Statement of Corporate Intent
2020/21
Statement of Corporate Intent

This Statement of Corporate Intent (SCI):

1. Is prepared in accordance with Part 5 of the Electricity Corporations Act 2005 (WA) (the Act)
2. Documents the level of performance for the 2020/21 financial year agreed between Western Power and the Minister for Energy, with the concurrence of the Treasurer
3. Reflects the business intentions of Electricity Networks Corporation (trading as Western Power) for the financial year 2020/21
4. 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
5. Is consistent with Western Power’s 2020/21 - 2023/24 Statement of Expectations, Western Power’s Strategic Development Plan written in the Statement of Expectations format
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1. ABOUT WESTERN POWER

Western Power is a Western Australian State Government owned corporation. Our vision is to deliver on the changing energy needs of Western Australians, powered by community trust and the passion of our people.

Western Power’s transmission and distribution network connects Western Australians to a wide range of both traditional and renewable energy sources to power a vibrant modern lifestyle. Although we have been delivering energy safely, reliably and efficiently for more than 70 years, our focus is always firmly on the future.

In a rapidly changing landscape, our customers’ energy needs are evolving, and we intend to keep them connected every step of the way. Whether it’s residents connecting their dream home, developers building a shopping complex or a stadium hosting a world class sporting event, we are there to deliver.

We are proud of our history and our people, and even prouder to be at the heart of Western Australia’s energy future.

The Western Australian Government is the sole owner and Western Power is the sole operator of the south-west electricity network. As a statutory corporation Western Power is also governed by an independent Board, which has overall responsibility for performing the functions, determining the policies and controlling the affairs of the corporation.

To ensure we provide a good service at a reasonable cost we are governed by regulations, codes and legislation. These include mechanisms from performance targets and how much money can be earned, to the proper disposal of waste and the safety of employees and the public.

We are currently economically regulated by an independent body of State Government, the Economic Regulation Authority (ERA), to ensure that an efficient service is delivered at a fair price.

Department of Mines, Industry Regulation and Safety (Building and Energy Division) monitor compliance with jurisdictional energy safety requirements and other bodies, such as Energy Policy WA, set policy that guides the opportunities available to the corporation. The Australian Energy Market Operator operates the WA electricity market and system.

THE WESTERN POWER NETWORK

The Western Power network forms the majority of the network that, together with electricity generators, comprises the South West Interconnected System (SWIS). The network consists of almost $11 billion of assets, with a high proportion of these operating in the second half of their expected life. Western Power has a strong focus on sourcing local people and local content, with 76 per cent of our goods and services being provided by businesses that are registered in WA and 99 per cent across Australia and New Zealand.

The rise in competing technologies such as solar photovoltaic (PV) and battery storage, and the emergence of new business models such as Virtual Power Plants (VPP) and microgrids, is accelerating Western Power’s need to respond to a constantly changing and dynamic environment. It also presents great opportunities. We are challenging the traditional methodology of replacing like for like assets, as customers look for alternative energy sources to power their homes and businesses, and potentially look to defect from the grid altogether.
2. AGENCY INFORMATION

CONTEXT

Objectives of Western Power

Western Power’s objective is to deliver safe, reliable and efficient electricity and services to the communities across the SWIS. Our business underpins the efficiency and competitiveness of Western Australia’s development and supports customers’ demands of the energy market.

In accordance with section 41 of the Electricity Corporations Act 2005 (the Act), Western Power’s principal functions include “to manage, plan, develop, expand, enhance, improve and reinforce electricity transmission and distribution systems and provide and improve electricity transmission and distribution services...”.

Our vision is to deliver the changing energy needs of Western Australians, powered by community trust and the passion of our people. This is underpinned by our company’s values:

1. **Safety First** - We choose safety – if it’s not safe we don’t do it
2. **Customer Focus** - Our solutions are relevant and make financial sense for our community
3. **Be Bold** - We challenge the status quo to deliver better outcomes
4. **Teamwork** - We invite the diverse opinion of others and work together.

Main undertakings for the relevant financial year

In 2020/21, Western Power plans to invest approximately $892 million\(^1\) of capital expenditure in the network. The expenditure will maintain our safety, reliability and security. The capital expenditure initiatives are comprised of the following investment categories:

1. **Safety** – The key safety programs are pole management, conductor management and bushfire management (also includes Service Connection Condition Monitoring and Grid Transformation, also known as Undergrounding, as noted in points 6 and 7 over the page). Western Power plans to invest $242 million of capital expenditure in safety programs in 2020/21 to maintain the safety of the network.
2. **Security** – Security covers investment in thermal management, and voltage and fault level management. This is important for the purposes of mitigating thermal overloads and addressing under fault rated equipment, voltage instability and relieving voltage constraints in the transmission network. Western Power intends to invest $10 million of capital expenditure in 2020/21 in this category.
3. **Growth** – Growth capital expenditure (both transmission and distribution) is historically 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 $221 million allocated for customer-driven and capacity expansion works in 2020-21.
4. **Service** – Service covers investment in regulatory compliance, reliability, asset replacement, metering, business support, ICT (including supervisory control and data acquisition) and corporate real estate. This investment includes Western Power’s advanced metering infrastructure program, including advanced meters and radio mesh telecommunications devices. 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. Western Power intends to invest $345 million in this category in 2020/21.

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\(^1\) This excludes amounts for gifted assets which is in the Growth category.
5. **Government Initiatives** – Under the current round of the State Underground Power Program (round six), $56.4 million in 2020-21 is allocated, in partnership with the State Government and local councils, to improve customer experiences through investment in Western Australia’s suburbs. Seventeen areas/suburbs in Perth will receive underground power, with around 18,000 properties in total benefitting from underground power in this round.

6. **Grid Transformation** - $34 million across 2020-21 and 2021-22 for the Network Renewal Undergrounding Program Pilot to replace the distribution overhead network with a new underground system in four pilot locations where assets are coming to the end of their service life. This program will initially benefit around 3,000 customers and provide new ways for Local Government Authorities and residents to access affordable underground power that will improve their power reliability, streetscapes and property values.

7. **Service Connection Condition Monitoring** – Through the COVID-19 WA Recovery Plan, $34 million over 2020-21 and 2021-22 has been allocated to the Service Connection Condition Monitoring project (reliant on the Advanced Metering Infrastructure program referenced under Service) for 180,000 meters to be retrofitted to become advanced meters, boosting the number expected to be operational on the network to close to half a million by June 2022. Advanced meters will provide Western Power with improved visibility of power flows on the network, with improved safety outcomes. If a home has an advanced meter installed Western Power will receive an alert if there are unusual patterns in the electricity flows, which can indicate a possible fault on the service connection of a customer’s property.

8. **Emerging Technology** – With the passage of the Electricity Industry Amendment Bill 2019 in April 2020 Western Power can now install stand-alone power systems in place of traditional network investment and decommission existing network assets. Western Power expects to finalise a procurement process for delivery of 100 systems in 2020-21 as part of Round 2. Western Power will also finalise commissioning of all 52 systems deployed under Round 1 by the end of 2020.

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

**COVID-19**

Western Power has scenario-based contingency plans in place that ensure critical and essential services are maintained for the community in the event that staffing levels could be affected by outside events.

Western Power has a COVID-19 Management Plan in place to ensure staffing levels across network operations, maintenance and field work, customer service, ICT and other essential support functions continue to comfortably support critical business activities during a prolonged period of disruption.

The safety and health of our employees alongside our role to provide safe, secure and reliable power to Western Power’s customers continues to be our priority at this time, as always.

Western Power continues to be guided by the information being issued by the WA Department of Health and the Australian Government Department of Health.

Our employees are being provided with regular information and support to allow teams to plan ahead and manage any potential changes to normal operations, including planned work, working from home and altering shifts. Our employees are being supported by a flexible workplace culture that allows for our workers to work remotely, if needed, to balance their work with unplanned family or carer needs.
Western Power is also staying in close contact with our suppliers to ensure that procurement and supply chains are maintained and managed around transport and logistics, while responding to any employee pressures brought about by COVID-19 planning.

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

**Energy Transformation Strategy**

The Energy Transformation Strategy is the Government's work program to ensure the delivery of secure, reliable, sustainable and affordable electricity to Western Australians for years to come. Traditionally, electricity has been supplied to consumers through a linear supply chain of generation, transmission, distribution and retail of electricity. This traditional supply chain was characterised by large electricity generators, located some distance from demand centres; and a system of high voltage transmission power lines to deliver electricity into the low voltage distribution system to which customers are connected.

As new technologies mature and become increasingly cost-effective relative to conventional network solutions, they can be dispatched to improve reliability, manage peak demand and resolve other network issues. Western Power is seeking to extend our existing Distributed System Operator (DSO) role to securely operate and develop an active distribution system comprising networks, demand, generation and other flexible Distributed Energy Resources (DER). Our objective is to reduce the cost of electricity to our entire customer base.

**GTE-specific requirements**

**Service Standard Benchmarks**

The approval of the fourth Access Arrangement by the ERA includes our 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. During 2020/21 Western Power will aim to meet these benchmarks.
3. ACCOUNTABILITY

REPORTING – MINISTERIAL REPORTING

To meet the reporting requirements as outlined in the Act, Western Power will provide the Minister 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 Statement of Corporate Intent 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 Statement of Corporate Intent 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) and a one-year Statement of Corporate Intent (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 and 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 2014/02.

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 No. 2019/06.
**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
- the Department of Treasury on a monthly basis
- Energy Policy WA on a monthly basis

**REPORTING – ECONOMIC REGULATORY AUTHORITY (ERA) REPORTING**

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

- Performance Audit and Asset Management System Review Report (three yearly)
- 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)
- Service Standard Performance Report
- Annual Compliance Report
PERFORMANCE MEASUREMENT

Western Power’s key performance measures and targets for 2020/21 are as follows:

<table>
<thead>
<tr>
<th>Government goal</th>
<th>Objective</th>
<th>Desired outcome</th>
<th>Measure</th>
<th>2020/21 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Fourth Access Arrangement</td>
</tr>
<tr>
<td><strong>Sustainable Finances:</strong></td>
<td>Safe</td>
<td>Industry-leading safety outcomes for our employees while improving public safety and ensuring environmental safety remains high</td>
<td>Total Recordable Injury Frequency Rate (TRIFR)</td>
<td>≤ 2.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Public impact</td>
<td>≤ 0.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Reportable environmental incidents</td>
<td>≤ 0.4</td>
</tr>
<tr>
<td></td>
<td>Reliable</td>
<td>Maintaining reliability service levels that are acceptable to our customers and regulators</td>
<td>Service Standards met</td>
<td>All*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Customer supply availability</td>
<td>≥ 99.93%</td>
</tr>
<tr>
<td></td>
<td>Efficient</td>
<td>Outperformance of the regulatory contract and return dividends to government</td>
<td>Capital expenditure**</td>
<td>$892.2M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Operating expenditure</td>
<td>$463.8M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Corporate EBITDA</td>
<td>$1,240.3M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Dividend to Government</td>
<td>$491.3M***</td>
</tr>
<tr>
<td><strong>Growth</strong></td>
<td>Provide a valued service to the community</td>
<td>Average network tariff price increase</td>
<td>3.8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provide a new and diverse income streams for the State</td>
<td>New business EBITDA</td>
<td>$1M</td>
<td></td>
</tr>
<tr>
<td><strong>Future Jobs and Skills:</strong></td>
<td>Growth</td>
<td>Provide apprenticeship and training opportunities to support electricity sector jobs of the future</td>
<td>Number of apprenticeship and scholarship opportunities for Western Australians</td>
<td>50</td>
</tr>
<tr>
<td><strong>Better Places:</strong></td>
<td>Growth</td>
<td>Deploy stand-alone power system round 1 to improve service and liveability in regional communities.</td>
<td>Number of stand-alone power systems commissioned</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>Growth</td>
<td>Deploy community batteries to enhance renewable generation and the grid.</td>
<td>Number of community batteries</td>
<td>10 ****</td>
</tr>
</tbody>
</table>

* Service Standards are agreed as part of Western Power’s regulatory contract. The Service Standards include measures of network and service performance such as network reliability, call centre performance and streetlight repair.

** This number excludes the amount for gifted assets.

*** Includes dividends from 2019/20 paid in the 2020/21 reporting year. See Western Power’s 2019/20 Annual Report for further details.

**** Subject to agreement with Government and Synergy.
4. **FINANCES**

**BORROWINGS – FORECAST BORROWINGS & GOVERNMENT GUARANTEE FEE**

Western Power has a forecast net borrowing amount for 2020/21 of $503.2 million.

Western Power pays a Government Guarantee Fee (GGF) of 0.7 per cent 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.

**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.

**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.

Under the fourth Access Arrangement the ERA required Western Power to move from a revenue cap form of price control to a modified price cap form of price control. This change exposes Western Power to downside and upside demand (and forecasting) risk. To mitigate any potential downside risk, Western Power will refine its existing pricing processes, and look to develop new pricing strategies within the constraints set through the access arrangement.

Tariff Equalisation Contribution (TEC) - Western Power pays TEC to the WA State Government to contribute towards maintaining the financial viability of Horizon Power under Part 9A of the Electricity Industry Act 2004. The purpose of the TEC is to enable the regulated retail tariffs for electricity that is not supplied from 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

DIVIDEND POLICY – FORECAST DIVIDEND PAYMENT

Western Power’s forecast dividend of $491.3 million in 2020/21 is comprised of:

- Deferred interim dividend\(^2\) of $215.6 million for financial year 2019/20 in line with the Expenditure Review Committee approval to defer the 2019/20 interim Dividend to July 2020.
- $46.8 million representing balance on forecast full year dividends for financial year 2019/20 and payable in December 2020.
- Interim dividend\(^3\) of $228.9 million in respect of the forecast NPAT for financial year 2020/21.

The dividend has been recommended at 75 per cent of forecast Net Profit After Tax (NPAT). 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 NPAT. In 2016/17, this ratio was increased by 10 per cent for the efficiency measures introduced in the 2017/18 State budget.

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.

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 2020/21, forecast payments of $169.4 million from Government are comprised of:

- An equity contribution of $166.3 million for dividend on capital contributions, whereby Government returns to Western Power the value in the dividend calculation resulting from capital contributions.
- A subsidy of $3.1 million for the State Underground Power Program.

\(^2\) The interim dividend is calculated at 75 per cent of the forecast full year dividend for 2019/20. Where an interim dividend is paid, the amount is offset from the final dividend payment.

\(^3\) The interim dividend is calculated at 75 per cent of the forecast full year dividend for 2020/21. Where an interim dividend is paid, the amount is offset from the final dividend payment.
<table>
<thead>
<tr>
<th>TERM</th>
<th>EXPLANATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Recordable Injury Frequency Rate (TRIFR)</td>
<td>The number of injuries resulting in medical treatment, a lost work shift or restricted work duties per million hours worked over a 12 month period.</td>
</tr>
<tr>
<td>Public impact</td>
<td>Measurement of the number of public safety incidents which resulted in an injury to a member of the public, or property damage &gt;$20,000.</td>
</tr>
<tr>
<td>Reportable environmental incidents</td>
<td>Rolling 12-month average of the number of environmental incidents that have been reported to Regulators where the underlying cause of the incident is attributed to network asset failure or workforce actions.</td>
</tr>
<tr>
<td>Service Standards met</td>
<td>The number of service standards that meet their benchmark performance as defined in Western Power’s Access Arrangement.</td>
</tr>
<tr>
<td>Customer Supply Availability</td>
<td>The percentage of time that the average customer experiences supply over a year. Unlike the previous measure of Supply Unavailability, this measure also includes outages due to generation or third party systems (such as customer equipment)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>Annual capital expenditure program in millions of dollars.</td>
</tr>
<tr>
<td>Dividend to Government</td>
<td>A percentage of NPAT that is formally agreed with the State Government.</td>
</tr>
</tbody>
</table>