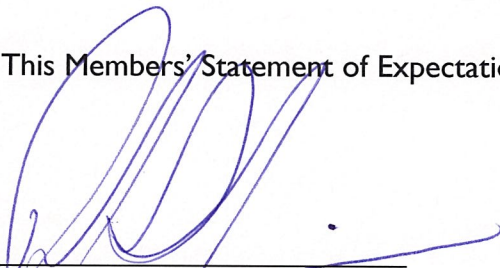


MEMBERS' STATEMENT OF EXPECTATIONS

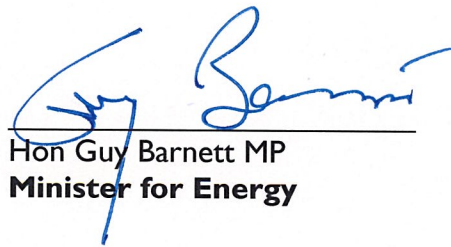
September 2017

TASMANIAN NETWORKS PTY LTD

This Members' Statement of Expectations is jointly approved by:



Hon Peter Gutwein MP
Treasurer



Hon Guy Barnett MP
Minister for Energy

Date: 2-10-17

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I. INTRODUCTION

- This Statement of Expectations has been prepared by the Treasurer and the Minister for Energy (the Members), following consultation with Tasmanian Networks Pty Ltd.
- The Statement sets out the Tasmanian Government's broad policy expectations and requirements for Tasmanian Networks, as the owner of the business.
- The *Corporations Act 2001* and the Constitution of Tasmanian Networks govern the operation of the Company.
- This Statement should be read in conjunction with the following Acts:
 - *Electricity Companies Act 1997*;
 - *Electricity Supply Industry Act 1995*;
 - *Government Business Enterprises Act 1995*; and
 - any other legislation as may be advised by the Members from time to time.
- In addition, Tasmanian Networks' operations must comply with the National Electricity Law, the National Electricity Rules, the *National Energy Retail Law (Tasmania) Act 2012* and the *Electricity – National Scheme (Tasmania) Act 1999*.
- Tasmanian Networks must also comply with all other applicable legislative, policy and/or other requirements including, but not limited to, work health and safety, environmental and industrial relations obligations.
- This Statement takes effect from the date it is signed and remains in effect until it is amended or revoked. This Statement is to be tabled in Parliament by the Minister for Energy and published on the website of Tasmanian Networks.

2. COMPLIANCE WITH GOVERNMENT POLICIES

- In pursuing the Strategic and Commercial expectations detailed in section 4.2, and undertaking its functions and exercising its powers, Tasmanian Networks shall act in accordance with:
 - the governance framework for Government businesses;
 - Treasurer's Instructions and guidelines that are applicable to Tasmanian Networks;
 - any Government policies specifically applying to Tasmanian Networks as advised by the Members; and
 - the Government's strategic objectives relating to energy as advised by the members from time to time.

3. GOVERNMENT OBJECTIVE

- To support efficient, safe and reliable network services and secure a stable and sustainable price path for power that can provide relief to customers and help grow the Tasmanian economy and attract investment.

4. PURPOSE, STRATEGIC AND COMMERCIAL EXPECTATIONS

4.1 Primary Purpose

- The primary purpose of Tasmanian Networks is to undertake the transmission and distribution of electricity and perform any other activity, other than the generation of electricity (except as outlined in section 5.2), related to or associated with the transmission and distribution of electricity.

4.2 Strategic and Commercial Expectations

- In undertaking its core business, the Members expect Tasmanian Networks to:
 - (i) deliver the lowest sustainable prices for regulated services to Tasmanian Networks' customers;
 - (ii) ensure an appropriately safe, reliable and secure electricity supply is provided for customers;
 - (iii) minimise operational and capital expenditure outlays through improved operational efficiency and asset management strategies;
 - (iv) operate in accordance with sound commercial practice and ensure ongoing financial sustainability;
 - (v) pursue a return on assets commensurate with the return on assets set by the Australian Energy Regulator for the period of a revenue determination, noting that annual targets in the Statement of Corporate Intent must be approved by the members; and
 - (vi) seek to operate within its overall capital and operating expenditure allowances for a regulatory period as determined by the AER for its regulated functions.

5. NATURE AND SCOPE OF OPERATIONS

5.1 Core Business

- The core business of Tasmanian Networks is:
 - providing electricity transmission and distribution services to Tasmanian customers;
 - managing the electricity transmission and distribution assets and associated telecommunication assets in Tasmania to ensure the safe, reliable and secure electricity supply to Tasmanian customers;

- to own, operate and maintain the electricity transmission system in Tasmania and perform the role of Transmission Network Services Provider for Tasmania in the National Electricity Market;
- to own, operate and maintain the electricity distribution system in Tasmania and perform the role of Distribution Network Services Provider for Tasmania in the National Electricity Market; and
- to adhere to legal requirements and contractual arrangements with the Australian Energy Market Operator, as required, to manage power system security in the Tasmanian region of the National Electricity Market.

5.2 Related Business

- Tasmanian Networks may undertake other activities related to, or associated with, its core business on a case-by-case basis, subject to the prior written approval of the members.
- Tasmanian Networks may continue to undertake the following other activities that are related to its core business:
 - the utilisation of small scale generation for the purpose of emergency management, system security and remote supply;
 - providing wholesale telecommunications infrastructure services in Tasmania to facilitate infrastructure-based wholesale competition in Tasmania, as the Government's strategic alliance partner; and
 - providing services to support the National Broadband Network in Tasmania.
- The Members acknowledge that Tasmanian Networks provides retail telecommunications services in Tasmania.
- Unregulated business activities need to operate on a commercial basis, with no cross subsidisation by electricity customers and to include appropriate debt funding and other costs to meet competitive neutrality principles.
- This provision does not apply to non-commercial activities undertaken under section 5.4.

5.3 Business Presence Outside the State

- Tasmanian Networks must not establish a business presence outside Tasmania.

5.4 Non-commercial Activities, Subsidies and Concessions

- Tasmanian Networks' non-commercial activities are:
 - any activity that has been declared a community service obligation by the Treasurer; and
 - any activity that the Members agree would be non-commercial and direct Tasmanian Networks to perform.

- Non-commercial activities and subsidy and concession payments are listed in Schedule I of this Statement.
- Where Tasmanian Networks is required to perform non-commercial activities, those activities are to be:
 - performed in an efficient and effective manner;
 - costed and funded in accordance with arrangements as agreed with the Treasurer. If no arrangement is in place, the non-commercial activity is to be funded by Tasmanian Networks; and
 - reported in the Tasmanian Networks Annual Report.

6. PERFORMANCE, OPERATING AND REPORTING EXPECTATIONS

6.1 Performance Expectations

- The Members expect Tasmanian Networks to:
 - meet its key performance targets, as set out in the annual Statement of Corporate Intent. Target dividends are to be agreed during the corporate planning process;
 - implement the business strategies contained in the Corporate Plan in order to meet the agreed long term performance targets for the organisation, consistent with the Government’s expectations; and
 - have in place and follow a customer service charter which is to be publicly available and consistent with the requirements of the AER.

6.2 Reporting

- The Members expect Tasmanian Networks to comply with any relevant reporting requirements specified in any guidelines issued by the Government.
- The Members also expect to be informed in advance of making any application or submission to the AER that may materially impact on the prices of electricity to customers. This should be provided with sufficient time to consider the implications on Tasmanian customers.

6.3 Significant Developments

- The Members are to be kept informed of any matters of significance. Specifically, the Members expect to be notified of any adverse developments which may:
 - prevent the achievement of financial performance targets; or
 - significantly affect prices or outcomes to customers; or
 - significantly affect the financial viability or operating ability of Tasmanian Networks; or
 - significantly impact on Government policy, stakeholder relations or environmental issues or that have a wider public interest.

6.4 Borrowings and Investment Activities

- The Members expect Tasmanian Networks' borrowings to be consistent with the Debt Maturity Structure Guidelines and any direction given under the *Tasmanian Public Finance Corporation Act 1985*.
- When investing any surplus funds, Tasmanian Networks should provide the Tasmanian Public Finance Corporation with the opportunity to offer its services.
- Capital structure and debt levels should be maintained at a level that is consistent with the overall strategic portfolio objectives of the Government as advised by the Members from time to time.

6.5 Capital Asset Management

- The Members expect Tasmanian Networks to:
 - develop Asset Management Plans reflecting prudent commercial practice;
 - regularly review its asset holdings with the aim of identifying surplus non-performing and non-core assets; and
 - subject any capital investment proposal to rigorous and considered analysis prior to any decision to commit resources.
- Consistent with the Capital Investment Guidelines, the Members and Treasury, as principal financial adviser, are to be notified of any proposed major new capital investments, including major IT systems, not previously identified as part of an AER regulatory determination.

6.6 Employee and Industrial Relations

- Members expect Tasmanian Networks to:
 - adhere to any Government policy guidelines in regard to senior executive remuneration including performance pay or other forms of rewards; and
 - be cognisant of any Government policy in regard to employee remuneration, consistent with contemporary public sector wages policy.

6.7 Director Appointment Process

- The Members expect Tasmanian Networks to work cooperatively with relevant Director Selection Advisory Panels to ensure that the Director appointment process results in a balance of renewal and continuity of Board membership.

6.8 Risk Management

- Consistent with the Strategic and Commercial Expectations detailed in section 3.2, the Members acknowledge and expect that Tasmanian Networks will adopt risk management strategies that appropriately balance network service and quality with the cost of providing that level of service and quality.

SCHEDULE I

NON-COMMERCIAL ACTIVITIES

The following non-commercial activities, as defined under Clause 5.4, are to be performed by Tasmanian Networks:

- meeting the costs of the feed-in tariff arrangements to transitional feed-in tariff customers, as required under Division 5A of Part 3 of the *Electricity Supply Industry Act 1995*; and
- meeting the costs associated with the non-commercial activities required by the Member Direction given in October 2017 to invest in electricity infrastructure in the Waterhouse region in order to supply approximately 1 MW of additional capacity to the region.