



**STATEMENT OF CORPORATE INTENT  
2019-2020**

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## **PURPOSE OF THE STATEMENT OF CORPORATE INTENT**

The Statement of Corporate Intent (**SCI**) is prepared in accordance with Part 5 of the *Electricity Corporations Act 2005* (**the Act**) and outlines the direction of the Electricity Generation and Retail Corporation, trading as Synergy, over the 2019/20 financial year.

In accordance with section 99 of the Act, the SCI is consistent with the Strategic Development Plan 2019/20 to 2023/24 (**SDP**), which sets out Synergy's economic and financial objectives and operational targets over the medium term and the commercial strategies and initiatives the business will pursue.

Pursuant to section 97 of the Act, the SCI is intended to apply for the corporation and any subsidiary and outlines the objectives; functions; performance targets; community service obligations; dividends and accounting policies for the financial year.

## 1 FROM THE CHAIRMAN

Synergy's operating environment – like that of other energy utilities across the world - is in a constant state of transformation as renewable power generation, emerging technology, competition from non-traditional sources and changing customer behaviour see a decline in electricity demand and a corresponding decline in the reliance on scheduled, centralised generation.

In the South West Interconnected System (**SWIS**) we are witnessing the continued growth in rooftop solar generation occurring at a time when total demand is forecast to remain relatively stagnant.

Over the course of this financial year, for example, rooftop solar is forecast to increase by seven percent. This rate of growth is occurring despite the much needed and overdue increases in network charges being implemented by the State Government in 2017.

Synergy has been the reliable provider of energy from which economic activity and industry has been developed in the SWIS. Despite the significant shift away from centralised generation and increases in intermittent energy sources, Synergy will retain a critical role in ensuring business and residential customers can access affordable and reliable electricity in the future.

The rapid change in market dynamics pose a number of operational, investment and financial challenges across all of Synergy's business units, but the business is working closely with the State Government in developing a pathway for the future that will ensure Synergy's commercial sustainability, deliver better outcomes for customers and safeguard supply reliability and system security.

Over the period of the SCI, Synergy will continue to deliver on its purpose to lead Western Australians to their intelligent energy future by executing a corporate strategy focussed on safe, sustainable and high performing operations; increasing revenue, decreasing costs, evaluating and managing supply risk and transitioning the organisation's culture.

The SCI reaffirms Synergy's commitment to deliver on its legislated requirements to act in accordance with prudent commercial principles and endeavour to make a profit, consistent with maximising its long term value.

In doing so Synergy will not lose sight of providing support to hardship customers and will stand by its commitment to the communities in which it operates.

**ROBERT COLE**  
**CHAIRMAN**

## 2 BUSINESS OVERVIEW

### 2.1 Strategic objectives

Synergy's corporate strategic vision is to become the *"First choice for energy, trusted to provide homes and businesses with innovative and effective products and services. For today and tomorrow"*.

Synergy owns and operates electricity generation assets, including thermal power stations and wind farms spanning from Kalbarri in the north, out to Kalgoorlie in the east and down to Albany – an electricity network known as the SWIS. Established under the Act and owned by the State Government of Western Australia, Synergy reports to the Minister for Energy, the Hon Bill Johnston MLA.

This SCI has been developed with the long-term objective of improving Synergy's current financial position by improving Synergy's commercial sustainability to pursue long-term returns to the State Government and Western Australian taxpayers. It has been developed consistent with section 61(1) of the Act to "act in accordance with prudent commercial principles; and endeavour to make a profit consistently with maximising its long-term value".

Accordingly, over the period of this SCI Synergy will:

- (a) continue to operate in Western Australia as a government owned trading enterprise;
- (b) be a trusted and aligned source of expertise for government and be a respected and trusted market participant, reflecting our leading role in the Western Australian energy landscape;
- (c) endeavour to be commercially sustainable and provide returns to our owner;
- (d) remain a gentailer with a strong footprint in the generation, wholesale and retail markets;
- (e) have an optimised generation portfolio, balanced by investments in large-scale renewable energy generation and energy storage;
- (f) continue to focus on being a cost-efficient, reliable and safe generator;
- (g) provide consistently high levels of customer service.

The pursuit of the strategic vision is underpinned by a set of values that are aimed at guiding the behaviour of all Synergy employees. The four core values are:

- (a) **innovation** - this is driven by a belief that there are always better ways of doing things by embracing change and the opportunity of Synergy to shape its own future;
- (b) **accountability** - for Synergy this means taking ownership and initiative to solve problems, demonstrating responsibility and taking ownership of decisions;

- (c) **collaboration** - seeking and sharing both goals and the ideas that promote the best outcomes for the business, respect for team members and working cooperatively as one team; and
- (d) **trust** - for Synergy this means acting with integrity and creating a work environment that sets others up for success, valuing peers, customers and the wider community in which Synergy operates.

Supporting Synergy's values are commitments to financial management, customer excellence and safety.

Synergy's purpose, "*Leading Western Australians to their intelligent energy future*", is based on the legacy role we have played in the state and what customers are demanding of us in the future. Our purpose underpins our decision-making processes, is the central anchor point that defines our role in the industry and the way we serve our customers through improving existing and developing new energy solutions.

## 2.2 Operations/activities

Synergy is the largest integrated electricity generator and energy retailer operating in the SWIS. Its objective is to utilise its diverse energy generation portfolio to supply reliable and efficient energy to wholesale and retail customers.

Currently, Synergy employs more than 700 people servicing over one million electricity customer accounts and approximately 400 industrial and commercial gas customers.

Synergy owns Western Australia's largest electricity generation portfolio with 2,359 megawatts (**MW**) of capacity, and 1,410 MW contracted under power purchase agreements. Synergy has a wholesale energy market share of approximately 70 percent and a 24 percent share of the contestable electricity market.

In line with the requirements of the Act and the *Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013*, Synergy is functionally organised to deliver on its key purpose as follows:

- (a) generation: responsible for the management of Synergy's generating assets, including the safe and reliable operations and maintenance of Synergy's power stations and associated infrastructure;
- (b) wholesale: responsible for the wholesale trading of electricity and gas. The wholesale business unit (**WBU**) manages the dispatch of Synergy's generation fleet, independent power producer contracts and Synergy's fuel contracts. WBU buys electricity and related products and sells to retail and wholesale market participants under ring fenced arrangements; and
- (c) retail: carries out the retail operations of Synergy, involving the pricing, sale and marketing of electricity and gas to customers. Retail is focused on customer experience and driving high-levels of service and engagement.

Underpinning the core functional roles fulfilled by the business are the remaining corporate support functions which undertake a large range of activities designed to ensure the optimal level of service provision is delivered for the benefit of the overall business.

### **3 EXTERNAL ENVIRONMENT AND INTERNAL CHALLENGES**

Synergy is operating in a constantly evolving market environment that is currently subject to a market reform framework. In addition, the national energy dialogue provides further uncertainty on a number of fronts including Australia's carbon policy; the future renewable generation mix; and energy supply security.

The evolving legislative landscape needs to be considered against the reality that utilities around the world are facing significant disruption. Upstream generation activities are being challenged by increased penetration of large and small-scale renewable generation. This, in turn, is having a profound impact on the grid-supplied portion of the demand curve, with lower net demand during the day and higher net demand in the evening. This reduced overall demand, combined with a requirement for faster ramp up rates required to meet peak demand in the evening, challenges the economics of high fixed cost plant.

Downstream, advancements in technology and the emergence of substitutes are changing the way electricity is generated, traded, sold and consumed by customers. New technologies offer customers lower costs, greater choice and more control over their electricity usage; in turn creating customers who are more engaged with their energy consumption and more demanding of their energy provider.

These same dynamics are playing out in the SWIS where numerous factors, including low population growth, have influenced relatively flat demand for electricity. Behind-the-meter solar photovoltaic (PV) and larger commercial systems are increasingly changing the energy landscape.

#### **3.1 Declining growth in customer demand**

Overall net demand for base load electricity in the SWIS is forecast to remain relatively flat over the SCI period having direct implications for Synergy's revenue and profitability. This pattern is forecast to continue over the course of the next five years.

#### **3.2 Increasingly competitive landscape**

Changes in customer expectations, threats from other retailers and technological disruptions are direct challenges to Synergy's future sustainability and economic performance.

Synergy continues to experience a steady decline in retail market share from 44 percent of the retail contestable customer segment in 2013 to 24 percent in 2018. However, in the face of low demand forecasts and the increasing availability of new energy solutions for large commercial customers the business acknowledges retaining this share in the future will be challenging.

#### **3.3 Regulatory and policy environment**

Synergy continues to face an uncertain regulatory and political environment, particularly at the Commonwealth level during the SCI period. It is currently unclear how potential changes to Commonwealth energy and/or environmental policies might impact the wholesale energy market or Synergy's operations and future commercial sustainability.

#### **4 STRATEGIC OBJECTIVES**

Synergy's SCI for 2019-20 has been developed with the objective of improving Synergy's commercial sustainability to pursue long-term returns to the State Government and Western Australian taxpayers. Accordingly, Synergy will:

- (a) continue to operate in Western Australia as a government owned trading enterprise;
- (b) be a trusted and aligned source of expertise for government and be a respected and trusted market participant, reflecting our leading role in the Western Australian energy landscape;
- (c) endeavour to be commercially sustainable and provide returns to our owner; and
- (d) remain a gentailer with a strong footprint in the generation, wholesale and retail markets.

In addition to our strategic objectives, the safety and wellbeing of our people is fundamental to our business.

##### **4.1 Market reform**

Synergy will continue to work with the State Government in its market reform process including its review of the REBS framework and developing a level playing field for all participants.

##### **4.2 Ongoing transition of the generation fleet**

Synergy's focus for 2019-20 SCI period will be to continue with the work undertaken in previous years around plant efficiencies and optimisation in order to maintain its competitive position without compromising on the safety and reliability of its operations.

With ongoing changes in demand, the rise of new technologies and changes to the market Synergy needs to shape its portfolio to ensure it has the ability to dispatch the right plant at the right time to suit demand requirements.

##### **4.3 Investing in digital capabilities**

Investment in digital capabilities will improve productivity, decrease Synergy's future cost base and deliver higher levels of customer service. Transitioning to a digitally enabled, high performance culture will enable the organisation to improve operations and increase flexibility throughout the value chain.

The SCI period signals the commencement of Synergy's digital transformation that will focus on three streams:

- (a) mobile workforce: development of mobile solutions to increase the engagement and productivity of frontline workers;
- (b) plant optimisation: leverage advanced analytics to explore and implement cost saving improvements in plant operation; and
- (c) optimise and automate processes: support the optimisation of Synergy's processes and automate where appropriate to transition to a customer-centric, digitally led retailer combining technology and data.

## 5 PERFORMANCE MEASURES AND OBLIGATIONS

Synergy's most recently approved forecast financial outlook is presented below.

### 5.1 Key performance indicators

The business will manage day-to-day performance through the use of a wide range of operational key performance indicators. The measures and targets for these operational key performance indicators for 2019-20 are as detailed below:

	2019-20 target
<b>Financial performance</b>	
Earnings before interest, depreciation, amortisation and tax (EBITDA) Margin	\$79.9M
Earnings before interest, depreciation, amortisation and tax (EBITDA) Margin (%)*	2.7%
Net profit after tax (NPAT) margin (%)*	(1.9%)
<b>Operational performance</b>	
Various legislative compliance requirements	Zero breaches
<b>Customers</b>	
Grade of service	Greater than 80%
Number of complaints referred to the Energy Ombudsman	<1,800
Net promoter score *	+60
<b>Employee</b>	
Safety – Recordable Injury Frequency Rate*	1.9

\*reported in Synergy's quarterly report

### 5.2 Dividend policy

Consistent with the performance targets, dividends are agreed annually with government according to the profit results. Synergy will comply with the requirements of the Act Section 126 of the Act requires the Synergy board to recommend a final dividend to the Minister for Energy as soon as practicable after the end of the financial year. Synergy's current dividend payout ratio is 75 per cent of the audited June year-end net profit after income tax equivalent (NPAT).

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

In June 2015, the Act was amended to require state-owned energy utilities to recommend an interim dividend when given written notice by the Minister to do so (section 127A). Any interim dividend is generally calculated at 75 per cent

of the budgeted final dividend and, once accepted by the Minister with the concurrence of the State Treasurer, is paid within the financial year to which it relates.

Where an interim dividend is paid, the amount is offset from the final dividend payment.

In 2019-20 Synergy will pay a special dividend to assist in the establishment of the Energy Transformation Implementation Unit. The unit will support the delivery of the Government's Energy Transformation Strategy.

### **5.3 Accounting policies and governance standards**

Synergy's accounting policies are consistent with Australian accounting standards, applying the non-for-profit elections where applicable. Financial statements utilise the accruals basis of accounting and reflect the historic cost convention, except for derivative financial instruments and defined benefit obligations, which are measured at fair value.

In addition, the following guidelines and standards are considered to be most relevant to Synergy's corporate governance practice:

- (a) good governance guide for public sector agencies;
- (b) Australian standard: AS 8000-2003: good governance principles;
- (c) Australian standard: AS ISO 19600: 2014 compliance management systems – guidelines;
- (d) Australian standard: AS ISO 31000: 2009 risk management – principles and guidelines; and
- (e) Australian stock exchange (**ASX**) Corporate Governance Council, 3<sup>rd</sup> edition, corporate governance principles and recommendations

Although Synergy is not obliged to comply with the ASX Guidelines, the business has committed to adopt best practice principles and practices that are in the best interests of its stakeholders.

### **5.4 Ministerial reporting**

To meet the reporting requirements as outlined in the Act, Synergy will provide the Minister and Treasurer with a quarterly report (including a separate statement of financial performance for each business unit and subsidiary), for the first three quarters, and an annual report for the whole financial year.

Each quarterly report will be submitted one month after the end of the quarter. It will include:

- (a) an overview of performance including specific performance indicators as detailed in the SCI;
- (b) highlights of important achievements; and
- (c) consolidated financial statements with relevant accompanying notes.

The following additional confidential information will be provided:

- (a) on a quarterly basis, for the profit and loss statement, a summary of key variances to year-to-date budget with accompanying commentary; and
- (b) on an annual basis, within three months of the end of the financial year, a schedule comparing actual capital expenditure against budgeted capital expenditure, by project.

The annual report will follow the end of the financial year and will be provided to the Minister and Treasurer within the time specified by the Act. It will include:

- (a) consolidated statutory financial statements;
- (b) other statutory information required of any company under the corporations law;
- (c) an overview of major achievements and an appraisal of future prospects;
- (d) a comparison of performance with the SCI targets; and
- (e) other information required by the Act to be included, such as the particulars of any directions given by the Minister.

In addition to quarterly and annual reports, the Minister and Treasurer will be provided with:

- (a) a five-year SDP and a one-year SCI;
- (b) a report on staff compliance with any board issued codes of conduct; and
- (c) any information in Synergy's possession requested by the Minister.

In communicating with the Minister, a formal protocol has been developed with the Minister's office covering comprehensive communications with the Minister.

The protocol is consistent with the Act and seeks to ensure the Minister is provided with information that is factual, timely and reflects the best information available at the time. Consistent with the requirements of the Act, Synergy will consult the Minister on items of significant public interest.

#### **Matters agreed on between the Minister and Board**

The Minister has sought the agreement of the Board on several matters in 2018-19. These include consultation on board appointments, the establishment and funding of the Energy Transformation Implementation Unit, Synergy's dividend commitments, strategic development plan and this statement of corporate intent.

## 5.5 Community service obligations

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”.

Synergy is subject to a number of obligations that are not in its commercial interests. This includes the administration of a number of concession and rebate payments to eligible electricity customers and administration of the payment of the net feed-in tariff to eligible solar PV owners, representing the shortfall in available rebate provided for by the State Government.

Synergy has and continues to receive subsidies on behalf of its customers across a range of social concessions and to facilitate other government policies to lessen the cost of electricity to residential and small business customers in the south west of Western Australia.

The government supports those under financial hardship or on a concession through a range of subsidies. These range from the Western Australian Energy Assistance Payment (**WAEAP**), to supporting eligible customers with dependent children, to waiving several appropriate fees.

Synergy receives \$30.3 million per annum to support the Feed in Tariff (**FIT**) Scheme. This program enabled approximately 76,000 customers to install rooftop solar systems, which under this scheme reduces the customer’s net electricity bill.

In line with the objectives of the policy when introduced and the 10-year term contracts with customers, the FIT scheme will be phased out by 2021-22.

Subsidies administered by Synergy on behalf of the government:

Details of Payment (\$M)	2018-19	2019-20	2020-21	2021-22	2022-23
WAEAP	68.4	70.6	69.7	72.5	73.9
Account Establishment Fee Waiver (AEF)	1.0	1.1	1.1	1.1	1.1
Air Conditioning Rebate (ACR)	0.0	0.1	0.1	0.1	0.1
Dependent Child Rebate (DCR)	19.0	19.6	19.4	20.3	20.7
Late Payment Waiver (LPC)	0.7	0.7	0.8	0.8	0.8
<b>SUB-TOTAL</b>	<b>89.2</b>	<b>92.0</b>	<b>91.1</b>	<b>94.8</b>	<b>96.6</b>
Feed-In Tariff	30.3	30.3	17.4	0.0	0.0
<b>Subtotal</b>	<b>119.5</b>	<b>122.3</b>	<b>108.5</b>	<b>94.8</b>	<b>96.6</b>

<sup>1</sup>The WAEAP superseded the former Cost of Living Allowance (CoLA)

Customers per subsidy:

Concessions and customer numbers	2017-18	2018-19	2019-20
	Actuals	Estimate	Estimate
Energy Assistance Payment EAP/COLA	274,215	277,506	281,391
Air Conditioning Rebate	318	322	326
Dependent Child Rebate	64,610	65,385	66,301
Late Payment Fee Waiver	89,200	90,270	91,534
Account establishment fee waiver	30,824	31,194	31,631
Feed-in-Tariff <sup>1</sup>	72,863	72,373	71,887

<sup>1</sup>Feed-in-Tariff customer numbers are based on Synergy's estimates.

## 5.6 Borrowings

At 30 June 2019 Synergy's total debt was \$27 million. Synergy's debt position is forecast to increase to \$103 million by the end of the 2019-20 financial year.

## 5.7 Pricing

Synergy exclusively supplies non-contestable customers (those consuming less than 50 MWh/year) in the SWIS. Tariffs for these customers are regulated and are annually reviewed and set by the state government.

Synergy supplies contestable customers (those consuming greater than 50 MWh/year) within the SWIS through either a regulated tariff, which is annually reviewed and set by the state government, or on market-based contract terms.

Synergy's fees and charges are also annually reviewed and set by the state government.

Synergy and the Department of Treasury provide advice to the Minister for Energy and Treasurer, respectively, as part of the tariffs, fees and charges setting process.

## APPENDIX 1: EXPLANATORY NOTES CONCERNING KEY PERFORMANCE INDICATORS

KPI	Explanation
<b>Financial Performance</b>	
EBITDA margin	Measure of operating profitability margin regardless of capital structure (depreciation and interest payments) or taxes, calculated as: EBITDA / total revenue.
NPAT margin	Measure of profits of business operations - i.e. what remains after subtracting all the costs including depreciation, interest, and taxes from total revenue.
<b>Targets</b>	
<b>Operational performance</b>	
Various legislative compliance requirements	Proven breaches of environmental protection legislation. Proven breaches of market rules resulting in penalties.
<b>Customers</b>	
Grade of service	The percentage of calls that were answered within 30 seconds.
Number of customer complaints referred to the energy Ombudsman	The number of customers who choose to contact the energy Ombudsman to resolve a dispute involving Synergy.
Net promoter score	A tool used to measure the loyalty of Synergy's residential (non-contestable) and contestable customers.
<b>Employee</b>	
Recordable injury frequency rate	An occurrence that resulted in a fatality, permanent disability or time lost from work of one day/shift or more ( <a href="#">Workplace Injury and Disease Recording Standard (Australian Standard 1885.1 – 1990)</a> )