

snowyhydro

Statement of Corporate Intent FY 2016-2017

snowyhydro

red energy

LUM

DIRECT CONNECT
ALWAYS MOVING EAST



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INTRODUCTION

The Snowy Mountains Hydro-Electric Authority was corporatised on 28 June 2002 under the *Snowy Hydro Corporatisation Act 1997* to establish Snowy Hydro Limited. The Snowy Hydro Limited Constitution (*Constitution*) prescribes the responsibilities of the Board and Snowy Hydro's reporting obligations, subject to the *Corporations Act* (Cth) 2001.

Snowy Hydro's shareholders are the New South Wales (58 per cent), Victorian (29 per cent) and Commonwealth (13 per cent) governments, with each shareholder having equal voting rights.

This Statement of Corporate Intent 2017 for Snowy Hydro has been prepared to satisfy the requirements under our *Constitution*. It sets out who we are, what we do and how we do it and encompasses Snowy Hydro and its subsidiaries - Red Energy, Lumo Energy and DirectConnect.

This Statement of Corporate Intent has been approved by our shareholders.

CORPORATE PURPOSE AND OBJECTIVES

Since corporatisation in 2002, Snowy Hydro has grown beyond the Snowy Scheme and now operates a growing and profitable retail energy, wholesale energy risk management and power generation business.

We combine the power of the mighty Snowy Scheme with gas and diesel fired peaking generators to deliver a flexible and reliable mix of energy to our customers every day. We have 15 power stations, generate 4500 Gigawatt hours (GWh) on average per annum and have 5480 Megawatts (MW) of generating capacity across New South Wales, Victoria and South Australia.

We've become the fourth largest retailer in the NEM by investing in growing our customer base, modernising our generation infrastructure, building and acquiring more generating capacity where we need it and developing our workforce of more than 1700 employees.

Every day we provide fast, clean electricity and gas to households and businesses across the country. Our retail companies Red Energy and Lumo Energy pride themselves on customer satisfaction and they service one million gas and electricity account holders. We also own and operate DirectConnect Australia, a leading utilities connection provider, which provides moving related services to tenants and homeowners across Australia, including connecting electricity and gas.

Our corporate purpose is to 'delight our customers with service, backed by the mighty Snowy'. In doing so we create value for shareholders in a manner that respects our role in:

- owning and operating the Snowy Scheme;
- delivering water inland to the River Murray and Murrumbidgee River;
- generating and retailing electricity in the NEM;
- being a good corporate citizen in the regions where we operate; and
- continuing to be a major employer.

Snowy Hydro aims to:

- Be a leading industry participant in the NEM, delivering premium financial returns to shareholders;
- be an employer of choice;
- be a best practice participant in the NEM; and
- provide a safe workplace for our people.

ETHICS & VALUES

Snowy Hydro expects all Directors, employees and contractors to comply with both the letter and the spirit of the law. We demand high standards of integrity, transparency and professionalism in all of Snowy Hydro's dealings.

Above all, we strive to be a safe, ethical and environmentally responsible company. To foster this, Snowy Hydro and its subsidiaries uphold the following corporate values:

SAFETY : Safety is always our number one priority.

DECENCY : We treat others the way we'd like to be treated.

COURAGE : We speak up and act for what's important.

OWNERSHIP : We take pride in our work and own our choices.

AGILITY : We are adaptable and embrace change

TEAMWORK : We help each other succeed through support and trust.

ENERGY OPERATIONS

Snowy Hydro owns and operates the Snowy Scheme which comprises an integrated system of 16 large dams, seven major tunnels and nine separate generating/pumping facilities located predominantly in the Kosciuszko National Park in New South Wales.

The Snowy Scheme plays a key role in reducing the impact of drought for the River Murray and Murrumbidgee River and generating electricity to meet peaks in electricity demand.

The Snowy Scheme is the cornerstone of Snowy Hydro's operations and, through its fast-start and highly reliable generating capacity, underpins our ability to earn revenue from taking on and managing the energy risk of other participants in the NEM.

Snowy Hydro has developed a robust risk management framework that enables us to optimise the financial returns from risk management while maintaining an acceptable overall risk exposure. Traditionally, customers for this risk management service have been other energy retailers and generators. However, as the NEM has integrated and consolidated, demand from these customers has diminished.

Today, an increasing proportion of Snowy Hydro's generating capacity is used to manage the electricity market risk associated with Snowy Hydro's growing retail business. Snowy Hydro owns Red Energy and Lumo Energy, making us the fourth largest energy retailer in Australia with almost one million electricity and gas customers across Victoria, New South Wales, South Australia and Queensland.

Red Energy and Lumo Energy continue to be standouts in the energy industry for their superior focus on customer experience and they are both consistently ranked number one and two in the industry in terms of Net Promoter Scores. Red Energy also won the prestigious 2015 Roy Morgan Customer Satisfaction Awards for both electricity and gas provider of the year.

The combined installed capacity of our generation portfolio of hydro, gas and diesel fired generators is approximately 5,500MW, making us the largest peak generator, and the fourth largest generator in the NEM by installed capacity.

Snowy Hydro has increased its generation portfolio through improvements to the Snowy Scheme and the construction and acquisition of gas and diesel fired power stations. From its original installed generating capacity of 3,765MW, the Snowy Scheme is now capable of generating in excess of 4,100MW following capacity upgrades at a number of the Scheme's power stations.

Snowy Hydro also owns and operates open cycle gas-fired generators in the Latrobe Valley (300MW) and at Laverton North (320MW) in Victoria, and in New South Wales at Colongra (670MW), and diesel peaking generators in South Australia (totalling 130MW).

Snowy Hydro, including its subsidiaries, is a major employer in Victoria and regional New South Wales with more than 1,700 staff.

In addition, Snowy Hydro can earn revenue through the provision of ancillary services to the Australian Energy Market Operator and, from time to time, products sold to irrigators to manage water supply reliability in the Murray and Murrumbidgee Valleys.

WATER OPERATIONS

The operation of the Snowy Scheme is prescribed under the (Licence) administered by the NSW Government. The Licence regulates how the water is used in the Snowy Scheme and imposes a number of obligations on Snowy Hydro.

Snowy Hydro does not own any water. The Licence allows Snowy Hydro to collect, divert, store and release water in the Snowy Catchment Area. The Licence obligates Snowy Hydro to make certain minimum water releases each year to the Murray and Murrumbidgee Rivers and environmental releases to the Snowy and montane Rivers.

The Licence also sets out water accounting and reporting procedures for Snowy Hydro.

DIVIDENDS

Snowy Hydro aims to pay the highest possible dividends having regard to our ability to create and protect shareholder value and maintain a strong investment grade rating.

In paying dividends the Snowy Hydro Board takes into consideration the preference of shareholders for predictable dividends.

For planning purposes it is considered that a dividend payout ratio of 70 per cent or more of Net Profit After Tax (NPAT) on a five year average basis is a suitable dividend payment target.

The shareholders acknowledge that dividends will be calculated as a proportion of NPAT before the adjustment for the fair value of derivatives, as required by the accounting standards.

Dividends are paid twice annually.

CREDIT RATING

Maintaining a strong investment grade credit rating is key to Snowy Hydro's commercial success. Our business model of providing risk management products to other energy market participants is underpinned by our strong investment grade credit rating, as it is a key measure of our creditworthiness and our ability to honour the contracts covering market risks we take on.

ACCOUNTABILITY & REPORTING

Snowy Hydro's shareholders are the State of New South Wales, the State of Victoria and the Commonwealth of Australia. While each has different shareholdings, each shareholder has equal voting rights.

Our *Constitution* places accountability on the Board to manage the business of Snowy Hydro, and in doing so, the Board may exercise all powers of Snowy Hydro, subject to the *Corporations Act 2001 (Cth)* and the *Constitution*. The *Constitution* prescribes certain circumstances where the Board is required to either consult with shareholders or seek shareholder approval.

Our *Constitution* also prescribes Snowy Hydro's reporting obligations. Snowy Hydro is committed to a high standard of shareholder communication and strives to report to shareholders, in a timely manner, all information reasonably required by shareholders to make informed decisions.

PERFORMANCE

Financial Measures

Snowy Hydro aims to deliver premium financial returns to shareholders.

Due to their commercially sensitive nature, financial forecasts have not been included in this *Statement of Corporate Intent*. The Company's financial performance is made public each year in the annual financial statements.

Non-Financial Measures

Snowy Hydro monitors key corporate non-financial performance measures as follows:

Measure	Goal
Fatalities. In the event of a fatality no performance bonuses are paid and this sum is donated to the family of the deceased or nominated charity	0
Significant injury frequency rate for employees (generation and retail) and supervised contractors (number per million hours worked)	< 2.4
Customer satisfaction - retail (Net Promoter Score)	Industry Leading
Compliance with the Snowy Water Licence	100%
Publicly reportable environmental licence breaches (number of)	0
Hydro generator start reliability (% of successfully attempted unit starts)	> 99.45
Hydro generator forced outage factor (% forced MWh loss of unit capability as a percentage of unit rated MWh capacity)	< 0.55
Gas fired generator start reliability (%)	> 96.5
Gas fired generator forced outage factor (%)	<2.0

Water release obligations for the Snowy Scheme are set out in each Annual Water Operating Plan. The Company reports publicly each year on its performance against these obligations.

Accounting Policies

Snowy Hydro's financial statements are prepared in accordance with International Financial Reporting Standards (A-IFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act.