Statement of Corporate Intent

2019/20

HORIZON POWER

energy for life

Purpose of the document

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

The document reflects the business intentions of Regional Power Corporation, trading as Horizon Power, for the 2019/20 financial year.

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

The SCI is consistent with the Corporation's Strategic Development Plan (SDP) 2019/20 – 2023/24. The SDP sets out Horizon Power's economic and financial objectives and operational targets over the medium term, and the commercial strategies and initiatives it will pursue.

Contents

Executive summary

Horizon Power is a customer centric and commercially-focused, State Government–owned energy utility that generates, procures, distributes and sells electricity to residents and businesses in remote and regional Western Australia. Our role is to provide value in our communities and reliable power to our customers at the lowest sustainable cost.

Serving the world's largest and most sparsely populated utility territory, Horizon Power has a high cost to serve, resulting in a subsidy of $189.9 million[1] for the 2019/20 financial year (around $3,800 per customer connection). With only one customer per 50km², Horizon Power's service area is home to diverse demographic groups and a significant indigenous population across a wide range of terrains and climate zones, often requiring small and isolated systems, and presenting additional challenges for ensuring reliable electricity provision.

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

Rapid penetration of renewable energy, including rooftop solar PV and energy storage, energy-efficiency efforts coupled with declining asset utilisation rates are universally challenging the traditional power system business model. Customers have historically been viewed as only recipients of energy, and operating and regulatory frameworks were not designed for the customer to participate in the energy system. Power systems were also never designed to accommodate customer distributed energy resources (DER), which are giving rise to technical and transition challenges for system security and whole-of-system optimisation. Compounding these factors for regional Western Australia is the significant gap that exists between the average residential tariff set by Government (around 30 c/kWh) and the average cost to supply (which range from 30 c/kWh to 242 c/kWh) - particularly for remote areas reliant on diesel.

These changes place unparalleled stress on regulatory frameworks, pricing structures, and business models that were all designed for an entirely different time. Navigating these changes, whilst challenging, also creates new opportunities. In particular, as Australia's only vertically integrated utility with advanced metering deployed across our regions, Horizon Power is uniquely placed to leverage new and emerging technologies to improve reliability and reduce costs to serve for regional and remote area customers.

[1]TEC and CSOs

For the 2019/20 year, Horizon Power has prioritised several projects to achieve these outcomes, including:

- Onslow DER – delivery of an advanced microgrid supply model in Onslow in 2019, with the aim of supplying more than 50 per cent of the town's energy needs from renewable energy;
- Design Blueprints – the process by which Horizon Power seeks to reduce its cost to supply by driving the integration of DER and re-negotiating Power Purchase Agreements;
- Digitisation – leveraging data science and technology to enhance customer experience, drive efficiencies in operations and improve safety and reliability for customers;
- Further deployment of MyPower – Horizon Power's successfully demonstrated innovative pricing product that realigns tariff structure to the system cost structure and provides the tools and incentive for customers to reduce their peak demand. A wider launch of the product, supported by product and service innovations that facilitates customer participation, is required to capture create a fairer and more sustainable energy system;
- Microgrid orchestration – the development and rollout of a Distributed Energy Resource Management Systems (DERMS) to enable high DER penetration without constraints of system technical limits, adding value to customers and the grid;
- Utility grade Standalone Power System (SPS) – a new asset class for off-grid customers, providing reliability and capable of reducing cost to supply; and
- Commercial opportunities – leveraging our expertise to pursue opportunities that ultimately support the growth and development of our regional and remote area customers and their communities.

Our strategic priorities embrace the opportunities provided by our remote operations

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

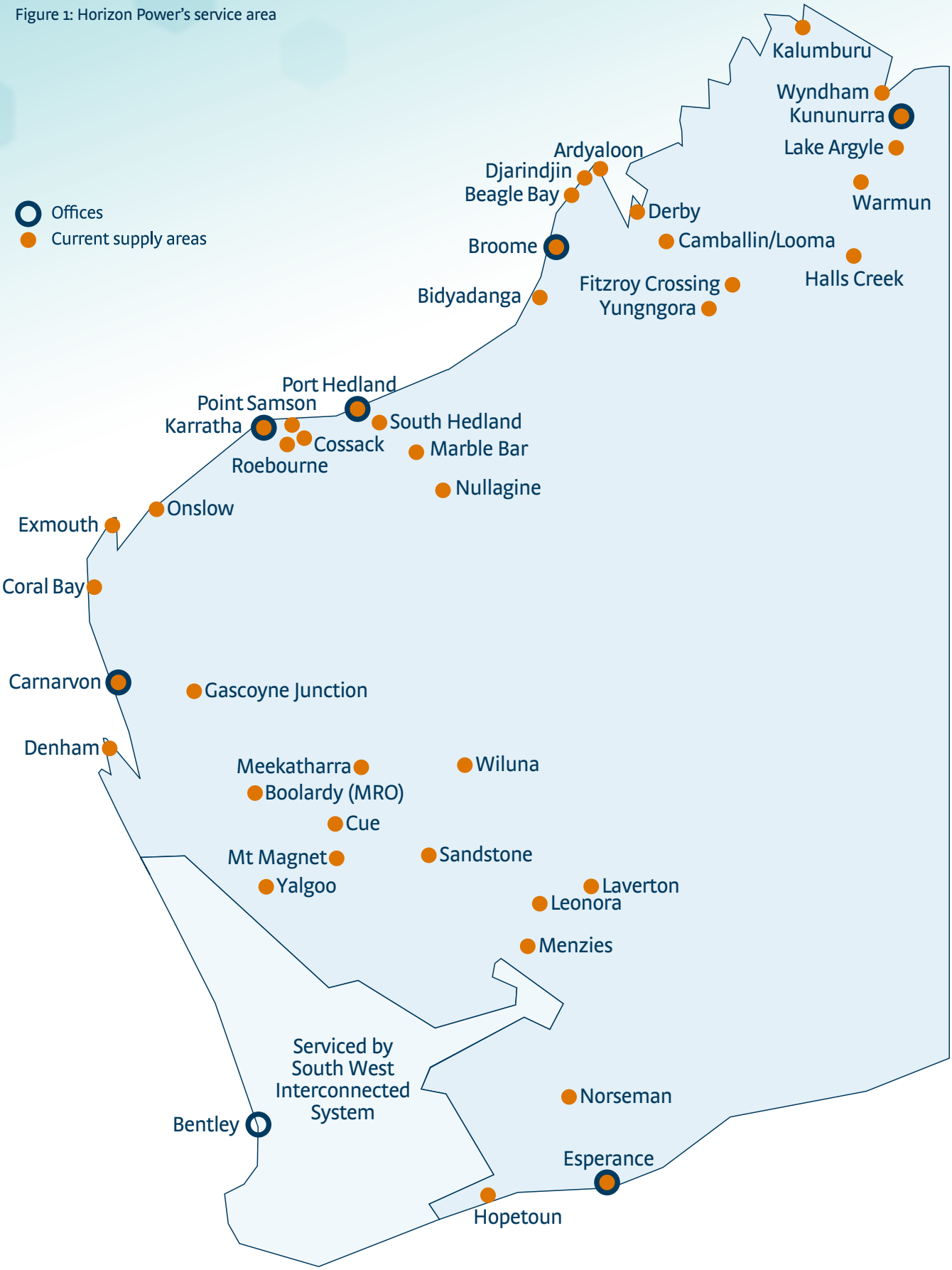
- A leader in advanced microgrid design and operations
- Enabling access to distributed energy solutions
- Creating enterprise value for the State

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

Peter Oates
Deputy Chair of the Board

Stephanie Unwin
Chief Executive Officer

Figure 1: Horizon Power's service area



Agency information

Current state

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

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

While each of Horizon Power's systems is unique in its customer type, generation contracts, network requirements and operating environment – in general, the cost to serve is high for the majority of our remote towns, particularly those fueled by diesel (e.g. Menzies). This range of total cost to supply is from 30 c/kWh to 242 c/kWh.

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

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

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

To reduce pressure on costs for regional and remote area customers, and ultimately subsidy requirements, Horizon Power's focus in 2019/20 is on advancing microgrids, removing barriers to customers accessing DER and creating enterprise value through multiple revenue and cost saving opportunities.

Objectives

Our primary objective is to reduce our cost and improve reliability of electricity supply, however we recognise the value that we provide to our communities. A customer centric focus as an organisation will only lead to positive outcomes for our customers, the state and Horizon Power.

A customer and value focused vision is at the core of Horizon Power's objectives. A growing risk for the business is a future of declining revenues and increasing subsidy - posed by widespread adoption of DER including solar PV and energy storage, customers self-generating through solar PV whilst only paying a small subsidised variable charge for their remaining consumption despite still relying on the grid, energy-efficiency efforts and appliance and the introduction of retail competition from third parties in the North West Interconnected System. The challenge for Horizon Power is to reduce fixed capacity costs. However, while revenues can be rapidly eroded under the increasingly inequitable existing pricing structure, costs are largely tied to long-life assets or contracts, presenting limited flexibility to reduce them in parallel, and presenting a financial threat to asset values if not appropriately responded to. Without Government support on pricing reform Horizon Power will be seeking other revenue opportunities to fill the revenue gap from DER.

Horizon Power focus in 2019/20 is on a set of strategic projects and key performance indicators (KPIs) to leverage the opportunities created in this changing environment. Strategic projects are detailed further in the SCI, whilst KPIs are set out in Appendix B.

Strategic projects

Our strategic projects embrace the opportunities provided by our remote operations

Horizon Power has refined its strategy into three strategic pillars:

1) A leader in advanced microgrid design and operation

Horizon Power will continue to develop its capabilities to operate its microgrids safely, reliably and efficiently. Onslow will be a pivotal project to demonstrate how a distributed energy system can lead to lower cost whilst, maintaining or improving reliability. Aside from Onslow, other trials and demonstrations underway or planned in Esperance, Carnarvon, Broome and other WA towns include community solar, community battery, embedded networks, and alternative regulatory frameworks and pricing models.

2) Enabling access to distributed energy solutions

Horizon Power is embracing the role customers play in energy delivery and service design, and how this will continue to evolve. To ensure a fair and sustainable energy system in this transition to a new energy future, whole of system benefits need to be aligned to customer incentives. As a result, Horizon Power will continue to focus on a wider deployment of MyPower, its successfully demonstrated innovating pricing plans that gives price signals to customers that are more reflective of their cost of supply along with the tools required for managing their demand. To support price reform and wider customer participation, Horizon Power is working on emerging DER products and services in order to deliver a high DER future at the lowest total system cost.

3) Creating enterprise value for the state

Horizon Power will continue to leverage its expertise to support the growth of its regional and remote area customers and their communities, which will in turn drive value for the State. Horizon Power will also focus on its costs, with a roadmap to identify and validate operational efficiencies across the business.

Figure 2: Horizon Power's strategic pillars and focus areas

Ministerial reporting

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

Quarterly Report

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

Annual Report

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

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

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

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

Performance indicators

Horizon Power has selected a set of Key Performance Indicators (KPIs) to measure its success in achieving its objectives, which are identified in Appendix B. Underpinned by good, prompt customer service as cited in customer surveys, Horizon Power's customer satisfaction levels are strong.

Related to the improvement in customer satisfaction is Horizon Power's improvement in system reliability and system security – as measured by the System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI). Horizon Power's SAIFI of 1.3 is currently tracking well within the target of 6.6, along with SAIDI performance of 194, relative to the annual target of 290 minutes. Over the period covered by the SDP, Horizon Power's target for the number of compliant systems is 33 out of 38 systems, with the year-to-date outcome tracking at 29 as a result of outage durations experienced in several small systems.

Notwithstanding, reliability performance has improved since Horizon Power's creation 13 years ago. Horizon Power will refine its focus on the areas of the networks that have a lower levels of reliability to continue to improve performance and provide a much more granular view of performance.

With a focus on safety across the business, Horizon Power's Lost Injury Frequency Rate KPI has a target of zero. The year-to-date outcome of 1.3, representing the number of lost time injuries sustained per one million hours of work, while higher than the KPI, represents a continued downward trend in this metric over the past several financial years.

Finances

Approved asset investment program

Horizon Power's State Government-approved asset investment program for the next four financial years is forecast at $207 million, as shown in the table below.

Government approved major projects	2019/20 ($m)	2020/21 ($m)	2021/22 ($m)	2022/23 ($m)
Asset Management Plan				
- Asset replacement	14.9	15.4	15.8	16.4
- Capacity	3.0	3.1	3.2	3.3
- Regulatory compliance	0.3	0.4	0.4	0.4
- Reliability	1.7	1.8	1.8	1.9
- Safety	6.0	6.2	6.3	6.6
- Other*	12.5	13.0	13.4	13.9
Onslow Power Upgrade Project	2.8	0.0	0.0	0.0
Remote Communities Solar	11.6	0.0	0.0	0.0
Other customer driven works	8.8	9.0	9.3	3.8
TOTAL	**61.7**	**48.9**	**50.1**	**46.2**

** Knowledge and technology investment, mobile plant and operational fleet, and property management*
Note: Due to rounding, some totals may not correspond with the sum of the separate figures.

Table 1: Government-approved major projects

Asset Management Plan (AMP)

Key objective:	Minimise the risk of harm Be respected for delivery
Key CR(s):	S1, S2, R1, C2, F2
Project completion date:	June 2023
Key Performance Indicators:	SAIDI <290, SAIFI <6.6, LTIFR 0
Approved budget (SBF):	$161.5M
Additional funding requirement:	N/A

Accounting standards/policies

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

Payments to and from Government

Horizon Power's payments to Government include:

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

Dividend Policy

Horizon Power complies with the Government's dividend policy of paying 75 per cent of Net Profit After Tax. 75 per cent of the projected financial year dividend will be paid in the financial year the dividend is declared, and 25 per cent will be paid in the subsequent year, subject to satisfying a solvency test. Dividends are declared in consultation with the Minister for Energy.

Community service obligations

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

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

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

Operating subsidy	2019/20 ($m)	2020/21 ($m)	2021/22 ($m)	2022/23 ($m)
Aboriginal and Remote Communities Project - Stage 1	5.5	4.2	4.3	4.4
Aboriginal and Remote Communities Project - Stage 2	2.6	2.2	2.2	2.3
Air Conditioning Allowance	0.7	0.7	0.7	0.7
Dependent Child Rebate	0.6	0.7	0.7	0.7
WA Government Energy Assistance Payment	1.3	1.3	1.3	1.4
Feed-In Tariff	0.0	0.0	0.0	0.0
Tariff Adjustment Payment	8.1	5.9	6.0	6.4
Tariff Migration - Caravan Park subsidy	0.1	0.1	0.1	0.2
TOTAL	**18.9**	**15.1**	**15.3**	**16.0**

Table 2: Horizon Power's community service obligations

Appendix A: Business values and vision

Horizon Power will continue to focus on sustainable cost reduction, reliable and safe power supply, creating Enterprise Value in support of our vision.

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

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

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

Appendix B: Key Performance Indicators

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

Critical business outcomes	2018/19 YTD Actuals	2019/20	2020/21	2021/22	2022/23
Safety – Minimise the risk of harm					
Lost Time Injury frequency rate	1.3	0.0	0.0	0.0	0.0
Total number of notifiable public safety incidents	9.0	8.0	8.0	8.0	8.0
Unassisted pole failure rate	0.8	1.0	1.0	1.0	1.0
Value – Maximise long-term value					
Cost to supply unit cost (cents / kWh)	34.5	35.7	36.1	37.0	38.2
Return on assets (%)	5.9%	4.6%	4.4%	4.6%	4.3%
NPAT ($M)	33.1	15.6	15.5	19.2	17.0
Community – Be a high performing business					
Customer satisfaction (%)	80.0	70.0	70.0	70.0	70.0
Number of compliant systems	29/38	33/38	33/38	33/38	33/38
System Average Interruption Duration Index - SAIDI (Minutes)	193.9	290	290	290	290
System Average Interruption Frequency Index – SAIFI	1.3	6.6	6.6	6.6	6.6
Major project completion within +/- 5% of approved budget (%)	100.0	100.0	100.0	100.0	100.0

Table 3: Horizon Power's key performance indicators and targets (actuals current as of April 2019)

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

Term	Definition	Formula	Unit
Lost Time Injury Frequency Rate (LTIFR)	Lost Time Injury Frequency Rate is a formula to provide the number of Lost Time Injuries to be sustained, per one million hours worked, over a given 12 month period.	The sum of LTI incidents sustained over the given 12 month period, divided by the sum of exposure hours worked over the 12 month period, multiplied by one million.	#
Notifiable public safety incidents	A network operator must notify the Director of any incident or event that is caused, or significantly contributed to, by electricity and that results in serious injury; or serious damage.	Serious damage means damage to private property > $5 000 in total; or damage to a facility or property caused by a fire or explosion or the value of the damage is > $50 000 in total. Serious injury means an injury that is fatal or requires the victim to be admitted to hospital.	#
Unassisted pole failure	An unassisted pole failure: 1) is not caused by customer installation, lightning, vehicle, water ingress or vandalism; 2) occurs when the pole failed under forces that were less than its design specification.	Number of pole failures divided by 10,000 over a 3 year rolling average.	#
Cost to supply unit cost	All cost associated with Horizon Power's customers divided by kilowatt hours sent out.	Includes costs to provide energy to customers, but specifically excludes business development, finance lease adjustments and interest expenses.	¢ / kWh
Return on assets	Return to investors for every dollar of assets under the company's control.	Earnings before interest and tax (EBIT) divided by total assets.	%
NPAT	Net Profit After Tax	Does not exclude operating subsidies including Government subsidies and subsidy from the Tariff Equalisation Contribution collected from SWIS customers. EBIT minus finance charges, non-cash movements and tax.	$M
Customer survey rating	Customer satisfaction is measured by an annual survey, undertaken by an external agency, amalgamating customer perceptions of reliability, service quality and product offering.	Average measurement of survey response on a scale of 1 to 7 (very poor, poor, somewhat poor, neither good nor poor, somewhat good, good and very good). Horizon Power's KPI for customer satisfaction is a combination of all positive responses i.e., %somewhat good + %good + %very good. Over the last five years, overall customer satisfaction (across residents, businesses and stakeholders) has ranged between 77% and 83%. Based on recent performance trend, customer satisfaction scores of 80%-85% are classified as high-performance, and a score of over 85% would be aspirational.	%
Major project completion within approved budget	Percentage of government-approved projects that have been completed within the approved state budget.	Percentage of government-approved projects that have been completed within the approved state budget.	%

Table 4: Horizon Power's KPI definitions and metrics

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