



ABN 20 009 454 111

Report

Horizon Power
Asset Management System
Compliance with Notice under section 32
(Electricity Industry Act 2004)

Telephone:

+61 8 9260 0003

Fax:

+61 8 9225 7447

E-Mail:

projects@qualeng.net

Web:

www.qualeng.net

Postal Address:

Office:

PO Box Z5261, St George's Terrace, PERTH WA 6831
Level 2, 231 Adelaide Terrace, Perth, Western Australia, 6000



executive summary

Under the terms of the Electricity Industry Act 2004 (WA) [the Act], the Horizon Power asset management system was independently reviewed in 2008. Following the review, Notice D/2009/00623 was issued by the Economic Regulation Authority [the Authority] on Horizon Power to rectify the contraventions identified in the review. At the 2009 asset management system review, two of the contraventions were found to be outstanding and the Notice was left open pending the closure of those contraventions. The outstanding contraventions are:

- "The asset plans to manage generation assets are generally not in place."
- "The absence of environmental analysis at regional and district level for both network and generation assets."

In September 2010 Horizon Power commissioned Qualeng to verify that the outstanding issues had been addressed. The review has been conducted and this report prepared in accordance with the Authority's Guidelines.

The review found that the Asset Management System and the Asset Management Plan (AMP) have been revised and simplified. The district asset management plans are now incorporated in the new draft AMP which relies on district reports for gathering the information required for planning, identifying issues and project requirements. Separate systems manage risks, maintenance, work management and documentation. The AMP includes an asset list, details of the maintenance process, "Fit for Purpose Drivers", details of capital works budgets, work programs and current maintenance budgets.

New support documents and processes provide guides and instructions on how to source information and how to address key asset management requirements such as regulatory, safety, capacity, reliability, quality, asset condition and service, cost, maintenance, contingency, resources, projects and document control.

The Districts have prepared operational and maintenance reports including historical and forecast budget plans to support the AMP. Data for historical costs was available from 2005 and forecasts have been prepared for the period 2011 to 2015. Similarly procedures are available for addressing resources and resource numbers; relevant costing were included in the AMP.

The planning process employs long term demand forecasts prepared by Marketing and Product Development and system planning studies. The demand forecast uses current and historical data gathered from a variety of sources, including the WA Planning Commission, Landcorp and local Shires. Forecasts are monitored to check their continuing accuracy. System planning studies cover capacity, operability, reliability, protection and fault rating for generation, substation, transmission, distribution network and protection for a period of 10 years.

Following the review Qualeng has formed the opinion that Horizon Power has implemented and completed the actions resulting from the previous reviews and identified in the contraventions listed in Notice D/2009/00623 issued by the Authority.

This report is an accurate representation of the findings and opinions of the auditors following the assessment of the client's conformance to nominated Licence conditions. The review is reliant on evidence provided by other parties and is subject to limitations due to the nature of the evidence available to the auditor, the sampling process inherent in the audit process, the limitations of internal controls and the need to use judgement in the assessment of evidence. On this basis Qualeng shall not be liable for loss or damage to other parties due to their reliance on the information contained in this report or in its supporting documentation.

Approvals

Representation	Name	Signature	Position	Date
Auditor:	M Zammit		Lead Auditor / Engineering Manager, Qualeng	13/12/10
Licensee:	P. Tudor		Acting Managing Director	20/12/10

Audit Team

Audit Team	Description
M Zammit	Project Director and Lead Auditor
G Catteeuw	Reviewer

Issue Status

Issue No	Date	Description	Prepared	Verified	Approved
1	13/12/10	First issue	MZ	GC	

TABLE OF CONTENTS

1	OBJECTIVES AND SCOPE OF REVIEW	6
1.1	Introduction	6
1.2	Review Objectives	6
1.3	Review Scope	6
1.4	Methodology	7
1.5	Limitations and Qualifications	7
1.6	Acronyms and Abbreviations	7
1.7	Previous Review Recommendations	8
2	REVIEW OF ASSET PLANS AND ENVIRONMENTAL ANALYSIS	10
2.1	Asset Plans to Manage Generation Assets	10
2.2	Environmental Analysis at Regional and District Level	11
3	SUMMARY AND CONCLUSION	14
3.1	Summary	14
3.2	Conclusion	14

1 Objectives and Scope of Review

1.1 INTRODUCTION

Horizon Power has an Electricity Integrated Regional Licence (EIRL2 Licence) [the Licence] issued by the Economic Regulation Authority [the Authority] under Sections 7 and 15(2) of the Electricity Industry Act 2004 (WA) [the Act].

Under the terms of the Act, Horizon Power asset management system was reviewed in 2008 by independent reviewers. A number of findings were made and Notice D/2009/00623 was issued by the Authority on Horizon Power on 19 January 2009 to rectify the contraventions identified in the review. At the 2009 asset management system review some of the contraventions were rectified, two were found to be outstanding and the Notice was left open pending the closure of those contraventions.

In September 2010 Horizon Power commissioned Qualeng to verify that the outstanding issues had been addressed.

The review has been conducted and this report prepared in accordance with the Act and the Authority's Guidelines.

1.2 REVIEW OBJECTIVES

The purpose of this review is to assess and report on the rectification of the contraventions identified by the Authority in its Notice of 19 January 2009 and subsequent communication of 26 May 2010.

1.3 REVIEW SCOPE

This review assesses the extent of actions taken by Horizon Power to rectify the contraventions noted by the Authority under Notice D/2009/00623, in particular:

- "The asset plans to manage generation assets are generally not in place."
- "The absence of environmental analysis at regional and district level for both network and generation assets."

Based on the findings of the 2009 review the following are the criteria that need to be satisfied:

- Generation District Asset Management Plans (DAMPs) require to be completed:
 - to include missing data and where applicable, to record or update follow-up actions,
 - to be reviewed so that they are consistent, in compliance with the Strategic Asset Management Plan (SAMP), controlled and approved in accordance with the SAMP requirements.
- Ensure that both the network and generation DAMPs include an environmental analysis to demonstrate compliance with the Transmission and Generation SAMP and the environmental

analysis defined in the "Environmental Load Forecast" section of the Transmission and Generation SAMP. The analysis to include forward projections of opportunities and threats, trends in growth and external influences. Planning studies should be completed or in progress, in accordance with the asset management plans.

The review was carried out between September and December 2010. It followed the previous review completed by Qualeng in April 2010.

On Horizon Power's behalf Mr Frank Buttigieg coordinated the review, Mr Brett Hovingh and Mr Bill Bignell provided the documentation and the evidence for the purposes of the review. The main Qualeng representatives were Mr M Zammit, Lead Auditor and Mr G Catteeuw, Reviewer.

1.4 METHODOLOGY

The review followed the methodology defined in the Authority's "Audit Guidelines: Electricity, Gas and Water Licences", August 2010, as applicable.

The review proceeded through a documentation review, interviews and checks of processes. These were supported by additional queries to clarify aspects of Horizon Power policies and procedures.

1.5 LIMITATIONS AND QUALIFICATIONS

A review provides a reasonable level of assurance on the effectiveness of control procedures, however there are limitations due to the nature of the evidence available to the reviewer, the sampling process inherent in checking the evidence, the limitations of internal controls and the need to use judgement in the assessment of evidence.

1.6 ACRONYMS AND ABBREVIATIONS

Abbreviation	Reference Documents
AMP	Asset Management Plan
CCRM	Community and Customer Relationship Manager
DAMP	District Asset Management Plan
DBM	District Business Managers
NWIS	North West Interconnected System
OAMP	Operational Asset Management Plan
PCS	People and Corporate Services
SAMP	Strategic Asset Management Plan

1.7 PREVIOUS REVIEW RECOMMENDATIONS

The following table lists the recommendations arising out of the 2008 and the 2009 Asset Management System Reviews.

Table 1: Previous Review Recommendations (2008 and 2009)

Reference	Recommendations	Actions	Status	Further Actions
1	Asset Planning			
1.3 (2008 Review)	► Finalise the Generation AMP.	► Generation AMPs were reviewed by the Management team on 8-10 July 2009. Further detail was required regarding the operating budgets for some power stations before the plans could be approved. Operations Management Team approved the District Generation AMPs on 10 August 2009.	Documents prepared but some not completed.	Action included in 2010 Post Review Implementation Plan, item 1.1
1.1 (2009 Review)	► Carnarvon and Esperance Generation DAMPs were incomplete and need review/updates. Complete Carnarvon and Esperance Generation District Asset Management Plans (DAMPs). Missing data and follow-up actions need to be tracked.	a.) Complete and have approved Carnarvon Generation DAMP. b.) Incorporate actions in DAMP into OAMPs. c.) Incorporate missing data into next iteration of Esperance Generation DAMP.		
4	Environmental Analysis			
4.1 (2008 Review)	► (0.7) Develop environmental analysis sections in Horizon Power's individual NCS Regional AMPs with a direct link to local environment planning data available from the external peak bodies, Western Australian Planning Commission and Landcorp.	► Modified Generation and Network Strategic AMPs to include an environmental analysis section. Included environmental analysis in district AMPs. Various maintenance and internal capital projects incorporate environmental considerations.	Environmental section not completed in all Generation DAMPs.	Action included in 2010 Post Review Implementation Plan, item 1.1
1.1 (2009 Review)	► Complete Generation DAMPs to show compliance with the environmental analysis defined in section "Environmental Load Forecast" of the Transmission and Generation SAMP.	► Incorporate environmental analysis into Asset Management Plan for Generation. (Robert Kerrigan, by 30/06/10)		

2 *Review of Asset Plans and Environmental Analysis*

2.1 **ASSET PLANS TO MANAGE GENERATION ASSETS**

A new draft of the Asset Management Plan has been prepared by Horizon Power in 2010: the "Operation Division Asset Management Plan 2010/11 to 2021/22" (AMP). The "Strategic Asset Management Plan 2009" has been replaced by the "Strategic Asset Management Plan 2010/11 to 2021/22" (SAMP). The new AMP introduces a revised method for the preparation of asset management plans.

The AMP introduces a new structure:

1. The AMP is the high level document that defines the asset management process.
2. Separate Instruction Modules cover the processes supporting the AMP, including document control, project evaluation, safety evaluation, regulatory evaluation, capacity, reliability evaluation, quality evaluation, asset service evaluation, cost, maintenance evaluation, contingency planning, resource planning.
3. Two yearly system planning studies are provided by the Shared Services Division for each of the district systems and cover capacity, operability, reliability, protection and fault rating.
4. Asset Class Documents cover the current state of the asset, current practices, issues, improvement projects, the management process and future direction.
5. The previous District Asset Management Plans (DAMPs) have been replaced by a different approach. The districts do not prepare DAMPs now, they produce operational and maintenance reports showing historical and forecast activities and costs.

The AMP still covers:

- 36 power systems
- power stations at Carnarvon, Marble Bar, Nullagine, Wyndham and Kununurra
- 157 network feeders
- the North West Interconnected System (NWIS)
- power supply to the remote Aboriginal communities.

The AMP was reviewed and was found to have been substantially revised. The AMP now provides common framework and processes and reports on all the assets, including generation, transmission and distribution. In particular, in regard to generation assets, it includes an overview of generation specific plans and issues.

The AMP defines the objectives of Government, Horizon Power, the Operation Division and the Asset Management Plan and then presents the strategic framework for achieving the objectives:

- criteria and standards for control and management of assets
- strategy and processes for risk management, asset acquisition, maintenance and disposal

- prioritisation for allocation of resources
- allocation of accountability and responsibility for achieving the outcomes.

The overview of the assets includes a generation asset list. A risk management approach is used to identify risks pertaining to the assets and actions needed to address the risk. The actions lead to programs of work driven by risk types including Safety, Regulatory, Capacity, Reliability, Quality, Asset Service and Cost. Districts contribute to the risk analysis but the results are stored in a common system.

The AMP also covers:

- maintenance and maintenance plans, also driven by business risks in each district, by Horizon Power 'fit for purpose' drivers and by the maintenance schedule.
- Budgets including Operating and Capital Budgets
- Capital Works program
- Tasks and projects resulting from all of the risk types are listed including generation assets works.
- Asset issues by districts and risk types, including expected district developments, problem areas, progress on major activities, increased generation requirements.
- Independent Power Producer Management Plan.

The Districts have prepared operational and maintenance reports including historical and forecast budget plans to support the AMP. Data for historical costs was available from 2005 and the forecasts covering 2011 to 2015.

For Generation a "Maintenance Cost Budget" had been prepared including both historical and forecast costings for Preventive (P1), Corrective Unplanned (R2) maintenance, and forecasts for Reactive (R1), Corrective Planned (P3) maintenance and contractor, laboratory and consumables costs.

Similarly procedures are available for addressing resourcing ("AMP Instruction Module 2010 11 - No 12 Resourcing"). Resource numbers and costing had been included in the AMP as planned operational and CAPEX. Capacity planning has been also reviewed in terms of the supply required from Independent Power Producers (IPPs) and alternative ways of managing increased demand or plant replacement. Actions on Horizon Power are included in the Capital Works Program and in replacement projects.

Performance levels are monitored across all systems so that generation is only one component of the overall KPIs, however all components are reviewed in more detail if the overall KPIs are not met.

2.2 ENVIRONMENTAL ANALYSIS AT REGIONAL AND DISTRICT LEVEL

The planning process relies on long term forecasts prepared by Marketing and Product Development and long term system planning studies.

Demand and Energy Forecast

Both the system studies and the Demand Forecast are governed by lead documents that provide the scope and the process for preparing the reports. For the Demand Forecast the process is described in "Fact Sheet No: 1, The Demand and Energy Forecasting Process".

The "Demand and Energy Forecast FY2010/11-FY2019/20" report, Version 8B dated 4 June 2010, was reviewed. The forecast process relies on:

- estimating sales growth using current and historical sales data, estimating the trends for business and retail customers using local knowledge
- checking the estimates using trends from weather adjusted sent outs (power supplied at the generator)
- forecast of maximum demand from long term trends of monthly load factors (average demand divided by customers' maximum demand)
- forecast of capacity requirements using P15 and P10 forecasts (chance of 15% and 10% of being exceeded)
- inclusion of "discrete load" customers (typically one off projects) which are not part of the normal growth in normal services to towns.

The one off projects were identified using different sources and/or inputs:

- Cordell (market research company)
- People and Corporate Services (PCS) Division meetings with local District staff, including District Business Managers (DBMs) and Customer Relationship Managers (CCRM)
- Districts contact with Shires, developers, and gathering of local information from external agencies, local news and contacts.

Criteria were applied on the inclusion of discrete loads so that projects that had less than 80% chance of proceeding were not included in the forecast.

The overall methodology is still under review and requires approval, however monitoring of forecasts is carried out monthly so that the quality of the predictions is continually checked. Were deviations to occur, a procedure is available to update the forecasts.

System Planning Studies

The system planning studies cover generation, substation, transmission, distribution network and protection for a period of 10 years. The studies are due to be undertaken every 2 years or when major network development occurs. The scope of the studies has been documented in "Scope of Works, System Studies for District's Asset Management", November 2009. As noted above, the studies cover capacity, operability, reliability, protection and fault rating including:

- demand forecast
- generation capacity studies
- transmission capacity and operability
- substation capacity and operability

- distribution network capacity and operability
- system reliability
- fault ratings and protection
- equipment condition and assessment of continued operation, including a list of works, schedule of replacement and/or upgrades required to maintain system performance for 10 years.

The scope prescribes consultation with the WA Planning Commission, Landcorp and local Shires together with local Horizon Power staff.

The "Gascoyne Region System Protection, Equipment & Asset Report" dated February 2010 was examined during the review. The study referred both to demand forecast data and to planning reports by the WA Planning Commission (Hot-Spot reports). WA Planning Commission reports were used to identify generation and substation switchboard bus capacity requirements in the Exmouth Ten Year Load Projection Generation and Switchboard Bus Capacity forecasts.

3 Summary and Conclusion

3.1 SUMMARY

This review has assessed progress with the implementation of the corrective actions arising from the Asset Management System Reviews 2008 and 2009 and the Notice issued by the Authority on 2009 and confirmed in 2010.

The review found that the Asset Management System and the Asset Management Plan (AMP) have been revised and simplified. The district asset management plans are now incorporated in the new draft AMP which relies on district reports for gathering the information required for planning, identifying issues and project requirements. Separate systems manage risks, maintenance, work management and documentation. The AMP includes an asset list, details of the maintenance process, "Fit for Purpose Drivers", details of capital works budgets, work programs, current maintenance budgets.

The AMP relies on new support documents and processes which provide guides and instructions on how to source information and how to address key asset management requirements such as regulatory, safety, capacity, reliability, quality, asset condition and service, cost, maintenance, contingency, resources, projects and document control.

The Districts have prepared operational and maintenance reports including historical and forecast budget plans to support the AMP. Data for historical costs was available from 2005 and the forecasts extended from 2011 to 2015.

Similarly procedures are available for addressing resourcing. Resource numbers and costing were included in the AMP as planned operational and CAPEX.

The planning process employs long term demand forecasts prepared by Marketing and Product Development and system planning studies. The demand forecast uses current and historical data gathered from a variety of sources, including the WA Planning Commission, Landcorp and local Shires. Forecasts are monitored to check their continuing accuracy. System planning studies cover capacity, operability, reliability, protection and fault rating for generation, substation, transmission, distribution network and protection for a period of 10 years.

3.2 CONCLUSION

The table below summarises the findings and recommendations of the report in regard to the system operation.

In Qualeng opinion actions resulting from the previous reviews have been completed.

Table 2: Systems Compliance

AMS Element	Recommendations from 2008 and 2009 AMS Reviews	Findings in this review	Status
1 Asset Planning	<p>Notice 4.2 (a): The asset plans to manage generation assets are generally not in place.</p> <p>2008 & 2009 Review Recommendations:</p> <ul style="list-style-type: none"> ▶ Finalise the Generation AMP. ▶ Complete Carnarvon and Esperance Generation District Asset Management Plans (DAMPs). DAMPs were incomplete and need review/updating, follow-up actions need to be tracked. 	<p>Asset Management Plan (AMP) revised for 2010 and issued in draft. Generation AMPs are now included in the AMP and the AMP is prepared by one single department using reports from other groups. Process has been revised to enable planning reports to support AMP preparation.</p>	<p>Process has been implemented in 2010 and there is evidence to show that actions have been complied with.</p>
Item 1.1	<p>Notice 4.2 (c): Absence of environmental analysis at regional and district level for both network and generation assets:</p> <p>2008 & 2009 Review Recommendations:</p> <ul style="list-style-type: none"> ▶ Develop environmental analysis sections in Horizon Power's individual NCS Regional AMPs with a direct link to local environment planning data available from the external peak bodies, Western Australian Planning Commission and Landcorp. ▶ Complete Generation DAMPs to show compliance with the environmental analysis defined in section "Environmental Load Forecast" of the Transmission and Generation SAMP. 	<p>The process has been revised. Responsibility for preparing environmental analysis is placed on Shared Services and Districts. Reporting process documented and reports viewed.</p> <p>Forecasts and planning reports show reference to external planning sources.</p>	<p>There is evidence to show that the actions have been implemented and are completed.</p>

Ms Alana Davies
Manager Governance & Compliance
Horizon Power
18 Brodie Hall Drive
Bentley WA 6102

17 December 2010

Dear Alana,

Assessment of outstanding action plans relating to item 1.2.15 of the section 32 notice

In accordance with our letter of engagement dated 4 October 2010, Deloitte Touche Tohmatsu (**Deloitte**) sets out below our independent assurance report regarding Horizon Power's resolution of item 1.2.15 of the section 32 notice issued by the Economic Regulation Authority (**the Authority**) on 19 January 2009.

Background

Item 1.2.15 of the section 32 notice relates to Clause 14.4(1) of the Code of Conduct for the Supply of Electricity to Small Use Customers 2008 (**Small Use Code**), which provides that a distributor must acknowledge and respond to a written query or complaint by a customer within 10 and 20 day timeframes respectively.

The 2008 Horizon Power EIRL performance audit disclosed one instance where a complaint was not acknowledged within the specified timeframe (10 days) and two instances where the complaint was not resolved within 20 business days after acknowledgement.

Recommendation no. 23 of the 2008 performance audit report addressed the following grouped findings on obligations 267, 272, 273, 296, 301 and 302¹:

- *"Horizon Power should continue to document the date in which customers' complaints are acknowledged"*
- *Horizon Power should respond to customer complaints within 10 working days*
- *Horizon Power should resolve complaints within 30 days from the date of receipt of complaint. If this is not possible, the reason should be documented*
- *The Horizon Power complaints policy should document the required procedures specific to obligations 267, 272, 273 & 296."*

¹ Obligation numbers sourced from the Authority's Electricity Compliance Reporting Manual

The 2009 Horizon Power EIRL performance audit reported the status of the 2008 audit report recommendation no. 23 as outstanding and provided the following revised action plan (Action Plan 17/09):

"A full review of the complaints definitions, recording, handling, escalation and reporting to be undertaken and processes and procedures developed to ensure all complaints are recorded, dealt with and reported in accordance with requirements.

This review will specifically address:

- *Employee and third party service provider training requirements*
- *System capabilities*
- *Policies and procedures."*

Objective

To determine whether Horizon Power has addressed the outstanding section 32 notice item 1.2.15 by:

- Resolving the 2009 audit action plan 17/09
- Demonstrating Horizon Power's compliance with clauses 14.3(1)² and 14.4(1) for the period since revised processes and procedures were implemented.

Responsibility

This engagement was performed with due care and skill in accordance with the Audit Guidelines and Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements*³ issued by the Australian Auditing and Assurance Standards Board.

Our procedures were designed to provide reasonable assurance as defined in ASAE 3500. Our work performed was limited to the examination of documents, observations made through walkthrough testing of relevant processes, sample testing of transactions and discussions with Horizon Power staff as specifically noted in the Work Performed section below. The conclusion at the end of this report relates to our work performed as detailed in this report. Please note the Statement of Responsibility on page 4 of this report.

Work Performed

We performed the following work during this engagement:

1. Assessed the resolution of 2009 audit action plan 17/09 by:
 - Considering the scope and results of the planned review of Horizon Power's complaints definitions, recording, handling, escalation and reporting processes and procedures
 - Obtaining and examining documentation from the outcome of the review to determine whether the resulting processes and procedures accommodate the requirements of clauses 14.3(1) and 14.4(1) of the Small Use Code.
2. For the period since revised processes and procedures were implemented (commencing from May 2010), we assessed compliance with clauses 14.3(1) and 14.4(1) of the Small Use Code for acknowledging and responding to customer complaints within the 10 and 20 business day timeframes respectively by:

² While clause 14.3(1) was not specifically mentioned in the 2008 performance audit, clause 14.3(1) is an identical requirement to clause 14.4(1) but specific to retailers.

³ ASAE 3500 also provides for our engagement to be conducted in accordance with relevant requirements of ASAE 3100 Compliance Engagements and ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

- Discussing with relevant staff and performing a walkthrough testing of the complaints handling process to understand the key controls of the process
- Obtaining and examining the complaints register maintained by ServiceWorks and the Customer Care team
- Performing substantive testing to determine whether complaints received are handled in a manner that complies with the requirements of Clauses 14.3(1) and 14.4(1) of the Small Use Code
- Documenting and considering the adequacy of those controls and processes implemented by Horizon Power through the period since April 2010, including:
 - Revisions to processes and procedures for recording and handling customer complaints
 - The most recent change implemented on 7 December 2010 to utilise the Gentrack Velocity system as the single register of customer complaints.

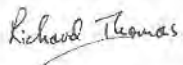
Conclusion

In our opinion, based on the work performed during this engagement:

- Horizon Power has resolved the 2009 audit action plan 17/09
- Horizon Power strengthened its customer complaints handling process during the period April to 7 December 2010
- The strengthened customer complaints handling process is now designed to meet the requirements of clauses 14.3(1) and 14.4(1) of the Small Use Code
- At the date of this report, Horizon Power's customer complaints handling process is suitable to be the subject of assessment by the 2011 EIRL performance audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU



RICHARD THOMAS

Partner

Statement of responsibility

This report has been prepared in accordance with the terms and conditions of the signed letter of engagement dated 6 October 2010, with the Standard on Assurance Engagements ASAE 3500 *Compliance Engagements* and on the basis of the following limitations:

Our engagement provides reasonable assurance as defined in ASAE 3500. Our procedures were consistent with what was set out in the Audit Plan reviewed and agreed with by the Authority on 23 September 2009, previously provided to the Authority for the 2009 Electricity Integrated Regional Licence Performance Audit.

Reasonable assurance means a high but not absolute level of assurance. Absolute assurance is very rarely attainable as a result of factors such as the following: the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to us is persuasive rather than conclusive and the use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence.

We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and its responsibility to prevent and detect irregularities, including fraud. Accordingly, readers of our reports should not rely on the report to identify all potential instances of non-compliance which may occur.

Any projection of the evaluation of the level of compliance to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with management procedures may deteriorate.

This report is made solely to the management of Horizon Power for the purpose of Horizon Power's demonstration of its actions for addressing the outstanding section 32 notice item 1.2.15. We disclaim any assumption of responsibility for any reliance on this report to any person other than the management of Horizon Power, or for any purpose other than that for which it was prepared. We disclaim all liability to any other party for all costs, loss, damages, and liability that the other party might suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party, or the reliance on our report by the other party.

About Deloitte Australia

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Confidential - this document and the information contained in it are confidential and should not be used or disclosed in any way without our prior consent.

© 2010 Deloitte Touche Tohmatsu. All rights reserved.