

Statement of Corporate Intent

2021/22



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 2021/22 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 2021/22.

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 2021/22 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’. We best do that by moving to the modular grid. ‘Our community’ - the 2.3 million Western Australians tell us they want more **reliable** and increasingly ‘**renewable**’ electricity at a **fair price**, and a network that keeps costs low and supports future economic opportunities and **jobs**.

To best meet these community expectations, **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. The strategy lays out ways to do this. This will take 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.

The “modular grid” comprises three zones:

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

Western Power’s largest customer base will always be in the urban population areas. For **metropolitan customers**, we will 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.

And in between those two areas, we’ll have a **hybrid network**. A mix of a largely overhead power network, with new technology options like standalone power systems where they make sense.

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

We will enable this increasingly renewable future for the community by improving DER integration and coordination (our so-called Distribution System Operator (DSO) functions) with the help of things like 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 also help us – in a prudent way – plan for more electric vehicles, without overinvesting in the technology before the cars’ broad adoption. Underground cables have greater capacity for EVs when they arrive, and AMI can help us with data to manage this new load.

As a statutory corporation Western Power is also governed by an independent Board. The Board is responsible for the performance of the functions (through governance and delegation), determining the policies and controlling the affairs of Western Power.

2. AGENCY INFORMATION

CONTEXT



Main undertakings for the relevant financial year

In 2021/22, Western Power plans to invest \$834.2 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 \$26.2 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 \$148.7 million allocated for customer-driven works and \$48.1 million in network capacity expansion and Major Projects in 2021/22.
3. **Safety [modular grid transition]** – Western Power’s safety program includes traditional investments in pole management, conductor management, connection management and bushfire management as well as investment in alternative technological solutions in place of traditional network replacement, where its network reaches end of life. This includes replacing overhead network assets with underground power or, ultimately, removing network assets altogether where electricity can be supplied cost effectively via a standalone solution, with safety and improved electricity supply

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

reliability benefits. Western Power plans to invest \$273.8 million of capital expenditure in safety programs in 2021/22 to maintain the safety of the network. Key investments include:

- **Grid Transformation** - \$12.6 million has been allocated in 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; and
 - **Service Connection Condition Monitoring** - through the WA Recovery Plan, \$7.6 million has been allocated in 2021/22 to the Service Connection Condition Monitoring project (reliant on the Advanced Metering Infrastructure program referenced under Service). This project runs over two years and will retrofit 180,000 meters 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 to a customer's property.
 - **Standalone Power Systems** – following amendments to the *Electricity Industry Act 2004* in April 2020, Western Power can now install standalone power systems in place of traditional network investment and decommission existing network assets. Western Power expects to finalise a procurement process for delivery of 118 systems in 2021/22.
4. **Service [integrating DER]** - 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 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 \$328.9 million in this category in 2021/22.
 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 strategic plan.

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 stand-alone power systems 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. During 2021/22 Western Power will aim to meet these benchmarks.

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 (ie. 1 July 2023). This results in what is termed a gap year (1 July 2022 – 30 June 2023). A similar issue arose with the extension of AA4.

Western Power is proposing to apply the same gap year concept for AA5 as applied in AA4. 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 will be 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. These principles include the prices that will be in effect for the 2022/23 price list, the service standard benchmarks to apply in 2022/23 and how to apply, if at all, incentive frameworks in 2022/23. The details of the arrangements for the gap year will be published in 2022/23 Statement of Corporate Intent.

3. ACCOUNTABILITY

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 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) / Statement of Expectations (SoE) 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 & 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 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 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 GTEs via a joint meeting on a quarterly basis (including the Minister for Energy, Energy Policy WA, Synergy and Horizon Power)

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 (every 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)
- Service Standard Performance Report
- Annual Compliance Report

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.

PERFORMANCE MEASUREMENT

Western Power's key performance measures and targets for 2021/22 are as follows:

Key Performance Indicators	Target FY22
 <p>Safe Public Safety incidents per month All Injury Frequency Rate (AIFR)</p>	<p>< 61 < 15</p>
 <p>Reliable Network availability</p>	<p>> 99.93%</p>
 <p>Sustainable Proportion of all electricity needs met by renewable sources</p>	<p>> 30%</p>
 <p>Affordable Net cost to the community per connection</p>	<p>< \$1,000</p>
 <p>People Employee engagement score</p>	<p>> 80%</p>

4. FINANCES

BORROWINGS – FORECAST BORROWINGS & GOVERNMENT GUARANTEE FEE

Western Power has a forecast net borrowing amount for 2021/22 of \$328.9 million. This represents an increase of \$151.6 million over total forecasted borrowings in 2020/21, mainly due to an increase of the Asset Investment Program.

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.

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 principles 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 AA4 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.

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

DIVIDEND POLICY – FORECAST DIVIDEND RETENTION

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 will retain its forecast 2021/22 dividend payment of \$530.9 million to instead contribute to funding future infrastructure investment. The funds will be quarantined until the Government approves business cases for the strategic infrastructure requirements of Western Power.

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 2021/22, forecast payments of \$173.8 million from Government is comprised of:

- An equity contribution of \$170.1 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 \$3.7 million for the State Underground Power Program.

GLOSSARY OF KPIS

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, property damage or a fire started.
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.