

Annual Report

2013/14



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Our profile

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

What sets Horizon Power apart is its regional presence and ability to deliver safe, reliable and affordable services in the most challenging of environments. Horizon Power services the biggest area with the least amount of customers in the world – a service area of approximately 2.3 million square kilometres and an average of one customer for every 53.5 square kilometres of terrain.

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

As at 30 June 2014, Horizon Power services 46,187 customer connections in the Pilbara, Kimberley, Gascoyne, Mid West and Southern Goldfields (Esperance) regions. Horizon Power manages 38 systems: the North West Interconnected System (NWIS) in the Pilbara; the connected network between Kununurra, Wyndham and Lake Argyle; two rural systems in Esperance and Hopetoun; and 32 non-interconnected systems in regional towns and remote communities.

Following a strategic review, conducted in 2013/14, greater accountability and autonomy has been transferred to the regions with senior decision-making staff continuing to be located in six regional centres: Karratha (Head Office), Port Hedland, Broome, Kununurra, Carnarvon and Esperance. An administration centre in Bentley provides support to the regional offices.

Horizon Power's commitment to regional Western Australia is to be "your local energy partner" and the business is focused on creating value beyond the current generation and continues to play a key role in the development of regional infrastructure, supporting continued growth in the State.

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



Fast facts

CUSTOMER CONNECTIONS

46,187

46,187 customer connections supplying more than 100,000 residents and 10,000 businesses

CUSTOMER CALLS

97,970

97,970 customer calls in 2013/14

NEW CUSTOMER CONNECTIONS

2,797

2,797 new customer connections in 2013/14

ASSETS

\$1.6B

\$1.6 billion in assets

SERVICE AREA

2.3M_{KM}²

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

TRANSMISSION & DISTRIBUTION

7,843_{KM}

7843 kilometres of overhead and underground transmission and distribution lines

POLES & TOWERS

59,436

58,334 distribution poles, 240 transmission poles and 862 transmission towers in service

KILOWATT HOURS OF RENEWABLE ENERGY

6,517,124

6,517,124 kilowatt hours of renewable energy imported into Horizon Power's network

TOTAL SYSTEMS

38

38 systems consisting of 32 Non-Interconnected Systems, three systems (Kununurra, Wyndham and Lake Argyle) connected in the East Kimberley, two rural systems associated with Esperance and Hopetoun and the North West Interconnected System

INTERCONNECTED SYSTEMS

2

Our supply area

- Office
- Current Supply Areas



Executive summary

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

The number of systems meeting reliability targets increased in 2013/14 to 32 out of our 38 systems, compared to 31 in 2012/13.

Customers experienced an average 3.4 interruptions during the year, well below the regulated limit of 6.6 interruptions per annum (System Average Interruption Frequency Index – SAIFI). The average length of an interruption to power supplies in Horizon Power’s service area (the System Average Interruption Duration Index – SAIDI) was 155 minutes in 2013/14 compared with the regulated limit of 290 minutes.

This strong performance was reflected in an increase in customer satisfaction from 78 per cent in 2012/13 to 82 per cent this year, driven by improved reliability and customer service.

The number of notifiable public safety incidents was above last year at seven compared to five in 2012/13 but still below the target of eight for this year. Most of the incidents were related to adverse weather events and small fires.

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



Horizon Power recorded a net profit after tax in 2013/14 of \$81.6 million, an increase from \$51.2 million in 2012/13. The positive result was driven by efficiency gains and tight fiscal restraint as a result of the significant strategic review, together with higher total income as a result of the Tariff Equalisation Contribution and higher sales of electricity.

During the year, Horizon Power declared and paid dividends of \$33.3 million to the State Government based on the profit achieved in the financial year 2013/14.

Excluding the one-off payments incurred as part of the strategic review, Horizon Power exceeded the State Government-led combined efficiency targets, of 75 per cent.

HORIZON

POWER



Chairman's report

Strategic review

Horizon Power, like many businesses in Western Australia, is operating in very challenging economic conditions. Since our inception in 2006, the operating subsidy we receive from the State Government has grown substantially to cover cost escalation and the Board and Executive recognised that this was simply not sustainable in the long term. The combination of the completion of an extensive capital works program, together with a downturn in economic conditions, has caused us to closely scrutinise our operating costs.

As a result, with the endorsement of our Minister, Dr Mike Nahan, Horizon Power began a comprehensive strategic review of the business in September 2013. The initiative was company led and government supported. We commenced a study of our cost to supply by town and region which was the catalyst for an extensive review to establish best practice.

We wanted to ensure that the outcomes of the review would allow us to continue to deliver our purpose of providing energy for life for the long term. The review was guided by the need to increase accountability and empowerment in our regions to ensure our focus remained on being our customers' local energy partner. Whilst our operational area is very unique, our core business – the delivery of safe and reliable power supplies – is not.

Studies of world's best practice showed we could significantly reduce our overheads without impacting service delivery and importantly, without compromising the safety of our employees, contractors and the public.

Over the past six months we have made great progress towards reducing costs, which will see us achieve our goal of a decrease in our subsidy of \$100 million per year by 2018. We have reduced operating and overhead costs in the network, retail and corporate areas and have halved our discretionary operating costs through a reduction in the number of positions mainly in our Bentley-based regional support office. We are also looking at how we can deliver a pricing and subsidy framework that minimises peak electricity loads and supports third party investment of distributed generation.

Respected for our delivery

We are undertaking one of the largest and boldest changes to have occurred in a public utility in Australia by implementing the outcomes of this strategic review. We were quick on the uptake and are demonstrating how to adapt and ensure a sustainable and profitable business. Our new structure puts us in a stronger position to achieve this. Our district offices now have the autonomy and responsibility to make key decisions that will impact on their regions. Our Bentley office is

there to support our regional staff in these decisions. We want to continue to improve on our capital allocation decisions, project delivery and asset productivity and thereby continue to be respected for our project delivery. This was the basis for our decision to outsource engineering and project services to GHD. As a result 22 of our permanent staff, together with 16 contractors, have now successfully transitioned to GHD's offices in Perth which will ensure that their expertise remains available to Horizon Power for the successful delivery of our projects.

Focus on our regions

I recently had the pleasure of meeting with our Port Hedland crew and office-based staff when we held our bi-monthly Board meeting in that region in June.

I reiterated to the staff there that without them and their passion, there would not be a Horizon Power – these people are part of the regional community and work hard to support their community and ensure safe and reliable power supplies are delivered. These employees, along with their colleagues in Karratha, ensured quick restoration of power to customers in the Pilbara despite extensive damage caused by Cyclone Christine as people in most other parts of the State were beginning their New Year's Eve celebrations earlier this year.

I along with my fellow Board members, travel to our regions at least quarterly for Board meetings. These visits give a valuable insight into the challenges Horizon Power faces every day as well as the diverse needs of our regional customers. I was also delighted to host our Minister, Dr Mike Nahan, when he and the State Cabinet came to Esperance for a regional Cabinet meeting in June of this year. Dr Nahan was able to observe our crews at work and to see the benefits of significant State Government investment in wood pole replacement and the upgrade of the rural networks.

Safe and reliable power

Horizon Power manages 2 interconnected electricity systems together with 38 islanded networks over 2.3 million square kilometres. The vast and remote nature of our region presents many challenges but in the main we have consistently provided a safe and secure supply to over 100,000 residents and a further 10,000 businesses. The reliability of some of our more remote networks remains a challenge however, particularly in the East Kimberley and the Mid West. We are currently working on a number of projects to improve reliability in these areas whilst at the same time reducing the cost of generation. The use of distributed generation and renewable energy will continue to be explored in concert with seeking

improved contractual terms with our independent power providers.

The future

In the coming year we will embed the learnings of the strategic review into our business as usual activity whilst investing in innovative and cost effective generation solutions and continue to work tirelessly to ensure an ongoing reduction in our subsidy as well as maintaining a safe and reliable power supply for our customers.

I would like to take this opportunity to acknowledge and thank the outgoing Chairman, Mr Brendan Hammond, who stood down in June of this year. Brendan played an integral role in the development of Horizon Power and more recently in the initiation of the strategic review. At the time of writing the Minister was still considering a replacement and I will continue to act as Chairman in the meantime. I would also like to acknowledge the resignations of two of our advisors to the Board this year, in Ian Fletcher and David Powell and thank them sincerely for their valuable contribution to the Board. Both Ian and David played a key role in the support of our strategic review, as well as Chairing the Corporate Affairs and Communications Committee and Audit and Risk Committee respectively.

Finally in closing I would also like to thank my fellow board members, our

Minister, customers, stakeholders, staff and suppliers who have provided significant support during this period of change. I am confident that the changes implemented this year will enable Horizon Power to continue to deliver **Energy for Life** whilst striving to be recognised as one of the best run utilities in Australia.



Ian Mickel

Acting Chairman

Managing Director's report

A challenging year for Horizon Power

It is with great pleasure that I present to you the 2013/14 Horizon Power annual report. Despite our business facing one of the most challenging years in our relatively short history, due to a combination of tight economic conditions and our strategic decision to halve our discretionary operating costs to reduce our State Government subsidy, we have continued to deliver excellent results including the conclusion of key infrastructure projects and improvements in financial returns.

The strategic review, implemented in December 2013 has resulted in significant changes in our operating model. It is quite unique for a Government Trading Enterprise to take such a step but we have done so with our eye firmly on the future – Horizon Power must continue to be sustainable in the interests of our regional communities and customers.

We are very mindful of the impact rising electricity prices have on our customers. Being the most efficient and viable business that we can be, and delivering on our commitment to be your local energy partner, is our focus moving forward.

Focus on the regions we serve

Horizon Power has made a number of structural changes to ensure that

our regional offices have greater accountability and autonomy to make the right choices for our customers. This means that we will maintain our focus on our regional customers above all else.

This approach is evidenced in the completion of a number of key projects in our regions. The East Kimberley Aboriginal community of Kalumburu now has an efficient and reliable power station delivering electricity to the town as part of the Aboriginal and Remote Community Services Project phase two completed by Horizon Power at the end of last year.

Another major milestone for the business in the Gascoyne region was the commissioning of the Mungullah Power Station and the formal opening of the station by the Honourable MLA for Riverton, Treasurer and Energy Minister Dr. Mike Nahan, at the end of May.

Dr Nahan joined our then Chairman Brendan Hammond, myself and the Mungullah project team on a tour of the new station which was designed, constructed, owned and operated by Horizon Power.

Horizon Power also worked closely with other State agencies in the development of such a solution to power the Pilbara in the medium to long-term. At the time of writing, the business had finalised contractual negotiations with Canadian company

TransAlta which has been selected as the preferred proponent to design, build, own and operate a 180 megawatt power station in South Hedland. Horizon Power and Fortescue Metals Group will be foundation customers of the new Power Station scheduled to be commissioned in early 2017.

The new station will replace the Hedland Precinct Power Project which was constructed in record time but which, only two weeks from completion, was stalled by the collapse of construction company Forge Group Limited and then, in June, impacted again by the appointment of a receiver to PowerServe Australia which was constructing an associated transmission line. Thankfully we can rely on a combination of good governance, tight contract control and internal capability to ensure that the new station will be delivering power to the people of the Pilbara this coming summer in line with the original budget.

As foreshadowed in the last Annual Report, the first phase of the undergrounding project in the Pilbara has now been completed with all lots in South Hedland and Wedgefield connected to the underground network together with 40 per cent of the project completed in Karratha. I am delighted that Horizon Power, in conjunction with the Pilbara Development Commission has been able to secure

additional funding from both Royalties for Regions and the City of Karratha to ensure the project can be completed in the remaining parts of Karratha and Roebourne. We are also working with the Shire of Ashburton to confirm funding arrangements for Onslow. It is anticipated all works in the Pilbara will be completed by 2018.

Rapid response in the face of adverse events

Our business, and in particular our team in Karratha, stepped up to the plate yet again this year to rectify the extensive damage caused by Cyclone Christine on December 30 when it bore down on the Pilbara coast.

The Category three cyclone crossed the coast between Wickham and Roebourne and impacted 7,000 customers in Karratha, Roebourne, Point Sampson and Port Hedland. While our network sustained significant damage, with poles and wires knocked to the ground, most of our customers had power less than 12 hours later. This rapid response was thanks to Horizon Power's impeccable emergency response capability and collaboration with Western Power and Rio Tinto, who assisted with our response, and to completed underground works in South Hedland making all of Port Hedland practically cyclone proof from an electricity infrastructure perspective.

This collaborative approach also assisted Horizon Power to resolve some billing issues which impacted on some customers in 2013 with late, and therefore larger, bills being received. We identified the problem and then got on with the job of rectifying it and I'm pleased to say that our billing system is now on track. The business excellence applied here may be why, despite increases in the cost to supply and retail electricity impacting tariffs, our customer satisfaction levels have bucked the trend and improved in the past year. We will focus on continuous improvement of our service to customers in the year ahead to ensure this positive trend endures.

Farewell

This year of change has resulted in a reduction of more than 180 positions following the restructure of our operating model. I would like to acknowledge those staff who have left for their positive contribution to the business over the years and also to thank our people, who are doing more with less, for their ongoing commitment.

Regretfully our Chairman Brendan Hammond also decided to step down from his position on the Horizon Power Board due to the increasing demands of his business commitments. Brendan played a pivotal role in the establishment of

Horizon Power in 2006 and in guiding our strategic direction. On behalf of the Executive, I would like to thank him for his guidance and significant contribution to Horizon Power and wish him every success in the future.

The year ahead

Our focus for the year ahead will be to continue to deliver efficiencies to ensure an ongoing reduction in the subsidy we receive from the State Government, without compromising the dedicated service we provide to our regional customers.

We will continue to explore innovative solutions to reduce the cost of electricity generation in our regions as well as implementing new metering solutions to assist our remote communities to manage their electricity bills.

Our objective remains clear; we will provide energy for life without compromising the safety of our customers and our staff.



Frank Tudor

Managing Director

Horizon Power’s structure and strategy

Structure

During 2013/14 Horizon Power commenced implementing a strategic review which included an Operational Model Review. The operational review sought to reduce operating and overhead costs without reducing performance. Horizon Power’s organisation structure is designed to support its strategy to maximise long term value in its regional energy business by being the local energy partner.

Corporate Services and Company Secretariat

The Corporate Services and Company Secretary division provides a range of support services within Horizon Power. It is responsible for setting service offerings, standards and policies that promote regional accountability and capability and providing lowest cost human resources, communications, risk, legal, health and safety, procurement, facilities and fleet management services to the rest of the organisation.

The role of the Company Secretary is to provide advice and administrative services to the Board, and assist in its effective operation, as well as acting as the interface between the Board and the Executive team.

Commercial Services and Finance

The Commercial Services and Finance division is responsible for providing customer service, energy and analytics, digital, finance and strategy services. It is also responsible for developing energy delivery blueprints which involve and disseminate disruptive technologies (i.e. distributed energy/ storage and digital based initiatives) to achieve business objectives. Its focus is to drive the decentralisation of decision making and accountability, and ensure the objectives of the strategic review are achieved.

Power System Services

The Power System Services division provides support services to Horizon Power’s regional business, including engineering and project delivery, capacity planning, land, heritage, native title and environmental advisory, asset management frameworks, policies, guidelines and standards and Economic Regulation Authority and Energy Safety reporting.

NWIS Business

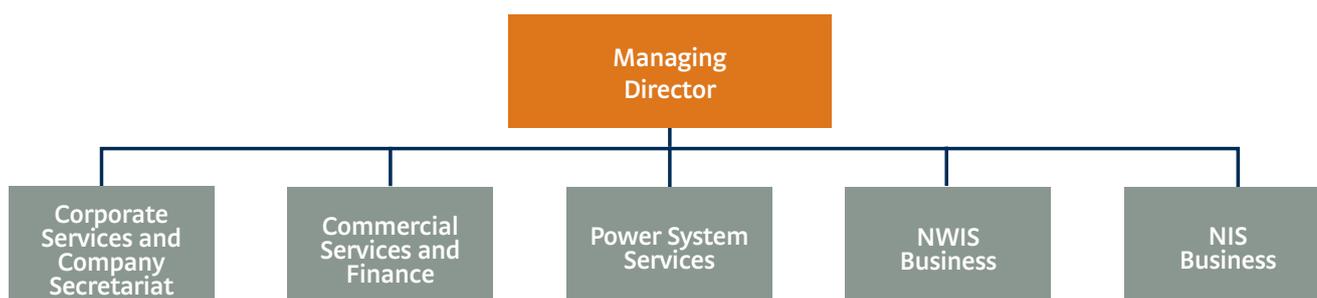
The NWIS Business division is one of Horizon Power’s two regional businesses.

It is responsible for the holistic performance of the North West Interconnected System (NWIS). This involves managing all of Horizon Power’s customers, stakeholders, assets and the provision of energy to meet the demands of the NWIS. The NWIS Business covers the towns of Port Hedland, South Hedland, Wedgefield, Point Samson, Roebourne and Karratha.

The NWIS Business division will support any Government led market reforms whilst continuing to assure security of supply, and service to our customers and maximising value.

NIS Business

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



Strategy

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

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

Horizon Power will drive down the cost of generation and explore alternatives to conventional electricity systems. Streams of work focused on reforming prices and subsidy will provide key economic signals and drive embedded renewables to reduce pressure on peak demand growth whilst empowering consumer choice. Delivery of these work streams will reduce the long run cost to supply which is central to Horizon Power's strategy.

Horizon Power's overarching Strategic Objective is "to maximise long term value in its regional energy business by being the local energy partner".

In order to be the 'local energy partner' for our customers and stakeholders, our role must be to support, develop and advocate on behalf of and deliver value to our customers and stakeholders.

Horizon Power is differentiated as a vertically integrated supplier responsible for generating, procuring, distributing and retailing electricity supplies and by the fact that our offices and staff are located in the regional communities we serve.



Strategic and corporate objectives

Horizon Power’s strategic objective is underpinned by three key areas and five corporate objectives as illustrated in the table below.

Horizon Power has established a balanced set of critical business outcomes and key performance indicators (KPIs) to measure its success

in delivering its strategic and corporate objectives. These are not the only indicators that will be measured by the business but represent the key measures of success.

Horizon Power’s purpose and vision is reflected in its overarching strategic

objective: “to maximise long term value in its regional energy business by being the local energy partner”.

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

Our strategic objective is to maximise long-term value in its regional business by being the local energy partner.

Safety

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

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

The hazardous nature of the electricity industry requires the highest standards of safety and health. Minimising harm to employees, contractors and the community means taking deliberate and considered action, utilising a risk based methodology, to proactively manage and resolve safety and health issues and strive for safety and health excellence.

Value

Maximise long term value from its regional energy business.

Maximise long term value

Horizon Power is seeking to maximise long term value in regional Western Australia. This means increasing the value Horizon Power provides its customers and minimising the subsidy impost to its shareholder, the Minister for Energy, through effective and value based decision making. Horizon Power is consistently focused on implementing operational and capital efficiency throughout the business.

Manage business risk

Managing business risk means minimising adverse impacts and maximising opportunities associated with business uncertainties by developing a shared understanding and communication of key risks in achieving business objectives.

Community

Put regional communities and enterprises at the centre of everything Horizon Power does.

Be respected for delivery

In order to be respected for its delivery Horizon Power needs to focus on timely and effective delivery of projects as well as its day-to-day business of being “your local energy partner” in the regions. Horizon Power wants to be respected internally by its staff and externally by its Minister, stakeholders and customers for delivery, whilst meeting service and quality requirements.

Be a high performing business

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



L.V. COVER

Performance overview

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

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

Critical Business Outcomes	Target performance result for 2013/14	Actual performance result in 2013/14	Target achieved	Actual performance result in 2012/13	Notes to the table	For more information see page
Employee Safety Lost Time Injury Frequency Rating	0.0	2.5	x	0.0	1	19
Public Safety Total number of Notifiable Public Safety Incidents	8	7	✓	5	2	4
NPAT (\$M) Profit for the year after income tax	23.2	81.6	✓	51.2	3	41
Efficiency Dividend Incorporates the Minister's 5% Efficiency Dividend plus the 2.5% GTE Efficiency	12.8	15.7	✓	10.4	4	41
Cost Management Cost to Supply Unit Cost (cents/kWh)	33.9	33.2	✓	36.1	5	N/A
Operational Unit Cost (cents/kWh)	14.2	15.6	x	14.3	6	N/A
Customer Satisfaction Survey Rating (%)	70	82	✓	78	7	27
Reliability Reliability Performance of each system	33/38	32/38	x	31/38	8	16
Emissions Greenhouse Gas Intensity (kg CO ₂ -e / kWh sent out)	0.65	0.58	✓	0.55	9	29
Return on Assets (%) Earnings Before Interest, and Tax	7.6%	11.2%	✓	9.7%	10	N/A

Notes to the Performance overview table

1. Following a zero Lost Injury Frequency Rate in 2012/13 two Lost Time Injuries occurred in Karratha in May 2014 which has meant an increase against the actual target. Prior to these incidents, Horizon Power had achieved 2.1 million employee hours without a lost time injury and whilst concerning, Horizon Power does not believe the latest result is part of a trend.
2. The seven notifiable public safety incidents have increased from last year; however remain below our target of eight. These incidents were largely as a result of adverse weather conditions associated with Tropical Cyclone Christine. There were no resulting injuries to the public or Horizon Power personnel as a consequence of these incidents.
3. NPAT compared favourably to target due mainly to higher revenue from customer and developer contributions and non-energy revenue.
4. The Efficiency Dividend target was achieved through continued focus and monitoring of efficiencies undertaken during the year.
5. The Unit Cost to Supply (cents/kWh) is lower than target by 2.1 per cent resulting from the outcomes of the Strategic review and efficiency initiatives.
6. The Operational Unit Costs (cents/kWh) was higher than target mainly because of the impact of fixed costs on lower volume sent out than targeted.
7. Horizon Power this year significantly exceeded its target for customer satisfaction. However, we will always focus on this important area to ensure we continue to meet our customers' expectations.
8. Horizon Power's performing systems improved from 31 in 2012/13 to 32 in 2013/14, with Wyndham now achieving the reliability targets. Most non-performing systems are due to power station incidents impacting Horizon Power's systems' reliability. Reliability for Hopetoun rural and Onslow continue to be an issue with initiatives in place to bring these systems to performing status. System outages have impacted the reliability performance for Kununurra, Mount Magnet, Wiluna, Yungngora, Norseman and Hopetoun. The work to automate the Power Station in Wyndham has resulted in Wyndham being categorised as a performing system. Esperance rural also achieved this status due to the previous work on the system (pole replacements and reinforcements and insulator works).
9. Based on available data, the 2013/14 carbon intensity is calculated at 0.58 kgCO_{2e}/kWh sent out. This is a slight increase in overall carbon intensity from the previous year and is primarily due to increases in carbon intensity reported for Broome Power Station and the North West Interconnected System.
10. Return on Assets compares favourably to target as a result of higher customer and developer contributions and non-energy revenue.

Operational performance report

Horizon Power delivered safe and reliable electricity supplies to customers throughout 2013/14 despite the challenges posed by reduced funding for capital projects and the significant impact of Tropical Cyclone Christine.

Of our 38 systems, 32 met performance reliability standards.

These results represent an improvement on the previous four year average, highlighting our commitment to maintaining the reliability of our power supplies.

Whole-of-system outages caused by power station operations impacted the reliability performance for Onslow, Kununurra, Wyndham, Mount Magnet and Hopetoun. Horizon Power continues to work with the Independent Power Producers (IPP) of these systems to identify and further improve their performance. Automation works in the Wyndham power station has had a positive impact and brought the Wyndham system to performing status. Similar work has now been completed in Onslow with a similar impact.

Historically the Kununurra and Wyndham systems have not met reliability standards and 80 per cent of outages in Kununurra, Wyndham and Lake Argyle have been attributed to the IPP generation and transmission assets. Significant works have taken place this year to improve the reliability of Wyndham, however works in Kununurra have been delayed due to budget constraints.

Additional funding is required to significantly improve the reliability of the back-up power station in Kununurra and Horizon Power is now reviewing options to improve the back-up power station and improve reliability in the town.

Horizon Power is continuing our Fit for Purpose Asset Management Strategy with a forensic focus on risk adjusted value. This strategy looks at the following drivers: Safety, Regulatory, Capacity, Reliability, Asset Service, Economics and Quality; the Asset Service driver being shifted from age-based to condition-based. The long-term programs associated with the Fit for Purpose Strategy are designed to deliver sustained improvements in the safety and delivery of reliable power supplies to our customers.

As noted above Horizon Power subjected its Asset Management Plan (AMP) works program for 2014/15 and future years to an updated risk matrix including a rigorous assessment of risk, consequence and value. Accordingly, the business has adjusted the timing of projects, resulting in Horizon Power's State Budget forecast submission and the AMP being aligned with capital funding reflecting the works program.

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

The Capital Works Program has been delivered against our agreed AMP. Horizon Power is undertaking mitigation works identified as extreme and high risk, with significant progress being made on:

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

Table 1 Network assets

Network type	Carrier	Kilometres
Transmission	220 kV	197.0
	132 kV Underground	1.8
	132 kV Overhead	109.7
	66 kV Overhead	150.0
	66 kV Underground	1.4
Distribution	HV 3-Phase Overhead	2068.6
	HV 3-Phase Underground	727.2
	HV Single Phase Overhead	2747.1
	HV Single Phase Underground	0.9
	LV Overhead	566.4
	LV Underground	1266.5
Total		7,836.6
Total transformer capacity	701 MVA	
Number of transformers	4,380	
Number of distribution poles	58,344	
Number of transmission poles	240	
Number of transmission towers	862	

Table 2 : Asset Management Plan drivers

AMP driver	Actual (\$) FY 13/14	Forecast (\$) FY 13/14
Safety	8,336,219	8,583,472
Regulatory	4,053,864	3,489,091
Reliability	2,789,789	2,172,829
Capacity	2,547,366	2,776,403
Asset Service	5,572,313	6,004,976
Quality	631,649	933,490
Economics	274,585	310,000
Total	24,205,784	24,270,261

Electricity generation and sales

June 2013/14 Power Station	Generated Power (kWh)	Generated Power-Wind/Solar (kWh)	Purchases (kWh)	Total Power Purchased/Generated (kWh)	Used in Works	Sent Out (kWh)	RE buyback import into HP network (kWh)
Ardayaloon	-	-	1,747,893	1,747,893	-	1,747,893	-
Beagle Bay	-	-	1,553,417	1,553,417	-	1,553,417	-
Bidyadanga	-	-	3,009,142	3,009,142	-	3,009,142	-
Broome	-	-	118,121,800	118,121,800	-	118,121,800	1,279,336
Looma	-	-	2,669,401	2,669,401	-	2,669,401	-
Carnarvon	47,908,259	-	-	47,908,259	2,544,582	45,363,677	1,464,869
Coral Bay	-	-	3,096,608	3,096,608	-	3,096,608	-
Cue	-	-	2,178,252	2,178,252	-	2,178,252	49,917
Denham	3,084,048	2,449,373	379,076	5,533,421	141,274	5,392,147	215,314
Derby	-	-	37,150,973	37,150,973	-	37,150,973	244,724
Djarindjin	-	-	1,670,168	1,670,168	-	1,670,168	-
Esperance	-	-	68,022,370	68,022,370	-	68,022,370	1,280,515
Exmouth	-	-	25,873,338	25,873,338	-	25,873,338	606,269
Fitzroy Crossing	-	-	14,483,422	14,483,422	-	14,483,422	8,203
Gascoyne Junction	-	-	738,288	738,288	-	738,288	17,139
Halls Creek	-	-	11,132,339	11,132,399	-	11,132,339	1,578
Hopetoun	-	-	8,454,633	8,454,633	-	8,454,633	199,312
Kalumburu	2,224,038	-	-	2,224,038	8,618	2,215,420	21,327
Kununurra	1,176,964	-	55,482,009	56,658,973	-313,062	56,972,035	225,160
Lake Argyle	-	-	564,430	564,430	-	564,430	132
Laverton	-	-	3,427,089	3,427,089	-	3,427,089	30,598
Leonora	-	-	8,802,745	8,802,745	-	8,802,745	6,103
Marble Bar	1,721,290	573,988	-	2,295,278	383,796	1,911,482	91,401
Meekatharra	-	-	7,883,161	7,883,161	-	7,883,161	75,636
Menzies	-	-	698,479	698,479	-	698,479	5,220
Mount Magnet	-	-	4,093,801	4,093,801	-	4,093,801	106,076
Norseman	-	-	3,775,119	3,775,119	-	3,775,119	51,770
Nullagine	1,165,750	347,809	-	1,513,559	297,249	1,216,310	5,130
Onslow	2,445,835	-	5,447,747	7,893,582	-	7,893,582	12,541
Sandstone	-	-	550,637	550,637	-	550,637	60,057
Warmun	-	-	2,742,034	2,742,034	-	2,742,034	-
Wiluna	-	-	4,819,270	4,819,270	2,032,215	2,787,055	-
Wyndham	186,677	-	9,983,368	10,169,045	248,274	9,920,771	62,455
Yalgoo	-	-	1,018,270	1,018,270	-	1,018,270	-
Yungngora (Noonkanbah)	1,600,194	-	-	1,600,194	10,196	1,589,998	-
NWIS	137,862	-	536,800,364	536,938,226	32,023,803	504,914,423	278,974
TOTALS	61,649,917	3,371,170	946,369,703	1,011,011,714	37,376,945	973,634,770**	6,517,124

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

Safety

Pole management program

Wood pole replacement and reinforcement

Horizon Power shifted to using a condition-based management of wood pole replacement and reinforcement in the 2013/14 financial year. Condition-based management is in line with the Australian Standard AS1720, as required by State regulations.

Horizon Power replaces its poles based on condition with allowances to replace 1.5 per cent of our population of wood poles each year. In this financial year (2013/14) we removed or replaced 665 poles. The business has dealt with high risk poles in areas around the Esperance region.

Privately-owned poles

Horizon Power has been engaging with land owners of privately-owned power poles in the Esperance region to make them aware of their obligations regarding the maintenance of the poles. Horizon Power is also engaging with owners of poles in other regions in our service area.

Pole testing methodology

In 2009, EnergySafety issued an Order to Western Power to improve the inspection, assessment and management of wood poles and subsequently wrote to Horizon Power, at the time utilising the same system of pole management process, to also meet the Order requirements.

Horizon Power is well placed to meet all requirements relating to this request.

The business initiated a program to address each of the elements identified by *EnergySafety*, one component of which was a revision of pole inspection techniques to determine the strength of poles in service. The business now uses a strength calculation testing technique to assess all poles against the load on the pole, and will complete a thorough assessment of our full fleet of poles in 2016.

The impact of the testing technique and maintenance regime and age-based pole replacement program can be seen in the graph below.

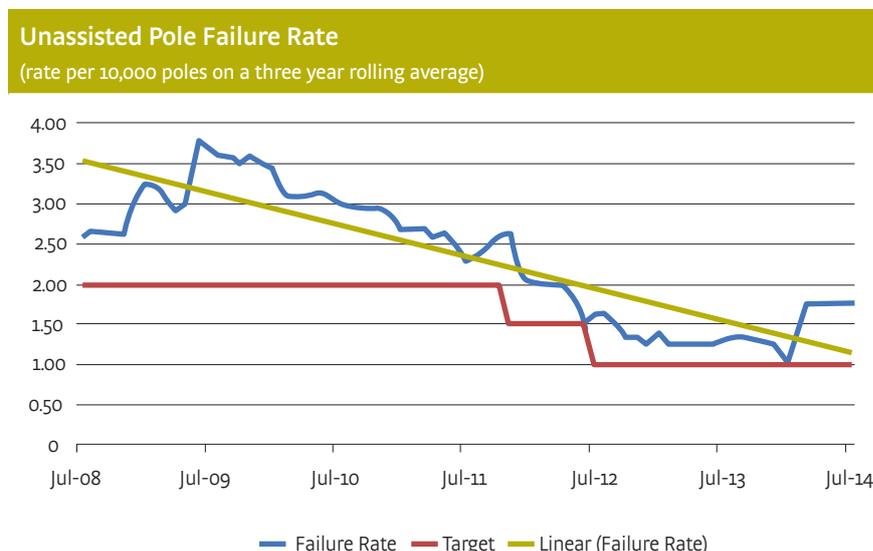
Horizon Power has nearly reached its target of 1 in 10,000 unassisted pole failures. Actual performance is 1.77, following the impact of Tropical Cyclone Christine over New Year 2014.

Conductor management

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

Horizon Power committed in 2010 to replacing small copper conductors. This work is progressing well and is included in Horizon Power's Asset Management Plan to 2020.

The program is in three phases and the first phase requires all low voltage copper conductors to be removed by 2015, with 35 bays currently remaining. In the second phase, all low voltage small copper conductors will be replaced by 2018 with high voltage conductors to be completed in the third phase by the 2020/21 financial year. To date, 74 per cent of this work has been completed.



Horizon Power has begun reviewing conductors, applying a health index (HI) process developed in Canada. HI uses empirical analysis and observations to determine an index which defines the relative health of the conductor. The business is also in the midst of developing a conductor condition and criticality assessment methodology to manage conductors in service.

Horizon Power continues to work closely with Western Power by holding monthly working groups, to share experiences and knowledge to ensure key learnings can be applied.

Pilbara Underground Power Project (PUPP)

The PUPP will provide cyclone affected North West towns with a safer and more reliable electricity supply, by replacing ageing overhead electricity infrastructure with underground networks. The project will dramatically improve the provision of an essential service to regional residents and businesses during, and immediately following, adverse weather events.

It will furthermore reduce the necessity for our people to undertake repairs to infrastructure in the trying conditions following tropical cyclones.

Works in South Hedland and Wedgefield were successfully completed in December 2013 together with 40% of the project in Karratha. Field works are yet to start in the remaining areas of Karratha, Roebourne and Onslow.

Following the withdrawal of the prime contractor in February 2012 the project has been tightly managed to budget and schedule by Horizon Power. External audits have commended project management and governance over the last two years.

Funding to complete the remainder of the project has now been secured through contributions from Royalties for Regions of \$75 Million together with contributions from the City of Karratha and Shire of Ashburton. At the time of publication a tender process was under way with remaining works in Bulgarra and the Karratha Light Industrial Area to commence before the end of 2014.

Advertising campaigns

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

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

- Safety
 - Cyclone and Storm - How Ready Are You?
 - Be Aware of Electricity; and
- Energy efficiency
 - Easy ways to reduce your power bill

Safety

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

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

Cyclone and Storm – How Ready Are You?

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

The current campaign was launched for the 2011/12 cyclone and storm season and recommenced in September 2013 for the 2013/14 cyclone and storm season. This community awareness campaign uses Horizon Power employees and customers to promote cyclone preparation as a shared responsibility and highlights the personal contribution individual householders should make towards helping to keep their community safe.

Be Aware of Electricity

Our public safety campaign educates the public on how to safely interact with electricity and to enhance Horizon Power’s overall corporate reputation in the community.

The campaign helps the community:

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

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

Energy Efficiency

The Future Energy Alliance, a joint venture between Synergy, Western Power and Horizon Power to communicate energy efficiency, has been dissolved to enable individual entities to communicate their own messaging. As the local energy partner to regional Western Australians, Horizon Power provides our customers with proven, energy efficient messages.

The purpose of our energy efficiency campaign is to:

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

The simple, direct, tip-oriented messaging is presented in a non-threatening, light-hearted fashion.

Safety within Horizon Power

Horizon Power achieved 2.1 million employee hours without a lost time injury (LTI), before an LTI occurred in Karratha in May 2014. Before this, we were close to three years without a lost time incident in Karratha. We have been LTI free in Port Hedland for 14 years, in Kununurra for 13 years, in Carnarvon for eight years, in Broome for seven years and in Esperance for four years.

Horizon Power has embarked on a series of strategic safety activities:

- development and implementation of a renewed safety and health strategy;
- implementation of a new consultation and communication framework;
- continued work to develop our re-energised health and safety management system; and
- increasing opportunities to demonstrate visible safety leadership.

Further refinements of our health and safety management system will promote certification to the Australian Standard and encourage benchmarking of system performance.

Horizon Power has recorded a 2.5 lost time injury frequency rate for this financial year, an increase from the 2012/13 rating of 0.



Value

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

Managing our assets

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

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

In the past financial year, the Asset Management Strategy (AMS) was reviewed in line with new business strategy and direction, following Horizon Power's strategic review .

The AMS, which addresses safety and regulatory obligations and ongoing asset replacement, has been revised to more efficiently manage risk and to take a more commercial approach, which will minimise the cost of delivering Horizon Power's business objectives.

Specifically, risk management of our asset base was reviewed, with three principles now applied:

- where good industry practice does not exist, safety is managed to "as low as reasonably practical" (ALARP);
- the application of commercial principles which balance risk with cost of mitigation in order to deliver best value to Horizon Power; and
- reliability targets are to be managed on a risk basis that considers community needs.

Safety: In relation to the AMS, the systems and processes within the Risk Management Framework have been enhanced with models that refer to good industry practice and where this cannot be identified, to ALARP.

Commercial value: Works programs developed through the asset management process mitigate gaps in asset performance and ensure the prioritisation of work on those assets which pose the greatest risk to the business. A commercial focus is achieved by comparing the change in the risk adjusted value (RAV) against the cost of the work to guide in the decision making process. The RAV is set by assigning a value to the risk which in turn is used in a comparison against the cost of managing the risk.

Community / reliability performance: Horizon Power previously delivered reliability performance to its customers based on criteria that reflected low risk behaviour. Often decisions made to install assets were based on a zero risk tolerance, which led to installed assets having capacity that was under-utilised. Accepting more risk releases this capacity, delaying expenditure. The value of lost load (VoLL) to

customers provides a methodology to manage the risk and to efficiently use this under-utilised capacity.

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

The business reviewed its entire 2013/14 project list and adjusted its approach to funding applications to ensure we meet both financial targets set by Treasury, and best practice targets regarding safety and commercial value.

Powering the Pilbara

Horizon Power has worked in close collaboration with the Departments of State Development, Treasury, Finance and other representatives of the Pilbara Power Procurement Board to develop a future energy solution for the Pilbara.

From 2016 the Pilbara will require additional generation. TransAlta Energy (Australia), a Canadian-based energy company, has been selected to build the 160 megawatt station that will provide 110MW power to Horizon Power Pilbara customers. The mining company Fortescue Metals Group will take the remaining power for its port operations. TransAlta Energy (Australia) expects to be providing power in early 2017.

This significant project will be a Private-Public-Partnership which is off balance sheet. This means state-of-the-art energy infrastructure will be built to benefit West Australians without an impact on the State Budget as the costs will be borne by the private sector.

Horizon Power this year completed construction of a 110MW power station for a short-term generation solution in the Pilbara, which has been hampered by the financial collapse of two major contractors. Just two weeks away from completion of phase one of the Hedland Precinct Power Project earlier this year, the major contractor Forge Group Limited had a Receiver appointed. The Design, Build, Own and Maintain contract with Forge Group Limited was terminated and Horizon Power stepped in to project manage the situation with remaining works contracted out.

Horizon Power has managed its commercial interests and developed contingencies throughout this project. Horizon Power anticipates executing contracts for the temporary

generators to secure capacity for the peak summer load of 2014/15 and deliver the overall project within the original budget allocation whilst drawing on contractual bonds and liquidated damages.

In Onslow, Horizon Power successfully installed additional short-term generation ahead of the 2013/14 summer, which has improved reliability in the town. Horizon Power is now working with Chevron Australia to build a long-term power station for the Onslow community to support Chevron Australia's Wheatstone project. This station is due to be operational in 2016.

Reducing the cost of generation

Horizon Power continues to investigate emerging trends, such as distributed generation, to reduce the cost of generation in remote towns, as well as improve reliability. A pilot is planned for towns in the Mid West, subject to available funding in 2014/15.

Horizon Power continues to negotiate with independent power producers (IPPs) to drive cost efficiencies as contracts expire. The existing contract

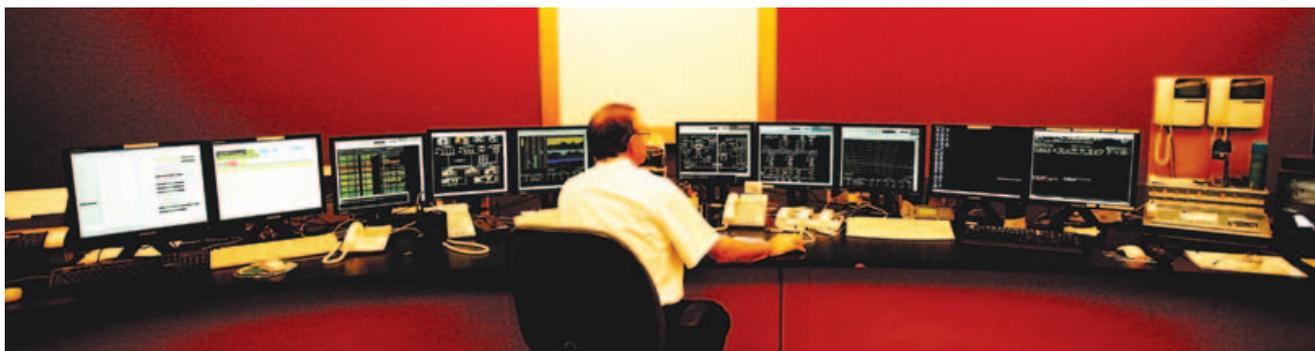
in the Mid West will expire in April 2015 which represents a significant efficiency opportunity.

Horizon Power is also working with Synergy to ensure we can procure the best price for gas when contracts expire in 2016.

Aboriginal and Remote Communities Power Supply Project

Horizon Power has successfully completed phase two of the Aboriginal and Remote Communities Power Supply Project (ARCPSP) – a program designed to improve the quality, safety, reliability and affordability of electricity supplies in large, remote Aboriginal communities.

The Project replaced ageing diesel-fired power stations and upgrades of network infrastructure in selected remote communities. It also included inspections and upgrades of internal house wiring, the installation of pre-payment meters and streetlights, education on energy efficiency and electrical safety and the employment of community-based Remote Community Utilities Workers.



ARCPSP phase one involved network upgrades and five new power stations servicing six communities and was completed in December 2007. ARCPSP phase 2.1 involved network upgrades and new power stations in Kalumburu and Yungngora (Noonkanbah). The new power station in Yungngora was completed and began delivering power to the community in September last year. In Kalumburu, the new station was commissioned in November last year – marking the end of ARCPSP phase two.

At the completion of this project, eight of the listed 15 large, remote communities will have received upgrades to their infrastructure. Horizon Power has not been funded to upgrade infrastructure in the remaining seven Aboriginal communities.

Mungullah Power Station Project

Horizon Power's new 18MW Mungullah Power Station at Carnarvon was officially opened by the Minister for Energy Dr Mike Nahan on 23 May 2014.

The \$77 million station, built six kilometres out of Carnarvon to reduce noise impact on residents, has taken over power production from the old Carnarvon Power Station. It has the ability to be expanded to provide for the region's forecasted growth.

Power was first produced from Mungullah's diesel generators in January 2014, with the gas-powered

equipment then undergoing commissioning and reliability trials.

Following a seamless transition from the old power station, the new Mungullah Power Station took over the sole supply of electrical power to the town of Carnarvon on 13 June 2014 and subsequently completed the 30 day trial successfully on 13 July 2014.

The Western Australian State Government funded the construction of the Power Station, with all phases (including work originally earmarked for 2016) completed on time and on budget. Mungullah Power Station will meet the needs of the region for many years to come and has been designed specifically to ensure it operates smoothly during extreme weather conditions, which the region is prone to.

Square Kilometre Array and Murchison Radioastronomy Observatory Power Supply Projects

In December 2011, \$15.5 million in funding was approved from the Royalties for Regions and the Department of Commerce portfolios to construct a 1 MW power station for the CSIRO's Australian Square Kilometre Array Pathfinder (ASKAP) Project.

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

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

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

Manage Business Risk

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

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



Community

Aboriginal engagement

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

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

At Horizon Power, we firmly believe that our role in communities should not stop with the tangible assets we create and upgrade, such as new power stations and upgraded networks, but that equal importance should be placed on employment opportunities and continued engagement with communities at a local level.

We are focused on creating opportunities to assist in the development of communities, whether it is through providing employment opportunities or sponsoring community initiatives.

We develop and support partnerships with community organisations that have activities, interests and values compatible with our own. The focus of our Community Investment Program is to identify and support initiatives that

contribute to Horizon Power's intent to maximise social, environmental and economic intergenerational assets to the communities we serve and involve Horizon Power as part of the community.

We support a broad range of not-for-profit organisations and events that encompass areas of strengthening communities and that align with our corporate objectives: safety, value and community.

Programs and initiatives that we have supported this year include:

Safety

Esperance Goldfields Surf Life Saving Club – Cadet Program

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

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

Value

Teach, Learn, Grow

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

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

Community

Kimberley Girl and Pilbara Girl

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

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

Southern Alliance

Horizon Power has implemented a consolidated, long-term hybrid alliance contracting arrangement – named the Southern Alliance - in the Gascoyne/ Mid West region to deliver our asset

management programs. Following a tender process, Transfield Services was selected as the recommended vendor for the five year contract. Transfield staff are now located at the Horizon Power regional office in Carnarvon and local contractors will continue to provide ancillary, fault and emergency services through Transfield Services.

Customer service

This year Horizon Power invested significant effort to resolve and halt an increase in customer complaints due in large part to estimated bills. The number of complaints has dropped significantly following improvements to metering and billing processes.

Following the strategic review, accountability for customer management has been transferred to regional offices, enabling local issues to be identified and resolved swiftly. Early results of this approach are encouraging with customer satisfaction increasing from 78 per cent to 82 per cent this year, against a target of 70 per cent.

Our people

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

Performance leadership

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

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

These performance drivers and the associated expected behaviours underpin the performance appraisal system and our rewards and recognition program.

Training

Horizon Power develops employees and apprentices, graduate engineers and administration trainees in the following training programs: Certificate II, III and IV Business Administration, Apprentice Certificate III ESI Remote Utility Community Workers, Apprentice Certificate III ESI Distribution Linespersons and Graduate Engineer development.

In total, 17 people were employed in various development roles throughout the business, from operations to administration roles.

The six 2009 Certificate III Electricity Supply Industry - Distribution Linesperson Apprentices have completed their “off-the-job” training this financial year and are preparing for their Capstone Assessments scheduled for late 2014 or early 2015.

Horizon Power has four employees from remote Aboriginal communities who maintain our assets. These employees are undertaking training in the national pilot for the Certificate III Electricity Supply Industry - Remote Community Utilities Worker Apprentice Program, which is due to be completed in 2015.

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

Culture

Our Horizon Way was developed and implemented in 2014. Our Horizon Way describes the expected behaviours for each of our performance drivers and contributes to our culture. These behaviours are reinforced through the performance appraisal process and form the criteria for employee recognition.



Aboriginal employment

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

Business trainees at Horizon Power

Horizon Power continues to support business trainees of Aboriginal descent in its Bentley, Carnarvon and Kununurra offices.

Trainees of Aboriginal descent continue to be employed under a contract with Fujitsu Australia Limited, Horizon Power's supplier for IT support.

Remote Community Utilities Workers

Horizon Power has four employees from remote Aboriginal communities who maintain our assets. These employees are undertaking training to complete a Certificate III in ESI - Remote Community Utilities Worker, which is due to be completed in 2015.

Table 3 : Training program statistics

Training program	Number of employees	Number of Aboriginal employees
Apprentice Distribution Workers	6	3
Remote Community Utilities Workers	4	4
Administration Trainees	3	3
Graduate Engineers	4	

Table 4 : Employment statistics

	Active full-time equivalents (FTE)			
	Permanent full-time	Permanent part-time	Fixed-term temporary	Total
Overall Horizon Power	341	43	48	393.3

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

Environment and heritage

Greenhouse gas and carbon intensity

Horizon Power reports total carbon emissions per financial year in accordance with the *National Greenhouse and Energy Reporting Act 2007* (NGER). Horizon Power's 2013/14 NGER's report will be made publicly available in the first quarter of 2015. An estimate is made for the Scope 1 emissions¹ (direct emissions) in Table 5 for 2013/14, based on the most up to date information as at 5 July 2014. Greater complexity exists in establishing Scope 2 emissions² (indirect emissions) therefore it is too early to accurately estimate this value at the time of publishing.

The slight decrease in Scope 1 emissions from the previous year's reporting is attributed to the net result of:

- An overall decrease in diesel burned throughout the reporting year, attributed to decreased usage of diesel at several power stations (Karratha, Carnarvon, Kununurra and Onslow).
- A slight increase in gas burned at Carnarvon power station.

Carbon intensity, measured as kgCO₂-e/kWh sent out, of Horizon Power's total operations provides the key performance indicator (KPI) for greenhouse gas emissions. Due to the relative contributions to electricity sent out, carbon intensity is primarily affected by independent power producers, with power stations operated by Horizon Power having a lesser impact.

Table 5 : Greenhouse gas emissions

Reporting year	Greenhouse gas emissions (tonnes CO ₂ -e)		
	Direct emissions (Scope 1)	Direct emissions (Scope 2)	Total energy consumption (GJ)
2011/12	36,370	34,110	894,503
2012/13	43,547	36,562	1,000,839
2013/14	42,286 ³	Reported to CER by 31 October 2014, publicly available Q1 2015	

Table 6 : Carbon intensity

Reporting year	Carbon intensity kgCO ₂ /kWh sent out	Target kgCO ₂ /kWh sent out
2011/12	0.60	0.68
2012/13	0.55	0.65
2013/14	0.58 ⁴	0.65

Air emissions

Horizon Power reports annual air emissions for the period 1 July – 30 June to the National Pollutant Inventory (NPI) for sites triggering the NPI reporting requirement. These reports and information on reporting requirements are publicly available on the NPI website (www.npi.gov.au).

An estimate of combined air emission data from all Horizon Power generation facilities is provided on the following page. This estimate is based on information available as at 5 July 2014. It should be noted that the emission reductions are primarily attributable to improved accuracy in

calculation techniques, more so than changes to operational performance.

The final data supplied to the NPI may differ slightly from the estimated emissions and will also include additional reporting parameters.

Table 7 : Air emissions summary

Performance Indicators (Substance)		2013/14 (estimates)	2012/13	2011/12
Sulphur Dioxide (So₂)	Total (Tonnes)	0.3	0.3	0.3
	kg/MWh (generated)	0.004	0.004	0.005
Oxides of Nitrogen (NO_x)	Total (Tonnes)	506	480 ⁵	916
	kg/MWh (generated)	8.08	7.53 ⁶	16.46

Table 8 : Former power station sites subject to contamination investigations

Groundwater monitoring events (GME)		
Esperance	Marble Bar	Meekatharra
Onslow		
Detailed site investigations (DSI)		
Camballin	Exmouth	Fitzroy Crossing
Kununurra	Redbank	
Other investigations		
Marble Bar - Vapour Risk Assessment		
Nullagine - Quantitative Risk Assessment (Tier 1)		
Onslow - Onsite Vapour Risk Assessment		

Noise

The Environmental Protection (Carnarvon Power Station Noise Emissions) Approval 2010 sets allowable noise emissions for the Carnarvon Power Station. This approval allows the Power Station to operate within a set of approved noise limits. Annual compliance monitoring was completed and recommendations to reduce site noise have been adopted. No noise complaints were received this year.

Management of contaminated sites

Horizon Power is managing 29 sites reported under the Contaminated Sites Act 2003 (CS Act). The sites are typically former power stations where historical spills and/or leaks of hydrocarbons have resulted in soil and/or groundwater impacts. Table 8 provides a summary of key investigations completed during 2013/14.

Several sites are classified as 'source' sites by the Department of Environment Regulation (DER) as defined by the CS Act. Horizon Power has appointed accredited Contaminated Sites Auditors to independently oversee the investigations of these sites. The comprehensive, risk-based, management strategy continued to be implemented to achieve remediation targets and end point classifications.

1. Emissions of greenhouse gas into the atmosphere as a direct result of an activity or series of activities (including ancillary activities) that constitutes the facility.
2. Emissions of greenhouse gas, in relation to a facility, as a direct result of one or more activities that generate electricity, heating, cooling or steam that is consumed by the facility but do not form part of the facility.
3. Estimated 2013/14 greenhouse gas emissions (as carbon dioxide equivalent). Final figures submitted to the Clean Energy Regulator (CER), by 31 October each year.
4. Based on data available at 5 July 2014.
5. Corrected. Value reported last year was 516, which included a calculation error.
6. Corrected. Value reported last year was 8.1, which included a calculation error.

The former Nullagine Power Station was reclassified this year by the DER. It was previously classified as ‘Contaminated – Remediation Required’ and is now classified as ‘Contaminated – Restricted Use’ which is the end point classification for this site.

Environmentally sensitive areas program

The Environmentally Sensitive Areas (ESA) Program continued this year. The program subjects all ground disturbing activities to a desktop assessment to identify conservation significant flora and fauna species which intersect Horizon Power assets. It provides staff and contractors with processes and procedures to follow when working within these areas.

Regulatory instruments

Horizon Power retained works approvals and operating licences issued by the DER for construction and operation of the following facilities in Table 9. They include conditions relating to the control of air emissions, noise, hydrocarbons, waste, surface and/or groundwater discharges:

Horizon Power holds a total of 20 active Native Vegetation Clearing Permits issued by the DER, permitting the clearing of approximately 160 ha of vegetation across a number of Horizon Power sites.

Environmental incidents

In late 2013, the DER issued a letter of warning to Horizon Power following reported minor over-clearing by a contractor of native vegetation to the north of Mungullah Power Station that had occurred in early 2011. The area is naturally rehabilitating and no further action was required. A reportable diesel spill occurred during the year at the Onslow Power Station and the South Hedland Power Station. Both spills were reported to the DER and appropriately cleaned up.

These incidents have been internally investigated to identify preventative and corrective measures, and no further action is required.

Native title and heritage compliance

The Heritage Management System (HMS) includes well established Native Title and cultural heritage approval processes. The success of this system is reflected in the consistent number of requests for Native Title and Heritage clearances from across the business, for both low and high impact projects, ensuring that we continue to improve our Native Title and Heritage approvals processes.

Table 9 : Works Approvals and Licences

Site	Instrument	Number
South Hedland Temporary Generation Project	Works Approval	W5048/2011/1
Mungullah Power Station	Works Approval	W4781/2010/1
Carnarvon Power Station	Works Approval Licence	W5075/2011/1 L7164/1997/9
Karratha Temporary Generation Project	Licence	L8745/2013/1

Directors' Report

Corporate governance

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

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

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

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

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

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

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

Board of Directors

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

The primary role of the Board is to set the strategic direction of

the organisation, approve major expenditure and provide advice to the Minister for Energy on regional power issues.

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

Horizon Power's Board consists of the following people:

- Mr Brendan Hammond, Chairman (resigned 1 June 2014)
- Mr Ian Mickel, Acting Chairman (effective 1 June 2014)
- Ms Lynne Craigie, Director
- Mr Ron Johnston, Director
- Ms Rosemary Wheatley, Director

Brendan Hammond (Chairman – resigned 1 June 2014)

Brendan brought with him a wealth of experience as Horizon Power's inaugural Chairman in 2005. He has worked in large mining corporations for most of his career, progressing through all levels of line management, and finally served as Managing Director of Argyle Diamond Mines in Western Australia.

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

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

Brendan resigned his position as Chairman of Horizon Power on 1 June 2014 to pursue other business interests.

Ian Mickel

(Acting Chairman from 1 June 2014)

Ian has been a farmer and grazier in the Esperance region for more than 30 years. He has a strong focus on local government, especially in the areas of finance and economic development. Ian was elected to the Esperance Shire Council in 1989 and has served as Vice President from 1991 to 1993 and as President from 1994 to 2001 and again from 2003 until October 2011 when he retired from Local Government.

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

Ian is a Fellow of the Australian Institute of Company Directors.

Ian was made a Freeman of the Shire of Esperance in 2012 in recognition of his significant contribution to the Shire.

Lynne Craigie

Lynne was appointed a Board Director in October 2011.

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

Lynne was elected to the East Pilbara Shire in 2003, was elected Shire President in 2005 and still holds this

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

Ron Johnston

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

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

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

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

Rosemary Wheatley

Rosemary has a wealth of legal experience having been a commercial lawyer for more than 35 years. During her legal career she acted for many years on behalf of a major bank, a major insurance company, on behalf of several of the larger charities in

Australia as well as for numerous smaller businesses and individual clients all over Western Australia. She developed specialist expertise in the areas of company law, banking securities, property law, trusts, estate planning and superannuation law.

Rosemary is currently the Government appointed independent director of Guumbarr Limited, a trustee company set up under the Browse LNG Precinct Project Agreement.

She was a member of the Metropolitan Cemeteries Board for 7 years.

David Powell

(Special Adviser to the Board - resigned effective 9 May 2014)

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

David brought with him 31 years accounting industry experience, including 10 years as a partner in consulting to clients in a range of industries on risk management, corporate governance and internal, external and IT auditing. In particular, he had been involved with some of the largest corporate and government internal audit assignments in Australia providing advice to management and Boards of major Australian enterprises in both the private and public sector.

David is a Chartered Accountant, Certified Internal Auditor, Certified Information Systems Auditor

and a Graduate Member of the Australian Institute of Company Directors.

David chaired Horizon Power's Audit and Risk Management Committee until 9 May 2014.

Ian Fletcher

(Special Adviser to the Board – resigned 30 June 2014)

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

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

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

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

Ian is Chair of Horizon Power's Corporate Affairs and Communications Committee.

Ian completed his work on 30 June 2014 as Special Adviser to the Board in order to pursue other interests.

Managing Director Elect and Company Secretary

Frank Tudor

(Managing Director Elect)

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

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

Frank has been involved with the Australia China Business Council (ACBC) as a Vice President at State and National level since 2005. Through 2009-2013 he was the National Chairman and President of ACBC and is currently serving on the Board. He has also recently been appointed as a Board member of the Federal Government's Australia China Council and is a member of the ANU China in the World Advisory Council. Frank is also the vice Chairman of the CCI's Resources and Energy Forum.

David Tovey

(Company Secretary)

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

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

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

Attendance at Board meetings

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

Audit and Risk Management Committee

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

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

Financial reporting

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

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

Table 10: Board Meetings

	Number of meetings attended	Number of meetings eligible to attend during the time the Director held office during the year
Brendan Hammond	20	21
Ian Mickel	24	24
Lynne Craigie	21	24
Ron Johnston	24	24
Rosemary Wheatley	24	24
David Powell	6	6
Ian Fletcher	9	9

Table 11: Horizon Power Directors' Terms of Appointment

Director	Appointed	Expires
Brendan Hammond	1 December 2005	31 March 2009
<i>Second Term</i>	1 April 2009	31 March 2012
<i>Third Term</i>	1 April 2012	Resigned 1 June 2014
Ron Johnston	1 May 2011	30 April 2013*
Lynne Craigie	1 October 2011	30 September 2014
Ian Mickel	11 August 2009	30 April 2013*
Rosemary Wheatley	13 November 2012	30 July 2015
Special Advisers to the Board	Appointed	Expires
David Powell (Chair Audit and Risk Management Committee)	11 February 2011	10 February 2012
<i>Second Term</i>	11 February 2012	Resigned 9 May 2014
Ian Fletcher (Chair Corporate Affairs and Communication Committee)	30 January 2012	Resigned 30 June 2014

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

Internal control and risk management

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

Composition of the ARMC

The ARMC comprises:

- David Powell, Chair (resigned 9 May 2014)
- Ian Mickel, Acting Chair (effective 9 May 2014)
- Lynne Craigie, Director
- Rosemary Wheatley (joined the Committee 17 June 2014)

ARMC meetings in the 2013/14 financial year were attended by:

- Frank Tudor, Managing Director Elect
- David Tovey, Company Secretary and General Manager Corporate Services
- Ben Hamilton, General Manager Commercial Services and Finance
- Frank van der Kooy, General Counsel
- Christo van Rensburg, Manager Risk, Audit and Governance (until November 2013)
- Liang Tay (for February 2014)

Table 12 : ARMC meetings attended

	Number of meetings attended	Number of meetings eligible to attend during the time the Director held office during the year
David Powell (Chair - until 9 May 2014)	6	6
Ian Mickel (Chair from 9 May 2014)	7	7
Lynne Craigie	5	7
Rosemary Wheatley	1	1

Corporate Affairs and Communications Committee

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

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

Composition of the CAC Committee

The CAC Committee comprises:

- Ian Fletcher, Chair (resigned 30 June 2014)
- Ron Johnston, Director

CAC Committee meetings in the 2013/14 financial year were attended by:

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

Table 13 : CAC Committee meetings attended

	Number of meetings attended	Number of meetings eligible to attend during the time the Director held office during the year
Ian Fletcher (Chair)	6	6
Ron Johnston	6	6

Governance and corporate compliance disclosures

In compliance with the accountability provisions of the *Electricity Corporations Act 2005* (the Act), Horizon Power has provided the Minister for Energy with a quarterly report for the first three quarters of the 2013/14 financial year and this annual report for the entire financial year.

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

- consolidated statutory financial statements and other statutory information required of any company under the Act;

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

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

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

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

Ministerial directions

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

Shares in Statutory Authorities

N/A

Shares in Subsidiary Bodies

N/A

Declarations of interest

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

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

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

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

Brendan Hammond

- Seymour Associates (Director/ Owner)
- Adjunct Professor of Sustainability, Curtin University
- Centric Digital, responsible for the Australian operations
- A director of Broome Futures Ltd

Ian Mickel

- Holds Commonwealth Bank shares
- Holds Western Areas shares
- Holds Telstra shares
- Holds MacMahon Holdings shares
- Director of Telac Pty Ltd

Lynne Craigie

- Chair of Pilbara Regional Council
- President of Shire of East Pilbara
- Board Member of Pilbara Development Commission
- Deputy President of Western Australia Local Government Association (WALGA)
- Member Australian Local Government Association Committee (State Representative)
- Deputy Chair, Regional Development Australia Pilbara
- Member Pilbara Regional Planning Committee
- Holds BHP Billiton shares and spouse works for BHP Billiton

Ron Johnston

- Owns properties in Karratha and leases properties through the Kimberley and Pilbara
- A director of Broome Futures Ltd

Rosemary Wheatley

- Holds Commonwealth Bank shares
- Holds APA shares
- Investment property holdings in Karratha

Frank Tudor

- Board member and Director of the Australia China Business Council
- Lecturer at the University of Western Australia in Oil and Gas Economics
- Vice-Chairman of the Chamber of Commerce and Industry Energy and Resources Forum
- Board member of the Federal Government's Australia China Council
- Board Member of the Australian National University China in the World Committee Advisory Board
- Facilitator of the Gas Fundamentals Conference for Informa Corporate Learning

Ian Fletcher

- Holds BHP Billiton and Commonwealth Bank shares
- On the Board of Trustees of Western Australian Museum
- A director of Broome Futures Ltd.
- Engagement with BHP Billiton

David Powell

- Past partner of Ernst and Young, and Deloitte

Indemnification of Directors

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

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

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

Emoluments paid to Board members and senior executives

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

Details of payments made to Board members and key management personnel can be found in the 2013/14 Financial Report.

Legislation

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

Electricity licences

The *Electricity Industry Act 2004 (WA)* requires participants who generate, transmit, distribute or retail electricity in Western Australia to obtain a licence to operate. Licences are issued by the Economic Regulation Authority. Horizon Power was issued an Integrated Regional Licence on 30 March 2006.

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

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

Horizon Power is also required to submit a Licence Performance Audit and an Asset Management System Review to the Economic Regulation Authority at intervals determined by the Authority. The next Licence Performance Audit will be for 1 April 2013 to 31 March 2015. The Asset Management System review is currently being conducted and covers the period 1 April 2011 to 30 June 2014.

Compliance with other legislation

Horizon Power has a number of controls and systems in place which support the business in complying with all legislation and regulations affecting its activities.

They include an online compliance register as well as compliance mapping and monitoring software.

Restriction on the area within which Horizon Power may operate

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

Observance of the Code of Conduct

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

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

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

During the 2013/14 financial year there were three breaches of the Code of Conduct and they were reported as required under the *Electricity Corporations Act 2005*.

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 Technology division.

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

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

Western Australian Electoral Act 1907

In accordance with the requirements of Section 175ZE of the *Western Australian Electoral Act 1907*, the following information in respect to expenditures (excluding GST) incurred by Horizon Power during the period 1 July 2013 to 30 June 2014 is presented. This expenditure includes costs associated with public safety advertising campaigns, planned outage notifications, self-read meter mail outs and recruitment.

- **Advertising agencies:** \$387,705: Mindfield, Brand Agency: \$1263
- **Market research organisations:** \$71,973: Metrix
- **Direct mail organisations:** N/A
- **Media advertising organisations:** \$256,290: Adcorp, Carat Australia Media Services, KEA, Farmguide

Total expenditure was \$717,300

Environmental regulations

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

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

- *Environmental Protection Regulations 1987* provide generally for the prevention and control of pollution and ensure that appropriate processes are established to manage pollution, noise and other environmental impacts generated by construction and operations.

- *Environmental Protection (Controlled Waste) Regulations 2004* provide for the licensing of carriers, drivers and vehicles involved in the transportation of controlled waste on public roads.
- *Environmental Protection (Native Vegetation Clearing) Regulations 2004* protects all native vegetation in Western Australia. Clearing native vegetation is prohibited, unless a clearing permit is granted by the Department of Environment and Conservation (DEC) or the clearing is for an exempt purpose. Horizon Power obtains Native Vegetation Clearing Permits where exemptions do not apply and provided annual reports to the DEC in accordance with permit conditions.
- *Environmental Protection (Unauthorised Discharge) Regulations 2004* provide for the prevention of unauthorised discharge of potentially environmentally harmful materials.
- *Environmental Protection (Noise) Regulations 1997* provide for noise emitted on a premises or public place and received on another premises. There is a special provision allowing persons who are unable to reasonably comply with the assigned levels to apply to the Minister for approval to vary from the assigned levels, via an Environmental Protection Authority (EPA) assessment process (regulation 17).

This process applies to Carnarvon Power Station providing for a reduction in noise emissions from this facility as of 31 March 2013. The ability to meet the reduced levels is unlikely at full operations due to ongoing operation of the existing power station arising from project delays in construction of the new power station. Horizon Power discussed this issue with the DEC in January 2013 and provided an updated construction schedule which provides for complete shut-down of the existing power station several years ahead of the schedule within the regulation 17 approval.

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

- *Environmental Protection and Biodiversity Conservation Act 1999 (Commonwealth);*
- *Contaminated Sites Act 2003;*
- *Dangerous Goods Safety Act 2004;*
- *National Greenhouse and Energy Reporting Act 2007; and*
- *National Environment Protection (National Pollutant Inventory) Measure.*

Horizon Power has a site-specific licence to operate the existing power station at Carnarvon. Licence conditions relating to air emissions, air and noise emissions monitoring, guidelines for storing liquid fuels and chemicals and supplying an annual report to the DEC on power station operations were met during 2013/14.

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

Operations during the 2013/14 financial year

The Electricity Corporations Act 2005 stipulates the specific and general information that is to be reported within the Directors' Report for the current financial year. To avoid duplication of content, please refer to the Operational Performance Report section commencing on page 16 for a review of Horizon Power's operations during the financial year and the results of those operations.

Financial Performance

Horizon Power ended the year with a net profit after tax of \$81.6 million (2013: \$51.2 million).

Total revenue and other income for the year was \$591.7 million, an increase of \$70.9 million, (+ 13.6 per cent), due mainly to increased revenue of \$55 million from the Tariff Equalisation Fund and higher sales of electricity of \$12.5 million resulting from Government endorsed tariff increases averaging 3 per cent.

Income from other sources and non-core streams were on par with last year.

The strategic review started in September 2013 and resulted in a reducing trend of operating and overhead expenditure over the last six months of the year. Overall, operating

expenditure was \$4.8 million higher than budget (\$160.3 million against \$155.5 million), which includes unbudgeted redundancy payments of \$13.4 million.

Depreciation and Amortisation recorded an increase of \$5.0 million compared to last year as a result of an increase of \$229.2 million in property, plant and equipment. Financing costs increased by \$2.3 million as a result of higher debt levels.

Balance sheet

Horizon Power's net assets increased by \$58.9 million achieved through retained profit for the year after paying a dividend of \$33.3 million and an equity injection of \$10.6 million, mainly for the funding of the Aboriginal Reserves and Communities Project Phase 2.

Total asset base increased by \$89.3 million to \$1,581.9 million mainly made up of Property, Plant and Equipment at \$1,443.0 million. Major projects undertaken during the year are listed in the capital expenditure program below.

Horizon Power's interest bearing loans with the Western Australian Treasury Corporation, were the primary source of finance for the capital program and increased by \$70.9 million to \$647.3 million.

As at 30 June 2014, cash at bank was \$33.3 million which, along with unused credit capacity of \$76.9 million, ensures Horizon Power is in a strong liquid position at the commencement of the new financial year.

Capital expenditure

Horizon Power delivered a \$161.4 million capital expenditure program for 2013/14. Significant expenditures for the year were the \$65.3 million Hedland Precinct Power Project for the provision of generation capacity at South Hedland; \$21.5 million on the Asset Management Plan for the maintenance of safety and reliability of Horizon Power systems; \$11.8 million on the Mungullah Power Station project, which was completed during the year; \$8.5 million for the Aboriginal and Remote Community Power Supply Project phase 2; \$8.7 million on the Pilbara Underground Power Project (PUPP) and \$21.5 million on other projects funded by customers.

Dividends

During the year, Horizon Power declared and paid dividends of \$33.3 million to the State Government representing 65 per cent of the net profit after tax for the financial years 2012/13.

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

Significant changes in Horizon Power's affairs

During the year Horizon Power undertook a strategic review of its operational model with the objective of reducing our State Government subsidy by \$100 million by the financial year 2017/18.

An outcome of the strategic review was a significant operating restructure with a reduction in mainly administration and corporate positions, which has lowered Horizon Power's corporate cost base. As part of the change in operating model, greater accountability and autonomy has moved to Horizon Power's regional business units to better serve the needs of our customers.

Efficiency Dividend Report

Horizon Power was successful in achieving and delivering the State Government's Efficiency Dividend targets. The outcomes of the Strategic review boosted the efficiency initiatives already in place and resulted in significant savings in the second half of the year. Excluding the one off consultancy payments linked to the Strategic review, the target was exceeded by \$2.9 million.

Materials, Service, Fleet and Property

This area of focus resulted in above expected full year savings with a \$3.8 million positive variance partly due to the outcome of the strategic review which resulted in significant reductions in Fleet and Property expenses.

Advertising

The end year result for 2013/14 (\$3.1 million) was a positive variance of \$1.8 million over the \$1.3 million target as a result of the strategic review.

Table 14 : Efficiency Dividend Performance

Efficiency Dividend Targeted Areas	Financial Year 2014 Efficiency Dividend Savings Target (\$ million)	Financial Year 2014 Full Year Achievement (\$ million)
Materials, Service, Fleet and Property	6.9	10.7
Advertising	1.3	3.1
Consultants	1.3	5.8
Contractors	3.3	-3.9
Sum Efficiency Dividend	12.8	15.7

Consultants

Horizon Power achieved considerable savings in consultant spend mainly due to deferral of planned works due to the strategic review.

Contractors

The negative variance in Contractors was offset by savings on internal labour following the implementation of the Strategic review.

Conclusion

In order to achieve the target savings, Horizon Power closely monitored the impact of its efficiency initiatives to ensure the identified benefits did not reduce services or negatively impact Horizon Power's customers. Monitoring also enabled Horizon Power to identify any slippage in focus areas, allowing us to identify the cause and take corrective action.

Directors' declaration

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

In the opinion of the Directors:

- a) the financial statements and notes of the Corporation are in accordance with Schedule 4 of the Electricity Corporations Act 2005, including:
 - i. giving a true and fair view of the Corporation's financial position as at 30 June 2014 and of its performance for the 12 month period ended on that date; and
 - ii. complying with Accounting Standards, AASB Interpretations and Corporations Regulations; and
- b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Ian Mickel

Acting chairman



Rosemary Wheatley

Director

