

Essential Energy

2022-23 Final Statement of Corporate Intent



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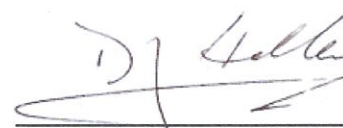
Shareholder Agreement

ESSENTIAL ENERGY
STATEMENT OF CORPORATE INTENT
Year Ending 30 June 2023

This Statement of Corporate Intent has been agreed between:



John Cleland
Chief Executive Officer
Essential Energy



Doug Halley
Board Chair
Essential Energy



The Honourable Matt Kean MP
Treasurer of New South Wales and
Minister for Energy



The Honourable Damien Tudehope MLC
Minister for Finance and Employee Relations

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.

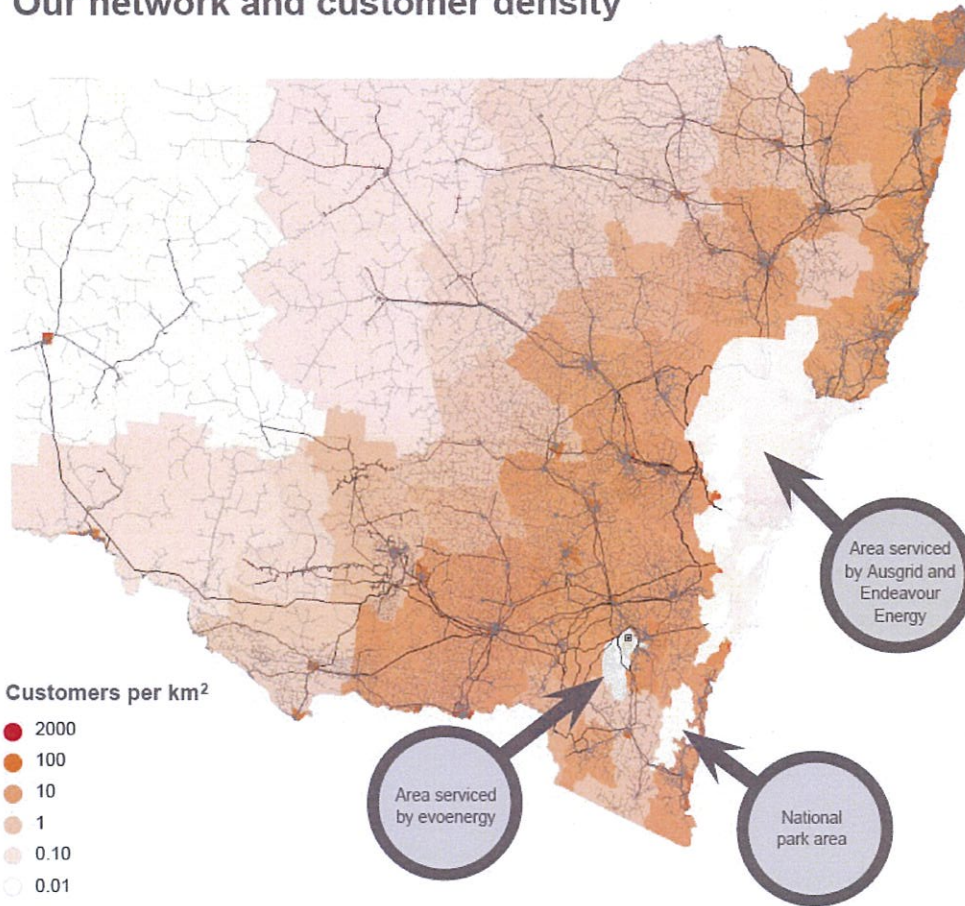
Each of these principal objectives is of equal importance.

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
- 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


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


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


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

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

While 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 customer’s today, was not a possibility yesterday, and Essential Energy must ensure that it’s Corporate Strategy remains fit for purpose.

The Board and Executive Leadership Team recently conducted a strategic review to see how a distribution network can best fit into the future, identifying customer’s needs, and recognising the pace of the energy transition. This collimated in a refresh of the Corporate Strategy which 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 underserviced, unregulated activities, starting with the expansion of existing telecommunication assets.

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



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
- 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
- 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
- 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
- The impact of bushfires and floods demonstrates the need for a sharpened focus on network resilience.

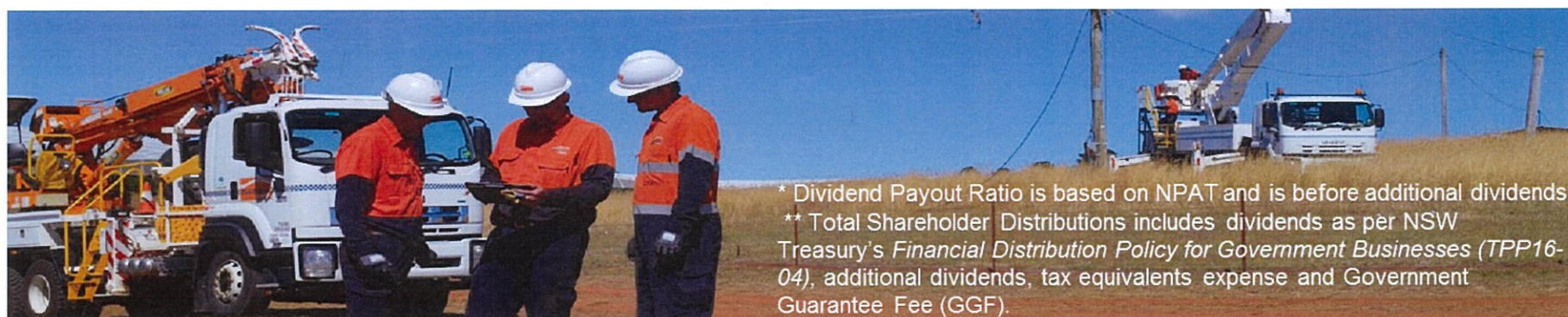
- Essential Energy’s communities are facing financial pressures as a result of external events, and amid the transformation of the energy sector.

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



Financial Summary





\$M Nominal	FY23	FY24	FY25
Revenue	1,625	1,665	1,685
Operating Expenses	905	870	873
EBITDA	720	795	812
EBIT	266	360	393
Operating Profit Before Tax	(33)	50	73
Net Profit/(Loss) After Tax	(23)	35	51
Net Debt	6,393	6,626	6,791
Capital Expenditure	552	532	505
Dividend	-	24	36
Dividend Payout Ratio*	n/a	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	FY22 Target	FY23 Target
 Safety	High Potential Near Misses	n/a	≤0.25
	Serious Claim Frequency Rate (“SCFR”)	≤2.0	≤3.5
 People	An inclusive workforce that reflects customers and communities, and where Essential Energy’s People feel engaged and valued	≥3.82	≥3.82
 Customer	Customer Satisfaction Index	≥77%	≥79%
 Financial	Operating Costs (“Opex”) \$M	≤\$842M	≤\$905M
	Return on Capital Employed (“ROCE”) %	≥3.6%	≥3.1%

Forecast Dividend profile

Dividends (\$M)	FY22	FY23	FY24	FY25
Ordinary Dividend	-	-	24	36
Total Dividends	-	-	24	36

Representation and Commitment Statement

The Board of Essential Energy confirms that:

- a. Key performance indicators within the 2022-23 SCI are based on and supported by the Corporation's Business Plan
- b. The Voting Shareholders will be provided with financial and other information 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 for the General Government Sector (TPP20-03)* for the NSW Public Sector
- 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 2022.

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 *M2021-13 and the NSW Public Sector Wages Policy* and further guidance on executive remuneration contained in the Treasurer's January 2014 letter
- Essential Energy has agreed to comply with the requires of:
 - a. Premier's Memoranda M2012-08 Application of Biofuels
 - b. New South Wales Industrial Relations Guidelines: Building and Construction Procurement July 2013 (Updated Sept 2017) [previously referred to as Premier's Memoranda M2013-04].