



Statement of Corporate Intent

2012

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1 EXECUTIVE SUMMARY

Horizon Power is a Western Australian State Government owned, vertically integrated energy business providing energy solutions to residential, business and industrial customers living and operating throughout regional Western Australia.

Horizon Power's service area is vast, covering all areas outside the South West Interconnected System (SWIS), and extending from Kununurra in the North to Esperance in the South.

Horizon Power's purpose is to **deliver lasting economic, social and environmental value in regional Western Australia through the development of intergenerational assets**¹. This is reflected in Horizon Power's business objectives, which are to:

- *Maximise Economic Assets* by growing our profitability and building the value of the business.
- *Maximise Social Assets* by ensuring no one is hurt; providing reliable, effective and simple services and products; and, creating capacity and opportunity in the communities we serve.
- *Maximise Environmental Assets* by achieving greenhouse gas emission levels below the industry standard; seeking to add value, being respectful, and minimising harm to the environment; and, reducing our consumption of materials.

Horizon Power's strategy for achieving these objectives is to continue striving for excellence and to leverage this excellence for growth. Growth will come from profitable investment in major infrastructure development and service provision, and from using the capability developed in addressing the challenges of remote service provision to create new commercial opportunities.

There are three broad strategic platforms and several major projects that support this strategy. These are:

Business Excellence

- **Asset Management.** This strategy will address the social objective of community safety, through an *Asset Lifecycle Strategy* which focuses on managing assets based not on their age, but on their condition and serviceability.
- **Business Transformation/Separation.** Horizon Power is undertaking a major program of business separation from Western Power that will see Horizon Power take responsibility for its own IT services. The outcome of this program will be fit-for-purpose IT systems that support the Horizon Power business model.

¹ **Intergenerational assets** are those tangible and intangible assets that add value beyond the current planning period and operational lifecycle. Tangible assets are physical assets; intangible assets are those that provide a licence to operate. Relationships with our stakeholders and goodwill in the communities we serve are as instrumental in developing value as physical assets. Horizon Power facilitates the creation of both tangible and intangible assets, which may accrue to the community and other third parties, rather than to Horizon Power.

Infrastructure Planning and Development

- **Future Pilbara Generation Requirements.** Horizon Power has conducted a major study into expected generation loads in the Pilbara. This study has identified a requirement for at least another 100 MW of new or replacement generation capacity to replace existing supplies by 2013.
- **North West Interconnected System.** Horizon Power continues to review the configuration of the North West Interconnected System and to work with Government on options for meeting predicted incremental demand and accommodating major projects.
- **Pilbara Underground Power Project (PUPP).** This project will replace ageing overhead electricity infrastructure with underground networks that will provide cyclone-affected North West towns with a safe and reliable power supply.
- **Carnarvon Power Station Replacement.** The project will deliver 8 MW of new generating plant by December 2011 and a further 5.4 MW of new generating plant by March 2012.

Remote Service Extension

- **Remote Regularisation.** Horizon Power continues the Aboriginal and Remote Communities Power Supply Project (ARCPSP) with phase 2.1a now regularising the communities of Kalumburu and Yungngora.

2 INTRODUCTION

Horizon Power's 2012 Statement of Corporate Intent (SCI) has been written in accordance with the *Electricity Corporations Act 2005* (the Act).

Under the Act, the SCI sets out the objectives and operational targets for the business and details how these will be achieved.

The business strategies discussed in this document have been developed to maximise Horizon Power's opportunities, increasing the value of the business and delivering better outcomes for regional Western Australians. The underlying business model has been developed to maximise the lasting economic, social and environmental value provided to regional communities by Horizon Power's assets and operations.

This SCI describes the strategies that Horizon Power has developed to achieve its objectives and details how they will be carried out in the expected business environment over the coming year.

The expected economic, social and environmental benefits that will be provided to stakeholders are also described.

3 BUSINESS OVERVIEW

3.1. Who We Are

Horizon Power is a State Government-owned, vertically integrated energy business providing energy solutions to residential, business and industrial customers living and operating throughout regional Western Australia. Horizon Power's service area is vast, covering all areas outside the South West Interconnected System (SWIS), and extending from Kununurra in the north to Esperance in the south.

Horizon Power is responsible for generating, procuring, distributing and retailing electricity in the fast-growing regional centres of Western Australia. The rapid expansion of the regions has demanded a step change in the quality and capacity of infrastructure. At the same time, Horizon Power provides service to remote communities, some with fewer than 100 people.

3.2. What We Do

Within its service area, Horizon Power supplies electricity to approximately 43,000 customers, supplying more than 100,000 residents and 8,000 businesses.

Horizon Power's customer base reflects a diversity of lifestyles, modes of work and income levels across a spectrum of townships, ranging from major resource towns to self-sustaining remote and Indigenous communities. Similarly, weather experienced in the service areas is widely divergent, from the tropical north with its wet season and frequent cyclones to the temperate southeast with its cold and windy winters.

The service area includes two networks – the North-West Interconnected System (NWIS) in the Pilbara, and a smaller regional network connecting the towns of Kununurra and Wyndham – as well as 34 islanded systems that supply power to individual towns.

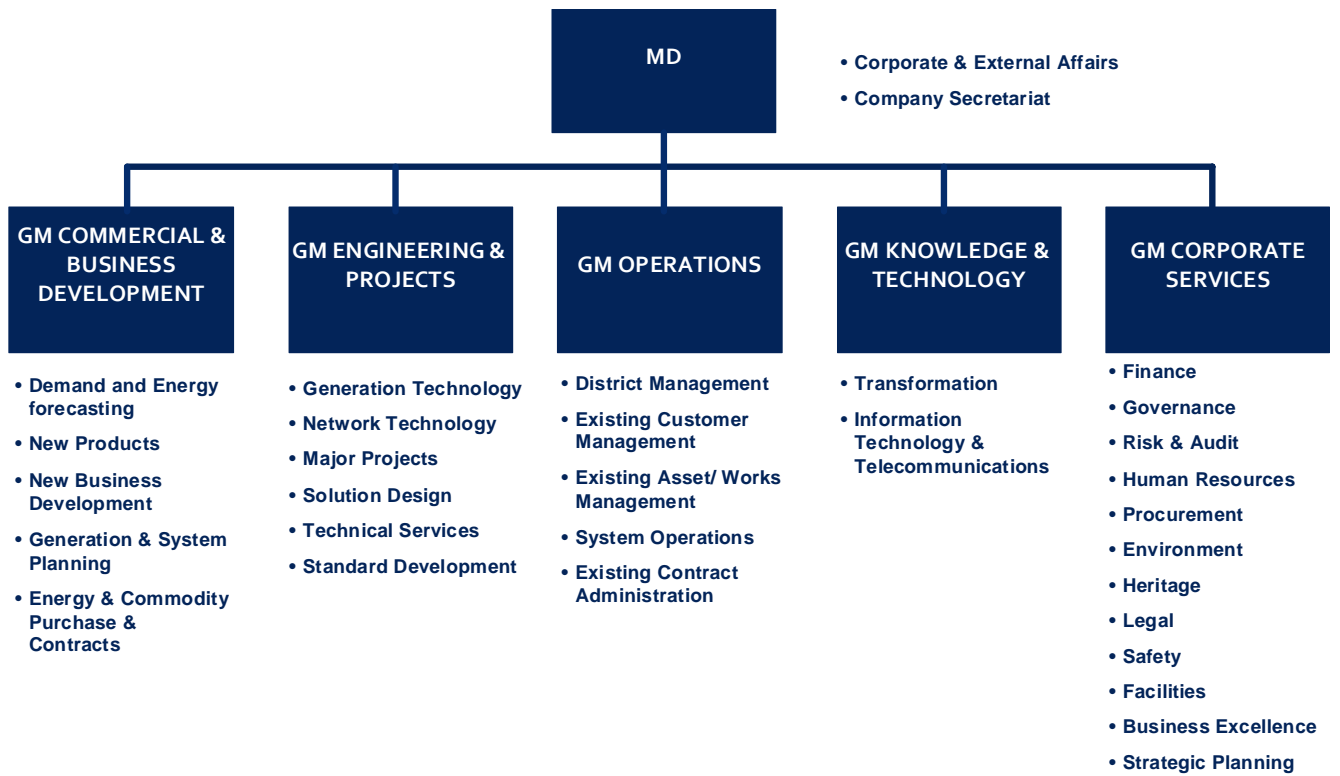
Horizon Power manages a diverse set of power systems, with most large towns serviced by gas-fired power stations and remote communities and other towns serviced by diesel generators and, increasingly, renewable forms of energy.

Horizon Power sources most of the power it supplies from independent power producers (IPPs).

3.3. How We Do It

Horizon Power's head office is in Karratha, with offices in Perth, Kununurra, Broome, Port Hedland, Carnarvon and Esperance. Staffing regional depots ensures the organisation can respond to customer queries and investigate local issues promptly.

Horizon Power has recently undergone a significant re-organisation aimed at improving efficiency and productivity along the value chain. The new business structure comprises five divisions and an office of the Managing Director.



4 STRATEGIC CONTEXT

4.1. Corporate Purpose

Operating within the legislative framework and the external environment, Horizon Power's purpose is to create lasting value from its activities in the form of intergenerational assets by simultaneously maximising the economic, social and environmental benefit for the company and the communities in which it operates. This purpose is reflected in the Strategy Wheel.

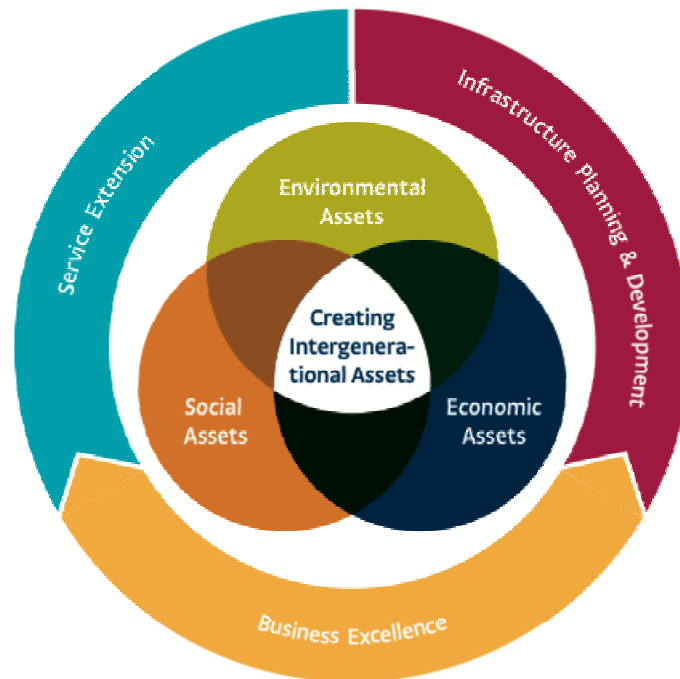


Figure 1: Horizon Power Strategy Wheel

4.2. Business Strategy

To fulfil its goals of creating lasting social, economic and environmental assets in regional WA, Horizon Power will continue to strive for excellence and growth in its existing business.

The strategy is informed by seven key themes that will consolidate and transform the business as over the next three to five years:

1. Safety

This theme is driven by Horizon Power's Safety System, which has delivered significant improvement in safety performance. Horizon Power's objective is to have a world's best-practice safety system that ensures no one gets hurt.

2. People

Primarily concerned with the functional organisation, this theme addresses the processes and tools people need to get their job done, and the culture within the organisation. Employees will be able to use their full capacity both for their own satisfaction and to contribute fully to the success of Horizon Power.

3. Core Function Transformation

Core Function Transformation exists to enable operational excellence by creating a culture of embedded, structured, and continuous improvement.

Objectives include savings from operational efficiency, automated processes through investments in technology, and a reliable source of asset information.

4. Indigenous Engagement

Horizon Power is committed to receiving an application for every new job from an Indigenous candidate who can be fully effective, and to staffing 20% of its workforce, throughout all levels of the business, with successful Indigenous employees.

5. Customer Strategy

Horizon Power aims to understand its customers and the markets it serves. The organisation will work with its customers to shape their energy needs and to deliver simple and effective products and services.

6. Innovation for Efficiency and Growth

This theme is concerned with addressing the challenges of efficient and effective service provision. Horizon Power will use technology and innovation in a disciplined and targeted way to create better solutions for its customers.

7. Growth through Regional Planning

Here Horizon Power aims to take a holistic, integrated and long-term approach to planning, developing, and funding power infrastructure for the regions. To this end, it will identify profitable opportunities and secure commercial investments, thereby increasing enterprise value.

5 BUSINESS OBJECTIVES

Horizon Power has identified the objectives in the organisation that contribute to the goal of delivering social, environmental and economic assets to the communities in which it operates.

5.1. Economic Objectives

Horizon Power aims to reduce reliance on external funding such as the Tariff Equalisation Fund (TEF) by growing revenue from existing activities and new business opportunities. Horizon Power will seek to enhance profitability and business value on a sustainable basis.

5.2. Social Objectives

Horizon Power primary social objective is to provide safe, reliable and efficient generation, transmission and distribution systems and effective, high-quality customer service.

Horizon Power also seeks to conduct business in ways that benefit local communities and ultimately the State by enhancing local capacity, capability or opportunity. Horizon Power will work with government agencies, communities and other local stakeholders on reliable and commercially viable energy solutions that enhance regional development.

5.3. Environmental Objectives

Horizon Power's major impacts on the environment come from greenhouse gas emissions and other pollutants created in the electricity generation process.

With a view to decreasing its overall greenhouse gas intensity, Horizon Power measures and reports its greenhouse gas emissions to the Federal Government. Implementing more renewable technology will also reduce the organisation's greenhouse gas intensity.

Horizon Power also aims to change the energy consumption behaviours of its employees and customers. Other environmental objectives focus on enhancing awareness of environmental and heritage matters and managing them more actively across all business activities.

5.4. Performance Measures

A set of critical business outcomes has been established to measure the success of Horizon Power in delivering its economic, social and environmental assets. These are not the only indicators that will be measured by the organisation, but they represent the most important measures of success.

Critical Business Outcomes	2011/12
Cost Management Average unit cost (cents / kWh)	33.4
Customer Satisfaction Survey rating (%)	80
Reliability Performing systems (number / total)	32 / 38
Employee Safety LTI severity rating ²	58
Public Safety Notifiable public safety incidents	10
Regularised Towns Number of remote and Indigenous communities regularised per year	5
Emissions Greenhouse gas intensity (kg CO ₂ -e / kWh sent out)	0.65
EBITDA (\$m) ³	199.8

² Lost time injury severity rating: benchmarked and measured by the total number of days lost to lost-time injuries per one million hours worked over a 12-month period

³ Earnings before interest, tax, depreciation and amortisation

6 SUMMARY OF MAJOR PROGRAMS

The business priorities identified are addressed through the following major programs:

6.1. Business Excellence

- **Asset Management Strategy**

Horizon Power's *Asset Lifecycle Strategy* involves managing assets based not on their age, but on their condition and serviceability. This is a departure from Horizon Power's previous 'fit for purpose' strategy which focussed on replacement and maintenance of assets on a risk mitigation basis. Key components of this strategy in 2011-12 include the Wood Pole Replacement and Reinforcement programs, network automation and the copper conductor replacement program.

- **Business Transformation/Separation**

Horizon Power is undertaking a major program of business separation from Western Power that will see Horizon Power take responsibility for its own IT services.

Horizon Power has embarked on two major change initiatives, *Separation*, which will enable it to run its current portfolio of services independently of Western Power by June 2012, and *Transformation*, which will better support Horizon Power's platform of business excellence.

6.2. Infrastructure Planning and Development

- **Future Pilbara Generation Requirements**

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

Horizon Power will work with Government to consider options to address these capacity requirements.

- **North West Interconnected System**

Horizon Power continues to review the configuration of the North West Interconnected System and to work with Government on options for meeting predicted incremental demand and accommodating major projects.

- **Pilbara Network Undergrounding Project**

The Pilbara Network Undergrounding Project is part of the Pilbara Underground Power Project (PUPP), which will provide cyclone-affected towns in the North West with a safe and reliable power supply by replacing ageing overhead electricity infrastructure with underground networks. The project will ensure the

provision of essential services to regional residents and businesses during and immediately following adverse weather events.

Scheduled for completion in 2012, the project affects over 7,000 customers in Karratha, South Hedland, Onslow and Roebourne.

- **Carnarvon Power Station Replacement**

Horizon Power will carry out the staged replacement of the existing Carnarvon power station with a new power station at Brown Range, some 6.5 kilometres southeast of the township. The staged approach is intended to allow Horizon Power to obtain maximum value from its existing plant and maintain a reliable electricity supply to the Carnarvon community.

The project will deliver 8 MW of new generating plant by December 2011 and a further 5.4 MW of new generating plant by March 2012.

6.3. Remote Service Extension

- **Remote Regularisation**

Horizon Power has completed the second phase of the Town Reserve Regularisation Project, with an additional 12 communities now regularised. The Aboriginal and Remote Communities Power Supply Project (ARCPSP) continues with phase 2.1a now regularising the communities of Kalumburu and Yungngora.

Horizon Power's remote regularisation strategy involves implementing whole-of-system solutions that can include services like water and wastewater management.

6.4. Other Initiatives and Growth Opportunities

- **Gas Supply and Opportunity Creation**

Horizon Power is in discussions with suppliers to increase and thereby secure the gas supply to its generation assets in the Pilbara. It is also working on simplifying and reducing the costs of its gas transportation arrangements.

- **Carbon Management Strategy**

Horizon Power will be a liable entity under the Federal Government's Clean Energy Future scheme (CEF). Horizon Power's carbon management strategy will assess the cost impacts of the scheme, consider the cost of carbon when planning and designing new projects, find opportunities for mitigating carbon emissions, and develop the systems needed to comply with CEF and communicate with our customers about carbon pricing.

- **Renewable Energy Target Strategy**

Horizon Power has an imperative to contribute to the generation of renewable energy because of its environmental objectives and the Commonwealth Government's Renewable Energy Target (RET).

- **Square Kilometre Array (SKA) Pathfinder Power Supply**

Horizon Power is engaged in the preparation of a commercial proposal to partly fund, develop and manage a hybrid solar-diesel power station that would supply Australia's SKA Pathfinder demonstration radio telescope in the Murchison.

7 FINANCIAL IMPACTS

The financial impact of Horizon Power's activities over the coming year is detailed below.

7.1. Business impacts

Strong demand still exists across most systems as growth in the resources sector is sustained. Demand for housing, materials and services has reduced but is still well above the long-term average. Customer-funded work is continuing at high levels. Customer energy demand grew throughout the period, requiring additional generation capacity in many of Horizon Power's systems.

- **Operating Expenditure**

Operating expenditure for the next year is illustrated in the table below.

Labour & Materials (\$M)	2011/12 (\$M)
Labour	65.1
Materials & Services	83.5
Total	148.6

- **Capital Expenditure**

Horizon Power's capital program over the next year will include the following major programs:

- PUPP;
- Carnarvon Power Station;
- Network Asset Management Plan – Risk Mitigation Strategy; and,
- IT Business Investment.

Funding Source	2011/12 (\$M)
Total	210.1

- **Subsidies**

Horizon Power receives a significant portion (approximately 45%) of its income from the Tariff Equalisation Fund (TEF), Tariff Adjustment Payment subsidy and Community Service Obligations (CSO) revenues.

- **Tariff Equalisation Fund (TEF)**

The TEF is the funding that covers the shortfall between the efficient cost to supply Horizon Power's customers and the revenue received from customers and Government (CSO). The TEF is funded via a component of the network access charges levied by Western Power on all customers connected to the SWIS.

The TEF has been set for the 2010/11 and 2011/12 periods at \$175.7 million and \$181.2 million, respectively.

- **Community Service Obligations (CSO)**

Horizon Power receives CSO revenues to cover a number of government policies, such as:

- Pensioner concessions;
- Tariff migration;
- Remote service extensions, such as ARCPSP; and,
- Tariff adjustment payment.

Subsidy Revenue	2011/12 (\$M)
TEF	181.2
CSO Payments	22.0
Tariff Adjustment Payment	16.9
Total	220.1

8 ACCOUNTING AND DIVIDEND POLICIES

International Accounting Standards

As part of the adoption of international accounting standards, most of Horizon Power's power purchase agreements are classified as finance leases. This results in recognition of a leased asset and lease liability on the balance sheet. Revenue from the Tariff Equalisation Fund will be assessable income, generally this will result in Horizon Power deriving taxable income and a net profit after tax.

Dividend Policy

Horizon Power pays a dividend to Government of 65 per cent of profit as a declared dividend paid in the subsequent financial year.

9 MINISTERIAL REPORTING

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

The annual report will follow the end of the financial year and will be provided to the Minister within the timeframe specified by the Act. It will include:

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

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

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