

# TasNetworks Corporate Plan

**Planning period: 2017-18 to 2021-22**

July 2017

The TasNetworks Corporate Plan sets out the strategic goals and plans of Tasmanian Networks Pty Ltd (TasNetworks) for the planning period 2017-18 to 2021-22



## Contents

|   |    |
|---|----|
| 1. Executive summary.....                           | 3  |
| 2. Summary of financial and pricing forecasts ..... | 6  |
| 3. Introduction .....                               | 8  |
| 4. Our customers .....                              | 10 |
| 5. An industry in transition .....                  | 11 |
| 6. TasNetworks strategy statement .....             | 17 |
| 7. Strategic goals.....                             | 18 |
| 8. Service strategy statements .....                | 19 |
| 9. Strategic programs .....                         | 20 |
| 10. Performance goals.....                          | 22 |
| 11. Business risks .....                            | 30 |
| 12. Conclusion .....                                | 32 |

## About us

We own, operate and maintain the networks that deliver electricity to more than 280,000 households, businesses and organisations on mainland Tasmania. We also own, operate and maintain a telecommunications network to enable safe and efficient operation of the electricity system. We provide a range of services complementary to our network services, including telecommunications, data centre and information technology and infrastructure services. We are a commercial business with an asset base valued at over \$3 billion. We are owned by the State of Tasmania.

Our shareholders have directed us to perform some non-commercial activities, primarily funding the 'grandfathered' solar feed-in-tariff payment to eligible customers, 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.

## 1. Executive summary

This Corporate Plan has been developed to balance the needs of today with the challenges and opportunities of the future.

Key aspects of our plan for 2017-18 include:

- Our continued focus on ensuring our networks remain resilient
- The dynamics of our industry continue to evolve. We continue to serve the needs of a customer base with a continuing requirement for access to a safe and reliable electricity supply at a reasonable cost. We do this while facilitating a fundamental shift in the role of networks
- We are experiencing an increasing number of large and small renewable energy connections, embedded networks and stand-alone power systems, and are operating an increasingly complex network
- We continue to run and transform our business to drive more efficient outcomes for our customers and owners
- Our plan
  - positions our business to support the transition of the energy sector
  - includes a number of continuing initiatives to fully realise the benefits of our business transformation
  - outlines investments to support secure, safe and reliable services in an environment with more volatile climate impacts, increasing customer control and choice, changes in energy flows, and new generation sources and information technologies to support customer outcomes

- outlines our complementary services business to ensure that we give necessary focus to meeting the evolving needs of our customers, and creating a better tomorrow
- Our performance measures and productivity targets have been set with a focus on improvement – except for network reliability where we have listened to our customers’ feedback and are aiming to at least maintain present network service performance. We are prioritising our spend to bring some poorly performing communities up to regulated performance standards

Our financial forecasts are based on our transmission and distribution determinations to 2019, and for 2019 onwards, represent our placeholder forecasts. We are currently developing our revenue proposal for 2019 to 2024, including through customer engagement. The forecasts show that:

- We will achieve a rate of return in line with shareholder expectations
- Our net profits (and resultant returns to our owners) are declining over the planning period due to lower forecast returns from our regulated services reflecting the low interest rate environment, increased interest costs to service higher debt levels, and rising depreciation resulting from our investment in short life assets. Our profitability outlook also reflects an underlying plateauing in demand for traditional network services in Tasmania
- Our recent distribution revenue decision, together with our current transmission revenue allowance, results in lower network charges for almost all small business and residential customers. This continues TasNetworks’ contribution to downward pressure on electricity costs
- Underlying operating cash flows (EBITDA) are holding, reflecting our continued focus on achieving sustainable cost reductions
- Debt levels are forecast to peak at over \$2.0 billion during the planning period. In the short term we are forecasting to borrow to fund the business’ capital structure and meet our capital investment requirements
- Despite this, our balance sheet remains resilient. Our forecasts indicate we are able to service these increasing debt levels. We may need to seek additional financial accommodation as we may reach borrowing limits under our existing lending arrangements.

This Corporate Plan includes a number of steps required to position our business to successfully navigate the changes occurring within our industry. Our business has a strong track record of responding to similar challenges. Our business strategy for 2017-18 is summarised on our strategy on a page.





# Strategy on a page 2017-18

|   |   |   |  |   |                                |
|---|---|---|--|---|--------------------------------|
| Vision  | Trusted by our customers to deliver today and create a better tomorrow.   |   |  |   |                                |
| Purpose   | We safely deliver electricity and telecommunications network services and complementary services, creating value for our customers, our owners and our community. |   |  |   |                                |
| OUR STRATEGY  |   |   |  |   |                                |
| To provide the best outcome for our customers and owners by delivering safe, reliable and competitive network services, both regulated and unregulated, while also delivering profitable complementary services that are within our capability. We do this by operating a lean and efficient business and looking for growth opportunities within our rapidly evolving environment. |   |   |  |   |                                |
| HOW WE WORK   |   |   |  |   |                                |
| The safety of our people and the community is our top priority  | We collaborate to deliver real value to customers   | We innovate and we are a fast follower  | We challenge the status quo  | We harness our strengths to grow our business   | We deliver commercial outcomes |
|   | Our customers   | Our people  | Our business   | Our owners  |                                |
| <b>Strategic goals</b><br>What do we need to focus on to achieve our vision?  | We care for our customers and make their experience easier.   | We keep safe, build trusting relationships, and enable our people to deliver value.   | We manage our assets to deliver safe and reliable services, while transforming our business.   | We operate our business to deliver sustainable shareholder outcomes.  |                                |
| <b>Strategic measures</b><br>How do we know when we have achieved it?   | <ul style="list-style-type: none"><li>• Customer net promoter score</li><li>• Lowest sustainable prices</li><li>• Customer satisfaction</li></ul>                 | <ul style="list-style-type: none"><li>• Zero harm</li><li>• Constructive culture</li><li>• Engaged people</li><li>• Capable people</li></ul>  | <ul style="list-style-type: none"><li>• Zero harm</li><li>• Network service performance maintained</li><li>• Sustainable cost reduction</li><li>• Efficient field and business services works delivery</li></ul> | <ul style="list-style-type: none"><li>• Returns on assets and equity</li><li>• Dividends</li><li>• Corporate reputation</li><li>• Resilient balance sheet</li><li>• Grow unregulated profit</li></ul> |                                |
| <b>Strategic initiatives 2017-18</b><br>What are the enterprise wide initiatives we need to focus on now?   | <ul style="list-style-type: none"><li>• Zero harm</li><li>• Reset 2019</li><li>• Integrate large-scale renewables</li><li>• Market systems upgrade</li></ul>      | <ul style="list-style-type: none"><li>• Ajilis</li><li>• Establish complementary services business</li><li>• Field works program optimisation</li><li>• Building trusting relationships</li></ul> | <ul style="list-style-type: none"><li>• Capability for our future</li><li>• Prepare the network for more distributed energy resources</li><li>• Outage restoration management</li></ul>                          |   |                                |

## 2. Summary of financial and pricing forecasts

The table below presents the key items contained within our financial forecasts for the 2017-18 to 2021-22 planning period.

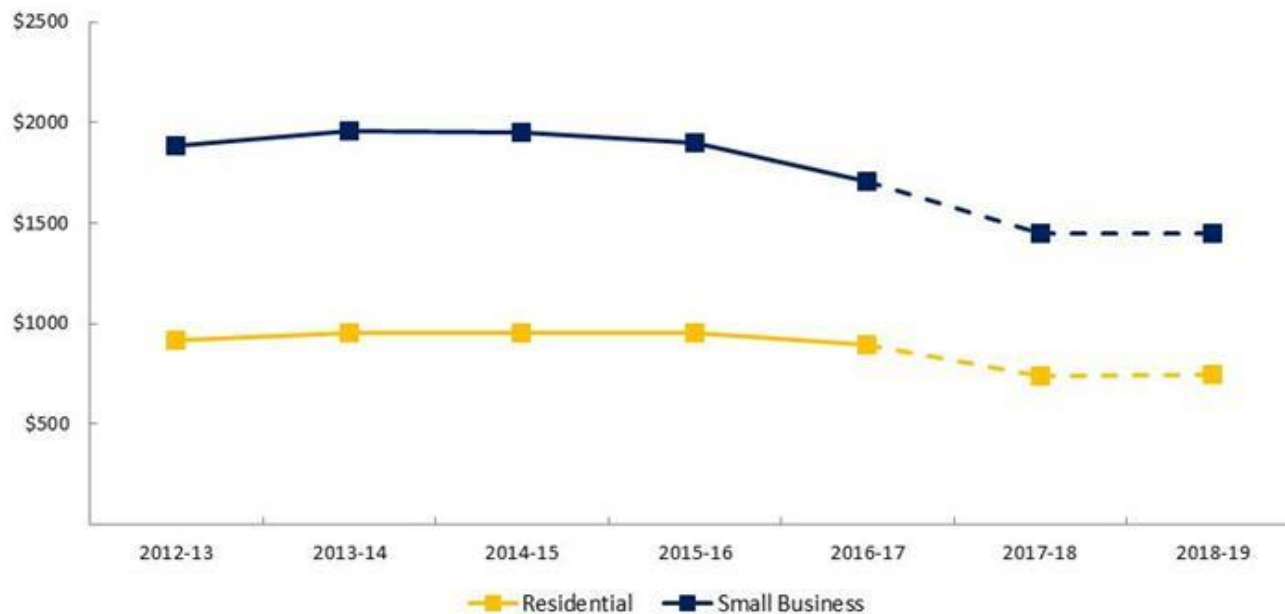
| Performance measure  | 2017-18      | 2018-19      | 2019-20      | 2020-21      | 2021-22      |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Total revenue (\$m)</b>   | <b>471.1</b> | <b>479.2</b> | <b>491.9</b> | <b>509.5</b> | <b>526.8</b> |
| Earnings before interest, Tax, Depreciation and Amortisation ( <b>EBITDA</b> ) (\$m) | 305.3        | 323.0        | 337.6        | 351.3        | 364.7        |
| Profit after tax (\$m)   | 39.7         | 43.9         | 48.7         | 51.4         | 54.1         |
| Dividends (\$m)  | 74.9         | 27.9         | 32.2         | 36.4         | 38.4         |
| Total Returns to government (\$m)  | 130.4        | 59.1         | 67.7         | 81.2         | 85.0         |
| Operating expenditure (\$m)  | 152.6        | 150.5        | 154.3        | 158.2        | 162.1        |
| Capital expenditure (\$m)  | 206.3        | 199.3        | 198.7        | 215.5        | 238.6        |
| Total equity (\$m)   | 925.8        | 992.4        | 1,061.1      | 1,129.7      | 1,200.6      |
| Total assets (\$m)   | 3,386.5      | 3,480.1      | 3,576.8      | 3,685.1      | 3,812.2      |
| Total debt (\$m)   | 1,872.5      | 1,895.9      | 1,907.6      | 1,934.9      | 1,977.2      |
| <b>Key financial ratios</b>  |              |              |              |              |              |
| Return on assets (%)   | 4.3%         | 4.4%         | 4.5%         | 4.5%         | 4.6%         |
| Return on equity (%)   | 4.3%         | 4.6%         | 4.7%         | 4.7%         | 4.6%         |
| Gearing ratio (%)  | 66.9%        | 65.6%        | 64.3%        | 63.1%        | 62.2%        |
| Pre-tax interest cover   | 1.7          | 1.8          | 1.8          | 1.9          | 1.9          |
| <b>Borrowings</b>  |              |              |              |              |              |
| Increase (decrease) in borrowings  | 86.3         | 23.4         | 11.6         | 27.4         | 42.3         |

A key focus for our customers is the outlook for network charges resulting from our plans. Our proactive approach to driving cost savings, together with some upfront investments to support the services into the future, means that the outlook is good news for our customers.

Our transmission revenue allowance puts continuing downward pressure on transmission network prices for all our customers, including major industrial customers and generators directly-connected to the transmission network, and our distribution network customers.

For customers connected to our distribution network, our combined transmission and distribution networks costs presently make up around 50 per cent of the typical Tasmanian residential and small business customers' electricity bill. The Australian Energy Regulator's (AER) approval of our 2017 to 2019 distribution regulatory proposal, together with our current transmission revenue allowance, results in lower average network charges for the majority of typical small business and residential customers. This continues the downward pressure on network charges from July 2017 onwards.

Figure 1: Indicative average annual total network charges (June 2017 \$)



### 3.Introduction

Welcome to our Corporate Plan for 2017-18.

At TasNetworks we are focussed on delivering power safely and reliably while embracing change driven by our customers. We are working hard to keep our costs and our prices as low as we sustainably can, through fully realising the benefits of our integrated network business, while delivering safe and reliable services.

We are engaging our customers in developing our plans for the future. We are investing in our people, improving our business systems and maintaining the electricity network to serve our customers.

The AER's final determination for our distribution network revenue and pricing framework for 2017 to 2019 was made on 28 April 2017. We are well advanced in preparing the combined transmission and distribution revenue proposal that will determine regulated network revenues for 2019 to 2024. Including customers and other stakeholders in the development of these proposals is vital to ensuring that they are robust, deliver value, and set ourselves up to meet the changes ahead.

With an eye to the future, we have started a long-term transition to more cost-reflective network tariffs. The purpose of these changes is to provide customers with information and incentives to use the network more efficiently. This is a complex area, but one that has the potential to deliver savings for our customer base. Our changes are being introduced over a number of years to help customers with this transition. We are currently conducting a tariff trial with about 600 residential customers, which will support and inform these changes.

Our customers have told us they want more choice in service providers when they connect to our network. We are now offering choice to some customers relating to who designs and constructs their underground residential or commercial subdivision connection. We will be investigating similar choices to more customers for other connection types.

To prepare our business for the changes that customers are driving we are continuing to lead a number of trials and demonstrations of new technologies. These include battery storage integrated with solar generation on Bruny Island, using electric vehicles in our fleet and trialling advanced meters and the communications systems required to support them. We are actively partnering with industry and attracting federal funding towards innovative projects that will improve our ability to host and maximise customer investments in new technologies.



Our customers expect us to innovate and we are responding to this challenge. All this creates a vibrant business where our people are making customers central to all we do.

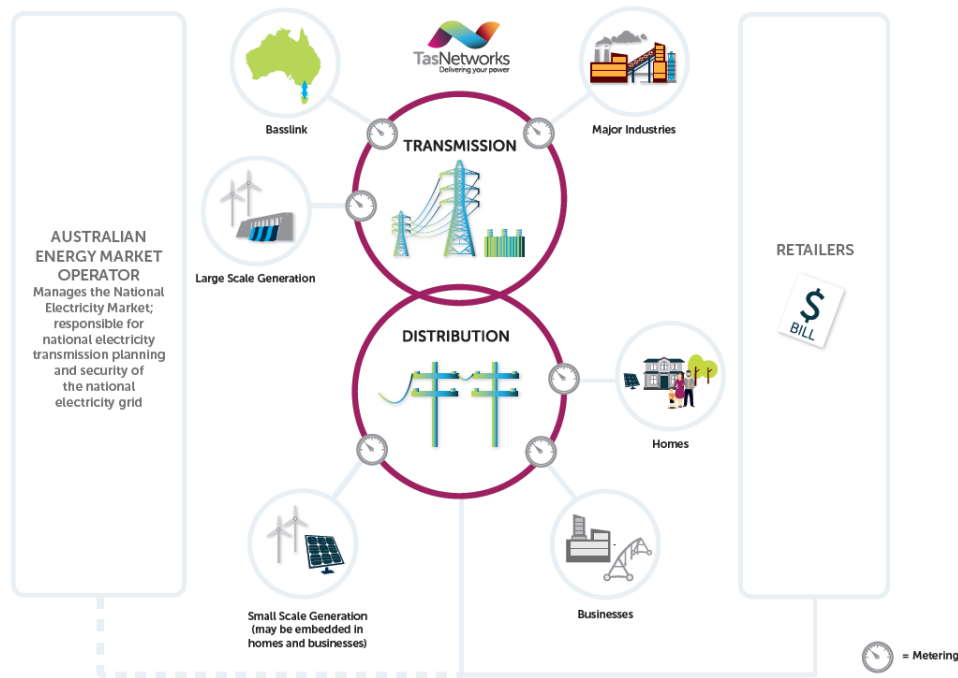
This plan continues our progression towards achieving our vision of being trusted by our customers to deliver today and create a better tomorrow.

## 4. Our customers

We are committed to engaging with, informing and educating our customers to help shape our activities and plans for the future. Our customer strategic goal is to ‘care for our customers and make their experience easier’, with the ultimate aim of improving price and service outcomes whilst maintaining reliability levels.

### TasNetworks’ customer service relationships

TasNetworks provides a variety of electricity network services for the transmission and distribution of electricity in Tasmania.



- 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

## 5. An industry in transition

Our operating environment is undergoing fundamental changes and the pace of change is increasing. Technological changes are influencing how customers use our network and what they expect from us.

At present, the majority of our customers use our network in order to receive electricity supply from large generators. The vital role of the network is evolving into one that acts as a means to integrate and transport electricity between generating sources and energy users of varying sizes, located across Tasmania and the rest of the national market.

The drivers of our industry transition can broadly be grouped into the following categories:

### Increasing customer choice and control

- Many customers are exercising more choice; the way they source and use energy is becoming more diverse.
- The flow of electricity is no longer one way, with some consumers also generating electricity themselves (“prosumers”). As a result, customers expect to be able to use the network in ways that suit them, and expect to pay only based on what they need from the network.
- The AEMC’s Power of Choice reforms aim to enable informed customer choices. The introduction of cost reflective network tariffs, and advanced metering for small customers provided by the competitive market, are part of these reforms.

### Technological innovation

- The number of customers with solar systems (PV) continues to increase and we are starting to see batteries and electric vehicles interacting with our network. The decreasing cost of new technologies makes them more economically viable and enhances customer uptake rates.
- The network will increasingly be a platform for trade of energy services, provided to and from large and small load and generation sources.
- Customers increasingly expect access to real time data and customer-focused information and services in a digital age.
- Networks are now starting to harness technologies to give better visibility of our distribution networks and provide safe, secure and reliable services in a more complex system. Our use of technological innovation to efficiently provide transmission services in Tasmania is recognised nationally.

**Energy policy and regulatory climate**

- Energy policy, and policy to decarbonise Australia's energy sector, is a key area of focus nationally and within Tasmania.
- A range of reviews are underway to ensure that Australian and Tasmanian electricity networks, systems and markets remain resilient to changing technologies and customer expectations.
- Significant changes to the regulatory framework, including the Power of Choice program, new ring fencing requirements, new investment tests and potential new responsibilities for managing system stability, continue to impact our business.
- Metering services for small customers will be open to competition from 1 December 2017.

**Transition to cleaner energy sources**

- National energy policy responses are being monitored for impacts and opportunities in Tasmania, particularly with respect to connecting more large scale renewables and potential for a second interconnector to mainland Australia.
- A number of large scale renewable energy projects are in the concept or application phase. These include proposals for new wind farms and upgrades to hydro generation capacity.
- Connection of small-scale renewable generation continues, including roof top PV, mini-hydro and other embedded generation.
- Our network facilitates the transmission of Tasmania's renewable energy within Tasmania and to the rest of the national electricity market (**NEM**), and will be integral in growing the state's renewable energy potential.
- Electric vehicles provide the greatest opportunity for Tasmania to further decarbonise its energy mix. TasNetworks is engaging with stakeholders, including the electric vehicle association and proponents of fast charge stations, to support efficient network integration.

**Electricity revenues and prices**

- We continue to work constructively with the AER. Our recent transmission and distribution revenue decisions provide stable or lower prices to our customers. The fact that our transmission and distribution proposals were accepted without material change is indicative of the approach and relationship we are building with our customers and the regulator.
- Benchmarking is playing a major role in regulatory decisions. Our transmission network is currently assessed as the most efficient in the NEM by the AER. Our distribution business does not benchmark as well, but has seen material improvement since our merger. The AER acknowledges that our performance is impacted by Tasmanian network characteristics, including serving relatively more rural customers.

- Efficiencies delivered by TasNetworks, together with a lower interest rate environment, have contributed to stabilisation and reduction in network revenues, after a period of increases. Our transmission determination for 2014–19 placed significant downward pressure on prices. Our distribution revenue decision for 2017-19 continues this trend.
- Network prices have not reduced to the same extent as network revenues, as many distribution network tariffs are linked to consumption. Allocating lower network revenue over a lower consumption base can dilute the effects of the lower network revenues.
- Electricity prices in Tasmania have stabilised in recent years after a period of significant increases. However, across the national electricity market, the costs of generation and renewable energy schemes are now starting to increase, with significant price volatility amid recent large generation plant closures and energy security concerns.

#### **Macroeconomic factors**

- Economic growth in Tasmania is relatively modest and forecast to remain so for the next 5 years.
- Our larger customers remain exposed to international commodity prices, competition from overseas, and changes to the Australian exchange rates.
- Population growth in Tasmania is forecast to remain at below average levels.
- Levels of new residential dwellings and new residential subdivision lots are forecast to remain at reasonably low levels.
- These factors contribute to a modest increase in forecast annual residential electricity sales for 2017–2025.

The overall challenge for our business will be to achieve high levels of operational and investment efficiency while at the same time managing a more complex network. Many of these issues are already present in our network today; it is the scale and pace of change that is increasing.

In this changing customer environment, we will evolve our service offering to provide complementary network, telecommunications and related services in emerging markets, such as services to competitive metering coordinators. This will support sustainable and predictable pricing in our core network services.



We have actively contributed to the development of Australia's Electricity Network Transformation Roadmap, a project being undertaken by the Energy Networks Australia (ENA) and CSIRO.

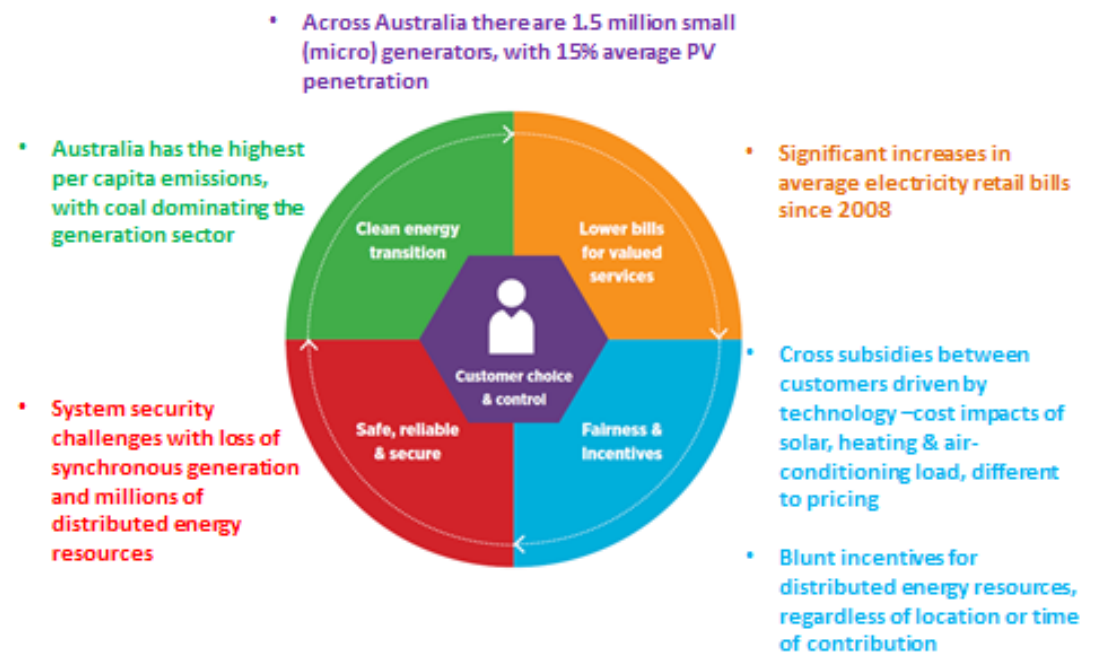
Australia's energy system faces opportunities and challenges, due to rapid changes in distributed energy resources (like solar, storage and electric vehicles), energy efficiency, consumer preferences and smart grid solutions.

Analysis by CSIRO and ENA has produced a comprehensive plan to keep the lights on, keep network costs affordable and de-carbonise electricity.

It finds that a coordinated approach to the changes in the energy system can deliver more choice for Australian energy customers, while maintaining system security and meeting international climate change commitments.

Today the energy sector faces challenges relating to power system security, integrating renewables, de-carbonisation, electricity prices and cross subsidies, while supporting customer expectations for increasing choice and control.

## Status today...



The Roadmap considers an energy sector with zero net emissions by 2050, and where customers, not traditional utilities, will determine more than \$200 billion of all energy system spending between now and 2050.

In this future, the road map sets out a set of 'no regrets' measures to support Australians using the grid as a lower cost platform for energy exchange.

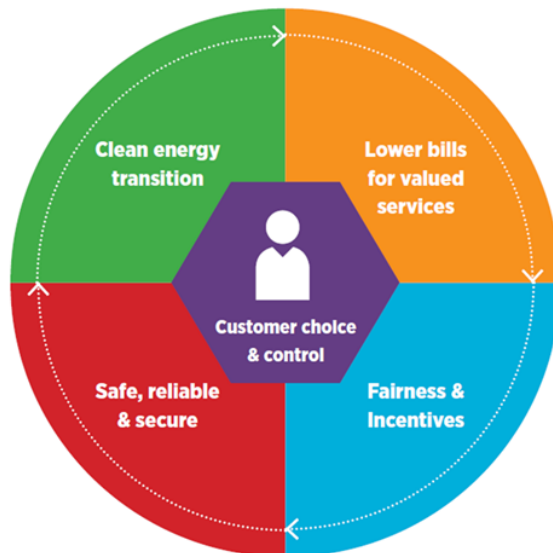
The CSIRO analysis highlights that electricity networks will continue to have a central role in meeting customers' energy needs in the future. However, the way network services are provided will continue to evolve, to provide greater choice and control for customers, create the platforms for energy innovation and invest in the services customers' value. It will be more challenging to manage orchestration of the many 'moving parts', to ensure energy services remain safe, reliable and secure.

## Network transformation roadmap - 2027

- >40% of customers have onsite solar and batteries - distributed energy resources (DER)
- Customer protections support those who need it

Electricity sector on track to zero net emissions by 2050

Planned and efficient market response avoids security & stability risks  
Robust physical & cyber security management



- Significant network investment avoided by better price signals
- Average network bills 10% lower than 2016
- Fairer charges and pricing, including paying customers for their DER services
- Reduction in cross-subsidies

### Highlights for customers and the community by following the Network Transformation Roadmap:

- Customers receive secure and reliable electricity supply in a system which is more resilient, with faster response times and enhanced services.
- Network pricing is more cost-reflective, and includes new pricing arrangements for 'behind the meter' services provided by customers back into the network.
- Almost 2/3 of customers have distributed energy resources by 2050 and network service providers would buy grid support in a network optimisation market worth \$2.5 billion per year.
- This orchestration of customer distributed energy resources in "the right place at the right time" avoids the need for \$16 billion nationally in network infrastructure investment.
- Annual network charges are 30% lower for average customers by 2050.

**TasNetworks Transformation Roadmap**

We've used the national network transformation roadmap to help us design our TasNetworks Transformation Roadmap which will take us to 2025. 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 help restore Tasmania's energy advantage.

Our Roadmap helps us understand the investment plans that will support our upcoming transmission and distribution revenue proposals that we will lodge in January 2018 for regulated network services to July 2024. It also helps identify existing and emerging markets for non-regulated services, in the network sector and in areas complementary to our core business.

Section 9 of our Corporate Plan sets out the key programs in our Roadmap.

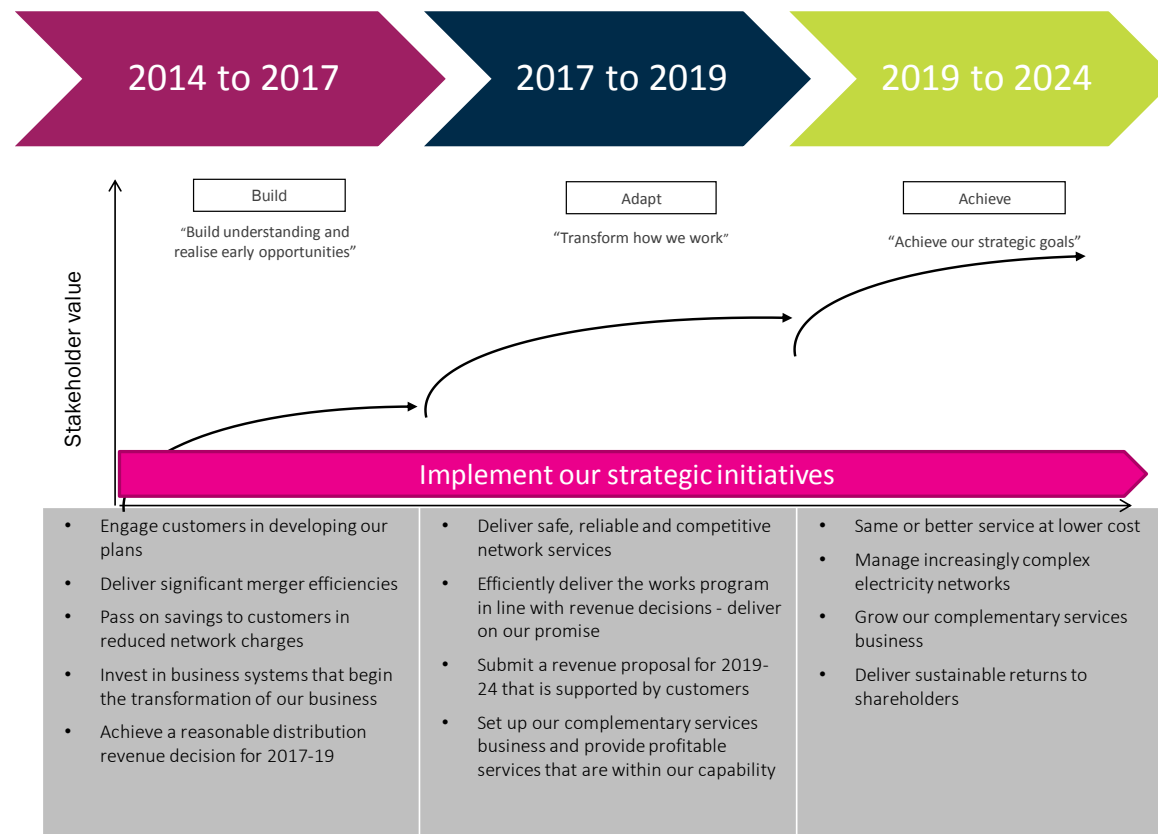
## 6.TasNetworks strategy statement

The following paragraph summarises TasNetworks' strategy:

To provide the best outcome for our customers and owners by delivering **safe, reliable and competitive network services**, both **regulated** and **unregulated**, while also delivering **profitable complementary services** that are within our capability.

We do this by operating a **lean** and **efficient** business and looking for **growth opportunities** within our **rapidly evolving environment**.

### Transforming our business – TasNetworks strategic journey



## 7.Strategic goals

The vision of our business is to be *trusted by our customers to deliver today and create a better tomorrow.*

Our vision:

- puts achieving customer trust at its heart
- recognises that we are an enabler of customer outcomes, today and in the future
- recognises that we are part of creating a better future: we can create customer value and value to Tasmania as a whole
- allows us to achieve customer trust in many different ways, through the safe and reliable provision of a range of services.

Underpinning our vision statement, there are four pillars to our strategy:





## 8. Service strategy statements

TasNetworks provides three categories of services to its customers:

- Regulated network services
- Unregulated network services
- Complementary services

Our objectives for each category of service are distinct:

**Regulated network services** – Delivering safe, reliable and secure electricity and supporting telecommunications network services at the lowest sustainable prices.

We focus on achieving our productivity targets and continuing to provide valued customer services to customers. This enables us to compete with disruptive technologies and keep customers connected to the grid where it provides the best customer outcome.

**Unregulated network services** – Delivering competitive unregulated network services, including potential services to new metering coordinators.

We aim to maintain our current level of unregulated network services and to generate profitable growth from new opportunities.

**Complementary services** – Providing wholesale telecommunication services, data centre services and IT services to business and government customers.

We will generate profitable growth from new opportunities, whilst continuing to provide the support services required by our regulated network business.

**Ring-fencing** - We need to fully comply with the AER's Ring-fencing guideline by 1 January 2018. The guideline requires separation of information, costs, people, and brands between a number of services. We may seek waivers from some requirements, where this provides greatest customer benefit.

To achieve our strategic goals as well as comply, we will establish a new complementary services business during 2017-18. We will provide services that are within our capability and supported by a flexible and agile structure, and with a long-term view in mind.

## 9.Strategic programs

Our TasNetworks Transformation Roadmap identifies business-wide programs that we need to focus on to achieve our strategic goals. We will monitor our progress against our agreed performance measures and targets.

Our transformation programs are set out in the table below.

### TasNetworks transformation roadmap programs

| Program                                     | Overview  |
|---|---|
| Voice of the customer                       | The voice of the customer program helps us to understand our customers, and make them central to all we do. It is building TasNetworks as a trusted service provider, where customers feel listened to and cared about, and where their interactions are made easier. Understanding customer preferences helps us focus and prioritise our activities.  |
| Network and operations productivity         | The network and operations productivity program drives productivity and continuous improvement in delivering and managing our electricity and telecommunications network services, including through our field services. While we increasingly focus on enhanced productivity across our field operations, Zero Harm remains our number one business priority.  |
| Electricity and telecoms network capability | Power system security is critical to meeting ongoing energy needs. So, we'll invest in the network, particularly as the system grows more complex, to make sure it remains safe and fit for purpose. For instance, we'll need more sophisticated management, operating and protection schemes for the increased levels of intermittent power generation and customer technologies.<br>We will reduce the need for new network investments by better using asset information, and driving our assets harder - where it is safe to do so. |

| Program   | Overview   |
|---|--|
| Business productivity                                 | <p>The business support services and productivity program is our integrated approach to continuous business improvement. Through greater value chain integration and creating single sources of information, our business can leverage streamlined decision-making processes to build value for our customers and shareholders.</p>  |
| Enabling and harnessing new technologies and services | <p>Our program for enabling and harnessing new technologies and services has been developed to meet the evolving needs of our customers; both now and into the future. The program is being driven by changes to the way that our customers use our network, including the uptake of new energy technologies.</p> <p>Establishing a complementary services business will be a key deliverable in the 2017-18 financial year.</p> |
| Predictable and sustainable pricing                   | <p>The predictable and sustainable pricing program reflects feedback from our customers that they want lower network prices, clearer price paths and lower network price volatility from year to year. We continue this long-term program with a range of initiatives to support better price signals and lower overall customer costs.</p>  |
| Workforce of the future                               | <p>Our workforce of the future program aims to identify our resource and capability requirements as we adjust to the new energy paradigm. Investing in our people – including through our culture and engagement processes – will be crucial for successfully managing rapid organisational change.</p>  |

## 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                                | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|--|---------|---------|---------|---------|---------|
| Number of Life Safe observations <sup>1</sup>      | ≥ 2,000 | ≥ 2,050 | ≥ 2,100 | ≥ 2,150 | ≥ 2,200 |
| Number of significant incidents <sup>2</sup>       | ≤ 8     | ≤ 8     | ≤ 7     | ≤ 6     | ≤ 5     |
| Number of reportable incidents <sup>3</sup>        | ≤ 12    | ≤ 12    | ≤ 11    | ≤ 10    | ≤ 9     |
| Percent leadership zero harm interactions          | 100%    | 100%    | 100%    | 100%    | 100%    |
| Lost time injury frequency rate (12 month rolling) | 0       | 0       | 0       | 0       | 0       |

<sup>1</sup> Life Safe is an important proactive safety initiative under TasNetworks' Zero Harm program, encouraging our people to make observations that support safe behaviours and outcomes.

<sup>2</sup> Significant incidents - incident with an actual or credible potential for major or severe health, safety, or environment consequences as defined by TasNetworks' risk matrix.

<sup>3</sup> 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 we care for our customers and make their experience easier. We aim to increase customer satisfaction and deliver lowest sustainable prices.

| Performance measure                            | 2017-18  | 2018-19  | 2019-20  | 2020-21  | 2021-22  |
|--|--|--|--|--|--|
| Customer net promoter score <sup>4</sup>       | +10  | +12  | +14  | +16  | +18  |
| Customer complaints – volume                   | <2,500   | <2,400   | <2,300   | <2,200   | <2,100   |
| 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 |

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<sup>4</sup> Customer net promoter score is a measure of customers' willingness to promote TasNetworks. The number of detractors (scores 0-6) are subtracted from the number of promoters (scores 9-10) to determine the NPS. The range extends from -100 to +100.



## 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 and organisational capability.

| Performance measure  | 2017-18   | 2018-19                         | 2019-20                         | 2020-21                         | 2021-22                         |
|----------------------|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Constructive culture | All four constructive styles above the 25 <sup>th</sup> percentile and all eight aggressive and oppositional styles below the 50 <sup>th</sup> percentile | Improvement over 2017-18 result | Improvement over 2018-19 result | Improvement over 2019-20 result | Improvement over 2020-21 result |
| Engaged people       | 56%   | 60%                             | 64%                             | 68%                             | 72%                             |

## Our business

Our goal is to manage our assets to deliver safe and reliable 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   | 2017-18                                  | 2018-19                                  | 2019-20                                  | 2020-21                                  | 2021-22                                  |
|---|--|--|--|--|--|
| 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 |
| 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 |

### Sustained cost efficiency

| Performance measure          | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|------------------------------|---------|---------|---------|---------|---------|
| *Operating expenditure (\$m) | ≤152.6  | ≤150.5  | ≤154.3  | ≤158.2  | ≤162.1  |
| Capital expenditure (\$m)    | ≤206.3  | ≤199.3  | ≤198.7  | ≤215.5  | ≤238.6  |

\*Operating expenditure excludes Feed in Tariff

## Field works program

| Performance measure             | 2017-18                  | 2018-19                  | 2019-20                  | 2020-21                  | 2021-22                  |
|---------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Delivery of field works program | > 95% of scope delivered | > 95% of scope delivered | > 95% of scope delivered | > 95% of scope delivered | > 95% of scope delivered |

## 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                                    | 2017-18  | 2018-19  | 2019-20  | 2020-21  | 2021-22  |
|--|----------|----------|----------|----------|----------|
| EBITDA (\$m)   | ≥ 305.3  | ≥ 323.0  | ≥ 337.6  | ≥ 351.3  | ≥ 364.7  |
| Profit after tax (\$m)                                 | ≥ 39.7   | ≥ 43.9   | ≥ 48.7   | ≥ 51.4   | ≥ 54.1   |
| Return on assets (%)                                   | ≥ 4.3%   | ≥ 4.4%   | ≥ 4.5%   | ≥ 4.5%   | ≥ 4.6%   |
| Return on equity (%)                                   | ≥ 4.3%   | ≥ 4.6%   | ≥ 4.7%   | ≥ 4.7%   | ≥ 4.6%   |
| Regulated services return consistent with AER decision | Achieved | Achieved | Achieved | Achieved | Achieved |
| Government guarantee fee (\$m)                         | ≥ 7.9    | ≥ 7.7    | ≥ 7.7    | ≥ 8.0    | ≥ 8.3    |
| Forecast Income tax equivalent payments (\$m)          | ≥ 47.6   | ≥ 23.5   | ≥ 27.8   | ≥ 36.8   | ≥ 38.2   |

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| Returns as owners - Dividends (\$m)     | ≥ 74.9 | ≥ 27.9 | ≥ 32.2 | ≥ 36.4 | ≥ 38.4 |
| Returns as owners - debt transfer (\$m) | -      | -      | -      | -      | -      |
| Total Returns to Government             | 130.4  | 59.1   | 67.7   | 81.2   | 85.0   |

**Unregulated network services**

| Performance measure | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---------------------|---------|---------|---------|---------|---------|
| Revenue (\$m)       | ≥ 10.5  | ≥ 10.7  | ≥ 10.9  | ≥ 11.1  | ≥ 11.4  |
| EBITDA (\$m)        | ≥ 1.9   | ≥ 1.9   | ≥ 2.0   | ≥ 2.0   | ≥ 2.1   |

**Complementary services**

| Performance measure | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---------------------|---------|---------|---------|---------|---------|
| Revenue (\$m)       | ≥ 20.3  | ≥ 20.9  | ≥ 21.5  | ≥ 22.2  | ≥ 22.8  |
| EBITDA (\$m)        | ≥ 12.7  | ≥ 13.0  | ≥ 13.1  | ≥ 13.4  | ≥ 13.6  |



## 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. Further details on these key risks are included at Appendix D. Risks are rated as per the consequence and likelihood tables presented in Appendix D. 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          |

| Risk                                  | Description   |
|---------------------------------------|---|
| Revenue Resets                        | Revenue resets do not deliver revenue allowances that reflect the proposal and support stakeholder expectations   |
| 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   |
| 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.   |
| Ring Fencing Guidelines               | Non-compliance with Ring-fencing Guideline and impact on unregulated revenue and our brand.   |

## 12.Conclusion

This Corporate Plan outlines the steps required to position our business to successfully navigate the changes occurring within our industry. Our business has a strong track record of responding to similar challenges including:

- Delivering strong 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 – demonstrated through the AER's unprecedented acceptance of our transmission and distribution revenue proposals
- Being a leader in connecting large quantities of asynchronous renewable generation and interconnection 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**

