

# Essential Energy 2020-21 Final Statement of Corporate Intent



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# 3. Shareholder Agreement

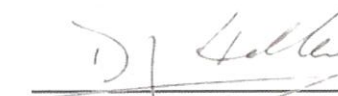
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## ESSENTIAL ENERGY STATEMENT OF CORPORATE INTENT Year Ending 30 June 2021

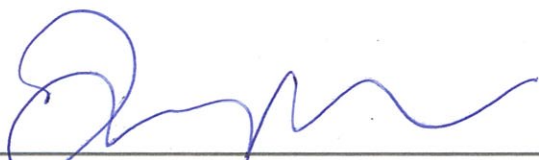
This Statement of Corporate Intent has been agreed between:



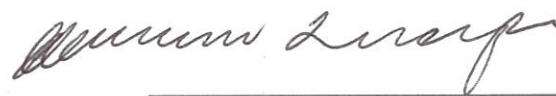
John Cleland  
*Chief Executive Officer*  
*Essential Energy*



Douglas Halley  
*Board Chair*  
*Essential Energy*



The Honourable Dominic Perrottet MP  
*Treasurer*



The Honourable Damien Tudehope MLC  
*Minister for Finance and Small Business*



## 4. 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.

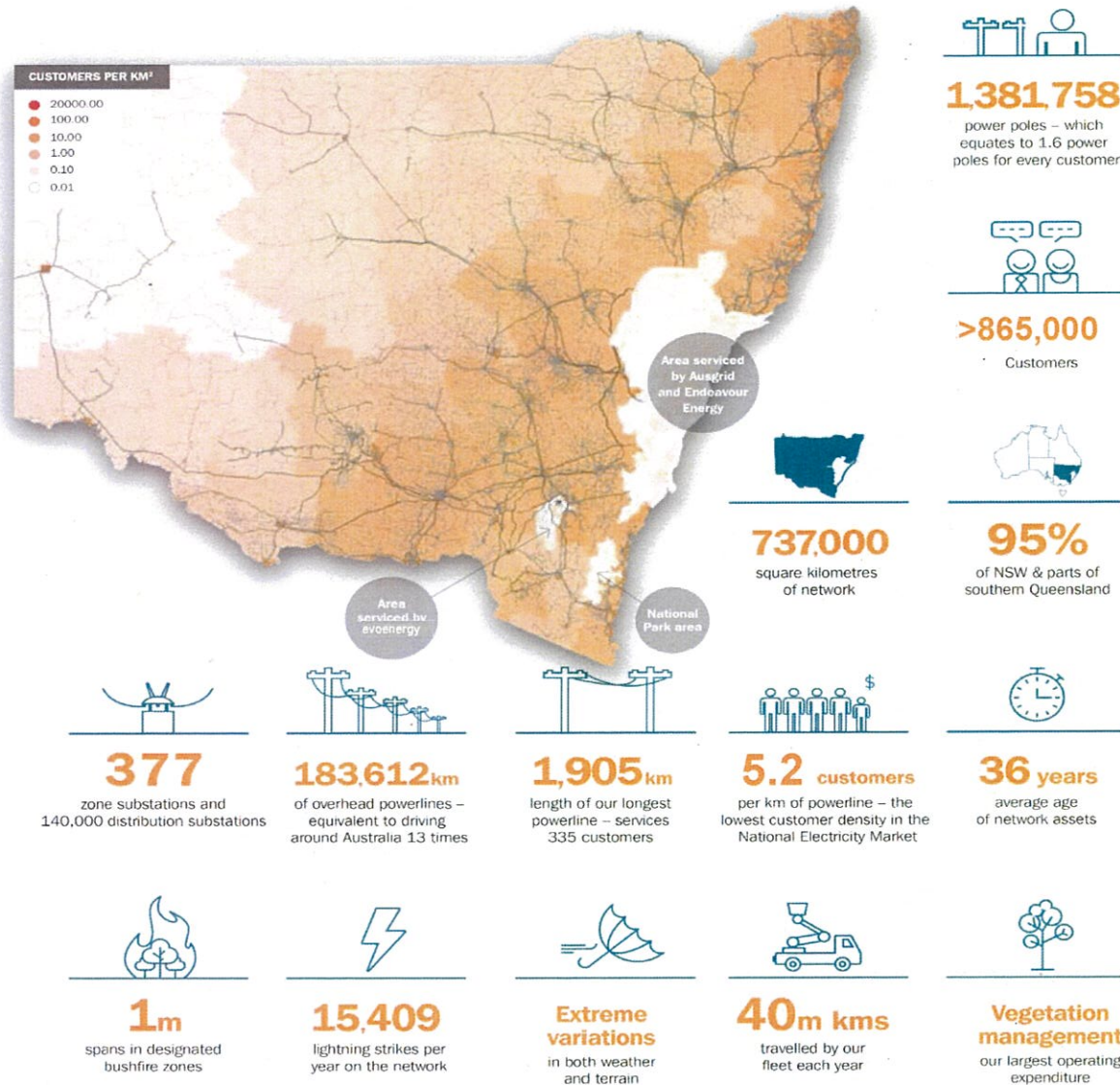
Each of these principal objectives is of equal importance.

Essential Energy focusses on five key objectives:

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



# 5. Essential Energy Overview



- Essential Energy operates and maintains one of Australia's largest distribution networks, delivering electricity to its customers safely, reliably and sustainably
- Everything Essential Energy does is guided by its vision to empower communities to share and use energy for a better tomorrow
- Essential Energy is continuously evolving in response to changes in how its customers want to use the network, including embracing new technologies such as solar, batteries, electric vehicles and energy exchange



# 5. 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 eco-system;
- > 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;
- > Improvements in solar and battery storage technologies and costs, and appliance energy efficiencies, are forecast to lead to reduced network volumes in the medium to long term; and,
- > Customers increasingly have more choice in the way that they use and source their electricity.

There is 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;
- > The Energy Networks Australia ("ENA") Retailer assistance package and the Australian Energy Regulator ("AER") network revenue deferral rule change have been implemented to mitigate risks of Retailer default due to COVID-19;
- > Increased focus on Critical Infrastructure and Cyber Security leading to strengthened regulatory requirements;
- > New frameworks being developed to adapt for new technologies, such as Stand-Alone Power Systems ("SAPS"); and
- > The impact of bushfires demonstrates the need for a sharpened focus on network resilience.

A combination of increasing regulatory scrutiny, stakeholder expectations and customer choice is putting downward pressures on electricity prices and distribution revenues





# 5. Strategic Summary

## Vision

**“What we want to be”**

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

## Purpose

**“What we stand for”**

To enable energy solutions that improve life.

## Business Objectives

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

## Values

**“What we care about”**





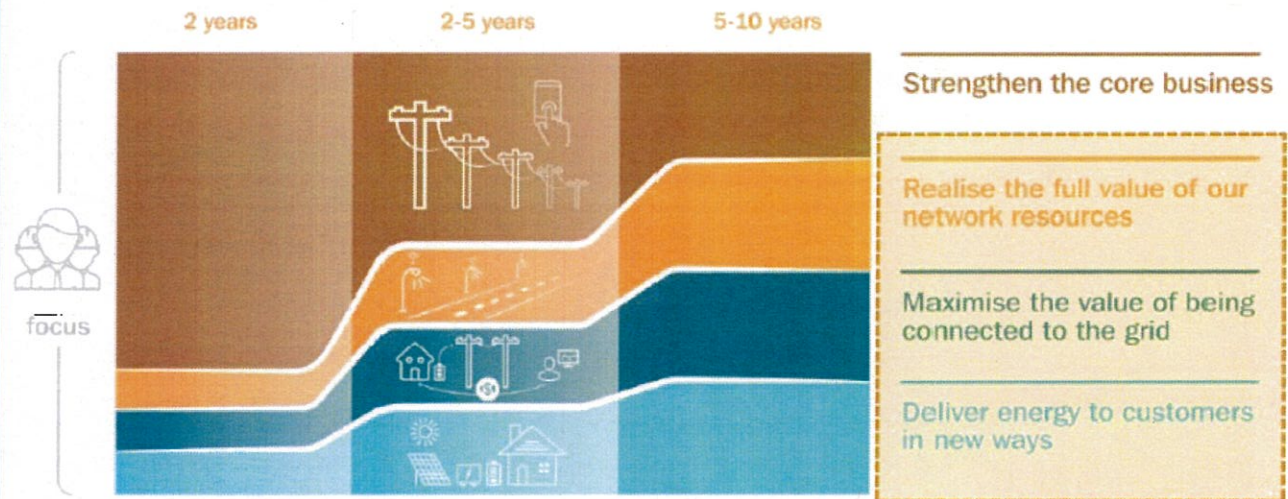
# 5. Strategic Summary

Essential Energy needs to respond to the changing energy environment by becoming more efficient, flexible and customer focussed. Development of appropriate responses to address the risks and opportunities posed by new technologies and market conditions are required.

Essential Energy's vision, purpose and values set the foundation and a number of key initiatives are designed to address current capability gaps and meet the challenges in the operating environment.

The Essential Energy Corporate Strategy shown below is the plan for the coming five to ten years to deliver Essential Energy's vision of 'empowering communities to share and use energy for a better tomorrow'. It builds on Essential Energy's vision, purpose, values and business objectives. It is designed to address two main challenges:

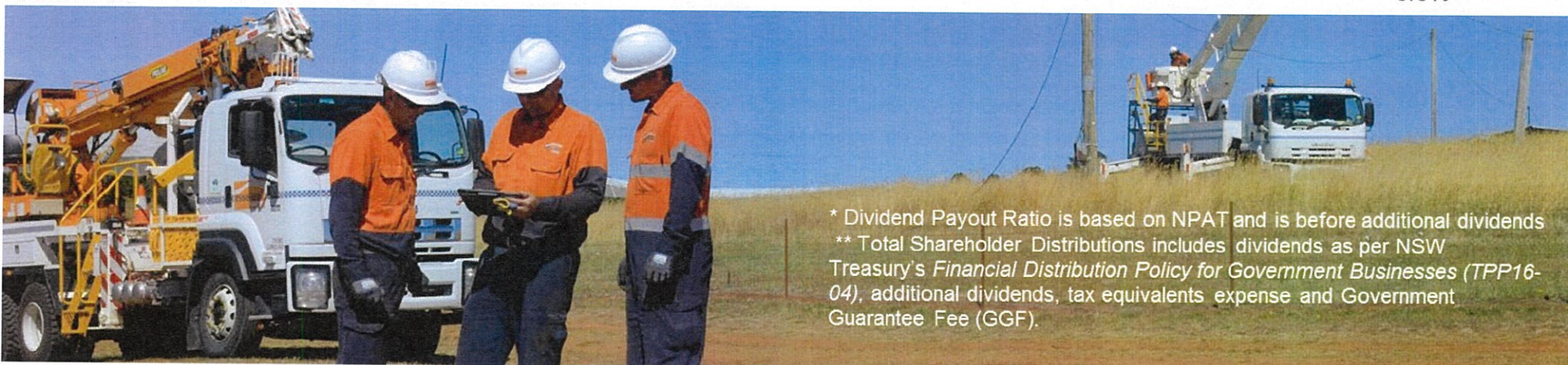
1. The need to address energy affordability and bring down network charges;
2. The ability to respond to a range of external challenges facing the business, including changing consumer preferences, rapid technological change, and a regulatory and political landscape that is in a constant state of flux.





## 6. Financial Summary

\$M Nominal	FY21	FY22	FY23
Income	1,183	1,234	1,236
EBITDA	671	750	780
EBIT	260	333	333
Operating Profit Before Tax	(45)	43	56
Net Profit After Tax	(32)	30	39
Capital Expenditure	570	545	575
Dividend	0	21	27
Dividend Payout Ratio*	n/a	70%	70%
Total Shareholder Distributions**	126	176	193
Return on Assets	2.9%	3.6%	3.5%
Return on Equity	(1.4%)	1.3%	1.7%
Return on Capital Employed	3.1%	3.9%	3.8%







\* 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).



# 7. Performance Target Summary

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

Area		Measure	FY20 Actual	FY21 Target
	Safety	Total Recordable Injury Frequency Rate (“TRIFR”)	11.6	≤10
		Serious Claim Frequency Rate	2.4	≤2.0
	People	Gallup: Engaged Employees	34%	>36%
		Gallup: Disengaged Employees	14%	<12%
	Customer	Customer Satisfaction Index <sup>^</sup>	75%	≥75%
	Financial	Operating Costs (“Opex”) \$M	\$495M	≤\$512M
		Return on Capital Employed (“ROCE”) %	3.4%	≥3.1%

<sup>^</sup> New scoring methodology adopted for FY21; FY20 actual outcome based on new scoring methodology

## Dividend Policy agreement

Ordinary dividends for the FY21 financial year will not be provided due to the net loss after tax (“NLAT”) position. In FY22 and FY23 dividends will be provided on the basis of a dividend payout ratio target of 70 per cent of the net profit after tax.

## Forecast Dividend profile

Dividends (\$M)	FY20	FY21	FY22	FY23
Ordinary Dividend	0	0	21	27
<b>Total Dividends</b>	<b>0</b>	<b>0</b>	<b>21</b>	<b>27</b>



## 8. COVID-19 Response: Proposed 'No-regrets' Actions



### 1 Impact to People

- > Continue to prioritise support for impacted critical skillsets and functions
- > Continue and expand office hygiene precautions and safety protocols within Essential Energy offices/depots
- > Maintain accurate and timely data on infections, employees and close contacts, including direct test results



### 2 Impact to supplies & services

- > Minimise disruption to supply chain and critical suppliers through identification of supplier weakness and alternate providers
- > Grow the diversity of COVID-19-specific PPE suppliers and continue to stockpile supplies
- > Formalise existing DNSP information-sharing and co-operation forums



### 3 Impact to IT

- > Identification of key vendors and system weaknesses
- > Bring forward physical inspections, maintenance and upgrades of IT systems

## 8. COVID-19 Response: Continued Focus on Customers



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### Impact to works program

- > Continue and expand risk-based modelling framework established to allow prioritisation of work/backlogs
- > Establish fallback plan for meeting bushfire compliance
- > Develop and rehearse plans for additional response measures that would impact critical operational tasks



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### Impact to customers

- > Progress the reintroduction of live line work
- > Continuation of pre-emptive phone calls and texts
- > Accelerate improvements in consumption and impact analysis
- > Consideration of new life support protocol



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### Impact to communications

- > Establish external communication framework given potential for local media and internet communications being limited
- > Proactively create content across multiple media channels for communications campaign focused on continued operations, safety protocols and other critical information notices.



# 9. Representation and Commitment Statement

The Board of Essential Energy confirms that:

- a. Key performance indicators within the 2020-21 SCI are based on and supported by the Corporation's Business Plan;
- b. The Voting Shareholders will be provided with financial and other information, including information on major capital expenditure projects, on a quarterly basis to assess the performance against commitments in this SCI and to assess the value of the Shareholders' investment in the business;
- c. Asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets;
- d. All known 'key risks' and 'major emerging contingent liabilities' which could materially impact the current and future results of Essential Energy for the coming year have been disclosed;
- e. Internal audit and risk management practices are consistent with standards recommended for Australian Securities Exchange (ASX) listed companies and where appropriate, has applied any additional requirements that are set out in *Internal Audit and Risk Management Policy (TPP15-03)* for the NSW Policy Sector; and
- f. The Chief Executive Officer has an employment contract and performance agreement. The employment contract is appraised annually with the next appraisal scheduled for July 2020. The contract is evergreen.

Essential Energy adheres to *Commercial Policy Framework* policies, as listed in *State Owned Corporations: Applicable TPPs under the Commercial Policy Framework*.

- > Essential Energy complies with NSW Treasury accounting circulars and policies applicable for SOCs
- > Essential Energy 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
- > Essential Energy has agreed to comply with the requirements of *Premier's Memoranda M2012-04 Application of NSW Public Sector Wages Policy 2011 to State Owned Corporations* and further guidance contained in the Treasurer's January 2015 letter
- > Essential Energy will apply the principles of:
  - Premier's Memoranda M2012-08 Application of Biofuels
  - Premier's Memoranda M2013-04 Implementation guidelines for procurement of publicly funded construction services