

Essential Energy

2023-24 Final - Statement of Corporate Intent



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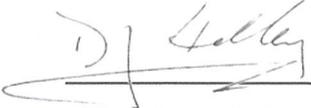
Shareholder Agreement

ESSENTIAL ENERGY
STATEMENT OF CORPORATE INTENT
Year Ending 30 June 2024

This Statement of Corporate Intent has been agreed between:



John Cleland
Chief Executive Officer
Essential Energy



Douglas Halley
Board Chair
Essential Energy



The Honourable Daniel Mookhey MLC
Treasurer of New South Wales



The Honourable Courtney Houssos MLC
Minister for Finance and Natural Resources



Company Objectives

Primary objectives for energy distributors under the *Energy Services Corporations Act 1995* are:

- To be a successful business and, to this end:
 - Operate at least as efficiently as any comparable business;
 - Maximise the net worth of the State's investment in it; and
 - Exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.
- To protect the environment by conducting its operations in compliance with the principles of ecologically sustainable development;
- To exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates;
- To operate efficient, safe and reliable facilities for the distribution of electricity and other forms of energy; and
- To be an efficient and responsible supplier of electricity and other forms of energy and of services relating to the use and conservation of electricity and other forms of energy.

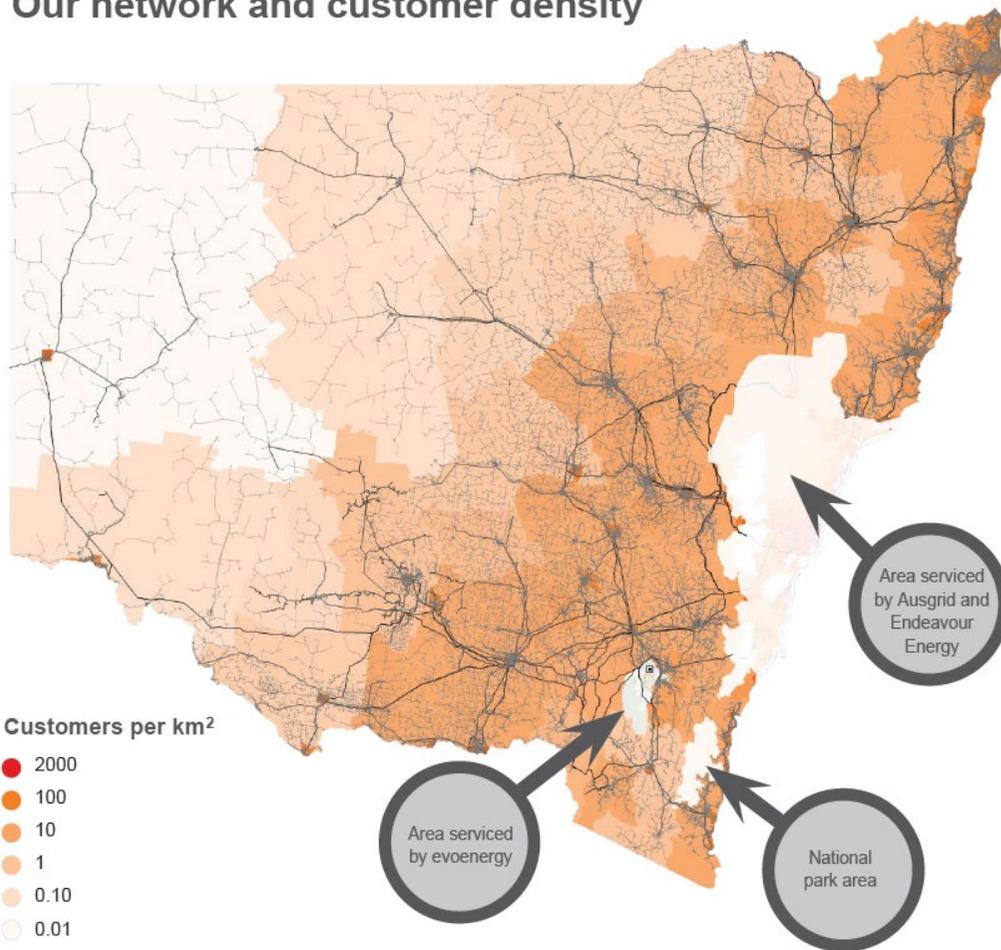
Each of these principal objectives is of equal importance.

Essential Energy focusses on five key objectives:

- > Continuous improvements in safety culture and performance;
- > Operating at industry best practice for efficiency, delivering best value for customers;
- > Delivering real reductions in customers' distribution network charges;
- > Delivering a satisfactory Return On Capital Employed; and
- > Reducing the environmental impact of Essential Energy where it is efficient to do so.

Essential Energy Overview

Our network and customer density



Essential Energy operates and maintains one of Australia's largest electricity networks, across 95 per cent of New South Wales (NSW) and parts of southern Queensland


>870,000
 customers


4.75
 customers to fund every 1km of overhead powerlines, compared to Ausgrid with 43.7 & Endeavour with 33.9


1,404,814
 power poles - which equates to 1.6 power poles for every customer


737,000
 square kilometres of network covering 95% of New South Wales and parts of southern Queensland


183,099 km
 of overhead powerlines - equivalent to driving around Australia 13 times


364
 zone substations and 139,303 distribution substations


1,470
 powerlines. Ten of these are each longer than 1,000km


36.8 years
 average age of network assets

Operating Environment Overview

The Electricity Distribution industry is in the midst of significant change:

- Networks are changing from being largely one directional to a complex, interconnected, multi dimensional energy ecosystem;
- The industry is slowly becoming less reliant on centralised generation from the burning of fossil fuels and is moving towards more Distributed Energy Resources (“DER”) from renewable sources, such as solar or wind;
- Those changes are leading to network congestion - to be relieved by investment and changes in DER export patterns;
- Improvements in solar and battery storage technologies and costs, and appliance energy efficiencies, together with an uptake of electric vehicles will see a change in load profile across the network; and,
- Customers increasingly have more choice in the way that they use and source their electricity.

There is also significant change in the regulatory environment:

- Australian electricity distributors are increasingly facing greater levels of regulatory scrutiny;
- Several external events are placing upward pressure on costs;
- New Government backed investment in transmission to support greater renewable generation;
- Additional frameworks being developed to adapt for new technologies, such as Stand-Alone Power Systems export pricing for DER; and
- The impact of bushfires and floods demonstrates the need for a sharpened focus on network resilience.

> Our communities are facing financial pressures as a result of external events, and amid the transformation of the energy sector.

> Essential Energy must become increasingly efficient and effective, while maintaining reliability and enabling our customers to benefit from lower network charges.



Strategic Summary

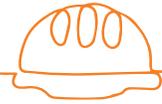
Our Vision

Empowering communities to share and use energy for a better tomorrow.

Our Purpose

To enable energy solutions that improve life.

Our Values



Make safety your own



Be easy to do business with



Make every dollar count



Be courageous, Shape the future



Be inclusive, supportive and honest

Whilst Essential Energy's vision, purpose and values provides a clear direction for the organisation, how to optimally achieve these objectives evolves. What best meets the future needs of our customer's today, was not a possibility yesterday, and Essential Energy must ensure that it's Corporate Strategy remains fit for purpose.

Our strategy sets a clear direction to meet the current and future needs of the communities we serve. Safety, reliability and affordability remain as our commitment to customers, while recognising the growing role of the electricity sector, and the distribution network specifically, in the transition to a lower carbon world. The strategy seeks to:

1. Drive affordability through greater asset utilisation and greater efficiency, enabled by new technology solutions
2. Enabling customer choice in connection and their energy investments, ranging from rooftop solar to electric vehicles
3. Add greater value to regional, rural and remote communities by expanding into underserved, unregulated activities, starting with the expansion of existing telecommunication assets

Our Corporate Strategy - Four Key Pillars

Strengthen the core and enable the network



Drive connections and load



Facilitate Electric Vehicle ("EV") adoption



Enable smart communities and new customer solutions



Financial Summary

\$M Nominal	FY24	FY25	FY26
Revenue	1,737	1,804	1,872
Operating Expenses	958	1,004	1,048
EBITDA	779	801	825
EBIT	299	333	356
Profit Before Tax	(43)	(0)	12
Net Profit/(Loss) After Tax	(30)	(0)	8
Net Debt	6,606	6,781	7,040
Capital Expenditure	654	608	605
Dividend	0	0	6
Dividend Payout Ratio*	70%	70%	70%



* Dividend Payout Ratio is based on NPAT and is before additional dividends
 ** Total Shareholder Distributions includes dividends as per NSW Treasury's *Financial Distribution Policy for Government Businesses (TPP16-04)*, additional dividends, tax equivalents expense and Government Guarantee Fee (GGF).

Performance Target Summary

Essential Energy tracks its performance across a number of areas. Key measures to be used to track Chief Executive Officer (“CEO”) and Executive performance in four key areas of safety, people, customer and financial performance are shown below:

Area	Measure	FY23 Target	FY24 Target
 Safety	Executive Safety Assurance Activity ¹	n/a	3
	Serious Claim Frequency Rate (“SCFR”)	≤3.5	≤3.5
 People	An inclusive workforce that reflects our customers and communities, and where our People feel engaged and valued	≥3.82	≥3.82
 Customer	Customer Satisfaction Index	≥79%	Monitor only
 Financial	Operating Costs (“Opex”) \$M	≤\$905M	≤\$958M
	Return on Capital Employed (“ROCE”) %	≥3.1%	≥3.1%

¹ Replaced High Potential Near Misses. Target is 3 per Executive

Forecast Dividend profile

Dividends (\$M)	FY23	FY24	FY25	FY26
Ordinary Dividend	0	0	0	6
Total Dividends	0	0	0	6

Statement of Expectations

#	Headline Expectation	Key activities to meet expectation	Link to strategic goals	Status
1	Ensure the Government's investment of its capital is used efficiently	<ul style="list-style-type: none"> Optimise business performance and deliver efficiencies to ensure the business maximises sustainable returns to government without compromising service quality, safety or cost of living. Proactively identify surplus or underutilised assets and land whose value could be realised and invested in NSW Pursue the establishment of a subsidiary or subsidiaries to create opportunities to earn commercial returns from unregulated activities 		
2	Maintain high standards of public accountability and corporate governance	<ul style="list-style-type: none"> Proactively communicate and engage with the Government to keep them informed of relevant matters of interest related to their accountabilities Maintain the highest standards of governance, probity and integrity in line with government policies and community expectations 		
3	Deliver services safely	<ul style="list-style-type: none"> Deliver products and services safely and with respect to the safety and well-being of its employees, the community and the environment and focus on reducing safety incidents in the workplace. 		
4	Operate the business sustainably and support delivery of Net Zero policies	<ul style="list-style-type: none"> Support delivery of the NSW Government's Electricity Infrastructure Roadmap including the management of new renewable generation connections, through both regulated and unregulated business activities Facilitate the uptake of electric vehicles across regional NSW including the efficient evolution of fleet Support the network integration and uptake of sustainability infrastructure by customers Help support NSW communities to benefit from the economic and employment opportunities created by decarbonisation Monitor and report annually its activities against agreed sustainability reporting and climate risk disclosure frameworks. 		
5	Support decentralisation and regional development	<ul style="list-style-type: none"> Provision of a reliable, efficient supply of electricity to support the economic development of regional NSW Effective engagement with communities on the priorities for energy transition, required investments in the network and affordable bill outcomes Robust community resilience planning including investment in increased resilience of the electricity network Development and implementation of a plan to support decentralisation through flexible roles to encourage regional employment ensuring where practical key operational roles are based regionally to align with industry. 		
6	Ensure robust procurement and employment practices that support the economic and social outcomes of the state	<ul style="list-style-type: none"> Support diversity in suppliers by considering procuring from small and medium enterprises, Aboriginal businesses, regional businesses, disability employment organisations, and social enterprises; Assist small and medium enterprises to become more competitive by providing suitable feedback following unsuccessful tender bids; Ensure payments to all suppliers, but particularly small and medium enterprises, are made on time, and if appropriate, faster than the payment terms require; and Support diversity of workforce participation so that employees feel valued, safe and respected in the workplace. Support training and development of apprenticeships Support the provision of energy services and competition in the regional NSW market through the establishment of an unregulated subsidiary 		

Statement of Expectations (Cont.)

- This 2023-24 Statement of Corporate Intent (SCI) has been prepared and submitted to the Shareholding Ministers in accordance with the State Owned Corporations Act 1989. The strategic direction of the 2023-24 SCI aligns with the Statement of Expectations/Priorities existing at the time of preparation.
- Essential Energy is working with the Government to re-evaluate its Statement of Expectations in due course to ensure the Business's priorities align with the Government's priorities. Related to this process Essential Energy's priorities will include the following key areas for the coming year:
 - engage with renewable energy project developers about potential opportunities to connect to the Essential Energy network;
 - operate in a way that is consistent with the Government's Net Zero Plan, including Stage 1 of that plan to fast-track emissions reduction over the next decade;
 - liaise with relevant regulators in regard to regulations and rule settings and associated methodologies in order to seek alignment with strategic objectives and Government's priorities;
 - ensure robust procurement, employment, and reporting practices to support positive economic and social outcomes; and
 - build trust with customers, stakeholders and the community through providing transparent, meaningful and timely information and engagement.

Representation and Commitment Statement

The Board of Essential Energy confirms that:

- Key performance indicators within the 2023-24 SCI are based on and supported by the Corporation's Business Plan.
- The Voting Shareholders will be provided with financial and other information to assess the performance against commitments in this SCI and to assess the value of the Shareholders' investment in the business.
- Asset maintenance policies and processes are adequate and appropriate to manage, and control risks associated with physical assets.
- All known key risks and major emerging contingent liabilities, including climate related and cyber security, which could materially impact the current and future results of Essential Energy for the coming year have been disclosed.
- Internal audit and risk management practices are consistent with standards recommended for Australian Securities Exchange (ASX) listed companies and where appropriate and relevant, has applied any additional requirements that are set out in Internal Audit and Risk Management Policy for the General Government Sector (TPP20-08) for the NSW Public Sector.
- The Chief Executive Officer has an employment contract and performance agreement. The employment contract is appraised annually with the next appraisal due from July 2023.
- Essential Energy:
 - adheres to Commercial Policy Framework policies, as listed in State Owned Corporations: Applicable TPPs under the Commercial Policy Framework (provided in Appendix 1).
 - agrees it will pay charges fixed by the Treasurer in respect of government guarantee fees for borrowings from TCorp, in accordance with section 20U of State Owned Corporations Act 1989.
 - complies with NSW Treasury accounting circulars and policies applicable for SOCs.
 - agrees to provide information during the year to Treasury, as the representative of the Voting Shareholders, as specified in the State Owned Corporation Reporting Obligation Requirements (provided in Appendix 3).
 - has agreed to comply with the requirements of the New South Wales Industrial Relations Guidelines: Building and Construction Procurement July 2013 (Updated Sept 2017) [previously referred to as Premier's Memoranda M2013-04].