

# APPENDIX 10

## Summary of Energex's 5 year corporate plan



# Summary of Energex's 5 year Corporate Plan

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# 1. Purpose

This Corporate Plan (CP) has been prepared to guide the business in aligning the short and medium term priorities and initiatives with the long term direction of the business.

The Australian electricity market landscape continues to evolve at a rapid pace. The significant increases in the cost of electricity in recent times have prompted significant policy and regulatory focus from governments and regulators. Customers are actively identifying ways to reduce their electricity bills through an increased uptake of Distributed Energy Resources (DER) such as solar photovoltaic (PV) and smart appliances. This changing landscape will continue to have implications for all energy market participants.

On this basis, the most significant issues for the energy industry in the next five to ten years include:

- **Technology advances** - As other energy substitutes become financially viable (e.g. battery storage, cheaper photovoltaic solar panels and smart meters), continued uptake by customers is likely. This will continue to drive reductions in energy demand and consumption levels. As distributed generation becomes more affordable and adoption increases, the market beyond the meter will undergo major change and growth.
- **Changing customer preferences** - As technologies continue to advance, customer behaviours and values are also shifting. Customers are more mobile, more social and more connected which means they are better informed than ever before. Within this context, energy providers are challenged to not only reinvent service channels but also find innovative ways to engage customers. Providers need to tap into social, mobile and local channels to deliver tailored experiences and a more personalised service to customers.
- **Regulatory model** - Ongoing evolution of the national regulatory environment focussing on productivity, economic efficiency, revenue models, customer engagement and service standards. However the regulatory model will need to change to support regulated distributors to transition their business model and operations to remain sustainable.

Within this environment, over the next five years, Energex will focus on achieving stable and predictable energy prices and offering valued energy services to customers and sustainable returns for shareholders. This is consistent with Energex's 2015-20 Regulatory Proposal and the Government's priority to reduce electricity prices and improve overall business efficiency.

## 2. Energex's planning framework

- Vision** Energex's vision is delivering energy services for a sustainable future. We will achieve balanced commercial outcomes and support the long term sustainability of electricity distribution in South East Queensland
- Purpose** To achieve the vision, Energex's purpose is to provide choice and affordability to meet our customers' evolving energy needs.
- Objective** Energex's strategic objective is to achieve balanced commercial outcomes by understanding and effectively managing the customer, risk and financial elements of its business as represented below.



### Aspirational goals

- Consistently be the safest electricity distributor in the world
- Deliver controllable network price increases of CPI (or less) sustainably
- Manage business risks to deliver positive economic value and retain a strong balance sheet
- Be recognised as an employer committed to performance leadership providing a positive and rewarding working environment
- Provide contemporary network capability and service levels that keep pace with customer values, lifestyle and technology choices
- Be a trusted community and business partner delivering valued energy services

**Values** Energex's values, which underpin the agreed behaviours and decision-making approach to its business operations and delivery, are:

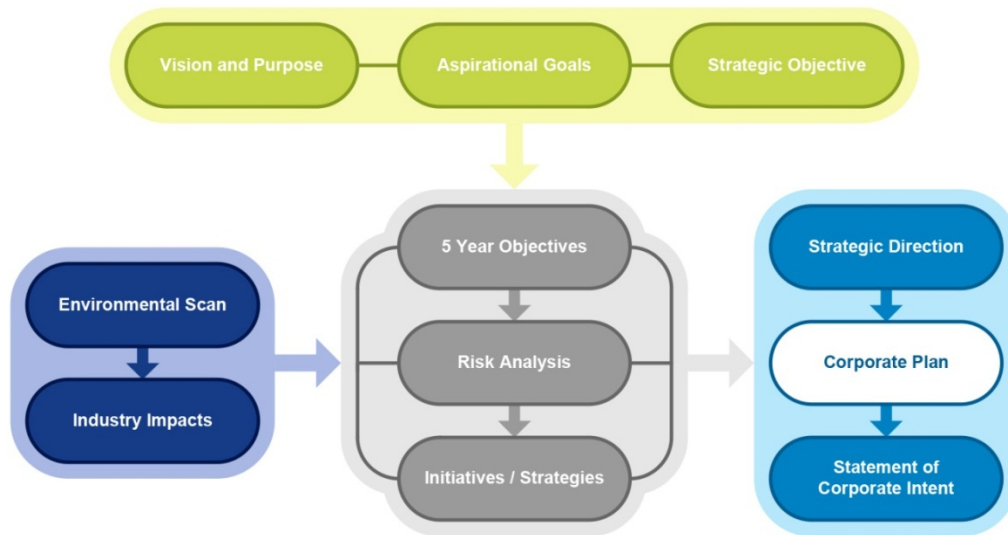
- |   |                                 |  |                          |
|---|---------------------------------|--|--------------------------|
|  | Put safety <b>FIRST</b>         |  | Set a great example      |
|  | Respect and support each other  |  | Be a team player         |
|  | Deliver on our customer promise |  | Deliver balanced results |



## 2.1 Corporate planning framework

Energex develops its CP in line with the Corporate Planning Framework shown in Figure 2-1. Energex's business objectives, strategies and initiatives are underpinned by an assessment of the key external drivers that are expected to have an impact on the industry and an assessment of how these may specifically affect Energex.

**Figure 2-1 Corporate planning framework**



## 3. Operating context

Over the last five years, electricity prices have been increasing driven by the costs of network investment, generation and government energy policy initiatives. Customers have indicated they will take decisive action when incentivised as evidenced by the rapid uptake of solar PV in recent years.

Consequently, there has been a significant reduction in Energex's Program of Work associated with declining customer energy consumption, capital expenditure savings associated with the Electricity Network Capital Program (ENCAP) Review and revisions to the security and reliability standards. This has required Energex to adopt an increasing focus on maintenance and refurbishment over network augmentation.

In the absence of price stability and, as the range of energy substitutes becomes economically competitive, continued uptake by customers to manage their costs will potentially further reduce their dependence on grid supplied electricity.

Energex's sustainability is dependent on becoming a competitive electricity provider. To do this, Energex must influence the factors that impact on energy prices and services for customers. These factors include asset utilisation, prudent investment, efficient performance and the provision of services valued by customers.





## 4. 2015-20 Key Target Areas

The financial projections for the 2015-2020 regulatory control period reflect a reduction in the capital expenditure program and the aspirational goal of stabilising controllable network price increases while delivering appropriate shareholder returns.

Energex’s success proposition hinges on stable and predictable network prices, achieved through market reform, prudent investment, efficient operations and, more importantly, customer engagement and targeted services delivery.

On this basis, the five key target areas that form Energex’s strategic response, including the success measures against the aspirational goals, are discussed in the table below.

| 2020 Key Target Areas                      | Description   | Success measures (aspirational goal)  |
|--|---|---|
| <b>Maintaining operational performance</b> | <ul style="list-style-type: none"> <li>• Energex’s core business is to provide a safe, reliable and secure electricity supply to its customers.</li> <li>• Whilst acknowledging the changing operating environment, Energex must continue to meet its primary performance commitments to customers. This includes security of supply, reliability standards, guaranteed service levels and emergency response, as well as delivering on commitments to shareholders.</li> <li>• There is also a high priority on Energex’s long term safety performance with improvements forecasted as a result of the targeted initiatives within the safety program.</li> </ul>  | <ul style="list-style-type: none"> <li>• Keeping the lights on and a safe and high performing workforce</li> </ul>  |
| <b>Queensland energy market reform</b>     | <ul style="list-style-type: none"> <li>• Sensitivity to price has been a significant driver for market reform, which includes network tariff reform, smart networks, metering, demand management and customer engagement.</li> <li>• Over the next five years, Energex will progress its pricing strategy including tariff reform to provide better signals to customers and reduce the reliance of volumetric based revenue recovery. This strategy is underpinned by simpler tariffs with clear pricing signals that customers can understand and respond to appropriately.</li> <li>• Energex must also be prepared for the challenges of competitive metering services for the mass market and to ensure a smooth transition to a fully contestable metering market in the future.</li> <li>• The advanced functionality of smart meters and appropriate communication infrastructure will facilitate the ability to optimise demand response in real time and, at a local level, to manage network constraints and gather more information on customers’ demand and consumption profiles. Information obtained from smart meters can provide the data needed to more efficiently operate the network.</li> </ul> | <ul style="list-style-type: none"> <li>• Stable and predictable prices at a level that customers consider to be acceptable</li> <li>• A pricing structure that sends appropriate signals to customers - this means cost reflective tariffs that are competitive against energy substitutes</li> <li>• Successful integration of externally driven initiatives (e.g. market reform initiatives)</li> </ul> |

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| 2020 Key Target Areas                                  | Description  | Success measures (aspirational goal)  |
|--|--|---|
| Revenue, asset value and shareholder value             | <ul style="list-style-type: none"> <li>• Energex is committed to maintaining sustainable financial performance consistent with shareholder expectations and meeting customer and regulatory requirements which is dependent on:               <ul style="list-style-type: none"> <li>○ securing appropriate revenue from the 2015-20 Distribution Determination;</li> <li>○ protecting the economic value of the company;</li> <li>○ ensuring appropriate cost structures for services provided; and</li> <li>○ effectively managing its balance sheet.</li> </ul> </li> </ul>   | <ul style="list-style-type: none"> <li>• Continued delivery of appropriate returns to shareholders and a strong balance sheet</li> </ul>                |
| Business efficiency and optimising network utilisation | <ul style="list-style-type: none"> <li>• In response to public concerns around higher electricity prices, there have been national and state reviews of the energy industry resulting in an ongoing reform and efficiency agenda with expectations of greater customer engagement in the delivery of electricity services. Consequently, there is an ongoing assessment of cost structures to maximise the value of the services that are delivered.</li> <li>• The effective use of infrastructure is required to deliver services cost effectively. Optimising asset utilisation requires minimising inefficient network investment, managing the load factor to reduce excess capacity and responding to the impact of energy substitutes.</li> </ul>   | <ul style="list-style-type: none"> <li>• A cost base that compares favourably with other distributors and is assessed as benchmark efficient</li> </ul> |
| Future network capability                              | <ul style="list-style-type: none"> <li>• Future network capability needs to accommodate changing customer expectations and behaviours as well as technology advances.</li> <li>• Customers are seeking appropriate levels of service and reliability to support their lifestyle needs with the expectation of minimal price increases. They are also adopting technology to control their own energy supply and usage. As distributed generation becomes more affordable, a widespread uptake by customers has the potential for adverse impacts on asset utilisation, revenue generation and electricity prices.</li> <li>• Energex will need to work closely with customers to better understand their requirements as well as investigate the technology implications on network efficiency and reliability.</li> <li>• Third party aggregators are identifying business opportunities and seeking a role in the delivery of energy services to customers. Over the next five years, Energex will need to understand the intentions of retailers and manufacturers and assess the impacts against network capability, industry and safety standards, customer expectations and the operation of a competitive market.</li> <li>• In addition to effective planning and management of the traditional infrastructure, Energex will need to assess the potential to take advantage of the range of distributed energy options, acknowledging the potential for a hybrid network. These options must be assessed against financial constraints and asset life cycles.</li> </ul> | <ul style="list-style-type: none"> <li>• Network and other energy services that deliver to customer requirements</li> </ul>                             |



## 5. The five-year roadmap

Energex’s approach to delivering against its aspirational goals and five-year business objectives is outlined in the table below.

**Table 5-1 Energex’s five-year business objectives**

| Aspirational goal   | Five-year business objective   | Key initiative/strategy  |
|---|--|--|
| <b>Consistently be the safest electricity distributor in the world</b>  | <ul style="list-style-type: none"> <li>Achieve top quartile safety performance compared to peers and an injury free workplace</li> </ul>   | <ul style="list-style-type: none"> <li>Implement 2013 – 2016 Energex Safety Roadmap</li> </ul>   |
| <b>Deliver controllable network price increases of CPI (or less) sustainably</b>  | <ul style="list-style-type: none"> <li>Deliver demand forecasts reflective of changing market conditions and technological changes</li> <li>Deliver sustainable capital and operating programs</li> <li>Network tariff structures that are cost effective and drive desired customer behaviours through appropriate network utilisation</li> </ul> | <ul style="list-style-type: none"> <li>Progress initiatives to deliver improved investment decision making</li> <li>Progress demand management programs</li> <li>Deliver business efficiency initiatives including optimising asset utilisation and workforce capacity and capability</li> <li>Progress the outcomes of the Pricing Strategy</li> </ul>  |
| <b>Manage business risks to deliver positive economic value and retain a strong balance sheet</b>                                       | <ul style="list-style-type: none"> <li>Achieve appropriate approval of revenue to meet business outcomes</li> <li>Deliver on regulatory and market reform agendas and minimise their economic impact</li> <li>Deliver returns consistent with shareholder expectations</li> <li>Maintain a strong balance sheet</li> </ul>                         | <ul style="list-style-type: none"> <li>Regulatory Proposal submissions reflect revenue requirements to deliver business outcomes</li> <li>Balance Sheet management strategies meet shareholder objectives</li> <li>Manage the delivery of distribution specific market reform initiatives</li> </ul>   |
| <b>Provide contemporary network capability and service levels that keep pace with customer values, lifestyle and technology choices</b> | <ul style="list-style-type: none"> <li>Become smart network ready in a cost effective manner</li> <li>Deliver an appropriately utilised network that meets customer and network performance requirements</li> <li>Evolve business model to remain sustainable</li> </ul>   | <ul style="list-style-type: none"> <li>Optimise network investment</li> <li>Progress demand management programs</li> <li>Deliver smart network initiatives e.g. pilots/trials to assess long term viability</li> <li>Monitor technology advances as well as trends in distributed generation and customer uptake</li> <li>Review Energex’s regulated and unregulated services to optimise customer and shareholder value propositions</li> </ul> |

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| Aspirational goal  | Five-year business objective  | Key initiative/strategy  |
|--|---|--|
| <p><b>Be recognised as an employer committed to performance leadership by providing a positive and rewarding working environment</b></p> | <ul style="list-style-type: none"> <li>• Build a sustainable, adaptable, safe and engaged workforce that has the people, skills and performance to deliver strong business results</li> </ul>   | <ul style="list-style-type: none"> <li>• Deliver Enterprise Bargaining Agreements that enable flexibility in workforce management to support business outcomes</li> <li>• Align workforce size and capability with business requirements</li> </ul>  |
| <p><b>Be a trusted community and business partner delivering valued energy services</b></p>  | <ul style="list-style-type: none"> <li>• Deliver on Market Reform Program</li> <li>• Engage customers to better understand their requirements and to achieve regulatory endorsement of forward expenditure and pricing proposals</li> <li>• Partner with local councils and community groups in infrastructure development</li> <li>• Enact environmental responsibilities effectively</li> </ul> | <ul style="list-style-type: none"> <li>• Deliver distribution specific market reform initiatives</li> <li>• Collaborate with Government, customers and retailers to ensure mutually beneficial outcomes</li> <li>• Implement customer engagement initiatives</li> <li>• Undertake effective community engagement to address perceived environmental, social and health impacts to ensure the successful delivery of infrastructure projects</li> <li>• Deliver high standards in storm and emergency response</li> <li>• Deliver Environmental Plan initiatives</li> </ul> |