

# Tasmanian Networks Pty Ltd (TasNetworks) Statement of Corporate Intent 2021-22

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2 November 2021

The TasNetworks Statement of Corporate Intent is our annual performance agreement with our Shareholders. It details the performance measures used to track our progress against our plans for the 2021-22 reporting period.



# 1. Overview

Tasmania is entering a new era of renewable energy action. The State of Tasmania has clearly established its ambition to be a renewable energy powerhouse. A target of 200% renewable energy by 2040 has been legislated. There are significant projects currently in progress including large scale windfarm and solar developments, Battery of the Nation, further electricity transmission interconnection with mainland Australia (Project Marinus) and a green hydrogen manufacturing industry in Tasmania.

The electricity transmission system is central to delivering all of these projects and in turn delivering on the State's futuristic renewable energy and industry development ambitions.

TasNetworks is the owner of the electricity transmission and distribution systems in Tasmania and therefore a key enabler and critical to unlocking the potential for the State to meet the challenges ahead. TasNetworks is embracing this challenge.

## 2. Strategic Direction

### 2.1. Company Overview

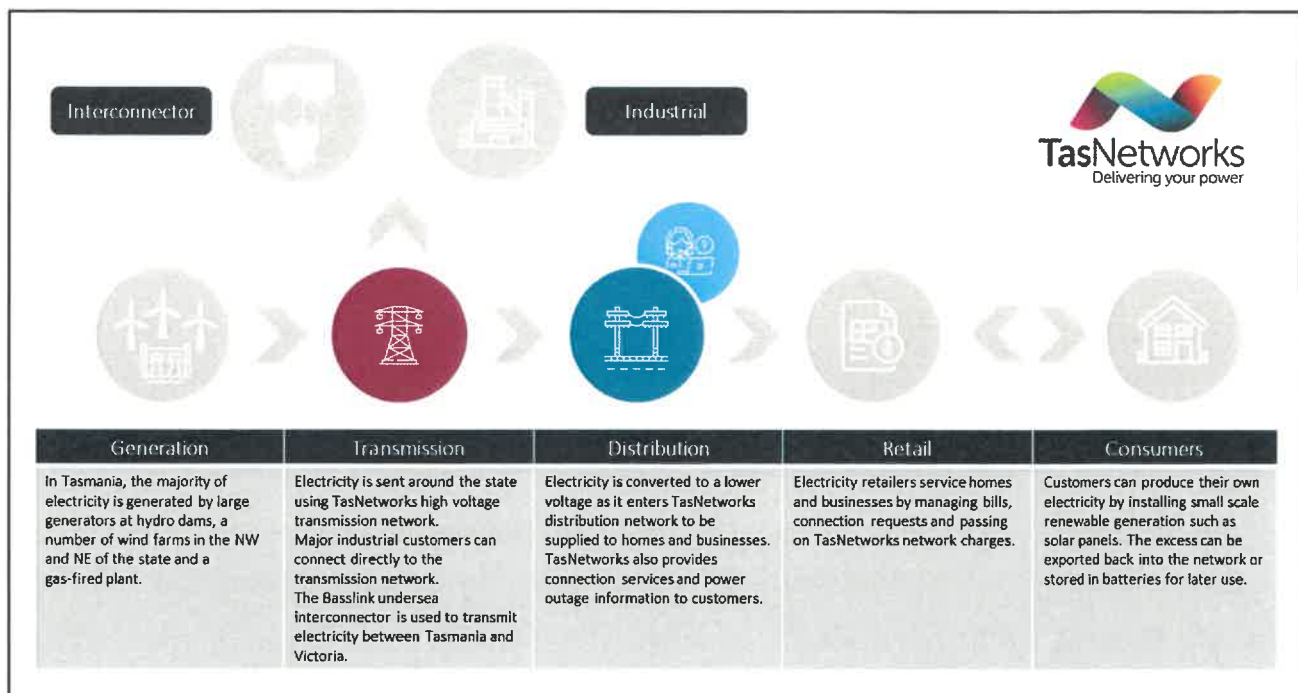
TasNetworks owns, operates and maintains the electricity transmission and distribution network in Tasmania. We deliver a safe, cost-effective and reliable electricity supply to more than 295,000 residential, commercial and industrial customers. We facilitate the transfer of electricity between Victoria and Tasmania via Basslink, the sub-sea electricity interconnector. We also provide telecommunications and technology services. We are owned by the State of Tasmania and operate as a commercial business with assets of over \$3 billion.

Our responsibilities include:

- Keeping our people and our customers safe
- Tasmanian jurisdictional planner in the National Electricity Market
- Maintaining and replacing network infrastructure to ensure a reliable service for our customers
- Connecting new customers to the network (including small and large-scale generators)
- Investing in the network to support capacity growth
- Operating the network on a day-to-day basis, including all power outage restoration
- Maintaining the public lighting system
- Recording and providing regulated meter data to retailers
- Providing telecommunications, data centre and information technology services to customers, including those in the Tasmanian electricity supply industry.

We have two administrative offices: one in the Hobart suburb of Lenah Valley and the second in the Launceston suburb of Rocherlea. Our field-based team members are located at major resource centres at Cambridge, Rocherlea, Devonport and Burnie; substations in Trevallyn and Glenorchy; and at smaller regional depots known as response centres. Our Training Centre is located at Mornington, near Hobart.

Figure 1 – TasNetworks Transmission and Distribution services in Tasmania's electricity supply industry



The subsidiaries of Tasmanian Networks Pty Ltd are TasNetworks Holdings Pty Ltd (non-trading subsidiary), FortyTwo24 Pty Ltd (**42-24**), Marinus Link Pty Ltd (**MLPL**) and Large Scale Renewables Pty Ltd (**LSR**).

42-24 provides telecommunications, information technology and data centre services to Tasmanian customers, including those in the Tasmanian electricity supply industry. This business is developing new growth opportunities within the current services and also opportunities to provide unregulated energy services.

MLPL was established with a broad remit to allow for the Project Marinus feasibility and business case; to take any steps necessary to establish the interconnector; to build own or operate the interconnector; and to undertake any other associated activity. The proposed interconnector, known as Marinus Link, is a 1500 megawatt capacity undersea and underground high voltage direct current electricity and telecommunications connection that will link Tasmania’s renewable energy generation and storage resources to Victoria and the rest of NEM. MLPL is presently used as the vehicle for land access and acquisitions for Marinus Link and is also the proponent for environment and planning approvals for Marinus Link.

LSR was established to support the growth of TasNetworks’ unregulated transmission connection services business, facilitating large scale generation and other large industry connections to our network. Once fully operational, contestable transmission connection services will be provided through LSR to provide customers with a ‘one stop shop’ for large connections. Services to be provided include professional services to support project development (such as preliminary design) as well as build, own and operate asset services.

## 2.2. Operating Environment

Improvements in technology, more choice, and greater control over energy are driving radical change to electricity systems. Globally, there is more intense pressure for cleaner energy, lower energy costs, and safe, reliable and resilient energy systems. We are already preparing for these changes and are engaged in a number of innovative projects of state and national significance, including the progress of Marinus Link to a Final Investment Decision (**FID**). Together with Battery of the Nation, Marinus Link and North West Transmission

Developments will support Australia’s transition to a low emissions future by delivering the low cost, reliable, and clean energy that our customers expect.

Our industry leading projects are helping to ensure we deliver optimal outcomes for Tasmanian energy users, today and into the future. As we embark on our post-pandemic economic recovery efforts as a State, the time has never been more opportune to play a key role in shaping Tasmania and Australia’s future electricity market. Some of the operating environment factors shaping our future plans are outlined below.

## 2.2.1. Economic Environment

TasNetworks expects that Tasmania’s continuous strong economic performance will drive demand for our services, underpinned by the clear post-pandemic economic recovery efforts as outlined by the Tasmanian Premier’s Economic and Social Recovery Advisory Council.

Although the future demand from our large industrial and other business customers is still uncertain as they remain exposed to international macro-economic conditions, Tasmania’s economic recovery efforts and diversification (such as establishing a green hydrogen economy) paints a positive picture for our largest industries. Demand for connecting to our distribution network is strong with new dwelling starts more than 23.5 per cent above the decade-average.

The sustained low interest rate environment in Australia will result in lower regulated rates of return for 2021 to 2026, impacting returns to shareholders but providing low electricity network charges for our customers. TasNetworks does not expect interest rates to increase in the short term due to the long-term high unemployment rate, below target inflation, and the efforts of the Reserve Bank of Australia to stimulate credit growth.

In accordance with the Tasmanian Government’s revised Buy Local Policy to support Tasmanian businesses in response to the economic impacts of the COVID-19 pandemic, TasNetworks has amended its internal Procurement Policy to incorporate and reflect the preferred trade terms and stronger Buy Local assessment criteria of 25 per cent.

## 2.2.2. Customers

The COVID-19 pandemic has led to increasing levels of household electricity debt across Australia. Whilst keeping Tasmania’s historically poor economic and socio-economic outcomes in mind, we continuously strive to limit upward pressures on electricity prices for our customers, and will continue to explore new ways to involve our customers in pricing considerations, while moving towards more cost-reflective pricing.

Our customers continue to adopt a range of new technologies related to energy services across the electricity generation – consumption spectrum. Tasmanians continue to install rooftop solar and household battery systems. More than 19,500 residential customers and 840 businesses in Tasmania now have rooftop solar. More than 260 households and 28 businesses in Tasmania have battery storage systems to store electricity generated by their rooftop solar.

As the uptake of distributed energy resources (**DER**) such as rooftop solar, batteries and electric vehicles increase, we will be looking for new ways to make it easier for customers to connect their DER to our network. We are enhancing our customer connection processes to incorporate easier embedded generation applications, whilst focusing on reducing connection lead times and completing connections on our distribution system on time and within cost.

Electric vehicle (**EVs**) sales are also on the increase in Tasmania. The Australian Energy Market Operator (**AEMO**) is forecasting that between approximately 2,500 and 8,000 EVs will be on Tasmanian roads by 2025. We continue to monitor the uptake of EVs and the potential future impact on our distribution network through our TasNetworks EV Strategy, and EV trials with other distribution network service providers and key stakeholders.

### 2.2.3. Technology

The protection of the Australian electricity network against cyber threats remains at the forefront of ensuring security and reliability of electricity supply. Through establishment of the Australian Energy Sector Cyber Security Framework, AEMO is strongly recommending higher levels of maturity in managing cyber security risks. TasNetworks has developed its cyber security strategy and is implementing a comprehensive approach to cyber security risk management in order to maintain and sustain an improved security capability that is consistent with TasNetworks' regulatory obligations.

The continued uptake of DER is presenting unique challenges and opportunities to better manage our networks. We are investigating and developing our capabilities as future Distribution System Operator in order to incorporate an increasing amount of DER safely into our network, while maintaining system security and reliability and creating value for our customers who own DER, mostly through our Future Distribution System Vision and Roadmap initiative.

As battery storage units across our distribution network increase due to lower costs of battery technology, it will lead to opportunities in the use of Virtual Power Plants and other demand side participation mechanisms on our distribution network. This will enable us to firm up the variable nature of distributed and large-scale renewable generation on our future distribution network.

We are adopting various technologies with a focus on improving business performance and providing value added services. Our Enterprise Resource Planning system, the System Application and Product (SAP), is now central to our operations and we are continuing to work on getting the best out of our investments. We are currently focusing on making SAP easier to use for our users, leveraging our platform to improve our rolling program of work and human resource processes, and improving our overall system and business architecture.

Advanced digitalisation is enabling us to improve our network operations such as automated fault restoration, meaning we can enable faster restoration of power to our customers. We have set up an investment timeline through our Technology Roadmap that enables us to improve our smart grid network capabilities over the next three years. We are also trialing newer technologies to improve transmission and distribution network monitoring and management, therefore increasing the operational visibility for network planning and asset management purposes.

### 2.2.4. Regulatory Environment

The National Electricity Market (NEM) is transitioning due to multiple driving forces that include regulation, supply mix, technology, competition and customer demand. In particular, the regulatory changes are being made for the delivery of reliable supply of energy, keeping costs as low as possible, lowering emissions and providing a sustainable and secure energy industry to market participants. However, the national energy market environment is fracturing with individual states implementing their own approaches to facilitate investment in clean technologies, with NSW and Victoria recently announcing ambitious local investment proposals, backed by state funding. These states anticipate significant coal powered generation closure in their regions, and consider that the AEMO Integrated System Plan and the regulatory investment test for new transmission is too slow and will not deliver required investments in a timely way. These governments are investing their own funds to stimulate an accelerated energy transition focused on local solutions. This interventionist approach may well impact future developments in Tasmania, particularly if Victoria does not consider Marinus Link to be a Victorian-Tasmanian joint transmission project (recognising that over a billion dollars of Marinus Link investment is in Victoria).

To meet customer timeframes we are likely to be obliged to run regulatory processes in parallel to progressing investment works; for example transmission upgrades required to facilitate large scale hydrogen production in Tasmania may need to commence ahead of receiving the required regulatory approvals.

Meanwhile, TasNetworks is working to ensure our customers and our business will benefit from proposed reforms through our submissions to the regulatory process.

The key areas of regulatory reform that are underway and are likely to have significant impact to Tasmania and TasNetworks include:

- The AEMO Integrated System Plan (ISP) sets out where and when network investment needs to happen to support the large amount of new generation connecting to the grid in the coming years. The risk is when jurisdictional interests pushed by a NEM region to reprioritise projects undermines the ISP and the efficient development to meet customer needs at lowest cost.

TasNetworks is working to ensure the regulatory reform framework for actioning the ISP will support the interests of customers in Tasmania and the broader NEM in the delivery of the Marinus Link interconnector and supporting renewable generation. In a related piece of work, TasNetworks is working with the State Government to progress interconnector pricing reform, to ensure that Marinus Link and the supporting North West Transmission Developments are paid for by customers across the NEM in a fair and reasonable way.

- The Energy Security Board (ESB)'s post 2025 work continues with four areas of focus.
  - Resource adequacy mechanisms and ageing thermal transmission – ensuring the right mix of resources is available to the system through the transition to deliver reliable supply to customers
  - Essential system services and scheduling and ahead mechanisms – ensuring those resources and services required to manage the complexity of dispatch and deliver secure supply to customers are available when needed
  - Demand side participation – progressively unlock the potential of the demand side to compete in the wholesale market and deliver local benefits while maintaining system security
  - Transmission and access – providing the network to meet future needs, arrangements for early implementation of REZs, and longer-term arrangements to ensure efficient use of the national network. This includes the Australian Energy Market Commission's Coordination of Generation and Transmission Investment (**CoGaTI**) Review.

Whilst most of the issues are concentrated in the mainland NEM regions, TasNetworks will continue to engage with the post 2025 market design reform process to protect the interests of Tasmanian customers and our business.

- To ensure system resilience, AEMO has identified a shortfall of inertia in the Tasmanian electricity network and TasNetworks is obliged to ensure sufficient system strength and inertia. TasNetworks is looking for ways to minimise the additional cost that will fall on our customers.
- The legislative framework which allows for Standalone Power Systems (SAPS) is being established. The next step in the process is for TasNetworks to work with the Tasmanian State Government to opt-in to the Distribution Network Service Provider (**DNSP**) led SAPS framework to ensure the regulations are fit for the Tasmanian context.
- The AER continues to review the ring-fencing arrangements for transmission and distribution network service providers. This review may potentially impact on the ability of TasNetworks to perform unregulated work such as SAPS and transmission connections. TasNetworks seeks to advocate for the delivery of our services for the best customer outcomes.
- A review of the Electricity Supply Industry 1995 Act is proposed for 2021. This will give the opportunity for TasNetworks to bring the legislation up to date and recognise new technology and societal expectations and well as continue the reforms to the industry started in 1995.
- The AER is undertaking a Rate of Return Review. Regulated rates of return for electricity networks are already at historically low levels. Any negative movements in rate of return parameters will result in lower regulated revenue and lower shareholder returns between 2025 and 2029. TasNetworks is working with Energy Networks Australia

to ensure the rate of return set by the AER delivers low prices to customers while also ensuring there is sufficient investment in the network to safely and reliably deliver electricity.

- The Tasmanian Renewable Energy Action Plan (TREAP) is now in place after the Energy Co-ordination and Planning Amendment (Tasmanian Renewable Energy Target) Act 2020 was passed by Parliament in November 2020. TasNetworks has taken note of the following five key important issues addressed in the TREAP:
  - The legislated Tasmanian Renewable Energy Target of 200 per cent,
  - The development of a renewable hydrogen industry as per the Tasmanian Renewable Hydrogen Action Plan,
  - Engaging with local communities as best practice when large scale renewable energy developments are planned to secure community support,
  - Advancing Project Marinus under the Bilateral Energy and Emissions Reduction Agreement with the Australian Government, and
  - Ensuring that Tasmanian workers have access to the skills and training that an expanding renewable energy sector will require.

## 2.2.5. Climate Change

Climate change poses a significant challenge for TasNetworks in many ways. Higher temperatures affect both demand for and supply of power. Higher air temperature increases affect the thermal rating of transmission and distribution equipment and the management of system inertia when generation is affected. Severe weather events can cause equipment to fail and break that can lead to bushfire starts. As the occurrence and intensity of natural disasters including bushfires and floods increase, so does the vulnerability of the grid which can lead to unprecedented damage to electrical infrastructure.

Our long-term planning efforts and asset management strategies are heavily influenced by a range of possible impacts from climate change. TasNetworks may need to consider more robust equipment to better withstand higher temperatures and fires, but enhancement or replacement of electrical infrastructure alongside increasingly expensive and tightening insurance premiums have knock-on effects, such as increases in power prices. With a focus on strengthening NEM-wide resilience against extreme weather events including wind droughts (still wind conditions for a week or more), hydro droughts, dark storm clouds that limit solar generation output, storm events and bushfires, the AEMO 2020 ISP forecasts the overall transmission system requirements for the NEM which includes a series of transmission upgrades and more dispersed interconnection between states in an attempt to strengthen system-wide resilience.

In line with shifting societal attitudes, TasNetworks continues to place societal responsibility at the forefront of our planning and strategy - that includes planning for climate change and mitigation plans that demonstrate commitment to ensuring our assets remain resilient to changes in the climate.

## 2.3. Strategic direction of the business





### 3. Performance Agreement

Our performance measures and targets represent our present assessment of progress against the achievement of our strategic goals. We will continue to assess our performance measures and targets from changes to our operating environment including continual impacts from COVID-19 that is still present globally and in Australia.

Our performance measures and productivity targets have been set with a focus on improvement – except for network reliability where we aim to maintain current overall network service performance whilst bringing poorly performing communities up to regulated performance standards. We recognise that it may not always be appropriate to improve performance above target if there is not sufficient benefit to our customers.

#### 3.1. Safety and Wellbeing

TasNetworks continues the implementation of its Safety and Wellbeing Strategy that commenced in 2019–20. The strategy has four pillars: Capable Leadership; Clear Systems & Structures; Continuous Improvement and Innovation; and Capable & Engaged Workforce. The strategy maintains the core aspiration of moving to a safety culture based upon behavioural safety philosophy. Our targets for safety and wellbeing demonstrate our commitment to implement our new approach, lift our level of maturity based on an external maturity model, and improve our current performance levels. We aim to reach our goal of no harm to our people, the public and minimising our impact on the environment.

Performance measure	Target 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
<b>Safety &amp; Wellbeing (S&amp;W) Plan</b>	Lift Safety & Wellbeing maturity to 'Established' level	Maintain	Lift Safety & Wellbeing maturity to 'Advanced' level	Maintain
<b>Total Recordable Injury Frequency Rate (TRIFR)</b>	< 5.5	< 4.5	< 4	Maintain
<b>Significant incidents<sup>1</sup></b>	< 8	< 7	< 5	Maintain
<b>Reportable incidents<sup>2</sup></b>	< 55 <sup>3</sup>	< 49	< 42	< 37

<sup>1</sup> Significant incidents are incidents with an actual or credible potential for major or severe health, safety, or environment consequences as defined by TasNetworks' risk matrix.

<sup>2</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.

<sup>3</sup> The slightly increased target of Reportable Incidents reflect TasNetworks' goal of increased reporting, particularly of oil spills from pole mounted transformers. An improved reporting culture is critical from an environmental maturity step-change perspective.

## 3.2. Our Customers

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

Performance measure	Target 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
Customer net promoter score	> + 12	Trending upwards		
Customer satisfaction	> 7.6	> 7.7	> 7.7	> 7.8
Customer complaints – volume	< 1,950	<1,850	< 1,750	<1,700
Basic distribution connection applications approved in 10 business days or less	100 %	Maintained		
Basic distribution connections completed on time	> 80%	Maintained		
Negotiated distribution customer connections - Construction Phase on time	> 80 %	Maintained		

## 3.3. Our People

Our goal is we keep our people 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	Target 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
Employee engagement	≥ 67 %	Trending upwards		

### 3.4. Our Business

Our goal is to manage our assets to deliver 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 requires us 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	Target 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
Service incentive bonuses earned – transmission and distribution <sup>4</sup> (\$m)	≥ 3.4	Maintain	Maintain	Maintain

#### Sustained cost management

Performance measure	Target 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
Operating expenditure (\$m) <sup>5</sup>	< 172.7	< 174.0	< 179.6	< 188.0
Capital expenditure (\$m) <sup>6</sup>	224.7	216.9	192.0	221.0

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<sup>4</sup> Service incentive bonuses and penalties are set by the AER. To earn a bonus, service levels provided have to be above the previous long-term levels.

<sup>5</sup> Excludes operating expenditure associated with Project Marinus.

<sup>6</sup> Excludes capital expenditure associated with Project Marinus and North West Transmission Development

### 3.5. 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, network outcomes for Tasmanian do not differ based on Government ownership. 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.

#### TasNetworks consolidated performance

Performance measure	Target 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
EBITDA (\$m)	≥ 294.9	≥ 301.7	≥ 307.7	≥ 302.7
Profit after tax (\$m)	≥ 20.1	≥ 28.5	≥ 33.6	≥ 30.0
Return on assets (%)	≥ 3.0	≥ 3.1	≥ 3.1	≥ 2.8
Return on equity (%)	≥ 2.0	≥ 2.7	≥ 3.0	≥ 2.5
Dividends (\$m)	≥ 5.1	≥ 9.8	≥ 18.2	≥ 22.5
Gearing ratio (%) – debt to total assets	< 66.7	< 65.1	< 64.3	< 63.5

### Large unregulated connections

Performance measure	Target 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
Revenue (\$m)	≥ 4.9	≥ 4.9	≥ 8.4	≥ 8.6
EBITDA (\$m)	≥ 3.3	≥ 3.1	≥ 5.9	≥ 6.1

### Fortytwo24 Pty Ltd (includes competitive telecommunications, data centre and IT services)

Performance measure	Target 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
Revenue (\$m)	≥ 22.3	≥ 26.1	≥ 31.1	≥ 36.1
Profit after tax	≥ 1.1	≥ 3.6	≥ 6.0	≥ 6.0

### Project Marinus

Performance measure	Target 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
<b>Project milestones</b>	Continue activities in the Tender Preparation sub-phase of the Design and Approvals (D&A) phase, supporting readiness to pass the Tender Readiness Decision Gate (targeted for August 2022)	Pass the Tender Readiness Decision Gate  Progress activities within the Business Case Confirmation sub-phase of the D&A phase	Progress activities in the Business Case Confirmation sub-phase of the D&A phase to support progress to a Final Investment Decision (FID) (April 2024)	Pending FID, commence Manufacturing, Construction and Commissioning phase

The Design and Approvals (D&A) phase has commenced. Achievement of milestones is subject to funding certainty for the entire D&A phase and confirmation of ownership arrangements of Marinus Link; shareholders have indicated advice on these matters should be provided by the first quarter of 2022.

## DIRECTORS STATEMENT OF CORPORATE INTENT AND AGREEMENT OF SHAREHOLDING MINISTERS

The Board of Tasmanian Networks Pty Ltd agrees to provide the Shareholding Ministers with financial and other information as set out in this Statement of Corporate Intent.

In signing this Statement of Corporate Intent the Board of Tasmanian Networks Pty Ltd commits to the targets proposed for the 2021-22 financial year, to the extent that those targets are within TasNetworks' control.

This Statement of Corporate Intent has been agreed between:



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Dr Dan Norton AO  
**Chairman**  
Tasmanian Networks Pty Ltd  
On behalf of the Board

**AND**

Shareholding Ministers



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Hon Guy Barnett MP  
**Minister for Energy**



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Hon Peter Gutwein MP  
**Premier**  
**Treasurer**