

## Hydro Tasmania's 2016-17 Statement of Corporate Intent

Hydro Tasmania is the trading name of the Hydro-Electric Corporation, an integrated energy business owned by the State of Tasmania. The Minister for Energy has portfolio responsibility for Hydro Tasmania. Hydro Tasmania operates under the *Government Business Enterprises (GBE) Act 1995* and the *Hydro-Electric Corporation Act 1995*. The GBE Act requires Hydro Tasmania to prepare a Statement of Corporate Intent each year which provides an overview of the business and our strategic direction.

### Our business

Hydro Tasmania's primary purpose is to 'efficiently generate, trade and sell electricity and environmental energy products in the National Electricity Market (NEM).'

Building on 100 years of experience in the electricity industry, the Hydro Tasmania group operates as one business focused on delivering value to our customers through our three brands: Hydro Tasmania (electricity and gas generation and trading), Momentum Energy (retail electricity and gas) and Entura (professional services). Each brand operates as part of the integrated group to deliver the business strategy, enhance value and mitigate strategic risks so that Hydro Tasmania can deliver sustainable financial returns to the Tasmanian Government.

The ownership structure of the Hydro-Electric Corporation is shown in Figure 1 and business structure is shown in Figure 2.

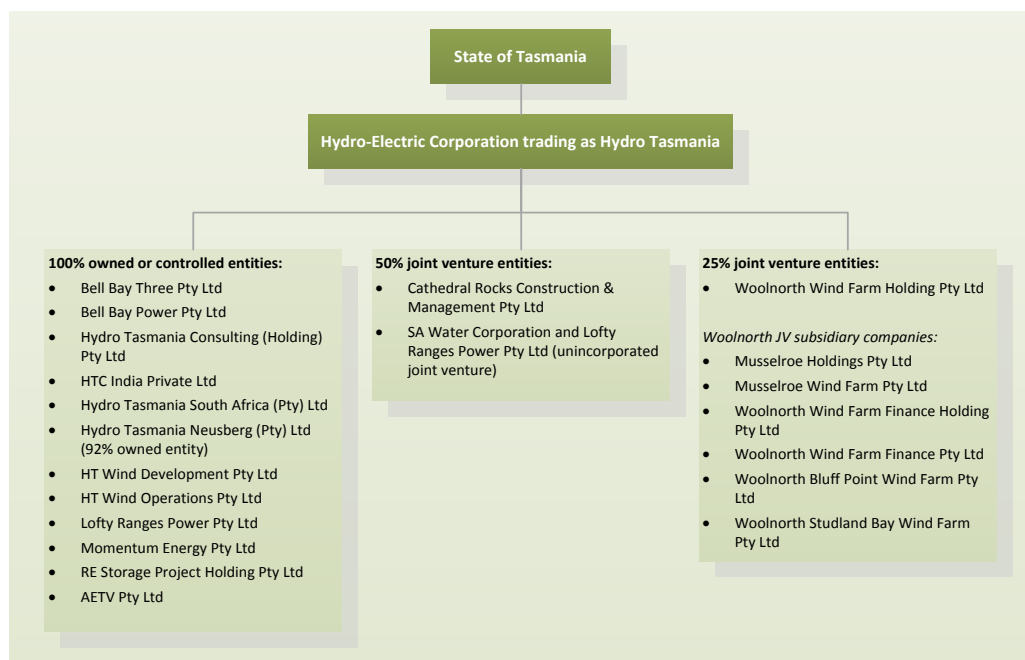


Figure 1 - Hydro Tasmania's ownership structure



**Figure 2 - Hydro Tasmania's business structure**

## Our operations

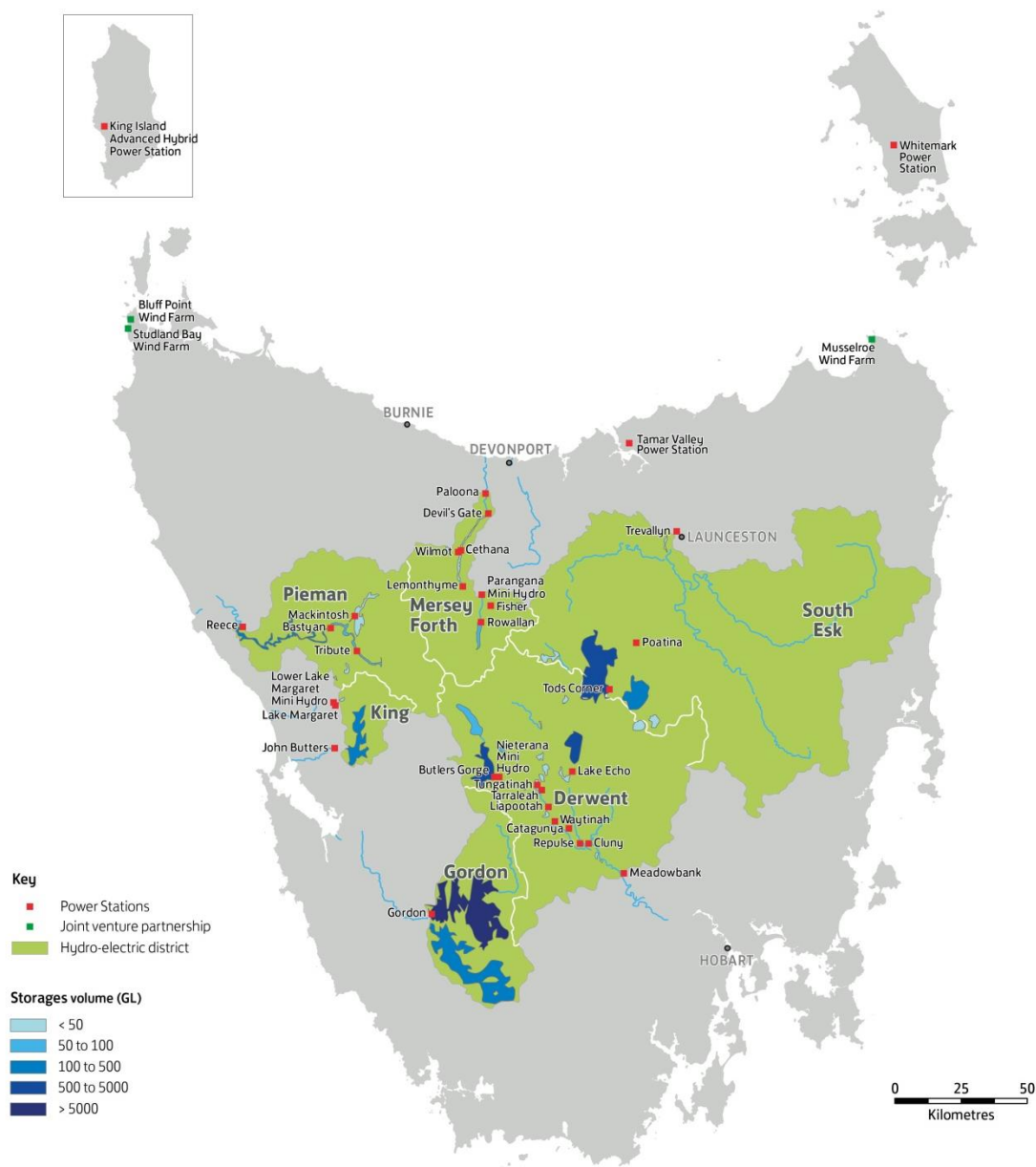
Hydro Tasmania is Australia's largest water manager, responsible for many significant lakes, rivers and smaller water bodies in six large catchments covering 35 per cent of Tasmania's land area (Figure 3). Hydro Tasmania's main business is the generation of electricity from 30 hydropower stations and one gas-powered station and the sale of this electricity in the National Electricity Market. In 2015-16, 81 per cent of electricity generated was from hydropower and 8 per cent was from gas<sup>1</sup>. Off-grid, the Bass Strait islands' electricity supply is generated from diesel, wind and solar.

Momentum Energy is based in Melbourne and sells electricity and energy services to business and residential customers in Victoria, South Australia, the Australian Capital Territory, Queensland and New South Wales, and gas to customers in Victoria. Momentum Energy provides retail services to the Bass Strait islands. We also operate a telesales centre in Tasmania, employing approximately 27 people.

Woolnorth Wind Farm Holding Pty Ltd is a joint venture with Shenhua Clean Energy Holdings Pty Ltd (owned by Chinese energy company Shenhua Group). Our share is 25 per cent. The joint venture owns the Studland Bay, Bluff Point and Musselroe wind farms, with a combined generating capacity of 308 MW.

Entura provides engineering, scientific and management services relating to water management and energy supply to national and international clients as well as to Hydro Tasmania for operational and capital programs associated with our generation infrastructure and developments. Based at Cambridge in Tasmania, Entura has offices in Melbourne, Brisbane, India and South Africa and project offices in South Australia and the Northern Territory. Entura's international work extends across the Pacific Islands (including Papua New Guinea), New Zealand, Southeast Asia, South Asia (principally India and Nepal) and Southern Africa.

<sup>1</sup> The remainder was a mix of wind and diesel.



**Figure 3 - Hydro Tasmania's Tasmanian operations**

### Strategic challenges

Hydro Tasmania operates in the highly dynamic and competitive NEM, which is undergoing a period of significant transformation. This transformation includes:

- increasing solar capacity being installed (AEMO forecast 20,890 MW of rooftop solar will be installed by 2035). One in seven houses already have rooftop solar installed in Australia
- battery storage is emerging as the next major disrupter as it becomes economically attainable technology for home use, particularly in conjunction with solar PV systems
- network providers have begun offering solar and battery storage, competing against the traditional retailers while addressing grid support during peak demand
- developments in technology and enhanced customer awareness leading to changes in the way that electricity is produced, sold, bought and consumed.

Other external factors affecting Hydro Tasmania include uncertainties and change in national renewable energy and climate change policies and changes in the Australian gas industry.

## **Our strategic direction**

Hydro Tasmania's vision is to be Australia's leading clean energy business, inspiring pride and building value for our owners, our customers and our people. Our strategy seeks to deliver on this vision by providing profitable revenue growth, ensuring a customer-first approach and maintaining our renewable energy generation assets for future generations.

Hydro Tasmania will continue to work closely with the Tasmanian Government to ensure we are as efficient as possible to assist the Government achieve its vision of restoring energy as a competitive advantage for Tasmania. This will include working with the Tasmanian Energy Security Taskforce to help secure Tasmania's energy security.

While our main focus will always be to meet the needs and expectations of our Tasmanian customers, our mainland retail brand Momentum Energy will continue to create value for all Tasmanians as we grow customer numbers on the mainland. Our strategy continues to evolve to ensure we can respond flexibly to the rapidly changing operating environment. We will pursue profitable revenue growth by increasing the value of our customer base in electricity, gas and energy services, and by reducing costs while continuing to manage business risks. In addition, the technological advancements developed for the King Island Renewable Energy Integration Project have positioned Hydro Tasmania to continue pursuing emerging opportunities in hybrid off-grid solutions.

The success of our business is underpinned by our people, the effective management of Hydro Tasmania's water resource and generation assets, and the systems and processes in place to support our business operation. Efficiencies in each of these areas are an essential part of our strategy and we are committed to making improvements in each of these areas so Hydro Tasmania can continue to be Australia's leading clean energy business.

## Directors' Statement of Corporate Intent and Agreement of Shareholding Ministers

In signing this Statement of Corporate Intent, the Board of Hydro Tasmania commits to the targets proposed for 2016-17 on a best endeavours basis, subject to section 24 of the GBE Act. The Board of Hydro Tasmania agrees to provide the Shareholding Ministers with information on progress against the targets included in this Statement of Corporate Intent, as required under the Reporting Guidelines.

Key performance indicators (KPIs)	2016-17
<b>Financial Indicators</b>	
Results before fair value movements and revaluations	\$6 million
Capital expenditure	Satisfactory external validation of the ten year asset management plan
	For capital expenditure projects greater than \$500,000*: 100% on time 100% on budget
Return on equity^	0.66%
Cost savings target	Momentum operating costs per account equal to or less than budget
	Non-customer facing OPEX less than \$148 million
Retail profit before tax	Profit before tax >= budget
<b>Non-financial Indicators</b>	
Lost time injury	0
Hydro generation availability	Availability target of 80 per cent achieved
Regulatory compliance obligations	Zero breaches resulting in enforced regulatory undertakings or penalties
Storage levels - preferred minimum operating level	Minimum of 30% at the end of June 2017 with average inflows, with a trajectory through ~40% prior to summer
<b>Returns to government (accrual)</b>	
Ordinary dividend	\$0
Total other returns to government	\$9 million
<b>Total returns to government</b>	<b>\$9 million</b>

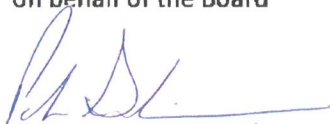
\* Measured against the targets approved via the Investment Management Team process

^ This calculation reflects Net Profit after Tax divided by Total Equity. Net Profit After Tax is adjusted to exclude one-off costs to cover the hire and decommissioning of the temporary diesel units, and one-off expenses relating to the review and management of the low inflows and Basslink outage. Total Equity is based on the opening Total Equity balance in the Board Approved 2016/17 budget.

This Statement of Corporate Intent has been agreed between:



G. V. Every-Burns  
Chairman, Hydro Tasmania  
on behalf of the Board



Hon Peter Gutwein MP  
Treasurer



Hon Matthew Groom MP  
Minister for Energy