tariff as well as educational and not-for-profit organisations. The REBS product allows customers who install an approved renewable energy system to be paid for any excess energy they produce and export back into the Horizon Power network. The buy-back scheme is being extended to commercial customers during 2010, allowing them to also benefit from reduced bills and reduced emissions.

3.3 Carbon Management Strategy

Ten per cent of Horizon Power's generating capacity is supplied from renewable sources (wind, solar and hydroelectric). With the extensive use of low emissions-intensive fossil fuels such as natural gas, CNG and LNG, we are already well placed to manage the impacts of greenhouse gas emissions to our business. By adopting a carbon management strategy, Horizon Power demonstrates its commitment to continuous improvement, the search for opportunities to create value, and the reduction of the greenhouse gas intensity of its operations. Horizon Power is uniquely positioned in regional WA to deliver carbon management leadership to our customers.

3.4 Sustain the Environment - Environmental Management Utility framework

Horizon Power has developed a new Environmental Management Utility (EMU) framework to help employees better manage heritage and native title matters. EMU provides the business with all the necessary tools to identify the environmental and heritage issues associated with our operations, maintain legislative compliance and strive towards continual improvement in environmental and heritage performance.

In the last year, Horizon Power undertook native title and heritage clearances for a total of 124 works projects. We are committed to ensuring that all staff considers heritage and native title issues in any work.

Clearances were sought for 84 low impact projects and 40 high impact projects. Significantly, the number of working days taken to clear the low impact projects was just 4.6 days and 111.2 days for the high impact projects. High impact projects include heritage and native title clearances for major projects such as the building of the new Kalumburu power station under the Aboriginal and Remote Communities Power Supply Project.

Solar panels, Marble Bar Pippunyah solar-diesel power station.



Electricity generation and sales

Power Station	Generated Power (kWhs)	Generated Power Wind/Solar (kWhs)	Purchases (kWhs)	Total Power Purchased/ Generated (kWhs)	Used in Works (kWhs)	Sent Out (kWhs)
Ardyaloon			1,606,138	1,606,138		1,606,138
Beagle Bay			1,539,950	1,539,950		1,539,950
Bidyadanga			2,576,873	2,576,873		2,576,873
Broome			136,819,005	136,819,005		136,819,005
Carnarvon	49,225,476			49,225,476	2,494,006	46,731,470
Coral Bay			3,067,239	3,067,239		3,067,239
Cue			2,363,772	2,363,772		2,363,772
Denham	3,418,410	2,339,126		5,757,536	98,379	5,659,157
Derby			32,828,102	32,828,102		32,828,102
Djarindjin			1,568,039	1,568,039		1,568,039
Esperance			73,146,954	73,146,954		73,146,954
Exmouth			25,480,824	25,480,824		25,480,824
Fitzroy Crossing			12,447,598	12,447,598		12,447,598
Gascoyne Junction			648,560	648,560		648,560
Halls Creek			10,959,809	10,959,809		10,959,809
Hopetoun			4,421,104	4,421,104		4,421,104
Kununurra	221,566		61,117,956.25	61,339,522.25	1,060,064.25	60,279,458
Lake Argyle			439,367.75	439,367.75		439,367.75
Laverton			4,332,508	4,332,508		4,332,508
Leonora			9,120,242	9,120,242		9,120,242
Looma			2,636,794.25	2,636,794.25		2,636,794.25
Marble Bar	2,494,336	100,182		2,594,518	113,059	2,481,459
Meekatharra			7,481,797	7,481,797		7,481,797
Menzies			755,973	755,973		755,973
Mount Magnet			4,299,279	4,299,279		4,299,279
Norseman			4,855,664	4,855,664		4,855,664
Nullagine	1,206,427			1,206,427	15,199	1,191,228
Onslow			5,663,901.67	5,663,901.67		5,663,901.67
Sandstone			948,404	948,404		948,404
Warmun			2,434,368	2,434,368		2,434,368
Wiluna			2,787,129	2,787,129		2,787,129
Wyndham			9,164,520	9,164,520		9,164,520
Yalgoo			970,610	970,610		970,610

Performance Indicators

Social benefit	Target	Actual
SAIDI: System outage duration*	Less than 290	162
SAIFI: Frequency of outages	6.6	2.43
Performing systems	31	32
Corporate reputation Index (per cent)	70	65
Customer satisfaction rating (per cent)	70	77
Employee satisfaction rating (per cent)	79	79
Average unit cost (cents/kWh)	32.7	31.2

*System performance measured in minutes

Network Assets

Net work Type	Carrier	
Transmission	220 kV	197 km
	132 kV Underground	2 km
	132 kV Overhead	108 km
	66 kV Overhead	150 km
	66 kV Underground	1 km
Distribution	HV 3-Phase Overhead	2,149 km
	HV 3-Phase Underground	430 km
	HV Single Phase Overhead	2,703 km
	LV Overhead	658 km
	LV Underground	657 km
	Total	7,054 km

Assets

Total transformer capacity	566,000 MVA
Number of streetlights	13,383 streetlights

Employment

Division	Full time employees (FTEs)
Office of the Managing Director & Board	9
Finance Services	18
Governance & Company Secretariat	24
Islanded Systems Development	21
Knowledge and Technology	30
Operations	181
Strategy & Business Development	19
People & Corporate Services	25
Shared Services	54
Total	381

Environmental Management System

An Environmental Management System (EMS) is a structured system designed to assist an organisation to reduce its environmental impacts through targeted continuous improvement in its environmental management, leading to improvements in its overall environmental performance.

Horizon Power has redeveloped its EMS. The new EMS – Environmental Management Utility (EMU) – was deployed in February 2010. EMU is an intranet based system based on the requirements of the Environmental Management Systems Standard (AS 14001).

EMU provides a framework to organise and manage activities that may impact the environment or heritage in the areas serviced by Horizon Power across Western Australia.

EMU is a system designed to assist Horizon Power:

- comply with environmental and heritage legal requirements;
- identify operational activities that can impact the environment or heritage;
- assess the environmental and heritage risk of these activities;
- develop action plans to minimise the impact of these activities;
- set performance objectives and targets; and
- continuously improve our performance in relation to environmental and heritage management.

EMU allows each Horizon Power site to access important information to assist them to manage the impacts of their activities and maintain compliance with relevant legislation.

Greenhouse gas emissions

Horizon Power is legally required to report on its greenhouse gas emissions and energy production and consumption under the National Greenhouse and Energy Reporting Act 2007 (NGER). Horizon Power provided its first NGER report for the 2008/09 period to the Department of Climate Change in October 2009.

Horizon Power utilises the NGERs methodology to calculate its greenhouse gas emissions. The emission figures presented below for the 2009/10 financial year are based on the most accurate data as of 16 July 2010.

Greenhouse gas emissions by scope	Tonnes of CO ₂ Equivalents (CO ₂ e)
Direct emissions (Scope 1)	36,970
Indirect emissions (Scope 2)	45,050
Further indirect emissions from Independent Power Provider (Scope 3)	617,740

Horizon Power's direct (Scope 1) emissions totalled 36,970 tonnes CO₂e and were emitted primarily from the combustion of fuel in Horizon Power-run power stations. Minor sources of direct emissions included vehicle fleet (873 tonnes CO₂e), natural gas pipeline leakage (436 tonnes CO₂e) and leakage of sulphur hexafluoride from the transmission and distribution networks (43 tonnes CO₂e, previously only emissions from the transmission network were reported). Horizon Power's direct emissions have decreased slightly by approximately 220 tonnes CO₂e in the last year.

The business' Scope 2 (electricity consumption) emissions were primarily due to electricity losses in the transmission and distribution networks. These losses accounted for a total of 43,600 tonnes CO₂e, while the remaining 1,450 tonnes CO₂e were associated with electricity consumed in operational areas such as depots, offices and buildings.

Horizon Power's indirect (Scope 3) emissions are almost entirely the result of electricity purchased from Independent Power Producers (IPPs) for on-selling to customers. Indirect emissions from IPPs represent an estimated 617,740 tonnes CO₂e of greenhouse gas emissions.

The carbon intensity of different activities can be measured and compared from year to year and reflects an organisations overall greenhouse emission performance.

Performance Indicator	kgs of CO ₂ e per kWh	
	2008/9	2009/10
Horizon Power operations carbon intensity (as electricity sent out)	0.71	0.68

Horizon Power's key performance indicator (KPI) for greenhouse gas emissions is the carbon intensity of its total operations (kg CO₂e/kWh sent out). This indicator has decreased from 0.71 to 0.68 in the past year, primarily as a result of new power stations with lower emissions replacing older, higher emitting facilities at Karratha and Marble Bar. A full year of operation from these power stations should result in a further decrease in the coming year (Note: this is a significant reduction as it reflects a reduction of 210,000 kg CO₂e of emissions despite an overall increase of 7.7 % in kWh of electricity sent out).

Atmospheric emissions

Horizon Power's emission information is provided annually to the National Pollutant Inventory (NPI). This information can be accessed via <http://www.npi.gov.au>. The following table provides information on the main atmospheric emissions from the business' major power stations.

Performance Indicators	Total (tonnes)	kgs/MWh (gen)
Sulphur Dioxide emissions	0.4	0.01
Nitrogen Oxides emissions	1,085	19.1

The atmospheric emission indicators used by Horizon Power have remained constant in the past year.

Contaminated sites

Horizon Power is actively managing the 29 contaminated sites that have been reported under the *Contaminated Sites Act 2003*. The remediation of contaminated sites is a key outcome of Horizon Power's Environmental Strategy. A program focussing on the remediation of contaminated sites has been developed based on the currently available information.

A summary of the classification status of Horizon Power's contaminated sites is provided below.

Contaminated – Remediation Required

Carnarvon Power Station (PS), Derby PS, Esperance PS, Exmouth PS, Wiluna PS and Wittenoom PS.

Possibly Contaminated – Investigation Required

Broome PS, Camballin PS, Fitzroy Crossing PS, Halls Creek PS, Kununurra PS, Lake Argyle PS, Laverton PS, Marble Bar PS, Nullagine PS, Onslow PS and Redbank PS.

Contaminated Restricted Use

Yalgoo PS.

Remediated For Restricted Use

Menzies PS.

Report Not Substantiated

Karratha Depot.

The remaining nine reported sites have not been classified.

Associated with the ongoing management of contamination issues at each of these sites, numerous pieces of environmental investigation work has been undertaken in the last year to gain a better understanding of the contamination that is present.

The investigation work completed includes:

- detailed site investigations (phase 2) of five Kimberley power station sites (Fitzroy Crossing, Halls Creek, Camballin, Lake Argyle and Kununurra);
- groundwater monitoring at Esperance, Exmouth, Derby and Hopetoun power stations;
- detailed site investigations (phase 2) of Laverton and Wiluna power stations;
- gap analysis audits at Marble Bar, Derby, Carnarvon and Exmouth power stations; and
- development of remediation action plans for Esperance and Exmouth power stations.

Horizon Power is committed to the appropriate remediation of its contaminated sites. Horizon Power's contaminated site remediation program has been designed to ensure that the organisation meets its legal requirements under the *Contaminated Sites Act 2003*. Horizon Power also continues to work with the Department of Environment and Conservation to develop appropriate response strategies for all of its sites.

Governance Framework

A Governance Framework provides the 'running rules' that support the business by:

- providing structure and consistency to the way Horizon Power does business;
- promoting the business' values, corporate governance principles, systems and practices, including the roles, responsibilities and authorities of the Board and Executive;
- encouraging the creation of lasting value consistent with the Business Model;
- aligning with Horizon Power's Strategic and Business Plans; and
- providing accountability and control systems consistent with the risks involved.

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

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

Board of Directors

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

The Board Members between them have a suitable source of knowledge and experience with which to guide Horizon Power in ways to continuously expand and improve its services.

Brendan Hammond (Chairman)

Brendan Hammond has a wealth of experience from a career largely associated with the resources sector. He has held senior executive roles in large mining corporations, worked in and with the highest levels of Government and had a major influence on Indigenous affairs across the country.



Brendan is also Chairman of the Dampier Port Authority and a member of the State Indigenous Implementation Board. He continues to have a strong involvement in community and Indigenous activities, art, health and learning.

Robert Eagle (Deputy Chairman)

Robert Eagle was appointed Deputy Chairman on 9 February 2010.

Robert brings to Horizon Power almost 40 years of extensive and wide-ranging experience in the practice of law. He is currently a Lawyer and Mediator with his own practice based in Broome.



Since 1999, he has been a Director of a Business Forecasting Company, with clients including major banks, insurers, telecommunications companies, major retailers and a range of other businesses.

He has a wide experience of agreements and contracts, trusts, incorporating companies, superannuation funds and corporate acquisitions.

Robert is the Public Officer of a number of Aboriginal Corporations and is a keen participant in the community life of Broome.

Robert holds a Bachelor of Laws from the University of Melbourne.

Susan Bradley

Susan Bradley's extensive business and community experience in the Kimberley has included owning and managing cattle stations, farms on the Ord Irrigation Area and a caravan park in Kununurra.



She owns property in Broome. She has lived in the Kimberley for 40 years and held many public positions including the Wyndham-East Kimberley Shire President, Chair of the Ord Development Study, Inaugural Chair of the Kimberley Development Commission and Chair of the Kimberley Regional Water Resources Development Study, Federal Councillor of the RFDS and a Director of the Australian Maritime Safety Authority.

Susan is presently General Manager of two North Kimberley Dunkeld Pastoral Company Pty Ltd properties and Ellenbrae Station Pty Ltd, and is a Director of the Kimberley Foundation Australia Ltd and a member of the Australian Institute of Company Directors.

Nicole Lockwood

Nicole Lockwood has a keen interest in regional development and is committed to the sustainability of the Pilbara community.



Based in Karratha, she has a background as a State prosecutor, solicitor and research assistant and has extensive experience in policy formation and community consultation. Nicole is the President of the Shire of Roebourne Council, member of the Pilbara Regional Council, member of the Western Australian Planning Commission and member of the Pilbara Development Commission.

In these roles she has been integral to the coordination and implementation of strategic planning initiatives, and cross- government and industry engagement to benefit the Pilbara region.

Nicole holds a Bachelor of Laws from Notre Dame University and a Bachelor of Business (Environment) from Notre Dame University.

John Elkington

John Elkington is experienced in all facets of the mining industry and presently provides general management and financial performance consultancy to the mining sector worldwide.



He has most recently been evaluating and reporting on mining projects and negotiated and managed joint ventures with major resource companies, negotiated with native title parties including representing companies at the National Native Title Tribunal and preparing management reviews for company directors.

John lives in York and is a graduate of the WA School of Mines, with a Masters degree in Mineral Economics.

Rod Hayes (Managing Director)

Rod Hayes has 12 years of experience in Australia's utilities sector and a record of strong and dynamic leadership.



Before joining Horizon Power, he served for more than three years as the Chief Executive Officer of the Gladstone Area Water Board, a government-owned commercialised business servicing one of Queensland's biggest coastal cities.

Rod brings previous experience in senior management roles in the electricity sector, after spending several years with Tasmanian electricity distribution and retail company Aurora Energy.

Rod's qualifications include a combined Bachelor of Commerce and Laws from the University of Tasmania and a completed Professional Year Program for admission to The Institute of Chartered Accountants in Australia.

Rod is a Fellow of the Australian Institute of Management.

Company Secretary

Pete Feldhusen

Pete Feldhusen is also Horizon Power's General Manager, Governance and Company Secretariat.



He has held Board, Company Secretarial, Financial and Operating Management positions in a number of mining, legal and utility organisations.

The company secretary provides administrative services to the Board and oversees the corporate governance systems.

Special Adviser to the Board

Angela Riley

The Horizon Power Board has retained the services of Angela Riley as a specialist adviser to the Board to enable the Board to prudently discharge its Audit and Risk obligations. Angela is the Chair of Horizon Power's Audit and Risk Management Committee.



Attendance at Board meetings

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

	Board Meetings	
	A	B
Mr Brendan Hammond (Chairman)	8	10
Mr Robert Eagle (Deputy Chairman)	9	10
Ms Susan Bradley	8	10
Ms Nicole Lockwood	9	10
Mr John Elkington	10	10
Mr Rod Hayes	8	10

A – Number of meetings attended.

B – Number of meetings eligible to attend during the time the Director held office during the year.

Angela Riley, consultant to the Board, attended seven out of 10 Board meetings in 2009/10.

Declarations of Interest

- Brendan Hammond:
 - Seymour Associates (Director/Owner)
 - Dampier Port Authority (Chairman)
- Nicole Lockwood:
 - Member of the Pilbara Development Commission
 - Member of the Western Australian Planning Commission
 - President of the Shire of Roebourne
- Angela Riley:
 - MG Community Foundation Pty Ltd (Director)
 - MG Dawang Land Pty Ltd (Director)
 - MG Developments Pty Ltd (Director)
 - Board member of the Port Hedland Port Authority
 - Board member of Leadership WA

Horizon Power Directors' Terms of Appointment

Horizon Power Director's Terms of Appointment

Director	Appointed	Expires
Brendan Hammond (Chairman)	1 Dec 2005	31 Mar 2009
Second Term	1 Apr 2009	31 Mar 2012
Robert Eagle (Deputy Chairman)	1 Jul 2008	30 Jun 2010
Susan Bradley	1 Apr 2006	30 Jun 2007
Second Term	1 July 2007	30 Jun 2008
Third Term	1 Jul 2008	30 Jun 2010
Nicole Lockwood	1 Jul 2008	30 Jun 2010
John Elkington	11 Aug 2009	10 Aug 2011
Rod Hayes (Managing Director)	30 Jan 2006	29 Jan 2008
Second Term	30 Jan 2008	29 Jan 2009
Third Term	30 Jan 2009	29 Jan 2012

Consultants to the Board

Consultant	Appointed	Expires
Angela Riley (Chair Audit and Risk Management Committee)	18 April 2006	31 Mar 2007
Second Term	1 Apr 2007	30 Jun 2008
Third Term	1 Jul 2008	30 Jun 2009
Fourth Term	1 Jul 2009	30 Jun 2012

Audit and Risk Management Committee

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

Specialist adviser, Angela Riley, who has a strong financial and auditing background, chairs the ARMC. Angela and fellow directors Nicole Lockwood, Robert Eagle (retired from ARMC September 2009) and John Elkington (joined ARMC September 2009) comprise the ARMC.

A key role of the ARMC is to provide reasonable assurance to the 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.

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, including its systems of internal control and internal audit function.

Composition of ARMC

The ARMC comprises:

- Angela Riley, Chair
- Nicole Lockwood
- Robert Eagle (retired September 2009)
- John Elkington (joined September 2009)

ARMC meetings in the 2009/10 financial year were attended by:

- Rod Hayes, Managing Director
- Amelia Yam, General Manager, Finance Services
- Pete Feldhusen, Company Secretary, General Manager, Governance and Company Secretariat
- Andrew Georgiades, Manager, Risk and Audit (until December 2009)
- Liang Tay, Acting Manager, Risk and Audit (for December 2009)
- Craig Young, Manager, Risk and Audit (from January 2010)

ARMC Meetings Attended

Audit and Risk Management Committee Meetings

	A	B
Ms Angela Riley (Chair) *	7	7
Ms Nicole Lockwood	7	7
Mr Robert Eagle (retired September 2009)	1	1
Mr John Elkington (joined September 2009)	6	6

A – Number of meetings attended.

B – Number of meetings eligible to attend during the time the Director held office during the year.

*Special Adviser to the Board appointed to enable the Board to prudently discharge its Audit and Risk obligations.

Remuneration report

Principles used to determine remuneration

The Minister for Energy (the Minister) approves the remuneration of all non-executive directors. The Board, subject to the concurrence of the Minister approves the remuneration of the Managing Director (also referred to as the Chief Executive Officer).

The Board, on recommendation of the Managing Director, approves the remuneration of all Executive Officers.

Key Management Personnel Remuneration

Horizon Power's compensation policy is designed 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;
- adopt performance measures that align the interests of employees with the interests of key stakeholders; and
- adopt a remuneration structure that provides an appropriate balance in 'risk and reward sharing' between the employee and Horizon Power.

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 upon total target remuneration that includes a total fixed remuneration structured with:

- cash;
- selection of prescribed non-financial benefits;
- superannuation; and
- cost of the fringe benefits tax.

In addition to total target remuneration, those Executives resident in remote locations are provided housing benefits and location allowances.

Indemnification of Directors

The Directors' and Officers' Liability Insurance Policy is in place to ensure that the Directors and Officers of the Corporation have adequate coverage.

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

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

Corporate compliance disclosures

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 submit a Licence Performance Audit and an Asset Management System Review to the Economic Regulation Authority at intervals determined by the Authority. The first of these was programmed for June 2008 and a second for December 2009. As a result of these audits the Economic Regulation Authority issued a Notice requiring Horizon Power to rectify a number of matters in order to fully comply with our Integrated Regional Licence. Horizon Power is actively addressing each of those recommendations.

Restriction on area in which Horizon Power may operate

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

State Records Act 2000

Horizon Power maintains and supports quality record-keeping practices in its day-to-day business activities. The function of managing records resides within the Knowledge and Technology Division of Horizon Power. Horizon Power's Record-Keeping Plan is reviewed annually to ensure currency and any updates are submitted to the Minister for Energy for approval. The approved plan is then presented to the State Records Office.

The record-keeping plan ensures all records are managed according to the requirements of the *State Records Act 2000* and demonstrates an ongoing commitment to the training of staff in record-keeping principles and practices.

Ministerial reporting requirement

In line with the accountability provisions of the Act, Horizon Power will provide the Minister with a quarterly report, for the first three quarters and an Annual Report for the whole financial year. Each Quarterly Performance Report will be submitted one month after the end of the quarter and will include an overview of performance and highlights of important achievements. The Annual Report will follow the end of the financial year and will be provided to the Minister within the time specified by the Act. It 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 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.

There were no Ministerial directions from the Minister for Energy during the financial year.

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, or on behalf of, Regional Power Corporation during the financial period ended 30 June 2010 is as follows:

Advertising agencies	\$861,772
Market research organisations	\$25,597
Direct mail organisations	\$32,460
Media advertising organisations	\$40,177

Freedom of Information Act 1992

The *Freedom of Information Act 1992* requires Horizon Power to publish an Information Statement. Our Information Statement is available online at http://www.horizonpower.com.au/general/foi_statement.html

Public Interest Disclosures

Horizon Power complies with various corporate obligations of the *Public Interest Disclosure (PID) Act 2003*.

The PID Act enables employees to make disclosures about improper conduct within the organisation and aims to ensure openness and accountability in government by encouraging people to make disclosures and protecting them when they do. Horizon Power supports the principles of this plan.

There were no Public Interest Disclosures during the year.

Disability Services Act compliance

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

Horizon Power has recently submitted a progress report to the Disability Services Commission, outlining strategies the business needs to complete to ensure people with disabilities are provided for. The report lists a total of 20 strategies and Horizon Power has completed 11, partially completed five and is still to complete four strategies. Two key strategies include ongoing access audits of Horizon Power's offices to ensure that all buildings are safe and easily accessible for both staff and visitors with disabilities and 'larger or alternative format' options of all corporate publications and the provision of interpreters, TTY, email, fax and SMS options with Horizon Power's customer contact centre.

Observance of the Code of Conduct for Horizon Power

Section 33 of the *Electricity Corporations Act 2005 (WA)* (Act) requires the Board of Horizon Power (Board) 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 that consistent with Section 31 of the Act, Horizon Power's Code of Conduct was developed after consultation with staff and the Commissioner for Public Sector Standards and was adopted by the Board at its meeting on 18 October 2006. The Code of Conduct was revised and signed off by the Board in February 2010.

The Code of Conduct has been circulated to employees of Horizon Power and is available on the Horizon Power website for 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.

There were no reported incidents that breach the Code of Conduct for the 2009/10 financial years.

Environmental regulations

Horizon Power acts responsibly to ensure compliance to all State and Federal environmental Acts and regulations that apply. The main environmental legislation that impacts on its operation is the *Environmental Protection (EP) Act 1986*. This is an Act of the Western Australian Parliament and gives rise to many regulations with the main ones referred to below.

EP (Controlled Waste) Regulations 2004 specify that certain wastes (used lube oil, transformer oil, interceptor wastes, oil filters, lead-acid batteries, etc) are carried only by licensed carriers and that any facility that regularly produces them has a generator identification number. Horizon Power employs a regular systematic program to dispose of controlled wastes.

EP (Native Vegetation Clearing) Regulations 2004 are designed to maintain the remaining native vegetation in the State. They specify the need to gain a permit from the Department of Environment and Conservation prior to the clearing of any native vegetation during a non-exempt activity. Other State and Federal legislation that Horizon Power operates under, but which have a smaller impact on the business, includes:

- *EP (Unauthorised Discharge) Regulations 2004;*
- *EP (Noise) Regulations 1997;*
- *Contaminated Sites Act 2003;*
- *Dangerous Goods Safety Act 2004;*
- *National Greenhouse and Energy Reporting Act 2007;* and
- *Environmental Protection and Biodiversity Conservation Act 1999.*

Horizon Power has a site-specific license to operate the existing power station at Carnarvon. This licence contains specific requirements that must be met in order to continue operating. The conditions include reporting air emissions, testing stacks annually for emissions, guidelines for storing liquid fuels and chemicals and supplying an annual report to the Department of Environment and Conservation on power station operations.

Since 2006/07, Horizon Power's average cost of supply has increased marginally despite higher energy sales, a growing works program and cost pressure from increased economic activity in the mining sector. Net profit after tax is \$25.5 million, a significantly stronger result from last year's net loss of \$42.3 million. Horizon Power's performance this year also exceeded budget expectations. Horizon Power's improved results were mainly driven by higher sales and other revenue as a result of government policy changes to tariff rates. Horizon Power also received additional funding from the Tariff Equalisation Fund reset. This increase was required to adequately fund Horizon Power's regional service delivery. Increased customer funded works also contributed to the profit. Efficiencies in generation costs were realised with the commissioning of the new Karratha Power Station.

Horizon Power invested in \$141 million of capital projects in 2009/10, an increase of 161% from the 2006/07 capital program of \$54 million.

This investment was required to replace aging generation and distribution assets and to improve safety and reliability of its systems. Growth in the region as a result of increased mining activity has led to investments to increase system capacity and customer funded works.

Dividends

No dividends have been paid nor recommended for this financial year.

Significant changes in Horizon Power's state of affairs

In the opinion of the Directors, there were no significant changes in the Corporation's state of affairs during the reporting period.

Significant Events after Balance Date

There were no significant events after Balance Date.

Director's declaration

In accordance with a resolution of the Directors of 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 2010 and of its performance for the 12 month period ended on that date; and
 - ii. complying with Accounting Standards, AASB Interpretations and Corporations Regulations; and
- (b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Brendan Hammond
CHAIRMAN

14 September 2010

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Statement of comprehensive income

For the year ended 30 June 2010

		30 June 2010	30 June 2009
	Note	\$'000	\$'000
REVENUE	4	239,682	189,381
Other income	5	125,918	72,210
Electricity and fuel purchases	6	(128,065)	(139,757)
Employee benefits expenses	6	(45,461)	(36,062)
Materials and services	6	(45,186)	(34,812)
Depreciation and amortisation expense	6	(38,521)	(31,389)
Other expenses	6	(22,515)	(37,105)
Finance costs	6	(52,544)	(43,062)
Profit/(loss) before income tax		33,308	(60,596)
Income tax (expense) / benefit	7	(7,856)	18,254
Profit/(loss) for the year		25,452	(42,342)
Other comprehensive income			
Cash flow hedges		210	(69)
Income tax relating to components of other comprehensive income	7	(98)	20
Other comprehensive income / (loss) for the year, net of tax		112	(49)
Total comprehensive income / (loss) for the year		25,564	(42,391)

The above income statement should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June 2010

		30 June 2010	30 June 2009
	Note	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	3,585	36,096
Trade and other receivables	9	37,240	23,774
Inventories	10	9,019	7,466
Derivative financial instruments	11	301	34
Intangible assets	15	179	200
Other current assets	12	870	576
Total current assets		51,194	68,146
Non-current assets			
Property, plant and equipment	13	956,862	711,841
Net deferred tax assets	14	25,634	33,674
Intangible assets	16	7,151	269
Total non-current assets		989,647	745,784
Total assets		1,040,841	813,930
LIABILITIES			
Current liabilities			
Trade and other payables	17	57,801	67,481
Derivative financial instruments	11	27	1,542
Current tax liabilities	20	-	4,449
Provisions	18	16,023	10,383
Other current liabilities	21	20,389	8,672
Interest bearing liabilities	19	106,502	65,367
Total current liabilities		200,742	157,894
Non-current liabilities			
Provisions	25	13,439	17,749
Retirement benefit obligations	26	2,382	2,018
Interest bearing liabilities	23	667,874	506,345
Other payables	22	976	1,093
Total non-current liabilities		684,671	527,205
Total liabilities		885,413	685,099
Net assets		155,428	128,831
EQUITY			
Contributed equity	27	166,154	165,121
Reserves	28	63	(49)
Accumulated losses		(10,789)	(36,241)
Total equity		155,428	128,831

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2010

	Contributed equity	Cash Flow Hedge Reserve	Retained earnings	Total
Note	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2008	130,121	-	6,101	136,222
Total comprehensive income for the year	-	(49)	(42,342)	(42,391)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	27 35,000	-	-	35,000
Balance at 30 June 2009	165,121	(49)	(36,241)	128,831
Total comprehensive income for the year	-	112	25,452	25,564
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs and tax	27 1,033	-	-	1,033
Balance at 30 June 2010	166,154	63	(10,789)	155,428

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2010

		30 June 2010	30 June 2009
	Note	\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		234,857	206,889
Other receipts		122,100	72,000
Net GST and Fuel Tax Credits received		17,021	13,172
Interest received		217	1,330
Payments to suppliers and employees (inclusive of goods and services tax)		(164,124)	(250,352)
Borrowing costs		(52,416)	(41,748)
Payments for financial assets at fair value through profit or loss		(457)	(6,038)
Income taxes paid		(4,449)	-
Net cash (outflow) inflow from operating activities	36	152,749	(4,747)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		372	593
Payments for property, plant and equipment		(255,601)	(80,571)
Payments for intangible assets		(9,916)	(299)
Net cash outflow from investing activities		(265,145)	(80,277)
Cash flows from financing activities			
Proceeds from borrowings		67,024	68,855
Developer and customer contributions to capital works		11,716	14,956
Proceeds from contributed equity		1,033	35,000
CES, customers' and contractors' deposits/(refunds)		112	(23)
Net cash inflow from financing activities		79,885	118,788
Net increase (decrease) in cash and cash equivalents		(32,511)	33,764
Cash and cash equivalents at the beginning of the financial year		36,096	2,332
Cash and cash equivalents at end of year	8	3,585	36,096

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2010

1 **Corporate information**

The financial report of Regional Power Corporation, trading as Horizon Power, for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 8 September 2010.

Horizon Power is a Not-for-Profit Public Sector Entity, incorporated and domiciled in Australia. Its registered office is at Stovehill Road, Karratha.

The nature of the operations and principal activities of Horizon Power are described in the Our Profile section of the Annual Report.

2 **Summary of significant accounting policies**

(a) **Basis of preparation**

This general purpose financial report has been prepared in accordance with the requirement of Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the disclosure requirements of Schedule 4 of the Electricity Corporations Act 2005.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

Statement of compliance

The financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

Historical cost convention

These financial statements have been prepared on an accrual basis and are based on the historical cost convention except where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Comparative amounts

Comparative amounts are for the year to 30 June 2009.

Change of presentation of the Statement of comprehensive income

In the current year Horizon Power has changed the presentation of the statement of comprehensive income to use a classification based on the nature of expenses rather than on function. Presentation of the nature of expenses reflects more appropriately the manner in which Horizon Power manages its expenses. Comparative amounts were reclassified for consistency.

(b) **Significant accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from the estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

2 Summary of significant accounting policies (continued)

Significant accounting judgements

- **Lease Commitments**

Horizon Power has entered into power purchase agreements relating to specific generating facilities. Horizon Power has assessed whether it assumes all the significant risks and rewards of ownership in determining:

- whether the agreements represent leases; and
- if the agreements represent leases, the classification of the leases is as operating or finance.

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception whether the fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

- **Recovery of deferred tax assets**

Deferred tax assets are recognised for losses and deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those losses and temporary differences. Assessing the future utilisation of these assets requires Horizon Power to make significant estimates related to expectations of future taxable income.

- **Impairment of non-financial assets**

Horizon Power assesses impairment of all assets at each reporting date by evaluating conditions specific to Horizon Power and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined.

- **Restoration and decommissioning**

A provision has been made for the present value of anticipated costs of future restoration and decommissioning of generating plants and workshops. The provision includes future cost estimates associated with dismantling closure, decontamination and permanent storage of historical residues. The calculation of this provision requires assumptions such as application of environmental legislation, plant closure dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the balance sheet by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 18 and note 25.

- **Estimation of useful lives of assets**

The estimation of the useful lives of assets has been based on historical experience as well as lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Depreciation charges are included in note 6.

- **Estimation of Unread Sales**

Electricity meters are read on a periodic basis throughout the year. The estimation of accrued revenue associated with unread meters at year end has been based on historical experience.

(c) Foreign currency translation

The functional and presentation currency of Horizon Power is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All currency translation differences in the financial statements are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

2 Summary of significant accounting policies (continued)

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Horizon Power and the revenue can be reliably measured. It is valued at the fair value of the consideration received, or to be received, net of the amount of Goods and Services Tax (GST). The following specific recognition criteria must also be met before revenue is recognised.

Sale of electricity

Sale of electricity comprises revenue earned from the provision of electricity to entities outside Horizon Power and is recognised when the electricity is provided. As at each reporting date, sales and other current assets incorporate amounts attributable to 'unread sales', which are an estimate of electricity delivered to customers that has not been billed at the reporting date.

Community service obligations

Community service obligations (CSOs) are obligations to perform functions, on behalf of the State Government, that are not in the commercial interests of Horizon Power to perform. Where the Government agrees to reimburse Horizon Power for the cost of CSOs, the entitlement to reimbursement is recognised in the statement of comprehensive income on a basis consistent with the associated CSO expenses. Horizon Power recognises revenue in respect of the reimbursement of CSOs including:

- air conditioning subsidy for seniors
- pensioner concessions
- tariff migration
- Aboriginal & Remote Communities Power Supply Project
- Coral Bay electricity supply
- energy rebate
- dependant child rebate and
- Tariff Adjustment Payment.

Developer and customer contributions

Horizon Power receives developer and customer contributions toward the extension of electricity infrastructure to facilitate network connection. Contributions can be in the form of either cash or assets and consist of:

- Work performed for developers – developers make cash contributions to Horizon Power for the construction of electricity infrastructure within a subdivision.
- Handover works – developers have the option to independently construct electricity infrastructure within a subdivision. Upon approval by Horizon Power of the completed work, these network assets are vested in Horizon Power.
- Upgrade and new connections – customers (including generators) make cash contributions for the upgrade or extension of electricity infrastructure to existing lots, or for the construction of electricity infrastructure to new lots in existing areas.

Cash contributions received are recognised as revenue when the customers/developers are connected to the network in accordance with the terms of the contributions. Vested assets are recognised as revenue at the point of handover and are measured at their fair value. The network assets resulting from contributions received are recognised as property, plant and equipment and depreciated over their useful life.

Others

Other revenue comprises revenue earned from the provision of activities incidental to the core activities of Horizon Power. Other revenue includes:

- joint ventures revenue
- account establishment fees
- property rent
- external chargeable works and
- connection and disconnection fees.

2 Summary of significant accounting policies (continued)

(e) *Tariff Equalisation Fund*

A significant portion of Horizon Power's revenue is derived from the Tariff Equalisation Fund (TEF). Western Power pays money into the TEF in amounts determined by the Treasurer and the Minister for Energy. This money is released to Horizon Power as determined by the Treasurer and recognised on a receipts basis.

(f) *Electricity and Fuel Cost*

Cost of sales are those costs attributable to the integrated manufacturing process involved in the generation and transformation of electricity into a saleable commodity. It includes costs associated with purchasing fuel and electricity as well as costs involved in operating and maintaining the generation, transmission and distribution systems.

Fuel costs

Liquid fuels are assigned on the basis of weighted average cost. Gas costs comprise payments made under the sale and purchase agreement.

Electricity costs

Electricity purchased from independent generators is recognised at the contracted price on an accruals basis.

Transmission and distribution operating costs

Costs to operate and maintain the electricity transmission and distribution systems are recognised on an accruals basis.

(g) *National Taxation Equivalent Regime and other taxes*

The calculation of the liability in respect of Horizon Power's taxes is governed by the Income Tax Administration Acts and the National Taxation Equivalent Regime (NTER) guidelines as agreed by the Western Australian State Government.

Income tax on the profit or loss for the reporting period comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the reporting period using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences are associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

2 *Summary of significant accounting policies (continued)*

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(h) Leases

Finance leases that transfer to Horizon Power substantially all of the risks and benefits incidental to ownership of the leased item are brought to account by recognising an asset and liability at the inception of the lease equal to the fair value of the leased item or, if lower, the present value of the minimum lease payments.

Lease payments are apportioned between borrowing costs in the statement of comprehensive income and reduction of the lease liability in the balance sheet so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Horizon Power has recognised finance leases implicit in existing electricity purchase agreements in accordance with UIG Interpretation 4 "Determining whether an Arrangement contains a Lease" and AASB 117 "Leases". Horizon Power does not have any other finance leases as at 30 June 2010.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Horizon Power's operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are recognised in the statement of comprehensive income in the reporting periods in which they are incurred.

(i) Impairment of assets

At each reporting date Horizon Power assesses whether there is any indication that an asset may be impaired, that is, where events or changes in circumstances indicate the carrying value exceeds recoverable amount. Where an indicator of impairment exists, Horizon Power makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

There were no indicators of impairment to property, plant and equipment and intangible assets at 30 June 2010.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, deposits held at call with financial institutions and other short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash.

2 Summary of significant accounting policies (continued)

(k) Trade and other receivables

Trade receivables, which generally have 12-day terms for tariff customers, 7 to 14-day terms for contract customers and 30 to 90 days for non-energy customers, are recognised and carried at original invoice amount less a provision for any impaired receivables. This provision is raised when collection of the full amount is no longer probable.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that Horizon Power will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in the statement of comprehensive income against 'Other Expenses'.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value. The cost incurred in bringing inventories to their present location and condition is assigned on the following basis:

- Liquid fuels – weighted average cost basis;
- Consumables – weighted average cost basis; and
- Rotational spares – refurbished cost basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

A provision to allow for the expected impairment in value of materials inventory, due to obsolescence and items being surplus to requirements, has been determined by periodic review.

(m) Interest in joint ventures

Joint ventures are a contractual arrangement in which Horizon Power and other parties undertake an economic activity subject to joint control. Joint control exists when no party is in a position to unilaterally control the economic activity.

Interest in joint venture operations

A jointly controlled operation involves the use of assets and other resources of Horizon Power and other venturers. Where material, Horizon Power recognises in its financial statements:

- assets controlled by Horizon Power in the joint ventures
- liabilities incurred by Horizon Power in relation to the joint ventures
- expenses incurred by Horizon Power in relation to the joint ventures
- share of income earned from the joint ventures

(n) Derivatives

Through its operations, Horizon Power is exposed to changes in interest rates, foreign exchange rates and commodity prices. These risks may be managed with the prudent use of derivative financial instruments such as commodity swaps, interest swaps and forward foreign exchange contracts. Horizon Power only uses derivatives in liquid markets and all hedge activities are conducted within Horizon Power's Board approved policy. Comprehensive systems are in place and compliance is monitored closely. Horizon Power uses derivatives solely for hedging and not for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to fair value. The fair value of forward foreign exchange contracts, interest rate swaps and commodity price (oil) hedging contracts is obtained from an external financial risk adviser. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

2 **Summary of significant accounting policies (continued)**

Hedge accounting is applied to derivative financial instruments that are designated as hedging instruments. Horizon Power designates such derivatives as either:

- cash flow hedges when they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or recognised liability or a forecasted transaction; or
- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or recognised liability.

Horizon Power documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Horizon Power also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or hedged liability that are attributable to the hedged risk. There is no impact on the equity reserves. Horizon Power has not accounted for any derivative financial instruments that qualify for hedge accounting as fair value hedges.

Cash flow hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gains or losses relating to the ineffective portion are recognised immediately in the statement of comprehensive income.

Amounts accumulated in equity are recycled in the statement of comprehensive income in the period when the forecast purchase that is hedged takes place. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (i.e. qualifying assets) or non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the acquisition cost or carrying amount of the asset or liability.

When a hedging instrument expires, is sold, is terminated or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the net cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

Derivatives that do not qualify for hedge accounting

For derivatives that do not qualify for hedge accounting, any changes in fair value are recognised immediately in the statement of comprehensive income.

Embedded derivatives

Derivatives embedded in contracts that change the nature of the host contract's risk are separately recorded at fair value with movements recorded in the statement of comprehensive income.

At 30 June 2010, Horizon Power did not have any derivatives embedded in contracts.

(o) **Property, plant and equipment**

Property, plant and equipment is stated at historical cost, less accumulated depreciation and any accumulated impairment losses. A gifted asset is recognised at fair value at its initial recognition (at the point of handover to Horizon Power) and depreciated over its useful life.

Acquisition of assets

The cost method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the asset given at the date of acquisition plus costs incidental to the acquisition. Direct costs, together with associated indirect costs in respect of assets being constructed, are capitalised.

Decommissioning costs

Upon recognition of an item of property, plant and equipment, the cost of the item includes the anticipated costs of dismantling and removing the asset, and restoring the site on which it is located, discounted to their present value as at the relevant date of acquisition.

Capitalisation of borrowing costs

Horizon Power as a Not-for-Profit Public Sector Entity has elected to expense borrowing costs in the period incurred under AASB 123.

2 Summary of significant accounting policies (continued)

Depreciation

Discrete assets that are not subject to continual extension and modification are depreciated using the straight-line method. Such assets include power stations, the transmission network and buildings.

Other assets, primarily the electricity distribution network that are continually extended and modified, are depreciated using the reducing balance method. Land is not depreciated.

The useful lives of Horizon Power's major property, plant and equipment classes are as follows:

- Buildings 25 - 40 years
- Plant and equipment 4 - 50 years
- Equipment under finance leases based on term of contract, which typically ranges between 10 to 20 years
- Construction in progress no depreciation
- Leasehold improvements 2 - 20 years

Depreciation rates are reviewed annually, and if necessary adjusted to reflect the most recent assessment of the useful lives of the assets.

Disposal of assets

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising from derecognition of an asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the statement of comprehensive Income when the asset is derecognised.

(p) Intangible assets

Intangible assets acquired separately are capitalised at cost at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible asset.

Amortisation

The useful lives of intangible assets are assessed to be either finite or indefinite. For intangible assets with finite useful lives, an amortisation expense is recognised in the statement of comprehensive income over the useful lives of the assets.

Computer software assets have finite useful lives. Amortisation is calculated using the straight-line method. The useful lives of Horizon Power's computer software are 4 years.

Trademarks have finite useful lives. Amortisation is calculated using the straight-line method. The useful lives of Horizon Power's trademarks are 10 years.

Renewable Energy Certificates are not amortised (refer to (v)).

Amortisation rates are reviewed annually, and if necessary adjusted to reflect the most recent assessment of the useful lives of the assets.

Disposal of assets

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from de-recognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the statement of comprehensive income when the asset is derecognised.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to Horizon Power prior to the end of the reporting period that are unpaid. The amounts are unsecured and are settled within prescribed periods.

(r) Interest bearing liabilities

All interest-bearing liabilities are initially recognised at fair value net of transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Any difference between the cost and the redemption amount is recognised in the statement of comprehensive income over the period of the interest bearing liabilities using the effective interest method.

2 Summary of significant accounting policies (continued)

(s) Borrowing costs

Horizon Power as a Not-for-Profit Public Sector Entity has elected to recognise borrowing costs in the statement of comprehensive income when incurred under AASB 123.

Borrowing costs may include:

- amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- amortisation of discounts or premiums relating to borrowings a
- discount rate adjustment for the movement in present value over time in connection with the contributory extension scheme payables and decommissioning costs a
- finance charges in respect of finance leases recognised
- interest on bank overdrafts, short-term and long-term borrowings
- guarantee fees on borrowings from the Western Australian Treasury Corporation (WATC)

(t) Provisions

Provisions are recognised when:

- Horizon Power has a present obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation

Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include annual leave and long service leave.

Liabilities arising in respect of annual leave, unconditional long service leave and any other employee benefits due within twelve months from the reporting date are measured at their nominal amount based on remuneration rates that are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield at the reporting date on selected Commonwealth Government securities, which have terms to maturity approximating the terms of the related liability, are used.

A provision for the on-costs attributable to annual leave and unconditional long service leave benefits is recognised in other provisions, not as employee benefits.

Decommissioning costs

Provision is made for the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of decommissioning activities includes the removal of generating facilities and restoration of affected areas, including the treatment of contaminated sites.

Typically, the obligation arises when the asset is installed at the location. When the provision is initially recognised, the estimated cost is capitalised by increasing the carrying amount of the related generating facility. Over time, the provision is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded as an accretion charge within borrowing costs. The carrying amount capitalised in generating assets is depreciated over the useful life of the related assets (refer note 2(o)).

Costs incurred that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed.

Other provisions

Provision is made for current and non-current sundry obligations of Horizon Power.

2 Summary of significant accounting policies (continued)

(u) Retirement benefit obligations

All employees of Horizon Power are entitled to benefits upon retirement, disablement or death from one of many superannuation plans, which may include a defined contribution section, a defined benefit section, or both.

The defined contribution section, being the Superannuation Trust of Australia and other employee nominated funds, receive fixed contributions and Horizon Power's legal and constructive obligation is limited to these contributions.

The defined benefit sections provide either a pension or lump sum benefit based upon years of service and final salary, averaged over a number of years in accordance with the relevant governing rules. Each of the defined benefit sections, being the Pension Scheme and the Gold State Superannuation Scheme, is closed to new members.

The Pension Scheme and Gold State Superannuation Scheme are State plans.

In the case of the Superannuation Trust of Australia, the defined benefit section is immaterial in terms of the number of members and employer contributions. As the substance of the superannuation plan is primarily a defined contribution plan and the separate treatment of the defined benefit section is not expected to add any material information to the users of the financial report, the entire Superannuation Trust of Australia has been treated as a defined contribution plan.

Defined contribution superannuation plans

Obligations for contributions to defined contribution plans are recognised in the statement of comprehensive income as incurred.

Defined benefit superannuation plans

A provision in respect of the defined benefit superannuation plans is recognised in the balance sheet and is measured at the present value of the defined benefit obligations, based upon services provided up to the reporting date, plus/less unrecognised actuarial gains/losses less the fair value of the superannuation plans' assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligations is based upon expected future payments and is calculated using discounted cash flows consistent with the projected unit credit method. Consideration is given to the expected future wages and salaries level, experience of employee departures and periods of service.

Expected future payments are discounted using the market yield, as at the reporting date, on selected Commonwealth Government securities with terms to maturity approximating the terms of the related liability.

The defined benefits of the Pension Scheme are wholly unfunded. Horizon Power meets the cost of these benefits when the employee leaves the service of Horizon Power.

Actuarial gains and losses arising from experience adjustments and changes in actuarial adjustments are recognised immediately in the statement of comprehensive income.

Retirement benefit obligations are paid as an untaxed amount to the employee and therefore no provision is required to be made for future taxes in measuring the net asset or liability relating to retirement benefit obligations.

(v) Renewable Energy Certificates

Under the *Renewable Energy (Electricity) Act 2000*, parties on grids of more than 100 MW making wholesale acquisitions of electricity (relevant acquisitions) are required to demonstrate that they are supporting the generation of renewable electricity by purchasing increasing amounts of renewable energy certificates (RECs). These parties demonstrate compliance by surrendering RECs to the Office of the Renewable Energy Regulator (ORER) annually between 1 January and 14 February for the previous calendar year (compliance year)

The RECs liability is extinguished by annual surrender of an equivalent number of RECs with a penalty applying for any shortfall. Horizon Power has a contract with Verve Energy for the acquisition of RECs. Horizon Power's liability is based on actual purchases for the last calendar year multiplied by ORER specified Renewable Power Percentage for that year.

RECs purchased from external sources are recognised as intangible assets at their purchase price.

(w) Contributed equity

AASB Interpretation 1038 'Contributions by Owners Made to Wholly-Owned Public Sector Entities' requires transfers, other than as a result of a restructure of administrative arrangements, in the nature of equity contributions to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions. Capital contributions have been credited directly to Contributed Equity.

Transfer of net assets to/from other agencies, other than as a result of a restructure of administrative arrangements, are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

2 Summary of significant accounting policies (continued)

(x) Changes in Accounting Policy

From July 1, 2009 Horizon Power has adopted the following applicable standards and interpretations mandatory for annual periods beginning on or after July 1, 2009.

Reference	Title	Application date of standard*	Application date for Entity*
AASB Int 18	Transfer of Assets from Customers	1 July 2009	1 July 2009
AASB 123 (revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	1 January 2009	1 July 2009
AASB 101 (revised), AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	1 January 2009	1 July 2009
AASB 2008-8	Amendments to Australian Accounting Standards - Eligible hedged Items	1 January 2009	1 July 2009
AASB 2009-1	Amendments to Australian Accounting Statements - Borrowing costs of Not-for-Profit Public Sector Entities (AASB1, AASB111 & AASB 123)	Annual reporting periods beginning on or after 1 January that end on or after 30 April 2009	1 July 2009
AASB 2009-2	Amendments to Australian Accounting Statements - Improving Disclosures about Financial Instruments (AASB4, AASB7, AASB 1023 & AASB 1038)	1 July 2009	1 July 2009

*designates the beginning of the applicable annual reporting period unless otherwise stated.

(y) New accounting standards and interpretations as at June 2010

Applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by Horizon Power for the annual reporting period ended 30 June 2010.

These are outlined below:

Reference	Title	Summary	Application date of standard*	Impact on Entity financial report	Application date for Entity*
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.	1 July 2010	Horizon Power only classify an expenditure that results in a recognised assets as a cash flow from investing activities	1 July 2010

2 Summary of significant accounting policies (continued)

Reference	Title	Summary	Application date of standard*	Impact on Entity financial report	Application date for Entity*
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and interpretations 10 & 12)	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: <ul style="list-style-type: none"> - two categories for financial assets being amortised cost or fair value - removal of the requirement to separate embedded derivatives in financial assets - strict requirements to determine which financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows - an option for investment in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition - reclassification between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes - changes to the accounting and additional disclosure for equity instruments classified as fair value through other comprehensive income. 	1 January 2013	The impact if any is still to be assessed by Horizon Power	1 July 2013
AASB 2009-14	Amendments to Australian Interpretation - Prepayment of a Minimum Funding requirement	These amendments arise from the issuance of Prepayment of a Minimum Funding requirement (Amendments to IFRC 14). The requirements of IFRC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment required entities to treat the benefit of such an entity payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	1 January 2011	The impact if any is still to be assessed by Horizon Power	1 July 2011

*designates the beginning of the applicable annual reporting period unless otherwise stated.

3 Financial risk management

Horizon Power's principal financial instruments comprise receivables, payables, interest bearing borrowings, cash and cash equivalents.

Horizon Power has developed a Financial Risk Management policy to provide a framework through which Horizon Power maintains the appropriate level of control over financial and associated risks. The Treasury Management Committee oversees treasury functions on behalf of the Board to ensure that significant financial and associated risks are managed through a use of various financial instruments.

The main risks arising from Horizon Power's financial instruments are interest rate risk, liquidity risk and credit risk. Horizon Power's policies for managing each of these risks are summarised below.

Horizon Power holds the following financial instruments:

	30 June 2010	30 June 2009
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	3,585	36,096
Trade and other receivables	37,240	23,774
Derivative financial instruments	301	34
	41,126	59,904
Financial liabilities		
Trade and other payable	58,777	68,574
Interest bearing liabilities	774,376	571,712
Derivative financial instruments	27	1,542
	833,180	641,828

(a) Market risk

(i) Foreign exchange risk

Horizon Power's exposure to foreign currency risk at the reporting date is low because all the transactions are denominated in AUD except for the USD contract for the purchase of cable for the Pilbara Underground Power Project and Karratha Transformers Upgrade Project. Exchange rate exposures are managed by Horizon Power Treasury group within approved policy parameters utilising forward foreign exchange contracts.

It is the policy of Horizon Power to enter into forward foreign exchange contracts to cover significant foreign currency payments and receipts.

Horizon Power's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2010
	USD \$'000
Forward exchange contracts	
- buy foreign currency (cash flow hedges)	2,714

(ii) Commodity price risk

Commodity price risk represents the extent to which movements in commodity prices will cause Horizon Power financial loss. Horizon Power is exposed to commodity price risk for distillate fuel (Gasoil).

Horizon Power is exposed to fluctuations in the gasoil price through the purchase of fuel for its diesel power stations as well as fuel consumed by its power producers. Although diesel fuel payments are made in Australian dollars, the relevant wholesale market for gasoil is denominated in US dollars and as such, there is an indirect exposure to the AUD/USD exchange rate.

This exposure is managed by the use of AUD denominated gasoil commodity swaps to hedge against increases in wholesale crude oil prices and falls in the AUD/USD exchange rate.

3 Financial risk management (continued)

Horizon Power deals in gasoil commodity swaps for the purpose of providing an economic hedge against gasoil costs. The limits of this trading are set by the Board.

The table below summarises the impact of increases/decreases of gasoil price on Horizon Power's post-tax profit for the year and on equity. The analysis is based on the management's expectations of future outlook that the gasoil price had increased/decreased by 10% with all other variables held constant.

	-10%		+10%	
	Impact on post tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity
	\$'000	\$'000	\$'000	\$'000
30 June 2010				
Gasoil 50ppm Diesel	(906)	-	906	-
30 June 2009				
Gasoil 50ppm Diesel	(960)	-	960	-

(iii) Interest rate risk

Horizon Power's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations and lease liabilities.

Horizon Power's borrowings are all obtained through the Western Australian Treasury Corporation (WATC) and are at fixed rates with varying maturities or at variable rates. The risk is managed through portfolio diversification and variation in maturity dates.

At balance date Horizon Power had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk.

	30 June 2010		30 June 2009	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$'000	%	\$'000
Financial Assets				
Cash and cash equivalents	3.9%	3,585	2.7%	36,096
Interest rate swaps	3.9%	301	3.9%	34
Financial Liabilities				
Interest bearing borrowings	4.2%	24,000	2.8%	27,500
Net exposure to cash flow interest rate risk		27,886		63,630

Horizon Power's policy is to manage its finance costs using a mix of fixed and variable debt with the objective of achieving cost effective outcomes whilst managing interest rate risk to avoid uncertainty and volatility in the market place.

Horizon Power entered into an interest rate swap contract under which it is obligated to receive interest at basis points from BBSW rate and to pay interest at fixed rates.

Horizon Power constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions and alternative financing.

3 Financial risk management (continued)

(iv) Summarised sensitivity analysis

At 30 June 2010, if interest rates and exchange rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

30 June 2010	Carrying amount	Interest rate risk				Foreign exchange risk			
		-100bps		+100bps		-10%		+10%	
		Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial assets									
Cash and cash equivalents	3,585	(36)	-	36	-	-	-	-	-
Derivatives - cash flow hedges	301	-	(66)	-	65	-	-	-	-
Financial liabilities									
Forward foreign exchange contract (cash flow hedges)	27	-	-	-	-	-	354	-	(289)
Borrowings	24,000	(240)	-	240	-	-	-	-	-
Total increase/ (decrease)		(276)	(66)	276	65	-	354	-	(289)

30 June 2009	Carrying amount	Interest rate risk				Foreign exchange risk			
		-100bps		+100bps		-10%		+10%	
		Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Financial assets									
Cash and cash equivalents	36,096	(361)	-	361	-	-	-	-	-
Derivatives - cash flow hedges	34	-	153	-	(150)	-	-	-	-
Financial liabilities									
Derivatives - cash flow hedges	104	-	-	-	-	-	43	-	(35)
Borrowings	27,500	275	-	(275)	-	-	-	-	-
Total increase/ (decrease)		(86)	153	86	(150)	-	43	-	(35)

(b) Credit risk

Horizon Power operates predominantly within the electricity generation transmission, distribution and sales industry and accordingly is exposed to risks affecting that industry. The maximum exposure to this industry risk is the carrying value of trade debtors.

Horizon Power follows stringent credit control and management procedures in reviewing and monitoring debtor accounts.

With respect to credit risk arising from cash and cash equivalents, Horizon Power's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of the cash and cash equivalents.

Horizon Power maintains cash and cash equivalents through highly rated financial institutions.

(c) Liquidity risk

Horizon Power's objective is to ensure adequate funding is available at all times, to meet the commitment of Horizon Power, as they arise.

The table below reflects the contractual maturity of financial liabilities, including estimated interest payments. These include trade and other payables and interest bearing borrowings.

3 Financial risk management (continued)

	2010	2009
	\$'000	\$'000
6 months or less	156,911	137,372
6 - 12 months	66,873	36,893
1 - 5 years	418,220	286,573
Over 5 years	775,762	555,472
	1,417,766	1,016,310

Maturity analysis of financial assets and liability based on management expectation

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property, plant and equipment and investments in working capital e.g: inventories and trade receivables. These assets are considered in Horizon Power's overall liquidity risk.

Risk associated with the liability on borrowings is reduced by Horizon Power paying a guarantee charge included in addition to the interest rate that guarantees payment to the WATC by Government for outstanding borrowings in case of default.

30 June 2010	Less than 6 months	6 - 12 months	Between 1 and 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalents	3,585	-	-	-	3,585
Trade and other receivables	37,240	-	-	-	37,240
Derivative financial instruments	301	-	-	-	301
Total financial assets	41,126	-	-	-	41,126
Financial liabilities					
Trade and other payables	57,723	78	702	274	58,777
Interest bearing borrowings	69,450	37,053	212,248	455,625	774,376
Derivative financial instruments	27	-	-	-	27
Total financial liabilities	127,200	37,131	212,950	455,899	833,180
30 June 2009					
	Less than 6 months	6 - 12 months	Between 1 and 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalent	36,096	-	-	-	36,096
Trade and other receivables	23,774	-	-	-	23,774
Derivative financial instruments	-	-	34	-	34
Total financial assets	59,870	-	34	-	59,904
Financial liabilities					
Trade and other payables	67,381	100	784	309	68,574
Interest bearing borrowings	48,934	16,432	144,071	362,275	571,712
Derivative financial instruments	1,542	-	-	-	1,542
Total financial liabilities	118,307	16,532	144,855	362,584	641,828

4 Revenue

	30 June 2010 \$'000	30 June 2009 \$'000
Revenue consisted of the following items:		
Sale of electricity	170,763	133,808
Sale of gas	-	8,036
	170,763	141,844
Other revenue from operations:		
Community service obligation revenue	35,684	23,943
Developer and customer contributions	24,944	17,477
Interest	217	1,330
Others	6,500	4,787
Change in fair value of derivatives (i)	1,574	-
	68,919	47,537
	239,682	189,381

(i) The change in fair value of derivatives resulted in a loss for the year 2009 and has been classified under 'Other expense' (Note 6)

5 Other income

Tariff Equalisation Fund	122,100	72,000
Net gain on disposal of property, plant and equipment	331	210
Government grants	3,487	-
	125,918	72,210

6 Expenses

Profit/(Loss) before income tax includes the following specific expenses:

Electricity & Fuel Purchases

Electricity purchases	95,629	94,281
Fuel purchases	32,436	45,476
Total electricity & fuel purchases	128,065	139,757

Employee Benefit Expense

Salaries, wages & allowance	31,536	24,927
Superannuation	4,113	3,216
Long service leave	1,960	1,521
Annual leave	3,455	2,875
Other related expenses	4,397	3,523
Total employee benefit expenses	45,461	36,062

Materials & Services

Contracted services	19,073	12,684
Other services	18,394	14,356
Materials	7,719	7,772
Total materials & services	45,186	34,812

6 Expenses (continued)

	30 June 2010 \$'000	30 June 2009 \$'000
Depreciation		
Leasehold buildings	1,314	634
Plant and equipment	13,077	12,072
Equipment under finance leases	21,096	18,562
Total depreciation	35,487	31,268
Amortisation		
Patents, trademarks and other rights	-	1
Computer software	3,034	120
Total amortisation	3,034	121
Total depreciation and amortisation expense	38,521	31,389
Other Expenses		
Net loss on commodity swaps	492	7,006
Change in fair value of derivatives (i)	-	1,380
Provision for impairment of receivables	2,082	480
Provision for decommissioning & site rehabilitation	(441)	9,910
Property expenses	7,194	5,629
Other	13,188	12,700
Total other expenses	22,515	37,105
(i) The change in fair value of derivatives resulted in an income for the year 2010 and has been classified under 'Other revenue from operations' (Note 4)		
Finance costs		
Interest on debts	16,264	13,027
Unwinding of discount on contributory extension scheme	149	141
Unwinding of discount on decommissioning provision	802	534
Finance lease interest	35,329	29,360
Finance costs	52,544	43,062
7 Income tax expense / (benefit)		
(a) Income tax expense / (benefit)		
Current tax	-	-
Deferred tax	8,193	(18,102)
Adjustments for net deferred tax assets and liabilities of prior period	(259)	(923)
Adjustments for current tax of prior periods	(78)	771
	7,856	(18,254)
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 14)	(31,250)	(13,520)
(Decrease) increase in deferred tax liabilities (note 24)	39,443	(4,582)
	8,193	(18,102)

7 Income tax expense / (benefit) (continued)**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

	30 June 2010 \$'000	30 June 2009 \$'000
Profit before income tax expense	33,308	(60,596)
Tax at the Australian tax rate of 30% (2009 - 30%)	9,992	(18,179)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment	51	19
Div 41 investment allowance	(1,255)	(56)
Derecognition of deferred tax assets/deferred tax liabilities	(80)	405
Research and development	(439)	(293)
Sundry items	(154)	3
	8,115	(18,101)
Adjustments for current tax of prior periods	(259)	(153)
Total income tax expense / (benefit)	7,856	(18,254)

(c) Amounts recognised directly in equity

Deferred tax arising in the reporting period and not recognised in net profit/(loss) but directly credited to equity

Net deferred tax - credited directly to equity (notes 14 and 24)	(98)	(22)
	(98)	(22)

8 Current assets - Cash and cash equivalents

Cash at bank and in hand	3,585	36,096
	3,585	36,096

9 Current assets - Trade and other receivables

Net trade receivables		
Trade receivables - Energy (i) – billed	23,716	12,586
Trade receivables - Energy (ii) – unbilled	2,344	1,384
	26,060	13,970
Provision for impairment of receivables (note (a))	(2,086)	(39)
	23,974	13,931
Trade receivables – Non Energy (i)	12,051	6,645
Other receivables		
Other receivable (note (c))	1,215	3,198
	37,240	23,774

(i) The credit period on sales of electricity is 12 days for tariff customers and 7 to 14 days for contract customers. Non-energy customers generally have credit period of 30 to 90 days. No interest is charged on current trade receivables.

(ii) Trade receivables incorporate amounts attributable to 'unread sales' which are an estimate of electricity delivered to customers that has not been billed at the reporting date. The estimation of accrued revenue associated with unread meters at year end is based on historical experience.

9 Current assets - Trade and other receivables (continued)

(a) Impaired trade receivables

A general provision of \$76K (2009: \$39K) has been made for estimated irrecoverable amounts from the sale of electricity, determined by reference to past default experience. In addition, specific provisions of \$ 2,035K (2009: Nil) have been made on corresponding amounts which are not recoverable. The individually impaired receivables mainly relate to vacant properties which are not recoverable.

Movements in the provision for impairment of receivables are as follows:

	30 June 2010	30 June 2009
	\$'000	\$'000
At 1 July	39	57
Provision for impairment recognised during the year	2,111	755
Receivables written off during the year	(50)	(635)
Receivables recovered during the year	(14)	(138)
	2,086	39

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

As at 30 June 2010, trade receivables of \$16,657K (2009: \$17,576k) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis below is broken down into trade receivables from energy customer and non-energy customers in line with their respective applicable credit period.

Energy trade receivables

Not due	15,562	1,357
Overdue: 0 – 28 days (PDNI)*	4,071	2,193
29 - 56 days (PDNI)*	1,829	7,221
57 - 90 days (PDNI)*	1,187	1,229
+90 days (PDNI)*	1,376	1,970
+90 days (impaired)	2,035	-
	26,060	13,970

Non-Energy trade receivables

Not due	3,781	1,682
Overdue: 30 days (PDNI)*	4,493	423
60 days (PDNI)*	211	28
90 days (PDNI)*	83	4,330
120 days (PDNI)*	13	2
120 + days (PDNI)*	3,470	180
	12,051	6,645

*past due not impaired ('PDNI')

The other classes of receivables do not contain impaired assets. Based on the credit history of these other classes, it is expected that these amounts will be received in full.

9 Current assets - Trade and other receivables (continued)**(c) Other receivables**

These amounts generally arise from transactions outside the usual operating activities of the Company.

No significant risk is believed to be attached to other receivables.

(d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is approximate of their fair value.

Horizon Power operates predominantly within the electricity industry and accordingly is exposed to risks affecting that industry. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the trade receivables.

10 Current assets - Inventories

	30 June 2010 \$'000	30 June 2009 \$'000
Fuel	512	457
Materials	7,444	5,946
Rotational spares	1,063	1,063
	9,019	7,466

11 Derivative financial instruments**Current assets**

Interest rate swap contracts - cash flow hedges ((a)(i))	166	34
Commodity Swaps	135	-
Total current derivative financial instrument assets	301	34

Current liabilities

Forward foreign exchange contracts - cash flow hedges ((a)(ii))	27	104
Commodity swaps	-	1,438
Total current derivative financial instrument liabilities	27	1,542
	274	(1,508)

(a) Instruments used by Horizon Power**(i) Interest rate swap contracts - cash flow hedges**

Horizon Power has Term Floating Rate (TFR) facilities held with the Western Australian Treasury Corporation. The interest rate on these facilities is variable, determined by a premium over the Bank Bill Swap (BBSW) rate.

It is Horizon Power's policy to have debt mature over a particular profile and to protect part of the loans from exposure to fluctuations in interest rates. Accordingly, Horizon Power entered into an interest rate swap contract under which it is obligated to receive interest at basis points from the BBSW rate and to pay interest at fixed rates.

The swap currently in place covers approximately 37.5% of the TFR loan outstanding and is timed to expire as each loan repayment falls due. The swap fixed interest rate is 3.87% and the TFR variable rates are between 0.425% and 0.49% below the BBSW rate which at the balance date was 3.25%.

The contract requires settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedge instrument at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. In the year ended 30 June 2010 a revaluation gain amount of \$ 132,666 was recognised directly in equity. There was no hedge ineffectiveness in the current year.

11 Derivative financial instruments (continued)**(ii) Forward exchange contracts - cash flow hedges**

The Royalty for Regions funded Pilbara Underground Power Project uses materials purchases from Singapore for underground power cabling as well as transformers from Australian suppliers where the price is determined in US dollars in a future date. In order to protect against exchange rate movements, Horizon Power entered into forward exchange contracts to purchase US dollars. These contracts are hedging known purchases for the 2011 financial year. The contracts are timed to mature when the materials have been delivered and passed testing.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flow occurs, the initial measurement of the component recognised in the balance sheet is adjusted by the related amount deferred in equity. In the year ended 30 June 2010 a revaluation gain amount of \$77,405 was recognised directly in equity. There was no hedge ineffectiveness in the current year.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flow occurs, the initial measurement of the component recognised in the balance sheet is adjusted by the related amount deferred in equity.

12 Current assets - Other current assets

	30 June 2010	30 June 2009
	\$'000	\$'000
Other assets	22	19
Prepayments	848	557
	870	576

13 Non-current assets - Property, plant and equipment

	Freehold land	Buildings and leasehold improvements	Plant and equipment	Equipment under finance lease at cost	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2010					
Opening net book amount	7,545	18,225	372,172	313,899	711,841
Additions	565	10,359	124,128	145,497	280,549
Disposals	(2)	(28)	(11)	-	(41)
Depreciation charge	-	(1,314)	(13,076)	(21,097)	(35,487)
Closing net book amount	8,108	27,242	483,213	438,299	956,862
30 June 2010					
Cost or fair value	8,108	30,811	534,894	487,586	1,061,399
Accumulated depreciation	-	(3,569)	(51,681)	(49,287)	(104,537)
Net book amount	8,108	27,242	483,213	438,299	956,862

Expenditure recognised in plant and equipment in the course of construction is \$ 116,250K.

Horizon Power receives non-cash capital contributions in the form of gifted assets. The fair value of the non-cash capital contributions included in the additions to plant and equipment in 2010 was \$4,844K.

13 Non-current assets - Property, plant and equipment (continued)

	Freehold land	Buildings and leasehold improvements	Plant and equipment	Equipment under finance lease at cost	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2009					
Opening net book amount	4,950	9,952	315,182	329,181	659,265
Additions	2,597	8,907	69,444	3,280	84,228
Disposals	(2)	-	(382)	-	(384)
Depreciation charge	-	(634)	(12,072)	(18,562)	(31,268)
Closing net book amount	7,545	18,225	372,172	313,899	711,841
30 June 2009					
Cost or fair value	7,545	20,485	410,780	343,247	782,057
Accumulated depreciation	-	(2,260)	(38,608)	(29,348)	(70,216)
Net book amount	7,545	18,225	372,172	313,899	711,841

Expenditure recognised in plant and equipment in the course of construction is \$ 99,060K.

Horizon Power receives non-cash capital contributions in the form of gifted assets. The fair value of the non-cash capital contributions included in the additions to plant and equipment in 2009 was \$ 5,293K.

14 Non-current assets - deferred tax assets

	30 June 2010	30 June 2009
	\$'000	\$'000
The balance comprises temporary differences attributable to:		
Tax losses	6,205	10,030
Provisions	10,179	9,047
Property, plant and equipment	5,767	6,306
Power Purchase Agreements classified as finance lease	139,763	99,071
	161,914	124,454
Other		
Community Service Obligation (CSO)	(799)	3,730
Workers compensation premium	-	7
Accruals	362	30
Contributory extension scheme	64	60
Derivatives	(144)	463
	(517)	4,290
Total deferred tax assets	161,397	128,744
Set-off of deferred tax liabilities pursuant to set-off provisions (note 24)	(135,763)	(95,070)
Net deferred tax assets	25,634	33,674
Movements:		
Opening balance at 1 July	128,744	114,271
Credited/(charged) to the statement of comprehensive income (note 7)	31,250	13,520
Credited/(charged) to equity	(98)	(22)
Acquisition or disposal of deferred tax assets	(7)	-
Adjustments for deferred tax assets of prior periods	1,508	975
Closing balance at 30 June	161,397	128,744
Deferred tax assets to be recovered within 12 months	15,867	19,637
Deferred tax assets to be recovered after more than 12 months	145,530	109,107
	161,397	128,744

15 Current assets - Intangible assets

	Renewable Energy Certificates \$'000	Total \$'000
30 June 2010		
Opening balance	200	200
Surrendered	(21)	(21)
Closing balance	179	179
	Renewable Energy Certificates \$'000	Total \$'000
30 June 2009		
Opening net book amount	224	224
Surrendered	(24)	(24)
Closing net book amount	200	200

16 Non-current assets - Intangible assets

	Patents, Trademarks and other rights \$'000	Computer software \$'000	Total \$'000
30 June 2010			
Opening net book amount	7	262	269
Additions	8	9,908	9,916
Amortisation charge	(3)	(3,031)	(3,034)
Closing net book amount	12	7,139	7,151
30 June 2010			
Cost	19	10,604	10,623
Accumulated amortisation and impairment	(7)	(3,465)	(3,472)
Net book amount	12	7,139	7,151
	Patents, trademarks and other rights \$'000	Computer software \$'000	Total \$'000
30 June 2009			
Opening net book amount	8	83	91
Additions	-	299	299
Amortisation charge	(1)	(120)	(121)
Closing net book amount (i)	7	262	269
30 June 2009			
Cost	11	696	707
Accumulated amortisation and impairment	(4)	(434)	(438)
Net book amount	7	262	269

(i) As at the reporting date no intangible assets were assessed to have indefinite useful lives.

17 Current liabilities - Trade and other payables

	30 June 2010	30 June 2009
	\$'000	\$'000
Trade payables (i)	56,930	66,936
Other payables	442	344
Contributory extension scheme payables (ii)	429	201
	57,801	67,481

- (i) Trade payables are non-interest bearing and are generally settled on 30-day terms. Other payables (excluding contributory extension scheme payables) are non-interest bearing and generally have settlement terms between 14 and 30 days.
- (ii) Contributory extension scheme (CES) payables represent contributions received from customers to extend specific electricity supplies. These deposits are progressively refunded as other customers are connected to existing supply extension schemes. By 2022 when the scheme finishes, all scheme members will have their contributions refunded.

18 Current liabilities - Provisions

Long service leave	3,951	2,116
Annual leave	5,407	4,256
Decommissioning (i)	6,665	4,011
	16,023	10,383

- (i) The decommissioning provision provides for the costs of dismantling and removing certain generating plants and workshops and restoring the site on which they are located.

Movements in provisions - Decommissioning

Current

Carrying amount at start of year	4,011	2,343
- reclassification from non-current liabilities (note 25)	4,388	3,264
- payments/other sacrifices of economic benefits	(1,734)	(1,596)
Carrying amount at end of year	6,665	4,011

19 Current liabilities - Interest bearing liabilities

WATC loans (i)	94,421	55,976
Finance lease liabilities (ii)	12,081	9,391
	106,502	65,367

- (i) The domestic currency loans are ultimately secured by government guarantee. They are governed by a facility agreement that provides Horizon Power with the full discretion to refinance all or any part of maturing debt. For domestic currency loans maturing over the next twelve months, it is the intention to refinance all maturing debt under this facility agreement. At 30 June 2010 the carrying value of the domestic currency loans is considered a reasonable approximation of their fair value.

- (ii) Finance lease liabilities are disclosed in note 32 to the financial statements.

20 Current liabilities - Current tax liabilities

Income tax	-	4,449
	-	4,449

21 Current liabilities - Other current liabilities

Deferred developer and customer contributions (i)	20,389	8,672
	20,389	8,672

- (i) Horizon Power receives developer and customer contributions toward the extension of electricity infrastructure to facilitate network connection. More information can be found in the note 2(d).

22 Non-current liabilities - Other payables

	30 June 2010	30 June 2009
	\$'000	\$'000
Contributory extension scheme payables (note 17)	976	1,093
	976	1,093

23 Non current liabilities - Interest bearing liabilities**Secured**

WATC loans (note 19)	214,079	185,499
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Unsecured

Finance lease liabilities (note 32)	453,795	320,846
	667,874	506,345

24 Non-current liabilities - Deferred tax liabilities**The balance comprises temporary differences attributable to:**

Consumable stocks	183	164
Power Purchase Agreements - classified as finance lease	131,490	94,170
	131,673	94,334

Other

Accruals	4	67
Research and development	4,086	669
Sub-total other	4,090	736
Total deferred tax liabilities	135,763	95,070
Set-off of deferred tax liabilities pursuant to set-off provisions (note 14)	(135,763)	(95,070)
Net deferred tax liabilities	-	-

Movements:

Opening balance at 1 July	95,070	99,602
Charged/(credited) to the statement of comprehensive income (note 7)	39,443	(4,582)
Adjustments for deferred tax liabilities of prior periods	1,250	50
Closing balance at 30 June	135,763	95,070
Deferred tax liabilities to be settled within 12 months	187	900
Deferred tax liabilities to be settled after more than 12 months	135,576	94,170
	135,763	95,070

25 Non-current liabilities - Provisions

Long service leave	1,718	2,001
Decommissioning (i)	11,721	15,748
	13,439	17,749

(i) The decommissioning provision provides for the costs of dismantling and removing certain generating plants and workshops and restoring the site on which they are located.

25 Non-current liabilities - Provisions (continued)**Movements in provisions - Decommissioning**

	30 June 2010	30 June 2009
	\$'000	\$'000
Non-current		
Carrying amount at start of year	15,748	8,281
Reclassification to current liabilities	(4,388)	(3,264)
Charged/(credited) to the statement of comprehensive income		
- unused amounts reversed	(441)	10,197
- unwinding of discount	802	534
Carrying amount at end of year	11,721	15,748

26 Non-current liabilities - Retirement benefit obligations**(a) Balance sheet amounts**

The amounts recognised in the balance sheet are determined as follows:

Present value of unfunded obligations (i)	2,382	2,018
Net liability in the balance sheet	2,382	2,018

(i) The present value of the retirement benefit obligations liability was assessed by Pricewaterhouse Coopers at 30 June 2010 as required under AASB119. For the period 1 July 2009 to 30 June 2010, a provision has been raised to recognise the increase in value of this liability over this period.

(b) Reconciliations

Reconciliation of the present value of the defined benefit obligation, which is partly funded:

Balance at the beginning of the year	2,018	1,789
Interest cost	110	117
Actuarial losses	279	112
Benefits paid	(25)	-
Balance at the end of the year	2,382	2,018

(c) Amounts recognised in Statement of comprehensive income

The amounts recognised in the statement of comprehensive income are as follows:

Interest cost	110	117
Actuarial losses	279	112
Total included in employee benefits expense	389	229

(d) Principal actuarial assumptions

The principal actuarial assumptions used were as follows:

Discount rate	5.5%	5.5%
Expected future salary increases	4.5%	4.5%
Expected future pension increases	3.0%	3.0%

(e) Employer contributions

Employer contributions are made to meet the cost of the retirement benefit obligations as they fall due. For more details regarding the policy in respect of provision for retirement benefit obligations refer to Note 2(u).

26 Non-current liabilities - Retirement benefit obligations (continued)**(f) Historic summary**

	2010	2009	2008	2007
	\$'000	\$'000	\$'000	\$'000
Defined benefit plan obligation	2,382	2,018	1,789	1,399
Surplus	2,382	2,018	1,789	1,399
Experience adjustments arising on plan liabilities (gain)/loss	279	(51)	358	7

27 Contributed equity

	30 June	30 June
	2010	2009
	\$'000	\$'000
Contributed equity at the beginning of the financial year	165,121	130,121
Equity contribution during the financial year(i)	1,033	35,000
Total contributed equity at the end of the financial year	166,154	165,121

(i) Government's equity contribution to the Corporation in support of the Mid West Gas Lateral and Tubridgi to Onslow Gas Pipeline projects. No shares have been allotted or issued for the equity contribution

28 Reserves**(a) Reserves**

Hedging reserve - cash flow hedges	63	(49)
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29 Key management personnel disclosures**(a) Directors**

The Non-Executive Directors of Horizon Power during the period were:

B Hammond, Chairman
 S Bradley, Director
 R Eagle, Director
 N Lockwood, Director
 J Elkington, Director (appointed 11 August 2009)
 A Riley, Special Advisor to the Board

(b) Other key management personnel

The other key management personnel of Horizon Power during the period were:

R Hayes Managing Director
 A Yam General Manager Finance Services
 P Feldhusen General Manager Governance and Company Secretariat
 M Loughton-Smith General Manager Islanded Systems Development
 D Martin General Manager People & Corporate Services
 F Tudor General Manager Strategy & Business Development
 Z Wilk General Manager Operations
 P Jensen General Manager Shared Services
 J Deacon General Manager Knowledge & Technology

29 Key management personnel disclosures (continued)

(c) Key management personnel remuneration

Principles used to determine the nature and amount of compensation

Compensation approval protocols are as follows:

- Non-executive Directors: the Minister for Energy (the Minister) approves the remuneration of all non-executive directors.
- Managing Director: the Board, subject to the concurrence of the Minister, approves the remuneration of the Managing Director (also referred to as the Chief Executive Officer).
- Executive Officers: the Board, on recommendation of the Managing Director, approves the remuneration of all Executive Officers.

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;
- adopt performance measures that align the interests of employees with the interests of key stakeholders; and
- adopt a remuneration structure that provides an appropriate balance in 'risk and reward sharing' between the employee and Horizon Power.

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 upon total target remuneration that includes:

1. Total fixed remuneration structured with:
 - Cash
 - Selection of prescribed non-financial benefits
 - Superannuation
 - Cost of fringe benefit tax
2. An annual at risk remuneration element.

In addition to total target remuneration, those Executives residing in remote locations are also provided housing benefits and location allowances.

Total fixed remuneration

The compensation framework is market competitive, 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.

Non-financial benefits

Selection available: cost of novation of selected motor vehicle, electricity (to a maximum Fringe Benefits Tax allowable figure), health check-up and the cost of fringe benefits tax. As stated above, housing benefits are also provided to Executives who reside in remote locations.

Superannuation

Paid at not less than 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.

29 Key management personnel disclosures (continued)**Annual at risk remuneration (ARR) element**

At the Board's discretion, as agreed by the Minister, the Managing Director and General Managers are eligible for incentive payments for achievement of specific performance targets covering Horizon Power's major measurable outcomes, in line with the Strategic Development Plan Balanced Scorecard of key performance indicators including:

- contribution to the progression of major identified corporate projects and initiatives;
- personal contribution through leadership and behaviour, focussing on alignment with Horizon Power's values; and
- developing and enhancing Horizon Power's reputation and relationship management.

The next determination of ARR will be for the 12 months period ended on 30 June 2010, which is expected to be performed within the first quarter of the 2010/11 financial year.

(a) Non-executive directors' remuneration**2010**

Name	Cash salary and fees \$	Superannuation \$	Total \$
B Hammond	95,000	8,550	103,550
S Bradley	45,000	4,050	49,050
R Eagle	45,000	4,050	49,050
N Lockwood	45,000	4,050	49,050
J Elkington	38,769	3,116	41,885
Total	268,769	23,816	292,585

2009

Name	Cash salary and fees \$	Superannuation \$	Total \$
B Hammond	95,000	8,550	103,550
S Bradley	45,000	4,050	49,050
R Eagle	43,962	3,957	47,919
N Lockwood	43,962	3,957	47,919
A Dundas	46,615	4,195	50,810
Total	274,539	24,709	299,248

(b) Executives' remuneration**2010**

Name	Cash salary and fees \$	Performance Pay (i) \$	Superannuation \$	Total Cash \$
R Hayes (ii)	411,947	64,784	27,883	504,614
A Yam	210,755	17,350	20,529	248,634
P Feldhusen	231,254	42,029	25,678	298,961
M Loughton Smith	251,706	40,291	26,189	318,186
D Martin	220,899	37,999	23,301	282,199
F Tudor	273,416	44,799	28,639	346,854
Z Wilk (ii)	255,285	41,555	26,762	323,602
P Jensen	228,482	29,478	23,216	281,176
J Deacon	198,661	23,833	20,024	242,518
Total	2,282,405	342,118	222,221	2,846,744

29 Key management personnel disclosures (continued)

2009

Name	Cash salary and fees \$	Performance Pay \$	Superannuation \$	Total Cash \$
R Hayes (ii)	393,962	108,614	45,232	547,808
A Yam	152,906	-	13,762	166,668
P Feldhusen	213,007	37,040	23,424	273,471
M Laughton Smith	223,166	35,777	24,554	283,497
D McDonald (includes redundancy payment)	142,167	34,789	6,530	183,486
D Martin	203,641	35,875	21,556	261,072
F Tudor	247,142	39,229	25,773	312,144
Z Wilk (ii)	230,765	34,933	23,268	288,966
P Jensen	149,259	-	13,433	162,692
J Deacon	122,018	-	10,982	133,000
Total	2,078,033	326,257	208,514	2,612,804

(i) Performance pay related to financial performance FY2008/09 was paid in FY2009/10.

(ii) In addition to cash remuneration paid non-monetary benefits such as housing and air-conditioning subsidies were provided to two executive key management personnel for the higher cost of living in regional areas. These benefits were R Hayes \$79,281 (2010) and \$91,881 (2009), Z Wilk \$96,872 (2010) and \$ 83,708 (2009). These benefits are also common to a wide range of industries operating in regional locations.

(iii) Service agreements

All contracts of employment for key management personnel, excluding the Managing Director, are unlimited in term but generally these contracts are capable of termination by the key management personnel on five weeks notice and that the Corporation retains the right to terminate the contract immediately by making payment equal to a maximum of 52 weeks pay in lieu of notice. The key management personnel are also entitled to receive on termination their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The Managing Director has an employment contract that commenced on 30 January 2009 and terminates 29 January 2012. The contract specifies the duties and obligations to be fulfilled by the Managing Director and accountability to the Board. The contract can be terminated either by the Corporation or by the Managing Director providing three months notice in writing or such notice as may be agreed.

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

30 Remuneration of auditors

	30 June 2010 \$'000	30 June 2009 \$'000
Audit of financial reports	155	101
	155	101

31 Contingencies**(a) Contingent liabilities**

Horizon Power did not have any contingent liabilities as at 30 June 2010.

(b) Contingent assets

Horizon Power did not have any contingent assets as at 30 June 2010.

32 Commitments**(a) Capital commitments**

	30 June 2010 \$'000	30 June 2009 \$'000
Property, plant and equipment		
Payable:		
Within one year	155,619	117,198
Later than one year but not later than five years	222,294	179,680
Later than five years	-	-
	377,913	296,878

(i) At 30 June 2010 capital expenditure commitments principally related to the network Enhancement for various towns (\$46million), Carnarvon Power Station Upgrade (\$68 million), Safety Improvement projects (\$43 million), Customer driven projects (\$132 million), asset replacement for various towns (\$11 million), Aboriginal and Remote Communities Power Supply Project Phase 2 (\$26 million), IT improvement & other projects (\$50 million).

(ii) The amounts reported in this Note are based on budgeted capital expenditure for projects less actual expenditure incurred against capital projects.

(b) Lease commitments**Operating leases**

Horizon Power has recognised an operating lease over the Midwest Power Station. The lease term is 10 years and is not terminable except in circumstances of unremedied default. Lease rentals are paid per unit of electricity supplied. However, there is no minimum lease payment specified for this lease.

In addition, Horizon Power has commitments to property leases as at 30 June 2010. Lease rentals are subject to half-yearly and yearly reviews.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	3,465	3,673
Later than one year but not later than five years	4,085	5,824
Later than five years	1,868	3,768
	9,418	13,265

Finance leases

Finance leases relate to leases implicit in electricity purchase agreements identified in accordance with Interpretation 4.

Commitments in relation to finance leases are payable as follows:

Within one year	58,571	38,548
Later than one year but not later than five years	234,686	152,587
Later than five years	703,789	455,340
Minimum lease payments	997,046	646,475
Future finance charges	(531,170)	(316,238)
Recognised as a liability	465,876	330,237
Representing lease liabilities:		
Current (note 19)	12,081	9,391
Non-current (note 23)	453,795	320,846
	465,876	330,237

(i) Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

33 Pilbara Underground Power Project (PUPP)

The Pilbara Underground Power Project is a project being funded by the State Government through the Royalties for Region program, along with contributions from the Local Government Authorities (Shire of Roebourne, Town of Port Hedland and Shire of Ashburton). The project is being managed by Horizon Power. The total project cost is estimated at \$125 million.

The scope of the project is to provide the cyclone affected North West towns of Karratha, South Hedland, Onslow and Roebourne with a safe and reliable power supply, by replacing ageing overhead electricity infrastructure with a new network of underground power lines and associated equipment, incorporating the latest electricity technology.

	30 June 2010	30 June 2009
	\$'000	\$'000
The following items relating to PUPP are included in the Financial Statements:		
Cash and cash equivalents	-	35,000
Plant and equipment	11,430	-
Reduction in interest bearings loans (i)	27,054	-
Trade payables	(3,484)	-
	35,000	35,000

(i) Remaining equity contribution received has been applied to reduce Horizon Power's interest bearings loans. This amount will be drawn upon when payments are required for the project.

34 Related party transactions

Other than as disclosed in Note 29 Horizon Power did not transact with key management personnel or their related parties during the reporting period. As at 30 June 2010, Horizon Power did not recognise any assets or liabilities arising from transactions with key management personnel or related parties.

35 Interests in joint ventures**(a) Jointly controlled operations and assets**

Name of entity	Principal activity	Output interest
Mid-West Pipeline Joint Venture	Gas Transportation in the Mid West and Hill 60 Pipelines	29.2%

Horizon Power's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the financial statements under their respective asset categories:

	30 June 2010	30 June 2009
	\$'000	\$'000
Midwest pipeline	-	201
Hill 60 Extension	403	533
Total Property, plant and equipment	403	734

36 Reconciliation of profit / (loss) after income tax to net cash inflow from operating activities

	30 June 2010	30 June 2009
	\$'000	\$'000
Profit / (loss) for the year	25,452	(42,342)
Depreciation and amortisation	38,521	31,389
Developer and customer contributions	(24,944)	(17,496)
Net gain on sale of non-current assets	(331)	(210)
Change in operating assets and liabilities, net of effects from purchase of controlled entity and sale of discontinued operation		
(Increase) / decrease in trade and other receivables	(13,466)	9,471
(Increase) / decrease in inventories	(1,554)	84
(Increase) / decrease in other assets	(406)	(304)
Increase / (decrease) in trade and other payables	125,733	20,038
Increase / (decrease) in derivatives	(1,539)	2,367
Increase / (decrease) in income tax liabilities	3,590	(18,351)
Increase / (decrease) in employee provisions	3,067	2,292
Increase / (decrease) in other provisions	(1,374)	8,315
Net cash inflow / (outflow) from operating activities	152,749	(4,747)

37 Non-cash investing and financing activities

Acquisition of plant and equipment by means of finance leases	145,497	3,280
Gifted assets	4,844	5,293
	150,341	8,573

38 Economic Dependency

A significant portion of Horizon Power's revenue is derived from the Tariff Equalisation Fund (TEF). Western Power pays money into the Tariff Equalisation Fund (TEF) in amounts determined by the Treasurer and the Minister for Energy. This money is released to Horizon Power as determined by the Treasurer. Horizon Power is dependant on the sufficient and timely flow of these funds to remain solvent. Horizon Power began receiving revenue from the TEF from October 2006.

39 Subsequent Events

There has not arisen in the interval between the end of the reporting period and the date of this report any matter or circumstance likely, in the opinion of the Horizon Power Board, to affect significantly the operations of Horizon Power, the results of those operations, or the state of affairs of Horizon Power in subsequent reporting periods.



Auditor General

INDEPENDENT AUDIT REPORT ON REGIONAL POWER CORPORATION (TRADING AS HORIZON POWER)

To the Parliament of Western Australia

I have audited the financial statements of the Regional Power Corporation (trading as Horizon Power). The financial statements comprise the Statement of Financial Position as at 30 June 2010, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Statements

The directors of the Regional Power Corporation (trading as Horizon Power) are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Electricity Corporations Act 2005*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Summary of my Role

As required by the *Electricity Corporations Act 2005*, my responsibility is to express an opinion on the financial statements based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. This document is available on the OAG website under "How We Audit".

An audit does not guarantee that every amount and disclosure in the financial statements is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.

Audit Opinion

In my opinion, the financial statements of the Regional Power Corporation (trading as Horizon Power) are in accordance with schedule 4 of the *Electricity Corporations Act 2005*, including:

- (a) giving a true and fair view of the Corporation's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Handwritten signature of Colin Murphy in black ink.

COLIN MURPHY
AUDITOR GENERAL

8 September 2010

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