



STATEMENT OF CORPORATE INTENT

2017-18

PURPOSE OF THE STATEMENT OF CORPORATE INTENT

This Statement of Corporate Intent (SCI) is prepared in accordance with Part 5 of the *Electricity Corporations Act 2005* (the Act), and reflects the business intentions of the Electricity Generation and Retail Corporation, trading as Synergy, for the 2017-18 financial year.

Consistent with the requirements of section 99 of the Act, amongst other things, this SCI outlines the objectives, functions, main undertakings and performance targets for the year, the community service obligations, the dividends and accounting policies to apply and the information to be provided to the Minister. Pursuant to section 97 of the Act, this SCI is intended to apply for the Corporation and any subsidiary.

The SCI is consistent with the Corporation's Strategic Development Plan (SDP) 2017-18 to 2021-22. 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

The SCI outlines Synergy's business and corporate social responsibility objectives for 2017-18, framing how Synergy intends to meet its legislative and statutory obligations.

This SCI reflects the opportunities and challenges confronting Synergy over the coming year as the entity continues to navigate an uncertain regulatory and evolving commercial environment as WA's largest electricity generator and retailer.

Synergy's challenges focus on ensuring the business provides value for both our customers and for our shareholders; the people of WA. Finding a clear view of the future of the state's energy sector is not easy. The full impact of increasing levels of renewable energy, distributed generation and storage technology is having an effect on the traditional utility model.

The SCI addresses key external factors confronting the consolidated entity which have had a disruptive effect on Synergy's business (but are common to power utilities globally), and have subsequently contributed to weaker demand and rising price pressures for grid supplied electricity. These external challenges have a range of implications for Synergy's internal positioning, across retail, wholesale, generation and corporate.

In 2016-17, Synergy continued to build on the strategic initiatives identified in the 2015-2016 year, which were:

- driving efficiencies across the business to create a sustainable cost base;
- building capabilities to thrive in a changing world; and
- providing advice and energy solutions our customers want.

Synergy maintains the goal of decreasing its reliance on operating subsidies and strengthening its foundations to mature into a robust and adaptable corporation able to meet the challenges of an uncertain future.

The business remains committed to continuing its transformation to become the energy utility demanded by consumers of the future and to maintain value for taxpayers.

LYNDON ROWE
CHAIRMAN

1 BUSINESS OVERVIEW

The SCI considers Synergy's strategic vision and objectives.

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

Supporting the pursuit of this strategic vision are a set of values which are intended to guide the behaviours and actions of all Synergy employees to drive performance in the right direction towards achieving this strategic vision and a successful new energy future.

These four core values are outlined as follows:

- **innovation** – we have a belief that there is a better way to do things, we embrace change and the opportunity to shape our future;
- **accountability** – we take ownership and initiative to solve problems, we demonstrate responsibility in everything we do and deliver on our commitments;
- **collaboration** – we have shared goals, we seek and share ideas for the best outcome for the business and we respect each other: we are one team; and
- **trust** – we always act with integrity and set others up for success, we value our peers, our customers and our community.

Furthermore, Synergy has a clearly defined corporate purpose based on our historical role in the state and what our customers demand from an energy utility in the future. Our purpose underpins our decision-making processes and is the central anchor point that defines our role in the industry and the manner in which we serve our customers through developing new energy solutions. Synergy's purpose is ***"Leading Western Australians to their intelligent energy future."***

1.1 Operations/activities

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

In its current state, Synergy employs approximately 800 employees servicing over one million electricity customer accounts and approximately 400 industrial and commercial gas customers.

Synergy owns Western Australia's largest electricity generation portfolio with 2,815 megawatts (MW) of capacity, and 1,400 MW contracted under power purchase agreements. Synergy has a wholesale energy market share of 74 per cent and a retail market share of 61 per cent in the franchise and contestable markets.

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

1. Generation – responsible for the management of Synergy’s generating assets, including the safe and reliable operations and maintenance of Synergy’s power stations and associated infrastructure;
2. Wholesale – responsible for the wholesale trading of electricity and gas. Wholesale manages the dispatch of Synergy’s generation fleet and independent power producer contracts, as well as fuel contracts. Wholesale buys electricity and related products, and sells to retail and wholesale market participants under ring fenced arrangements; and
3. Retail – carries out the retail operations of Synergy, involving the pricing, sale and marketing of electricity and gas to end-user customers in the SWIS. Retail is focussed on customer experience and driving high-levels of customer service and engagement.

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

2 EXTERNAL ENVIRONMENT AND INTERNAL CHALLENGES

Synergy is operating in a constantly evolving market environment, with significant ongoing uncertainty regarding the outcomes and recommendations of the Western Australian State Government's electricity market review (EMR) in addition to continued uncertainty regarding Australia's carbon future.

As well as the ambiguity surrounding the supporting regulatory and political frameworks, Synergy is in the midst of an industry defining disruption brought on by the significant growth in distributed solar generation, which is soon to be supplemented by battery storage as it becomes commercially viable.

In recent years, a variety of disruptive economic and technological changes have emerged around the world to compete with utility-provided services. In particular, an oversupply of generation capacity in the wholesale electricity market (WEM), weaker demand and rising price pressures for grid supplied electricity and government subsidies have provided incentives for a range of large-scale renewable and/or distributed generation technologies to thrive.

Global trends indicate that the widespread uptake of electric vehicles is on the near-term horizon driven by emissions regulations, technological advancements improving range and performance, and the reduction in the cost of EVs. In 2017-18 Synergy will continue to work with stakeholders to create the right market environment for the uptake of EVs in the SWIS.

2.1 Declining growth in customer demand

Grid based electricity demand in the SWIS continues to remain flat. Key drivers include improvements in appliance and building energy efficiency, demand response to price increases, increased penetration of distributed generation (e.g. rooftop photovoltaic systems) and slower demand growth due to weaker manufacturing and mining activity. Retail competition for contestable volumes has also intensified due to excess supply in the wholesale market.

2.2 Excess supply in the wholesale market

Lower electricity demand growth and a significant over supply of generation capacity has resulted in a large surplus of capacity and energy in the WEM. The situation has led to the underutilisation and suboptimal operation of Synergy's base load generation portfolio. On the back of reform of the existing capacity mechanism, which provided pricing signals to the market that also reduced some of the excess, Synergy will retire some of its existing assets in accordance with the direction confirmed in November 2016 to reduce its generation cap. This will be undertaken methodically and responsibly to ensure supply security is not compromised.

2.3 Regulatory and policy environment

Synergy faces an uncertain regulatory and political environment, reflecting potential changes to Commonwealth environmental policies and schemes, and market settings and rules at the state level.

Key drivers include:

- the application of the Commonwealth Government's National Energy Guarantee to the electricity sector;
- complying with the large-scale renewable energy target (LRET) requirement to deliver 33,000 gigawatt hours (GWh) of energy from renewable sources by 2020; and
- uncertainty regarding further reforms within the WEM.

2.4 Pace of new technology adoption

Technology is a major driver of future economics, with disruptive effects on the energy and capacity market prices, as well as demand for traditional generation. Given the decentralised nature of the likely technology options that may be installed by end-users, this further presents as a challenge with regards to the inability to dispatch distributed generation in response to supply and demand forces.

With the increasing affordability of solar photovoltaic (PV) and the current inequity in tariff structure preventing the recovery of network charges utilised by PV connection, this further widens the gap available to be recouped from the traditional customer base.

3 STRATEGIC OBJECTIVES

The following strategic objectives represent key focus areas for Synergy:

- market reform agenda;
- transitioning the generation fleet for a renewables future;
- providing a broader range of products and investing in retail and wholesale tools and capabilities; and
- an ongoing commitment to delivering operational efficiencies across the business.

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

3.1 Market reform agenda

There are a number of urgent market reforms fundamental to ensuring the efficient operation of the SWIS. These include:

- further tariff structure reform to more accurately reflect the cost to generate and deliver electricity throughout the SWIS;
- removal of the gas market moratorium to enable more competitive offers for consumers; and
- fair and transparent market rules for all participants that create a level playing field.

Immediate attention to addressing the disparity in current market arrangements will assist in correcting the misaligned incentives and more accurately provide the right economic signals to encourage rational behaviour, particularly in a world of new technologies and declining end-user demand.

To deliver a sustainable solution as cost effective as possible for the end-user, a concerted effort between all parties is needed. Synergy is, and will, play a proactive and positive role in contributing to the reform agenda.

3.2 Transition of the generation fleet

Synergy's focus for 2017-18 will continue to be around plant efficiencies and optimisation to maintain its competitive position, whilst not compromising on the safety and reliability of its operations. With the ongoing changes in demand, rise of new technologies and evolution of market rules, this creates a very dynamic environment in which the operational profile of generation assets must be constantly assessed against business returns.

Reinforcing sophisticated analytical capabilities will allow Synergy to help shape the optimised fleet for the system to achieve an economically sustainable outcome. This will include a "whole of SWIS" point of view when providing recommendations

regarding the future optimal generation portfolio in light of current and expected market conditions.

As the largest generation business in the SWIS, the financial viability of Synergy's existing generation fleet is significantly impacted by changing electricity market dynamics and economics. Therefore, Synergy must transition to a more optimal fleet mix over time that is better matched to customer demand requirements, while delivering sustainable commercial returns and affordable electricity prices for Western Australian electricity consumers. The transition will continue during 2017-18.

3.3 Investing in retail and wholesale tools and capabilities

Synergy recognises the value of developing well integrated and dynamic tools and capabilities from both a systems and human capital perspective. In response to the changes already evident through the increasing uptake of solar PV in recent years and with the pending installation of battery storage technologies, the necessity to continuously adapt trading activities in response to new information will be essential to ensuring Synergy's success.

With Synergy's vision of being the first choice for energy, the business recognises the options available to customers and seeks to ensure a strong base of customer insights with which to develop tailored offerings. With an in-depth understanding of customer wants and needs Synergy can develop a suite of new, innovative and effective products and services.

Synergy will continue to develop and offer intelligent energy products and solutions that are required by and in accordance with the expectations of our customers.

3.4 Ongoing commitment to delivering operational efficiencies across the business

Synergy will continue to maximise the long term value of the business by actively driving efficiencies and achieving a sustainable cost base.

The incremental efforts that have traditionally been invested to modernise the business are now beginning to be superseded by more radical and transformational activities necessary to ensure Synergy can maintain its relevance with the ever increasing pace of change.

4 PERFORMANCE MEASURES AND OBLIGATIONS

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

4.1 Key performance indicators

The business will manage day-to-day performance through the use of a wide range of operational key performance indicators. The measures and targets for these operational key performance indicators for 2017-18 are as detailed below:

Forecasts	2017-18
Financial performance	
EBITDA Margin (%)*	7.2%
NPAT Margin (%)*	(2.8%)
Return on Assets (%)	(3.5%)
Return on Capital Employed (%)	(6.7%)
Targets	
Operational performance	
Worksafe breaches	Zero
Environmental incidents	Zero
Water licence incidents	Zero
Market rule breaches	Zero
Customers	
Grade of service	Greater than 80%
Number of complaints referred to the Energy Ombudsman	<1,800
Net promoter score *	+69.5
Employee	
Safety – Recordable Injury Frequency Rate *	1.9

* Indicates inclusion in the Quarterly Report to the Minister and Treasurer

4.2 Dividend policy

Consistent with the performance targets, dividends are agreed annually with the Government according to the profit results. Synergy will comply with the requirements of the Act and relevant regulations with regards to the dividend payout ratio to be paid from after tax profits.

4.3 Accounting policies and governance standards

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

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

- (a) Good governance guide for public sector agencies;

- (b) Australian Standard: AS 8000-2003: Good Governance Principles;
- (c) Australian Standard: AS ISO 19600: 2014 Compliance management systems – Guidelines;
- (d) Australian Standard: AS ISO 31000: 2009 Risk Management – Principles and guidelines; and
- (e) Australian Stock Exchange (ASX) Corporate Governance Council, 3RD Edition, Corporate Governance Principles and Recommendations

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

4.4 Ministerial reporting

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

Each Quarterly Report will be submitted one month after the end of the quarter. It will include:

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

The following additional confidential information will be provided:

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

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

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

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

- (a) a five-year SDP and a one-year SCI;

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

In communicating with the Minister, a formal protocol has been developed with the Minister's Office covering comprehensive communications with the Minister. The protocol is consistent with the Act and the *Public Sector Management Act 1994*. It seeks to ensure the Minister is provided with information that is factual, timely and reflects the best information available at the time. Consistent with the requirements of the Act, Synergy will consult the Minister on items of significant public interest.

4.5 Community Service Obligations

Section 99(1) of the Act defines "community service obligations" as "obligations to perform functions or to meet performance targets that it is not in the commercial interests of the corporation concerned to perform or meet".

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

Synergy currently receives an operating subsidy from the State government to compensate for undertaking some of these community service obligations. The operating subsidy is forecast to reduce from historical levels, but continues to remain high despite the historical price increases.

As such, the operating subsidy remains a significant risk to be addressed to ensure that Synergy remains a viable and sustainable business in the future.

APPENDIX 1: EXPLANATORY NOTES CONCERNING KEY PERFORMANCE INDICATORS

KPI	Explanation
Financial Performance	
Earnings Before Interest, Depreciation, Amortisation and Tax (EBITDA) Margin	Measure of operating profitability margin regardless of capital structure (depreciation and interest payments) or taxes, calculated as: EBITDA / Total Revenue.
Net Profit After Tax (NPAT) Margin	Measure of profits of business operations - i.e. what remains after subtracting all the costs including depreciation, interest, and taxes from total revenue.
Return on Assets (ROA)	Measure of how profitable a company is relative to its total assets, calculated as: NPBT / Total Assets.
Return on Capital Employed (ROCE)	Measure of capital return, i.e. how much profit a company generated for each \$1 in capital employed (shareholder's capital plus short and long-term borrowed funds), calculated as: NPBT / (Total Assets – Non-Interest Bearing Liabilities).
Targets	
Operational Performance	
Worksafe Breaches	Proven breaches of occupational health and safety legislation.
Environmental Incidents	Proven breaches of environmental protection legislation.
Water Licence Incidents	Proven breaches of conditions of water licences.
Market Rule Breaches	Proven breaches of market rules resulting in penalties.
Customers	
Grade of Service	The % of calls that were answered within 30 seconds.
Number of customer complaints referred to the Energy Ombudsman	The number of customers who choose to contact the Energy Ombudsman to resolve a dispute involving Synergy.
Net promoter score	A tool used to measure the loyalty of Synergy's residential (non-contestable) and contestable customers.
Employee	
Recordable Injury Frequency Rate (RIFR)	An occurrence that resulted in a fatality, permanent disability or time lost from work of one day/shift or more (Workplace Injury and Disease Recording Standard (Australian Standard 1885.1 – 1990))