



# Quarterly Performance Report

## For the period January – March 2014

This report has had matters deleted from it under section 109 of the Electricity Corporations Act 2005 (WA)

# Performance Overview

This performance report covers the three month period ending 31 March 2014. For statistics prepared on a rolling 12-month basis, data prior to 1 July 2013 is used.

## Business Highlights

- Kununurra System Solution project commenced.
- Approved phase of Karratha component of the Pilbara Underground Power Project (PUPP) was completed in March. A total of 1,422 residential customers are now connected to the new underground network.
- No Horizon Power employee Lost Time Injuries for 27 months.

## Financial Performance

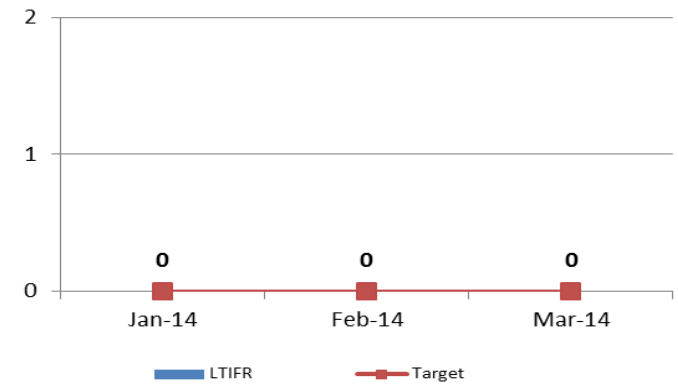
- Horizon Power reported a year to date Net Profit After Tax of \$54.3M, compared to budget (State Budget Forecast) of \$19.5M. Income recorded a net shortfall of -\$20.3M driven mainly by a decrease in electricity sales volume resulting from lower economic activity than forecast. This shortfall was offset by underspends in energy purchases (+\$29.4M). Timing differences in capitalisation resulted in lower depreciation and amortisation (+\$8.5M) and interest showed a favourable variance of +\$13.6M, due to more favourable interest rate on loans than budgeted.
- Capital expenditure to date is \$134.3M against a budget of \$160.4M. The variance of -\$26.1M is mainly attributable to Hedland Power Precinct Project (-\$20.0M due to delays caused by the Forge contract default).
- Total debt of \$1.1Bn (including finance leases) contributed to a gearing ratio of 75%, slightly lower when compared to December 2013 (77%).

## Stakeholder Service

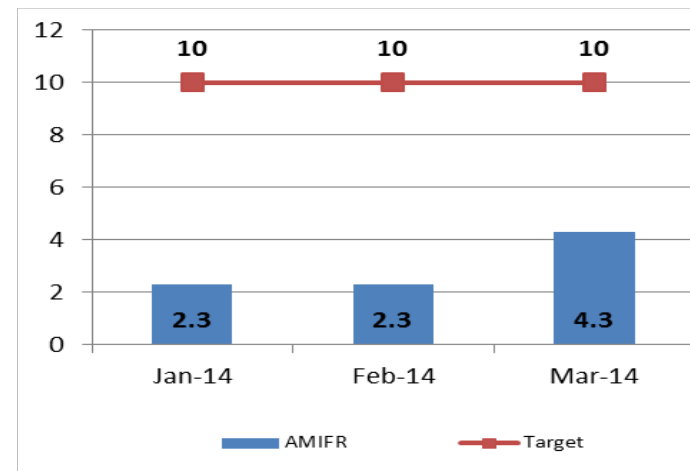
- Horizon Power provided responses to 13 Ministerials or requests for further information from the Minister or Public Utilities Office.
- Ministerials included responses to the Standing Committee on Estimates and Financial Operation, review of regional power tariffs, billing issues, underground power project implementation and the price of power for small business.

- There were no Horizon Power employee lost time injuries recorded for the period.

### Lost Time Injuries Frequency Rate (12 month rolling average)

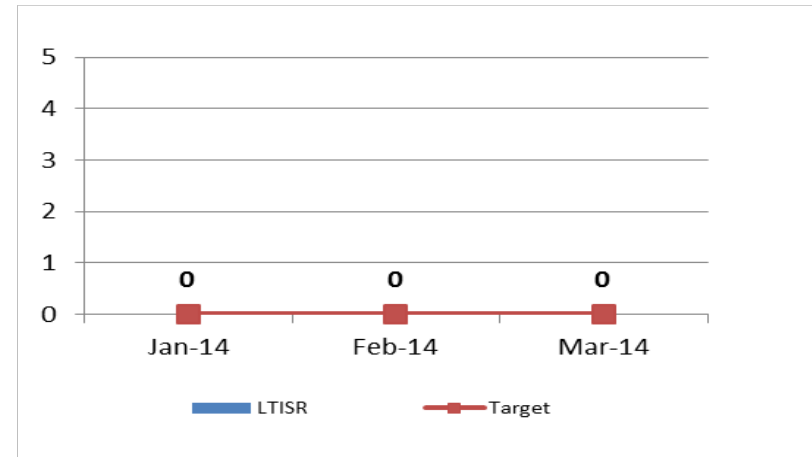


### All Medical Injuries Frequency Rate (12 month rolling average)

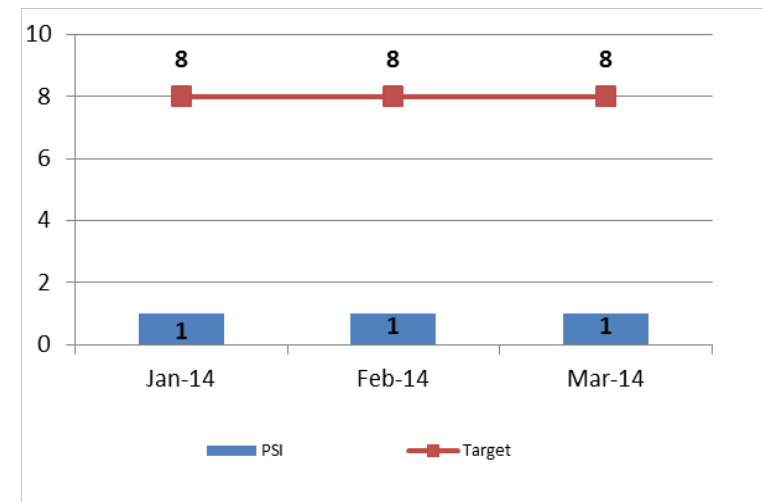


- The lost time injury severity rate for the quarter was zero.
- There were 3 public safety incidents for the quarter.
- The Greenhouse Gas Intensity increased slightly from the previous quarter. It is currently 0.57 CO<sub>2</sub>e/kWh which remains within the targeted level of 0.65.

### Lost Time Injury Severity Rate (12 month rolling average)



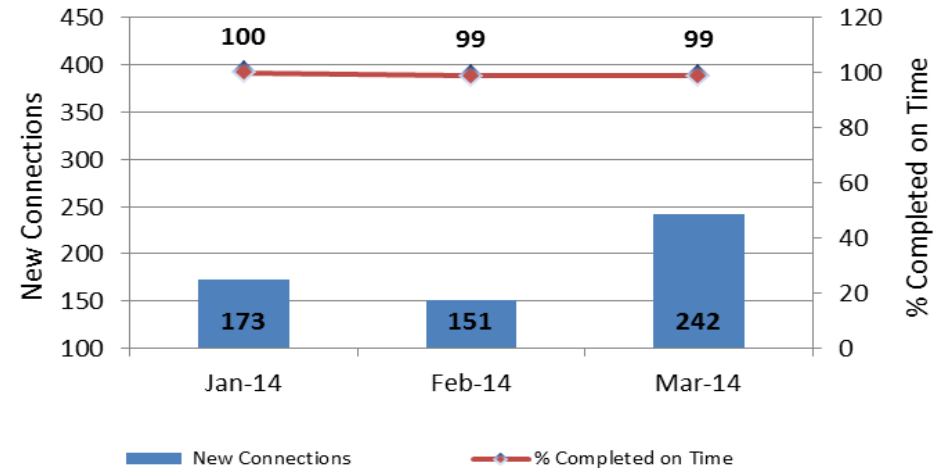
### Public Safety Incidents



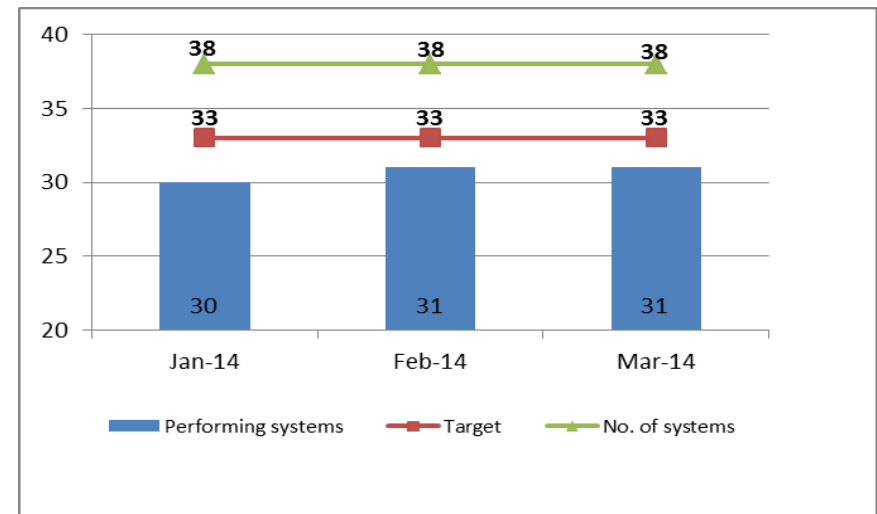
# Customer Service & Electricity Delivery

- Customer connections completed on time have remained stable over the period.

### Customer Connections



### Performing Systems (out of 38 systems)



# Financial Performance – Actual v/s SDP

The Net Profit After Tax for year to date March 2014 shows a positive variance of +\$34.8M broken down as follows:-

Profit & Loss Summary (in \$M)

|   | YTD March 2014 |              |             |
|---|----------------|--------------|-------------|
|   | ACTUAL         | SDP          | VAR         |
| Income                                  | 437.3          | 441.6        | -4.2        |
| Fuel and Electricity Purchases          | 141.6          | 171.0        | 29.4        |
| Operating Labour, Overheads & Materials | 115.7          | 116.1        | 0.3         |
| <b>EBITDA</b>                           | <b>180.0</b>   | <b>154.5</b> | <b>25.5</b> |
| Depreciation & Amortisation             | 47.9           | 56.4         | 8.5         |
| <b>EBIT</b>                             | <b>132.0</b>   | <b>98.1</b>  | <b>34.0</b> |
| Interest                                | 56.6           | 70.2         | 13.6        |
| Income Tax                              | 21.2           | 8.4          | -12.8       |
| <b>Net Profit After Tax</b>             | <b>54.3</b>    | <b>19.5</b>  | <b>34.8</b> |

## 1. Income

A negative variance of -\$4.2M in income primarily due to the following:

(I) Electricity sales recorded a shortfall of -\$20.3M (actual \$206.9M v budget \$227.2M) arising mainly in NWIS (-\$14.1M) and the Kimberley (-\$4.3M) and driven by lower economic activity than forecast.

(II) Developer and Customer Contributions reported a positive variance of \$14.9M due to unbudgeted gifted assets from Gap Ridge and Bayulu of \$7.4M.

(III) Unfavourable variance of -\$11.4M from CSO and TEF is due to (i) an adjustment of -\$2.9M for over-accrued CSO last year, (ii) lower CSO of -\$5.0M attributable to lower year to date volume and (iii) lower TEF of -\$3.5M. TEF has been subsequently reduced to reflect the gazetted amount.

(IV) Miscellaneous Revenue recorded a favourable variance of \$12.7M mainly driven by a performance bond received from Forge of \$8.7M and higher non energy and connection fees.

## 2. Fuel and Electricity Purchases

The positive variance of +\$29.4M was mainly driven by lower volumes.

## 3. Operating Labour, Overheads and Materials.

The positive variance of \$0.3M is mainly due to higher labour costs (-\$5.6M i.e. redundancy costs) which was offset by savings in operating materials and overheads (+\$5.9M – made up of employee support (+\$2.5M), vehicle (+\$1.7M) and property expenses (+\$1.5M)).

## 4. Depreciation and Amortisation.

The positive variance of +\$8.5M is mainly due to timing differences and budget assumptions in respect of the capitalisation of some projects (e.g. Aboriginal Remote Communities and Town Reserves and Regularisation Phase III). The MYR has been adjusted to reflect the impact of retimes and carryovers on capitalisation.

## 5. Interest.

The positive variance of +\$13.6M is due to lower interest rate than budgeted (SDP). The budgeted interest rate was revised in the Mid-Year Review.

# Financial Performance – Actual v/s MYR

The Net Profit After Tax for year to date March 2014 shows a negative variance of \$4.0M broken down as follows:-

Profit & Loss Summary (in \$M)

|   | YTD March 2014 |              |              |
|---|----------------|--------------|--------------|
|   | ACTUAL         | MYR          | VAR          |
| Income                                  | 437.3          | 466.7        | -29.4        |
| Fuel and Electricity Purchases          | 141.6          | 160.1        | 18.5         |
| Operating Labour, Overheads & Materials | 115.7          | 116.1        | 0.3          |
| <b>EBITDA</b>                           | <b>180.0</b>   | <b>190.5</b> | <b>-10.6</b> |
| Depreciation & Amortisation             | 47.9           | 47.5         | -0.4         |
| <b>EBIT</b>                             | <b>132.0</b>   | <b>143.0</b> | <b>-11.0</b> |
| Interest                                | 56.6           | 59.8         | 3.2          |
| Income Tax                              | 21.2           | 25.0         | 3.8          |
| <b>Net Profit After Tax</b>             | <b>54.3</b>    | <b>58.3</b>  | <b>-4.0</b>  |

## 1. Income

A negative variance of -\$29.4M in income primarily due to the following:

**(I)** Electricity sales recorded a shortfall of -\$22.1M (actual \$206.9M v budget \$229.0M) broken down into NWIS (-\$14.1M) and NIS (-\$8.0M) and driven by lower economic activity than forecast.

**(II)** Developer and Customer Contributions reported a negative variance of -\$14.8M mainly due to timing differences in relation to contributions for the PUPP project which is expected to be realised in the remainder of the year.

**(III)** Unfavourable variance of -\$6.1M from CSO due mainly to adjustment for revenue over-accrued last year and lower volume.

**(IV)** Miscellaneous Revenue recorded a favourable variance of +\$13.6M mainly driven by a performance bond received from Forge of \$8.7M and higher non energy and connection fees.

## 2. Fuel and Electricity Purchases

The positive variance of +\$18.5M was mainly driven by lower volumes.

## 3. Operating Labour, Overheads and Materials.

The positive variance of \$0.3M is mainly due to higher labour costs (-\$5.6M i.e. redundancy costs) which was offset by savings in operating materials and overheads (+\$5.9M – made up of employee support (+\$2.5M), vehicle (+\$1.7M) and property expenses (+\$1.5M)).

## 4. Depreciation and Amortisation.

Depreciation and Amortisation recorded a relatively small variance of -\$0.4M.

## 5. Interest.

The positive variance of +\$3.2M is due to lower interest rate than budgeted.

# Other Performance Measures

| KPIs   | Actual                | Target | Commentary  |
|--|-----------------------|--------|---|
| Business Value   |                       |        |   |
| Unit Cost to Supply (cents / kWh)                        | 32.9                  | 33.5   | The Unit Cost to Supply (cents/kWh) is currently achieving target, mainly due to savings in energy purchases due to lower supply volumes.   |
| Operating unit Costs (cents / kWh)                       | 14.8                  | 13.5   | The Unit Operating Costs (cents/kWh) is higher than target due mainly to the impact of lower volumes supplied for the year, where operating costs have remained largely consistent to budget. |
| Return on Assets (%)                                     | 10.9%<br>(annualised) | 7.60%  | Higher return resulting from higher Earnings Before Tax and Interest than budgeted.   |
| Community  |                       |        |   |
| Customer Satisfaction (Annual)<br>(Survey rating %)      | 76%                   | 70%    | Actual % based on survey carried out in May 2013.   |
| Regularised Communities                                  |                       |        |   |
| Number of Remote and Indigenous Communities regularised. | 3                     | 4      | The three regularised communities are Looma, Mowanjum and Bayulu.   |



# Efficiency Dividend Performance

| Efficiency Dividend Targeted Areas     | FY 2014 Efficiency Dividend target | FY 2014 Forecast |
|--|------------------------------------|------------------|
| Materials, Service, Fleet and Property | 6.9                                | 11.5             |
| Advertising                            | 1.3                                | 1.3              |
| Consultants                            | 1.3                                | 0.0              |
| Contractors                            | 3.3                                | 0.0              |
| <b>Sum Efficiency Dividend</b>         | <b>12.8</b>                        | <b>12.8</b>      |

Horizon Power's combined efficiency dividend target for 2013/14 equates to \$12.8M consisting of the five per cent efficiency dividend (\$7.2M) and the GTE efficiency dividend of \$5.6M.

The targeted savings displayed in the above table have been identified and committed in Horizon Power's budget for 2013/14.

Horizon Power is on track to deliver on these targets for 2013/14, however will exceed its annual budget target due to redundancy costs (\$17M) brought about by its Strategic Review program.

The breakup of the costs savings has altered mainly due to the following reasons:

- The increased savings on materials is due to contractors consuming their own resources and the cost being booked to contractors rather than materials. This explains why the saving in contractor costs is not forecast; and
- Following on from the Strategic Review work that Horizon Power has recently undertaken, there has been an increase in consulting spend offset by decreases in a number of other areas. As far as the efficiency target is concerned this has been moved to Materials.