

Statement of Corporate Intent

2022/23

12 May 2022



EDM 60265968

Statement of Corporate Intent

The Statement of Corporate Intent (SCI):

Is prepared in accordance with Part 5 of the Electricity Corporations Act 2005 (WA) (the Act).

Documents the level of performance for the 2022/23 financial year agreed between Western Power and the Minister for Energy, with the concurrence of the Treasurer.

Reflects the business intentions of Electricity Networks Corporation (trading as Western Power) for the financial year 2022/23.

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

Is consistent with Western Power's 2022/23 Strategic Development Plan written in the Statement of Expectations format.

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1. About Western Power

Western Power is here to “Power the lives of the Western Australian community”.

‘Our community’ - the 2.3 million Western Australians covered by our network area - tell us they want more **reliable** and increasingly ‘**renewable**’ electricity, a network that **keeps costs low** and supports future economic opportunities and **jobs**.

To best meet these needs of the community, **we need to move as safely, and as affordably as possible to the “modular” version of the grid**, during a period of major technological change. Western Power’s strategy sets out the action it will take to deliver for our community. These actions involve a decade of transformational investment in existing assets and new technology to support a community of 3 million Western Australians by 2031. But we’re up for the challenge.

Our community’s push towards **decarbonisation will drive much of our work** during the next decade. We, like all developed countries, aim to reduce our reliance on and use of all forms of fossil fuels through renewables, and to switch our energy consumption to greater use of electricity – for example, electric vehicles (EVs), and to enable industry sectors to reduce emissions by switching to electricity.

We’re up for the challenge of powering the lives of our community with a modular grid that comprises three zones:

1. a tightly **meshed urban network** involving lots of underground assets that will service the majority of our customers for decades to come;
2. a **hybrid network** of mostly overhead assets but new technologies like stand-alone power systems where possible (e.g. Perth Hills); and
3. an **autonomous stand-alone network** of remote power systems (e.g. stand-alone power systems and microgrids).

Western Power’s largest customer base will always be in the urban population areas. For **metropolitan customers**, we’ll focus where possible on undergrounding assets, and facilitating ever increasing amounts of renewable and distributed energy resources (DER) – everything from rooftop solar panels to large-scale wind farms.

For **regional customers**, the modular grid will mean new ways of delivering power, like stand-alone power systems (SPSs) and microgrids where appropriate. Although much of our rural network is ageing, there will still be many poles and wires to maintain, and we will still need to respond to faults and outages as reliably and safely as we do now. Our depot network will remain, supporting regional communities.

For customers in between those two areas, we’ll have a **hybrid network**; that is, a mix of a largely overhead power network, with new technology options like SPS where they make sense.

We’ll be ready for half the community’s electricity to be supplied by renewable sources by 2031.

We’ll enable an increasingly renewable future for the community by improving DER integration and coordination (our Distribution System Operator [DSO] functions) with advanced meter infrastructure (AMI), modernised connection standards for DER, and greater amounts of grid connected storage to help balance periods of low demand and intermittent supply.

This will ensure that we’re planning prudently for more electric vehicles (EVs), without overinvesting in the technology before their broad adoption. Underground cables have greater capacity to support EVs when they arrive, and AMI can help us with data to manage this new load.

The transformative decade of investment will ensure the grid supports the most flexible connection and operation of distributed energy resources possible, **for the benefit of all Western Australians.**

2. Agency information

Context

Western Power Corporate Strategy | 2021-2031

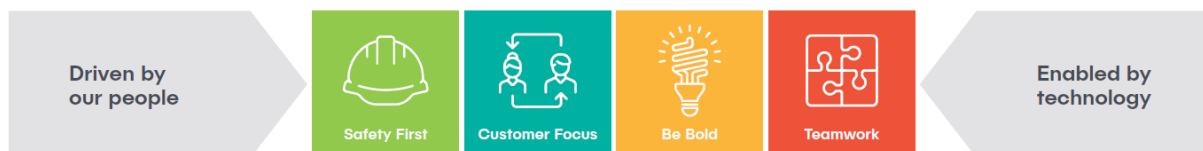
Our community expects us to SAFELY:



Our plan to deliver for the community focuses on:

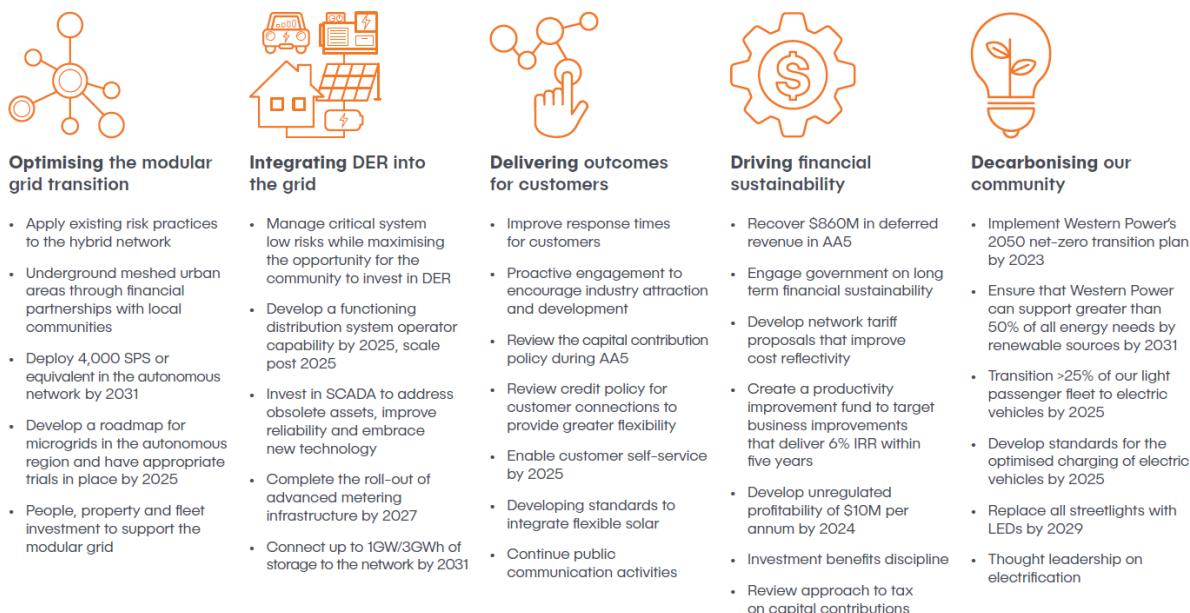


Built upon our values:



In addition to Western Power's business as usual activities the following thirty actions are the strategic priorities of Western Power and will be undertaken over the next decade to deliver the Corporate Strategy:

Corporate Strategy Actions | 2021-2031



Main undertakings for the relevant financial year

In 2022/23, Western Power plans to invest \$1,011.3 million¹ of capital expenditure in the network. The expenditure will maintain our safety and reliability. The capital expenditure initiatives are comprised of the following investment categories:

1. **Government Initiatives** - Under the current round of the State Underground Power Program (round six), Western Power, in partnership with the State Government and local councils, is improving customer experiences through investment in Western Australia's suburbs. Seventeen areas/suburbs in Perth will receive underground power. Around 18,000 properties will benefit from underground power in this round through an investment of \$42.1 million.
2. **Growth** - Growth capital expenditure (both transmission and distribution) is typically one of the largest areas of investment for an energy network business. Western Power is committed to connecting customers and investing in infrastructure to support the State's economy, with \$178.5 million allocated for customer-driven works and \$37.8 million in network capacity expansion and Major Projects in 2022/23.
3. **Safety**— Western Power's safety program includes conventional investments in pole management, conductor management, service connection management and bushfire management as well as investment in new technological solutions such as SPS and battery storage solutions. This includes replacing overhead network assets like for like or with underground power or, removing network assets altogether where electricity can be supplied cost effectively via a stand-alone solution, with safety and improved electricity supply reliability benefits. Western Power plans to invest \$320.6 million of capital expenditure in safety programs in 2022/23 to maintain the safety of the network.
4. **Service**- Service covers investment in regulatory compliance, reliability driven asset replacement, metering, business support, IT (including supervisory control and data acquisition) and corporate real estate. This investment includes Western Power's AMI program, including advanced meters and radio mesh telecommunications devices, which are key enablers for facilitating DER integration and monitoring. The deployment includes communications infrastructure to monitor two-way flows on the electricity network, which is likely to increase as demand for solar PV and electric vehicles continues to grow. This also includes investment to proactively replace approximately 4,427 existing traditional streetlights with smart-enabled LED streetlights. Western Power intends to invest \$359.2 million in this service category in 2022/23.
5. **WA Recovery Plan** - Western Power is working with Government to deliver key election commitments, such as transforming the East Perth Power Station site into a vibrant waterfront community and Service Connection Condition Monitoring as noted in the Safety section above.

The majority of Western Power's operating expenditure is for recurrent network operating and maintenance activities required to deliver service levels consistent with historical performance. Western Power will maintain and refine its focus on operating efficiency based on reductions through delivery of the new strategy.

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

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

WA Jobs Plan

The State Government has launched its WA Jobs Plan with the aim of diversifying the State's economy and create jobs for Western Australians.

Western Power has an important role in supporting jobs and growth for Western Australians. The Government expects Western Power to keep grid costs low to encourage industry development and business investment, leverage its procurement activities to preference local business, deliver 900 SPSs over five years and maintain the capability of its internal workforce to deliver its annual works program.

Further, the State Government recognises the importance of sector coupling and the critical role electricity grids have in enabling future growth in a decarbonised economy. The Government expects Western Power to enable other aspects of the WA Jobs Plan, including, but not limited to:

- **Climate Policy** to achieve net zero emissions by 2050
- **Renewable Hydrogen Industry** to enable the State to become a significant producer, exporter and user of renewable hydrogen
- **Future Battery Industry Strategy** to grow the State into a world-leading exporter of future battery minerals, materials and technologies
- **Delivery of METRONET** to transform Perth's public transport system. Significant network augmentation and relocation is required to enable other government agencies to deliver this community infrastructure
- **Electric Vehicle Strategy** to support decarbonising the transport sector

Government Trading Enterprise specific requirements

Service Standard Benchmarks

The approval of the Access Arrangement by the Economic Regulation Authority (ERA) includes the service standard benchmark levels and targets for network and service performance. The ERA 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.

Western Power's Fifth Access Arrangement

Access to Western Power's network is regulated under the Electricity Networks Access Code 2004 (Access Code), which requires Western Power to submit a revised access arrangement to the ERA every five years. Western Power is required to submit its proposed access arrangement for its fifth access period (AA5) to the ERA by 1 February 2022. AA5 will cover the five-year period 1 July 2022 to 30 June 2027.

The final decision for AA5 will not be published until early 2023 therefore, the actual commencement of AA5 will be one year later (i.e. 1 July 2023). This results in what is termed a gap year (1 July 2022 – 30 June 2023). This means Western Power will continue to have a five-year Access Arrangement period for AA5, with forecast operating and capital expenditure for all five years to be approved as part of the access arrangement determination process. However, it is necessary to agree up front certain key principles to apply in the gap year only, as the AA5 determination process will not be finalised in time for 1 July 2022. This approach is similar to the gap year concept in AA4.

The ERA has accepted Western Power's proposed regulatory principles for financial year 2022/23 (gap year) as follows:

- Prices – Western Power’s current price list (2021/22) will apply until the revised access arrangement comes into effect
- Service standard benchmarks – the current service standard benchmarks (AA4) will apply until the revised access arrangement comes into effect
- Service standard adjustment mechanism – a service standard adjustment mechanism will not apply between 1 July 2022 and 30 June 2023.

3. Accountability

3.1.1 Ministerial Reporting

To meet the reporting requirements as outlined in the Act, Western Power will provide the Minister for Energy with 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 SCI 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 SCI 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 Strategic Development Plan (SDP) / Statement of Expectations (SoE) and a one- SCI
- 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 2021/02, as updated from time to time.

Six monthly consultancy reporting

Western Power will provide six monthly reports summarising consultants engaged during the period for tabling in Parliament, in accordance with Premier's Circular 2021/17, as updated from time to time.

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.

Engagement

Western Power engages with a range of different stakeholder groups across Australia. Western Power will engage productively and collaboratively with its stakeholders including Members of Parliament, members of the public, local communities, retailers, generators, supply chain partners, industry and relevant representative bodies.

Western Power will also continue to meet with:

- the Minister on a monthly basis
- Energy Policy WA and the Department of Treasury on a fortnightly basis
- the other energy Government Trading Enterprises (GTEs) via a joint meeting on a quarterly basis (including the Minister for Energy, Energy Policy WA, Synergy and Horizon Power).

3.1.2 Economic Regulatory Authority Reporting

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

- Performance Audit and Asset Management System Review Report (next report is due in three years)
- 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)
- Annual Service Standard Performance Report
- Annual Compliance Report.

3.1.3 Building and Energy Reporting

Western Power will provide a report on the annual Network Safety Performance objectives. This is supplemented by quarterly performance updates published on the Western Power website and notification of notifiable incidents, within the required period as they occur, as directed by Electrical Safety regulations.

3.1.4 Performance Measurement

Western Power's key performance measures and targets for 2022/23 are as follows:

Key Performance Indicators	Target FY23
 Safe Public Safety incidents per month All Injury Frequency Rate (AIFR)	≤ 31 ≤ 15
 Reliable Network availability	$\geq 99.93\%$
 Sustainable Proportion of all electricity needs met by renewable sources	$\geq 32\%$
 Affordable Net cost to the community per connection	$\leq \$1,000$
 People Employee engagement score	$\geq 80\%$

4. Finances

4.1.1 Borrowings – Forecast Borrowings and Government Guarantee Fee

Western Power has a forecast net borrowing amount for 2022/23 of \$425.7 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.

4.1.2 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.

4.1.3 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.

Western Power pays the Tariff Equalisation Contribution (TEC) to the State Government to contribute towards the financial viability of Horizon Power under Part 9A of the *Electricity Industry Act 2004*. The purpose of TEC is to enable the regulated retail tariffs for electricity that is not supplied from the South West Interconnected System (SWIS) to be, so far as is practicable, the same as the regulated retail tariffs for electricity that is supplied from the SWIS.

5. Payments to and from Government

5.1.1 Dividend Policy – Forecast Dividend Payment

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 to 75 percent of forecast 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.

Western Power's forecast 2022/23 dividend payment is \$301.1 million.

Retained dividends

In the 2021/22 State Budget, Government made a decision that allowed most GTEs, including Western Power, to retain their 2021/22 dividend payments in a cash account. The funds are to be quarantined until future business cases for strategic asset investment are approved by Government. Western Power's retained dividends amounts to \$540.7 million in 2021/22. Of the retained dividend amount, \$76.4 million has been allocated to the relocation and augmentation of network assets.

Given the interest costs associated with operating a retained dividend cash account*, Western Power proposed for a headroom mechanism with Western Australian Treasury Corporation (WATC) to operate the retained dividends. This was approved by the Expenditure Review Committee as part of the 2021/22 Mid-year Review Process.

Net cost to the Community Key Performance Indicator

The "Net Cost to the Community per connection" KPI includes dividend payment as a benefit to the community. Any decisions by Government impacting dividend in the Budget year and over the forward estimates period will affect this KPI.

**Western Power will have to borrow from WATC to place in the cash account*

5.1.2 Community Service Obligations (CSOs) and other Payments from Government

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 2022/23, forecast payments of \$93.8 million from Government is comprised of:

- \$90.6 million of equity contribution for the dividend on capital contributions, whereby Government returns to Western Power the value in the dividend calculation resulting from capital contributions;
- \$3.0 million of equity contribution for tax on residential customer contributions, whereby government returns to Western Power the value of the tax liability arising on capital contributions from residential developments; and
- \$0.2 million of equity contribution to facilitate the roll out of smart-enabled LED streetlights by Local Government Authorities. Government will fund half of the Regulated Asset Base write down cost of current streetlights that are to be replaced.

6. Glossary of Key Performance Indicators

Term	Explanation
Public Safety incidents per month	Measurement of the number of public safety incidents which resulted in human electric shock, injury or fatality, livestock fatality or a ground fire.
All injury frequency rate (AIFR)	The number of 'all' injuries per million hours worked over a 12-month period, where 'all' injuries include lost time injuries, restricted work injuries, medical treatment injuries, first aid injuries and no treatment required injuries.
Network availability	Percentage of time, in a 12-month period, the average customer experiences supply for the whole of the South West Interconnected Network (SWIN). The metric shows the percentage of supply per customer per year.
Proportion of all electricity needs met by renewable sources	The percentage of total SWIS generation (inclusive of behind the meter generation) that comes from renewable sources.
Net cost to the community per connection	Regulated revenue excluding customer contributions, payments to government (taxes and dividends, less contributed equity), TEC and regulatory incentives divided by number of connection points.
Employee engagement score	Provides an indication of the proportion of employees (permanent employees and embedded contractors) that are engaged through an annual survey.