

Statement of Corporate Intent

FY2019



snowyhydro

red
energy

LUMO
ENERGY

**DIRECT
CONNECT**
MAKES MOVING EASY

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INTRODUCTION

The Statement of Corporate Intent 2019 for Snowy Hydro Limited (**Snowy Hydro** or the **Company**) sets out who we are, what we do and how we do it. It encompasses Snowy Hydro Limited and its wholly owned operating subsidiaries comprising the Red Energy, Lumo Energy and Direct Connect Australia businesses.

Snowy Hydro was incorporated on 28 June 2002, when the Snowy Mountains Hydro-Electric Authority was corporatised under the *Snowy Hydro Corporatisation Act 1997*. Snowy Hydro is governed by its Constitution (the **Constitution**), which *sets out* the responsibilities of the Board and Snowy Hydro's reporting obligations, subject to the *Corporations Act* (Cth) 2001 (**Corporations Act**) and the *Public Governance, Performance and Accountability Act* (Cth) 2013 (**PGPA Act**). This Statement of Corporate Intent has been prepared in accordance with the requirements of our *Constitution* and the *PGPA Act*.

Snowy Hydro is 100% owned by the Commonwealth of Australia.

CORPORATE PURPOSE AND OBJECTIVES

Since corporatisation in 2002, Snowy Hydro has significantly expanded its national footprint beyond the Snowy Mountains Hydro-electric Scheme. Today, Snowy Hydro operates a growing and profitable energy retailing, 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. We have 15 power stations, generate 4500 Gigawatt hours (GWh) on average per annum and hold 5483 Megawatts (MW) of generating capacity across New South Wales, Victoria and South Australia. Snowy Hydro's fast start and reliable generation capability plays a pivotal role in the stability and security of the National Electricity Market (the **NEM**), which has become even more critical as we transition to a low emissions economy. Snowy Hydro will support the cost effective and safe integration of increasing amounts of variable renewable energy sources in the NEM.

We've grown into the fourth largest retailer in the NEM by investing in increasing our customer base, modernising our generation infrastructure, building and acquiring more generating capacity where we need it and developing our workforce of more than 1,600 employees.

Every day we provide fast, reliable and clean electricity and gas to households and businesses across the country. Our retail companies Red Energy and Lumo Energy pride themselves on outstanding customer satisfaction and they service over one million gas and electricity account holders. We also own and operate Direct Connect 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 our shareholder 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; and
- continuing to be a major employer in the regions where we operate.

Snowy Hydro aims to be:

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

ETHICS AND VALUES

Snowy Hydro expects all Directors, employees and contractors to comply with both the letter and the spirit of the law. We promote and expect 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 Mountains Hydro-electric Scheme which comprises an integrated system of 16 large dams, seven major tunnels and nine separate generating facilities (two with pumping stations) 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 in 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 over 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 as demonstrated by consistently high Net Promoter Scores. In 2018, Red Energy was awarded the Roy Morgan national Customer Satisfaction Award for Electricity and Lumo Energy awarded the equivalent Roy Morgan award as Gas Provider of the Year. Red Energy also won the Canstar Blue award for most Satisfied Customers for Electricity in New South Wales for the fourth year running, as well as the award for most Satisfied Customers for Gas in NSW and in Victoria.

The combined installed capacity of our generation portfolio of hydro, gas and diesel fired generators is 5,483MW, 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 enhancements 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 around 4,100MW following capacity upgrades to 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 at Colongra (670MW) in New South Wales, and diesel peaking generators in South Australia (totalling 130MW).

Snowy Hydro is planning to achieve Final Investment Decision for its proposed 2000 MW "Snowy 2.0" pumped hydro storage development within the existing Snowy Mountains Scheme in December 2018. Development of the project is subject to demonstrating a satisfactory business case and securing Board and shareholder approval. If approved, construction is planned to commence in 2019 and the development's six generating units progressively commissioned over 2025/26.

Snowy Hydro, including its subsidiaries, is a major employer in Victoria and regional New South Wales with more than 1,600 staff.

In addition, Snowy Hydro earns revenue through the provision of ancillary services to the Australian Energy Market Operator and, from time to time, water assurance 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 *Snowy Water Licence* (the **Licence**) administered by the NSW Government. The Licence regulates how water is used in the Snowy Scheme and imposes a number of obligations on Snowy Hydro. It also sets out water accounting and reporting procedures for 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. It also obligates Snowy Hydro to carry out certain minimum water releases each year to the Murray and Murrumbidgee Rivers, and environmental releases to the Snowy and Montane Rivers.

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 our shareholder for predictable dividends.

For planning purposes, it is considered that a dividend payout ratio of 70 per cent of Net Profit After Tax (**NPAT**) over the medium term is a suitable dividend payment target. .

Snowy Hydro's shareholder acknowledges that dividends will be calculated as a proportion of NPAT before the adjustment for the fair value of derivatives and amortisation of customers on acquisition.

Dividends are paid twice annually.

CREDIT RATING

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

ACCOUNTABILITY & REPORTING

Snowy Hydro's is fully owned by the Commonwealth of Australia.

Our *Constitution* places accountability on the Board to manage the business of Snowy Hydro. In doing so, the Board may exercise all powers of Snowy Hydro, subject to the our *Constitution*, the *Corporations Act* and the *PGPA Act*. The *Constitution* prescribes certain circumstances where the Board is required to either notify, consult with or seek approval from our shareholder. The *PGPA Act* includes notification requirements to our shareholder.

Our *Constitution*, the *Corporations Act* and the *PGPA Act* prescribe Snowy Hydro's reporting obligations. Snowy Hydro is committed to a high standard of shareholder communication and strives to report all information reasonably required by our shareholder to make informed decisions in a timely manner.

RISK MANAGEMENT

Snowy Hydro's Board and management are committed to maintaining a robust and effective risk management framework that proactively identifies and manages risks applicable across the Snowy Hydro Group.

Snowy Hydro's Risk Management Policy sets out Snowy Hydro's objectives for maintaining and continuously improving a strategic and consistent enterprise-wide approach to risk management that is integrated into organisational processes and underpinned by a risk-aware culture.

The Board has ultimate accountability for the management of risks affecting Snowy Hydro and ensuring that effective risk management practices are in place across the business. The Board is assisted in fulfilling these duties by the Audit and Compliance Committee, which monitors the effectiveness of Snowy Hydro's risk identification and management framework. All other Board committees (comprising the Safety, Operations and Environmental Risk, Portfolio Risk, Retail Operations, People and Culture and Snowy 2.0 committees) support the Board in the management of key risk areas including regulatory compliance, energy trading, retail, safety, environmental, operational and people-related risks.

Management is accountable for and has implemented internal controls to identify, evaluate and manage significant risks in relation to Snowy Hydro's business. These internal controls cover regulatory compliance, financial and operational risks as outlined above, and take the form of appropriate financial delegations, financial planning and reporting, compliance with applicable regulatory requirements procurement standards, strategic and operational planning, and internal audit practices.

The effectiveness of the risk management framework is regularly assessed through self-reviews as well as via independent and objective assurance provided by Snowy Hydro's Internal Audit function. Internal Audit operates in accordance with an annual internal audit plan that is tailored to address key internal and external risks applicable to the business. This plan is reviewed and approved annually by the Audit and Compliance Committee of the Board, and audit results are incorporated into the continuous improvement of the risk management framework and supporting controls.

Further assurance is provided via the appointment of an external auditor to audit Snowy Hydro's financial statements.

PERFORMANCE

Financial Measures

Snowy Hydro aims to deliver premium financial returns to its shareholder.

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	0
Total reportable 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* and the *PGPA Act*.