

Statement of Corporate Intent

FY2020

snowyhydro

red[™]
energy 



**DIRECT
CONNECT**

MAKES MOVING EASY

CONTENTS

CONTENTS	2
INTRODUCTION	3
CORPORATE PURPOSE AND OBJECTIVES	4
ETHICS AND VALUES	5
CAPABILITY	5
ENERGY OPERATIONS	6
WATER OPERATIONS	8
DIVIDENDS	8
CREDIT RATING	9
ACCOUNTABILITY AND REPORTING	9
RISK MANAGEMENT	10
PERFORMANCE	10
Financial Measures	
Non-Financial Measures	
ACCOUNTING POLICIES	12

INTRODUCTION

The Statement of Corporate Intent 2020 for Snowy Hydro Limited (**Snowy Hydro** or the **Company**) sets out who we are, what we do and how we do it over the 10 year reporting period from 2020-2029 (**Plan Period**). 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 paragraph 35(1)(b) of 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 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.

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 and other key generating assets;
- delivering water inland to the River Murray and Murrumbidgee River;
- generating and retailing electricity in the National Electricity Market (**NEM**);
- being a good corporate citizen; and
- continuing to be a major supporter of and employer in the regions where we operate.

In meeting our purpose Snowy Hydro aims to be:

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

The Shareholder has issued a Statement of Expectations with the following objectives for Snowy Hydro:

- to develop, operate and maintain the Snowy Mountains Hydro-electric Scheme;
- to own and operate other facilities for the generation of electricity; and
- to participate in wholesale and retail markets for the sale and purchase of electricity and gas, and markets for related contracts and services.

Snowy Hydro meets its purpose and objectives by combining the power of the mighty Snowy Scheme with gas and diesel-fired peaking generators and contracted energy from wind and solar developments to deliver a flexible and reliable mix of energy to our customers. We have 15 power stations, generate 4,500 Gigawatt hours (GWh) of energy on average per annum and hold 5,483 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 NEM, which has become even more critical as we transition to a low emissions economy. Snowy Hydro will continue to support the cost effective and secure integration of increasing amounts of variable renewable energy sources into the NEM.

Almost 70 years ago the first sod was turned for the Snowy Scheme. Over the decades we've grown into the fourth largest retailer in the NEM. Our success has come through 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 brands Red Energy and Lumo Energy pride themselves on outstanding customer satisfaction and service more than one million gas and electricity customers. 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.

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 six 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.

CAPABILITY

Snowy Hydro's people are our greatest asset and we are proud of our successful track record in maintaining and fostering a highly skilled, diverse professional and technical workforce. We conduct regular strategic workforce planning to ensure we have the capacity and capability to achieve the long-term success of the Company in a highly complex and rapidly changing environment. Snowy Hydro also routinely augments our internal skill set through strategic supplier and service partnerships, specialist consultants and contractors.

Snowy Hydro's capability strategy is overseen by a robust corporate governance framework. In particular, the Board People and Culture subcommittee provides advice to the Board on strategic priorities and risks in respect of all areas of human resources to ensure the Company has the requisite capability to achieve its strategic goals and long-term success.

Snowy Hydro attracts highly agile, intellectually curious and intelligent problem-solvers. We pride ourselves on the agility and diversity of thought demonstrated by our workforce, and their ability to think 'outside the box' in identifying and delivering solutions that achieve the best outcomes for the Company. This is increasingly important in the face of a rapidly evolving industry and corporate environment, where innovation, dynamic capabilities and non-traditional approaches are critical to organisational success. Snowy 2.0 has reinforced the

potential and performance of our pipeline of talent, as has the ability and agility of the Company's retail executives to grow their capability over a 10-year period in alignment with the Retail growth strategy.

The Company has demonstrated an excellent track record in relation to its management of Snowy 2.0 to date, having successfully completed all aspects (including technical, commercial and regulatory milestones) of the Feasibility Study and Final Investment Decision phases to a very high standard and in a highly compressed timeframe, on budget and with minimal disruption to the business.

A robust governance and oversight framework has been established for the project, including regular independent external risk reviews. This ensures, among other things, that delivery capability risk is being appropriately managed including via an organisational structure that is fully aligned with the evolving needs of the project, fit for purpose governance processes, and specialist external advisors with global megaprojects experience to support the project team.

Project management is overseen by a highly skilled and diverse project team that brings together Snowy Hydro staff and world leading technical experts with relevant megaproject experience. The engagement of global specialists in construction, engineering, project management, scheduling, financing, environmental planning, safety, risk management and community engagement further strengthens the capability of the project team. The appointment of the principal contractor (a joint venture that combines the expertise of major global players) provides additional experience and capability to deliver Snowy 2.0 and manage associated project risks.

The continuing acquisition, retention and development of "home-grown" talent will be critical given the demand for skills on Snowy 2.0 and future major generation investments coincident with a boom period for Australia's infrastructure, volatile and uncertain energy policy settings and the emergence of automation, robotics and mobile technologies.

Snowy Hydro proactively invests in our future capability through targeted apprenticeships, traineeships, cadetships and graduate programs with approximately 10% of our generation workforce in these programs. We engage with local students to encourage an interest in STEM oriented careers and build a local talent pipeline.

Snowy Hydro also provides ongoing career development opportunities to our workforce through promotions, transfers, secondments or involvement in projects and cross functional teams to ensure we proactively develop the right skills for the future.

Snowy Hydro will continue to ensure that its employee value proposition, a cornerstone of which is a wellbeing program and purposeful, satisfying work, remains one step ahead of the competition to withstand the choices that highly desirable employees will have.

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. This year marks 70 years since the first sod was turned for the Scheme in 1949, and over the decades the Company has gone from strength to strength.

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 clean, 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 is the fourth largest energy retailer in Australia with more than 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. Red Energy was awarded the 2018 Roy Morgan national Customer Satisfaction Award for Electricity, the Canstar Blue award for most Satisfied Customers for Electricity in New South Wales for the fifth year running, as well as the equivalent award for most Satisfied Customers for Gas in NSW. Lumo Energy was also awarded the 2018 Canstar Blue award for most Satisfied Customers for Electricity in South Australia.

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).

To further diversify our energy portfolio, in recent years we have signed long-term offtake agreements with wind and solar developments. In late 2018 Snowy Hydro completed a very successful renewable energy tender process and entered into contracts for 888MW of new wind and solar. Energy procurement of this scale is a game changer for the NEM and set a new low benchmark price for both the raw cost of energy and 'firmed' renewables.

Following Snowy Hydro's Board and Shareholder approval of Snowy 2.0, the first sod was turned on the project with exploratory works getting underway in March 2019. Snowy 2.0 is a 2000MW expansion of the existing Snowy Scheme to provide on-demand energy and

large-scale energy storage for the NEM. The development's six generating units are planned to be progressively commissioned with first power expected from the project in late 2024/2025. The next milestone for Snowy 2.0 is reaching Notice To Proceed for construction of the project's main works which is expected in the first half of 2020. 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 New South Wales 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 obliges Snowy Hydro to carry out certain minimum water releases each year to the Murray and Murrumbidgee Rivers, and environmental releases to the Snowy River and montane rivers.

DIVIDENDS

Snowy Hydro aims to pay the highest possible dividends with a key focus on optimal and sustainable capital management, 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 capital management strategy may change from time to time in response to economic, industry and company specific factors, including the variability of forecast and actual inflows into the Snowy Scheme. This is particularly relevant to FY2020, where Snowy Hydro faces the strong potential for dry climatic conditions for a third consecutive year.

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

The Shareholder receives an interim dividend in April and a final dividend in October each year.

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 AND 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 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, Snowy 2.0 Funding 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 assurance 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

Snowy Hydro's performance is managed against financial and operational measures incorporating safety, environment, revenue and customer components. While some performance measures such as safety apply across the whole Snowy Hydro Group, others are cascaded across business units and roles as relevant to ensure there is alignment on the achievement of the Company's objectives. This framework is benchmarked against industry best practice and is reviewed annually by the Board for appropriateness.

The Board and Management regularly review the key performance measures to ensure the Company is meeting its objectives and identify any emerging issues. In addition, Board Committees review performance measures and targets within the remit of their respective Charters in greater detail based on performance and current developments.

The single largest project for the Company over the Plan Period is the safe and responsible delivery of the pumped-hydro expansion of the existing Snowy Scheme with Snowy 2.0. The key project delivery milestones are as follows:

- mid-2019 - Snowy 2.0 Exploratory Works commenced
- mid-2020 - Snowy 2.0 Main Works commence
- 2022 - construction of the underground power station complex commences
- late 2024-2025 - first power out of Snowy 2.0 with progressive commissioning of the six generating units

Financial Measures

Snowy Hydro plans to grow its wholesale and retail businesses over the Plan Period to maximise Shareholder value, including earning at least a commercial rate of return, and maintain a strong investment grade credit rating.

Due to their commercially sensitive nature, financial forecasts and associated measures 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 Operational Performance Measures

Non-financial operational performance is measured against targets for the Plan Period which are as follows.

Performance area	Plan Period performance target
Staff and safety	
Fatalities (number of; employees and supervised contractors)	0
Total reportable injury frequency rate (number per million hours worked; employees and supervised contractors)	<2.8
Staff satisfaction (Percentage of employees very/extremely satisfied as determined by survey)	Top quartile of Australian companies
Retail customer experience	
Net Promoter Score (percentage of promoters minus the percentage of detractors)	Industry leading
Customer satisfaction (percentage customers very or quite satisfied)	Industry leading
Regulatory compliance	
Ombudsman complaints (number of complaints per mass market customer)	Below industry average
Compliance with Snowy Water Licence requirements (percentage of requirements met)	100%
Publicly reportable environmental licence breaches (number of)	0
Generation reliability	
Hydro generator start reliability (%; successful starts / total attempted starts)	> 99.45
Hydro generator forced outage factor (%; MWhrs of lost capability due to	< 0.55

forced outage / annual capability in MWhrs)	
Gas generator start reliability (%; successful starts / total attempted starts)	> 96.5
Gas generator forced outage factor (%; MWhrs of lost capability due to forced outage / annual capability in MWhrs)	< 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, the *Corporations Act* and the *PGPA Act*.