

TasNetworks Corporate Plan

Planning period: 2018-19 to 2023-24

31 May 2018

The TasNetworks Corporate Plan sets out the strategic goals and plans of Tasmanian Networks Pty Ltd (TasNetworks) for the planning period 2018-19 to 2023-24



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1.Executive Summary

- Low cost, reliable and secure energy is the lifeblood of dynamic modern economies. As the provider of an essential service, TasNetworks recognises the fundamental role we play in the ongoing social and economic prosperity of all Tasmanians.
- TasNetworks is focussed on keeping network prices as low as possible for our customers while delivering a safe, reliable and secure service. We are delivering on this commitment through a number of proactive measures:
 - Delivering a 20% reduction in network prices to our customers as part of our current Distribution Determination
 - Locking-in long-term efficiency savings through our recently submitted Regulatory Proposal - meaning customers will continue to benefit from lower network prices into the future
 - We are working hard to make our business as efficient as possible. However, prices and profit need to be sustainable so we can continue keeping our people and the Tasmanian community safe while generating sufficient funds to maintain expected levels of network reliability.

The measures above are helping to deliver network services at lowest sustainable cost, consistent with the State Government's Tasmania First policy. However, lower network prices mean an expected reduction in returns to our shareholders. There are also a number of challenges on the horizon, meaning it will be challenging for us to stay within our proposed revenue profile over the forward planning period.



- The transformation of Tasmania's and Australia's energy landscape is continuing to gain momentum. In the last 12-18 months, there has been an influx of renewable energy projects interested in connecting to our network. Connecting renewables in a way that benefits Tasmanians and the National Electricity Market (**NEM**) is likely to require additional investment in our networks. Our strategy is to integrate new renewables generation in an orderly and coordinated way; maintaining network security and reliability while minimising price increases for our customers.
- Investment in renewable generation capacity may offset a rise in network prices by placing downward pressure on the wholesale energy market. TasNetworks is working constructively with project proponents to ensure new generation assets can connect securely to our transmission network. Further, enabling new renewable energy projects to connect to our network in a timely and efficient manner will help stimulate wider economic development and growth, particularly in regional north-west Tasmania.
- To support investment in renewables, TasNetworks has been tasked with developing a detailed feasibility and business case assessment for a second interconnector linking Tasmania to Victoria – Project Marinus. A Marinus Link will be pivotal in supporting additional investment in renewables and enabling Tasmania's Battery of the Nation project. Before proceeding to development, Marinus Link will need to demonstrate clear positive economic benefits.
- The Australian Energy Regulator's (**AER**) new Distribution Ring-fencing Guideline requires TasNetworks to structure our business so our regulated and unregulated services are legally separated. In response, TasNetworks is implementing an appropriate corporate structure, one which meets our compliance obligations as well as creating space and flexibility for us to explore new opportunities for unregulated revenue.
- We continue to target an 'A' credit rating. With lower regulated revenues our net debt is increasing as we renew assets which are in poor condition or pose a safety risk. Our forecasts show that we will temporarily dip below our target credit rating, dropping to A- in 2018-19 & 2019-20 and return to A rating in 2020-21.
- Overall, our financial forecasts demonstrate a sound financial position; however there are a number of business risks which could materially impact our future financial performance and our debt levels in particular. Credible risks, combined with the capital intensive nature of our business, mean TasNetworks has limited capacity to absorb additional debt and maintain our A credit rating over the long-term.

- We have introduced new network tariffs which better reflect the underlying cost drivers of network expenditure. If passed through by electricity retailers, these will send more accurate price signals to our customers so that they can understand and manage their electricity use and make more informed choices. Ultimately, if our customers can help support us by adopting and responding to more cost-reflective pricing, we can place further downward pressure on network prices.
- TasNetworks has been operating in an environment of record low interest rates which, together with business efficiencies delivered by improving our business processes, has driven a substantial reduction in network pricing for all Tasmanian customers. These conditions are driving an expectation that network prices will continue to fall.
- While there is every expectation that we will continue to place downward pressure on network prices, this will be at risk should there be an increase in interest rates, or if there is significant investment in the network required to support new renewable generation or Marinus Link, offset by lower wholesale energy prices for customers.

2. Introduction

Welcome to our 2018-19 Corporate Plan. Our Corporate Plan sets out our strategic direction for the forthcoming planning period. It aims to balance the needs of today with the challenges and opportunities of the future. It also describes how we are building and maintaining trust with the Tasmanian community and reinforces our shared business vision to our people.

The Corporate Plan is a high-level document which outlines our expected operating conditions, business risks and projected financial forecasts. It also sets out the agreed performance measures with our owners. The agreed performance measures are used to track progress against our plans over the 2018/19 financial year.

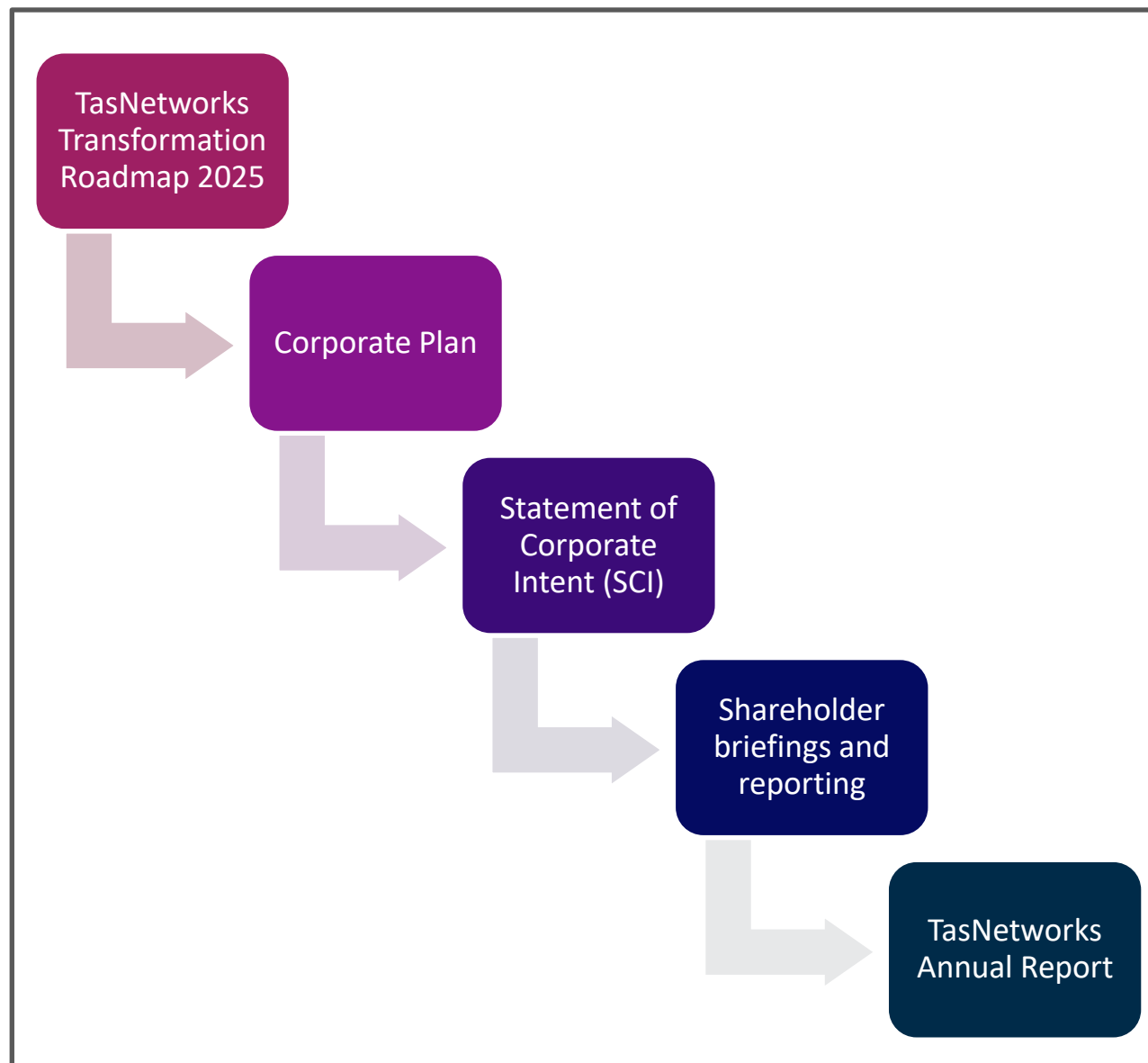
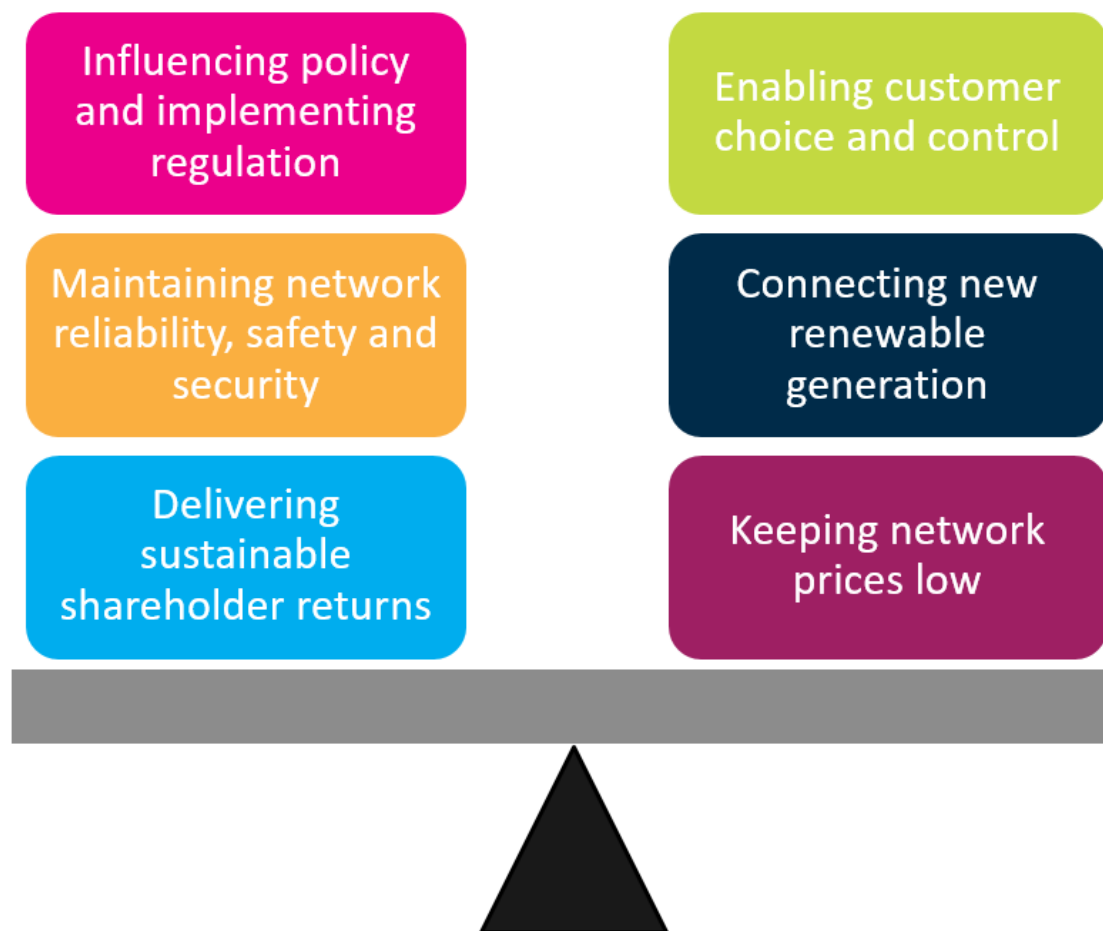


Figure 1 – TasNetworks business planning and reporting process

A balanced approach to business planning

TasNetworks is an integral part of Tasmania's electricity supply system which underpins continued social and economic prosperity. However, at both a business and industry level, our environment is transforming rapidly. When it comes to our plans, we need to balance a range of competing interests simultaneously so we can continue delivering good outcomes for our customers and owners.



3. Our Strategy on a Page



Our Customers

We care for our customers and make their experience easier.

Our People

We keep safe, build trusting relationships, and enable our people to deliver value.

Our Business

We manage our assets to deliver safe and reliable services, while transforming our business.

Our Owners

We operate our business to deliver sustainable shareholder outcomes.



4.About us

At TasNetworks, we deliver electricity to more than 280,000 households, businesses and organisations on mainland Tasmania, and to electricity consumers in the rest of the NEM via the sub-sea electricity link across Bass Strait. This is no small feat as the network spans the rugged peaks and valleys of the Tasmanian wilderness.

Improvements in technology, more choice, and greater control over energy are driving radical change to electricity systems. Globally, there's movement for cleaner energy, lower costs, and safe, reliable systems. We're already preparing for these changes and are engaged in a number of innovative projects of state and national significance. These include a trial of solar-battery systems on Bruny Island to test how customers can manage their own energy while simultaneously being used to support the network. We're also undertaking a feasibility assessment of a second Interconnector to transport electricity to and from Tasmania.

TasNetworks is at the forefront of supporting Tasmania's role within a dynamic, and increasingly complex, electricity market. Our industry leading projects are helping to ensure we deliver optimal outcomes for Tasmanian energy users, today and into the future.






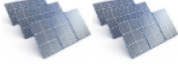








Our shareholders have directed us to perform some non-commercial activities, primarily funding the 'grandfathered' solar feed-in-tariff payment to eligible customers until 31 December 2018, meeting the non-commercial costs of electricity infrastructure to supply 1MW of additional capacity in the Waterhouse region, inspecting private poles on behalf of the State until a longer-term solution is implemented, and supporting the rollout of the National Broadband Network on the West Coast of Tasmania.



5. TasNetworks Transformation Roadmap 2025

Electricity Network Transformation in Tasmania

There are a range of possible futures, this table shows what 2025 might look like:

CLEAN ENERGY TRANSITION	2016	2025
Conventional hydro power	 Conventional hydro = 2,310MW	 Conventional hydro = 2,400MW
Large scale wind farms	 Wind = 308MW	 Wind = 1,100MW
Solar systems	 Solar (PV) = 96MW	 Solar (PV) = 167MW
Pumped hydro (Battery of the Nation)	 Pumped hydro = 0MW	 Pumped hydro = approx 300MW
Customers with distributed energy resources	 27,000 customers or (9.2%)	 40,000 customers or (12.5%)
Batteries – installed capacity	 Negligible installations and capacity	 Low take-up but increased to 33MW Equivalent capacity to Hydro's Lake Echo Power Station
Electric vehicles	 200	 Estimate 5,000 - 17,000

We've used Energy Networks Australia's (ENA) Network Transformation Roadmap to help us design our TasNetworks Transformation Roadmap that will take us to 2025. The key ideas in our Roadmap include improving our traditional services as we transition to potential new services. Our main role will be all about connecting, transferring and balancing energy. By doing these things, we'll make sure we can continue to deliver power to all Tasmanians – regardless of whether customers are using it themselves or trading it with others.

The purpose of our Roadmap is to outline the key transformation activities to support our vision of being trusted by our customers to deliver today and create a better tomorrow. Our Roadmap outlines activities that will help us meet changing customer expectations, manage our risks, show leadership and use our expertise and customer focus to enable Tasmania and Australia's energy transformation.

6. Our customers

TasNetworks recognises that our success is strongly anchored to the prosperity of our customers. We are committed to engaging with, informing, educating and listening to our customers to help shape our activities and plans for the future. Our customer strategic goal is 'we care for our customers and make their experience easier', with the ultimate aim of improving price, service and safety outcomes whilst maintaining reliability levels.

- A number of large industrial and commercial customers are connected directly to our transmission network
- More than half of the energy delivered in the state is transmitted to these transmission customers. The balance of customers in the state are connected via our distribution network
- While directly-connected transmission customers use more energy, our distribution customers create more of the Tasmanian peak demand. Peak demand is a key cost driver for networks
- We provide network access to renewable generation sources including hydro, wind and solar energy resources
- We serve a number of customers in the wholesale telecommunications market, both within and outside of the Electricity Supply Industry
- We also provide a number of services to our customers which are complementary to core competencies within our business including data centres and commercial telecommunication services.

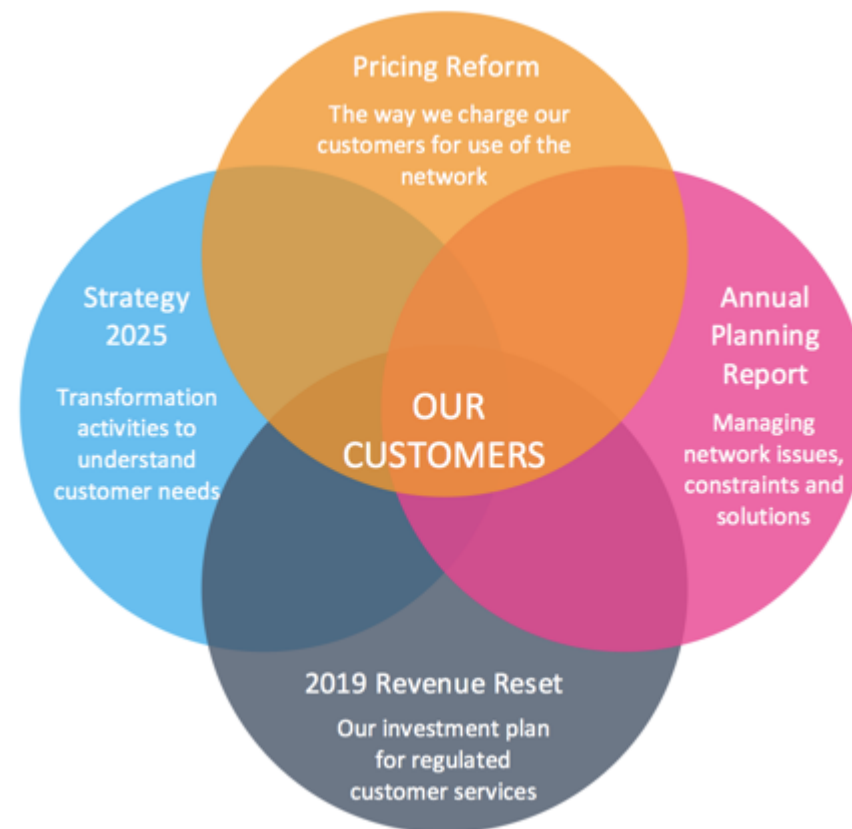


Figure 2 - Our on-going customer engagement activities

7.Update of our planning context

Delivering low network prices and sustainable shareholder returns

TasNetworks undertakes extensive, best practice customer engagement in order to gain a deeper understanding of our customers' views. In developing our recently submitted Regulatory Proposal, we actively responded to customer feedback that they value lower network costs ahead of improvements in reliability.

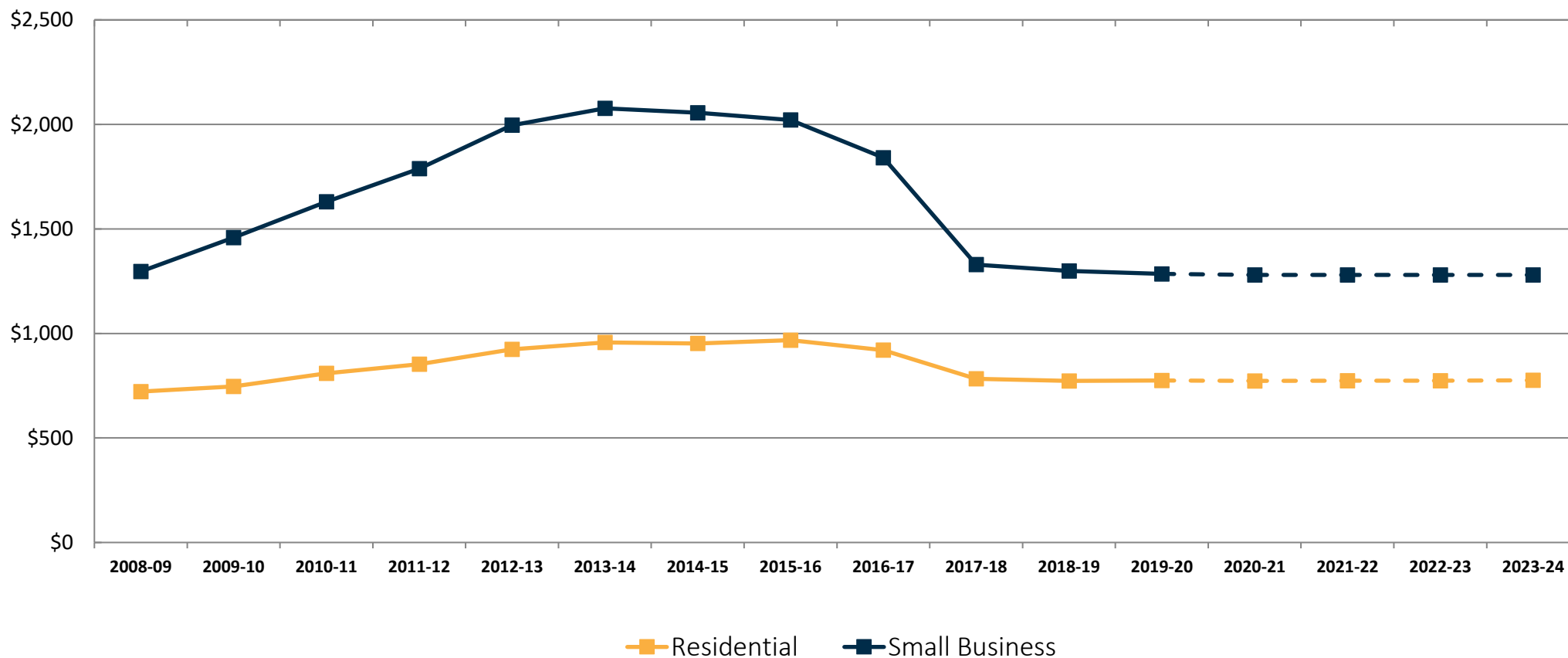


Figure 3 - Indicative average annual total network charges (June 2019\$)

Recently, the Tasmanian State Government released its “Tasmania First” policy. The policy includes a target for Tasmania to have the lowest regulated electricity prices in Australia by 2022. Our recently submitted Regulatory Proposal contained a number of items which will support the achievement of this target, whilst recognising that network costs are only one part of the electricity value chain.

We have proposed a package of measures which lock-in a long-term trend towards lower network prices for our customers:

- Aligning our transmission and distribution rates of return
- Limiting our claims for additional step-change costs in our operating expenditure
- Applying an optimisation to our transmission, distribution and business services capital expenditure forecasts
- Absorbing cost increases from labour and customer growth through efficiency savings.
- Maintaining reliability in line with customer expectations

The proposed package of measures is forecast to reduce our total revenue by nearly \$60 million dollars over the forward planning period.

As well as delivering low network prices for our customers, our proposed revenue enables us to:

- Keep the lights on by renewing assets which are in poor condition
- Manage our risks including public safety and bushfire mitigation
- Continue to drive efficiencies and extract the value of our investments in technology.

Forecast shareholder returns are initially decreasing as we pass through cost savings to our customers from our current distribution determination. However, future returns are projected to stabilise as we realise the benefits of a leaner, more efficient business – underpinned by our Ajilis business transformation project. Increasing productivity driven by streamlined business processes, along with new unregulated opportunities and a focus on sharing the benefits from regulatory incentive schemes will help ensure we continue to deliver appropriate returns to our owners.

While we are forecasting lower returns to our owners over the forward planning period, a number of possible changes in our operating environment could materially impact on our financial forecasts. These changes include;



- A lower than expected rate of return over our upcoming regulatory control period (2019 – 2024). The AER is currently undertaking a review of the rate of return guideline that will apply to our 2019-24 revenue proposals. The amendments will implement a binding instrument that sets out a single approach to the calculation of rate of return parameters for all network businesses. It is possible that the new guideline will result in a lower rate of return that will benefit customers and reduce shareholder returns. We have estimated that our combined distribution and transmission revenue allowance could be reduced by around \$28m per annum for the 2019-24 period, noting we have already proposed a lower transmission rate of return
- A direction from shareholders to continue support for solar feed-in-tariffs beyond 2019
- The loss of major industrial customers

Because we are a capital intensive business with long asset lives, our ability to absorb additional equity withdrawals (together with a 90% dividend payout ratio) while simultaneously retaining our A credit rating is constrained. We are targeting industry standard gearing ratios - enabling us to preserve a balanced financial position and prudent asset management practices as we chart a course through uncertain waters.

New commercial opportunities, such as renewable connections, will require us to plan and establish an appropriate corporate structure. Refreshing our corporate structure provides us with the capacity to focus on growth opportunities and separates our regulated and unregulated operations as required by the AER's Distribution Ring-fencing Guideline.

The electricity transformation gathers pace

In the past 12 months, TasNetworks has experienced an unprecedented upswing in potential, new generation projects expressing interest in connecting to our transmission network. This investment in renewables will build on Tasmania's inherent advantage in clean, reliable energy – creating jobs and promoting economic development in regional areas. In good news for Tasmanian consumers, improved energy supply capacity has the potential to place downward pressure on wholesale electricity prices and firm up on island energy security. Accommodating new investment in renewables is likely to require an upgrade of transmission infrastructure to ensure our network remains secure, while building the necessary network capacity for the timely and reliable dispatch of energy to the NEM. We are also working constructively with project proponents to ensure appropriate connection standards for new renewable energy are implemented in a timely and efficient manner.

TasNetworks continues to plan and coordinate any new network investment in a way which maximises the overall benefits for customers.

Feasibility of a second interconnector – Project Marinus

TasNetworks has been tasked with leading the feasibility and business case assessment for Marinus Link. The link could harness the full potential of Victoria and Tasmania to deliver clean, competitive, reliable and secure power into the NEM as Australia continues transitioning away from more traditional forms of thermal generation.

Past studies have indicated that a second interconnector is likely to provide a range of significant benefits to Tasmanians and customers across the NEM. This includes lowering wholesale energy costs through greater inter-regional trade and providing redundancy against a prolonged outage of Basslink. A second interconnector would also support new renewable projects in Tasmania and Victoria, including Tasmania’s proposed Battery of the Nation project. Regional interconnection is a way of stabilising a power system with a greater penetration of intermittent renewables. In particular, high voltage direct current (HVDC) technology and use of hydro storage and generation can assist with the security and stability of the nation’s power system.

The early prospects for Marinus Link appear promising. Marinus Link was recently listed as a priority initiative by Infrastructure Australia. If a credible, objective business case can be proven viable, development will be undertaken in such a way that it maximises the net economic benefit for NEM customers.

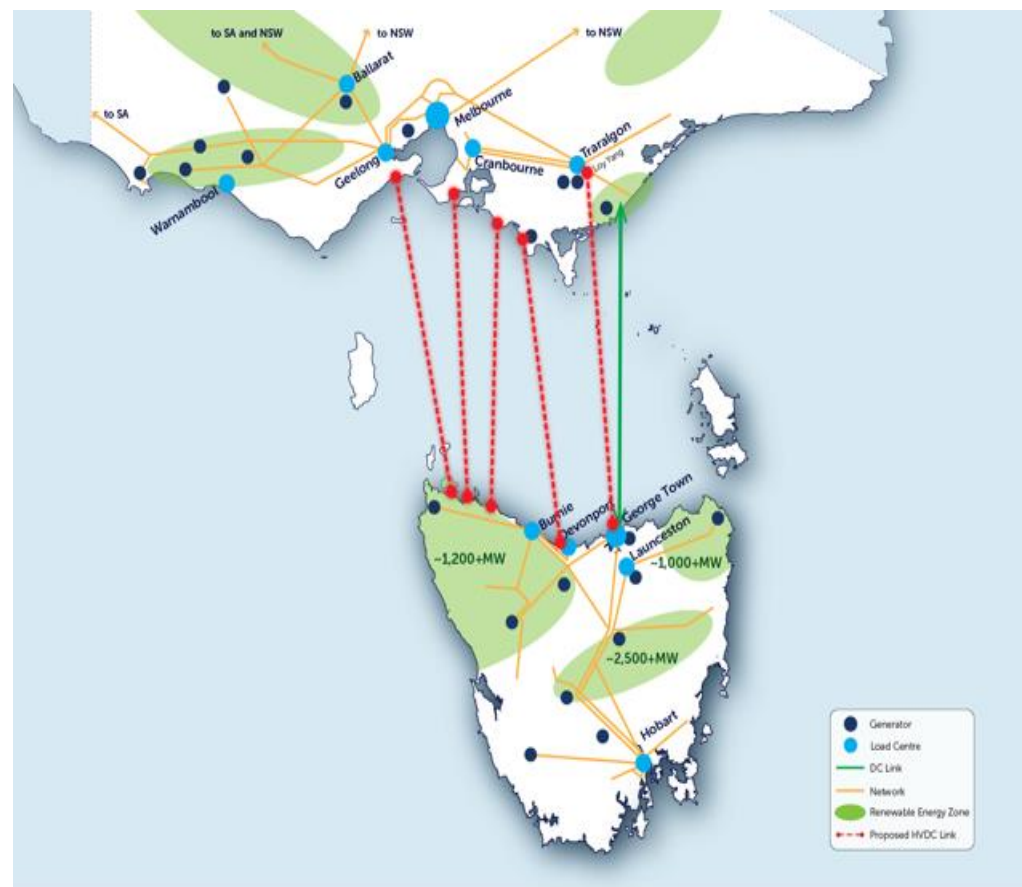


Figure 4 - Alternative Bass Strait interconnection routes. Renewable energy zones and figures are based on an initial assessment of advanced projects in each region.

Continuing our journey of tariff reform

TasNetworks is on a journey of tariff reform. Technological and customer driven changes in the electricity market means existing flat, consumption-based network tariffs which have been used to recover the cost of building and operating the electricity network are no longer fit for purpose.

We are introducing two new demand-based network tariffs which better reflect the underlying costs of operating our network. These tariffs more accurately reflect the impact that customers' use of electricity has on the cost of running the network, including at different times of the day and different days of the week.

We are trialling these tariffs through our emPOWERing you Trial which is being conducted in the Brighton/Bridgewater area. By encouraging our customers to use less electricity during peak times, we will be able to spend less on the network - meaning lower network costs for all Tasmanians. We are also engaging with electricity retailers so their tariffs reflect our new network tariffs and are accessible to customers.

Over the next five years, we are aiming to improve the quality of information available to support future tariff refinement and customer understanding of how to benefit from new types of tariffs. The AER's Consumer Challenge Panel (CPP) has emphasised the importance of accelerating the transition towards more cost-reflective tariffs and the need for cooperation between networks retailers and customers. If passed through by electricity retailers, these new tariffs will provide our customers with a price signal to better utilise existing network capacity, potentially lowering network costs for our customers as well as supporting investment in distributed energy resources (DER) in a way that benefits all users of the network.



Figure 5 - Shift, Stagger, Save; enabling our emPOWERing You Trial customers to respond to new demand-based tariffs

In summary

Our 2018-19 Corporate Plan has been prepared in a period of unprecedented change and uncertainty. In developing our plan, we are focussed on balancing key areas of business performance simultaneously - keeping network costs low while maintaining reliability, security and safety of supply, enabling the clean energy transition and delivering appropriate returns to our owners. While the energy transformation may unfold in a number of different ways, we are continuously striving to provide the best outcomes for all our customers and owners consistent with our vision.



8. Financial forecasts

The table below presents the key items contained within our financial forecasts for the 2018-19 to 2023-24 planning period.

Performance measure	LEOY 2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Regulated Network Services Revenue (\$m)	455.8	441.1	457.2	475.6	485.3	495.7	507.1
Unregulated Electricity Services Revenue (\$m)	11.9	9.6	12.5	8.8	9.0	9.2	9.4
Other Unregulated Services Revenue (\$m)	19.6	18.8	18.1	18.2	17.3	17.5	17.6
Total revenue (\$m)	487.3	469.5	487.8	502.6	511.6	522.4	534.0
Earnings before interest, Tax, Depreciation and Amortisation (EBITDA) (\$m)	318.6	298.7	319.9	338.4	345.1	353.5	362.6
Profit after tax (\$m)	50.0	29.1	35.9	41.1	39.4	38.7	40.2
Dividends (\$m)	77.6	35.9	18.9	28.4	33.0	31.2	30.4
Returns to government including dividends, tax equivalents and guarantee fee(\$m)	133.8	74.6	48.1	67.0	77.1	74.5	76.6
Operating expenditure (\$m)	168.7	170.7	167.9	164.1	166.5	168.9	171.4
Capital expenditure (\$m)	217.3	199.1	219.5	245.7	237.5	235.4	235.6
Total equity (\$m)	939.8	975.7	1,045.3	1,112.3	1,175.2	1,241.0	1,311.0
Total assets (\$m)	3,407.1	3,500.4	3,619.2	3,757.5	3,882.9	4,002.4	4,120.0
Total debt (\$m)	1,883.2	1,936.1	1,965.4	2,023.3	2,083.3	2,132.3	2,176.5
Key financial ratios							
Return on assets (%)	4.7%	3.7%	3.9%	4.1%	3.9%	3.9%	3.9%
Return on equity (%)	5.3%	3.0%	3.6%	3.8%	3.4%	3.2%	3.2%
Gearing ratio (%)	66.7%	66.5%	65.3%	64.5%	63.9%	63.2%	62.4%
Pre-tax interest cover	1.9	1.5	1.6	1.7	1.6	1.6	1.6
Borrowings	1,883.2	1,936.1	1,965.4	2,023.3	2,083.3	2,132.3	2,176.5
Credit Rating	A	A-	A-	A	A	A	A
Increase (decrease) in borrowings	97.5	52.9	29.3	57.8	60.0	49.0	44.2

9. Our planning objectives for 2018-19

Pillar	Objective	Description
Our Customers	Focus our teams on customer service and solutions	We want to lift our customer service mindset across the entire TasNetworks team. We also want to measure and improve the customer satisfaction level of our top 100 customers by revenue, including telecommunications customers. By understanding the drivers of customer satisfaction for large customers we can target improvements to our customer service.
	Enhance our customers' experience through the use of technology	On our journey towards 2025, it is expected that we will continue to improve our customers' experience through the clever and innovative use of technology. We will listen to our customers to understand their needs and use this to develop and refine our technology roadmap to ensure we get the best outcomes for our customers.
Our People	Build trusting relationships	This objective is an enabler of our vision "to be trusted by our customers to deliver today and create a better tomorrow", as a constructive culture within TasNetworks extends, through our people, to constructive relationships with our customers.
	We live Zero Harm	We have set aspirational zero harm targets for our business since its inception. We recognise the size of the challenge and remain committed to ensuring our people, customers, the community and environment are not harmed by our assets or our actions.
	Define our workforce of the future	Our Transformation Roadmap 2025 outlines a need for us to develop our workforce of the future to support our transformation and achieve our vision. Our initial focus will be to deliver a capability plan that will take us to 2025.
Our Business	Harness our assets & expertise for the benefit of Tasmania & Australia	TasNetworks is an asset-intensive business – with a large portion of our revenue, profitability, cost and service outcomes to customers derived from efficiently constructing, renewing, maintaining and operating our assets. We need to apply our skill and expertise to ensure our network services remain safe, secure, reliable and affordable in a fast-moving sector, with a changing generation mix and increasing customer energy resources.
	Reduce total cost of our regulated business	We need to develop and implement a plan to reduce total cost of doing business, including both capital and operating expenditure. A clear plan for achieving productivity and efficiency gains will allow us to achieve our financial and customer price targets, absorb new obligations, and help achieve our vision of being trusted by our customers
	Build profitable lines of business	We want to develop our talent, harness our knowledge and commercialise new products and services. We want to take a long-term view. We want to provide our people that lead the complementary services business space to grow in targeted markets that are aligned with our capabilities. We can also consider partnering with others to develop opportunities
Our owners	Deliver forecast earnings	Our revenue allowance for provision of regulated electricity networks services is set by the Australian Energy Regulator. Our earnings are affected by an underlying plateauing in demand for traditional network services in Tasmania and the changing way our customers interact with our network. We must continue to transform our business and pricing for our services to reflect the changing use of our network and incentivise our customers to make changes.
	We operate our business to be sustainable	We are operating a commercial business with an asset base valued at over \$3 billion and our shareholders expect us to achieve a commercial rate of return. Our strategy needs to achieve an appropriate balance between sustainable price outcomes for customers and sustainable outcomes for our business.

10. Performance goals

Our performance measures and targets show our present assessment of progress against the achievement of our strategic goals. As we gain more information we will continue to assess our targets. We recognise that it may not always be appropriate to improve performance above target if there is not sufficient benefit to our customers.

Zero harm

Our targets for Zero Harm demonstrate our commitment to not only improve our current performance levels but also to reach our goal of no harm to our people, the public and minimising our impact on the environment.

Performance measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Number of significant incidents ¹	≤ 8	≤ 7	≤ 6	≤ 5	≤ 4	≤ 3
Number of reportable incidents ²	≤ 12	≤ 11	≤ 10	≤ 9	≤ 8	≤ 7
Lost time injury frequency rate (12 month rolling)	0	0	0	0	0	0

¹ Significant incidents - incident with an actual or credible potential for major or severe health, safety, or environment consequences as defined by TasNetworks' risk matrix.

² Incidents that require notification to a government authority, including Worksafe Tasmania for health and safety incidents, Department of Primary Industries, Parks, Water and Environment for environmental incidents, and the Australian Energy Regulator (AER) for unplanned disconnection of life-support customers.

Customers

Our goal is to care for our customers and make their experience easier. We aim to increase customer satisfaction and deliver lowest sustainable prices.

Performance measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Customer net promoter score	+10	+12	+14	+16	+18	+20
Customer complaints – volume	< 2,400	< 2,300	< 2,200	< 2,100	<2,000	< 1,900
Call answering – combined Fault/Service Centre	Out-perform performance incentive scheme targets	Out-perform performance incentive scheme targets	Out-perform performance incentive scheme targets	Out-perform performance incentive scheme targets	Out-perform performance incentive scheme targets	Out-perform performance incentive scheme targets

People

Our goal is we keep safe, build trusting relationships and enable our people to deliver value. We aim to develop a constructive culture and achieve high levels of employee engagement.

Performance measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Employee engagement improvement	58% ³	> 58%	> 58%	> 58%	> 58%	> 58%

³ 58% is the high performing benchmark

Our business

Our goal is that we manage our assets, delivering safe and reliable network services while transforming our business. We aim to maintain present network service performance whilst bringing poorly performing communities up to regulated performance standards. Just to keep costs at current levels in nominal terms, in an environment of increasing complexity in the energy sector, requires us to find efficiencies. We also need to invest in improving our business.

Network service

Performance measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Outcomes under Service Target Performance Incentive Scheme (STPIS) – transmission	Earn service performance incentive bonus	Earn service performance incentive bonus	Earn service performance incentive bonus	Earn service performance incentive bonus	Earn service performance incentive bonus	Earn service performance incentive bonus
Outcomes under Service Target Performance Incentive Scheme (STPIS) – distribution	Earn service performance incentive bonus	Earn service performance incentive bonus	Earn service performance incentive bonus	Earn service performance incentive bonus	Earn service performance incentive bonus	Earn service performance incentive bonus

Sustained cost management

Performance measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Operating expenditure (\$m) ⁴	≤ 166.2	≤ 165.3	≤ 164.1	≤ 166.5	≤ 168.9	≤ 171.4
Capital expenditure (\$m)	≤ 219.0	≤ 219.5	≤ 245.7	≤ 237.5	≤ 235.4	≤ 235.6

⁴Operating expenditure excludes Feed in Tariff

Our owners

Our goal is to operate our business to deliver sustainable shareholder outcomes. We aim to provide an appropriate return on assets and equity, dividends to shareholders and a resilient balance sheet while maintaining our corporate reputation.

Consistent with national competition principles, customers in Tasmania should not receive different network outcomes because of our Government ownership. To this end, our income is based on a benchmark entity, with debt levels and costs, and tax rates set independent of ownership. On the cost side, our interest costs reflect our gearing levels, and we make tax equivalent payments and guarantee fee payments to the State of Tasmania. For our regulated services, shareholders expect us to achieve a rate of return consistent with our regulated rate of return.

Performance measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
EBITDA (\$m)	≥ 307.7	≥ 324.5	≥ 338.4	≥ 345.1	≥ 353.5	≥ 362.6
Profit after tax (\$m)	≥ 34.4	≥ 39.1	≥ 41.6	≥ 40.3	≥ 38.9	≥ 39.5
Return on assets (%)	≥ 4.0%	≥ 4.1%	≥ 4.1%	≥ 4.0%	≥ 3.9%	≥ 3.8%
Return on equity (%)	≥ 3.6%	≥ 3.8%	≥ 3.8%	≥ 3.5%	≥ 3.2%	≥ 3.1%
Regulated services return consistent with AER decision	Achieved	Achieved	Achieved	Achieved	Achieved	Achieved
Gearing ratio	< 66.4%	< 65.0%	< 64.3%	< 63.7%	< 63.0%	< 62.2%
Government guarantee fee (\$m)	≥ 7.5	≥ 6.9	≥ 6.2	≥ 5.9	≥ 5.5	≥ 5.2
Dividends (\$m)	≥ 35.9	≥ 24.1	≥ 31.3	≥ 33.4	≥ 32.0	≥ 30.5

Unregulated network services

Performance measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Revenue (\$m)	≥ 15.5	≥ 8.5	≥ 8.8	≥ 9.0	≥ 9.2	≥ 9.4
EBITDA (\$m)	≥ 4.3	≥ 4.3	≥ 4.4	≥ 4.6	≥ 4.8	≥ 4.8

Project Marinus⁵ – feasibility and business case assessment

Performance measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Net cash flow (\$m)	(8.6)	1.7	-	-	-	-
Project milestones	Initial feasibility report by 31 Dec 2018	Final feasibility report by 31 Dec 2019				

⁵ Project Marinus is the feasibility and business case assessment for a second electricity link between Tasmania and Victoria co-funded by TasNetworks and Australian Renewable Energy Agency (ARENA).

Fortytwo24 Pty Ltd⁶ (includes unregulated telecommunications, data centre and IT services)

Performance measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Revenue (\$m)	≥ 18.7	≥ 18.1	≥ 18.2	≥ 17.3	≥ 17.5	≥ 17.6
EBITDA (\$m)	≥ 9.9	≥ 8.3	≥ 8.3	≥ 7.7	≥ 7.7	≥ 7.7

⁶ Fortytwo24 Pty Ltd is a ring-fenced subsidiary of TasNetworks that provides unregulated, non-electricity services and complies with Australian Energy Regulator ring-fencing obligations.

11. Business risks

The Board has approved and oversees the TasNetworks Risk Management Policy, Framework and Appetite Statement. This ensures that management has developed and implemented a robust system of risk management and control.

In accordance with the Risk Management Policy, we:

- prepare and deliver a plan for managing risk in accordance with our risk appetite, the expectations of our stakeholders and the law;
- integrate effective and appropriate risk management into all business and management activities and policies;
- make available the necessary resources for effectively managing risk;
- provide regular reports to the Board detailing material business risks and the effectiveness of associated risk management strategies;
- report key risks and associated management strategies to key stakeholders; and
- review key risks at regular intervals to ensure they remain relevant and additional risks are escalated to align with changing business circumstances.

As owner and operator of a large electricity network and telecommunication business TasNetworks faces a number of key risks. Key risks at the time of publication are outlined in the following table. The consequence table includes the financial impacts as well as other categories, which have been taken into consideration when rating each risk.

Risk	Description
Employee safety	Death or serious injury of TasNetworks employee or contractor resulting from network operations
Public safety	Death or serious injury of a member of the public resulting from network operations
Alignment of strategy and culture	The organisational culture does not achieve the desired alignment with our strategic objectives
Capabilities (breadth & depth)	The depth of capability required to deliver the strategic objectives is not maintained
Revenue Resets	Revenue resets do not deliver revenue allowances that reflect the proposal and support stakeholder expectations

Risk	Description
Sustainable and Predictable Pricing	Distribution tariff strategy does not deliver sustainable and predictable pricing frameworks to customers
Ajilis	The transformation program (Ajilis) significantly exceeds the agreed budget, does not achieve transformation objectives, materially impacting the TasNetworks reputation and reducing the sustainability of shareholder outcomes.
Widespread disruption to power supply	Widespread disruption to the power supply potentially leading to a system black condition or long-term rotational load shedding
Bushfire start	Major bushfire attributed to TasNetworks assets and/or work practices and consequential loss of life and/or property
Loss of major industrial customer	Major industrial customer ceases operations in Tasmania
Customer focus (change events)	Change events are implemented and managed without a primary focus on the customer outcomes
Metering Contestability	Metering contestability and impact on customer cost and service performance, and business profitability
Business Continuity Management	The ability to continue to provide mission critical services at an acceptable level during an emergency and recover to business as usual levels, or better, as soon as circumstances and resources allow
Cyber Risk	Failures and vulnerabilities of cyber practices resulting in disruptions to business operations and/or loss of data
Private Infrastructure	TasNetworks interaction with private assets leads to the death or serious injury of a member of the public.
Energy Policy and Regulation Risk	Government policy and regulatory body decisions lead to a regulatory framework that impacts on business revenue, obligations, costs, reputation and customer outcomes.

12. Conclusion

This Corporate Plan represents the first year along our Transformation Roadmap as we position our business for 2025 and beyond. It also outlines the steps required to position our business to successfully navigate the changes occurring within our industry and help support the government's "Tasmania First" policy. Our business has a strong track record of responding to similar challenges including:

- Delivering appropriate returns to shareholders in line with expectations
- A genuine focus on looking after our customers and listening to and responding to their needs
- Constructively engaging with customers and regulators, proactively proposing savings targets, and continuing to adapt to a changing regulatory and customer environment
- Being a leader in connecting large quantities of renewables and interconnectors to a relatively small network
- A history of technological innovation including developing dynamic line rating systems, system protection schemes and generator contingency schemes to extract full value from network and customer investments

Implementing this plan will position our business to achieve our vision, to be:

Trusted by our customers to deliver today and create a better tomorrow.

