

# Quarterly Performance Report

*For the period January – March 2016*

## Performance overview

This performance report covers the three month period ending 31 March 2016. For statistics prepared on a rolling 12-month basis, data prior to 1 July 2015 is used.

### Financial performance

- Horizon Power reported a year to date Net Profit After Tax (NPAT) of \$31.2M, which is 5.8% above the budgeted (State Budget Forecast) profit of \$29.5M. Total Income recorded a negative variance of -\$20.0M, driven mainly by lower electricity sales (-\$19.7M). This shortfall in income was offset by lower energy purchases (+\$13.2M) lower overheads (+\$9.9M) and interest (+\$2.4M). Depreciation and amortisation were higher than budget (\$62.5M v \$59.0M) due partly to accelerated depreciation of old meters being replaced under the Advanced Metering Infrastructure project.
- As at March 2016, the Actual NPAT recorded a positive variance of +\$12.8M when compared to the Mid Year Review (MYR), mainly due to higher sales of electricity (\$+11.2M) and lower Operating Labour, Overheads & Materials being lower (+\$9.8M). These were offset by higher depreciation (-\$4.5M) and income tax (-\$5.0M).
- As at March 2016, Horizon Power has achieved +\$7.3M of efficiency dividend and is on track to achieve the annual target of \$8.8M.
- The Subsidy reduction (cumulative) target for the year has been achieved (\$85.9M v \$79.6M) as at March 2016.
- Year to date capital expenditure amounted to \$82.5M against a budget of \$109.5M. The variance of -\$27.0M is mainly due to timing delays to the forecasted start of the Murchison Radio Observatory Power Station (-\$5.5M), a year to date underspend of -\$5.7M on the Pilbara Underground Power Project together with some timing variances.

### Business highlights

- The Advance Meter Infrastructure project is progressing very well, with 32,880 or 69% of meters replaced by 31 March 2016.
- The Pilbara Underground Power Project continues to make great progress in Karratha with works in the Light Industrial Area, CBD and Bulgarra West completed and the Pegs Creek and civil and electrical works on track.
- Work has started on the Murchison Radio Observatory power station and solar farm with delivery expected in July 2016.
- As part of the restoration works following the devastating bushfires in Esperance, Horizon Power will not replace some of the distribution lines destroyed but is instead installing standalone power systems for 6 customers in Esperance, this is proceeding very well with 1 system installed by 31 March 2016 and the remainder to be installed by 30 June 2016.

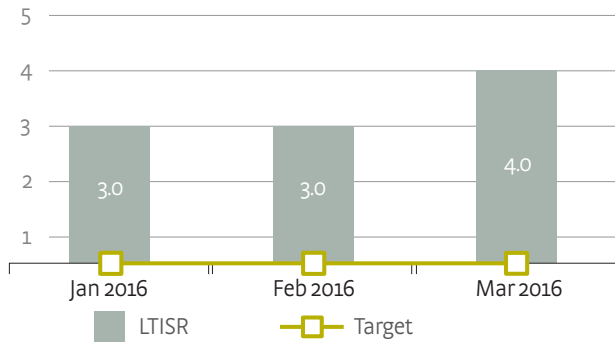
### Stakeholder service

- Horizon Power provided responses to 12 Ministerials or requests for further information from the Minister or Public Utilities Office.
- Ministerials included topics such as; Quarterly Performance Report, employee travel and consultant reports, queries regarding solar energy, queries regarding the Advanced Metering Infrastructure rollout, queries regarding electricity supply in the Kimberley and Pilbara communities, Budget process such as tariffs fees and charges, speech notes and Economic and Expenditure Reform Committee submissions.

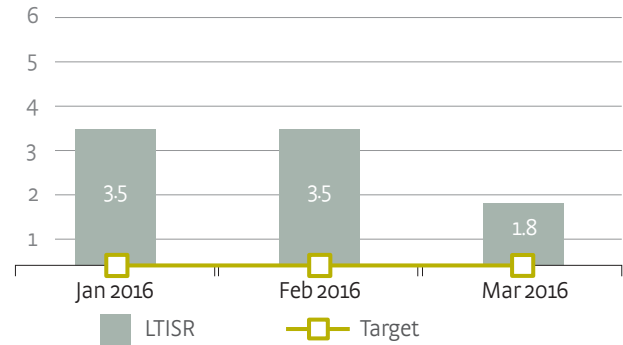
*This report has had matters deleted from it under section 109 of the Electricity Corporations Act 2005 (WA)*

## Safety, health and the environment

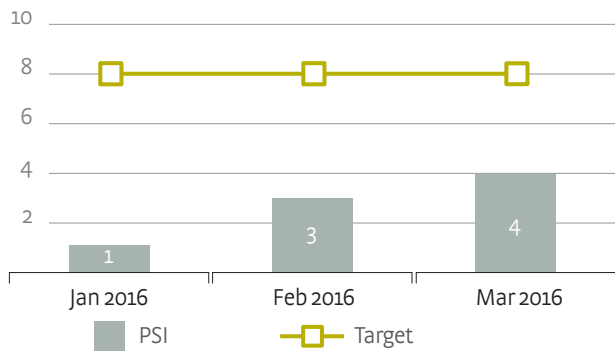
**Lost Time Injury Severity Rate** 12 month rolling average



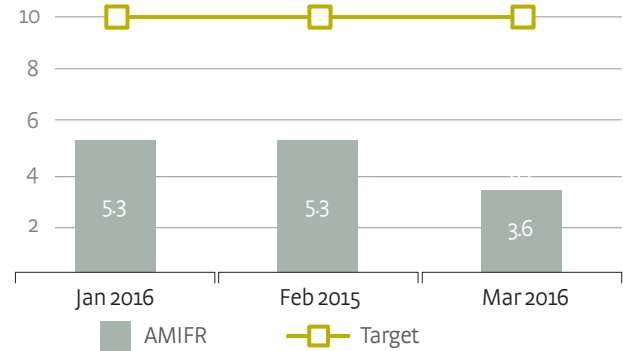
**Lost Time Injuries Frequency Rate** 12 month rolling average



**Public Safety Incidents**



**All Medical Injuries Frequency Rate** 12 month rolling average

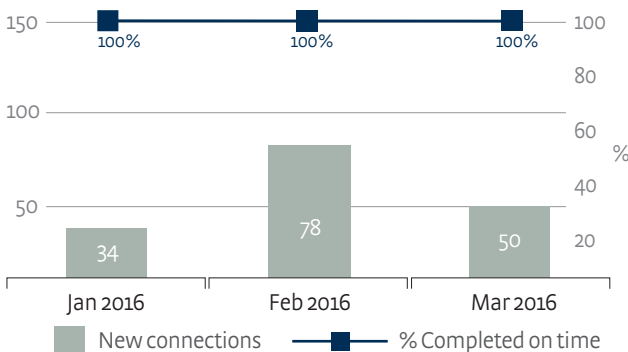


- There was no Horizon Power employee lost time injury recorded for the period, which led to a decrease in the 12 month rolling average rate from 4.6 to 1.8 in March 2016.
- The lost time severity rate for the quarter was 3.3, a slight improvement compared to 4.3 for quarter ended March 2013.
- There were 4 public safety incidents for the period ended March 2016, being clashing conductors causing a scrub fire; faulty neutral affecting two customers and one neutral meter, which was not terminated, causing an electric shock to a customer. There were zero reportable spills for the quarter.
- The Unassisted Pole Failure rate\* was at 1.56 compared to a target of 1.00. There were no unassisted pole failures for the quarter.

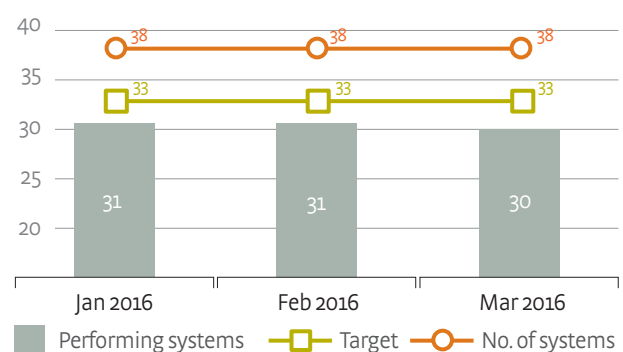
\* based on a 3 year rolling average per 10,000 poles

## Customer service and electricity delivery

**Customer Connections**



**Performing Systems** out of 38 systems



- 100% of new customer connections were completed on time.
- There were 162 new connections during the quarter.

## Financial performance - actual versus SDP

The Actual Net Profit After Tax for year to date March 2016 was slightly higher the State Budget Forecast, with variances broken down as follows:-

### Profit and Loss Summary (in \$millions)

	Period Ended Mar 2016		
	ACT	SDP	VAR
Income	376.0	396.0	(20.0)
Fuel and electricity purchases	(132.1)	(145.3)	13.2
Operating labour, overheads & materials	(82.1)	(92.0)	9.9
<b>EBITDA</b>	<b>161.8</b>	<b>158.7</b>	<b>3.1</b>
Finance Lease adjustment			
Depreciation and amortisation	(62.5)	(59.0)	(3.5)
<b>EBIT</b>	<b>99.3</b>	<b>99.7</b>	<b>(0.4)</b>
Interest	(55.2)	(57.6)	2.4
Income tax	(12.9)	(12.6)	(0.3)
<b>Net profit after tax</b>	<b>31.2</b>	<b>29.5</b>	<b>1.7</b>

#### 1. Income

A negative variance of -\$20.0M in income primarily due to the following:

- (I) Electricity sales recorded a shortfall of -\$19.7M (actual \$222.5M v budget \$242.2M) mainly due to overall budgeted expectations being too optimistic in the NWIS. The sales budget was subsequently adjusted in the MYR to reflect a new demand and energy forecast.
- (II) Developer and Customer Contributions reported a negative variance of -\$3.2M due to lower development activity.
- (III) Unfavourable variance of -\$0.4M from CSO mainly attributable to lower operational costs associated with the Aboriginal Remote Communities.
- (IV) Miscellaneous Revenue recorded a favourable variance of +\$3.3M, mainly from unbudgeted non- energy revenue.

#### 2. Fuel and electricity purchases

A positive variance of +\$13.2M was mainly driven by lower sales volumes compared to budget.

#### 3. Operating labour, overheads and materials

Operating expenditure is tracking under budget primarily driven by lower overheads due to cost management, savings and timing of expenditure.

#### 4. Depreciation

Actual depreciation is higher mainly due to accelerated depreciation (-\$3.5M) on meters being replaced in line with delivery under the Advanced Metering Infrastructure project.

#### 5. Interest and income tax

The positive variance of +\$2.4M in interest is due to lower debt than budgeted. The favourable variance in tax (+\$0.3M) is resulting from lower earnings than budgeted.

## Financial performance - actual versus MYR

The Net Profit After Tax for year to date March 2016 shows a positive variance of +\$12.8M broken down as follows:-

### Profit and Loss Summary (in \$millions)

	Period Ended Mar 2016		
	ACT	MYR	VAR
Income	376.0	364.2	11.8
Fuel and electricity purchases	(132.1)	(132.6)	0.5
Operating labour, overheads & materials	(82.1)	(91.9)	9.8
<b>EBITDA</b>	<b>161.8</b>	<b>139.7</b>	<b>22.1</b>
Finance Lease adjustment			
Depreciation and amortisation	(62.5)	(58.0)	(4.5)
<b>EBIT</b>	<b>99.3</b>	<b>81.7</b>	<b>17.6</b>
Interest	(55.2)	(55.4)	0.2
Income tax	(12.9)	(7.9)	(5.0)
<b>Net profit after tax</b>	<b>31.2</b>	<b>18.4</b>	<b>12.8</b>

#### 1. Income

A positive variance of \$11.8M in income primarily due to the following:

- (I) Sales of electricity YTD is higher than forecast (+\$11.2M), due to higher than expected demand mainly in the residential (A2) high voltage (M2) customers. Actual volume was higher by 6.5%.
- (II) Developer and Customer Contributions reported a negative variance of -\$3.2M due to lower development activity.
- (III) Favourable variance of +\$0.1M from CSO mainly attributable to lower operational costs associated with the Aboriginal Remote Communities.
- (IV) Miscellaneous Revenue recorded a favourable variance of +\$3.7M mainly from unbudgeted non- energy revenue.

#### 2. Fuel and electricity purchases

A positive variance of +\$0.5M was mainly driven by favourable lower gas and fixed costs from independent power producers contracts, offset by higher variable costs due to higher sales volumes (+6.5%).

#### 3. Operating labour, overheads and materials

Operating Expenditure is tracking under budget primarily driven by lower overheads cost including, materials and Services (+\$2.2M), higher recovery of cost to capital projects (+\$2.4M) and IT charges (+\$1.4M) due to savings and cost management.

#### 4. Depreciation and amortisation.

Actual depreciation is higher by \$4.5M mainly due to accelerated depreciation on meters being replaced under the Advanced Metering Infrastructure project.

#### 5. Interest and income tax

The positive variance of +\$0.2M in interest is due to lower debt than budgeted. The unfavourable variance in tax (-\$5.0M) is resulting from higher earnings than budgeted.

## Other performance measures

KPIs	Actual	Target	Commentary
<b>Business Value</b>			
Unit Cost to Supply (cents/kWh)*	44.7	48.0	The lower cost to supply reflects a decrease in the COGS due to lower fixed PPA costs, lower than forecast gas unit costs, lower operating expenditure and higher than budget kWh sales.
Return on Assets (%)	8.2% (annualised)	7.1%	Higher return resulting from higher expected Earnings Before Interest and Tax.
Subsidy reduction \$M (cumulative)	85.9	79.6	2015/16 initiatives underway and on track to target. Recent movements primarily resulted from the realisation of revenue leakage roadmap, Remote Towns cost savings, procurement & fleet savings.
<b>Community</b>			
Customer Satisfaction (Annual) (Survey rating %)	87%	>70%	YTD Customer satisfaction based on June 2015 Survey.
No. of Customer Bills on Time (Unbilled accounts)	14	<40	The value is the number of unbilled accounts > 90 days at the end of March.

\* Being Costs of goods sold + operating expenditure divided by kWh

## Efficiency Dividend Performance

Efficiency Dividend Targeted Areas	2016 Q3 Realised Efficiency Dividend	FY 2016 Forecast
Sum Efficiency Dividend	\$7.3M	\$8.8M

Horizon Power's GTE efficiency dividend target for 2015/16 equates to \$8.8M. As at the end of March 2016, Horizon Power is on track to deliver with savings realised amounting to \$ 7.3 M.

The savings are being achieved by outworking the strategic review recommendations.

The savings value is made up of reductions in:

- Labour
- Contractors
- Consultants
- Materials
- Fleet
- Travel
- Information Technology