STATEMENT OF CORPORATE INTENT

2012/13
PURPOSE OF STATEMENT OF CORPORATE INTENT

This Statement of Corporate Intent (SCI) is prepared in accordance with Part 5 of the Electricity Corporations Act 2005.

This document reflects the business intentions of the Electricity Retail Corporation, trading as Synergy, for the 2012/13 financial year.

Consistent with the requirements of section 99 of the Act, this SCI outlines the objectives, functions, main undertakings and performance targets for the year, the community service obligations required of the business, the dividend and accounting policies to apply and the information to be provided to the Minister.

The SCI is consistent with the Corporation’s Strategic Development Plan (SDP) 2012/13 to 2016/17. The SDP sets out Synergy’s economic and financial objectives and operational targets over the medium term, and the commercial strategies and initiatives it will pursue.
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FROM THE CHAIRMAN

Synergy's Statement of Corporate Intent outlines Synergy's goals and objectives for 2012/13. The core functions and responsibilities of Synergy are defined in the Electricity Corporations Act 2005 and relevant regulations and codes. These specify the way in which we will fulfil our obligations in the energy market.

This Statement of Corporate Intent details the way in which Synergy's legislative and statutory obligations will be met.

As a government trading enterprise - but operating in a semi-competitive market - Synergy recognises its dichotomous obligations of operating with prudent commercial principles, while making decisions cognisant of our shareholder's interests.

With a new leadership at Synergy, there is a singular focus on meeting the needs and expectations of customers. As the sole provider of electricity to households throughout the South West Interconnected System (SWIS), Synergy acknowledges the very important role it plays in the community.

The strategy of the organisation, its purpose and all initiatives associated with Synergy's strategy are centred on improving the service we deliver to our customers.

Synergy’s customers are also indirect shareholders. They, rightly, expect continually improving operational performance from Synergy, and Synergy’s future activities in the Western Australian energy market will inevitably be contingent on a relationship of trust with our customers at every level.

As such, every employee at Synergy has a fundamental role in making Synergy a leading, customer-focused organisation in the Western Australian energy market.

Synergy is also conscious, as tariffs move closer to cost reflectivity and the carbon tax takes effect, of the burden placed on customers and will continue to work closely with customers, stakeholders and the Government to support those in financial hardship.

As with all organisations, Synergy will continue to review the direction our business takes, particularly given the continuing changes occurring in the energy sector. One aspect of our operations that will remain central to our activities will be to maintain the focus of our strategy on how we service and support our customers.

Since our inception, we have built a long term wholesale supply portfolio to provide secure and reliable supply for customers over the long-term. Our activities in the forthcoming year will be to protect this portfolio through the contestable energy market and to maintain our market share in this area.

Finally, we will consider pursuing new opportunities by seeking to supply new loads in emerging markets as state development initiatives come to fruition.

MR MICHAEL SMITH
CHAIRMAN
1. INTRODUCTION

The Statement of Corporate Intent (SCI) outlines Synergy's strategies and objectives during 2012/13.

The challenges faced at Synergy are not dissimilar to the challenges the industry has faced in recent years.

Western Australia's market is unique. The state has its own wholesale electricity market and is not part of the National Electricity Market that is shared amongst the majority of the eastern states. While the challenges locally are shared nationally, Synergy must develop initiatives suitable to the local market and regulatory environment.

The challenges anticipated in the period covered by the SCI - which Synergy's strategic themes and initiatives are aimed at addressing or mitigating - include:

i. A continued need to enhance billing performance and customer service, including first call resolution in order to improve operational efficiency.

ii. Rising energy costs and the impact of future tariff decisions on operations, in addition to other issues raised from the Economic Regulation Authority's Inquiry into the efficiency of Synergy's costs and electricity tariffs.

iii. Short-term oversupply in the West Australian energy market, allowing other competitors to use aggressive pricing strategies to gain market share, and the impact on delivering commercial returns.

iv. Continued challenges in contracting long-term gas supplies.

v. The renewable energy target increasing over future years and creating additional infrastructure requirements, cost pressures and risks for Synergy to manage.

vi. The introduction of the Clean Energy Future legislation and the imposition of a price on carbon. This has presented, and will continue to present, challenges for Synergy and its customers.

vii. Synergy's role in supporting new, substantial state development initiatives such as the Mid West.
2. ABOUT US

Synergy's core business is to service customers through the purchase and sale of energy; these activities will always form the foundation of Synergy's business and strategy.

Synergy markets approximately 70% of the electricity sold in the SWIS (households and business customers) and over 50% of the contestable gas load in the industrial and commercial market.

The business carries this out with a workforce of approximately 400 people who possess appropriate knowledge and skills to assist customers and meet business needs.

3. CORPORATE REQUIREMENTS

The principal functions of Synergy are defined in the Electricity Corporations Act 2005, the Electricity Industry Act 2004 and relevant regulations and codes.

The functions of the corporation are to:

i. supply electricity to consumers and services which improve the efficiency of electricity supply and the management of demand;

ii. purchase or otherwise acquire electricity for the purposes of supplying electricity to customers;

iii. provide ancillary services; and

iv. acquire gas and supply it to consumers.

It is also the function of Synergy to:

i. use its expertise and resources to provide consultative, advisory or other services for profit;

ii. develop and turn to account any technology, software or other intellectual property relating to the functions above;

iii. manufacture and market any product relating to the functions above; or

iv. exploit its fixed assets for profit so long as the proper performance of its functions are not affected.

In performing its functions, Synergy must act with prudent commercial principles and endeavour to make a profit, consistent with maximising its long-term value.
4. OUR VALUES

Synergy's values are embedded in the organisation. The following describe Synergy's organisational values upon which Synergy bases its reputation and the guiding principles upon which staff and business operate:

ENTERPRISING: Enables the business to seize opportunities, move ahead, take the initiative, innovate and focus on being the experts in energy. Synergy supports a culture focused on the growth of the business, its people, the community, the environment and the State;

QUALITY RELATIONSHIPS: Ensure that Synergy focuses on establishing good relationships with each person with an interest in its business. Synergy understands the importance of good relationships with customers, staff, stakeholders, the Government and community and the environment;

SPIRIT: Is an intrinsic quality to enable Synergy to approach work with enthusiasm and eagerness. It breeds a culture of initiative, interest and “giving things a go”; and

INTEGRITY: Is the foundation that grounds the business. Synergy will keep its promises and build trust with customers and stakeholders.

Synergy's business is structured around the customer, through three clear business segments – Energy Markets, Retail, and Strategy & Corporate Affairs – and enabling functions that support these business segments: Transformation and Technology (under the Chief Information Officer), Corporate Services (incorporating Human Resources) and Business Services.

The organisational structure has clearly delineated roles and responsibilities for each of the business segments.

Figure 1 – Synergy's organisational structure 2012
5. STRATEGY, THEMES & INITIATIVES

Synergy's strategy is a function of its core business and is developed from Synergy's statement of purpose:

"Synergy will maintain its position as Western Australia's largest energy retailer through procuring and selling electricity and gas to customers throughout the South West Interconnected System."

Synergy's strategic vision builds upon its core business of procuring and selling energy, envisaging Synergy as "the leading, customer-focused provider of energy solutions".

In keeping with these goals, Synergy has formulated a strategy that reflects its continued focus on customer service and the efficiently meeting the needs of its customers.

Synergy must strive to maintain a positive and trusting relationship with its customers, and ensure it is – not only nominally, but functionally – a customer focused energy retailer.

Synergy's operational and corporate performance measures are focused on service delivery to customers.

As a function of Synergy's strategy and its core activities, the following themes and objectives underpin Synergy's strategic direction, and represent the key focus areas for Synergy during the SCI period.

At the time of preparing this Statement of Corporate Intent, Synergy is awaiting the Final Report of the Economic Regulation Authority's inquiry into the efficiency of Synergy's costs and electricity tariffs. Once released, Synergy will discuss the final recommendations of the ERA with the Government, however, Synergy remains cognisant that its costs are borne by customers, and will always aim to operate efficiently while delivering appropriate levels of service expected by customers.

5.1 Develop Synergy's team and talent for the future

Aligning the skills and capabilities of its staff with the needs of customers and stakeholders is a crucial step towards successfully achieving performance objectives, maintaining and growing the business, and improving business efficiency.

Initiatives being developed across the business are aimed at growing and training staff, building a common sense of purpose and staff engagement, and developing internal communications mechanisms to deliver customer needs.

Initiatives Synergy will pursue during 2012-13 include:

- Developing and implementing a cross-skilling training programme to achieve first call resolution;

- Conducting a skills/gap analysis for Synergy's team, evaluation of employee capabilities and implementing strategies to strengthen the necessary commercial and technical skills to carry out critical activities;
• Identifying critical roles in the business and developing an appropriate succession management program for those positions.

5.2 Enhance the customer experience

The wants and needs of energy customers are changing. Western Australian electricity tariffs are below the cost of generating and supplying electricity to consumers. Recent tariff increases have been implemented to move towards cost reflectivity making consumers now more cognisant of their electricity consumption. It is important energy retailers evolve to be providers of more sophisticated energy products and solutions that are better able to satisfy the requirements of customers.

Synergy is no different from any other energy retailer in its need to broaden the offering of products and solutions in response to a dynamic environment, developing technologies and increasing costs.

Some of the initiatives Synergy will pursue to enhance the customer experience include:

• Implementing first call resolution, which improves customer satisfaction and operational efficiency.

• Improving energy awareness in the community through the continued involvement in the Future Energy Alliance and targeted business engagement programs.

• Reviewing Synergy’s Information and Communications Technology.

• Developing self-service applications to support Synergy’s customer service model, and improve operational efficiency.

• Identifying and developing appropriate energy efficiency products and services to meet changing customer needs.

• Developing expanded electricity and gas portfolio solutions to support the development needs of large commerce and industry.

• Reviewing appropriate hardship support programs to assist customers experiencing financial hardship.

• Providing energy monitoring and reporting solutions to customers at the residential, small and medium enterprise and the large industrial levels, to enable customers to better understand and manage their energy consumption.

Importantly, Synergy recognises that recent and future tariff increases may continue to create hardship for many customers in Western Australia. It is important that Synergy works closely with stakeholders and the Government to develop and implement policies and programs that assist customers in managing their electricity consumption and costs.

Synergy will also work closely with Western Power to ensure quality assurance is maintained, and the interests and requirements of customers are understood.
For example, the two entities have established a life support project to ensure any risk of planned disconnection of life support customers is minimised, and that where an unplanned outage occurs, there are accurate records of life support customers in order to provide immediate support to them.

As customers’ needs and expectations change, Synergy will need to adapt and the business will continue to review its service delivery models and strategic partnerships.

Finally, Synergy's Carbon Ready Programme (CO2RP) is preparing Synergy, its customers and its staff for the introduction of the carbon tax and the trading scheme that will follow.

With the cost of energy increasing as a result of the Federal Government’s Clean Energy Future legislation, Synergy will be focused on assisting customers manage their energy consumption and bill payments. Synergy will also monitor the impact of higher electricity costs on the timeliness of bill payments, overdue debt and other factors which may impact Synergy's service levels and operational costs.

5.3 Enhance Synergy’s competitiveness

The Western Australian energy market is currently in a position of oversupply, allowing other competitors to use aggressive pricing strategies in order to gain market share.

Synergy is determined to maintain and enhance its competitive position, by addressing the challenges of the current market conditions, and pursuing new opportunities.

Synergy will:

- Seek changes to market rules to improve the operation of the energy market and address the underlying issues that have lead to over-capacity;
- Develop commercial products for the contestable market including energy management services, consumption data provision, energy analytics and demand side management;
- Ensure it has available electricity and gas solutions supporting new and expanding developments across industry; and
- Develop an approach to longer term sales contracting so that sales more closely match the length of procurement contracts.

The development of a Long Term Energy Procurement (LTEP) Strategy is also a key goal of the business, and is intended to determine Synergy’s optimal procurement strategy in light of the competitive landscape, current and forecast customer requirements and shareholder expectations. This strategy will also take into account Synergy’s obligations with respect to the national Mandatory Renewable Energy Target, which will result in higher procurement costs. Such costs will ultimately be borne by customers and can impact Synergy’s competitive position.
5.4 Grow the business through emerging opportunities

Synergy will optimise its wholesale portfolio and take measures to hold its market share in order to spread fixed costs as well as reducing its cost to serve.

Accordingly, Synergy will be pursuing opportunities in the Mid West with large resource loads, and will be aiming to sell energy and value-added services to prospective customers. Such a strategy will improve Synergy's commercial position, as well as reduce or eliminate the energy surplus that presently exists in the market.

Finally, Synergy has been successful in growing its gas business since contestable gas supply thresholds were reduced in July 2007. While Synergy has, with Verve Energy, secured gas supply contracts with the Gorgon Joint Venture for a combined 125 terajoules per day for 20 years commencing in 2015, it will need to address the challenge of contracting further long- and short-term gas supplies in order to support future growth in its gas business and for fuel to support the LTEP strategy.
6 PERFORMANCE MEASURES

The business will manage day-to-day performance through the use of a wide range of key performance indicators. The measures and targets for these operational KPIs are shown below.

<table>
<thead>
<tr>
<th></th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL</strong></td>
<td></td>
</tr>
<tr>
<td>Cost to Serve</td>
<td>$118.99</td>
</tr>
<tr>
<td><strong>CUSTOMERS</strong></td>
<td></td>
</tr>
<tr>
<td>Total Number of Calls Received</td>
<td>1.45 million</td>
</tr>
<tr>
<td>% of Calls not answered within 30 seconds from when a customer is connected to a complaint/inquiry line</td>
<td>Less than 20%</td>
</tr>
<tr>
<td>Average waiting time before a call is answered (seconds)</td>
<td>Less than 30 seconds</td>
</tr>
<tr>
<td>% of calls abandoned</td>
<td>Less than 5%</td>
</tr>
<tr>
<td>Number of Customer Complaints referred by the Energy Ombudsman*</td>
<td>3,250</td>
</tr>
<tr>
<td>Net Promoter Score (Residential)*</td>
<td>+6</td>
</tr>
<tr>
<td>Net Promoter Score (Contestable)*</td>
<td>+10</td>
</tr>
<tr>
<td><strong>EMPLOYEE</strong></td>
<td></td>
</tr>
<tr>
<td>Organisational Effectiveness Profile</td>
<td>70%</td>
</tr>
</tbody>
</table>

* These were the targets set for 2011/12. These targets are still subject to refinement as Synergy reviews the previous year’s performance and determines more appropriate targets.

Glossary

Cost to Serve: Total operating costs divided by the total number of customers.

Total Number of Calls Received: The aggregate number of calls made to the Synergy call centre during the financial year.

% of Calls not answered within 30 seconds from when a customer is connected to a complaint/inquiry line: A measure of the Grade of Service experienced by customers who call the Synergy Contact Centre. Measures the proportion of calls not serviced within 30 seconds of connection.

Average waiting time before a call is answered: The length of time an average caller to the Contact Centre must wait before being answered by an operator.

% calls abandoned: A measure of the number of callers who abandon their call before speaking to an operator. Please note that due to measurement difficulties, these figures include customers who receive an automated fault message and are satisfied, but do not speak to an operator.
<table>
<thead>
<tr>
<th>Number of disputes involving the Energy Ombudsman</th>
<th>The number of customers who choose to contact the Energy Ombudsman to resolve a dispute involving Synergy.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Promoter Score (Residential)</td>
<td>Net Promoter Score is a tool used to measure customer loyalty. This is a measure of the loyalty of Synergy’s non-contestable customers.</td>
</tr>
<tr>
<td>Net Promoter Score (Contestable)</td>
<td>Net Promoter Score is a tool used to measure customer loyalty. This is a measure of the loyalty of Synergy’s contestable customers.</td>
</tr>
<tr>
<td>Organisational Effectiveness Profile</td>
<td>The Organisational Effectiveness Profile is an assessment tool which measures variety of drivers affecting an organisation’s culture, and enables organisations to identify strengths and weaknesses within the organisation.</td>
</tr>
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</table>
7 MINISTERIAL REPORTING

To meet the reporting requirements as outlined in the Act, Synergy will provide the Minister with a quarterly report, 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:

- an overview of performance including specific performance indicators; and
- highlights of important achievements.

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

- consolidated statutory financial statements;
- other statutory information required of any company under the Corporations Law;
- an overview of major achievements and an appraisal of future prospects;
- a comparison of performance with the SCI targets; and
- 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 will be provided with:

- a five-year SDP and a one-year SCI;
- a report on staff compliance with any Board issued codes of conduct; and
- any information in Synergy's possession requested by the Minister.
8 COMMUNITY SERVICE OBLIGATIONS AND OPERATING SUBSIDY

Synergy’s tariff structure provides for a number of non-commercial activities to meet certain equity and welfare objectives on behalf of the State Government. Managing these Community Service Obligations (CSOs) absorbs a substantial resource.

The following CSOs are currently undertaken:

**REBATES:** Up to five different rebates are available to eligible customers (such as pensioners, veterans, seniors and persons with a Department of Social Security issued health card). Rebates can be claimed for the daily supply charge, account establishment fee and part of the meter-testing fee. Customers with dependent children listed on health care cards are able to claim a rebate for part of the energy charge on their bills.

**COST OF LIVING ASSISTANCE PROGRAM:** As part of the 2012/13 State Budget the Government announced the Cost Of Living Assistance program. This will provide annual $200 payments to low income families with a concession card, representing around one-third of all Western Australian households, to help pay their electricity bills.

**CHARITABLE ORGANISATION REBATE:** Eligible charitable and voluntary organisations can elect to take supply on the concessional C1 and D1 tariffs instead of general supply tariffs.

**THE POWER PRICE EQUITY SCHEME:** This scheme was approved by the Government in 2004 to ensure that concession cardholders, who are permanent residents in caravan parks, receive similar benefits to those in standard dwellings.

**DEPENDANT CHILD REBATE:** This scheme provides additional financial support for concession card holders with dependant children. This rebate supplements the CoLA program for those customers.

The value of community service obligations is expected to be approximately $71.7 million.

**FEED IN TARIFF SCHEME:** Synergy is aware that the Minister will issue ministerial directions for Synergy to absorb all additional costs relating to the Feed-in Tariff (FiT) above those outlined in the 2012-13 State Budget for the remaining life of the scheme. Synergy will work with Government to implement this requirement.

**TARIFF ADJUSTMENT PAYMENT:** Synergy will receive a tariff adjustment payment from the State Government to fund non-cost reflective tariffs to the value of approximately $334 million. This payment represents the difference between existing retail tariffs and true cost of providing these tariffs.
9 ACCOUNTING AND DIVIDEND POLICY

9.1 Accounting and Governance Standards

Synergy's accounting policies are consistent with Corporations Law requirements as specified in Schedule 4 of the Act. Financial statements adopt the historic cost convention and reflect the accrual basis of accounting. Consistent with the State Budget, the projected financial outlook is in accordance with the Australian International Financial Reporting Standards (AIFRS).

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

- Australian Standard: AS 3806-2006 Compliance Programs.

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.

9.2 Dividend Policy

Dividends are calculated annually on the basis of 75% of Net Profit After Tax (NPAT), declared in July of each year and paid in December of the same year.

9.3 Efficiency Dividends

As announced by the Government on 19 May 2011, Synergy was directed to implement a series of savings initiatives designed to meet a 5% efficiency dividend between 2011/12 to 2014/15. Synergy had already commenced its own expenditure review, which has achieved the Government’s required targeted savings.

On 17 April 2012 the Government announced further budget corrective measures. Synergy has been directed to cut its operating expenses by an additional 2.5%, 4.0%, 5.5% and 6.0% over the forward estimates. Synergy is working towards implementing plans to achieve these additional savings.