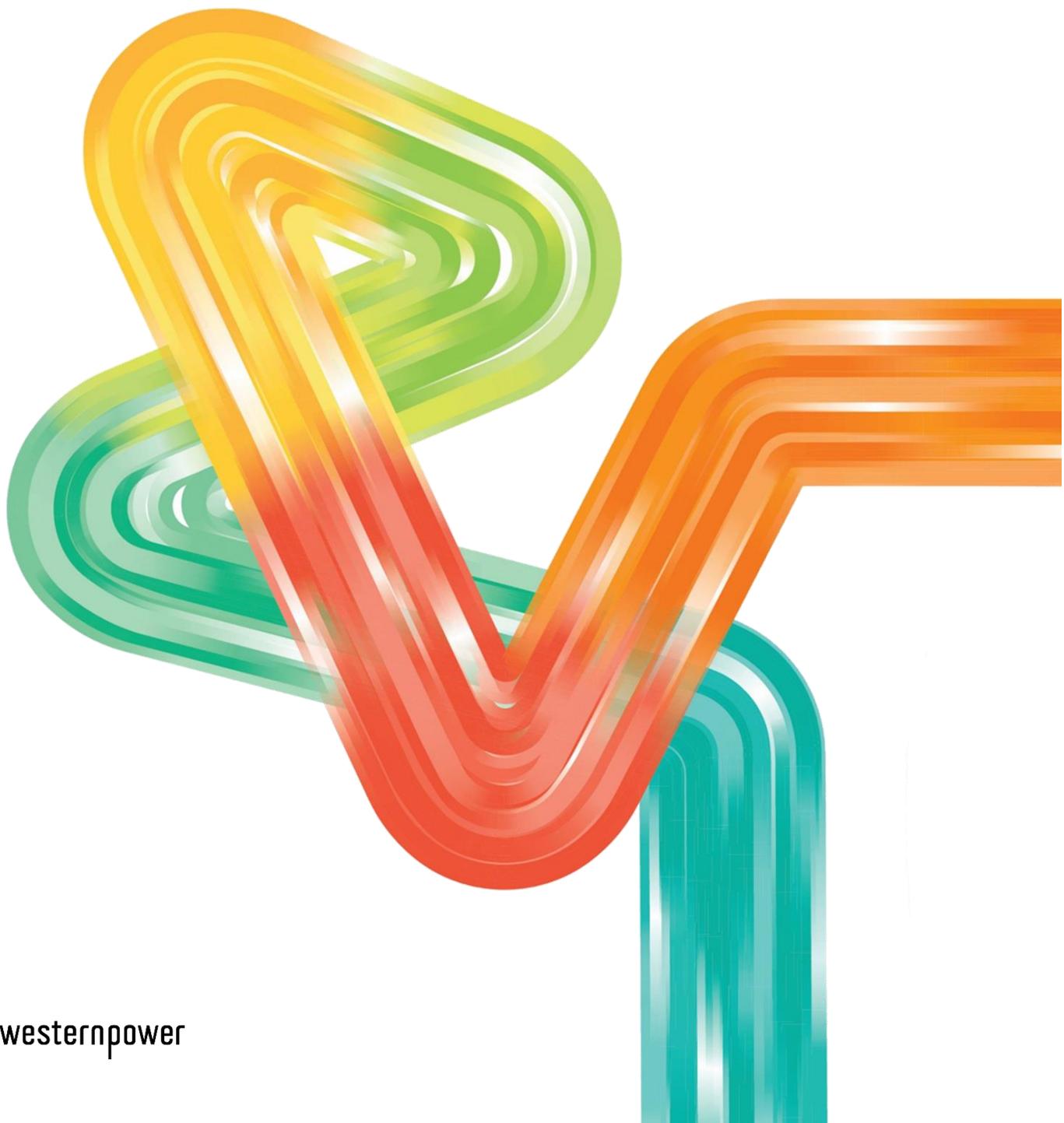


Statement of Corporate Intent 2019/20

10 JUNE 2019



Statement of Corporate Intent

This Statement of Corporate Intent (SCI):

1. Is prepared in accordance with Part 5 of the *Electricity Corporations Act 2005 (WA)* (the Act)
2. Documents the level of performance for the 2019/20 financial year agreed between Western Power and the Minister for Energy, with the concurrence of the Treasurer
3. Reflects the business intentions of Electricity Networks Corporation (trading as Western Power) for the financial year 2019/20
4. Complies with Section 99 of the Act by outlining Western Power's:
 - a. objectives, functions, main undertakings and performance targets for the year
 - b. community service obligations
 - c. dividend and accounting policies
 - d. obligations to inform the Minister
5. Is consistent with Western Power's *2019/20 - 2023/24 Strategic Development Plan*

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1. ABOUT WESTERN POWER

Western Power is a Western Australian State Government owned corporation. Our vision is to deliver on the changing energy needs of Western Australians, powered by community trust and the passion of our people.

Western Power's transmission and distribution network connects Western Australians to a wide range of both traditional and renewable energy sources to power a vibrant modern lifestyle. Although we have been delivering energy safely, reliably and efficiently for more than 70 years, our focus is always firmly on the future.

In a rapidly changing landscape, our customers' energy needs are evolving, and we intend to keep them connected every step of the way. Whether it's residents connecting their dream home, developers building a shopping complex or a stadium hosting a world class sporting event, we are there to deliver.

We are proud of our history and our people, and even prouder to be at the heart of Western Australia's energy future.

The Western Australian Government is the sole owner and Western Power is the sole operator of the south-west electricity network. As a statutory corporation Western Power is also governed by an independent Board which has overall responsibility for performing the functions, determining the policies and controlling the affairs of the corporation.

To ensure we provide a good service at a reasonable cost we are governed by regulations, codes and legislation. These include mechanisms such as performance targets and how much money can be earned, to the proper disposal of waste and the safety of employees and the public.

We are currently regulated by an independent body of State Government, the Economic Regulation Authority (ERA), to ensure that an efficient service is delivered at a fair price.

Building and Energy monitor compliance with jurisdictional energy safety requirements and other bodies such as the Public Utilities Office set policy. The Australian Energy Market Operator operates the WA electricity market.

THE WESTERN POWER NETWORK

The Western Power Network forms the vast majority of the networks that, together with electricity generators, comprises the South West Interconnected System (SWIS). The network consists of almost \$11 billion of assets, with a high proportion of these operating in the second half of their expected life. Western Power has a strong focus on sourcing local people and local content, with 70% of our goods and services being provided by businesses that are registered in WA and 95% across Australia and New Zealand.

The rise in competing technologies such as solar photovoltaic (PV) and battery storage, and the emergence of new business models such as Virtual Power Plants (VPP) and microgrids, is accelerating Western Power's need to respond to a constantly changing and dynamic environment. It also presents great opportunities. We are challenging the traditional methodology of replacing like for like assets, as customers look for alternative energy sources to power their homes and businesses, and potentially look to defect from the grid altogether.

2. AGENCY INFORMATION

CONTEXT

Objectives of Western Power

Western Power's core business is the delivery of safe, reliable and efficient electricity and services to the communities across the SWIS. Our business underpins the efficiency and competitiveness of Western Australia's development, and supports customers' demands of the energy market.

In accordance with section 41 of the Electricity Corporations Act 2005 (the Act), Western Power's principal functions include "to manage, plan, develop, expand, enhance, improve and reinforce electricity transmission and distribution systems and provide and improve electricity transmission and distribution services...".

Our vision is to deliver the changing energy needs of Western Australians, powered by community trust and the passion of our people. This is underpinned by our company's values:

1. **Safety First** - We choose safety – if it's not safe we don't do it
2. **Customer Focus** - Our solutions are relevant and make financial sense for our community
3. **Be Bold** - We challenge the status quo to deliver better outcomes
4. **Teamwork** - We invite the diverse opinion of others and work together.

Main undertakings for the relevant financial year

In 2019/20, Western Power plans to invest approximately \$849.7 million¹ of capital expenditure in the network. The expenditure will maintain our standards of safety, reliability and security. The capital expenditure initiative comprises of the following investment categories:

1. **Safety** - The key safety programs are pole management, conductor management and bushfire management. Western Power plans to invest \$262.5 million of capital expenditure in safety programs in 2019/20 to maintain the safety of the network.
2. **Security** - Investment in network security improves the network's resilience to supply interruptions resulting from single outages of transmission infrastructure (e.g. bushfires, lightning strikes, storms, wildlife, human error, asset failure, maintenance on existing assets and safety reasons). Western Power intends to invest \$2.4 million of capital expenditure in 2019/20 in this category, addressing voltage stability and thermal management.
3. **Growth** - While forecasts indicate overall electricity consumption from the network has flattened, there are still areas of the network where demand projections exceed current network capacity, or an expansion is required to support large customer-initiated projects. As a result, Western Power intends to invest capital expenditure of \$216.2 million¹ in growth related investments in 2019/20.
4. **Service** - Service covers investment in regulatory compliance, reliability, asset replacement, metering, business support, IT (including supervisory control and data acquisition) and corporate real estate. Investment is focussed on maintaining service levels of network reliability, power quality and regulatory compliance. Western Power intends to invest \$321.5 million in this category in 2019/20.
5. **Government Initiatives** – The key government initiative is the State Underground Power Program with an intended investment of \$37.3 million in 2019/20.

The majority of Western Power's operating expenditure is for recurrent network operating and maintenance activities required to deliver service levels consistent with average historical performance. Western Power

¹ This excludes amounts for gifted assets which is in the Growth category.

will maintain and refine its focus on operating efficiency based on reductions through delivery of the strategic plan.

Matters that may be agreed upon between the Minister and the Board

Standalone Power Systems (SPS)

Western Power has identified opportunities for cost-efficient installation of SPS across significant portions of our regional network. Our existing well trained, regionally located workforce supports our ability to supply SPS in regional areas as the trusted electricity provider. Western Power's SPS trial and upcoming demonstration project prove that we already have the capability to successfully deliver SPS in regional locations.

To deliver the best results for Government and customers, a change in Western Australian regulation and legislation is required to enable Western Power to deliver SPS in place of network refurbishment. This includes potentially allowing Western Power to remove existing network assets and include SPS in our Regulated Asset Base, or an alternative funding model. We are highlighting the urgency for policy decisions to be resolved within the current Access Arrangement period as long-life assets are coming up for significant renewal works, and SPS costs are declining. We appreciate the support of government and the work of the Public Utilities Office in modernising the current regulatory framework to enable the deployment of SPS to deliver better outcomes for customers.

GTE-specific requirements

Government Trading Enterprises (GTE) Efficiency measure

Western Power's GTE efficiency net debt target of \$52.8 million was achieved as part of the savings from the approval of the fourth access arrangement.

Service Standard Benchmarks

The approval of the Access Arrangement by the ERA includes the service standard benchmark levels and targets for network and service performance. The Economic Regulation Authority monitors Western Power's actual service standard performance against these benchmarks and publicly discloses the results on an annual basis.

The service standard benchmarks in the fourth Access Arrangement apply to reference services for: distribution, transmission, street lighting, supply abolishment and remote de-energise and re-energise services. During 2019/20 Western Power will aim to meet these benchmarks.

3. ACCOUNTABILITY

REPORTING – MINISTERIAL REPORTING

To meet the reporting requirements as outlined in the Act, Western Power will provide the Minister the following information.

Quarterly reporting

Western Power will provide the Minister and the Western Australian Treasurer with a quarterly report for the first three quarters of the financial year.

Quarterly reports will detail year-to-date performance of the business, provide comparisons to Statement of Corporate Intent targets and highlight any significant issues. The business will submit the quarterly reports in accordance with the requirements of section 106 of the Act.

The quarterly reports will be provided to the Minister for Energy and the Treasurer within one month of the end of the quarter.

Annual reporting

An Annual Report will be provided to the Minister, following the end of the financial year within the time specified by the Act.

In addition to the financial statements, the Annual Report will include an overview of major achievements, a comparison of performance with the Statement of Corporate Intent targets and other information required to be included by the Act.

Other operational reports

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 this one-year Statement of Corporate Intent
- A report on staff compliance with any Board-issued codes of conduct
- Any information in Western Power's possession requested by the Minister.

Quarterly network safety performance reporting

Western Power will provide quarterly reports on network safety performance outcomes to the Minister and the Director of *Building & Energy*. The report is in accordance with regulation 32 of the *Electricity (Network Safety) Regulations 2015*.

Quarterly overseas travel reporting

Western Power will provide quarterly reports to the Minister summarising overseas travel undertaken by each government officer, in accordance with Premier's Circular 2014/02.

Six monthly consultancy reporting

Western Power will provide six monthly reports summarising all consultants engaged during the period for tabling in Parliament, in accordance with Premier's Circular No. 2005/08.

State of the Infrastructure reporting

Western Power will provide a report to the Minister on the state of our infrastructure. The report is in accordance with one of the actions identified in the Government's Response to Report 14 of the Legislative Council's Standing Committee on Public Administration.

Engagements

Western Power will also continue to meet with:

- the Minister on a quarterly basis
- the Department of Treasury on a fortnightly basis.

REPORTING – ECONOMIC REGULATORY AUTHORITY (ERA) REPORTING

Western Power has several statutory and licence obligations which require information to be provided, primarily:

- Performance Audit and Asset Management System Review Report (three yearly)
- Annual Reliability and Power Quality Report (annual)
- Metering Code Performance Report (annual)
- Electricity Licence Reporting Data Sheets – Distribution (annual)
- Electricity Licence Reporting Data Sheets – NQR Code (annual)
- Service Standard Performance Report
- Annual Compliance Report

PERFORMANCE MEASUREMENT

Western Power's key performance measures and targets for 2019/20 are as follows:

Objective	Measure	2019/20 Target
Safe	Total Recordable Injury Frequency Rate (TRIFR)	≤ 2.7
	Public impact	≤ 0.4
	Reportable environmental incidents	≤ 0.4
Reliable	Service Standards met	All*
	Customer supply availability	≥99.93%
	Net Promoter score	≥-5
Efficient	Capital expenditure	849.7 ²
	Dividend to Government	277 M
	Employee engagement	≥ 75%

Notes: * Service Standards are agreed as part of Western Power's regulatory contract. The Service Standards include measures of network and service performance such as network reliability, call centre performance and streetlight repair.

² This number excludes the amount for gifted assets

4. FINANCES

BORROWINGS – FORECAST BORROWINGS & GOVERNMENT GUARANTEE FEE

Western Power has a forecast net borrowings amount for 2019/20 of \$290.8 million.

Western Power pays a Government Guarantee Fee (GGF) of 0.7% to the Department of Treasury for the use of an implied credit rating. The GGF is a competition neutrality measure that encourages government businesses to operate in a commercial manner and to perform comparably with private sector businesses of similar risk. The GGF serves to expose government businesses to the risk-related cost of debt they would face if they were required to borrow funds based on their stand-alone credit rating.

ACCOUNTING – ACCOUNTING POLICY

Western Power is required to prepare general purpose financial statements that have been prepared in accordance with Australian accounting standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) (including Australian interpretations) and Schedule 4 of the Act. On operation of the Act, Schedule 4 was aligned and cross referenced to the relevant sections of the Corporations Act 2001.

Western Power has been classified as a not-for-profit entity for the purpose of applying accounting standards and accordingly applies the not-for-profit elections available in the Australian accounting standards (where applicable).

For further details on the accounting policies adopted by Western Power, please refer to the financial statements section of Western Power's annual report.

PRICING – NETWORK PRICING AND TARIFFS

Western Power's reference tariffs are approved by the ERA annually as required under the Access Code. The ERA oversees the performance of Western Power's business to ensure that Western Power is operating in a manner that is economically efficient and will continue to provide value for money network access services.

Under AA4 the ERA requires Western Power to move from the existing revenue cap form of price control to a modified price cap form of price control. This will expose Western Power to downside and upside demand (and forecasting) risk. To mitigate any potential downside risk, Western Power will refine its existing pricing processes, and look to develop new pricing strategies within the constraints set through the access arrangement.

5. PAYMENTS TO AND FROM GOVERNMENT

DIVIDEND POLICY – FORECAST DIVIDEND PAYMENT

Western Power's forecast dividend of \$277.0 million in 2019/20 is comprised of:

- Final dividend of \$66.8 million in respect of the NPAT for financial year ending 30 June 2019
- An interim dividend of \$207.4 million in 30 June 2020 in respect of the financial year ending 30 June 2020
- A special one-off dividend of \$2.8 million to contribute towards the costs of delivering the Government's Energy Transformation Strategy, which is being overseen by the Energy Transformation Taskforce announced on 20 May 2019.

The dividend has been recommended at 75 per cent of forecast Net Profit After Tax (NPAT). Since the 2009/10 financial year, Western Power's dividend policy required an annual payout ratio of 65 per cent of the audited 30 June net profit after tax equivalent (NPAT). In 2016/17, this ratio was increased by 10% for the efficiency measures introduced in the 2017/18 State budget.

Payment of the final dividend, once accepted by the Minister with the concurrence of the Treasurer, is generally due no later than six months after the end of the financial year to which it relates.

The interim dividend in June 2020 is calculated as 75 per cent of the forecast full year dividend for 2019/20.

COMMUNITY SERVICE OBLIGATIONS (CSOs) – NATURE AND EXTENT OF CSOs

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

In 2019/20, forecast payments of \$106.7 million from Government is comprised of:

- An equity contribution of \$100.5 million for dividend on capital contributions, whereby Government returns to Western Power the value in the dividend calculation resulting from capital contributions.
- A subsidy of \$6.2 million for the State Underground Power Program.

6. GLOSSARY OF KPIS

	TERM	EXPLANATION
SAFE	Total Recordable Injury Frequency Rate (TRIFR)	The number of injuries resulting in medical treatment, a lost work shift or restricted work duties per million hours worked over a 12 month period.
	Public impact	Measurement of the number of public safety incidents which resulted in an injury to a member of the public, or property damage >\$20,000.
	Reportable environmental incidents	Rolling 12-month average of the number of environmental incidents that have been reported to Regulators where the underlying cause of the incident is attributed to Network asset failure or workforce actions.
RELIABLE	Service Standards met	The number of service standard that meet their benchmark performance as defined in the Western Power's Access Arrangement.
	Customer Supply Availability	The percentage of time that the average customer experiences supply over a year. Unlike the previous measure of Supply Unavailability, this measure also includes outages due to generation or third party systems (such as customer equipment)
	Net Promoter Score	A measure of customer experience for customers who have contacted Western Power in the previous quarter.
EFFICIENT	Capital expenditure	Annual capital expenditure program in millions of dollars.
	Dividend to Government	A percentage of NPAT that is formally agreed with the State Government.
	Employee Engagement	The employee engagement survey measures the level of employee engagement and the employment experience across different aspects of the work environment