New beginnings

Transformation in a time of industry reform

Essential Energy Annual Report 2010–2011

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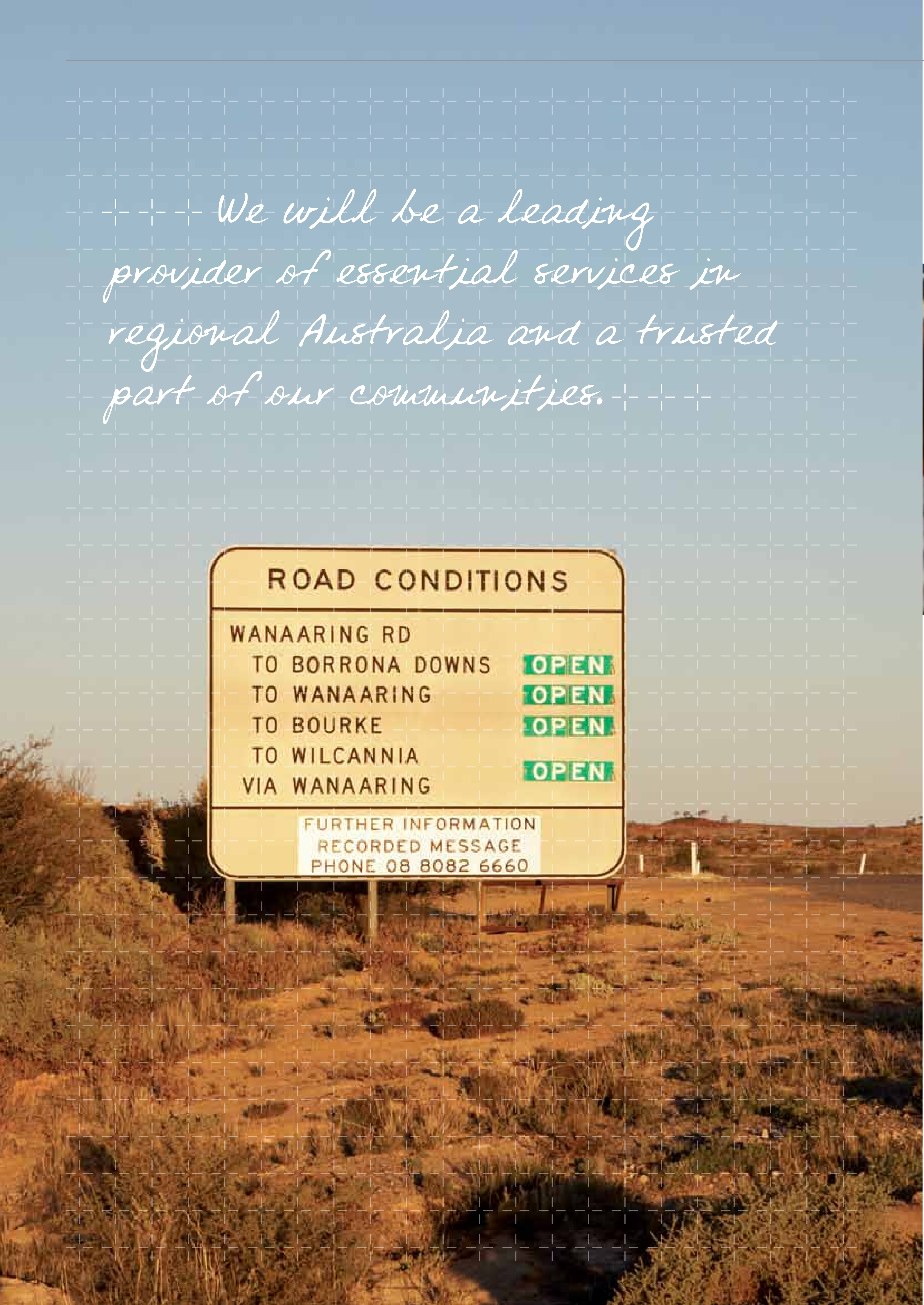
essential energy



We will be a leading provider of essential services in regional Australia and a trusted part of our communities.
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31 October 2011

The Hon. Mike Baird, MP
Treasurer
Level 36
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

The Hon. Greg Pearce, BA LLB MLC
Minister for Finance and Services
Level 36
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Ministers,

ESSENTIAL ENERGY ANNUAL REPORT 2010–2011

We are pleased to submit for tabling in Parliament Essential Energy's Annual Report, outlining our operational and financial performance for the 2010 to 2011 reporting period.

The report was prepared in accordance with section 24A of the *State Owned Corporations Act 1989* and the *Annual Reports (Statutory Bodies) Act 1984.*

Copies of the report will be provided to the Minister for Resources and Energy, Minister for Primary Industries, the NSW Auditor-General and key customer and stakeholder groups.

Yours sincerely,

Barbara Ward
Chairman

Terri Benson
Managing Director

Chairman's and Managing Director's Report

Change has dominated the landscape in which Essential Energy has operated over the past 12 months, with sweeping industry reforms and associated business changes requiring a flexible and dynamic approach.

The year saw us in the midst of a fundamental transformation as the NSW Government successfully completed the sale of the Country Energy retail business to Origin Energy on 1 March 2011.

The Country Energy name and brand were transferred as part of the sale and the new Essential Energy network services business was launched.

Our new business name marks the next stage in the evolution of Australia's largest electricity network, and was chosen to reflect our unchanged core focus on delivering safe, reliable and cost effective essential services to families and businesses across regional NSW. It also provides reassurance that we remain committed to being an essential part of the 1,500 communities across NSW in which our employees live and work.

This major milestone instigated a review of our existing business model that delivered a new business vision to direct us in our changed role and drive operational efficiencies to ensure we are best placed to deliver the next steps of our five-year $6 billion network management plan (Network Plan).

The sale also marked the commencement of a Transition Services Agreement (TSA), with Essential Energy employees continuing to deliver retail services to retail customers on behalf of Origin for a period of up to 43 months. The TSA has seen our people work seamlessly with Origin to deliver the high standard of service customers have become accustomed to.

Despite the challenges of the past year, we delivered strong performance across our key priority areas, cementing Essential Energy's reputation as an organisation that remains focused on delivering against core responsibilities and 'gets the job done'.

We continued our strong focus on employee and public safety and Essential Energy's *Safety First* culture and targeted awareness programs helped improve our safety performance across all major measures, retaining our position as the industry leader when benchmarked against the performance of other NSW network service providers.

Essential Energy's Lost Time Injury Frequency Rate (LTIFR) reduced from 3.5 to 2.4 lost time injuries per million hours worked. Our Lost Time Injury Severity Index (LTISI) continued this trend, decreasing from 46.3 days lost per million hours worked to 37.5 days, as at 30 June 2011.

Our new business name marks the next stage in the evolution of Australia's largest electricity network.

Additionally, we have achieved a 20 per cent reduction in the number of Medically Treated Injuries (MTIs) recorded over the past five years – recording 244 this reporting period compared to 306 in the 2006–2007 financial year.

Our safety focus, along with our employee development and health and wellbeing programs, have contributed to an improved average sick leave rate per employee that continues to be lower than the NSW public sector average, and high employee engagement rates, supporting our talent retention and sustainability efforts.

In July 2010, we commenced the second year of our five-year Network Plan, and by year's end we had invested around $1.14 billion in building and maintaining the network to meet the existing and potential energy demands of the 21st century, and community expectations for the delivery of safe and reliable essential services.

This management plan delivered significant network enhancements during the year with more than 700 kilometres of high voltage powerlines installed or upgraded and 12 major zone and bulk supply substations constructed. Together with a focus on installing 'smarter' reclosers, this investment delivered improved network reliability for our customers and strong performance against our licence conditions.

Essential Energy recorded network reliability results well within target across all three feeder (powerline) classifications – achieving a System Average Interruption Duration Index (SAIDI) normalised of 238 minutes per customer against a target of 317 minutes. Additionally, our System Average Interruption Frequency Index (SAIFI) of 2.14 interruptions per customer was within our licence condition target of 2.91 interruptions per customer. These are sound results in light of the severity and widespread nature of weather events experienced across the state.

These weather events saw more than 140 Natural Disaster Declarations recorded across Essential Energy's footprint during the year, with storms and flooding at times inundating whole communities.

Around 120 employees were also deployed to areas in southern and Far North Queensland to assist local utilities in their efforts to undertake repairs and power restoration in the wake of outages caused by major flooding in Brisbane and the Lockyer Valley, and Cyclone Yasi near Townsville.

Our field employees delivered an outstanding emergency response in all seasons and conditions, working shoulder to shoulder with emergency services and communities to restore power as quickly and safely as possible, supported by our Network Operations teams that kept our customers informed.

The wild weather also contributed to an 18 per cent increase in calls to our Supply Interruptions line – 13 20 80 – which received 586,000 calls compared to 479,000 the previous year. Additionally, billing, price rise and retail sale enquiries saw a 5.5 per cent rise in call volumes directed to our two contact centres located in Leeton and Port Macquarie – answering Country Energy general enquiries on 13 23 56 and Essential Energy network enquiries on 13 23 91.

Despite this increase, our employees continued to provide exceptional customer service and their work was rewarded with strong results in resolving 97 per cent of customer issues at the first point of contact against our target of 95 per cent – cementing the strength of our customer service training programs and the depth of knowledge and skill of our employees.

Reflecting the industry-wide trend, a rise in the total number of complaints received was triggered by a significant increase in the number of high account issues raised by Country Energy retail customers associated with general affordability issues, including the cost of electricity; and the number of complaints relating to planned supply interruptions necessary to safely deliver Essential Energy's five-year Network Plan.

Despite this increase, our employees resolved 91.7 per cent of domestic network complaints within four days against our target of 95 per cent – comparable to last year's performance of 92 per cent.

In the October 2010 to March 2011 half year, Essential Energy recorded the lowest percentage of network customer complaints escalated to the Energy & Water Ombudsman NSW (EWON) when compared to other NSW distribution network service providers – accounting for only 111 of the 491 complaints across the industry – despite a significantly larger electricity network.

In recognition of our outstanding efforts, we were awarded the NSW 2010 Canstar Blue *Most Satisfied Customers, Electricity Providers Award* and took out top honours for both State and *National Customer Service Institute of Australia* (CSIA) awards for *Service Excellence in a Contact Centre – Government.*

We continued our commitment to support regional development and local communities by bolstering our workforce with the employment of an additional 102 apprentices. This now brings the total number of apprenticeships created since 2001 to 1,029 that addresses future skills requirements to deliver our

We're well positioned to achieve our strategic aim of being Australia's leading essential services provider and a trusted part of our communities.

Network Plan, while supporting regional growth and economies by providing meaningful, long-term career opportunities for local people.

During the year, we launched Essential Energy's *Indigenous Employment and Development Strategy* to help us achieve a workforce that is truly representative of the communities in which we operate. Since 2001, we have almost tripled our Indigenous employees and we are leading by example with 3.45 per cent of our current employees Indigenous – above the COAG target of 2.6 per cent, with only one other NSW organisation having a higher ratio.

Our corporate social responsibility programs were recognised by local communities during the year, with 86 per cent of customers surveyed 'agreeing' or 'strongly agreeing' that Essential Energy is a responsible provider of an essential service.

Similar results were achieved in our quarterly Corporate Reputation Survey with almost eight out of ten regional opinion leaders, such as local councillors, administrators and businesses, surveyed 'agreeing' or 'strongly agreeing' that Essential Energy is an active part in local communities.

As the manager of Australia's largest electricity network we believe that it's our responsibility to lead the way and reduce the impact of our operations on the environment. The efforts of our business-wide *Carbon Reduction Program*, *Green Fleet* initiatives and employee awareness campaigns have reduced Essential Energy's operational carbon emissions by 11,283 tonnes of CO_2-e, which is equivalent to removing 2,820 cars off the road for a year.

We are pleased to report that our environmental management system maintained certification to international standards, and our safety and environmental audits across our operations delivered strong results, achieving 98.1 per cent and 98.6 per cent compliance respectively, against a target of 96 per cent.

Our Network Plan and energy efficiency program, *energyanswers*, provided a two pronged approach to addressing future energy needs, through effective network management and changing consumer behaviours, particularly during periods of peak demand on the network.

The year saw our *energyanswers* team, 1800 ENERGY, respond to more than 58,500 enquiries regarding energy efficiency and small-scale renewable energy generation, and offer more than 700 small businesses a subsidised energy audit as part of the Energy Efficiency for Small Business Program and Energy Saver program for large business.

Supporting these initiatives, we also worked with local councils to offer regional communities energy efficient and cost effective streetlighting options. If adopted, the *Energy Efficiency Streetlighting Program* could potentially see the replacement of around 88,000 existing streetlights with new, energy efficient street lighting technologies.

Essential Energy continues to operate a financially prudent and responsible business, achieving a strong financial result for the reporting period with earnings before interest and tax of $464.1 million, significantly ahead of budget expectations. This good result can be attributed to the strong performance of the former retail business and is particularly pleasing given the lower network sales volumes due to milder weather across our network area over the summer months.

Our Essential Water business – an operating division of Essential Energy – also recorded strong achievements, delivering a $3.4 million investment in essential infrastructure. This brings the total amount invested since its formation in 2004 to $74 million.

Heavy rains in the state's Far West secured local water supplies for at least the next two years and saw water consumption levels fall as household reliance on tap water decreased. Importantly, Essential Water continued to deliver safe, quality drinking water, and recorded no aesthetic or health-related breaches during the reporting period in line with the guideline values in the Australian Drinking Water Guidelines (ADWG).

As the new financial year commences, we are only too aware that change will continue to be a key theme, and we must set the pace as the industry evolves, customer expectations increase, and new technologies emerge. We're preparing for these challenges through a number of strategic initiatives.

Essential Energy's Organisational Blueprint defines our future and focus, and guides decision making through the immediate transformation to a network services business. It also supports the delivery of our Network Plan by providing a foundation on which resourcing requirements and continuous business improvement can be implemented.

We have already committed to fostering an innovative approach with our Continuous Business Improvement (CBI) team developing a framework to enhance operational efficiencies and empower employees to 'think outside the square'. The team has delivered strong results with a four per cent productivity gain registered across areas of the business that have participated in the program.

Our Network Vision 2025 provides an overarching strategic framework to ensure today's decisions and investment support future network and community needs to 2025. It anticipates challenges and opportunities, responds to our changing operating environment and reflects the innovation of our employees.

One of the greatest advancements facing the energy industry today is the deployment of new 'smarter' technologies that are set to revolutionise the way that electricity is distributed and monitored. As part of Essential Energy's Intelligent Network (IN) strategy, and building on the benefits gained from our Research and Demonstration Centre established in Queanbeyan in 2008, we launched our first IN Community pilot in Bega, on the state's South Coast in April 2011.

The IN Community pilot works with customers to determine the best way for Essential Energy to roll out intelligent equipment, while enhancing the local network. What we learn from the pilot will help inform national approaches to the eventual creation of an automated and intuitive electricity system across our network, which will improve supply reliability and make energy efficiency simpler for customers.

In June, the NSW Government's Network Review Taskforce commenced a review to develop options associated with existing electricity distribution network boundaries. Essential Energy has participated in the review, providing expertise as a specialist regional network distribution business with an established history of strong performance servicing a wide area of the state in delivering essential services and community support.

While ongoing change is inevitable we will be unwavering in our commitment to our core responsibility of delivering safe, reliable and value-for-money essential network services to our regional customers, and a trusted part of our local communities.

Essential Energy is well positioned to meet the challenges ahead and deliver on our customer, employee and stakeholder expectations of a leading essential services provider.

Barbara Ward
Chairman

Terri Benson
Managing Director

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About us

As part of the former NSW Government's energy industry reforms, on 1 March 2011 ownership of the Country Energy retail business – including retail electricity, natural gas and LPG customers – and the Country Energy brand name transferred to Origin.

The network services business continued under the new name Essential Energy, with water and sewerage operations in Far West NSW continuing as Essential Water.

As Essential Energy, our core responsibility is the operation, maintenance and investment in electricity and water network infrastructure to ensure the safe and reliable delivery of essential services to families and businesses across rural and regional NSW.

Essential Energy is one of Australia's largest utility businesses, with annual revenue of around $2.3 billion.

Essential Water is an operating division of Essential Energy, with responsibility for the delivery of essential water supply services to around 20,000 people in Broken Hill, Menindee, Sunset Strip and Silverton, and sewerage services to premises in Broken Hill.

Essential Energy remains a State Owned Corporation (SOC), responsible for operating Australia's largest electricity network, with more than 200,000 kilometres of powerlines, 1.4 million power poles and 135,000 distribution substations spanning 95 per cent of NSW, parts of southern Queensland and northern Victoria.

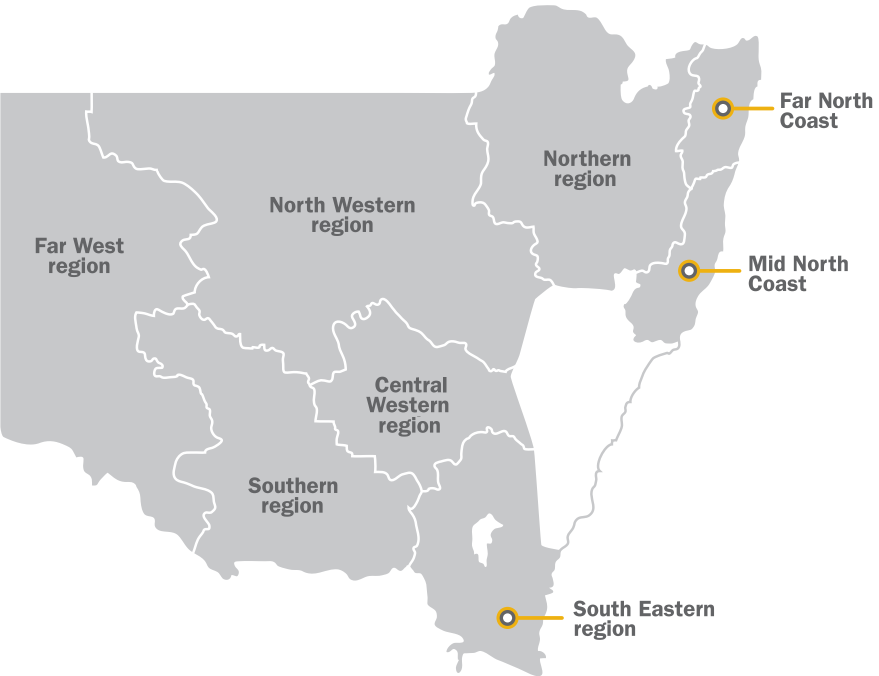
Under a Transition Services Agreement (TSA) – which formed part of the retail sale – Essential Energy continues to deliver retail services to more than 700,000 electricity and natural gas customers on behalf of Origin for a period of up to 43 months.

With around 4,600 employees based in 147 Essential Service Centres and depots, eight key regional offices and business centres in Sydney and Newcastle – Essential Energy is one of the largest employers in regional NSW.

The decentralised regional structure allows Essential Energy to respond to local needs and drives consistently strong customer service performance and encourages community trust in our capabilities to deliver safe and reliable essential services.

Redefining our position as a network services business, Essential Energy continues to seek better technologies, greater efficiencies and deliver value for money essential services to customers well into the future.

Essential Energy's regional operating area



Emerging technologies, ageing infrastructure and growing energy demands pose challenges and opportunities that require significant investment and resourcing.

As part of our five-year Network Plan, Essential Energy has committed to invest $4 billion in capital and $2 billion in operating costs from 2009 to 2014 to refurbish and grow our electricity network.

As a network services business, we recognise the importance of managing demand on our network, and of providing customers with information on how they can become more efficient, through energy and water management solutions. Our *energyanswers* program (1800 ENERGY) educates our customers about their energy consumption patterns – encouraging behavioural changes, especially during times of peak demand.

We are also committed to providing meaningful and sustainable career opportunities for rural and regional people – supporting regional development and local economies.

Since 2001, 1,029 new apprenticeships have been created – providing recruits with the skills and training to establish long-term careers within their local communities.

Essential Energy plans to recruit a further 300 apprentices between 2011–2014 to help resource our five-year Network Plan.

Our strategy 2010–2011

Essential Energy's strategy defines our long-term direction and sets key priority areas on an annual basis.

Our 2010–2011 Strategy Statement aligns with Essential Energy's objectives as outlined in the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*.

It takes into account industry analysis and was developed in parallel with our annual business planning cycle.

Our ambition

Together, we can be Australia's leading provider of essential services and a vital part of our communities.

Our priority areas

Our four key priority areas – safety, service, value and sustainability – will continue to drive performance and change across the business.

Measuring our success

We'll measure our results across Key Performance Indicators (KPIs) in the priority areas of safety, service, value and sustainability.

Planning for 2011 and beyond

Essential Energy's Organisational Blueprint was developed during the year to define Essential Energy's future and focus and guide decision making through the immediate transformation to a network services business. It also supports the delivery of our Network Plan.

It is built on the foundations of seven key priority areas – safety, infrastructure, people, customers and stakeholders, financial management, sustainability and the environment.

Underpinning this is Network Vision 2025 – our vision for the electricity network of the future. Developed following extensive consultation with employees, it helps define what our network will need to respond to in 2025 and what needs to be delivered to achieve the best outcomes for customers, stakeholders and the network business.

Essential Energy's key focus areas:

> Manage a network business that ensures employee and public safety

> Deliver network products and services that are valued by our customers, communities and shareholders

> Drive enhanced network and financial performance as part of being an efficient network asset manager

> Pursue new thinking and innovation to reshape the network business to meet current and future growth.

Structuring for success

Following the sale of Country Energy's retail operations to Origin, Essential Energy's Executive and Board commenced a restructure of our operations to drive efficiencies across the business. A pivotal part of this was to support the business processes and critical decision making required to be a successful network services provider.

The new structure ensures we are best placed to deliver our network management plan and contractual obligations to Origin as part of the retail sale.

Three divisions have prime responsibility for the delivery of our five-year Network Plan:

> Infrastructure Strategy – monitors delivery of the investment plans and set expectations; defines strategic direction and develops procedures to manage investment allocations; monitors performance and report on investment outcomes

> Engineering Services – plans investments; designs, operates and controls access to the systems and network; and delivers major projects

> Infrastructure Operations – establishes and maintains service capabilities and designs and delivers smaller projects.

These three divisions are supported by:

> The Office of the Managing Director – responsible for ensuring efficient administrative functions; and governance and workplace matters including the Company Secretary, Workplace Relations and Workplace Investigations functions

> Human Resources and Safety – a major focus on the resourcing required to deliver our network investments while maintaining the safety of the public and employees; and ensuring our natural environment is protected

> Corporate Strategy and Communications – a focus on our long-term corporate strategic planning, continuous business improvement and commercial development and the delivery of internal and external communications, corporate marketing and sustainability functions

> Finance and Information Technology – responsible for all corporate financial functions, risk management and the delivery of corporate information technology strategy and services

> Organisation Transition Division – responsible for ongoing provision and smooth delivery of a variety of services to customers on behalf of Origin for the duration of the TSA. The services contracted are outlined in schedules that formed part of the retail sale documentation and have daily, weekly and monthly deliverables that are measured by Key Performance Indicators (KPIs). Organisation Transition will also manage the smooth integration of Essential Energy retail employees into a network services business during and at completion of the TSA.

Gas networks

Essential Energy's gas network business was sold to Envestra Transmission Pty Limited (a subsidiary of Envestra Limited) on 29 October 2010.

Essential Energy continued to manage the operations of the network on behalf of Envestra Transmission Pty Limited under a TSA in place until 30 June 2011. The TSA ensured continuous gas network services for customers while the transaction was finalised.

Essential Energy guaranteed the jobs of 20 gas network employees based in Queanbeyan and Wagga Wagga. These employees were given the option of taking up offers to work with the new owners or staying with Essential Energy in electricity-related roles in their current locations.

Performance highlights

We will be a leading provider of essential services in regional Australia and a trusted part of our communities

Our priorities	Key performance indicators	Our performance
> Safety	Lost Time Injuries (LTIs)	21 and 31 in previous year. Our performance was favourable when compared with NSW distribution network service providers
	Lost Time Injury Frequency Rate (LTIFR)	2.4 LTIs per million hours worked. This was favourable when benchmarked against NSW distribution network service providers
	Lost Time Injury Severity Index (LTISI)	37 days lost per million hours worked – an improvement on last year's performance and favourable when compared with NSW distribution network service providers
	Manual handling – number of Workers Compensation claims attributed to manual handling	144 and 150 in previous year – this figure stood at 220 in June 2008
	Safety audits	96% and 99% last year
	Australian Standard AS/NZS 4801:2001 Occupational Health and Safety Management Systems	Achieved
> Service	Corporate Reputation Rating – is derived from a survey asking participants to rate reputation on a scale of 1 (very poor) to 5 (excellent). The survey includes opinion leaders from within the Essential Energy network area and customers from both within and outside of the Essential Energy network area to provide benchmarking capability	67% and favourable when benchmarked against NSW distribution network service providers
	Corporate Reputation Survey – responsible provider of an essential service	86% of respondents 'agreed' or 'strongly agreed' that Essential Energy was a responsible provider of an essential service. Our performance during the year was favourable when compared with NSW distribution network service providers
	Corporate Reputation Survey – provides reliable electricity supply	83% of respondents 'agreed' or 'strongly agreed' that Essential Energy provided reliable electricity supply
	Customer first contact completion – the percentage of general enquiries issues resolved at first contact	97% and 96% in previous year
	Contact centre performance level – percentage of calls answered within 30 seconds	79% despite a 5.5% increase in customer call volumes
	Delivery of the Network Plan – measure progress of capital and operational programs	84% – Severe weather and wet conditions across our operations hampered the ability of field crews to access sites and undertake planned works within designated timeframes. The programs not completed in this financial year will be completed by the end of the five-year regulatory period 2009–2014
	System Average Interruption Duration Index (SAIDI) normalised average customer minutes without supply – for all feeder (powerline) classes Essential Energy wide	238 minutes without supply per customer
	System Average Interruption Frequency Index (SAIFI) normalised average customer interruptions – for all feeder (powerline) classes Essential Energy wide	2.14 interruptions per customer
	Average customer minutes without supply for urban feeder powerlines	66 minutes per customer
	Average customer minutes without supply for short rural feeder powerlines	245 minutes per customer
	Average customer minutes without supply for long rural feeder powerlines	493 minutes per customer
	Australian drinking water guideline health breaches	Zero breaches
	Australian drinking water guideline aesthetic breaches	Zero breaches
> Value	Planned outage management	81% of planned customer outages started and finished within 15 minutes of nominated time and customer had been notified
	Domestic complaint resolution – percentage of complaints resolved within four days	91.7% and comparable to last year's performance of 92%
	Number of Ombudsman matters	111 network matters escalated to the Ombudsman in the period October 2010 to April 2011 – this was favourable when compared to NSW distribution network service providers
	Earnings Before Interest and Tax (EBIT)	$464.1 million
	Return on assets	7%
> Sustainability	Unscheduled sick leave	5.1 average days per person and 5.4 days in previous year
	Apprentice Recruitment Program	Recruited 102 apprentices taking total of new apprenticeships created since 2001 to 1,029. Plan to recruit 114 apprentices in January 2012 – our largest single intake of apprentices
	Carbon emissions – whole of business *Carbon Reduction Program*	Our operational-based (direct) carbon emissions decreased from 63,844 tonnes of CO_2-e in 2009–2010 to 52,561 tonnes of CO_2-e – a significant saving of 11,283 tonnes of CO_2-e and equivalent to taking more than 2,821 cars off the road for a year
	Environmental compliance	99%
	ISO 14001 certification	Achieved

Safety and health

OUR NUMBER-ONE PRIORITY

We are very proud of our reputation as an industry leader in health and safety. However, we are only too aware that we cannot be complacent.

With the significant scope of our operations and the hazardous nature of working with electricity, it's essential that safety remains Essential Energy's number-one priority.

When it comes to safety there is no single intervention. At Essential Energy, we believe it is a matter of continuously working on building a sustainable safety culture – a culture where safety is inherent in everything we do.

We are very proud of our reputation as an industry leader in health and safety. However, we are only too aware that we cannot be complacent.

After a disappointing performance in the previous year, a vital part of this reporting period has been sharpening the focus and delivering programs that keep safety at the forefront of the minds of our employees, contractors and communities – reinforcing a *Safety First* culture where everyone watches out for their workmates, families and local communities.

While we haven't yet achieved our vision of *Zero Harm* in the workplace, we are very proud of our achievements during the 2010–2011 reporting period.

Our results are particularly pleasing when you consider that our employees in the field carried out our largest program of work to date on our network, as part of our five-year Network Plan – highlighting the strength of our targeted safety, health and wellbeing programs.

Safety first – A performance snapshot

The year saw us improve our safety performance across all major measures, and again Essential Energy compared favourably when benchmarked against the NSW industry average for network service providers.

Essential Energy's Lost Time Injury Frequency Rate (LTIFR) reduced from 3.5 to 2.4 lost time injuries per million hours worked. Our Lost Time Injury Severity Index (LTISI) continued this trend, decreasing from 46.3 days lost per million hours worked to 37.5 days, as at 30 June 2011.

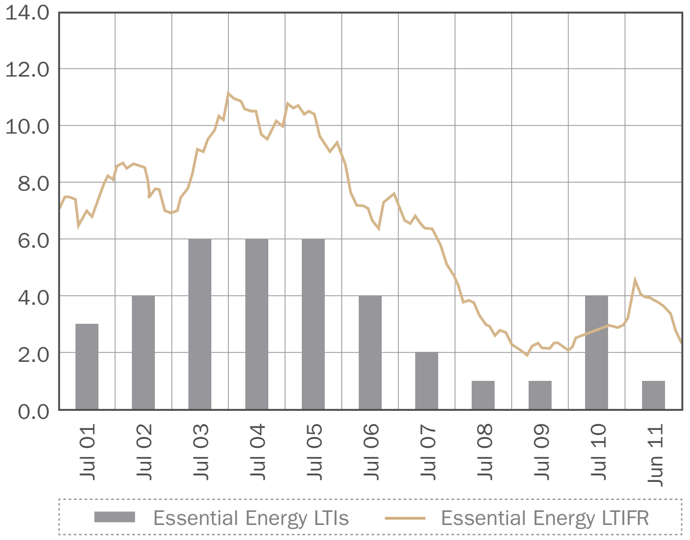
We also recognised 104 workplaces that have maintained a safety record of five years or greater without a Lost Time Injury (LTI) – an increase of 11 sites on the previous year.

During the year, members of Essential Energy's Executive team joined Walcha Depot employees to celebrate a 20-year LTI free milestone. Given the average number of employees working in the depot over that period, this equated to around 310,000 work hours.

Essential Energy's LTISI performance

2006	2007	2008	2009	2010	2011
102.7	80.4	50.1	45.8	46.3	37.5

Essential Energy Lost Time Injury Frequency Rate (LTIFR) **and Lost Time Injuries** (LTIs) from July 2001



Management systems

At Essential Energy we are proud of our robust safety management systems. Our Safety, Security, Health and Environment Management System (SSHEMS) again retained certification to *AS/NZS 4801:2001 Occupational Health and Safety Management Systems* and *ISO 14001:2004 Guideline for an Environmental Management System.*

A key aspect of our SSHEMS is that it is not just a plan, a framework or system, but a living part of how we operate – brought to life through a corporate guideline known as the SSHEMS Manual.

The system has been developed over many years in consultation with management, staff and health and safety representatives. It has been designed to engage the whole workforce, across all levels, so individuals have clear responsibilities and accountability for safety, security, health and environmental performance.

Internal auditing of Essential Energy's SSHEMS is an important process to ensure maintenance of our certifications to AS4801 and ISO14001. In the past financial year, 941 safety process audits – focusing on premises, work teams and individuals – were conducted against our target of 967. The audit results reflected a significant achievement in safety and environmental performance, exceeding our targets of 96 per cent for both safety and environment by scoring 98.1 per cent and 98.6 per cent respectively.

During the year, we commenced development of a new module for TotalSAFE – Essential Energy's Safety and Environment Information Management System – to facilitate electronic notification and management of compliance-related activities. Automated notification of obligations and compliance tasks, legislative changes and a direct link to user requirements will form a commitments calendar that will improve accountability and management of safety, health and environmental obligations.

Workers Compensation Claims	2007–2008	2008–2009	2009–2010	2010–2011
Manual handling claim numbers	220	173	150	144
Total claims	445	369	369	330
Percentage manual handling from total claims	49.4	46.8	41	44
Percentage employees – manual handling claims	5.2	4	3.4	3.2
Employee ratio with manual handling claims	1 in 19	1 in 25	1 in 29	1 in 31
Average cost of claims	$1,167	$1,362	$1,149	$808

Manual Handling program

With manual handling identified as the main contributing factor to workplace injuries we continued the delivery of our *Manual Handling Solutions Program.*

The program is aimed to educate and encourage employees to find better ways to complete work tasks by developing practical or engineering solutions to eliminate or reduce the risk of injury, and share solutions with the rest of the business.

In recognition of the value of the program, it was named a finalist in the 2010 NSW SafeWork Awards *Best solution to an identified workplace health and safety issue* category.

The success of the program and our strong focus on managing incidents, and all types of injuries, has resulted in a marked improvement in the level of incident reporting across Essential Energy, as well as our medically treated injury (MTI) and workers compensation claims' performance.

All reporting measures remain positive to target, achieving strong results in the following categories: productivity measure of claim cost per full-time employee – 22 per cent better than target; our cost of manual handling claims 40 per cent better than target; and our return to work rates remaining strong.

Additionally, we have achieved a 20 per cent reduction in the number of MTIs recorded over the past five years – recording 244 this reporting period compared to 306 in the 2006–2007 financial year.

Electricity Supply Industry Field Days success

The 2011 *Electricity Supply Industry (ESI) Field Days* hosted by Essential Energy in Wagga Wagga brought together professionals from across the electricity, water, mining and rail industries in the name of safety.

The Field Days featured hands-on activities for all attendees, team challenges, demonstrations, exhibitions and workshops. The event also provided opportunities for field crews and safety specialists from across the industry to share knowledge, develop ideas and sharpen existing skills and safe work practices to provide a better service for customers and enhance the safety of employees.

The safety challenge component of the event set realistic tests of day-to-day tasks that not only keep essential services supplied, but also the public and energy workers safe.

Health activities were also a major focus with a *Pit Stop Men's Health Circuit* available to participants.

We successfully implemented a variety of changes to the format of the event, with some of the practical tests, such as the *Laneway Challenges*, redesigned to simulate real-life scenarios for crews. Rather than being a race against time, teams were recognised for their use of best-practice guidelines in all areas tested.

Our new approach was extremely successful and widely acclaimed – and will be fine-tuned in July 2012 when Essential Energy hosts the event in Coffs Harbour.

National award for safety focus

During the year, Essential Energy's Manager Tools and Personal Protective Equipment, Daniel Germany, won gold in the *2010 NSW Safe Work Awards* and followed this with a win in the annual *Safe Work Australia Awards.*

Daniel took out both awards in the category of *Best Individual Contribution to Workplace Health and Safety* for his ground-breaking workplace safety initiatives that included working with manufacturers and employees to redesign pole platforms and fall arrest harnesses to reduce risks to workers.

The state and national recognition of Daniel's commitment to the safety and wellbeing of Essential Energy's employees is well deserved – with 22 years industry experience, Daniel is one of our many professionals who show true dedication to keeping workmates safe by making sure they have the best tools and equipment to work with.

Switch your Thinking

As part of our commitment to continuous improvement across all aspects of the work our field teams undertake, Essential Energy launched a company wide safety initiative – *Switch your Thinking*.

The program commenced with a series of workshops rolled out to all field employees, featuring compelling DVD footage of an electricity switching incident, where failure to follow procedural steps led to an employee suffering a serious injury.

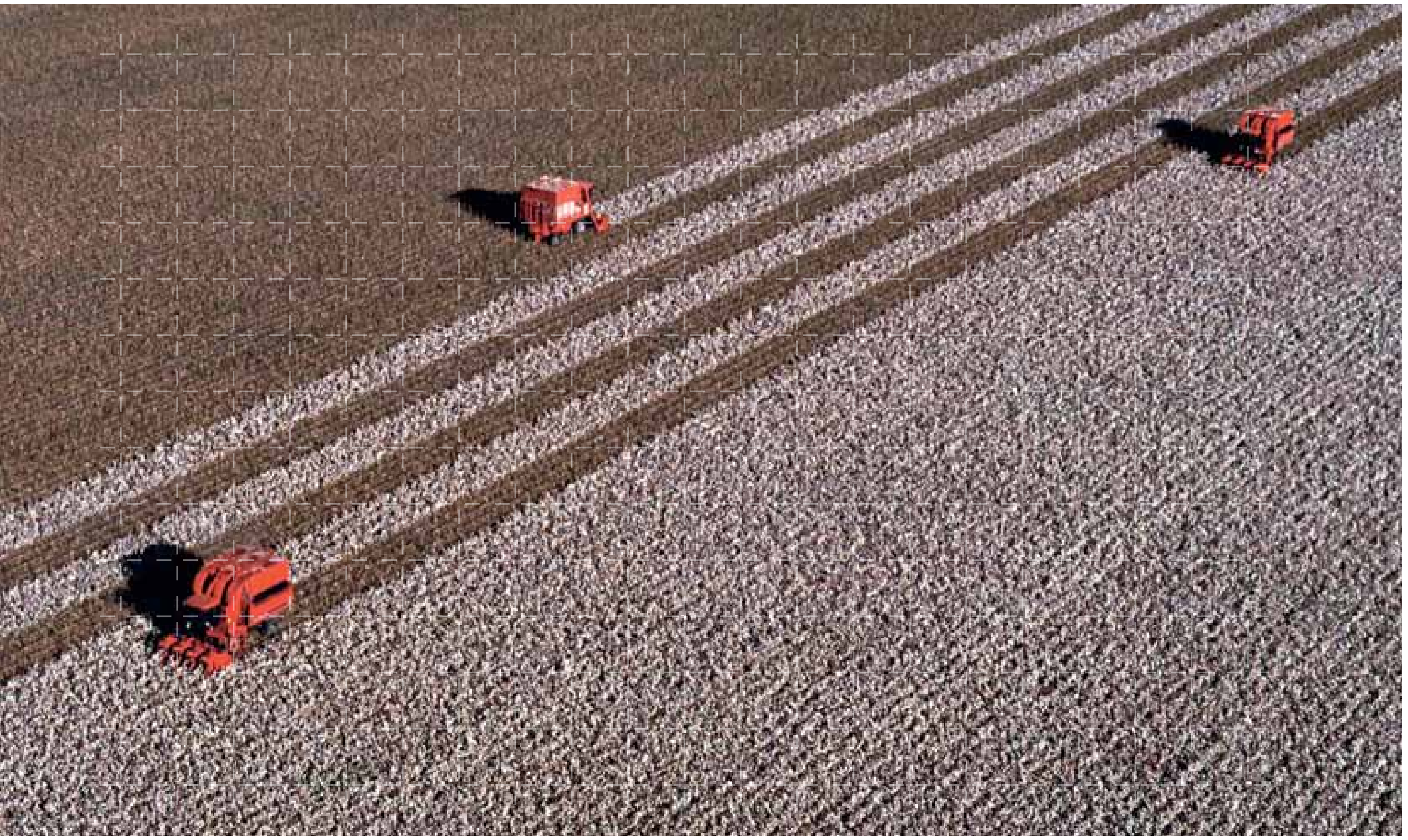
The safety DVD and workshop focused on solutions, not blame, as part of Essential Energy's drive to *Zero Harm*. In line with this, employees were asked to provide practical solutions and feedback on how the switching process could be improved at Essential Energy.

More than 1,600 responses were received and refined to develop strategies and direct actions to eliminate the risks based on four key focus areas – mobile phone usage, improvements to communication, better work practices and improvements to training and accreditation systems – and identified measurable actions that would work in the field.

One of the more practical solutions coming from the program was the development of a sticker highlighting the *8 Step Rule for Switching* – a critical tool which forms part of the operational procedure for switching communications and control.

These stickers will be prominently placed in all Essential Energy field vehicles in a bid to improve employees' focus on safety during switching activities and to keep safety top of mind, to reduce the risks of serious injury.

A comprehensive implementation plan detailing the actions, identifiable changes, time frames and performance indicators will be developed in 2011–2012 to further measure the success of the program.



Public Safety incidents

Essential Energy's *Public Electrical Safety Awareness Plan* provides strategies to raise public awareness of the numerous hazards that may result from contact with the electricity network and provide simple yet effective ways to minimise risk.

Our strategy of targeting 'at risk' groups – providing education and assistance to help prevent and solve electrical safety issues – is the key to reducing the number of public safety incidents.

A total of 279 public electrical safety related incidents occurred during the financial year – well above our target of 180 and a significant increase on last year's performance. Increased agricultural activity and bumper harvest seasons across regional NSW contributed to the steep rise in incidents, with the majority involving crop dusters, tractors and harvesting equipment coming into contact with our infrastructure.

Essential Energy consults widely and tailors practical, effective training sessions free of charge to 'at risk' groups including emergency services, earthmovers, construction workers, cotton growers, pilots, transport groups and relevant local and state government workers.

During the year, much has been done to raise awareness of potential hazards in these groups, including targeted print media and radio campaigns, face-to-face door knocks, and *Electrical Hazard Awareness* presentations to industry groups and farmers in the lead up to harvest season, and attendance at agricultural field days.

As part of our commitment to public safety and education, and to reduce the number of electrical safety incidents, the next financial year will see an expansion of our public safety awareness program – delivering an increased number of targeted and revitalised sessions to the agricultural and transport sectors.

Other initiatives include:

> The development of a series of Public Safety Electrical Hazard Awareness DVDs in a joint venture between Essential Energy, Ergon Energy, Endeavour Energy and Ausgrid

> The roll out of a large scale educational program to all primary schools in Essential Energy's network area as part of Electricity Safety Week. The educational resources are aimed at raising awareness of the hazards associated with electricity and teaches students how to be safe around electricity

> The resources have been developed with the NSW Department of Education and Training and align with the Board of Studies science and technology and PDHPE syllabuses – offering an Electricity and Safety unit book with lesson plans for teachers with classes in Years 5 and 6

> These have been translated into four interactive SMART Board lessons with flash activities, videos and virtual experiments to encourage electrical safety awareness targeted specifically at primary school children. These SMART Board resources will be uploaded to Essential Energy's website for teachers to download and provide to students.

Powerful Health

At Essential Energy we understand that good health can help reduce absenteeism and workers compensation costs, as well as improve morale, and contribute to the quality of life for employees and their families.

With this in mind, our *Powerful Health* program continued to provide a comprehensive structure for promoting physical and mental wellbeing to enhance employee's overall health and wellbeing which in turn assists their work performance.

Powerful Health offered a range of activities during the year including: influenza vaccinations; skin cancer subsidy; $99 Corporate Subsidy for specified health and fitness activities or equipment; a health assessment or contribution towards private health insurance costs; $500 grant subsidy for group activities, including team sports, meditation, weight loss or quit smoking; 10,000 steps program; and corporate health events.

A major focus of the program this year was to encourage employees to use their $99 subsidy for a health assessment. The assessments proved popular, with many employees undertaking further activities to help them improve their general health, fitness and target areas identified at the assessment.

Powerful Minds

Essential Energy is committed to both the physical safety and mental health wellbeing of our employees, and continues to develop a risk management approach to mental health through our *Powerful Minds* program.

An ongoing focus has been to increase understanding of mental health issues and to promote early interventions to help identify symptoms of stress in the workplace. As part of this process our fully qualified in-house trainers ran seven *Mental Health First Aid* courses during the year with 140 employees participating.

A major focus of the year was researching an approach to better identify psychological risk factors in the workplace, and to provide emotional resilience training options. The implementation of a pilot is due to occur in 2011–2012.

Essential Energy's Assets and Logistics Officer, Kellie Lane, has achieved a 23 kilogram weight loss and improved her overall fitness since undergoing a health assessment a year ago.

'The assessment was a great benefit and the *Powerful Health* subsidy has really helped towards the cost of equipment and uniforms,' Kellie said.

'I now go to boxing and Muay Thai training four times a week and it has really changed my life – I absolutely love training and am feeling healthier and fitter each week.'

Essential Energy's Property Coordinator, Les Greenwood, kicked his pack-a-day smoking habit after 30 years thanks to the assistance of the *Powerful Health* program.

After attempts at hypnotherapy, gum and patches, Les undertook a new, non-intrusive laser treatment, using his *Powerful Health* subsidy.

'Smoking was my biggest health issue and I thought I'd use my subsidy to have another go at quitting,' said Les. 'The treatment was painless and it wasn't until a couple of hours later that I noticed I hadn't had a smoke – that proved to be my last one.'

Safety Culture initiative

Essential Energy's safety goal is *Zero Harm*, and we took great strides in our drive to achieve this with the commencement of our *Safety Culture* initiative.

The program aims to understand and build on existing activities and behaviours that have contributed to improvements in industry and workplace safety performance and the prevention of incidents.

Here's a list of the program's achievements which will assist in the development and modification of existing safety and health programs:

> Conducted internal focus groups and surveys to gain an understanding of Essential Energy's existing safety culture and target areas for improvement that would positively impact on performance

> Introduced the Worksafe Process that provides a one-stop shop for survey trends and focus group information, including information on behaviours or culture that is negatively impacting safety performance

> Conducted a three-month Behavioural Observations and Conversations trial. The process adopted a safety coaching approach, with Essential Energy's regional safety coordinators and environmental auditors observing practices and recording discussions with employees across our eight regions. Initial evaluation provides support for a safety coaching program that could complement and run simultaneously with our existing regional safety and environmental audit cycle.

Drug and alcohol testing trial

As part of Essential Energy's commitment to provide a safe work environment, a random drug and alcohol testing trial was introduced, designed to reduce the risk of safety incidents and improve the health and wellbeing of employees.

The six-month trial was implemented following the introduction of our *Drug and Alcohol Policy* which, in consultation with industry unions and other NSW network service providers, is aimed at developing an industry-wide approach to effectively manage drug and alcohol issues in the workplace.

Four Essential Energy locations participated in the random drug and alcohol testing, including all employees and contractors present at that site on the testing day. The results of the trial were used for statistical analysis only and were not recorded against the employee's record.

Employees who presented a positive drug or alcohol (0.05 or above) result, were offered assistance under a *Drug and Alcohol Management* program, incorporating counselling and referral to appropriate community based services.

Essential Energy engaged the National Cannabis Prevention and Information Centre to provide specialist awareness and education services and an online education package prepared by an expert in the field.

Following the six-month trial, further consultation is being undertaken with our Health and Safety Regional Improvement Groups (HASRIGs), unions, Ausgrid and Endeavour Energy, with a view to adopting and implementing a consistent industry-wide approach.

Powerful Apprentice program

In 2008, Essential Energy introduced *Powerful Apprentice* – an innovative pilot program aimed to strengthen our injury-prevention strategies by addressing the risk of safety incidents, health issues and contributing social factors that impact on an employee's wellbeing.

Powerful Apprentice was developed following a review of Essential Energy's workers compensation statistics that showed our apprentices were consistently over represented when compared to our broader workforce.

With severe skills shortages across the industry, and an ageing workforce nearing retirement, we recognised that employee wellbeing was the key to retaining and developing the skills necessary to deliver essential network services to regional communities well into the future.

The program was developed with an understanding that apprentice needs were different to that of the qualified workforce, due to the nature of their work experience and their individual physical and physiological characteristics.

Now in its fourth year, the *Powerful Apprentice* pilot targets first year apprentices and provides them with tailored education and assessments aimed to identify their risk profile and take corrective measures early to prevent injuries.

This includes exposure to:

- Individual physical assessments
- Core stability theory and practical education
- Manual handling theory and practical education
- Functional movement theory and practical education
- Anti-bullying and anti-harassment and building a respectful workplace
- Mental Health First Aid training
- Functional stability for work and home education
- Psychometric testing and personality profiling
- Review of work practices
- Individual physical reassessments.

The safety results of those apprentices undertaking the program have been positive – posting lower workers compensation statistics than the control group apprentices over the first three years of the four-year pilot.

The lessons learned will be incorporated into Essential Energy's overarching *Apprentice Lifecycle* strategy, and delivered to all apprentices commencing in our targeted record intake of 114 new apprentices in 2012.

The revised program will play a crucial role in developing the skilled and motivated workforce needed to deliver Essential Energy's five-year Network Plan to secure essential energy services well into the future.

Testimonials

Tim Shute, Apprentice Powerline Worker, Wagga Wagga

'I found the Powerful Apprentice program to be really useful, particularly for injury prevention. Just taking the time to learn and understand things like the importance of core strength was really interesting. This information came in handy when performing routine duties in the field like lifting loads into place and changing cross arms. Better still, it also improved my balance when riding motorbikes in my spare time.'

Chris Dunlop, Apprentice Powerline Worker, Albury

'I liked the approach of the program – it focused on preventing injuries instead of waiting for injuries to happen. The performance assessments were really great as they pointed out your weaknesses and came up with ways to do things better and safer. I personally found that it makes you think before you act – and the program works as a lifestyle change. I would definitely support the introduction of the program for all future Essential Energy first-year apprentices.'

Telemedicine

It has long been acknowledged that access to rural and regional medical services can be difficult due to remote distances and medical skill shortages in some areas.

These medical access issues were impeding our employees' ability to recover from injury and return to work in reasonable time frames.

In recognition of this, Essential Energy, in collaboration with Employers Mutual Limited, WorkCover NSW and Quality Occupational Health, developed and implemented a trial to deliver medical consultations remotely to employees in their workplace.

The delivery of Telemedicine services is common practice among public health practitioners, however has not been trialled in an occupational health setting before. The trial has established a precedent for occupational health management and practices.

The program's benefits were immediately visible:

- A reduction in the number of consultations required to return an employee to pre-injury duties – from three consultations to 2.35 on average
- More than $1,000 reduction in average claims costs – around $1,505 for Telemedicine claims compared with approximately $2,544 for normal claims
- Successful and timely referral of the employee to local service providers, such as physiotherapy, as required
- Improved patient communication between medical providers ensuring continuity of care
- Immediate access to medical appointments
- Management of injuries by qualified Occupational Physicians instead of busy general practitioners
- 'Fit for pre-injury duty' certificates were issued within one to three consultations in 90 per cent of claims
- Of 22 consultations, only one 'unfit for duty' certificate was issued due to a serious knee injury
- The total cost of the program is equivalent to one significant workers compensation claim – demonstrating substantial cost savings
- A reduction in the number of injuries progressing to Lost Time Injuries (LTIs) as a result of a thorough understanding of the NSW Workers Compensation system by the medical practitioner, and their willingness to understand the nature of our work and provide best practice occupational health care
- Telemedicine is helping to significantly reduce the number of LTIs recorded – with just one LTI recorded out of 23 cases compared to one LTI per 10 cases for non-Telemedicine services.

As a result of the trial, WorkCover NSW and Employers Mutual Limited are currently working together to develop the necessary frameworks that will allow the introduction of Telemedicine services as standard industry practice – reshaping the future delivery of workplace injury management.

Essential network services provider

BUILDING, OPERATING AND MAINTAINING AUSTRALIA'S LARGEST ELECTRICITY NETWORK

Times are changing, and as a critical part of the electricity supply chain we're not immune to the challenges facing the electricity industry.

Essential Energy is responsible for building, operating and maintaining Australia's largest electricity network – delivering essential network services to more than 800,000 homes and businesses across 95 per cent of NSW, parts of southern Queensland and northern Victoria.

- **More than 200,000 kilometres of powerlines**
- **Approximately 1.4 million power poles**
- **Around 140,000 streetlights**
- **Around 135,000 distribution substations**
- **More than 300 zone substations with the majority remotely monitored and controlled by Supervisory Control and Data Acquisition (SCADA) systems**
- **More than 800,000 network customers depend on Essential Energy for safe, reliable and affordable essential services.**

For network services providers like Essential Energy, times are changing, and as a critical part of the electricity supply chain we're not immune to the challenges facing the electricity industry.

From energy industry reforms and the drive to address climate change, through to the ever-changing requirement to meet new statutory obligations and customer needs, the business of distributing electricity has never been more complex.

Some of the challenges we face today include:

> A growing number of assets reaching the end of their economic and practical life cycle

> Mitigating the risks associated with a vast overhead network exposed to the elements

> Dealing with the issues that are inherent within our network due to the vast distances and diversity of terrain it traverses

> Responding to the changing regulatory environment

> Planning for population growth, increasing energy demands and new connections

> Addressing environmental management, including finding better ways to integrate renewable distributed generation, and helping our customers change their consumption patterns to reduce demand on the network

> Ensuring we have skilled employees in place to deliver our program of investment plans and respond effectively to faults and emergencies

> Transforming our 20th-century network into a responsive Intelligent Network of the 21st century, to deliver cost effective alternatives to traditional investment, improve reliability, support the growth of renewables and make energy efficiency simpler for customers

> The identification of ongoing initiatives that can reduce the likelihood of bushfires being initiated by our assets.

Every five years our Network Plan is independently assessed by the Australian Energy Regulator (AER) to ensure our investment program and likely expenditure is prudent and efficient.

Our five-year Network Plan

Our ongoing Network Asset Management Plan explains how we'll tackle the challenges we face today, and is updated annually to outline the capital and operational works programs required to meet community expectations for the delivery of safe, reliable and affordable essential services.

We recognise that increased capital investment in the network is funded by adjustments to customer prices. That's why every part of our investment mix is scrutinised to maximise customer satisfaction by balancing service levels with costs.

Essential Energy operates in a rigorously regulated environment and must ensure that our Network Plan and operational capabilities comply with the many licensing, regulatory, safety and legal requirements of state, federal and industry bodies, including the Australian Energy Regulator (AER).

Every five years our Network Plan is independently assessed by the AER to ensure our management programs and likely expenditure is prudent and efficient.

The current AER determination covers the period 1 July 2009 to 30 June 2014 and Essential Energy received approval to invest almost $4 billion in capital expenditure and a further $2 billion in operating expenditure.

The AER's regulatory determination recognised that Essential Energy needs to invest significantly in the network to renew ageing assets, meet safety requirements and deliver better reliability in the future.

Additionally, the AER independently reviews and approves our annual network investment – ensuring proposed network upgrades represent the best value for money option to meet and secure local energy supplies for communities.

To fund this program, the AER allowed for an average 19.5 per cent increase in Essential Energy's regulated network electricity prices from 1 July 2010.

Network Plan performance 2010–2011

The 2010–2011 financial year marked the second year of our five-year Network Plan, and by year's end we had delivered around $751 million in network investment and $392 million in maintenance programs.

Essential Energy will build on this works program in the next year by delivering a forecast $1,228 million in capital and operational expenditure – catering for regional development and the growing needs of families and businesses in rural and regional NSW.

Weather events experienced across Essential Energy's network over the past year hampered the efforts of field crews to deliver some of the planned works outlined in our Network Plan, with flooding and soaking grounds making it difficult for our crews and heavy fleet to access areas of our network.

Despite this, here are some of the significant achievements of our programs of planned works delivered during the past year:

- **35** kilometres (km) high voltage underground cable installed
- **67** km low voltage line installed or upgraded
- **733** km high voltage line installed or upgraded
- **429** reclosers installed
- **281,694** pole inspections
- **13,095** pillar inspections
- **123,980** network maintenance tasks completed
- **1,255** padmount substations inspected
- **24,015** substation earth tests
- **75** padmount distribution transformers installed or upgraded
- **753** overhead distribution transformers installed or upgraded
- **484** gas switches installed
- **18** voltage regulators installed
- **14,319** poles installed or replaced
- **12** km low voltage underground cable installed or refurbished
- **200** km sub-transmission line installed or upgraded
- **12** major zone and bulk supply substations constructed or refurbished
- **122** megavolt amperes (MVA) increase to Essential Energy's available network capacity – that's enough to power more than 40,000 additional average homes.

Some of the benefits Essential Energy's Network Plan has delivered to our customers and the communities we serve include:

- Backup supplies to major townships that were previously supplied with one line
- More powerlines in regional centres to allow us to restore supply to customers following an interruption
- Renewal of the network to keep pace with the ageing assets of our network – to deliver safe and reliable power to homes and businesses
- The installation of new technologies, such as distance-to-fault digital relays that pinpoint the location of faults, and electronic reclosers. Network operators are using these intelligent devices to locate and direct field crews to a likely fault more quickly, as well as sectionalise areas of powerline and reroute supply – reducing the number and duration of supply interruptions and improving responsiveness and operational efficiencies
- A boost for regional employment opportunities with the recruitment of 102 apprentices in 2010–2011 – taking our total number of new apprenticeships created since 2001 to 1029. January 2012 will see the largest single intake of apprentices with 114 apprenticeships on offer.

Investing in our regions – Highlights of the year

South Eastern – Far South Coast power upgrades – $70 million

Construction started on a new powerline between Bega and Eden – part of a five-year $70 million major works investment in the Far South Coast.

The new powerline – a standalone investment of $12.4 million – will provide a reliable back-up supply for residents from Bega to Eden and south to Edrom.

The upgrade will improve power supply reliability and give residents a back-up power source during unplanned supply interruptions or programmed works.

Additionally, several zone substations will be overhauled, with a second powerline between Cooma and Bega under construction to further secure power supplies in the Far South Coast.

Southern – Finley to Mulwala sub transmission line upgrade – $30 million

Essential Energy started work to upgrade around 60 kilometres of powerline between Finley and Mulwala, to improve network reliability and double supply capacity.

Residents in Berrigan, Barooga, Finley, Jerilderie and Mulwala will benefit from the programmed works, while residents in Albury will be delivered power via an alternative power link in emergencies.

Equipment within the Mulwala zone substation will be doubled in capacity to 132,000 volts, further increasing supply capacity and reliability.

When finished, the project will also improve power supply reliability for local major agricultural businesses. Work on the project will continue throughout 2011–2012.

Far West – Buronga Zone Substation – $15 million

Construction of a new zone substation and subtransmission lines in Buronga will meet the current needs of residents in the Wentworth Shire and provide enough capacity to cater for future growing demands.

The new zone substation will also provide residents with a safe and reliable backup power supply in the event of emergencies or during planned works.

A new powerline at Gol Gol will transport electricity from Victoria to Essential Energy's distribution network, while the existing Dareton to Buronga line will be upgraded and used as an alternative supply option.

Central West – Raglan Zone Substation upgrade – $2.2 million

Refurbishment of the Raglan zone substation in Bathurst is nearing completion with the installation of new circuit breakers, protection equipment and a remote monitoring and control system.

The project will increase the facility's capacity and accommodate future growth in and around Bathurst. New smart protection devices will allow crews to remotely diagnose network faults, and a newly automated zone substation will provide better management of the area's power supply, delivering better supply reliability and faster restoration times.

North Western – South Dubbo Zone Substation – $12 million

Construction of a new zone substation in South Dubbo is complete – securing power supply capacity for the city's residents and businesses and improving the reliability of supply.

Dubbo's power supply capacity has increased by around 36 per cent with the new zone substation providing electricity to around 10,000 customers.

The project provides a reliable backup power supply for residents of South, Central and East Dubbo.

The latest switching technology has been installed throughout the zone substation, providing more flexibility to re-route electricity during emergencies or planned upgrades.

Northern – Gunnedah and Tamworth sub transmission upgrades – $7.8 million

The replacement of two powerlines connected to Gunnedah's zone substation was completed on time and within budget despite major flooding delaying field crews' access for several months.

The new powerlines offer increased capacity to cater for growth in the Gunnedah, Keepit Dam and Boggabri areas – securing the power supply to these areas well into the future.

Around 24 kilometres of powerlines were replaced and approximately 30 new, mainly steel, power poles were erected. Steel power poles have proven to better suit the harsh conditions faced by the local area.

Additionally, the construction of two five-kilometre powerlines connected to the South Tamworth zone substation has meant crews were able to remove an old powerline and around 50 timber power poles that dotted residential South Tamworth – improving visual aesthetics for local families.

Far North Coast – Terranora Zone Substation – $4 million

An upgrade to the Terranora Zone Substation has delivered residents in Tweed Heads, Murwillumbah, Cudgen and Banora Point a more reliable power supply that will continue to grow with the community.

New protection equipment and connections were installed to increase system capacity, while changes to infrastructure on site will improve supply reliability.

The upgrade also provides additional options to maintain supply during emergencies, providing greater flexibility to re-route electricity in the area.

Mid North Coast – Eastern Hunter power boost – $26.5 million

Around 30,000 families and businesses from Karuah to Pacific Palms, Bulahdelah to Tea Gardens and surrounding areas will benefit from a $26.5 million investment to renew the high voltage electricity network that supplies power to the eastern Hunter region.

This investment secures immediate regional power demands and caters for future regional growth – accommodating booming populations and the busy tourism season with its corresponding increase in power demand.

In Hawks Nest, work commenced on a new power hub, that when complete, will enhance supply to the eastern Hunter area.

A new substation is currently under construction in Tea Gardens to replace ageing infrastructure and improve security of supply to the recently refurbished Pacific Palms Zone Substation.

Improved network performance and reliability

In a year that saw an increase in the number of unplanned supply interruptions caused by severe storms and flooding, Essential Energy's network reliability figures continued to be favourable to targets set out in our licence conditions.

The average number of minutes an Essential Energy customer was without supply during the year – measured as our System Average Interruption Duration Index (SAIDI) normalised – was 238 minutes against a target of 317 minutes.

Additionally, we continued to meet our targets set for normalised SAIDI and System Average Interruption Frequency Index (SAIFI) across all feeder categories.

The performance of our network highlights the strength of Essential Energy's network improvement programs, our emergency response planning, and the competency and commitment of our people in the field and behind the scenes in often challenging conditions.

One of the targeted programs we are delivering as part of our Network Plan is to lessen the impact of poor performing individual feeders (powerlines) on our network, and to improve supply reliability to customers serviced by these lines.

One example of how this project is improving supply reliability is improvements on the Bukkulla to Wallangra powerline out of the Inverell Zone Substation.

In 2008, this powerline was identified as a poor performing feeder, with a SAIDI of 1,145 minutes – an extreme case of an individual feeder operating below the acceptable reliability standard.

Essential Energy's planners used the network reliability figures to understand why that individual feeder was performing so poorly.

The results formed an infrastructure improvement program that included:

> Installation of the Wallangra Zone Substation, which enabled that section of feeder to be split into three, with two of the sections to be fed from the new Zone Substation

> Smart reclosers and sectionaliser replacements

> Replacement of more than four kilometres of copper conductor.

These works improved reliability results for this feeder which in March 2011 recorded a SAIDI of 295 – well above the acceptable reliability standard.

As part of our continued commitment to meet our targets and improve supply reliability for our customers, Essential Energy will invest $37 million in the 2011–2012 year on 115 distribution feeders identified as the poorest performing. The program will replace ageing steel and copper conductor; install smarter reclosers; replace fatiguing links and air break switches with new gas switches and interconnections to adjoining distribution feeders.

2010–2011 Network Performance Results

	SAIDI normalised			SAIFI normalised		
Feeder category	Target	Actual performance	Result	Target	Actual performance	Result
Urban	125	66	✔	1.80	0.85	✔
Short rural	300	245	✔	3.00	2.38	✔
Long rural	700	493	✔	4.50	3.37	✔

Essential Energy has again met its licence condition standards for normalised SAIDI and SAIFI for all feeder classes.

Feeder Definitions

- SAIDI – total number of minutes, on average, that a customer on a distribution network is without electricity in the period
- SAIFI – total number of interruptions, on average, that a customer on a distribution network experiences in the period
- Urban – maximum demand is greater than 0.3 MVA/km
- Short Rural – total feeder route length is less than 200 km (and not an urban feeder)
- Long Rural – total feeder route length is greater than 200 km (and not an urban feeder)

Our supply interruptions team took more than 586,000 incoming customer calls to our 13 20 80 fault and emergency line during the year.

Emergency response

With the impacts of severe weather widespread across our eight regions, more than 140 Natural Disaster Declarations were recorded across Essential Energy's footprint during the year.

The effects of severe storms presented challenges for our field crews with floodwater cutting access to major roads and hampering emergency response efforts. Our supply interruptions team took more than 586,000 incoming customer calls to our 13 20 80 fault and emergency line during the year.

Essential Energy's field crews worked closely with local emergency authorities to keep communities safe, remove fallen vegetation to allow emergency works to commence and, when safe, progressively restore power supplies to affected towns and rural properties

The most severe weather event occurred at the end of November and into December 2010, when more than 67 Local Government Areas were declared natural disaster zones by the NSW Government. Around 20,000 calls to our supply interruptions fault and emergency line were registered during this period, with widespread reports of network damage from Wentworth in the south west, Tumbarumba in the Snowy Mountains to Goondiwindi in Queensland.

In the NSW north west town of Narromine, Essential Energy used a helicopter to replace powerlines over the swollen and dangerous Macquarie River – restoring power supplies to a group of isolated residents who, due to weather and access difficulties, had experienced extended supply interruptions.

In June 2011, residents on the Mid North Coast were affected by a number of storms, causing extensive network damage and interrupting power supplies to around 8,000 customers. Essential Energy crews took turns working around the clock to remove fallen vegetation, undertake network repairs and progressively restore power as the rain continued.

At the same time, Kempsey crews were on high alert as the Macleay River threatened to breach its banks and inundate the central business district and vital electricity infrastructure. Early flood and safety preparations by local emergency services and Essential Energy prevented this from occurring.

The high number and widespread nature of emergencies and disasters over the past two years have stretched Essential Energy's emergency plans. While they have stood up against these tests, it has provided an opportunity to redefine our emergency response planning.

During the year, Essential Energy's eight regions developed and introduced a *Regional Emergency Response Plan* that takes into account the unique demographics, terrain and resources of each area and lessons learned from recent incidents.

Developed with the assistance of Risk Logic – an external services provider specialising in risk management – Essential Energy's *Response Plans* now represent industry best practice.

Lending a hand

Queensland experienced unprecedented weather events, with floods devastating South Eastern Queensland in January and Cyclone Yasi hitting the State's north just weeks later.

Our northern neighbours faced an enormous task which required an 'all hands on deck' approach – with Essential Energy dispatching more than 120 employees to assist our Queensland counterparts help protect public safety, repair extensive network damage and safely restore power supplies to hundreds of thousands of affected residents.

In Brisbane and the Lockyer Valley, major flooding saw lives lost, houses inundated and Brisbane's CBD under water. Essential Energy dispatched more than 60 employees to help local energy provider Energex undertake manual inspections of electricity assets at individual homes and businesses and repair damaged infrastructure before safely restoring power.

In February, another 60 Essential Energy employees including lineworkers, plant operators and safety specialists were deployed to Townsville in north eastern Queensland to help Ergon Energy, the local energy distributor, mop up in the wake of Cyclone Yasi.

Around 180,000 customers were left without power after the category five cyclone hit. Crews provided disaster recovery assistance, helping Ergon with the massive job of clearing vegetation from electricity infrastructure and repairing damaged assets before safely restoring supplies.

Supply interruptions and customer response

Our Network Operations and Customer Response group is the first point of contact when customers lose power. The team not only provides the initial customer response for supply interruptions but keeps customers and other stakeholders informed while the fault is being repaired.

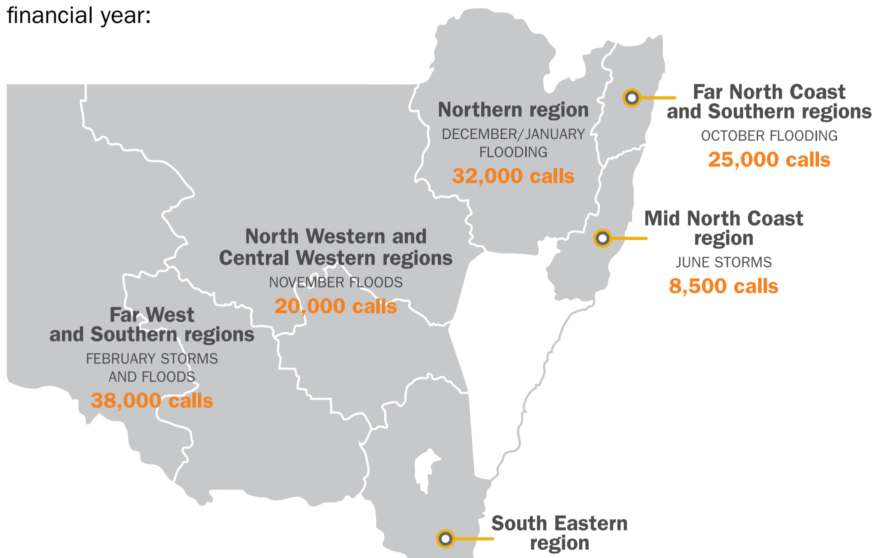
With severe and adverse weather conditions heavily impacting on local communities, the year saw an 18 per cent increase in total calls to Essential Energy's 24-hour 13 20 80 fault and emergency line compared to the previous year – 586,000 compared to 479,000 in 2009–2010.

In total, more than 180,000 outbound calls were made to check that network repairs by field crews had successfully restored power to affected customers following unplanned supply interruptions, and also to advise customers of planned supply interruptions to enable field crews to safely undertake works as part of our network management plan.

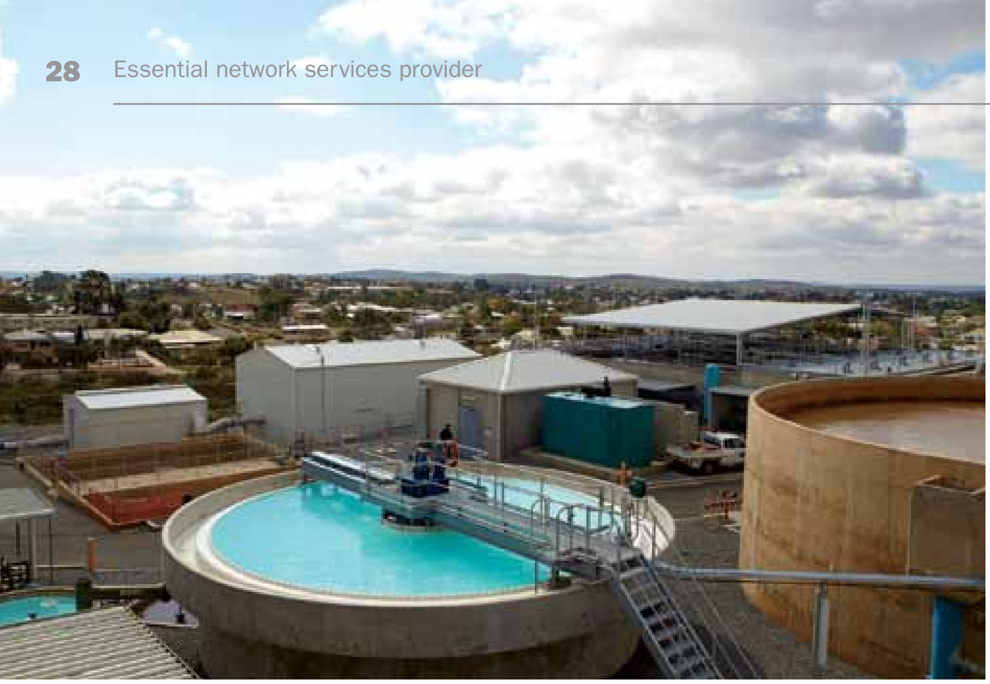
This resulted in our customer response operators talking to Essential Energy customers for 53,000 hours on the phones during the financial year – 3,400 more hours than the previous year.

Regional impact – Natural Disaster Declarations

Adverse weather conditions contributed to a spike in call volumes to Essential Energy's 13 20 80 24-hour fault and emergency line during the 2010–2011 financial year:



Note: Some weather events impacted multiple regions



Managing bushfire risk

Essential Energy recognises the threat to public safety posed by bushfires and has in place a range of measures to manage and minimise this risk in communities across our network area.

By actively engaging and working with fire authorities and other relevant agencies, we ensure that we uphold industry best practice in our network management and bushfire prevention strategies.

During the year, we established a dedicated Bushfire Mitigation Working Group to assess the company's bushfire risk management approach and to further enhance prevention strategies across all business activities.

The group is responsible for overseeing a range of activities that underpin bushfire risk mitigation – from policy reviews to field-based operations such as vegetation management, asset inspection and the provision of Bushfire Awareness Training for all Essential Energy field employees.

Over the past 12 months there has been a significant focus on recommendations by the Victorian Bushfire Royal Commission into the 2009 Black Saturday fires. This has prompted a range of trials and new research projects within the electricity industry and implementation of some new initiatives by Essential Energy.

Vegetation management

Essential Energy works with local councils and property owners to keep potentially hazardous vegetation away from electricity infrastructure.

We employ a field-based team of vegetation control officers to manage this process and ensure compliance with the required safety clearances. One of the challenges it faces is building community understanding and awareness about responsible tree planting near electricity assets such as overhead powerlines.

Our team attends many community and industry forums, exhibitions and other events to promote knowledge of the appropriate species and required clearances for planting vegetation underneath or around electricity infrastructure.

Essential Energy has developed a comprehensive *Vegetation Management Plan*, which was reviewed throughout 2010 and made available to the public through our website.

Asset inspection

Patrolling more than 200,000 kilometres of powerlines across 95 per cent of the NSW land mass is a large task.

Through regular programs of work, Essential Energy's pole and line asset inspectors ensure our electricity network remains safe, reliable and responsive to local needs.

Inspection of assets comes in various forms to cover the different network components and geographic diversities of our footprint – including Snowy Mountain peaks, semi-arid plains of the Far West and many coastal and sub-tropical regions.

Asset inspection is a crucial component of our network management plans and we use a variety of methods, including group-based crews, aerial surveys, snow mobiles and boats to ensure infrastructure is replaced, upgraded or repaired as required.

Aerial patrols

Specially designed aircraft inspect Essential Energy's rural overhead network in the months before summer to identify potential bushfire risks before the fire danger declaration period.

Aerial inspections are a fast and effective method of inspection which is not dependent on ground conditions or powerline access, allowing us to assess our rural network before the onset of storm and bushfire season.

Aircraft are fitted with the latest high resolution digital cameras, Geographic Positioning Satellite (GPS) tracking equipment and on-board computers that help to accurately pinpoint areas of the network that need attention.

Essential Water

Essential Water is an operating division of Essential Energy, responsible for delivering safe and reliable water supply services to more than 20,000 people in Broken Hill, Menindee, Sunset Strip and Silverton and sewerage services to Broken Hill in Far West NSW.

Our core business is to provide customers with high quality, safe drinking water that is treated in line with our *Drinking Water Policy* to meet the Australian Drinking Water Guidelines (ADWG) – set by the National Health and Medical Research Council and the Agriculture and Resource Management Council of Australia and New Zealand.

Operating in a largely arid and remote environment, we face unique challenges that differentiate us from other water utilities, and this requires a comprehensive schedule of works to keep the water flowing to local residents.

Since forming in 2004, we have invested around $74 million – including around $3.4 million in the 2010–2011 financial year – on major projects to renew ageing assets, such as the construction of a new state of the art water treatment plant.

Commissioned in June 2010, the new Mica Street plant will provide safe and reliable town drinking water for at least the next 30 years.

During the year, we continued our stringent program of sampling and independent testing to ensure water quality was within guidelines outlined in the ADWG – no aesthetic or health-related breaches were recorded during the reporting period.

Essential Water delivered a comprehensive works program to ensure effective maintenance and management of water and sewerage network infrastructure:

- Invested around $1.5 million in a water mains renewal program
- Invested $860,000 in the South Waste Water Treatment Plant tertiary ponds to improve operational efficiencies and services
- Invested around $110,000 to replace the Sunset Strip raw water main from the Menindee pipeline to the water treatment plant
- Invested $129,000 at Umberumberka Reservoir on upgrades to the pumping station.

As part of this program, Essential Water crews achieved the following:

- Replaced around 3,118 metres of water reticulation pipeline
- Repaired 420 customer water services
- Repaired 75 water pipeline leaks and bursts
- Cleaned and rodded 29,614 metres of sewer mains
- Fixed 307 customer sewer connection blockages
- Repaired 284 sewer pipeline blockages.

Funding network investment

On 10 June 2010, the Independent Pricing and Regulatory Tribunal (IPART) approved a price increase of around 11 per cent for a typical residential customer (consuming 280 kilolitres of treated water a year or less) and a 13 per cent average price increase for a typical pensioner customer – both increases equate to around $2.15 per week.

Pensioner water bills are offset by the NSW Government's Pensioner Rebate scheme.

Exact increases and prices vary for individual customers, depending on the amount of water they consume, and whether they have a sewerage service.

When approving the price rise, IPART acknowledged that increases were necessary to ensure Essential Water's prices more closely reflect the costs it incurs in delivering essential water services, including building and maintaining vital water and sewerage infrastructure to support the delivery of safe, reliable, secure and quality water and sewerage services.

Importantly, the NSW Government subsidises Essential Water's operating costs to ensure we provide an affordable water service in the Far West.

Essential Support offers tailored assistance for those experiencing financial hardship through long-term payment plans and advice.

Our *energyanswers* program educates customers about their water consumption patterns – encouraging behavioural changes especially during the summer months – and offers individual water efficiency and sustainability solutions.

Customers can access the service through a toll free number – 1800 ENERGY – and speak with one of our water and energy efficiency specialists.

Essential Energy was awarded the NSW 2010 Canstar Blue Most Satisfied Customers, Electricity Providers Award.

Sewerage treatment

There are two waste water treatment plants in Broken Hill – Wills Street and South Broken Hill.

Wills Street treated an average three megalitres (ML) of sewage per day, and South Broken Hill treated an average 0.8 ML per day during the financial year.

Treated effluent water use accounts for approximately 19 per cent of total waste water treated, with the remainder discharged to the environment. The amount of effluent reuse is significantly down on previous years with large non-residential customers reducing their consumption due to the high rainfall over the previous 18 months.

Water supplies secured

Heavy rains were welcomed by residents in the Far West in 2010–2011, minimising reliance on tap water and filling local catchment areas for the second year in a row.

At the end of the financial year, our three local reservoirs were at 90 per cent capacity. This will provide enough local raw water for the next two years and enhance operational efficiencies by removing the need to pump significant amounts of water from the Darling River.

Water management strategies

Increased customer uptake of Essential Water's community water conservation programs and a decline in the reliance on tap water – due to an increase in rainfall – contributed to improved customer water efficiency.

Water consumption decreased by around 1,000 ML (1,000 million litres) on the previous year, with a total of 4,300 ML of treated water delivered over 400 kilometres of pipelines and mains to homes and businesses connected to our water network.

Around 92 per cent of Essential Water's customer base is residential and consumption for this group totalled 2,094 ML – down from 2,675 ML in 2009–2010.

Our ongoing efficiency and awareness initiatives take into account the impacts of the arid climate, customer dependency on evaporative cooling systems, and the importance of ground covers in managing health risks associated with naturally occurring high lead levels in soils.

Programs include our *Lead Safe and Water Wise Rebate Scheme*, our online water efficiency calculator, and tailored water efficiency advice provided through our *energyanswers* 1800 ENERGY advice line.

Our *Lead Safe and Water Wise Rebate Scheme* aims to reduce water consumption and minimise the potential health risks posed by lead exposure, and continues to be very popular with essential Water customers.

Under the scheme, customers who spend $150 or more on water-wise garden products are eligible to receive a $50 rebate, which is credited to their Essential Water bill.

Minimising water losses

In November 2007, Essential Water completed an extensive review of end-to-end water system losses. The review assessed Broken Hill's urban system losses at 9.1 per cent.

While this is acceptable by International Standards, our annual program of works carried out during the year continued to include targeted initiatives to minimise water losses. These include:

> Water network upgrades as part of our water mains renewal program
> Water supply zone metering and data logging to identify potential problem areas and enable targeted mains replacement programs
> A replacement program for large water meters
> Electronic metering of standpipes.

Reusing waste water

Up to 19 per cent of treated effluent from Essential Water's two sewerage treatment plants is reused by customers to supplement their treated water usage. This includes local mining operations, parks and gardens, where appropriate, and the watering of the local golf course.

Customers use the water mainly for agricultural and industrial purposes under strict effluent management agreements in consultation with Essential Water. These agreements detail the use of effluent water and associated sampling, surface water controls and nutrient and salt balance calculations required by the NSW Environment Protection Authority (EPA).

Customer service

As part of a Transition Services Agreement (TSA) with Origin, Essential Energy customer service employees continued to provide retail services to Country Energy customers from 1 March 2011. This includes responding to enquiries on Country Energy's 13 23 56 general enquiries line and in our Essential Service Centres.

During the year, our two contact centres located in Leeton and Port Macquarie – answering Country Energy general enquiries on 13 23 56 and Essential Energy network enquiries on 13 23 91 – experienced a 5.5 per cent increase in customer call volumes, with 968,000 customer enquiries compared to 918,000 in the previous financial year. Billing, price rise and retail reform enquiries were the key contributors to the rise in call volumes.

Despite this increase, our employees continued to provide exceptional customer service, with more than 79 per cent of customer calls answered within 30 seconds against our target of 80 per cent – on par with our performance in the previous year.

In recognition of our outstanding efforts, Essential Energy was awarded the NSW 2010 Canstar Blue *Most Satisfied Customers, Electricity Providers Award* and took out top honours for both State and National Customer Service Institute of Australia (CSIA) awards for *Service Excellence in a Contact Centre – Government*.

Complaint resolution and Ombudsman relations

At Essential Energy, we are committed to meeting community expectations for the delivery of safe, reliable and affordable essential services.

As part of this commitment, we are focused on providing our customers with the highest levels of service and support, and our dedicated team work closely with customers to resolve any issue they may have.

This approach was rewarded by resolving 97 per cent of customer issues at the first point of contact against our target of 95 per cent – cementing the strength of our customer service training programs and the depth of knowledge and skill of our employees.

This result is particularly pleasing, with around 10 per cent of complaints lodged via our website during the year – an increase on the previous year. While this is a simpler contact method for customers, it can impact on our ability to immediately resolve an issue before it becomes a 'formalised' complaint.

The year saw a rise in the total number of complaints received, with a significant increase in the number of high account issues raised by Country Energy retail customers, associated with affordability and the cost of electricity; and the number of complaints surrounding planned supply interruptions, necessary to safely deliver Essential Energy's five-year Network Plan.

Despite this increase, our employees resolved 91.7 per cent of domestic network complaints within four days against our target of 95 per cent – comparable to last year's performance of 92 per cent.

In the six month period from October 2010 to March 2011, Essential Energy recorded the lowest percentage of network customer complaints escalated to the Energy and Water Ombudsman NSW (EWON) when compared to other NSW distribution network service providers – accounting for only 111 of the 491 complaints across the industry.

In March 2011, Essential Energy hosted a visit to Port Macquarie by members of EWON's investigations team to gain a greater insight into the company's network operations and customer response practices. During their visit, Mother Nature turned on a spectacular display, giving the team a first-hand look at the impact severe storms have on our electricity network and our customers, as well as Essential Energy's emergency response practices.

Community involvement and development

Delivering essential energy services to rural and regional NSW requires a strong understanding of, and commitment to, the 1,500 communities we serve.

Essential Energy's corporate social responsibility program offers a three-pronged approach to supporting regional communities, which ensures we continue to deliver services that reflect local needs and priorities.

Our strategy is based on:

> Providing meaningful and sustainable employment and career development opportunities for local residents across our eight regional management areas – which in turn support community growth and regional economies

> Investing in the network to support growing population and energy demands and regional development

> Delivering a strong framework that fosters community involvement and promotes activities that support regional areas.

This approach has been recognised by local communities during the year, with 86 per cent of customers surveyed 'agreeing' or 'strongly agreeing' that Essential Energy is a responsible provider of an essential service.

Additionally, almost eight out of ten regional opinion leaders, such as local councillors, administrators and businesses, surveyed in our fourth quarter Corporate Reputation Survey 'agreeing' or 'strongly agreeing' that Essential Energy is an active part in local communities.

Customer feedback is actively sought through the engagement of two customer representative groups – the Regional Advisory Group (RAG) and Customer Council (CC) – who each act as a direct liaison with local communities and provide strategic advice to Essential Energy's operations.

Membership of both the RAG and CC is voluntary with each member providing a strong voice for their local community, and their feedback has been crucial to shaping Essential Energy's community support framework.

Essential Energy continues to remain active in the community and participates in a number of local events and field days to promote electrical safety, energy efficiency, network investment and improvement programs, and important operational areas.

This framework has delivered an investment of around $1.8 million over the 12 months to 30 June 2011 – supporting community initiatives and events like EvoCities, Hands Across NSW, Can Assist's Viva Support pack, AgQuip, Primex, Electricity Supply Industry (ESI) and Henty Machinery Field Days and organisations such as the NSW Farmers Association.

Here's some more information about the initiatives and organisations Essential Energy has chosen to support:

EvoCities

evocities
THE ART OF LIVING

EvoCities is a collaborative initiative of seven local councils that aims to, attract and support urban dwellers to pack up their hectic lifestyle and move to the vibrant, yet more relaxed pace of an EvoCity – Albury, Armidale, Bathurst, Dubbo, Orange, Tamworth and Wagga Wagga.

The initiative aims to foster regional and economic growth by attracting people to regional centres – bringing with them unique skills and knowledge that underpins growth and development in regional centres.

The partnership will also assist Essential Energy in attracting frontline field-based employees required to resource the delivery of our Network Plan.

Can Assist

Can Assist
CANCER ASSISTANCE NETWORK

'Our partnership with Essential Energy goes way beyond financial support. It is the ideal multi-layered partnership. At every level of our charity they have added real value: many of their staff are long-term volunteers in our country branches; their marketing team donate their skilled advice and resources to help us further our awareness raising activities; and their sponsorship of Can Assist has also enabled us to fund an important home-based support program for country cancer patients in Central West NSW.'

Fran Connelly,
Development Manager

NSW Farmers Association

nsw FARMERS

'NSW Farmers is pleased to have a close working relationship with Essential Energy. A key policy for the Association is to support rural and regional NSW so this reinforces the presence and importance of Essential Energy in the fabric of NSW. The partnership will allow a much closer contact between the organisation at a local level and we are confident the transfer of information will benefit both parties.'

Guy Hannan, General Manager – Commercial Services

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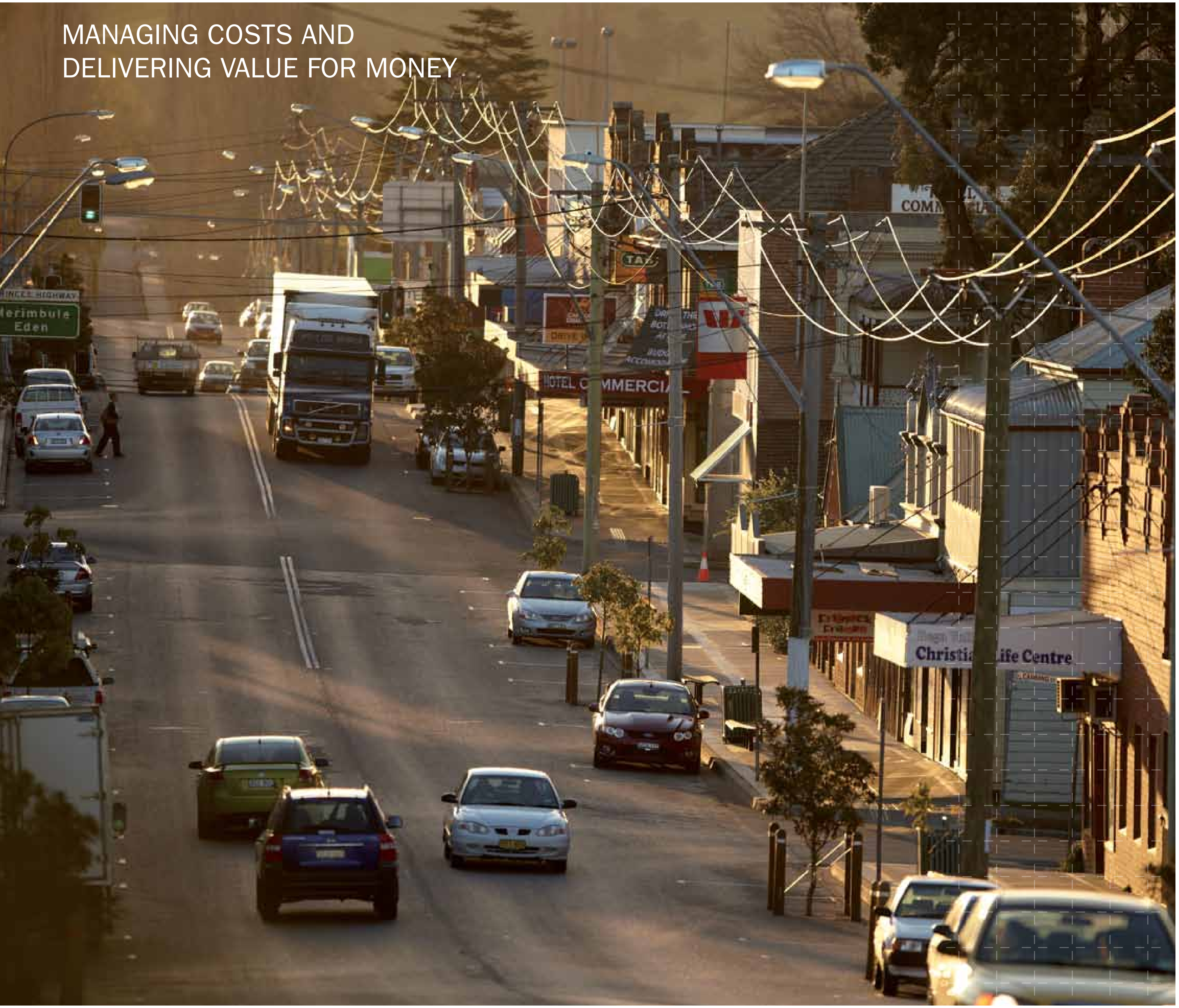
Innovation and value

MANAGING COSTS AND DELIVERING VALUE FOR MONEY



We see enhancing our operational efficiency, along with prudent investment, as critical to meeting customer and stakeholder expectations

Managing Australia's largest electricity network imposes not only significant geographic and environmental challenges, but also the challenge to manage costs and deliver value for money essential services to our customers now and into the future.

At Essential Energy, we see enhancing our operational efficiency, along with prudent investment, as critical to meeting customer and stakeholder expectations relating to the cost and quality of services.

Efficiency and productivity improvements are being delivered through a range of programs and innovative measures, including: improving work processes to better manage performance across our operations; securing cost savings and efficiency gains through the deployment of innovative, integrated internal systems; continuously seeking new approaches to asset management and customer service; investing in an Intelligent Network and improved systems.

Intelligent Network = smarter future

During the year we continued to refurbish our network, installing 'intelligent' devices across our operations and invested in improved technology and applications as part of our Intelligent Network (IN) strategy.

It's all about transforming our 20th-century network into a responsive Intelligent Network of the 21st century to deliver cost effective alternatives to traditional investment; improve reliability, demand management and operational efficiency; support the growth of renewable energy; and make energy efficiency simpler for customers.

Our IN strategy outlines a 15-year plan – starting with simple procedures like replacing old devices with smarter alternatives as part of our ongoing network investment plans; moving to a fully integrated IN that will fundamentally transform the way electricity is generated, distributed and consumed.

It's a smarter, more predictable and remotely interactive network, enabling fine tuning, proactive management and delivery of a more reliable and better quality of supply.

We recognise the need to continually balance service levels with costs – that's why the transformation of the network will take time. Improving customer service and value for money is a vital element of our network transformation.

Essential Energy's IN strategy is supported by our prudent five-year Network Plan and is guided by the principles contained in our Network Vision 2025 – aiming to ensure that investments and today's decisions around the technological development of our network support future network and community needs to 2025.

It's all about transforming our 20th-century network into a responsive Intelligent Network of the 21st century.

Engaging customers in our Intelligent Networks (IN) journey

As our customers look to us for better ways to manage their electricity costs we're developing smarter, more sustainable energy solutions to improve the way we manage the network and interact with customers.

We're collaborating with utilities, information technology, hardware and communications companies around the world to create an adaptable, flexible Intelligent Network for the digital age – giving customers a greater level of interaction with the network and an understanding of when they should use power to save money.

We are Australia's only member of the Global Intelligent Utility Network Coalition, convened by IBM to accelerate the use of smart grid or intelligent technologies, and we are a founding member of Smart Grid Australia.

IN Communities

In April 2011, we launched our IN Community trial on the NSW South coast – Essential Energy's whole of community pilot of integrated intelligent network concepts and technologies.

The trial involves 2,000 homes between Bega and Tathra, and is providing a live test bed of the latest network infrastructure, specialised communications network, innovative in-home tools and small scale renewables.

In preparation for the trial, Essential Energy field crews installed protection equipment including line fault indicators, distance to fault relays, and electronic reclosers overlaid with specialised communications equipment – allowing Essential Energy to monitor and control the electricity network.

In May, we commenced installation of IN Meters and throughout 2011–2012 we will introduce a range of customer initiatives including energy efficiency advice and IN Home energy management tools free of charge to those participating in the trial. This will give participating customers unprecedented visibility of their energy consumption and greenhouse gas emissions.

Research is an important part of the trial, and a robust research framework has been developed for both the electricity grid and customer initiatives. The CSIRO will oversee the social science associated with our customer initiatives to ensure our trial is statistically valid and that results can be applied to communities across our entire network effectively.

The IN Community trial is helping us work with customers to determine the best way for Essential Energy to roll out intelligent equipment, while improving the reliability of the local network.

What we learn will help inform national approaches to the eventual creation of an automated and intuitive electricity system across our network and beyond.

LED streetlighting trial

As part of the IN Community trial in Bega, a ground breaking 12-month streetlighting trial is also underway – improving streetlighting services and providing cost and environmental benefits.

New Light Emitting Diode (LED) streetlights have been erected along the Princes Highway to determine their serviceable life, maintenance requirements, light output, cost efficiencies and community suitability against the manufacturer's stated benefits.

LED streetlights can potentially reduce energy consumption by 50 to 90 per cent, can last up to 60,000 hours compared with around 17,500 hours on average for existing technologies, and are virtually maintenance free – offering local councils and communities a far superior, more efficient and environmentally sustainable streetlighting option.

Additionally, the new lights have the capacity to be remote controlled, meaning lights can be turned on, off or dimmed to suit the road and environmental conditions – an important safety mechanism which can be employed during overcast or rainy weather to improve visibility.

-¦- -¦- This helps to reduce the number and duration of supply interruptions and improve responsiveness and operational efficiencies. -¦- -¦- -¦-

Smarter devices and systems

At the heart of Essential Energy building a more Intelligent Network is overlaying a range of communications solutions to move data from 'smart' devices across the network back to our existing systems and applications.

The installation of these devices continued during the year, replacing old technologies with new as part of our ongoing network management plans. This included the deployment of technologies such as distance-to-fault digital relays that pinpoint the location of faults, and electronic reclosers. By year's end we had 2,145 smarter reclosers and 1,600 digital relays installed on our network.

Network operators are using these intelligent devices, coupled with information provided through Essential Energy's specialised Electricity Network Management and Control (ENMAC) and Network Information Centre (CENIC) systems, to locate a likely fault and direct field crews so that repairs can be made more quickly, as well as to sectionalise areas of powerline and reroute supply. This helps to reduce the number and duration of supply interruptions and improve responsiveness and operational efficiencies. In some instances, supply interruptions can be rectified remotely.

We're also working with a leading Australian business to tackle the issue of peak demand. Our grid-interactive inverter technology is designed to transfer stored energy back into the grid when demand is greatest, to maintain reliability and quality of supply.

Innovative FuseSaver trial

As part of our continued commitment to meet customer expectations, Essential Energy has commenced a trial of Kaon FuseSavers – the latest innovative technology designed to improve supply reliability for customers in rural areas.

Around 74 per cent of faults on Essential Energy's network are transient, and the protection equipment has the potential to reduce the number of customer interruptions caused by these faults – such as a trip and reclose – and improve supply reliability.

The trial involves placing FuseSavers on rural distribution spurs that are currently protected by expulsion dropout fuses. In the event of a transient fault the FuseSaver will operate faster than the dropout fuse, 'saving' the fuse and stopping the transient fault becoming permanent.

The 12-month FuseSaver trial will focus on assessing mounting methods, overall effectiveness of the device, and developing standards and training.

Electricity Network Management and Control system (ENMAC)

Essential Energy's Electricity Network Management and Control System (ENMAC) was revamped during the year, improving an already ground-breaking technology that puts the company well ahead of most other Australian distribution network service providers in the delivery of safe, smart and efficient energy services.

ENMAC electronically monitors and manages Essential Energy's network, replacing paper maps and diagrams with highly sophisticated electronic displays that provide customer call interaction and remote network operation technologies.

The system delivers real time views of the status of the high voltage network at any time, in any part of our distribution area.

ENMAC remotely controls equipment in the majority of our zone substations, as well as the 2,145 IN reclosers that are installed on urban and rural powerlines that are vulnerable to impacts from wildlife, storms and lightning and vehicle accidents – improving supply restoration times.

The use of 'smart' technology such as ENMAC substantially improves our operating efficiency, which in turn achieves time and cost savings for customers.

Network Information Centre (CENIC)

Accessing live activity updates on a 200,000 kilometres electricity network that spans a diverse geographic landscape can be a challenge – but not for Essential Energy.

The in-house development of a new online, real time network information tool, named CENIC, makes it easy for all Essential Energy employees to view activity on Essential Energy's network, including the number and location of planned works, network faults, supply interruptions, weather affected infrastructure and the number of customers impacted.

The tool ensures that all Essential Energy employees have quick and easy access to this vital information – enhancing communication efforts internally as well as to customers, stakeholders and the media where relevant – during times of peak activity, such as the busy storm season.

CENIC interacts with ENMAC and provides information overlaid on Google Maps, providing a complete picture of the current network activity and effectively pinpointing the location of network faults whether they are in Bathurst or the back of Bourke – allowing faults to be identified faster and responded to faster.

-¦- -¦- Productivity measures are now incorporated into Essential Energy's monthly reporting tool, the Corporate Dashboard, to help us better track and identify areas for improvement. -¦- -¦-

Fostering innovation

In May 2009, Essential Energy established a dedicated team to support the company's innovation efforts and drive productivity and efficiency gains across the business.

The focus of the Continuous Business Improvement (CBI) team has delivered strong results that have seen a four per cent productivity gain across areas of the business that have participated in the program.

Productivity measures are now incorporated into Essential Energy's monthly reporting tool, the Corporate Dashboard, to help us better track and identify areas for improvement. As we move into the new financial year, the capture of this information across the whole of business will provide the platform for cost effective and enhanced performance decisions.

Additionally, the team has implemented a new online innovation portal called NIFTI (New Ideas for Tomorrow's Innovations) to provide employees with a central repository in which they can log their ideas and view, comment and vote on the ideas of their colleagues – empowering our people to 'think outside the square'.

The new tool already has more than 1,300 participants and has generated more than 35 ideas in the open forum. One of which, a frame leakage protection monitoring system to improve zone substation switchboard safety, is already underway as a pilot program in the company's North Western region.

We appreciate that continuous business improvement and innovation is an ongoing process, which is why we've incorporated it as one of the five key principles of our Organisational Blueprint, and will roll out our CBI program to the rest of the business over the next financial year.

Specifically, our CBI program aims to:

> Embed an organisational culture that instils productivity improvement as a key business philosophy, with ownership and accountability embedded in the business

> Facilitate and coordinate the delivery of high impact projects that drive measurable performance improvement

> Develop, implement and validate a robust business-wide productivity measurement methodology

> Drive sustainable improvements, which in turn, will drive greater productivity.

The program will ensure that Essential Energy retains the flexibility and focus to respond effectively to change, introduce new ideas and technologies, and drive improvements for our customers.

'By embedding Continuous Business Improvement methodology into Infrastructure Operations we've improved the information we provide to customers about our scheduled works, enhanced visibility of work practices, and improved the use of our resources based on size and skill mix of our field crews – enhancing operational efficiency and delivering real wins for our customers.'

Diane Hicks, Group Manager Business Performance, Infrastructure Operations.

Business Continuity Management

The year saw the completion of a significant project, *Business Continuity Management (BCM) Refresh*, to align BCM processes, practices and documentation across the organisation.

The resulting BCM framework covers incidents of various types and severity and is integrated into Essential Energy's risk management structure.

This framework includes our corporate *Crisis Management and Recovery Plan* that is invoked in high consequence events that could be operational, financial or reputational in nature. The plan provides guidance to senior management on actions and responsibilities in crisis scenarios to limit the impact on normal business operations.

Other plans and teams exist as part of the BCM framework to manage incidents of lower severity, and all contain an escalation process to ensure appropriate visibility and resourcing.

Ongoing review and monitoring of preparedness is an important aspect of BCM in Essential Energy and this includes regular completion of incident scenario exercises.

Encouraging excellence

Essential Energy has in place a number of initiatives to motivate Essential Energy employees and ensure they remain focussed on what we do best – deliver safe, efficient and reliable essential network services to regional communities.

These initiatives are aimed to generate motivation, encourage healthy competition, enhance productivity and benefit local charities.

Region of Origin

In 2010–2011, Region of Origin entered its second year, pitting the performance of Essential Energy's eight regions against each other on a quarterly basis – rewarding the star performers with a $1,000 donation to a local charity of their choice.

Regions are measured by their performance in eight key areas that align with Essential Energy's operational performance targets and our overarching network management plan – these include safety, network maintenance, network upgrades, budget compliance and customer satisfaction.

During the year, Essential Energy's South Eastern region took out the top spot twice, followed by the Southern and Northern regions who each received the award once.

A number of local organisations and charities benefited from these achievements including:

> Men's Shed (various locations)

> Tumut Riding for the Disabled

> Bega Valley Rural Fire Service

> Surf Life Savings Clubs (various locations)

> Various local hospitals

> CanAssist and other cancer support agencies.

Design of Origin

The success of the Region of Origin was the inspiration behind a similar initiative adopted by Essential Energy's network design services.

Essential Energy's network designers play a crucial role in the organisation – their creativity, productivity, accuracy and business savvy help ensure the organisation's network management plan is delivered on time and within budget – securing affordable, essential energy services for the future.

Network design employees were segmented into four regions – North, Central, West and South – to compete against each other in the delivery of six key targets:

> The construction hours per design hour

> The project costs that were issued per designer

> The percentage of Distribution Design Project Audit's that achieved 90 per cent or greater compliance

> The year to date monthly average project construction hours issued per designer

> The year to date monthly average number of projects issued per designer

> Percentage of designs issued on time.

Results were monitored monthly with the winner announced at the end of the financial year. The inaugural winner was the Design West team who chose to donate their $1,000 win to the Westpac Rescue Helicopter Service (New England/North West) and Ronald McDonald House, Tamworth.

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Developing our people

ENSURING AN ENGAGED, SKILLED AND PRODUCTIVE WORKFORCE

A working environment where people feel engaged, where innovation is encouraged, work is rewarding and achievement is recognised.

We understand the impact of the current industry skills shortage and the challenges presented by an ageing workforce – that's why we are working harder than ever to develop, engage and retain our existing talent and renew our workforce.

At Essential Energy, we have a focused program of workforce development to ensure we have the culture, leadership and people to meet business requirements and the expectations of our stakeholders and customers now and into the future.

We are committed to building a respectful and inclusive workplace, achieving high standards of performance and delivering value for our customers. Our aim is to ensure individuals have a clear understanding of their responsibilities and objectives, and feel personally committed to our business goals and overall direction.

Essential Energy strives to provide a working environment where people feel engaged, where innovation is encouraged, work is rewarding and achievement is recognised.

To maximise productivity within our workforce we focus on looking after the overall welfare of employees through innovative health and safety programs; reward and recognition programs; our internal communications; and access to career development opportunities and training options. These initiatives have all contributed to lower than average levels of sick leave and high engagement rates.

Sick leave management

Many factors affect sick leave rates and Essential Energy takes a holistic approach to encourage continuous improvement in the levels of employee health and fitness, engagement, commitment and loyalty.

Average Essential Energy sick leave days per person (FTE)				
2006–2007	**2007–2008**	**2008–2009**	**2009–2010**	**2010–2011**
6.04	6.19	6.35	5.4	5.1

Average public sector sick leave days per person (FTE)				
2006–2007	**2007–2008**	**2008–2009**	**2009–2010**	**2010–2011**
8.17	8.41	8.11	8.13	N/A

Source: NSW Public Sector Workforce Profile

Communicating with our employees

As the energy industry and internal business priorities evolve, effective employee engagement and communication is a crucial component of our workforce sustainability.

Essential Energy has in place a number of internal communications tools aimed at encouraging healthy discussion; providing employees with vision of business-wide strategies, programs and performance; informing employees of change or important business; shaping a *Safety First* culture; encouraging innovative ideas to better deliver essential services.

E-Talk is our core internal communications tool, delivered to all employees in monthly meetings. E-Talk is made up of a core brief for all employees from the Executive; a divisional brief from an employee's individual business unit or regional team; local items from area managers or team leaders; question time, clarification and discussion.

Breaking or important company news is effectively delivered to employees through the distribution of *Broadcasts*, providing the company with a mechanism to cut through the information clutter and ensure employees are the first to know of major announcements, such as recent industry reforms.

Essential Express – our monthly internal newspaper – keeps everyone up to date on activities across the business and in each of our eight regions, and aims to promote employees, their interests and achievements outside the business.

Toolbox Talks are common industry practice and allow employees to focus and discuss one or more aspect of their role. Predominantly targeted at our field employees, the talks promote workplace education, *Safety First* behaviours and mentoring between our qualified employees and apprentices.

Our intranet, *Essentialnet*, houses vital information to help employees effectively do their job – including Essential Energy policies and procedures, breaking news, working templates and other useful information that is available to all employees, all the time.

As an additional tool, our new online portal provides an easy way for employees to log their innovative ideas and have vision of where their idea is up to – it also gives employees a voice and lets them know that they are heard.

Employee Engagement Survey

Essential Energy achieved an overall engagement score rating of 66 per cent in the 2010 Employee Engagement Survey – placing us in the High Performance/Hewitt Best Performer range for participating companies.

This is an increase on our result of 65 per cent in 2008, and well above the energy industry benchmark of 60 per cent – a great achievement in light of change within the business and wider energy industry during the year.

The results brought home the commitment of Essential Energy employees to the business and their workmates – with 71 per cent of employees 'agreeing' or 'strongly agreeing' that they truly enjoy their day-to-day tasks, and 82 per cent 'would not hesitate in recommending us as an employer.'

Another important finding of the survey is that we need to inspire our employees more to 'do their best' and leaders reflect Essential Energy's values and set a clear vision for the future.

We've taken this feedback seriously and have implemented a number of strategies, such as our Organisational Blueprint and Network Vision 2025, to give direction on how we intend to reach our ambition of 'being a leading provider of essential services in regional Australia and a trusted part of our communities.'

Evolve our culture

Essential Energy values diversity and is committed to promoting equality of opportunity in the workplace. This involves eliminating all forms of workplace vilification, discrimination, harassment and bullying in our focus on building a respectful workforce.

While Equal Employment Opportunity (EEO) is a legislative requirement, our commitment goes beyond the underlying principles of the Community Relations Commission's *Multicultural Policies and Services Program*.

We recognise the significant business benefits of giving everyone 'a fair go', and that having an employee base that reflects the diversity of our customers helps foster a productive workplace delivering excellent customer service.

Our aim is to develop our employment demographic to reflect the community we serve and fully utilise talent available within those communities.

Essential Energy's *EEO Management Plan* outlines a number of strategies for EEO groups that may be more likely to be unemployed or working in lower paid jobs.

These groups are:

> Women

> Aboriginal and Torres Strait Islander people

> Members of racial, ethnic and ethno-religious minority groups

> People with a disability.

Our five-year plan contains a range of strategies including recruitment programs and access to training and career development, and has been developed to guide programs that identify and remove barriers relating to the employment, development and retention of EEO groups.

Key programs included in Essential Energy's *EEO Management Plan* include:

> Evolving our culture from one of preventing bullying and harassment to building a respectful workplace

> Indigenous Employment and Development Program

> Indigenous Employee Network

> Development of the Women's Employment and Development Program.

We are committed to creating a diversified workforce that is representative of the 1,500 country and coastal communities Essential Energy serves.

Employee Assistance Program

During the year Essential Energy partnered with PPC Worldwide to deliver our renewed *Employee Assistance Program* (EAP).

As part of the program, PPC Worldwide delivers free and confidential counselling services to our employees and family members, with up to three sessions with qualified psychologists available by phone, face-to-face or online. In addition, the program provides 24 hours a day, seven days a week emergency or crisis telephone support service.

Online services include an e-library, email assist, executive assist and an 'ask the experts' facility where a psychologist, financial adviser, lawyer, carer or nurse can be accessed.

The partnership has delivered real benefits with the addition of a managers' hotline that now provides managers with the option to talk with a qualified practitioner about issues of employee conflict, performance, mental health and team dysfunction.

The service also provides fact sheets, programs and links to external sites to assist people in taking the first steps in quitting smoking, drinking and reducing alcohol intake.

Women's Employment and Development

During the year our Women@work network continued to provide and promote a range of career, personal development, information and guidance opportunities by leveraging existing services and programs that support women working at Essential Energy.

The Women's Advisory Committee – the Women@work business-wide representative group – and Regional Working Groups hosted a range of special events and activities throughout the year to raise the profile of women in the workforce and provide networking, mentoring and educational opportunities.

Women account for around 19 per cent of the Essential Energy workforce and make up less than three per cent of our technical employees. Our *Women's Employment and Development Strategy* (WEDS) will set a clear, strategic framework to guide the organisation in identifying and promoting opportunities that inspire women to enhance their careers and lives.

External consultation has already identified industry and best practice benchmarks and Essential Energy will soon commence the internal process, with an online survey of all female employees. The aim is to identify emerging issues women face within the workforce so that strategies can be developed to help mitigate the barriers impacting on women reaching their fullest potential.

Indigenous employment, development and retention

Since forming in 2001, we have been focused on increasing the representation of Indigenous employees – reflecting our commitment to creating a diversified workforce that is representative of the 1,500 country and coastal communities Essential Energy serves.

Here's a chronological look at our achievements over the years:

2002	> The *Indigenous Employment Program* was launched and soon became a benchmark for other businesses
2006	> Essential Energy became the first utility in NSW to be recognised by the Commonwealth Government as a Corporate Leader in Indigenous Employment
2007	> Essential Energy's first Indigenous Employment and Development Strategy was launched – aimed at building on the successes of past efforts and providing direction for our *Indigenous Employment Program*
2011	> *Indigenous Employment and Development Strategy* was launched and aimed to further strengthen Indigenous representation and achieve a 5.7 per cent participation rate for Aboriginal and Torres Strait Islanders > The strategy is an important step for both Essential Energy and the many regional Indigenous communities and has already established an Indigenous Program Unit (IPU) embedded within the business > The unit is directly responsible for implementing the strategy's key objectives and liaising directly with Indigenous employees.

The Indigenous Programs Unit has already been involved in a range of activities aimed at supporting communities through sponsorship and participation including:

- NAIDOC Week activities across our regional footprint. Aimed at celebrating Aboriginal and Torres Strait Islander achievements and promoting Indigenous employment opportunities
- NSW Aboriginal Rugby League Knockout or the Modern Day Corroboree held in Woy Woy during October 2010
- Sponsorship of the Premier's Teacher's Scholarship for Indigenous Education
- Sponsorship of the Engineering Aid Summer School for Indigenous students hosted by the University of New South Wales in 2010.

2011–2015 future planning

Here's a snapshot of the new and ongoing initiatives that will be developed and implemented over the coming years:

> Establish a school to work transition program to enable Indigenous students to undertake vocational education pathways into the Essential Energy workforce

> Establish an Indigenous cadets program

> Targeting the recruitment of at least one Indigenous position per region per bulk recruitment program

> IPU to promote positions advertised to local Indigenous communities through Indigenous organisations, educational institutions and Job Network providers in the area where the position is located

> Establish Regional Indigenous Reference Groups as a two-way source on Indigenous matters.

We're committed to achieving a workforce that is truly representative of the 1,500 communities we serve – here's our performance in this area:

> More than tripled our Indigenous employee workforce representation since 2003 from 43 to 158

> Essential Energy's Indigenous retention rate of 96.8 per cent is currently higher than the national retention rate for non-Indigenous employees

> We are leading by example – 3.1 per cent of our workforce is comprised of Indigenous employees. This is above the COAG target of 2.6 per cent, with only one other NSW organisation having a higher ratio.

Indigenous Employment, Development and Retention	Total Number	Performance v. success criteria	
		% of workforce	2015 Target
Indigenous employees as at 30 June 2011	158	3.1%	5.7% (Essential Energy target)
Indigenous apprentices as at 30 June 2011	57	14.2%	5.7%
Indigenous apprenticeships created since 2001 as at 30 June 2011	124		
Retention rate	96.8%		

Statistical information on EEO target groups*

Table 1. Trends in the representation of EEO target groups[1]

Percentage of total workforce[2]							
EEO Group	**Benchmark or target**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Women	50%	21%	21%	21%	20%	20%	19%
Aboriginal and Torres Strait Islander people	2.6%[3]	2.6%	2.4%	2.8%	2.9%	2.8%	3.1%
People whose first language was not English	19%	1%	1%	0%	0%	0%	0.5%
People with a disability	N/A[4]	10%	7%	2%	2%	2%	1.9%
People with a disability requiring work-related adjustment[5]	1.1% (2011) 1.3% (2012) 1.5% (2013)	2.4%	2.2%	0.7%	0.7%	2.6%	0.6%

Table 2. Trends in the distribution of EEO target groups[6]

Distribution index[7]							
EEO Group	**Benchmark or target**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Women	100	79	90	90	94	99	98
Aboriginal and Torres Strait Islander people	100	91	69	72	74	75	81
People whose first language was not English	100	104	119	N/A	N/A	N/A	114
People with a disability	100	104	105	107	106	106	104
People with a disability requiring work-related adjustment	100	98	101	106	103	106	106

Notes to tables:

1. Employee numbers as at 30 June 2011
2. Excludes casual employees
3. Minimum target by 2015
4. Per cent employment levels are reported but a benchmark level has not been set
5. Minimum annual incremental target
6. A distribution index of 100 indicates that the centre of distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. An index more than 100 indicates that the EEO group is less concentrated at the lower salary levels.
7. Excludes casual staff

*All data is compiled from information volunteered by employees

Apprentice Program

Our *Apprentice Program* is a key driver in delivering a skilled workforce that meets our current and future workforce demands – addressing the issues of industry wide skill shortages, an ageing workforce and the difficulties of recruiting and retaining employees in country communities.

We reached a key milestone in 2010–2011 with this year's apprentice intake of 102 taking the number of new apprenticeships created since 2001 to 1,029, cementing our commitment to sustainable career opportunities in regional NSW.

At the heart of the program's success is a suite of dedicated resources including an Apprentice Coordinator, a Registered Training Organisation (RTO) Compliance Manager, a Curriculum Development team, around 30 trainers, three specialist Training Centres and strong mentors, including other apprentices, supervisors and workmates. The program is also supported by Human Resources and Safety teams and Essential Energy's *Indigenous Employment Program* with a regional support network.

The program's success is reflected in our enviable success rate of 98 per cent of apprentices completing their trade and staying with the company. This is further evidenced by receiving an overwhelming 3,000 applications for our 2010 apprentice intake.

Essential Energy has also forged partnerships with Electroskills Training and TAFE NSW, State Training Services and Department of Education, Employment and Workforce Relations for training delivery and funding. The program is further enhanced by involvement with the Industry Skills Council, National Training Advisory Groups and Training Advisory Committees and training is provided through a large number of specialist training organisations like the Rural Fire Service.

Considerable improvements have been delivered during the year, most notably the inception of the Capstone Assessment for those nearing completion of their apprenticeship. The assessment looks at the skills and knowledge gained over the course of an apprenticeship and benchmarks this against the minimum skills required of a tradesperson to work autonomously and safely in the field.

Essential Energy as a Registered Training Organisation (RTO) will not issue a qualification unless these minimum requirements have been met.

-¦- -¦- -¦- Our Apprentice Program is a key driver in delivering a skilled workforce that meets our current and future workforce demands. -¦- -¦-

Apprentice Program achievements
Recruited 1,029 apprentices since 2001
60 per cent of apprentices completed their training contracts early
98 per cent of apprentices completed their trade and stayed with the organisation
Recruited 124 Indigenous apprentices since 2001
Our *Apprentice Program* received the Western NSW region 2010 Minister's Awards for Excellence for Employers of Australian Apprentices. Essential Energy was also short listed for the NSW Training Imitative Awards – Indigenous Apprentice Training Program
Essential Energy will continue to offer over 100 apprenticeships each year for the next three years
January 2012 will see the largest single intake of apprentices with 114 offered

Reward and recognition

We continued to recognise the outstanding achievements of our employees and their positive contribution to achieve our business goals through a range of reward and recognition programs. We communicate our programs and award recipients to employees in E-Talk and our internal newspaper.

Our recognition programs include:

> Lost Time Injury–free Milestone Awards

> Managing Director's Awards

> Leadership Awards

> Service Milestone Awards

> Apprentice Awards

> Make them a Fan.

Apprentice of the year Casey Tabb

'Essential Energy is a great company with opportunities – they go above and beyond, they definitely give us all the tools and the knowledge you need to do the job.' Casey said.

Casey competed against seven other regional apprentices in a two-day Capstone Assessment for the top award.

Powerline Worker program

In the context of a strong labour market, skills shortages and the need to meet resourcing requirements to deliver Essential Energy's five-year Network Plan, the recruitment of 19 powerline workers against our target of 20 was pleasing.

We will continue to reinvigorate our attraction and recruitment strategies to assist sourcing 20 suitably qualified employees across our footprint in the next financial year.

Diploma of Electrical Supply Industry

Essential Energy currently has 108 employees undertaking the Diploma of Electrical Supply Industry, with 45 participants now moving into the next phase of the program, undertaking study in the units of competency that are job specific for the roles they perform.

A highlight of the program has been the introduction of a 'virtual classroom', available across Essential Energy's eight regions in locations where there is internet access. The virtual classroom links students to the facilitator with live video, audio and whiteboard presentations – offering a more interactive and effective education experience without the need to travel.

Associate Degree in Electrical Engineering

The selection of Essential Energy employees to undertake an Associate Degree in Electrical Engineering is a new initiative introduced during the reporting period.

The program is delivered via distance-based learning through the University of Southern Queensland (USQ) and has scope for students to progress to USQ's Professional Engineering program.

Engineering Internship

Essential Energy has also expanded the learning opportunities for three employees to commence an internship undertaking a Bachelor Degree in Electrical Engineering at the University of Southern Queensland by distance learning. These employees were recruited through an Expression of Interest process where they needed to demonstrate their ability to succeed from previous work and academic achievements and their commitment to apply themselves to this arduous program.

Electrical Engineering Cadetship program

During the year an additional two cadets were recruited from the Bathurst and Broken Hill areas to participate in the program.

The program is designed to offer an opportunity for school leavers or mature-age applicants to undertake a full-time Electrical Engineering Degree, while also receiving a broad range of experience at all levels across Essential Energy's network services operations.

Three cadets graduated in 2011, with two receiving 1st Class Honours and the other 2nd Class 2nd Division. Two of the cadets have now moved to our graduate program – demonstrating the success of the cadet program and integrated work placements to support studies.

Graduate Engineers

Essential Energy has six graduate engineers participating in our three-year program designed to further develop their skills and experience by providing them access to all practical aspects of engineering in a large electricity supply business.

Four participants have now graduated from the program and been offered permanent engineering roles within the business – a sure sign of the success of the program.

Technical training

As a Registered Training Organisation (RTO), Essential Energy delivers technical training services to both our employees and those in the private sector that work on or near our energy network.

The training and assessment program delivers competency, currency and consistency across our workforce, with an emphasis on safety and operational excellence in providing essential services.

During the year, more than 28,500 assessments were completed and included Apprentice Inductions, Workplace Assessments and Regulatory Assessments in areas including CPR, pole top rescue, Electrical Safety Rules and Close Approach.

Technical training highlights

> 3,440 employees attended 189 Regulatory Assessment days

> 24,686 practical/oral assessments and 2,953 online assessments have been completed

> 26 Technical Training Services Trainers or Assessors provided 605 trainer days to more than 5,400 internal and external trainees.

Giving employees a Leading Edge

Building on Essential Energy's proactive approach to workforce development and sustainability, we will soon roll out a new leadership training program called *Leading Edge*.

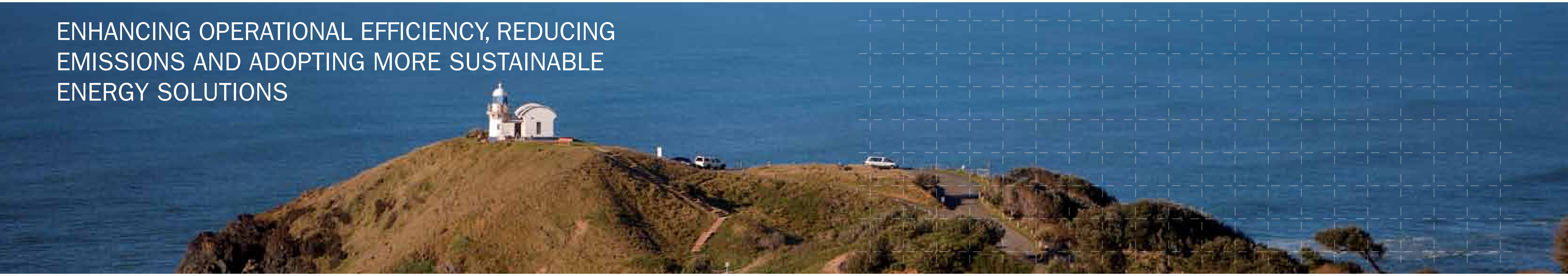
The program combines coaching with on the job training and assessment tasks and enables participants to attain national qualifications such as Certificate IV in Frontline Management, Diploma in Management or Advanced Diploma in Management.

The program was developed during the 2010–2011 year, and its introduction aims to encourage leadership capabilities and behaviours in our leaders – bringing out the best in our employees and the organisation.

Leading Edge will be piloted and subsequently rolled out over the next 12 months – securing Essential Energy's place as a leading essential service provider well into the future.

Environment

ENHANCING OPERATIONAL EFFICIENCY, REDUCING EMISSIONS AND ADOPTING MORE SUSTAINABLE ENERGY SOLUTIONS



At Essential Energy we believe we have a corporate social responsibility to respond to climate change, reduce our environmental footprint and support our customers in their efforts to become more energy efficient.

To do this, we aim to integrate responsible environmental management into all that we do and become an environmental leader.

The day-to-day activities of our employees, whether within the office or in the field, interact with the environment and have the potential to adversely impact it. The challenge for Essential Energy is to minimise this impact by smarter design, responsible waste management and more efficient use of resources.

Environmental Management System

Essential Energy maintained accreditation to the international standard AS/NZS ISO 14001:2004 Environmental Management Systems, which is critical in allowing us to move from compliance to 'environmental responsibility'.

Our management system provides a platform for the implementation of policy initiatives and the achievement of environmental objectives, and has the full commitment of senior management.

The scope of our system covers the full suite of Essential Energy's operations, activities, products and services. This includes the planning, maintenance and redevelopment of buildings, infrastructure and equipment.

There were 37 internally reported incidents during the year with the majority related to spilt transformer oil, caused by a range of issues including storm damage, aircraft and agricultural equipment contact with our network and motor vehicle incidents. Our environmental audit scores achieved 98.6 per cent against a target of 96 per cent.

Leading the way

Essential Energy is focused on enhancing operational efficiency, reducing emissions, and adopting more sustainable energy solutions to address the challenges climate change presents.

The range of programs implemented to support our business wide *Carbon Reduction Program* continue to ensure we operate our facilities and procurement within an environmentally sound framework, and reduce greenhouse gas emissions, minimise waste and increase recycling in a cost efficient way.

Our operational based (direct) carbon emissions decreased significantly from 63,844 tonnes of CO_2-e in 2009–2010 to 52,561 tonnes of CO_2-e in 2010–2011 – a significant saving of 11,283 tonnes of CO_2-e and equivalent to taking more than 2,821 cars off the road for a year.

Here's a snapshot of our sustainability efforts:

> Environmental awareness campaigns targeted at promoting sustainable use of resources, and improving employee and contractor behaviour, making our existing facilities more efficient and our operations environmentally sound, for example building transformer storage facilities and truck wash facilities; installing solar systems; energy efficient lighting; sensor lights; recycled water units; and planting drought hardy vegetation alternatives

> Replacing larger cylinder vehicles with four-cylinder vehicles and purchasing heavy fleet vehicles compliant with European standards for CO_2-e emissions, as part of our *Green Fleet* program

> Designing and carrying out all new construction and renovation work to minimise greenhouse gas emissions, with each new facility being built to conform with the NABERS 4.5 star rating and relevant State Environmental Planning Policies (SEPP)

> Integrating the principles of Ecologically Sustainable Development (ESD) into Environmental Impact Assessments

> Optimising procurement lines to ensure environmentally efficient purchasing

> Ensuring all workplaces are provided with adequate recycling bins based on waste type

> Installing videoconferencing facilities to minimise travel.

Our performance in this area is further highlighted by a 15 per cent reduction in energy consumption at Essential Energy sites from the previous year. Our emissions reduced from 23,805 tonnes down to 20,196 tonnes of CO_2-e – 10 per cent better than our target of 22,407 tonnes CO_2-e.

Additionally, we purchased 2,100 megawatt hours (MWh) of GreenPower for our own electricity consumption – reducing our environmental footprint by 2,226 tonnes of CO_2-e and supporting investment in renewable energy generation.

Waste Reduction and Purchasing Policy

The NSW Government's Waste Reduction and Purchasing Policy (WRAPP) requires all state government agencies and state-owned corporations to develop and implement a WRAPP plan to reduce waste in four areas:

> paper products

> office equipment and components

> vegetation material

> construction and demolition material.

It also requires that priority be given to purchasing materials with recycled content where they are cost and performance competitive.

Essential Energy's WRAPP plan sets out information on strategies to reduce waste, increase purchases of recycled content products and provides baseline and performance data to report our progress in this area.

Essential Energy is leading by example through sound environmentally responsible business practice. Here are some of the initiatives implemented or continuing during the year:

> Built 14 new transformer storage sites to appropriately manage our responsibilities around decommissioned transformers

> Implemented the TotalSAFE Waste Module: An environmental reporting tool allowing waste removal and disposal data to be recorded in one location – enhancing data accuracy and improved waste tracking

> Defaulting all printers to double-sided printing and employee 'reduce your use' awareness campaigns, have contributed to a significant reduction in the amount of A4 paper purchased during the year – 2,801 reams less than the 2010–2011 reporting period

> Placement of paper recycling boxes at every office desk, central collection point for out of warranty computer equipment, and access to recycling bins for other waste materials, such as printer and photocopier cartridges, has ensured that Essential Energy continues to recycle 100 per cent of direct office waste generated

> Development of an interactive Waste Management Tool – housed on Essential Energy's internal intranet, Essentialnet. The tool is designed to assist employees to identify and classify waste and provide information on how and where to safely dispose of it

> Roll out of recycling/reuse bins for each waste classification type at all Essential Energy depots. This includes bins for office paper, cardboard, scrap metal, glass, plastic bottles, tin cans, bare conductors, steel from aluminium and streetlights and used porcelain insulators

> Recycling and reuse of materials, such as condemned power poles and streetlight lamps. We are currently reviewing our processes for the recycling of batteries and porcelain insulators

> The coming year will see the formation of a cross-divisional environmental alliance to drive consistent decision making in the management of our environmental impact across our operations and the development of sustainable solutions.

Heritage Asset Management

We acknowledge our statutory obligations and cultural significance of protecting Essential Energy sites listed as heritage assets under the *NSW Heritage Act*.

Essential Energy is responsible for the management of 14 sites of cultural and natural significance in partnership with local councils and communities, and we have adopted an extensive maintenance schedule in line with our Heritage Asset Management Strategy and relevant Conservation Management Plans.

Refurbishment of the Mullumbimby Hydro-Electric Power Station was completed during the year. The project was aligned with the heritage management system determined by the Heritage Council of NSW and followed stringent community consultation.

Preliminary work has now commenced on the next Heritage Asset Project at the former Glen Innes Power Station.

We maintain a live heritage register, which is available on the NSW Heritage Branch website, and includes state and locally significant sites. This register will be updated as sites are determined by the community, local councils or Essential Energy.

Heritage Item	Suburb
Oaky Zone Hydro-Electric Power Station	Armidale
Former Bentinck Street Substation	Bathurst
Rocket Street Substation	Bathurst
Broken Hill Water Board Offices	Broken Hill
Mica Street Filtration Plant and Reservoir	Broken Hill
Mullumbimby Hydro-Electric Power Station	Mullumbimby
Northern Rivers County Council	Grafton
Cottage, Essential Energy Depot	Grafton
Nymboida Hydro-Electric Power Station	Nymboida
Former Glen Innes Power Station	Glen Innes
Former Lismore Power Station	Lismore
Narrabri Depot	Narrabri
Tamworth East Zone Substation	Tamworth
Former Tenterfield Power Station	Tenterfield
Wagga Wagga Zone Substation	Wagga Wagga

energyanswers

Advancements in technology have brought about unprecedented changes to the quality of life for many. However, the consumer uptake of energy hungry appliances continues to place additional strain on the State's electricity networks, particularly during peak consumption periods.

Essential Energy has in place a two-pronged approach to help manage this emerging issue by redefining the way that energy distributors and customers think about energy consumption – and the possible impacts on electricity generation and distribution services.

Our *energyanswers* customer contact program supports Essential Energy's Network Vision 2025 – our long-term energy strategy – that addresses customer behaviours and the network enhancements that underpin effective demand management efforts.

As a customer interface tool, *energyanswers* was introduced in 2009 in direct response to the impacts that rising living expenses and other factors such as drought and the Global Financial Crisis, were having on energy customers.

As a demand management tool, the program addresses consumer behaviours by educating people about their energy consumption patterns, pricing applications and appliance demand in order to find energy and, in many cases, cost savings.

The program also offers advice to customers on small-scale renewable generation and works in collaboration with the NSW Office of Environment and Heritage (OEH) to promote and deliver its Energy Efficiency Business Programs.

In the 12 months to 30 June 2011, the *energyanswers* team received a massive 58,510 enquiries – more than 44,500 of these related to small-scale renewable energy generation.

Additionally, more than 700 businesses in the regional centres of Dubbo, Orange, Tamworth, Broken Hill, Forster, Tuncurry, Coffs Harbour, Bingara, Warialda, Balranald, Barham, Buronga, Menindee, Moulamein, Tooleybuc and Wentworth were offered a subsidised energy audit as part of the Energy Efficiency for Small Business Program and Energy Saver program for large business.

Analysis of the results of around 65 program participants demonstrated that:

> On average, around 71.6 per cent of customers that participated in the program reduced their energy consumption

> The average annual reduction per customer was around 10 per cent or approximately 9,700 kWh

> This equates to savings on average of around $2,425 per customer

> This is equivalent to taking around 1,543 cars off the road per year in CO_2-e emission savings.

In recent months, the team has played a leading role in the introduction of Essential Energy's Intelligent Network Community trial – contacting residents to inform them of the trial and seeking their participation. The team remains in regular contact with local residents and continues to actively resolve any issues that may arise during the trial.

The success of *energyanswers* has firmly established Essential Energy as a leader in the responsible and sustainable distribution of network energy services and has demonstrated a savvy approach to address an emerging industry issue.

The *energyanswers* customer contact program is free and can be accessed by calling toll free from a landline on 1800 ENERGY (1800 363 749).

1300 NSW FARMER

Essential Energy is now connecting farmers to *energyanswers* specialists and valuable energy saving advice through a new hotline – 1300 NSW FARMER (1300 679 327637).

NSW farmers will benefit from the team's ability to review their current electricity account, provide an over-the-phone audit of energy usage and advice on more efficient energy practices.

We'll also provide information about sustainable energy generation, including solar and wind, and details about federal and state government energy initiatives that may be available to farmers.

The hotline was promoted at the NSW Farmers' Association Annual Conference, sponsored by Essential Energy. The conference brought together more than 450 of the state's top farming representatives for three days of intensive policy debate and information exchange, providing a valuable opportunity to discuss energy management and promote the new service.

Solar, growing as a popular choice

The combined effect of government rebates, the rising costs of living and the falling costs of renewable energy systems has seen an overwhelming number of applications to connect systems to our network – from 12,600 in 2009–2010, to 41,117 in this reporting period.

As regional people rushed to take advantage of the NSW Solar Bonus Scheme, minimise impacts of rising electricity prices and reduce their environmental footprint, the number of small-scale solar systems connected to Essential Energy's network increased from 9,436 at 30 June 2010 to 44,068 by year's end – this equates to 94 Essential Energy network customers turning green each day.

In addition, the total inverter capacity of systems connected to our network was 122 megawatts at year's end – an increase of more than 500 per cent on the previous year – significantly reducing the peak demand on our network.

Green Fleet

Essential Energy employees clocked up more than 94 million kilometres in road travel in the 2010–2011 financial year – so it's easy to see why vehicle safety, cost and environmental considerations factor heavily in the company's approach to managing our fleet services.

The past year has seen a number of significant changes to fleet management – aiming to minimise fuel consumption while still being suitably equipped to support Essential Energy's network management plan and regional emergency response needs.

These measures include a strong focus on the uptake of hybrid, LPG and diesel fuelled vehicles and moving to 4-cylinder vehicles, which has already achieved a six per cent reduction in fuel consumption against the annual target.

The introduction of a *Green Fleet* program has ensured that all newly purchased vehicles comply with the latest international standards for safety, efficiency and value. New passenger vehicles are selected in line with five star and Australasian New Car Assessment Program (ANCAP) safety ratings and heavy fleet are selected in line with the latest Euro standards – currently Euro V.

We aim to integrate responsible environmental management into all that we do and become an environmental leader.

South Eastern community based solar farm

As part of our Intelligent Network initiatives, Essential Energy is conducting a feasibility study into building a regional, community based solar farm near Bega on the NSW South Coast.

The solar farm will showcase an effective alternative energy solution for neighbourhood and rural village communities, demonstrate new and innovative technology in action and help improve the power supply quality in rural areas by giving it a boost on long, remote lines.

It will also assist us in developing cost effective solutions for integrating renewable energy sources into our network, and help us learn more about the impacts of medium scale generation on our network – acting as a trial bed for the wider application of new technology such as Essential Energy's Grid-Interactive Inverter.

The solar farm will have a generation capacity of up to 50 kW and an annual output of around 70,000 kWh – enough to power 20 energy-efficient homes and save 70 tonnes of CO_2-e every year.

The feasibility study commenced during the year, with Essential Energy working closely with councils in the Monaro region on its development.

Lighting up energy efficiency enhancements

In June 2011, Essential Energy introduced a new *Energy Efficiency Streetlighting Program* that could potentially replace around 88,000 inefficient streetlights with new more energy efficient streetlighting technologies.

The program was offered to local councils within our distribution network area as part of Essential Energy's commitment to safe and reliable streetlighting services.

If adopted, the program could potentially save around 17,000 megawatts of electricity and 18,000 tonnes of CO_2-e per year – equivalent to taking around 4,500 cars off the road.

Importantly, the new streetlights will deliver the same light output and serviceable lifespan as existing lights and comply with Australian Public Lighting Standards – ensuring that communities continue to receive the same social and safety benefits that they currently enjoy.

Essential Energy will deliver the program as part of its existing *Bulk Lamp Replacement Program*, which commenced in early June in the Tweed Shire in northern NSW.

The *Energy Efficiency Streetlighting Program* was introduced following extensive feedback from local councils and trials of various energy-efficient options to ensure the lights would meet the cost and efficiency needs of local communities.

Renewable power station connected

A project to connect Snowy Hydro Limited's mini hydro power station to Essential Energy's network was completed during the year.

The power station is the largest to be added to the Snowy Mountains Scheme since its construction, generating up to 14.4 megawatts of renewable energy – which is enough electricity to power 6,000 homes.

Essential Energy was involved in various aspects of the connection process, including negotiating the connection agreement, upgrading our Tumut – Talbingo 66 kilovolt (kV) powerline rating and constructing a 500-metre tee-extension to the generator connection substations.

Corporate Governance

SETTING STRATEGIC DIRECTION, MONITORING PROGRESS, ENSURING COMPLIANCE

Essential Energy has developed an overarching Governance Policy to help ensure that the organisation operates in accordance with all relevant regulations, drivers, processes and controls.

Establishment

Essential Energy is a statutory State Owned Corporation (SOC) under the *State Owned Corporations Act 1989*, established by the *Energy Services Corporations Act 1995*.

Under this Act, the principal objectives of Essential Energy are:

(a) to be a successful business and, to this end, to:

- I. operate at least as efficiently as any comparable businesses
- II. maximise the net worth of the state's investment in it
- III. exhibit a sense of social responsibility by having regard to the interests of the community in which it operates

(b) to protect the environment by conducting its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the *Protection of the Environment Administration Act 1991*

(c) to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates

(d) to operate efficient, safe and reliable facilities for the distribution of electricity and other forms of energy

(e) to be an efficient and responsible supplier of electricity and other forms of energy and of services relating to the use and conservation of electricity and other forms of energy

(f) to be a successful participant in the wholesale and retail markets for electricity and other forms of energy and for services relating to the use and conservation of electricity and other forms of energy.

A statutory SOC is declared to be an excluded matter for the purposes of section 5F of the *Corporations Act 2001* (Cth) in relation to the whole of the Corporations Law other than certain provisions relating to financial products, or as may be otherwise declared, in the Regulations under the *State Owned Corporations Act 1989*.

Shareholders

In accordance with the provisions of the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*, Essential Energy has two shareholders, each holding one share of $1.

The shareholders in 2010–2011 were the Treasurer of NSW and Minister for Finance and Services. Shares in an energy services corporation may not be sold or otherwise disposed of – except to eligible Ministers.

Constitution

Essential Energy's constitution comprises a Memorandum and Articles of Association that address areas normally covered within a Corporations Law company, including the administration of shares, general meetings, directors, chief executive officer, remuneration, meeting and administrative procedures, company secretary, dividends and indemnities of directors and officers.

Our Board

Essential Energy's Board of Directors is responsible to the voting shareholders for the overall performance and governance of Essential Energy and its subsidiary companies.

The directors' responsibilities include, but are not limited to: setting strategic direction for the business; approving and monitoring progress of major capital expenditure and financial performance of the business; and ensuring compliance with NSW Government policies.

Barbara Ward AM
BEc, MPol Econ
Non-executive, Chairman

Current appointment:
1 March 2009 to
29 February 2012

Member of:
Audit and Risk Committee
Safety and Environment Committee

Terri Benson
BBus, CPA
Executive, Managing Director

Current appointment:
Concurrent with appointment as Managing Director

Member of:
Safety and Environment Committee

The Hon. Michael Lee
BSc, BE (Hons), FIE Aust
Non-executive

Current appointment:
1 September 2010 to
31 August 2011

Member of:
Audit and Risk Committee
Safety and Environment Committee (Chairman)

Greg McLean OAM
Non-executive, Unions NSW nominee

Current appointment:
14 October 2010 to
13 October 2013

Member of:
Safety and Environment Committee

Rowena Sylvester
BBus
Non-executive

Current appointment:
5 August 2010 to
4 August 2012

Member of:
Audit and Risk Committee (Chairman)

Ralph Kelly
BCom, MBA, SF Fin, FAICD
Non-executive

Current appointment:
8 February 2011 to
7 February 2014

Member of:
Audit and Risk Committee

Kevin Murray
BE Elec, Dip Business Studies, FAICD
Non-executive

Current appointment:
8 February 2011 to
7 February 2014

Member of:
Safety and Environment Committee

Mervyn Davies
BEng (Hons), MEng Sc, B.Comm
Non-executive

Current appointment:
1 May 2010 to
27 October 2010 (Resigned)

Member of:
Safety and Environment Committee

	Board meetings		Committee meetings	
	Eligible	Attended	Eligible	Attended
Barbara Ward AM	14	14	8	8
Terri Benson	14	14	4	4
The Hon. Michael Lee	14	14	8	8
Greg McLean OAM	14	14	4	4
Rowena Sylvester	14	14	4	4
Mervyn Davies (term commenced 1 May 2010 – resigned 27 October 2010)	4	3	2	1
Kevin Murray	3	3	Nil	Nil
Ralph Kelly	3	3	2	2

Directors' interests

Directors are required to disclose any material contract or relationship with Essential Energy and to disclose all companies or other organisations with which they are professionally involved.

Details of directors' interests are maintained by the Company Secretary in a register that is included in the agenda of every Board meeting. The constitution provides for procedures to be followed in the event of a conflict, or a perceived conflict, arising between a director's interest and a matter before the Board. Where a Board member declares a conflict or perceived conflict of interest, they are required to leave the meeting while the matter is considered.

Indemnities

Under the *State Owned Corporations Act 1989*, state-owned corporations are able to indemnify their directors and officers against certain liabilities incurred in the course of their employment. The indemnity cannot be used without the approval of the voting shareholders.

Currently, all Essential Energy non-executive directors, the Managing Director and other officers fitting the criteria detailed in the Treasury Policy (TPP03-6), have been issued with a Deed of Indemnity in the form approved by shareholders.

The Deed of Indemnity provides cover against the following types of liability:

- Civil liability, but only if such liability is, or was, incurred by the indemnified party in his or her capacity as an officer acting in good faith
- Costs and expenses incurred by the indemnified party in defending proceedings, whether civil or criminal, in which judgement is, or was, given in favour of the indemnified party, or in which the indemnified party was acquitted
- Costs and expenses in connection with any application in relation to a proceeding in which a court grants or granted relief to the indemnified party.

Essential Energy also purchases insurance cover for directors' and officers' liability and professional indemnity.

Ethical standards

Policies addressing the Essential Energy code of conduct, conflicts of interest, gifts, protected disclosures, privacy and other ethical standards have previously been developed and adopted by our Board.

These policies have been maintained and communicated throughout the organisation, and they apply equally to the Board, management, employees and contractors.

These policies are available on our website www.essentialenergy.com.au

Governance

Essential Energy has developed an overarching Governance Policy to help ensure that the organisation operates in accordance with all relevant regulations, drivers, processes and controls. Additional documents have been specifically developed for the Board and its members. These include a Directors' Code of Conduct, Board Charter, Directors' Induction and charters for the Audit and Risk and Safety and Environment Committees.

Board performance review

Essential Energy's Board conducts periodic reviews of its performance by means of an internal survey. These reviews seek to identify where improvements can be made and assess the quality, timeliness and effectiveness of information made available to directors.

Non-management meetings

The non-executive directors meet at least once a year without management in a forum intended to allow for open discussion on Board and management performance. This is in addition to consideration of the performance and remuneration of the Managing Director, which is conducted by the Board in the absence of the Managing Director.

Directors' remuneration

Directors' remuneration is determined by the NSW Government and is currently in the form of a cash stipend without 'at risk' elements or non-cash emoluments. Essential Energy makes payments to directors in accordance with these directions under the framework of the organisation's normal payroll system. Out-of-pocket expenses related to attendance at meetings are reimbursed.

Audit and Risk Committee

The primary objective of the Committee is to assist the Board in fulfilling its responsibilities relating to accounting and reporting practices of the company and each of its subsidiaries.

In addition, the Committee will:

> Advise and report to the Board in relation to risk management policy and strategy, debt management policy and strategy, licence and legal compliance policy and strategy

> Oversee, coordinate and appraise the quality of the audits conducted by both the company's external and internal auditors

> Maintain, by scheduling regular meetings, open lines of communication among the Board, the internal and the external auditors to exchange views and information, as well as confirm their respective authority and responsibilities

> Serve as an independent and objective party to review the financial information submitted by management to the Board for issue to shareholders, regulatory authorities and the general public

> Review the adequacy of the reporting and accounting controls of the company

> Review its Terms of Reference and performance against the Terms of Reference on an annual basis.

Risk management and insurance

Corporate risk reviews are conducted annually using input from the Risk Work Group and interviews with senior management. A preliminary risk assessment is then compiled and put to the Executive team for endorsement and the Audit and Risk Committee of the Board for approval.

For the 2010–2011 year, 14 key strategic and 13 key operational risks were identified, assessed and their management monitored. Performance against the 'high' rated risks was reported to the Audit and Risk Committee.

The corporate risk review provides a crucial input to the Internal Audit Plan and the insurance program adopted by Essential Energy. The recommendations from each internal audit are reported to the Audit and Risk Committee who also monitor any follow up actions.

Where possible, and appropriate, risks identified in the corporate risk review are transferred to insurers and a review of the level and terms of the cover is undertaken to ensure that it is effective and cost efficient.

Essential Energy has a robust corporate risk management policy and plan in place that outlines processes for embedding risk management practices into the business. In addition, comprehensive Treasury Risk Management Policies have been developed and comply with relevant NSW Treasury requirements.

Essential Energy's overall risk management process is in line with the international standard for Risk Management ISO:31000.

Safety and Environment Committee

The primary objective of the Committee is to assist the Board in fulfilling its responsibilities relating to Occupational Health Safety and Environment practices of the company and each of its subsidiaries.

In addition, the Committee will advise and report to the Board on policy, strategy, initiatives and achievements in relation to:

> The safety of employees, public, contractors and accredited service providers in any area of relevance to Essential Energy's activities, where reasonably under the control of Essential Energy

> The impact of Essential Energy's activities on the environment and the achievement of ecologically sustainable development

> Any other matter considered by the Committee to be of relevance to the Committee's objectives.

Delegations to management

A comprehensive set of delegations has been issued to the Managing Director, including the power to sub-delegate, to allow management to conduct the business of the Corporation. Notwithstanding these delegations, specific rules have been put in place in critical areas such as environmental determinations to ensure the Board is directly involved in decisions above predetermined thresholds.

Our Executive

Chairman and Board of Directors

Terri Benson
BBus, CPA
Managing Director

Member of the Board of Directors
(Appointed 7 June 2010)

Col Ussher
BEng (Hons), GDipBA
Executive General Manager Infrastructure Strategy

Ken Stonestreet
BE (Hons)
Executive General Manager Engineering Services

Gary Humphreys
Executive General Manager Infrastructure Operations

Ben Hamilton
BA (Communications – Broadcast Journalism)
Head of Corporate Strategy and Communications

Peter Johnson
BBus, ACIS
Company Secretary

Justin De Lorenzo
BCom, ACA, ASIA
Executive General Manager Finance and Information Technology

Mark Mulligan
MM (Masters of Management)
Executive Manager Human Resources and Safety

John Adams
Dip (Elect Eng), BBus, FIE Aust
Executive General Manager Organisation Transition

Keven Semple
Executive Manager Workplace Relations

Executive remuneration and performance

At the end of the 2010–2011 year, Essential Energy employed 112 employees with total remuneration packages equal to or exceeding the NSW Senior Executive Service Level 1 – three less than the previous year. This includes 15 females, compared to 17 in 2009–2010.

The executive remuneration policy for the 2010–2011 year excludes bonus and ‘at risk’ payments – as such no bonus payments were paid to any employee in the reporting period.

The following executive officers received a total remuneration package equal to or exceeding NSW Senior Executive Service Level 5:

Managing Director, Terri Benson – $566,825

Terri accepted the Chairman’s request to act as Managing Director on 7 June 2010 for the period of Craig Murray’s leave. Following Craig’s retirement, the Essential Energy Board engaged executive recruitment specialists Watermark International to undertake a comprehensive search for a new Managing Director. Terri was announced as Managing Director on 20 September 2010.

Each year the Board assesses the Managing Director’s performance. This includes a review of performance against objectives established for safety, financial performance, stakeholder relations, value, and sustainability. In 2010–2011, Terri delivered strong overall performance in the areas of leadership, strategy, business performance, corporate values and shareholder and stakeholder relations.

Executive General Manager Engineering Services, Ken Stonestreet – $413,977

An executive performance agreement was established for Ken and objectives were set against dashboard responsibility areas as well as personal objectives. The reporting period saw Ken deliver strong overall performance across all relevant dashboard performance indicators and personal objectives in the areas of network operation and control, network planning, network design, contestable works management, specialist engineering, streetlight management and trouble call management.

Executive General Manager Finance and Risk, Justin De Lorenzo – $408,168

An executive performance agreement was established for Justin and objectives were set against dashboard responsibility areas as well as personal objectives. The reporting period saw Justin deliver strong overall performance across all relevant dashboard performance indicators and personal objectives in the areas of financial management, legal services, audit management, risk management, information services, strategic procurement and corporate administration.

Executive General Manager Infrastructure Operations, Gary Humphreys – $403,756

An executive performance agreement was established for Gary and objectives were set against dashboard responsibility areas as well as personal objectives. The reporting period saw Gary deliver strong overall performance across all relevant dashboard performance indicators and personal objectives in the areas of distribution design, fault and emergency field response, asset inspection and maintenance, asset construction and refurbishment, vegetation management, manual meter reading and procurement and logistics.

Executive General Manager Organisation Transition, John Adams – $388,686

John was appointed to this role on 16 March 2011. His new appointment is part of the organisational restructure that followed the sale of the Country Energy retail business. Prior to this, John held the position of Executive General Manager Retail. An executive performance agreement was established for John and objectives were set against dashboard responsibility areas as well as personal objectives. The reporting period saw John deliver strong overall performance across all relevant dashboard performance indicators and personal objectives in the areas of retail business management, retail sales and marketing, national and residential sales, organisation transition, connection point management, organisational change management, billing and metering operations.

Executive General Manager Infrastructure Strategy, Col Ussher – $307,500

An executive performance agreement was established for Col and objectives were set against dashboard responsibility areas as well as personal objectives. The reporting period saw Col deliver strong overall performance across all relevant dashboard performance indicators and personal objectives in the areas of asset strategy, regulation and compliance, network performance, asset management strategies and asset data and information.

Executive Manager Workplace Relations, Keven Semple – $303,955

Keven was in the role of Acting Executive General Manager Corporate and Commercial Services from 1 July 2010 until 13 April 2011. His new appointment is part of the organisational restructure that followed the sale of the Country Energy retail business.

An executive performance agreement was established for Keven and objectives were set against dashboard responsibility areas as well as personal objectives. The reporting period saw Keven deliver strong overall performance across all relevant dashboard performance indicators in the areas of human resources management, human resources strategy, workplace investigations, industrial relations, safety, environment, property, fleet, information services, customer services and contact centres.

Head of Strategy and Corporate Communications, Ben Hamilton – $259,859

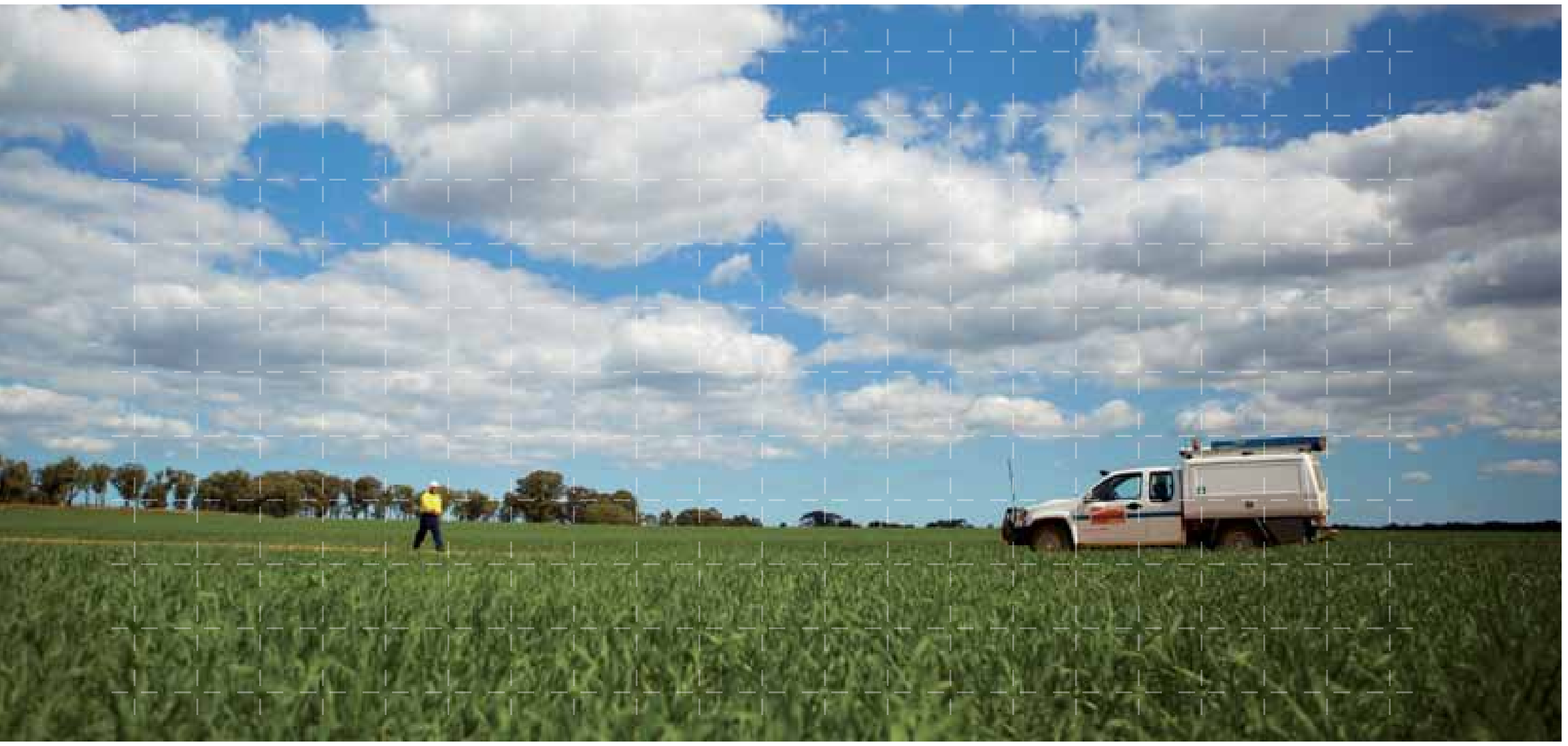
An executive performance agreement was established for Ben and objectives were set against dashboard responsibility areas as well as personal objectives. The reporting period saw Ben deliver strong overall performance across all relevant dashboard performance indicators in the areas of corporate strategy management, public relations, customer relations, continuous business improvement and planning, *energyanswers*, government relations, communications, corporate marketing and brand management.

Company Secretary, Peter Johnson – $242,105

An executive performance agreement was established for Peter and objectives were set against dashboard responsibility areas as well as personal objectives. The reporting period saw Peter deliver strong overall performance across all relevant dashboard performance indicators in the areas of corporate governance, Executive management, services to the Board, corporate responsibility, anti-fraud and corruption and probity.

Executive Manager Human Resources and Safety, Mark Mulligan – $257,131

Mark was appointed to this role on 13 April 2011. His new appointment is part of the organisational restructure that followed the sale of the Country Energy retail business. Prior to his appointment Mark held the position of General Manager Safety and Employee Services. An executive performance agreement was established for Mark and objectives were set against dashboard responsibility areas as well as personal objectives. The reporting period saw Mark deliver strong overall performance across all relevant dashboard performance indicators in the areas of safety, environmental compliance and systems, health, human resources strategy and human resources management.



Fraud and corruption management

Essential Energy has set high standards for ethics and probity and is committed to upholding its principles without compromise.

Processes and resources have been put in place to facilitate the identification, monitoring and reporting of any areas of potential risk, including provision for anonymity and protected disclosure.

In the reporting year, Essential Energy commenced *Professional Standards* training for all employees and by year's end, 70 per cent of all employees had received this face-to-face training.

The training provides employees and managers with the skills to prevent and detect fraud and corruption and to identify and manage conflicts of interest and other associated risks. Essential Energy's anonymous and confidential employee telephone reporting service, *FairCall*, continued during the year.

In addition, Essential Energy provides internal business units probity services offering specialist advice and guidance in procurement and recruitment activities.

During the financial year, there were two Section 11 referrals to the Independent Commission Against Corruption (ICAC).

Securing Essential Energy's information assets

Essential Energy has achieved and continues to be audited for compliance to the international standard *ISO/IEC 27001, Information Security Management System (ISMS)*. This is in line with *Premier's Memorandum No. 2007–04*, which outlines guidelines to meet the NSW Government's electronic information security objectives.

The ISMS is designed to ensure the selection of adequate and proportionate security controls that protect Essential Energy's information assets. Further, it gives a high level of confidence to the Essential Energy Board and Executive, stakeholders and customers that our information assets are managed securely.

Independent external auditors regularly review and report on Essential Energy's compliance with this standard to maintain certification. This ongoing auditing and reporting program is a key component of maintaining and continually improving our ISMS.

Recertification audits are comprehensive investigations required every three years with surveillance audits being completed at six-monthly intervals. The last recertification audit was completed successfully in March 2010 and the subsequent surveillance audits have confirmed that the ISMS is operating effectively.

Privacy

Essential Energy complies with the National Privacy Principles that form part of the *Privacy and Personal Information Protection Act 1998 (PPIPA) (Cth)* as the base line privacy standards in relation to personal information held.

Essential Energy's Privacy Policy is available on our website www.essentialenergy.com.au

Credit card certification

Use of corporate credit cards is in line with Essential Energy's *Procedural Guideline: Credit Cards*, NSW Treasurer's directions and Premier's memoranda.

Government Information Public Access applications

The following is statistical detail relating to the number of public access applications made under the *Government Information (Public Access) Act 2009.*

Table A: Number of applications by type of applicant and outcome*

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/ deny whether information is held	Application withdrawn
Media								
Members of Parliament	3							
Private sector business								
Not for profit organisations or community groups								
Members of the public (application by legal representative)	7							
Members of the public (other)								

*More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to Table B.

Table B: Number of applications by type of applicant and outcome

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/ deny whether information is held	Application withdrawn
Personal information applications*	2							
Access applications (other than personal information applications)	8							
Access applications that are partly personal information applications and partly other								

*A personal information application is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 to Act

	Number of times consideration used*
Overriding secrecy laws	Nil
Cabinet information	Nil
Executive Council information	Nil
Contempt	Nil
Legal professional privilege	Nil
Excluded information	Nil
Documents affecting law enforcement and public safety	Nil
Transport safety	Nil
Adoption	Nil
Care and protection of children	Nil
Ministerial code of conduct	Nil
Aboriginal and environmental heritage	Nil

*More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

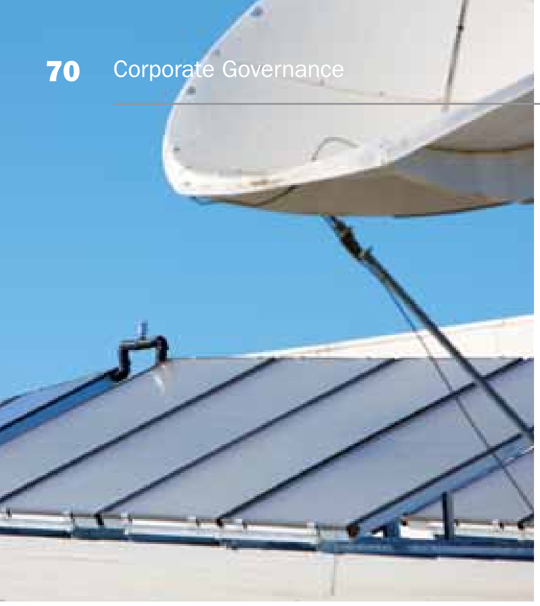


Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of Act	Number of occasions when application not successful
Responsible and effective government	N/A
Law enforcement and security	N/A
Individual rights, judicial processes and natural justice	N/A
Business interests of agencies and other persons	N/A
Environmental, culture, economy and general matters	N/A
Secrecy provisions	N/A
Exempt documents under interstate Freedom of Information legislation	N/A

Table F: Timeliness	Number of applications
Decided within the statutory timeframe (20 disciplinary extensions)	10
Decided after 35 days (by agreement with applicant)	
Not decided within time (deemed refusal)	
Total	10

Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)	Decision varied	Decision upheld	Total
Internal review			Nil
Review by Information Commissioner*			Nil
Internal review following recommendation under section 93 of Act			Nil
Reviewed by ADT			Nil
Total			Nil

*The Information Commissioner does not have the authority to vary decisions, but can make recommendations to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made by the Information Commissioner.

Table H: Applications for review under Part 5 of the Act (by type of applicant)	Number of applications for review
Applications by access applicants	Nil

Relevant Recent Cases

Rosebanner Pty Ltd & Anor v EnergyAustralia [2011] NSWCA 28

In *Rosebanner Pty Ltd & Anor v EnergyAustralia* the NSW Court of Appeal considered whether a power pole located on a property without an easement constituted trespass. The case involved a power pole erected on crown land that later became private property and was not the subject of an easement. The Court dismissed this claim, holding that the *Electricity Supply Act* 1995 (NSW) applied to pre-existing infrastructure and that EnergyAustralia was entitled by legislation to leave the pole on the land as it formed part of the company's electricity works, even though EnergyAustralia did not have an interest in the relevant land.

Perry v Powercor [2011] VSC 308

Perry v Powercor is ongoing litigation surrounding the cause of a Black Saturday bushfire at Coleraine in Victoria in 2009. Property owners in the Coleraine area have initiated a class action against Powercor for alleging that the fire was caused by a faulty powerline that had not been properly maintained by Powercor. While the case has not yet gone to trial, a recent interlocutory hearing examined whether Powercor could claim legal privilege for reports investigating the causes of the fire. The court held that Powercor had not demonstrated that the primary objective of the reports was to allow its solicitors to provide it with legal advice regarding the case. As a result the Court ordered that Powercor must provide the reports to the plaintiffs.

Application by Energex Limited (Gamma) (No 5) [2011] ACompT 9

In May 2010, the Australian Energy Regulator *(AER)* made distribution determinations regulating the charges that Energex Limited, Ergon Energy Corporation Limited and ETSA Utilities (collectively, the *Applicants*) were entitled to impose for regulated distribution services for a period of five-years from 1 July 2010. The determinations were challenged by the Applicants. Common to the challenge of each applicant was a contention that the value of imputation credits (*Gamma*) had been incorrectly calculated. Gamma determines the utilisation of franking credits in estimating the taxation allowance for regulated utilities. In *Application by Energex Limited (Gamma) (No. 5)* the tribunal held that the true value of Gamma was 0.25. This value differed from the value of 0.65 set by the AER. A lower gamma value positively impacts on revenue and therefore impacts on the calculations of the AER. Formal determinations on the applications of each Applicant are being determined separately with reference to the particular issues involved in each case.

Legislative Change

Commonwealth

Acts Interpretation Amendment Act 2011 No. 46 (Cth) amends the *Renewable Energy (Electricity) Act 2000 No. 174* (Cth).

AIDC Sale Act 1997 No. 67 (Cth) amends the *Administrative Decisions (Judicial Review) Act 1977* (Cth).

Australian Energy Market Amendment (National Energy Retail Law) Bill 2011 (Cth) is not yet in force. If passed, it proposes to amend the *Administrative Decisions (Judicial Review) Act 1977* (Cth) and the *Australian Energy Market Act 2004 (Cth)*. This will also amend the *Competition and Consumer Act 2010 1974* (Cth) and apply the new National Energy Retail Law ("the NER Law") as laws of the Commonwealth in Australia's offshore areas.

Commonwealth Radioactive Waste Management (Repeal and Consequential Amendment) Bill 2010 (Cth) is not yet in force, but will amend *Administrative Decisions (Judicial Review) Act 1977* (Cth).

Crimes Legislation Amendment Bill (No. 2) 2011 (Cth) is not yet in force, but will amend *Administrative Decisions (Judicial Review) Act 1977* (Cth).

Migration Amendment (Detention Reform and Procedural Fairness) Bill 2010 (Cth) amends the *Administrative Decisions (Judicial Review) Act 1977* (Cth).

National Radioactive Waste Management Bill 2010 (Cth) is not yet in force, but will amend *Administrative Decisions (Judicial Review) Act 1977* (Cth).

National Security Legislation Amendment Act 2010 No. 127 (Cth) amends the *Administrative Decisions (Judicial Review) Act 1977* (Cth).

Ozone Protection and Synthetic Greenhouse Gas Management Amendment Act 2010 No. 125 (Cth) amends the *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989 No. 7* (Cth).

Ozone Protection and Synthetic Greenhouse Gas Management Amendment Regulations 2011 (No. 1) 2011 No. 64 (Cth) amends the *Ozone Protection and Synthetic Greenhouse Gas Management Regulations 1995* (Cth).

Renewable Energy (Electricity) Amendment Act 2010 No. 69 (Cth) amends the *Renewable Energy (Electricity) Regulations 2001 No. 2* (Cth) and the *Renewable Energy (Electricity) Act 2000 No. 174* (Cth).

Renewable Energy (Electricity) Amendment Regulations 2010 (No. 9) 2010 No. 321 (Cth) amends the *Renewable Energy (Electricity) Regulations 2001 No. 2* (Cth).

Renewable Energy (Electricity) Amendment Regulations 2010 (No. 4) 2010 No. 204 (Cth) amends the *Renewable Energy (Electricity) Regulations 2001 No. 2* (Cth).

Renewable Energy (Electricity) Amendment Regulations 2010 (No. 5) 2010 No. 239 (Cth) amends the *Renewable Energy (Electricity) Regulations 2001 No. 2* (Cth).

Renewable Energy (Electricity) Amendment Regulations 2010 (No. 6) 2010 No. 246 (Cth) amends the *Renewable Energy (Electricity) Regulations 2001 No. 2* (Cth).

Renewable Energy (Electricity) Amendment Regulations 2010 (No. 8) 2010 (Cth) amends the *Renewable Energy (Electricity) Regulations 2001 No. 2* (Cth).

Renewable Energy (Electricity) Amendment Regulations 2011 (No. 1) 2011 No. 11 (Cth) amends the *Renewable Energy (Electricity) Regulations 2001 No. 2* (Cth).

Renewable Energy Amendment (Feed-in-Tariff for Electricity) Bill 2010 (Cth) is not yet in force. It proposes to amend the *Renewable Energy (Electricity) Act 2000 No. 174* (Cth) to support the commercialisation of a broad range of prospective renewable energy technologies.

Statute Law Revision Act 2011 No.5 (Cth) amends *Administrative Decisions (Judicial Review) Act 1977* (Cth), the *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989 No. 7* (Cth), the *Water Act 2007 No. 137* (Cth).

Tax Laws Amendment (Confidentiality of Taxpayer Information) Act 2010 No. 145 (Cth) amends the *Administrative Decisions (Judicial Review) Act 1977* (Cth).

Tax Laws Amendment (Transfer of Provisions) Act 2010 No. 79 (Cth) amends the *Administrative Decisions (Judicial Review) Act 1977* (Cth).

Trade Practices Amendment (Australian Consumer Law) Act (No. 1) 2010 No. 44 (Cth) amends the *Administrative Decisions (Judicial Review) Act 1977* (Cth).

Trade Practices Amendment (Australian Consumer Law) Act (No.2) 2010 (Cth) amends the *Australian Energy Market Act 2004 No. 99* (Cth), the *Administrative Decisions (Judicial Review) Act 1977* (Cth), the *Water Act 2007 No. 137* (Cth).

New South Wales

Associations Incorporation Act 2009 No. 7 (NSW) amends the *Water Management Act 2000 No. 92* (NSW).

Central Coast Water Corporation Act 2006 No. 105 (NSW) amends the *Water Management Act 2000 No. 92* (NSW).

Commercial Arbitration Act 2010 No. 61 (NSW) amends the *Electricity Supply (General) Regulation 2001 No. 468* (NSW).

Commercial Arbitration Act 2010 No. 61 (NSW) amends the *Water Industry Competition Act 2006 No. 104* (NSW).

Dams Safety Amendment (Prescribed Dams) Proclamation 2010 No. 645 (NSW) amends the *Dams Safety Act 1978 No. 96* (NSW).

Electricity (Consumer Safety) Amendment (Fees) Regulation 2010 No. 208 (NSW) amends the *Electricity (Consumer Safety) Regulation 2006 No. 34* (NSW).

Electricity and Gas Supply Legislation Amendment (Retail Price Disclosures and Comparisons) Act 2010 No. 50 (NSW) amends the *Gas Supply Act 1996 No. 38* (NSW) *and the Electricity Supply Act 1995 No. 94* (NSW).

Electricity Supply (General) Amendment (Infrastructure Protection) Regulation 2010 No. 331 (NSW) amends the *Electricity Supply (General) Regulation 2001 No. 468* (NSW).

Electricity Supply (General) Amendment (Marketing Code of Conduct) Regulation 2010 No. 722 (NSW) amends the *Electricity Supply (General) Regulation 2001 No. 468* (NSW).

Electricity Supply (General) Amendment (Solar Bonus Scheme) Regulation 2009 No. 583 (NSW) amends the *Electricity Supply (General) Regulation 2001 No. 468* (NSW).

Electricity Supply (General) Amendment Regulation 2011 No. 163 (NSW) amends the *Electricity Supply (General) Regulation 2001 No. 468* (NSW).

Electricity Supply (General) Further Amendment (Solar Bonus Scheme) Regulation 2010 No. 723 (NSW) amends the *Electricity Supply (General) Regulation 2001 No. 468* (NSW).

Electricity Supply Amendment (Solar Bonus Scheme) Act 2010 No. 82 (NSW) amends the *Electricity Supply Act 1995 No. 94* (NSW).

Energy and Utilities Administration Further Amendment (Minimum Energy Performance Standards) Regulation 2009 No. 493 (NSW) amends the *Energy and Utilities Administration Regulation 2006 No. 511* (NSW).

Energy Legislation Amendment (Infrastructure Protection) Act 2009 No. 31 (NSW) amends the *Gas Supply Act 1996 No. 38* (NSW) *and the Electricity Supply Act 1995 No. 94* (NSW).

Gas Supply (Gas Appliances) Regulation 2004 No. 761 (NSW) amends the *Gas Supply (Safety Management) Regulation 2002 No. 629* (NSW).

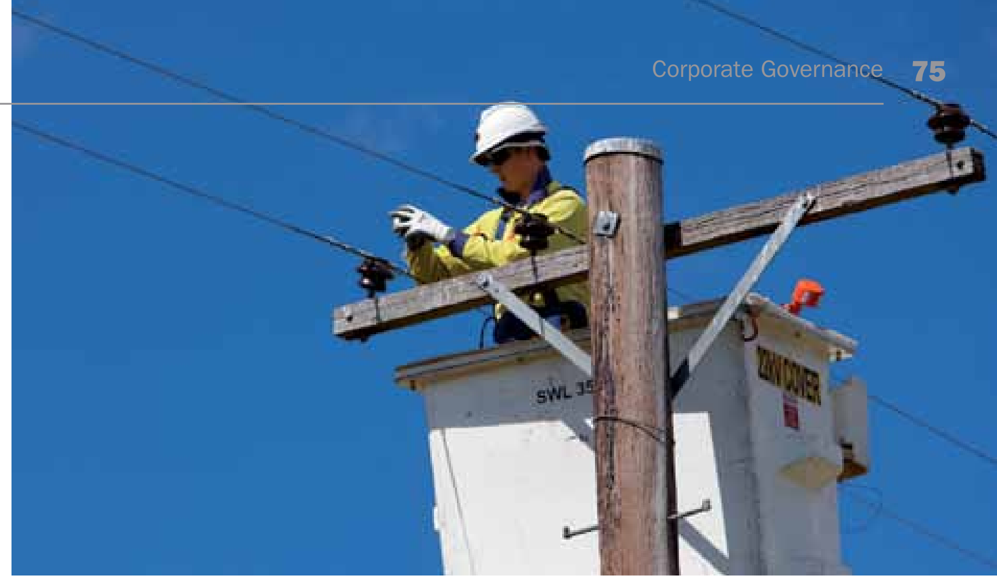
Gas Supply (Gas Meters) Regulation 2002 (NSW) has been made under the authority of the *Gas Supply Act 1996 No. 38* (NSW). The Regulation replaces the *Gas Supply (Gas Meters) Regulation 1997 No. 436* (NSW) and makes provision for:

(a) the requirement of gas to be supplied through gas meters; and

(b) the testing of gas meters and equipment.

Gas Supply (Natural Gas Retail Competition) Amendment (Marketing Code of Conduct) Regulation 2010 No. 724 (NSW) amends the *Gas Supply (Natural Gas Retail Competition) Regulation 2001 No. 1013* (NSW).

Gas Supply Amendment Act 2010 No. 7 (NSW) amends the *Gas Supply Act 1996 No. 38* (NSW).



Government Information (Public Access) (Consequential Amendments and Repeal) Act 2009 No. 54 (NSW) amends the *Electricity Supply Act 1995 No. 94* (NSW).

Health Practitioner Regulation Amendment Act 2010 No. 34 (NSW) amends the *Electricity Supply Act 1995 No. 94* (NSW).

Health Services Amendment (Local Health Networks) Act 2010 No. 97 (NSW) amends the *Water Management Act 2000 No. 92* (NSW).

Industrial Relations Amendment (Public Sector Appeals) Act 2010 No. 54 (NSW) amends the *State Water Corporation Act 2004 No. 40* (NSW).

Statute Law (Miscellaneous Provisions) Act (No. 2) 2010 No. 119 (NSW) amends the *Gas Supply Act 1996 No. 38* (NSW) *and the Electricity Supply Act 1995 No. 94* (NSW).

Transport Administration Amendment Act 2010 No. 31 (NSW) amends the *Electricity Supply Act 1995 No. 94* (NSW).

Water Industry Competition (General) Amendment (Licensing Exemptions) Regulation 2010 No. 738 (NSW) amends the *Water Industry Competition (General) Regulation 2008 No. 336* (NSW).

Water Management (General) Amendment (Aquifer Interference) Regulation 2011 No. 309 (NSW) amends the *Water Management (General) Regulation 2004 No. 429* (NSW).

Water Management (General) Amendment (Bega and Brogo Rivers Water Sharing Plan) Regulation 2011 No. 154 (NSW) amends the *Water Management (General) Regulation 2004 No. 429* (NSW).

Water Management (General) Amendment (Cane Drains and Replacement Access Licences) Regulation 2010 No. 740 (NSW) amends the *Water Management (General) Regulation 2004 No. 429* (NSW).

Water Management (General) Amendment (Metering Equipment) Regulation 2011 No. 156 (NSW) amends the *Water Management (General) Regulation 2004 No. 429* (NSW).

Water Management (General) Amendment (Miscellaneous) Regulation 2010 No. 341 (NSW) amends the *Water Management (General) Regulation 2004 No. 429* (NSW).

Water Management (General) Amendment (Poon Boon Water Trust) Regulation 2011 No. 76 (NSW) amends the *Water Management (General) Regulation 2004 No. 429* (NSW). It provides for the winding up of the Poon Boon Water Trust ("the Trust"), a private water trust constituted under provisions of the *Water Act 1912 No. 44* (NSW) that are now repealed.

Water Management Amendment Bill 2010 (NSW) amends the *Water Management Act 2000 No. 92* (NSW).

ACT

Administrative (One ACT Public Service Miscellaneous Amendments) Act 2011 No. 22 (ACT) amends the *Utilities Act 2000 No. 65* (ACT).

Electricity Feed-in (Renewable Energy Premium) Amendment Act 2011 No. 6 (ACT) amends the *Electricity Feed-in (Renewable Energy Premium) Act 2008 No. 21* (ACT).

Electricity Feed-in (Renewable Energy Premium) Amendment Bill 2011 (ACT) is not yet in force but will amend the *Electricity Feed-in (Renewable Energy Premium) Act 2008 No. 21* (ACT).

Emergencies Amendment Act 2010 (ACT) amends the *Utilities (Gas Restrictions) Regulation 2005 No. 8* (ACT) *and the Emergencies Act 2004 No. 28* (ACT).

Fair Trading (Australian Consumer Law) Amendment Act 2010 No. 54 (ACT) amends the *Utilities Act 2000 No.65* (ACT).

Independent Competition and Regulatory Commission Amendment Act 2003 No. 50 (ACT) amends the *Independent Competition and Regulatory Commission Act 1997 No. 77* (ACT).

Justice and Community Safety Legislation Amendment Act 2010 No. 30 (ACT) amends the *Independent Competition and Regulatory Commission Act 1997 No. 7* (ACT).

Planning and Building Legislation Amendment Act 2011 No. 23 (ACT) amends the *Gas Safety Regulation 2001 No. 18* (ACT).

Water Resources Amendment Bill 2010 (ACT) amends the *Water Resources Act 2007 No. 19* (ACT), the *Water Resources Regulation 2007 No. 22* (ACT) and the *Magistrates Court (Water Resources Infringement Notices) Regulation 2007 No. 30* (ACT).

Victoria

Consumer Affairs Legislation Amendment Act 2010 No. 1 (VIC) amends the *Water Act 1989 No. 80* (VIC).

Electricity Safety (Equipment Efficiency) Amendment Regulations 2010 No. 86 (VIC) amends the *Electricity Safety (Equipment Efficiency) Regulations 2009 No. 37* (VIC).

Energy and Resources Legislation Amendment Act 2009 No. 57 (VIC) amends the *Electricity Industry Act 2000 No. 68* (VIC).

Energy and Resources Legislation Amendment Act 2010 No. 55 (VIC) amends the *Energy Safe Victoria Act 2005 No. 39* (VIC), the *Electricity Industry Act 2000 No. 68* (VIC), the *National Electricity (Victoria) Act 2005 No. 8* (VIC), the *Electricity Safety Act 1998 No. 25* (VIC), the *Victorian Energy Efficiency Target Act 2007 No. 70* (VIC), the *Mineral Resources (Sustainable Development) Act 1990 No. 92* (VIC), the *Pipelines Act 2005 No. 61* (VIC), the *Geothermal Energy Resources Act 2005 No. 7* (VIC), the *Petroleum Act 1998 No. 96* (VIC), the *Gas Industry Act 2001 No. 31* (VIC), the *Victorian Renewable Energy Act 2006 No. 72* (VIC) and the *Energy and Resources Legislation Amendment Act 2009 No. 57* (VIC).

Fair Trading Amendment (Australian Consumer Law) Act 2010 No. 72 (VIC) amends the *Electricity Safety Act 1998 No. 25* (VIC), the *Electricity Industry Act 2000 No. 68* (VIC) and the *Gas Industry Act 2001 No. 31* (VIC).

Health and Human Services Legislation Amendment Act 2010 No. 29 (VIC) amends the *Water Industry Act 1994 No. 121* (VIC).

Mineral Resources Amendment (Sustainable Development) Act 2010 No. 59 (VIC) amends the *Victorian Energy Efficiency Target Act 2007 No. 70* (VIC).

Parks and Crown Land Legislation Amendment (East Gippsland) Act 2009 (VIC) amends the *Mineral Resources (Sustainable Development) Act 1990 No. 92* (VIC).

Parks and Crown Land Legislation Amendment (River Red Gums) Act 2009 No. 82 (VIC) amends the *Mineral Resources (Sustainable Development) Act 1990 No. 92* (VIC).

Statute Law Revision Act 2011 (VIC) amends the *Water Act 1989 No 80* (VIC), the *Mineral Resources (Sustainable Development) Act 1990 No. 92* (VIC) and the *Pipelines Act 2005 No. 61* (VIC). It revises the statute law of Victoria, including by making minor amendments to correct grammatical and typographical errors, updating references and for other similar purposes, as well as repealing spent provisions.

Statute Law Revision Act 2011 No. 29 (VIC) amends the *Water Act 1989 No 80* (VIC), the *Mineral Resources (Sustainable Development) Act 1990 No. 92* (VIC) and the *Pipelines Act 2005 No. 61* (VIC).

Subordinate Legislation Amendment Act 2010 No. 78 (VIC) amends the *Water Act 1989 No. 80* (VIC) and the *Mineral Resources (Sustainable Development) Act 1990 No. 92* (VIC).

Traditional Owner Settlement Act 2010 No. 62 (VIC) amends the *Water Act 1989 No 80* (VIC), the *Mineral Resources (Sustainable Development) Act 1990 No. 92* (VIC), the *Geothermal Energy Resources Act 2005 No. 7* (VIC) and the *Pipelines Act 2005 No. 61* (VIC).

Transport Integration Act 2010 No. 6 (VIC) amends the *Water Act 1989 No 80* (VIC), the *Electricity Safety Act 1998 No. 25* (VIC), the *Water Industry Act 1994 No. 121* (VIC), the *Electricity Industry Act 2000 No. 68* (VIC) and the *Pipelines Act 2005 No. 61* (VIC).

Transport Legislation Amendment (Ports Integration) Act 2010 No. 45 (VIC) amends the *Water Act 1989 No. 80* (VIC) and the *Pipelines Act 2005 No. 61* (VIC).

Water Amendment (Entitlements) Act 2010 No. 32 (VIC) amends the *Water Act 1989 No. 80* (VIC).

Water Amendment (Victorian Environmental Water Holder) Act 2010 No. 50 (VIC) amends the *Water Act 1989 No. 80* (VIC).

South Australia

National Electricity (South Australia) (Civil Penalty Provisions) Variation Regulations 2011 No. 20 (SA) amends the *National Electricity (South Australia) Regulations 1998 No. 211* (SA).

National Electricity (South Australia) Variation Regulations 2010 No. 167 (SA) amends the *National Electricity (South Australia) Regulations 1998 No. 211* (SA).

Statutes Amendment (Electricity and Gas – Information Management and Retailer of Last Resort) Act 2009 No. 45 (SA) amends the *Electricity Act 1996 No. 96* (SA).

Statutes Amendment (Electricity and Gas – Price Determination Periods) Act 2010 No. 11 (SA) amends the *Electricity Act 1996 No. 96* (SA).

Statutes Amendment (Personal Property Securities) Act 2011 No. 11 (SA) amends the *Gas Act 1997 No. 24* (SA) and the *Statutes Amendment (Personal Property Securities) Act 2010* (SA). It makes amendments consequent upon the enactment of the *Personal Property Securities Act 2009 No. 130* (Cth), which replaces legislation regulating personal property securities with a single online register for personal property securities.

Statutes Amendment and Repeal (Trade Measurement) Act 2009 No. 82 (SA) amends the *Natural Resources Management Act 2004 No. 34* (SA).

Subordinate Legislation (Postponement of Expiry) Regulations 2010 No. 198 (SA) amends the *Electricity Corporations (Restructuring and Disposal) Regulations 1999 No. 159* (SA), the *Waterworks Regulations 1996 No. 188* (SA) and the *Water Resources Regulations 1997 No. 166* (SA).

Waterworks (Fees) Variation Regulations 2010 No. 83 (SA) amends the *Waterworks Regulations 1996 No. 188* (SA). The amending Regulations amend r. 29 (Other charges), including to increase fees and make technical amendments.

Waterworks (Fees) Variation Regulations 2011 No. 52 (SA) amends the *Waterworks Regulations 1996 No. 188* (SA). The amending Regulations vary r. 29 (Other charges).

Waterworks Variation Regulations 2010 No. 234 (SA) amends the *Regulations 1996 No. 188* (SA).

Queensland

Community Ambulance Cover Levy Repeal Act 2011 No. 20 (QLD) amends the *Petroleum and Gas (Production and Safety) Act 2004 No. 25* (QLD) and the *Energy and Water Ombudsman Act 2006 No. 61* (QLD).

Electricity Amendment Regulation (No. 1) 2011 No. 42 (QLD) amends the *Electricity Regulation 2006 No. 200* (QLD).

Electricity Amendment Regulation (No. 2) 2010 No. 337 (QLD) amends the *Electricity Regulation 2006 No. 200* (QLD).

Electricity Price Reform Amendment Bill 2011 (QLD) amends the *Electricity Regulation 2006 No. 200* (QLD).

Energy Legislation Amendment Regulation (No. 1) 2011 No. 93 (QLD) amends the *Electricity Regulation 2006 No. 200* (QLD).

Environment and Resource Management Legislation Amendment Regulation (No. 2) 2010 No. 162 (QLD) amends the *Water Regulation 2002 No. 70* (QLD) to insert new fees, royalties, rates and charges and to increase existing ones.

Environment and Resource Management Legislation Amendment Regulation (No. 1) 2011 No. 135 (QLD) amends the *Water Regulation 2002 No. 70* (QLD).

Environmental Protection and Other Legislation Amendment Act 2011 No. 6 (QLD) amends the *Water Supply (Safety and Reliability) Act 2008 No. 34* (QLD).

Fair Trading (Australian Consumer Law) Amendment Act 2010 No. 54 (QLD) amends the *Gas Supply Act 2003 No. 29* (QLD) and the *Queensland Competition Authority Act 1997 No. 25* (QLD).

Fairer Water Prices for SEQ Amendment Act 2011 No. 21 (QLD) amends the *Queensland Competition Authority Act 1997 No. 25* (QLD) and the *Water Act 2000* (QLD).

Gas Security Amendment Act 2011 No. 16 (QLD) amends the *National Gas (Queensland) Act 2008 No. 27* (QLD) and the *Petroleum and Gas (Production and Safety) Act 2004 No. 25* (QLD).

Geothermal Energy Act 2010 No. 31 (QLD) amends the *Petroleum and Gas (Production and Safety) Act 2004 No. 25* (QLD) and the *Greenhouse Gas Storage Act 2009 No. 3* (QLD).

Land Valuation Act 2010 No. 39 (QLD) amends the *Water Act 2000* (QLD).

Local Government Act 2009 No. 17 (QLD) amends the *Queensland Competition Authority Act 1997 No. 25* (QLD), the *Water Act 2000* (QLD) and the *Water Supply (Safety and Reliability) Act 2008 No. 34* (QLD).

Mines and Energy Legislation Amendment Act 2010 No. 17 (QLD) amends the *Petroleum and Gas (Production and Safety) Act 2004 No. 25* (QLD) and the *Queensland Competition Authority Act 1997 No. 25* (QLD).

Mines and Energy Legislation Amendment Act 2011 No. 2 (QLD) amends the *Petroleum and Gas (Production and Safety) Act 2004 No. 25* (QLD), the *Clean Energy Act 2008 No. 33* (QLD) and the *Greenhouse Gas Storage Act 2009 No. 3* (QLD).

Mines and Energy Legislation Amendment Regulation (No. 1) 2010 No. 116 (QLD) amends the *Electricity Regulation 2006 No. 200* (QLD) and the *Gas Supply Regulation 2007 No. 123* (QLD).

Mining and Other Legislation Amendment Act 2007 No. 46 (QLD) amends the *Petroleum and Gas (Production and Safety) Act 2004 No. 25* (QLD).

Motor Accident Insurance and Other Legislation Amendment Act 2010 No. 32 (QLD) amends the *Queensland Competition Authority Act 1997 No. 25* (QLD).

Natural Resources and Other Legislation Amendment Act (No Act 2010 No. 52) (QLD) amends the *Water Act 2000* (QLD).

Public Interest Disclosure Act 2010 No. 38 (QLD) amends the *Petroleum and Gas (Production and Safety) Act 2004 No. 25* (QLD).

Revenue and Other Legislation Amendment Act 2011 No. 8 (QLD) amends the *Water Act 2000* (QLD), the *Queensland Competition Authority Act 1997 No. 25* (QLD) and the *Water Supply (Safety and Reliability) Act 2008 No. 34* (QLD).

Transport (Rail Safety) Act 2010 No. 6 (QLD) amends the *Queensland Competition Authority Act 1997 No. 25* (QLD).

Transport and Other Legislation Amendment Act 2011 No. 12 (QLD) amends the *Electrical Safety Act 2002 No. 42* (QLD).

Trade Measurement Legislation Repeal Act 2009 No. 50 (QLD) amends the *Petroleum and Gas (Production and Safety) Act 2004 No. 25* (QLD).

Water Amendment Regulation (No. 1) 2011 No. 105 (QLD) amends the *Water Regulation 2002 No. 70* (QLD).

Water Amendment Regulation (No. 2) 2010 No. 77 (QLD) amends the *Water Regulation 2002 No. 70* (QLD).

Water Amendment Regulation (No. 3) 2010 No. 138 (QLD) amends the *Water Regulation 2002 No. 70* (QLD).

Water Amendment Regulation (No. 4) 2010 No. 178 (QLD) amends the *Water Regulation 2002 No. 70* (QLD).

Water Amendment Regulation (No. 5) 2010 No. 347 (QLD) amends the *Water Regulation 2002 No. 70* (QLD).

Water and Another Regulation Amendment Regulation (No. 1) 2011 No. 74 (QLD) amends the *Water Regulation 2002 No. 70* (QLD).

Water and Other Legislation Amendment Act 2010 No. 53 (QLD) amends the *Gas Supply Act 2003 No. 29* (QLD), the *Gas Supply Regulation 2007 No. 123* (QLD), the *Petroleum and Gas (Production and Safety) Act 2004 No. 25* (QLD), the *Queensland Competition Authority Act 1997 No. 25* (QLD), the *Energy and Water Ombudsman Act 2006 No. 61* (QLD), the *Energy and Water Ombudsman Regulation 2007 No. 124* (QLD) and the *Water Supply (Safety and Reliability) Act 2008 No. 34* (QLD).

Water (Market Rules) Amendment Notice (No. 1) 2011 No. 127 (QLD) amends the *Water (Market Rules) Notice 2008 No. 212* (QLD).

Overseas travel

Purpose of travel	Employee Name(s)	Organisation Visited	Cities	Country	Date of Departure from Australia	Date of Arrival back in Australia
Group Liability Insurance Scheme (GLIS) market presentations	Lawrence Clark	Various insurers	New York, Hamilton, London, Zurich	USA, Bermuda, England, Switzerland	3 September 2010	18 September 2010
Global Intelligent Utilities Network Coalition meeting	Michael Lysaght, Phillip Green	IBM and North Delhi Power Limited	New Delhi	India	13 November 2010	19 November 2010
Training in underground cable installation	Michael David, Michael Maloney	Nexans	Geneva	Switzerland	4 March 2011	21 March 2011
International Council on Large Electric Systems – Cigre 2011 D2 Panel meeting	Jon Neville	Cigre	Auckland	New Zealand	29 April 2011	8 May 2011
Cyber security training	Ben Simon	Idaho National Laboratories	Idaho Falls	USA	17 June 2011	24 June 2011

Financial Statements

Essential Energy continues to prove itself as a prudent and responsible financial operator, achieving a strong financial result for the reporting period.

Financial Statements Contents

Essential Energy (formerly Country Energy)

NorthPower Energy Services Pty Limited

AUDITOR-GENERAL NEW SOUTH WALES

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Essential Energy and controlled entities

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Essential Energy (the Corporation), which comprise the statements of financial position as at 30 June 2011, the income statements, the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation and the consolidated entity, as at 30 June 2011, and of their financial performance for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

My opinion should be read in conjunction with the rest of this report.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *State Owned Corporations Act 1989*, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation or consolidated entity
- that they have carried out their activities effectively, efficiently and economically
- about the effectiveness of internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.

Peter Achterstraat
Auditor-General

27 September 2011
SYDNEY

Statement by Members of the Board

STATEMENT BY MEMBERS OF THE BOARD

Pursuant to Section 41C of the *Public Finance and Audit Act 1983* we state that:

1. The accompanying financial statements are a general purpose financial report which have been prepared in accordance with the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010*, the *State Owned Corporations Act 1989*, any relevant Treasurer's Directions, applicable Accounting Standards and other mandatory professional reporting requirements.

2. The accompanying financial statements exhibit a true and fair view of the financial position of Essential Energy as at 30 June 2011 and of the profit and cash flows of the corporation for the year ended 30 June 2011.

3. At the date of this statement, there are reasonable grounds to believe that Essential Energy will be able to pay its debts as and when they become due and payable.

4. We are not aware of any circumstances which would render any particulars included in these statements to be misleading or inaccurate.

Signed in accordance with a resolution of Directors.

Barbara Ward
Chairman

22 September 2011
Dated

Terri Benson
Managing Director

22 September 2011
Dated

Income Statements

For the Year Ended 30 June 2011

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Continuing operations					
Revenue	2	1,464,319	1,238,111	1,458,338	1,227,643
Other income, excluding fair value movements in financial instruments	2	9,236	889	22,693	889
Total revenue and other income		**1,473,555**	**1,239,000**	**1,481,031**	**1,228,532**
Cost of sale and delivery of energy		(407,170)	(297,979)	(401,021)	(294,354)
Employee benefits expense		(404,569)	(382,885)	(404,569)	(382,885)
Depreciation and amortisation expense	2	(307,455)	(203,287)	(305,846)	(198,459)
Finance costs	2	(288,173)	(244,383)	(288,173)	(244,383)
Other expenses	2	(7,981)	(31,316)	(7,981)	(31,316)
Total expenses		**(1,415,348)**	**(1,159,850)**	**(1,407,590)**	**(1,151,397)**
Profit before income tax and fair value movements in financial instruments		**58,207**	**79,150**	**73,441**	**77,135**
Income tax on profit before income tax and fair value movements in financial instruments	3	(15,548)	(25,251)	(14,670)	(24,221)
Profit before fair value movements in financial instruments		**42,659**	**53,899**	**58,771**	**52,915**
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	2	1,933	413	1,933	413
Income tax on gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	3	(580)	(124)	(580)	(124)
Profit for the period from continuing operations		**44,012**	**54,188**	**60,124**	**53,204**
Discontinued operations					
Revenue – sale of energy		830,946	1,410,221	836,369	1,419,161
Other income		570	163	570	163
Total revenue and other income		**831,516**	**1,410,384**	**836,939**	**1,419,324**
Cost of sale of energy		(712,519)	(1,253,407)	(717,942)	(1,262,347)
Total cost of sales		**(712,519)**	**(1,253,407)**	**(717,942)**	**(1,262,347)**
Profit before income tax		**118,997**	**156,977**	**118,997**	**156,977**
Income tax on profit before income tax and fair value movements in financial instruments	3	(27,497)	(47,093)	(27,497)	(47,093)
Profit after income tax		**91,500**	**109,884**	**91,500**	**109,884**
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	2	5,143	(2,472)	5,143	(2,472)
Income tax on gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	3	(1,543)	742	(1,543)	742
Profit for the period		**95,100**	**108,154**	**95,100**	**108,153**
Gain/(loss) on disposal of operation	29	1,075,742	–	1,075,742	–
Profit for the year from discontinued operations		**1,170,842**	**108,154**	**1,170,842**	**108,153**
Profit for the year		**1,214,854**	**162,342**	**1,230,966**	**161,357**

The accompanying notes form part of these Income Statements.

Statements of Comprehensive Income

For the Year Ended 30 June 2011

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Profit for the period		**1,214,854**	**162,342**	**1,230,966**	**161,357**
Asset valuations:					
Increase in asset revaluation reserve resulting from revaluation of system assets	1.11.1	–	7,003,183	–	7,003,183
Tax effect on increase in asset revaluation reserve resulting from revaluation of system assets		–	(2,100,955)	–	(2,100,955)
Impairment on increase in asset revaluation reserve resulting from revaluation of system assets	1.11.1	–	(5,759,433)	–	(5,759,433)
Tax effect on impairment of asset revaluation reserve resulting from revaluation of system assets		–	1,727,830	–	1,727,830
Cash flow hedges:					
Gains/(losses) on cash flow hedges recognised directly to equity	1.6.1	(59,723)	(71,126)	(59,723)	(71,126)
(Gains)/losses transferred from the cash flow hedge reserve to cost of sales	1.6.1	24,307	24,450	24,307	24,450
(Gains)/losses transferred to income statement on disposal of retail business		92,847	–	92,847	–
Tax effect of net changes in fair value of cash flow hedges		(17,229)	14,003	(17,229)	14,003
Superannuation actuarial adjustment:					
Superannuation actuarial gains/(losses) and changes in surplus in excess of recovery available from scheme	27	456	(21,475)	456	(21,475)
Income tax on superannuation actuarial gains/(losses) and changes in surplus in excess of recovery available from scheme		(137)	6,443	(137)	6,443
Other comprehensive gain/(loss) for the year, net of tax		**40,521**	**822,920**	**40,521**	**822,920**
Total comprehensive gain/(loss) for the year		**1,255,375**	**985,262**	**1,271,487**	**984,277**

The accompanying notes form part of these Statements of Comprehensive Income.

Statements of Financial Position

As at 30 June 2011

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Current assets					
Cash and cash equivalents	5	5,868	13,997	5,868	13,997
Trade and other receivables	6	167,011	203,485	167,011	203,334
Estimated revenue from unread meters	1.8.2	127,484	256,801	127,484	256,801
Inventories	8	33,387	34,039	33,387	34,039
Intangibles – green certificates	19	9,393	36,925	9,393	36,925
Derivative financial instruments	7	4,406	17,287	4,406	17,287
Other assets	11	–	–	–	56,457
Total current assets		**347,549**	**562,534**	**347,549**	**618,840**
Non-current assets					
Trade and other receivables	6	3,110	3,439	3,110	3,439
Investments in subsidiary corporations	9	–	–	–	26,871
Available-for-sale investment	9	–	1,205	–	1,205
Investment property	10	3,834	3,834	3,834	3,834
Property, plant and equipment	12	6,278,650	5,901,274	6,278,650	5,810,644
Intangible assets	13	83,124	89,641	83,124	81,742
Other assets	11	937	993	937	993
Total non-current assets		**6,369,655**	**6,000,386**	**6,369,655**	**5,928,728**
Total assets		**6,717,204**	**6,562,920**	**6,717,204**	**6,547,568**
Current liabilities					
Trade and other payables	14	257,611	380,360	257,611	383,888
Deposits	15	172	10,243	172	10,243
Interest bearing liabilities	16	137,035	43,664	137,035	43,664
Income tax payable	4	85,226	61,712	85,226	61,712
Provisions – green certificates	19	9,669	35,030	9,669	35,030
Other provisions	17	253,306	245,974	253,306	245,974
Derivative financial instruments	7	47,744	79,850	47,744	79,850
Other liabilities	18	2,056	3,702	2,056	3,524
Total current liabilities		**792,819**	**860,535**	**792,819**	**863,885**
Non-current liabilities					
Interest bearing liabilities	16	3,503,635	3,282,038	3,503,635	3,282,038
Deferred tax liabilities	4	413,072	493,459	413,072	490,869
Provisions	17	80,902	28,852	80,902	28,852
Other liabilities	18	108,309	121,144	108,309	121,144
Total non-current liabilities		**4,105,918**	**3,925,493**	**4,105,918**	**3,922,903**
Total liabilities		**4,898,737**	**4,786,028**	**4,898,737**	**4,786,788**
Net assets		**1,818,467**	**1,776,892**	**1,818,467**	**1,760,780**
Equity					
Contributed equity		130,485	130,485	130,485	130,485
Hedge revaluation reserve		1,084	(39,118)	1,084	(39,118)
Asset revaluation reserve		1,159,466	1,159,466	1,159,466	1,159,466
Retained profits		527,432	526,059	527,432	509,947
Total equity		**1,818,467**	**1,776,892**	**1,818,467**	**1,760,780**

The accompanying notes form part of these Statements of Financial Position.

Statements of Changes in Equity

For the Year Ended 30 June 2011

Consolidated		Contributed Equity	Asset Revaluation Reserve	Hedge Revaluation Reserve	Retained Profits	Total Equity
	NOTE	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2009		130,485	288,891	(6,445)	426,299	839,230
Total comprehensive income		–	870,625	(32,673)	147,310	985,262
Asset revaluation reserve balances of disposed assets transferred to retained profits		–	(50)	–	50	–
Dividends provided and paid	1.13.8	–	–	–	(47,600)	(47,600)
Balance at 30 June 2010		**130,485**	**1,159,466**	**(39,118)**	**526,059**	**1,776,892**
Balance at 1 July 2010		130,485	1,159,466	(39,118)	526,059	1,776,892
Total comprehensive income		–	–	40,202	1,215,173	1,255,375
Asset revaluation reserve balances of disposed assets transferred to retained profits		–	–	–	–	–
Special dividend paid	1.13.8	–	–	–	(1,172,600)	(1,172,600)
Ordinary dividend provided and paid	1.13.8	–	–	–	(41,200)	(41,200)
Balance at 30 June 2011		**130,485**	**1,159,466**	**1,084**	**527,432**	**1,818,467**

Corporation		Contributed Equity	Asset Revaluation Reserve	Hedge Revaluation Reserve	Retained Profits	Total Equity
	NOTE	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2009		130,485	288,891	(6,445)	411,172	824,103
Total comprehensive income		–	870,625	(32,673)	146,325	984,277
Asset revaluation reserve balances of disposed assets transferred to retained profits		–	(50)	–	50	–
Dividends provided and paid	1.13.8	–	–	–	(47,600)	(47,600)
Balance at 30 June 2010		**130,485**	**1,159,466**	**(39,118)**	**509,947**	**1,760,780**
Balance at 1 July 2010		130,485	1,159,466	(39,118)	509,947	1,760,780
Total comprehensive income		–	–	40,202	1,231,285	1,271,487
Asset revaluation reserve balances of disposed assets transferred to retained profits		–	–	–	–	–
Special dividend paid	1.13.8	–	–	–	(1,172,600)	(1,172,600)
Ordinary dividend provided and paid	1.13.8	–	–	–	(41,200)	(41,200)
Balance at 30 June 2011		**130,485**	**1,159,466**	**1,084**	**527,432**	**1,818,467**

The Asset Revaluation Reserve comprises increments and decrements resulting from revaluations of land and buildings $35.776 million ($35.776 million in 2010), and system assets $1,123.690 million ($1,123.690 million in 2010). Assets are revalued in accordance with NSW Treasury Policy TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value.*

The accompanying notes form part of these Statements of Changes in Equity.

Statements of Cash Flow

For the Year Ended 30 June 2011

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Cash flows from operating activities					
Receipts from customers		2,315,054	2,795,732	2,320,477	2,794,582
Payments to suppliers and employees		(1,645,905)	(2,148,201)	(1,651,328)	(2,150,775)
Interest received		3,367	996	3,367	996
Interest and other costs of finance paid		(271,369)	(154,772)	(271,369)	(154,772)
Income tax paid		(116,828)	(108,964)	(116,828)	(108,964)
Net operating cash flows	**21**	**284,319**	**384,791**	**284,319**	**381,067**
Cash flows from investing activities					
Payments for property, plant and equipment	1.11.4	(721,590)	(707,500)	(721,590)	(703,776)
Proceeds from sale of property, plant and equipment		13,608	9,415	13,608	9,415
Purchase of non-current intangible assets		(24,670)	(27,970)	(24,670)	(27,970)
Repayment of loan by sale of subsidiary		56,500	–	56,500	–
Proceeds from sale of business		1,289,640	212	1,289,640	212
Net investing cash flows		**613,488**	**(725,843)**	**613,488**	**(722,119)**
Cash flows from financing activities					
Proceeds from borrowings		316,231	377,076	316,231	377,076
Net community service obligations (paid)/received		(351)	267	(351)	267
Dividends paid		(1,220,200)	(29,200)	(1,220,200)	(29,200)
Net financing cash flows		**(904,320)**	**348,143**	**(904,320)**	**348,143**
Net increase/(decrease) in cash held		**(6,513)**	**7,091**	**(6,513)**	**7,091**
Cash at the beginning of the financial year		4,625	(2,466)	4,625	(2,466)
Cash at the end of the financial year	**21**	**(1,888)**	**4,625**	**(1,888)**	**4,625**

The accompanying notes form part of these Statements of Cash Flow.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 1: Significant Accounting Policies

The significant policies which have been adopted in the preparation of the financial statements are:

1.1 Reporting Entity

Essential Energy (formerly known as Country Energy) (the Corporation) was formed on 1 July 2001 by the merger of three NSW electricity distributors. These distributors traded as Advance Energy, Great Southern Energy and NorthPower. On 1 July 2005 a further merger was undertaken between Essential Energy and Australian Inland Energy Water Infrastructure (Australian Inland), a NSW State Owned Corporation.

Essential Energy is incorporated under the *State Owned Corporations Act 1989*. Essential Energy's capital comprises two (2) fully paid $1.00 ordinary shares issued to the Treasurer and another Minister, the Minister for Finance and Services. The $2.00 share capital has been included in the amount of contributed equity disclosed in the Statement of Financial Position.

1.2 Financial Reporting Framework

The accompanying statements are a general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and the requirements of the *Public Finance and Audit Act 1983,* the *Public Finance and Audit Regulation 2010* and the *State Owned Corporations Act 1989*. The financial statements have been prepared on an accrual accounting and going concern basis.

1.3 Statement of Compliance

The financial statements are in conformity with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Interpretations. The financial statements have adopted NSW Treasury's mandates and indicative mandates.

1.4 Principles of Consolidation

The consolidated financial statements of the Corporation include the financial statements of the Corporation, being the parent entity, and its controlled entities (the Group). All controlled entities are incorporated in Australia and details of holdings by the parent entity appear in note 26.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. The balances and effects of transactions with the controlled entities included in the financial statements have been eliminated.

The controlled entity at 30 June 2011 is NorthPower Energy Services Pty Limited. On 29 October 2010 the wholly-owned subsidiary Country Energy Gas Pty Limited was sold and is no longer a member of the Group. NorthPower Energy Services Pty Limited did not trade during the year.

1.5 Accounting Policies

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The reasonableness of estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next annual reporting period. These accounting policies have been consistently applied in the Group.

The accounting policies are consistent with those applied in the previous year except as outlined by 1.5.1.

1.5.1 Change in accounting policy

From 1 July 2010, the Group has adopted the following standards and interpretations, and all consequential amendments, which became applicable on 1 July 2010.

1.5.1.1 New and revised AIFRS affecting the reported financial performance and/or financial position

- AASB137: *Provisions, Contingent Liabilities and Contingent Assets*
- AASB112: *Income Taxes.*

The application of the changes in the standards listed above has no material impact on the financial statements of the Group.

1.5.1.2 Adoption of the following standards and interpretations has only affected the presentation and disclosure in these financial statements. There has been no impact on the financial position or performance of the Group.

- AASB5: *Non-current Assets Held for Sale and Discontinued Operations – amendment to Australian Accounting Standards as part of Improvements issued in 2009*
- AASB 101: *Presentation of Financial Statements – amendments to Australian Accounting standards as part of Improvements issued in 2010*
- AASB107: *Statement of Cash Flow – amendment to Australian Accounting Standards as part of Improvements issued in 2009*
- AASB7: *Financial Instruments: Disclosures – amendment to Australian Accounting Standards as part of Improvements issued in 2010*
- AASB127: *Consolidated and Separate Financial Statements – Revised in 2008*
- AASB3: *Business Combinations – Revised in 2008*
- AASB128: *Investments in Associates – Revised in 2008*
- AASB139: *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- Interpretation 127: *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
- Interpretation 132: *Intangible Assets – Web Site Costs*
- *Improvements to Australian Accounting Standards issued in 2010-7: Except for the amendments to AASB 5, AASB 101 and AASB 107 described above, the application of Improvements to Australian Accounting Standards issued in 2011 has not had any material effect on amounts reported in the consolidated financial statements.*

1.6 Cost Measurement

The financial statements are prepared on the historical costs basis, modified to be compliant with AIFRS in the cases of:

- assets measured at fair value, being available-for-sale financial assets, financial assets and liabilities at fair value through profit and loss, derivative financial instruments, investment property, and stated classes of property, plant and equipment
- recognised assets and liabilities that are hedged with fair value hedges, where the carrying values are adjusted to record changes in the fair values attributable to the risks being hedged
- property, plant and equipment whose cost was deemed to be fair value at the date of transition to AIFRS
- loans and receivables classified as financial instruments are measured at amortised cost. Generally these are recorded as non-current assets and liabilities in the Statement of Financial Position and amortisation is applied if material.

Note 1: Significant Accounting Policies (Continued)

1.6.1 Measurement of derivatives at market price

In accordance with AASB 139: *Financial Instruments: Recognition and Measurement*, derivative assets and liabilities are recognised at fair value. The most appropriate valuation methodology for energy trading derivatives is the application of a price quoted in an active market where available. Assets and liabilities valued using this pricing methodology are described as being valued at 'Mark to Market' (MtM). The values that may be encountered using MtM methodology have a history of being highly volatile resulting in large unrealised gains and losses. This may have a material impact on the Income Statement and will have no effect on the cash flow. The consequential movements through the financial statements are largely outside the control of the Corporation's management.

All foreign currency derivatives are effective hedges and are accounted for under AASB 139 as a fair value hedge. As a fair value hedge all gains/losses for movements on fair value are immediately recognised in the profit and loss.

All commodity derivatives that are effective hedges are accounted for under AASB 139 as a cash flow hedge. As a cash flow hedge all gains and losses for movements in fair value are taken directly to the hedge revaluation reserve in equity.

All gains/losses on commodity derivatives that are ineffective hedges are taken directly to the profit and loss.

1.7 Impairment

In accordance with AASB 136: *Impairment of Assets* and AASB 139, impairment testing is carried out to ensure that assets are carried at no more than their recoverable amount. Impairment is applied in the following circumstances:

1.7.1 Impairment – financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the profit and loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the profit and loss. For available-for-sale financial assets that are equity securities the reversal is recognised directly in equity.

1.7.2 Impairment – non-financial assets assessment for impairment

Assets are assessed at each reporting date for any indicators that impairment may exist. If there is no indication of impairment, impairment testing is not carried out. If there is indication of impairment, the recoverable amount is estimated for the asset, or the Cash Generating Unit (CGU) to which a group of assets belongs. If the carrying value of the asset or CGU exceeds the estimated recoverable amount of that asset or CGU the asset or CGU is written down to its recoverable amount. The recoverable amount of an asset is the greater of fair value less costs to sell and value in use.

For specialised assets, in the absence of market selling price, the recoverable amount is the value in use. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax weighted average cost of capital (refer note 1.16).

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses are recognised in the Income Statement unless the assets are carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease and is recognised as a reduction to the Asset Revaluation Reserve to the extent that the impairment loss does not exceed the amount in the Asset Revaluation Reserve for that same asset.

- **Electricity system assets**

Electricity system assets are carried at their recoverable amount. There were no indicators of impairment requiring impairment testing of the assets at 30 June 2011. The assets were last tested for impairment at 30 June 2010.

- **Goodwill and intangible assets**

Goodwill acquired in a business combination and intangible assets with indefinite useful lives are tested for impairment annually irrespective of any indication of impairment.

1.7.3 Reversals of impairment

Impairment losses are reversed when there is an indication that impairment may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that an asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

Impairment reversals are not applied to goodwill.

1.8 Recognition of Revenue

Revenue is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of revenue are set out below.

Revenue relating to the Corporation's core operations is classified as revenue from the sale and delivery of energy. Revenue from other business activities is classified as other revenue (refer note 2).

1.8.1 Sales revenue

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products or services and is recognised when the goods are provided or when the fee in respect of services provided is receivable.

1.8.2 Revenue from unread meters

Revenue from unread meters is calculated at balance date for those customers who at balance date did not have their meters read and invoiced. The calculation uses an estimate based on their historical consumption (refer note 1.9.4).

1.8.3 Finance revenue

The following transactions are recognised as finance revenue and are recorded in the Income Statement:

- Interest realised and unrealised on interest rate futures contracts (refer note 22.1.3.2)
- Interest received or receivable on futures deposits (refer note 1.9.9)

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 1: Significant Accounting Policies (Continued)

- Discount revenue applied to provisions and amortised assets
- Net gains on valuations of interest rate futures that are classified as financial instrument 'loans and receivables'
- Net gain on foreign currency contracts that are classified as financial instruments.

1.8.4 Asset sales

Proceeds on the sale of assets are brought to account when control of the asset passes to the buyer. Net gains on the sale of assets are other income in the Income Statement. Net losses on the sale of assets are recognised as expenses in the Income Statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

1.8.5 Capital contributions

Capital contributions are monies paid by customers, or prospective customers, seeking an augmentation of the electricity and gas distribution systems in circumstances where, in the ordinary course of events, such augmentation would not be undertaken by the Group.

Capital contributions are recognised in accordance with Interpretation 18: *Transfers of Assets from Customers*. Capital contributions are recorded as liabilities when they are received for an asset that is not complete and ready for use. These liabilities are recognised as revenue upon completion of the asset.

Non-current assets that are contributed to the Group by customers are recorded as capital contributions and are valued at fair value. For the purposes of the Statements of Cash Flow these revenues are not recognised as cash inflows (refer note 1.11.4).

1.8.6 Changes in valuation of TCorp investments

All NSW Treasury Corporation (TCorp) investments are held in TCorp's Hour Glass facility (refer note 1.9.2).

In accordance with a NSW Treasury mandate, movements in the value of this facility are disclosed as revenue in the Income Statement.

1.9 Valuation of Current Assets

1.9.1 Cash and cash equivalents

For the purposes of the Statement of Financial Position, cash assets include cash on hand and investments at call (refer note 5).

For the purposes of the Statements of Cash Flow, cash includes cash assets net of bank overdraft excluding restricted cash (refer note 21).

1.9.2 Investments

Surplus funds are managed in accordance with the Corporation's investment policy. The objective of the policy is to achieve maximum return within defined risk parameters. Investments are held in a managed portfolio and in the form of a deposit (refer note 22.1).

• TCorp investments

Investments held in TCorp's Hour Glass Investment facility are managed and evaluated on a fair value basis in accordance with the Corporation's investment policy. These investments are designated as 'fair value through profit and loss' consistent with AASB 139 and in accordance with a NSW Treasury mandate.

• Other investments

Investments are held in the form of a deposit as security for margin calls on futures trade transactions. These investments are interest bearing and are measured at fair value.

1.9.3 Receivables

Receivables include trade, other and intercompany debtors and prepayments.

• Debtors

Trade, other and intercompany debtors are measured at cost, being the original invoice amount where the effect of discounting is immaterial. Collectability of debt is assessed at balance date in accordance with AASB 139. Allowances for doubtful debts are made after assessing any evidence that trade, other and intercompany debtors are impaired. The allowances are calculated as the difference between the carrying amount of the debtor and the expected future cash flows. The allowances are disclosed in note 6 as provisions for doubtful debts.

• Prepayments

Prepayments are measured at cost and represent prepaid expenses that are expected to be realised within twelve months.

1.9.4 Estimated revenue from unread meters

A current asset is recognised resulting from the estimate made for meters that are unread at balance date (refer note 1.8.2).

1.9.5 Inventories

Inventories have been valued at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item and comprises the cost of purchase including the cost of bringing the inventories to their appropriate location and condition. Net realisable value is the estimated selling price less the estimated cost to sell. The major components of inventories are capital stores and consumables used in the maintenance of the distribution network.

1.9.6 Intangible assets

Current intangible assets relate to assets acquired from the purchase of renewable energy and are measured at cost (refer note 1.14).

1.9.7 Derivative assets

Current derivative assets are recognised in the course of energy trading and debt management and are measured at fair value (refer notes 7 and 22).

1.9.8 Loans to subsidiary

The interest free loan to Country Energy Gas Pty Limited by the Corporation was repaid to the Corporation on the date of disposal ($56.457 million in 2010) (Refer note 11).

1.9.9 Interest rate futures

TCorp on behalf of the Corporation transacts all interest rate futures traded on the Sydney Futures Exchange. Where as a result of these transactions, cash is received by TCorp on behalf of the Corporation, the debt is recorded in the Corporation's Statement of Financial Position as an asset.

1.10 Valuation of Non-Current Assets

1.10.1 Receivables

Non-current receivables include debtors, prepayments and the balance of over funded (prepaid) superannuation.

• Other debtors

Other non-current debtors are recognised when the debt due is payable in a period greater than twelve months from balance date. They are carried at amortised cost being the net present value of amounts due when the debt is payable. Collectability of debt is assessed at balance date. A provision for doubtful debts is determined after having considered the ageing of the debt and the credit risk of the debtors. The debts are a mixture of interest bearing and non-interest bearing (refer note 6).

• Prepayments

Prepayments are measured at amortised cost and represent payments that are expected to be realised in a period longer than twelve months. Where the amortisation adjustment is not material, amortisation is not recorded (refer note 6).

• Over funded superannuation

Any excess between the market value and accrued benefits of defined benefit superannuation plans are recognised as non-current receivables (refer notes 1.13.5 and 27).

1.10.2 Available-for-sale investment

The Corporation had a 20% interest in a wind farm. This was classified as an available-for-sale investment in accordance with AASB 139. The investment had been valued at previous balance date using a Discounted Cash Flow (DCF) calculation. The calculation used estimated pre-tax cash flows for 10 years and applied a pre-tax discount rate of 10% (refer note 1.16). The asset was disposed as part of the Retail sale (refer note 29).

1.10.3 Investment property

Investment properties are stated at fair value, which has been determined based on valuations performed by Opteon Valuers Unit Trust (Opteon) as at February 2011. Opteon used a registered valuer who holds relevant professional qualifications and recent experience in the category of property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as Essential Energy's investment properties. Consistent with AASB 140: *Investment Property*: and in accordance with a NSW Treasury mandate changes to fair value are taken directly to the profit and loss (refer notes 2 and 10).

1.10.4 Investments in subsidiaries

Shares held by the Corporation in its subsidiaries are recorded at cost and are eliminated in the consolidated financial statements.

1.10.5 Leased assets

The Corporation has not entered into any finance leases. Operating leases are not capitalised and rental payments are charged against operating profit in the period in which they are incurred (refer note 23).

1.10.6 Other assets

Non-current other assets are assets whose economic benefit is expected to be realised in a period longer than twelve months. These include non-interest bearing repayable advances made to employees. These advances will be repaid when the employees leave the service of the Corporation. Consequently the repayment dates are not determinable and the asset has not been amortised (refer note 11).

1.11 Valuation of Property, Plant and Equipment

Purchased property, plant and equipment is initially recognised at its acquisition cost. The cost of a new asset comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are constructed by the Group (using employees, third party contractors, or a combination of both) are capitalised. These assets are typically network related, but can include the construction of other assets such as leasehold improvements and specialised plant and equipment.

The cost of these assets may include: directly purchased physical assets and associated incidental costs; labour and supervision costs; costs of design and technical assistance; internal and external plant hire costs; transfers from inventories and directly attributable overheads.

All expenditure relating to the replacement of an asset is capitalised to the extent that the asset has reached the end of its useful life or has not reached the end of its useful life but the replacement will result in an increase or improvement to the asset's current service capacity, service quality or useful life.

Property, plant and equipment is assessed annually for impairment (refer 1.7). Impairment testing is undertaken whenever there is an indication that the carrying value of an asset or CGU may be materially higher than its recoverable amount in compliance with AASB 136 and NSW Treasury Policy and Guidelines Paper TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value* (TPP 07-1).

Where impairment exists, the carrying values of the assets are written down to their recoverable amounts. The amount of write down is recorded in the Income Statement unless the assets are carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease and is recognised as a reduction to the Asset Revaluation Reserve to the extent that the impairment loss does not exceed the amount in the Asset Revaluation Reserve for that same asset.

1.11.1 System assets

In accordance with TPP 07-1, system assets have been valued at their fair value.

In the absence of market evidence, TPP 07-1 initially requires specialised system assets to be valued using the Optimised Depreciated Replacement Cost (ODRC) approach. The ODRC value is then subject to an impairment test based on value in use. The Group has followed the requirements of TPP 07-1 in valuing its system assets.

In accordance with TPP 07-1, all classes of property, plant and equipment (including system assets) are revalued at least every five years. However, an assessment is made at each reporting date to ensure that the carrying amount of each class of property, plant and equipment does not differ materially from its fair value. Where the carrying amount of a class of property, plant and equipment is found to differ materially from its fair value, that class of property, plant and equipment is revalued.

In accordance with TPP 07-1, electricity system assets were revalued as at 30 June 2010 using an ODRC approach. The ODRC valuation was undertaken by an independent valuer, as part of the ODRC valuation process. The independent valuer adopted the following methodology:

- the assets were valued using the ODRC valuation approach in accordance with TPP 07-1
- the ODRC valuation allowed for appropriate optimisation of the assets
- replacement cost was calculated based on current asset unit rates applied to in-situ assets
- depreciation was applied based on the asset design life
- physical verification of assets was undertaken on a sample basis.

The Electricity CGU was subsequently assessed for impairment and the Electricity system assets were reduced to their recoverable amount, being value in use. Value in use was estimated using a discounted cash flow calculation performed by an independent valuer (refer 1.7.2).

Water system assets were valued using an ODRC approach as at 30 June 2009. The Group has performed a roll-forward of the 30 June 2009 ODRC valuation to arrive at an ODRC value as at 30 June 2010. The recoverable amount of the Water system assets CGU was estimated to be zero as at 30 June 2010, based on a value in use calculation. Accordingly, no value is carried in the books of the Group in respect of water system assets.

The ODRC value of Generation system assets is not considered to be material. Accordingly, no ODRC valuation was performed as at 30 June 2010. The recoverable amount of the Generation system assets CGU was estimated to be zero as at 30 June 2010, based on a value in use calculation. Accordingly, no value is carried in the books of the Group in respect of Generation system assets.

1.11.2 Land and buildings

At 30 June 2011 land and building asset values of the Corporation were appraised by Opteon using a Fair Value methodology. In determining their appraisal Opteon have assumed the estimated amount that

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 1: Significant Accounting Policies (Continued)

properties would exchange between a willing buyer and a willing seller would reasonably represent fair value.

In accordance with the Opteon appraisal there were no material changes in the carrying value of the assets during the year.

The assets are recorded at fair value.

1.11.3 Other plant and equipment

The Corporation's other non-current physical assets comprise non-specialised assets with short useful lives. Examples are motor vehicles, office equipment and computer equipment. These assets are disclosed at fair value which is equivalent to their depreciated historical cost. For this class of asset depreciated historical cost is an acceptable measure of fair value because the difference between these valuations is unlikely to be material.

1.11.4 Acquisition of property, plant and equipment

The value of assets acquired during the year includes the cost of acquisition, the cost of materials, labour and an appropriate proportion of overheads.

Assets that are contributed by customers are recorded at fair value. In the Statements of Cash Flow the acquisition of these assets is not recognised as purchases of property, plant and equipment (refer note 1.8.5).

1.11.5 Depreciation

The carrying value of property, plant and equipment is net of depreciation where applicable.

Depreciation is calculated for all items of property, plant and equipment, except freehold land, based on the estimated useful remaining life of the asset. The straight line method is used and the expense is recognised in the Income Statement.

The estimated remaining lives to the entity for each class of asset are as follows:

Buildings	1 – 40 years
Leasehold improvements	Term of lease
System assets	1 – 50 years
Other assets	1 – 20 years

Upon revaluation of system assets, the accumulated depreciation is restated proportionately with the change in the cost of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

1.12 Valuation of Intangible assets

Intangible assets, other than goodwill, are identifiable non-physical assets that have been acquired or developed by the Corporation. These are recorded at amortised cost (refer note 13). The intangible assets form part of the assets of a number of CGUs.

1.12.1 Natural Gas business licences

The licences were acquired when the former Great Southern Energy purchased the Natural Gas Business from the Council of the City of Wagga Wagga. The difference between the cost of the Natural Gas Business and the value of the total assets is the value of the intangible asset, being Distribution and Retail licences. These licences are an entitlement to distribute and retail natural gas within the Wagga Wagga region, as well as to other contestable markets.

The distribution licence was sold as part of the disposal of Country Energy Gas Pty Limited on 29 October 2010 (refer note 29.2).

The recoverable amount of the Gas retail licence was estimated to be zero as at 30 June 2011 based on a value in use calculation. Accordingly, no value is carried in the books of the Group in respect of Gas retail licence.

1.12.2 Computer software

Computer software has been classified as an intangible asset in accordance with AASB 138: *Intangible Assets*. The component assets that are complete have a finite life and are amortised over four years. Their remaining lives have been assessed as 2.2 years.

These assets are disclosed at fair value which is equivalent to their depreciated historical cost. For this class of asset depreciated historical cost is an acceptable measure for fair value because the difference between these valuations is unlikely to be material.

1.12.3 Goodwill

Goodwill was acquired when the former Great Southern Energy Group purchased natural gas assets from the Australian Gas Light Company.

The goodwill represents the excess of the cost of acquisition of the gas network purchased over the fair value of the identifiable net assets acquired. The assets were newly constructed at the time of acquisition. Goodwill was sold as part of the disposal of Country Energy Gas Pty Limited on 29 October 2010 (refer note 29.2).

1.13 Liabilities and Equity

1.13.1 Payables

Trade and other payables are recognised when the Corporation is obliged to make a future payment for the purchase of goods or services. Payables are recorded at fair value (refer note 14).

1.13.2 Deposits

Deposits are received as security against payment of the Corporation's billing, trading activities or use of the Corporation's assets (refer note 15). Customers and contractors pay a security against payment of the Corporation's billing or use of the Corporation's assets. Deposits are repaid when the customer's payment risk is removed or the Corporation's assets cease being used. Deposits are considered at call, are measured at cost and are not amortised.

1.13.3 Interest bearing liabilities

All interest bearing loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the amortisation process (refer note 16).

1.13.4 Employee benefits

The provision for employee benefits to wages, annual leave, sick leave and long service leave represents the amount which the Corporation has a present obligation to pay resulting from employees' services provided up to balance date.

The amounts provided have been apportioned between current and non-current provisions. The current provisions being that portion which is expected to be paid within the ensuing twelve months or where there is no unconditional right to defer settlement of the obligation (refer note 17). Non-current provisions are those amounts that are expected to be paid after twelve months and where there exists an unconditional right to defer settlement beyond twelve months.

In calculating wages and annual leave, nominal amounts have been used based on expected future remuneration.

The amounts recognised for sick leave and long service leave are calculated in accordance with Australian Accounting Standard AASB 119: *Employee Benefits*. Actuarial assessment of sick leave and long service leave was calculated at 31 March 2009 by Cumpston Sarjeant Pty Ltd. This was used as a basis for calculating the current year's provision by applying a methodology supplied by the actuary. Long service leave has been discounted in accordance with AASB 119 using rates attaching to Commonwealth Government securities at balance date.

Note 1: Significant Accounting Policies (Continued)

Employee benefits are recorded in the Statement of Financial Position as current liabilities where the Corporation has no unconditional right to defer settlement.

1.13.5 Defined benefit superannuation plans

Essential Energy contributes to several defined benefit employee superannuation plans. These are the Energy Industries Superannuation Scheme Pty Limited (EISS), State Super (SS) and the Electricity Supply Industry Superannuation Fund (QLD).

Employee contributions to the plans are based on various percentages of employee gross salaries. These percentages are at the employees' discretion. The employer contributions are based on the advice of the plans' actuaries and are generally at a rate of about twice the employees' contributions.

After serving a qualifying period all member employees are entitled to defined benefits on retirement, disability or death. The defined benefits are based on years of service and final average salary.

The plans' accrued benefits are those benefits which the plans are presently obliged to pay to members of the plans at some future date. The plans' assets are those assets held at net market value to satisfy the benefit obligations. Where a plan's net assets exceed the accrued benefits, the difference is recorded as an asset in the Corporation's Statement of Financial Position (refer note 1.10.1). Where the accrued benefits exceed the net assets, a liability is recorded in the Corporation's Statement of Financial Position (refer note 1.13.10). Movements during the period in these Statement of Financial Position values, excluding 'superannuation actuarial gains/losses' and 'change in surplus in excess of recovery available from scheme', are recorded in the Income Statement. Movements related to 'superannuation actuarial gains/losses' and 'change in surplus in excess of recovery available from scheme' are recorded in the Statement of Comprehensive Income.

The Trustees are responsible for ensuring that the plans are independently valued by suitably qualified valuers (refer note 27). The plans are funded.

1.13.6 Measurement of the plans' assets and liabilities

A majority of the plans' assets comprise investments in Australian and overseas equities. Large movements in the value of these equities can have a material impact on the asset values of the plans. These movements can result in significant unrealised gains or losses being disclosed in the Income Statement. These gains or losses can be further affected by valuations of the plans' liabilities which in part are based on the length of time members remain in the plans. These valuations and consequential movements through the financial statements are largely outside the control of the Corporation's management.

1.13.7 Provisions

Liabilities are recorded as provisions, unless stated elsewhere, when there is uncertainty as to the timing or amount of future expenditure required for settlement. Provisions are discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where the discount adjustment is not material, amortisation is not recorded (refer note 17).

1.13.8 Dividends

- **Ordinary**

The dividend payout ratio is set out in the Statement of Corporate Intent (SCI) approved by the Corporation and the Shareholders. Where the SCI has been signed before balance date, the dividends are deemed appropriately authorised and are recognised as a liability in the Statement of Financial Position (refer note 17).

- **Special**

A special dividend of $1.1726 billion was paid representing the proceeds from the sale of the Retail business less estimated costs of the sale.

1.13.9 Derivative liabilities

Derivative liabilities are recognised in the course of energy trading and debt management (refer notes 7 and 22).

1.13.10 Other liabilities

Other liabilities include prepaid revenue and under funded superannuation liability. The liabilities are classified as current or non-current, according to when their obligation for fulfilment is due.

- **Prepaid revenue**

Prepaid revenue represents capital contributed revenue recorded as a liability in accordance with Interpretation 18. The revenue will be recorded in the Income Statement when the constructed asset is completed, which generally occurs within twelve months of receipt of the revenue. The liability is classified as current. It is measured at cost and is not amortised (refer note 18).

- **Under funded superannuation**

A liability is recorded when the accrued benefits of the defined benefits superannuation funds exceed the net assets of the funds (refer note 1.13.5). The liabilities are classified as non-current and are recorded at the value supplied by the actuary. This value is based on a net present value.

1.13.11 Asset revaluation reserve

The asset revaluation reserve is used to record the net increments in the fair value of all non-current physical assets.

1.13.12 Hedge revaluation reserve

The hedge revaluation reserve is used to record increments and decrements in the fair value of all effective cash flow hedges in accordance with AASB 139. Movements in the hedge revaluation reserve are disclosed in the Statement of Comprehensive Income.

1.14 Accounting for Renewable Energy

A number of schemes operate under government legislation or regulation. These schemes generate rights and obligations to supply specified targets of renewable energy. The compliance instruments related to these schemes are generically described as Green Certificates.

The Corporation generates and purchases Green Certificates in order to comply with the relevant legislation. Obligations to surrender certificates based on targets are of the nature of provisions and are disclosed in the Statement of Financial Position as current liabilities. These are recorded at weighted average cost. Rights held, are of the nature of intangible assets and are disclosed in the Statement of Financial Position as current assets. These are recorded at weighted average cost. The assets and liabilities held under each scheme are acquitted annually. Assets remaining after the acquittal process are expected to be realised within twelve months after the date of acquittal. These assets are not amortised because the amortisation adjustment would not be material.

- **Energy Saving Certificates (ESCs)**

The NSW Energy Savings Scheme (ESS), which commenced on 1 July 2009, is designed to increase opportunities to improve energy efficiency by rewarding companies who undertake eligible projects that either reduce electricity consumption or improve the efficiency of energy use. The ESS establishes legislated annual energy savings targets that must be met through the creation and surrender of Energy Savings Certificates (ESCs).

- **Renewable Energy Certificates (RECs)**

This scheme operates under Federal Government legislation which requires energy retailers to source a target proportion of their electricity purchases from renewable sources. Any excess assets held after acquittals are carried forward to future years.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 1: Significant Accounting Policies (Continued)

- **Large-scale Generation Certificates (LGCs) and Small-scale Generation Certificates (SGCs)**

At 1 January 2011, the RECs scheme was split into two parts, the LGCs and SGCs. The new schemes operate under the Federal Government legislation which requires energy retailers to source a target proportion of their electricity purchases from renewable sources. Any excess assets held after acquittals are carried forward to future years.

- **NSW Greenhouse Abatement Certificates (NGACs)**

These are created by accredited abatement certificate providers who undertake eligible abatement activities in power generation, energy efficiency, and forest based carbon sequestration. Accreditation of abatement certificate providers is managed by Independent Pricing and Regulatory Tribunal (IPART) in its role as the Scheme Administrator.

- **Green Power Rights (GPRs)**

This is a national voluntary scheme administered by the NSW Department of Water and Energy. The scheme accredits electricity retailers to sell electricity guaranteed to have been sourced from renewable energy. Excess assets held after annual acquittal cannot be carried forward to future years and are recorded in the Income Statement as an expense.

- **Gas Electricity Certificates (GECs)**

This scheme operates under Queensland legislation and places an obligation on the Corporation to purchase specified volumes of electricity from eligible generation sources from within Queensland. Any excess assets held after annual acquittal are carried forward to future years.

- **Victorian Renewable Energy Certificates (VRECs)**

This scheme operates under Victorian legislation which requires energy retailers to source a target proportion of their electricity purchases in Victoria from renewable energy resources generated in Victoria. The scheme is administered by the Essential Services Commission (ESC). Any excess assets held after annual acquittals are carried forward to future years.

- **Victorian Energy Efficiency Certificates (VEECs)**

This scheme operates under Victorian legislation which sets targets for energy savings and requires energy retailers to meet their set targets through energy efficiency activities. The scheme commenced 1 January 2009 and is administered by the ESC. Any excess assets held after annual acquittal are carried forward to future years.

Green Certificate assets and liabilities are disclosed in note 19.

1.15 Finance Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

The following transactions are recognised as finance costs. These are recorded in the Income Statement as they are not borrowing expenses directly attributable to a qualifying asset:

- Interest paid or payable on interest bearing loans
- Loan guarantee fee paid to the NSW government for the guarantee of loans (refer note 16)
- The amounts of amortisation of discounts and premiums on interest bearing loans (refer note 1.13.3)
- Discount expense applied to provisions and amortised assets (refer note 17)
- Discounts applied to financial liabilities
- Net losses on valuations of interest rate futures classified as financial instrument 'loans and receivables'
- Net losses on foreign currency contracts that are classified as financial instruments.

1.16 Future Cash Flows

Essential Energy prepares forecasts covering a ten-year period. These forecasts are a component of the Corporation's SCI which is a ten-year business plan prepared by the Corporation's management and approved by its Shareholders. The use of ten-years in a business plan is consistent with the business sector in which the Corporation operates.

Where an estimate is made of future cash flows in relation to asset valuation, ten year forecasts from the SCI are extrapolated to produce cash flow projections to the end of the asset's life. The discount rate used is the weighted average cost of capital of the relevant CGU.

1.17 Income Tax

The Group operates within the National Tax Equivalent Regime (NTER) administered by the Australian Taxation Office (ATO) on behalf of the NSW Government.

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates that are applicable at balance date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Statement of Financial Position liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- Goodwill
- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit
- Differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates applicable at balance date.

A deferred tax asset is recognised to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.17.1 Tax consolidation

Essential Energy and its 100% owned subsidiaries are a tax consolidated group (tax group). The head entity of the tax group is Essential Energy.

Current income tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences are recognised in each member of the group's financial statements using the 'separate taxpayer within group' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of assets and liabilities in the individual tax group members' Statement of Financial Positions and their tax values applying under tax consolidation.

Any current tax liabilities/assets and deferred tax assets arising from unused tax losses of a group member are assumed by the head entity of the group. These are recognised as amounts payable/receivable to other group members in conjunction with any tax funding arrangement amounts.

The group members recognise deferred tax assets arising from unused tax losses to the extent that it is probable that the future taxable profits of the group will be available against which the asset can be utilised. A group member assesses the recovery of its unused tax losses and tax credits only in the period in which they arise and before assumption by the head entity in accordance with AASB 112: *Income Taxes*.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

1.17.2 Tax funding arrangements

The head entity in conjunction with other members of the tax consolidated group has entered into a tax funding arrangement which sets out the funding obligation of members of the group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/assets assumed by the head entity and any tax loss deferred tax asset assumed by the head entity, resulting in the group members recognising an inter entity payable/receivable equal in amount to the tax liability/asset assumed. The inter entity payable/receivable balances are at call.

Contributions to fund the current tax liabilities are payables as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

1.17.3 Tax sharing agreement

The head entity in conjunction with other members of the group has entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the group members should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as the possibility of payment of any amount under this agreement is remote.

The Group has elected to consolidate for NTER purposes as part of a tax sharing arrangement which provides for the allocation of income tax expense and liabilities across the wholly owned subsidiaries and a tax funding agreement which provides intercompany funding to cover current and deferred tax balances contributed by the individual subsidiaries to the head entity.

Tax effect accounting principles are applied to the financial statements in accordance with AASB 112 (refer notes 3 and 4).

1.18 Goods and Services Tax

Revenue, expenses and assets (other than receivables) are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the Statement of Financial Position.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

1.19 Electricity Purchases

The Corporation purchases electricity in the National Electricity Market (NEM) for resale to its customers. Changes in the spot market may generate adverse financial effects. In order to minimise the risk electricity trading positions are hedged. The gains and losses arising from these derivative transactions are brought to account in accordance with AASB 132: *Financial Instruments: Presentation* and AASB 139.

1.20 Construction Contracts

Revenue is recognised on fixed price construction contracts in proportion to the progress on each contract when all of the following conditions are satisfied:

- Total contract revenues to be received and the costs to complete the contract can be reliably estimated
- The stage of contract completion can be reliably determined
- The costs attributable to the contract date can be clearly identified and can be compared with prior estimates.

Profit is recognised on cost plus construction contracts in proportion to the progress on each contract when all of the following conditions are satisfied:

- The costs attributable to the contract to date can be clearly identified
- Costs to complete other than those that will be specifically reimbursable under the contract can be reliably estimated
- Where relevant the stage of contract completion can be reliably determined.

Any material losses on construction contracts are brought to account as soon as they are foreseeable.

1.21 Segment Reporting

- **Business segments**

The Group has one reportable business segment, that being the distribution and retail of energy. Revenue from the sale and distribution of energy to external customers of $2,205.696 million ($2,539.586 million in 2010) includes $1,339.105 million ($1,147.190 million in 2010) with respect to the distribution of energy (network use of system income) for the 2011 financial year. This amount is 60.7% of total operating revenue (43.3% in 2010). Internal sales by the distribution component to the retail component totalled $550.212 million ($796.990 million in 2010).

- **Geographical segments**

The Group operates within a single geographic segment, Australia.

1.22 Comparative Data

Comparatives have been reclassified where necessary to enhance comparability in respect of changes in the current year. Where prior year information was not disclosed or where it is not practical to calculate the information comparatives have been omitted. No material amounts have been reclassified.

1.23 Presentation Currency

This financial statements are presented in Australian dollars.

1.24 Foreign Currency

Foreign currency transactions are converted to Australian currency at the rates of exchange applicable at the dates of the transactions.

The treatment of foreign currencies that are hedged together with outstanding foreign currency balances is in accordance with AASB 132 and AASB 139 (refer note 22.1.3.1).

Foreign currency gains and losses are reported on a net basis.

1.25 Rounding of Amounts

Amounts in the financial statements have been rounded to the nearest thousand dollars unless specifically stated otherwise.

1.26 Early Adoption of Standards

At the date of authorisation of the financial statements a number of Australian Accounting Standards and Interpretations have been issued by the AASB but are not yet operative. These have not been adopted early by the Corporation or its subsidiaries. The following is a list of those Standards and Interpretations. It is anticipated that although the new standards may change some existing disclosures and policies and introduce new disclosures, their application will have no material impact on the financial statements of the Group.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 1: Significant Accounting Policies (Continued)

AASB Number	AASB Title	Application Date for the Group*
AASB 3	Business Combinations	1 July 2011
AASB 4	Insurance Contracts	1 July 2011
AASB 5	Non-current Assets Held for Sale and Discontinued Operations	1 July 2011
AASB 7	Financial Instruments: Disclosures	1 July 2011
AASB 8	Operating Segments	1 July 2011 (a)
AASB 9	Financial Instruments	1 Jan 2013
AASB 10	Consolidated Financial Statements	1 July 2013
AASB 11	Joint Arrangements	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	1 July 2013
AASB 13	Fair Value Measurement	1 July 2013
AASB 101	Presentation of Financial Statements	1 July 2011
AASB 107	Statement of Cash Flows	1 July 2011
AASB 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 July 2011
AASB 110	Events after the Reporting Period	1 July 2011
AASB 112	Income Taxes	1 July 2011
AASB 118	Revenue	1 July 2011
AASB 119	Employee Benefits	1 July 2011
AASB 121	The Effects of Changes in Foreign Exchange Rates	1 July 2011
AASB 124	Related Party Disclosures	1 July 2011
AASB 127	Separate Financial Statements	1 July 2013
AASB 128	Investments in Associates and Joint Ventures	1 July 2013
AASB 132	Financial Instruments: Presentation	1 July 2011
AASB 133	Earnings per Share	1 July 2011 (a)
AASB 134	Interim Financial Reporting	1 July 2011
AASB 137	Provisions, Contingent Liabilities and Contingent Assets	1 July 2011
AASB 139	Financial Instruments: Recognition and Measurement	1 July 2011
AASB 140	Investment Property	1 July 2011
AASB 1023	General Insurance Contracts	1 July 2011
AASB 1031	Materiality	1 July 2011
AASB 1053	Application of Tiers of Australian Accounting Standards	1 July 2013
AASB 1054	Australian Additional Disclosures	1 July 2011
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12] [Superseded by AASB 2010-7]	1 July 2013
AASB 2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 and 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 and 1052]	1 July 2013
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 and AASB 7]	1 July 2011
AASB 2010-7:	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 and 1038 and Interpretations 2, 5, 10, 12, 19 and 127]	1 July 2013
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	1 July 2012
AASB 2010-9	Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1]	1 July 2011
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 and AASB 134 and Interpretations 2, 112 and 113]	1 July 2011
AASB 2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 and AASB 1054]	1 July 2013
AASB 2009-12	Amendments to Australian Accounting Standards[AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 and 1031 and Interpretations 2, 4, 16, 1039 and 1052]	1 July 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 and AASB 134 and Interpretation 13]	1 July 2011

Note 1: Significant Accounting Policies (Continued)

AASB Number	AASB Title	Application Date for the Group*
AASB 2010-5	Amendments to Australian Accounting Standards[AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 and 1038 and Interpretations 112, 115, 127, 132 and 1042]	1 July 2011
AASB 2010-10	Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters[AASB 2009-11 and AASB 2010-7]	1 July 2013
AASB 2011-3	Amendments to Australian Accounting Standards – Orderly adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]	1 July 2012
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	1 July 2013
AASB 2011-5	Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, AASB 128 and AASB 131]	1 July 2011
AASB 2011-6	Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements [AASB 127, AASB 128 and AASB 131]	1 July 2013
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 and 1038 and Interpretations 5, 9, 16 and 17]	1 July 2013
AASB 2011-8	Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 and 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 and 132]	1 July 2013
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 and 1049]	1 July 2012
AASB 2011-10	Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, 8, 101, 124, 134, 1049 and 2011-8 and Interpretation 14]	1 July 2013
AASB 2011-11	Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements	1 July 2013

(a) Standards and Interpretations that are not yet operative and have no application to the Group.

1.27 Exemptions

Exemptions have been granted by the Treasurer under Section 41BA of the *Public Finance and Audit Act 1983* (PF&AA) so that the financial reporting requirements which apply are broadly consistent with the Corporations Act reporting requirements given that the entity is competing in the NEM.

The following specific disclosures are not required to be made as a result of the exemptions:

Annual reporting exemptions

Budgets	s.7 (1)(a)(iii) ARSBA cl 7 ARSBR
Report of Operations	s.7 (1)(a)(iv) ARSBA
Management and Activities	Schedule 1 ARSBR
Research and Development	Schedule 1 ARSBR
Human Resources	Schedule 1 ARSBR
Consultants	Schedule 1 ARSBR
Land Disposal	Schedule 1 ARSBR
Consumer Response	Schedule 1 ARSBR
Payment of Accounts	Schedule 1 ARSBR
Time for Payment of Accounts	Schedule 1 ARSBR
Report on Risk Management and Insurance Activities	Schedule 1 ARSBR
Disclosure of Controlled Entities	Schedule 1 ARSBR
Investment Management Performance	cl. 12 ARSBR
Liability Management Performance	cl. 13 ARSBR

Reference
ARSBA – Annual Reports (Statutory Bodies) Act 1984
ARSBR – Annual Reports (Statutory Bodies) Regulation 2010.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 2: Components of Revenue and Expenses

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Revenue from continuing operations					
Network use of system income		1,373,934	1,129,364	1,367,955	1,118,897
Developer and customer contributions	1.8.5	57,063	81,244	57,061	81,244
Rental income	1.10.3	817	570	817	570
Other revenue		23,675	26,003	23,675	26,002
Other finance revenue	1.8.3	8,830	930	8,830	930
Total operating revenue from continuing operations		**1,464,319**	**1,238,111**	**1,458,338**	**1,227,643**
Other income from continuing operations					
Net gains on disposal of property, plant and equipment	1.8.4	2,738	443	2,738	443
Net gains on sale of business		6,498	212	19,955	212
Change in fair value of investment properties	1.10.3	–	234	–	234
Total other income from continuing operations		**9,236**	**889**	**22,693**	**889**
Finance costs from continuing operations					
Interest expense		287,987	243,630	287,987	243,630
Net losses on valuation of interest rate futures		79	513	79	513
Discount expense applied to provisions and amortised assets		107	240	107	240
Total finance costs from continuing operations	**1.15**	**288,173**	**244,383**	**288,173**	**244,383**
Other expenses from continuing operations					
Impairment on available for sale asset		–	864	–	864
Impairment losses on non-financial assets*	1.7.2	7,981	30,452	7,981	30,452
Total other expenses from continuing operations		**7,981**	**31,316**	**7,981**	**31,316**
Continuing operations fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements					
Change in fair value of TCorp investments	1.8.6	1,933	306	1,933	306
Net gain/(loss) on foreign exchange	1.24	–	107	–	107
Total ongoing operations fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements		**1,933**	**413**	**1,933**	**413**
Discontinued operations fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements					
Net gains/(losses) on re-measurement of energy purchase derivatives (ineffective cash flow hedges)		(2,485)	2,635	(2,485)	2,635
Amortisation of premiums on energy purchases CAP contracts		14,327	12,416	14,327	12,416
Settlement of ineffective energy contracts for differences		(6,699)	(17,523)	(6,699)	(17,523)
Total discontinued operations fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements		**5,143**	**(2,472)**	**5,143**	**(2,472)**
The continuing operations income statement includes the following items of finance expense/(income)					
Interest income on bank deposits and investments at call		(2,488)	(930)	(2,488)	(930)
Discount revenue applied to provisions and amortised assets		(479)	–	(479)	–
Net gains on interest futures		(7,396)	–	(7,396)	–
Change in fair value of TCorp investments		(400)	(306)	(400)	(306)
Net gain on foreign exchange		–	(107)	–	(107)
Finance income		**(10,763)**	**(1,343)**	**(10,763)**	**(1,343)**

Note 2: Components of Revenue and Expenses (Continued)

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Interest expense on financial liabilities measured at amortised cost		287,987	243,630	287,987	243,630
Net losses on valuation of interest rate futures		79	513	79	513
Discount expense applied to provisions and amortised assets		107	240	107	240
Net loss on foreign exchange		–	–	–	–
Impairment loss on trade and other debtors	1.7.1	1,045	549	1,045	549
Finance expense		**289,218**	**244,932**	**289,218**	**244,932**
Net finance expense/(income)		**278,455**	**243,589**	**278,455**	**243,589**
The above continuing operations finance expense/(income) includes the following in respect of assets/liabilities not at fair value through profit or loss					
Total interest income on financial assets		(2,488)	(930)	(2,488)	(930)
Total interest expense on financial liabilities		287,987	243,630	287,987	243,630
The continuing operations income statement includes the following items of other expense/(income)					
Depreciation of property, plant and equipment	12	284,038	186,831	282,894	183,421
Amortisation of intangible assets	13	23,417	16,456	22,952	15,038
Total depreciation and amortisation		307,455	203,287	305,846	198,459
Amounts charged against provisions for employee benefits	17	58,750	42,016	58,750	42,016
Consultants expenses		561	551	561	551
(Amounts capitalised $0.057 million ($0.116 million in 2010))					
Inventories		25,135	25,145	25,135	25,145
Bad debts expense		484	763	484	763
Minimum lease payments on operating leases		9,151	8,901	9,151	8,901
Direct operating expenses that relate to income earning investment property	1.10.3	116	96	116	96
Research and development expenses		77	215	77	215
Net (gain)/loss on financial assets and liabilities at fair value through the profit or loss:					
Financial assets and liabilities designated as fair value through the profit or loss		(4,743)	(306)	(4,743)	(306)
Financial assets and liabilities held for trading		–	107	–	107
Fee expenses arising from financial assets or financial liabilities that are not at fair value through the profit or loss		2,789	3,738	2,789	3,738
Maintenance expenses:					
Employee related maintenance expenses included in employee benefits expense		97,905	80,322	97,480	79,997
Contracted labour and other (non-employee related) expenses		321,601	273,785	320,322	271,700
Total maintenance expenses		419,506	354,107	417,802	351,697
The discontinued operations income statement includes the following items of other expense/(income)					
Bad debts expense		4,353	6,865	4,353	6,865
Net (gain)/loss on financial assets and liabilities at fair value through the profit or loss:					
Financial assets and liabilities held for trading		5,143	2,635	5,143	2,635
Available for sale asset		–	864	–	864

Other business activities

Essential Energy carries out a number of commercial business activities which are incidental to, associated with, or are related to the supply and delivery of energy. Individually these activities are not of significant size, nature or incidence. The aggregate of revenue from these activities of $26.910 million ($30.208 million in 2010), including internal sales $2.234 million ($4.048 million in 2010) is included in other revenue. The aggregate of expenses from these activities of $25.814 million ($27.639 million in 2010) is included in the cost of other revenue.

* The impairments expense reflects the approach outlined in note 1.7.2. The expense reflect the impairment of the generation and water assets including Mica Street Water Treatment Replacement Water Asset and Nymboida Pipeline Generation Asset.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 3: Income Tax Expense

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Continuing operations					
The major components of income tax expense are:					
Income statement					
Current income tax					
Current income tax charge		69,437	48,984	68,559	47,973
Adjustments in respect of current income tax of previous years		(7,427)	(5,953)	(7,427)	(5,902)
Adjustment in respect of acquisitions and disposals		11	–	–	–
Deferred income tax					
Relating to origination and reversal of temporary differences	4	(49,056)	(17,656)	(49,045)	(17,726)
Adjustments in respect of deferred income tax of previous years		3,162	–	3,162	–
Income tax expense/(benefit) reported in the income statement		**16,128**	**25,375**	**15,250**	**24,345**
Statement of changes in equity					
Deferred income tax related to items charged or credited directly to equity:					
Gain on revaluation of plant and equipment		–	2,100,955	–	2,100,955
(Loss) on impairment of plant and equipment		–	(1,727,830)	–	(1,727,830)
Superannuation gains/(losses)		137	(6,443)	137	(6,443)
Income tax expense/(benefit) reported in equity		**137**	**366,682**	**137**	**366,682**
Reconciliation of tax expense to pre-tax profit					
Profit before income tax and fair value movements in financial instruments		58,207	79,149	73,441	77,135
Income tax at rate of 30%		17,462	23,746	22,032	23,141
Adjustment in respect of current income tax of previous years		(7,427)	(1,071)	(7,427)	(1,071)
Investment Allowance		–	(1,489)	–	(1,489)
Recognition/derecognition of temporary differences		3,162	1,444	3,162	1,446
Sale of shares held in subsidiary		1,089	–	(2,937)	–
Forgiveness of loan between group entities		–	–	(1,282)	–
Expenditure not allowable for income tax purposes		1,262	2,621	1,122	2,194
		15,548	**25,251**	**14,670**	**24,221**
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements		1,933	413	1,933	413
		1,933	**413**	**1,933**	**413**
Income tax at rate of 30%					
Income tax on gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements		**580**	**124**	**580**	**124**
Total income tax expense		**16,128**	**25,375**	**15,250**	**24,345**

Note 3: Income Tax Expense (continued)

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Discontinued operations					
The major components of income tax expense are:					
Income statement					
Current income tax					
Current income tax charge		78,320	47,093	78,320	47,093
Deferred income tax					
Relating to origination and reversal of temporary differences	4	(49,280)	(742)	(49,280)	(742)
Income tax expense/(benefit) reported in the income statement		**29,040**	**46,351**	**29,040**	**46,351**
Statement of changes in equity					
Deferred income tax related to items charged or credited directly to equity:					
Net gain/(loss) on revaluation of cash flow hedges		17,229	(14,003)	17,229	(14,003)
Income tax expense/(benefit) reported in equity		**17,229**	**(14,003)**	**17,229**	**(14,003)**
Reconciliation of tax expense to pre-tax profit					
Profit before income tax and fair value movements in financial instruments		1,194,739	156,977	1,194,739	156,977
Income tax at rate of 30%		358,422	47,093	358,422	47,093
Net tax gain on disposal of retail business not subject to tax equivalent		(330,925)	–	(330,925)	–
Income tax on profit before income tax and fair value movements in financial instruments		**27,497**	**47,093**	**27,497**	**47,093**
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements		5,143	(2,472)	5,143	(2,472)
		5,143	**(2,472)**	**5,143**	**(2,472)**
Income tax at rate of 30%					
Income tax on gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements		**1,543**	**(742)**	**1,543**	**(742)**
Total income tax expense		**29,040**	**46,351**	**29,040**	**46,351**

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 4: Tax Assets and Liabilities

4.1: Income tax payable

	Consolidated Statement of Financial Position		Corporation Statement of Financial Position	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Provision for income tax	85,226	61,712	85,226	61,712
Total income tax payable	**85,226**	**61,712**	**85,226**	**61,712**

4.2: Deferred tax balances

Consolidated	Opening Balance		Recognised in Income Statement – Prior Period		Recognised in Income Statement – Current Period		Recognised Directly in Equity		Acquisition/Disposals		Closing Balance	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Temporary differences												
Provisions	71,441	64,763	(451)	–	17,479	6,679	–	–	–	–	88,469	71,442
Green emission rights	(11,077)	(8,034)	–	–	9,784	(3,043)	–	–	–	–	(1,293)	(11,077)
Green emission obligations	10,509	11,593	–	–	(9,133)	(1,085)	–	–	–	–	1,376	10,508
Project costs	1,944	3,146	–	–	(1,944)	(1,202)	–	–	–	–	–	1,944
Under funded superannuation	35,956	30,834	–	–	(3,772)	(1,321)	(137)	6,443	–	–	32,047	35,956
Business related costs	68	–	–	–	(3)	68	–	–	(65)	–	–	68
Financial instruments	25,191	10,248	–	–	(8,932)	939	(17,229)	14,003	–	–	(970)	25,190
Property, plant and equipment	(581,715)	(224,727)	(2,711)	–	48,784	16,137	–	(373,123)	2,644	–	(532,998)	(581,713)
Unearned income	163	2,988	–	–	481	(2,825)	–	–	–	–	644	163
Unbilled income	(45,939)	(49,990)	–	–	45,592	4,050	–	–	–	–	(347)	(45,940)
Total deferred tax liabilities	**(493,459)**	**(159,179)**	**(3,162)**	**–**	**98,336**	**18,397**	**(17,366)**	**(352,677)**	**2,579**	**–**	**(413,072)**	**(493,459)**

Corporation	Opening Balance		Recognised in Income Statement – Prior Period		Recognised in Income Statement – Current Period		Recognised Directly in Equity		Acquisition/Disposals		Closing Balance	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Temporary differences												
Provisions	71,441	64,592	(451)	–	17,479	6,850	–	–	–	–	88,469	71,442
Green emission rights	(11,077)	(8,034)	–	–	9,784	(3,043)	–	–	–	–	(1,293)	(11,077)
Green emission obligations	10,509	11,593	–	–	(9,133)	(1,085)	–	–	–	–	1,376	10,508
Project costs	1,944	3,146	–	–	(1,944)	(1,202)	–	–	–	–	–	1,944
Under funded superannuation	35,956	30,834	–	–	(3,772)	(1,321)	(137)	6,443	–	–	32,047	35,956
Business related costs	–	–	–	–	–	–	–	–	–	–	–	–
Financial instruments	25,191	10,248	–	–	(8,932)	939	(17,229)	14,003	–	–	(970)	25,190
Property, plant and equipment	(579,057)	(222,036)	(2,711)	–	48,770	16,104	–	(373,123)	–	–	(532,998)	(579,055)
Unearned income	163	2,988	–	–	481	(2,825)	–	–	–	–	644	163
Unbilled income	(45,939)	(49,990)	–	–	45,592	4,050	–	–	–	–	(347)	(45,940)
Total deferred tax liabilities	**(490,869)**	**(156,659)**	**(3,162)**	**–**	**98,325**	**18,467**	**(17,366)**	**(352,677)**	**–**	**–**	**(413,072)**	**(490,869)**

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 5: Cash and Cash Equivalents

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Cash and deposits	1.9.1	77	70	77	70
Investments at call – TCorp	1.9.2	64	583	64	583
Investments at call – Other	1.9.2	6	13,344	6	13,344
Restricted cash and deposits	5.1	5,721	–	5,721	–
Total cash and cash equivalents		**5,868**	**13,997**	**5,868**	**13,997**

The Group's exposure to interest rate risk and a sensitivity analysis of financial assets and financial liabilities are disclosed in note 22.

5.1: Restrictions on the use of cash and cash equivalents

Restricted cash and deposits are held on behalf of the acquirer of Essential Energy's Retail Operations as part of the Transitional Services Agreement (TSA). These cash resources are not available to finance the Group's day to day operations and are due and payable to the acquirer of Essential Energy's Retail operations as part of the TSA.

Note 6: Trade and Other Receivables

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Current					
Trade debtors		73,266	182,851	73,266	182,851
Provision for doubtful debts		(149)	(5,243)	(149)	(5,243)
Trade debtors, net of provision	1.9.3	73,117	177,608	73,117	177,608
Other debtors		79,916	19,011	79,916	18,860
Provision for doubtful debts		(241)	(368)	(241)	(368)
Other debtors, net of provision	1.9.3	79,675	18,643	79,675	18,492
Deposits on futures trading	1.9.9	7,205	62	7,205	62
Loans and receivables		**159,997**	**196,313**	**159,997**	**196,162**
Prepayments	1.9.3	7,014	7,172	7,014	7,172
Total current trade and other receivables		**167,011**	**203,485**	**167,011**	**203,334**
Non-current					
Other debtors		58	69	58	69
Loans and receivables		**58**	**69**	**58**	**69**
Prepayments		1,594	2,112	1,594	2,112
Over funded superannuation		1,458	1,258	1,458	1,258
Total non-current trade and other receivables	**1.10.1**	**3,110**	**3,439**	**3,110**	**3,439**

Current other debtors consist of non-energy debtors and accrued revenue. Some debt is interest bearing, however this is not material.
Non-current other debtors consist of non-interest bearing debt with an average maturity of six years.
The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 22.

Note 7: Derivative Financial Instruments

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Derivative financial assets – current					
Energy trading derivatives					
Swap derivatives		3,488	10,180	3,488	10,180
Option derivatives		918	4,301	918	4,301
Futures derivatives		–	2,806	–	2,806
Total derivative current assets	**1.9.7**	**4,406**	**17,287**	**4,406**	**17,287**
Derivative financial liabilities – current					
Energy trading derivatives					
Swap derivatives		28,532	73,357	28,532	73,357
Option derivatives		19,206	5,000	19,206	5,000
Futures derivatives		–	1,487	–	1,487
Other derivatives					
Foreign exchange derivatives		6	6	6	6
Total derivative current liabilities	**1.13.9**	**47,744**	**79,850**	**47,744**	**79,850**

The Group's exposure to credit, currency and interest rate risk related to derivatives is disclosed in note 22.

The derivative financial assets and liabilities are largely related to the operations of the retail business which was disposed on 1 March 2011 (refer note 29). The obligations and risks and rewards related to the derivatives that were included in the sale of the retail business which could not be novated to the acquirer due to third party contract restrictions are assumed by the acquirer as part of the Pass Through Agreement (PTA) but must remain in the Corporation's statement of financial position. Under the PSA, at 30 June 2011, $45.878 million of net liability included in derivatives was receivable from the acquirer.

Note 8: Inventories

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Inventories – at lower of cost and net realisable value	1.9.5	33,387	34,039	33,387	34,039
Total inventories		**33,387**	**34,039**	**33,387**	**34,039**

Essential Energy

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 9: Investments

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Available-for-sale investments					
Interest in wind farm		–	1,205	–	1,205
Total available-for-sale investments	**1.10.2**	**–**	**1,205**	**–**	**1,205**
Investments in subsidiary corporations					
Investments in subsidiary corporations		–	–	–	26,871
Total investments in subsidiary corporations	**1.10.4**	**–**	**–**	**–**	**26,871**

The Group's exposure to interest rate risk related to available-for-sale investment is disclosed in note 22.

Note 10: Investment Property

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Investment property					
Opening carrying value		3,834	4,000	3,834	4,000
Transfer to property, plant and equipment		–	(400)	–	(400)
Change in fair value to profit or loss		–	234	–	234
Total investment property	**1.10.3**	**3,834**	**3,834**	**3,834**	**3,834**

Note 11: Other Assets

	NOTE	Consolidated 2011 $'000	Consolidated 2010 $'000	Corporation 2011 $'000	Corporation 2010 $'000
Current					
Loans to subsidiaries	1.9.8	–	–	–	56,457
Total other current assets		**–**	**–**	**–**	**56,457**
Non-current					
Other assets	1.10.6	937	993	937	993
Total other non-current assets		**937**	**993**	**937**	**993**

The Group's exposure to interest rate risk related to other assets is disclosed in note 22.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 12: Property, Plant and Equipment

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
System assets:					
Opening carrying value					
At fair value		7,508,543	4,638,911	7,391,933	4,526,023
Accumulated depreciation		(2,084,649)	(948,413)	(2,058,669)	(925,841)
Net opening carrying value		**5,423,894**	**3,690,498**	**5,333,264**	**3,600,182**
Movements					
Additions		665,036	651,492	664,108	647,770
Disposals		(90,427)	–	(13)	–
Depreciation		(220,493)	(131,394)	(219,349)	(127,986)
Revaluation		–	7,003,183	–	7,003,183
Impairment		(7,981)	(5,789,885)	(7,981)	(5,789,885)
Net movements		**346,135**	**1,733,396**	**436,765**	**1,733,082**
Closing carrying value					
At fair value		8,047,475	7,508,543	8,047,475	7,391,933
Accumulated depreciation		(2,277,446)	(2,084,649)	(2,277,446)	(2,058,669)
Net closing carrying value		**5,770,029**	**5,423,894**	**5,770,029**	**5,333,264**
Land and buildings					
Opening carrying value					
At fair value		168,950	158,106	168,950	158,106
Accumulated depreciation		(3,095)	(576)	(3,095)	(576)
Net opening carrying value		**165,855**	**157,530**	**165,855**	**157,530**
Movements					
Additions		20,009	11,802	20,009	11,802
Reclassification from investment property		–	400	–	400
Disposals		(250)	(1,340)	(250)	(1,340)
Depreciation		(3,218)	(2,537)	(3,218)	(2,537)
Net movements		**16,541**	**8,325**	**16,541**	**8,325**
Closing carrying value					
At fair value		188,794	168,950	188,794	168,950
Accumulated depreciation		(6,398)	(3,095)	(6,398)	(3,095)
Net closing carrying value		**182,396**	**165,855**	**182,396**	**165,855**

Note 12: Property, Plant and Equipment (Continued)

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Plant and equipment					
Opening carrying value					
At fair value		666,380	584,302	666,380	584,302
Accumulated depreciation		(354,855)	(316,963)	(354,855)	(316,963)
Net opening carrying value		**311,525**	**267,339**	**311,525**	**267,339**
Movements					
Additions		86,544	104,663	86,544	104,663
Disposals		(11,517)	(7,572)	(11,517)	(7,572)
Depreciation		(60,327)	(52,905)	(60,327)	(52,905)
Net movements		**14,700**	**44,186**	**14,700**	**44,186**
Closing carrying value					
At fair value		711,700	666,380	711,700	666,380
Accumulated depreciation		(385,475)	(354,855)	(385,475)	(354,855)
Net closing carrying value		**326,225**	**311,525**	**326,225**	**311,525**
Net carrying value of property, plant and equipment	**1.11**	**6,278,650**	**5,901,274**	**6,278,650**	**5,810,644**
Historical cost of revalued assets					
Carrying amount of revalued assets had they been carried under the cost model;					
System assets		4,470,440	4,024,893	4,470,440	3,934,578
Land and buildings		149,405	132,864	149,405	132,864

Optimised Depreciated Replacement Cost (ODRC) of system assets

Replacement Cost (RC) is the theoretical estimation, using valuation techniques, of the cost to replace the entire system asset base as at balance date. The replacement cost is the minimum that it would cost to replace the existing asset with a technologically modern equivalent new asset with the same economic benefits. This cost is then to be adjusted for overdesign, overcapacity and redundant components to determine Optimised Replacement Cost (ORC). The ODRC is the ORC less accumulated depreciation reflecting the already consumed future economic benefits of the asset.

A full ODRC valuation of the electricity system assets was performed as at 30 June 2010 by an independent valuer.

In accordance with note 1.7.2 the impairment of the system assets is firstly applied to the Asset Revaluation Reserve to the extent the impairment does not exceed the Asset Revaluation Reserve amount for that asset. Any excess of impairment over the Asset Revaluation Reserve is taken to the Income Statement. In 2011 there was no impairment of system assets applied to Asset Revaluation Reserve (2010 $5,759.433 million). Impairment expense of 2011 $7.981 million (2010 $30.452 million) was taken to the Income Statement (refer Note 2).

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 13: Non-Current Intangible Assets

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Natural Gas distributor and retail licences					
Opening carrying value					
At cost		24,845	24,826	10,657	10,638
Accumulated amortisation		(17,369)	(14,914)	(7,437)	(6,402)
Net opening carrying value		**7,476**	**9,912**	**3,220**	**4,236**
Movements					
Additions		–	19	–	19
Disposals		(3,791)	–	–	–
Amortisation		(1,223)	(2,455)	(758)	(1,035)
Impairment		(2,462)	–	(2,462)	–
Net movements		**(7,476)**	**(2,436)**	**(3,220)**	**(1,016)**
Closing carrying value					
At cost		10,657	24,845	10,657	10,657
Accumulated amortisation		(10,657)	(17,369)	(10,657)	(7,437)
Net closing carrying value	**1.12.2**	**–**	**7,476**	**–**	**3,220**
IT software					
Opening carrying value					
At cost		162,221	134,321	162,221	134,321
Accumulated amortisation		(83,699)	(69,748)	(83,699)	(69,748)
Net opening carrying value		**78,522**	**64,573**	**78,522**	**64,573**
Movements					
Additions		26,797	28,021	26,797	28,021
Disposals		(1)	(69)	(1)	(69)
Amortisation		(22,194)	(14,003)	(22,194)	(14,003)
Net movements		**4,602**	**13,949**	**4,602**	**13,949**
Closing carrying value					
At cost		189,018	162,221	189,018	162,221
Accumulated amortisation		(105,894)	(83,699)	(105,894)	(83,699)
Net closing carrying value	**1.12.2**	**83,124**	**78,522**	**83,124**	**78,522**
Goodwill closing carrying amount	**1.12.3**	**–**	**3,643**	**–**	**–**
Total non-current intangible assets		**83,124**	**89,641**	**83,124**	**81,742**

Impairment testing of goodwill

Goodwill was recorded in the statement of financial position of the disposed subsidiary Country Energy Gas Pty Limited (refer note 1.12.3).

Note 14: Trade and Other Payables

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current					
Trade creditors – unsecured	1.13.1	21,126	13,327	21,125	13,326
Other creditors – unsecured	1.13.1	8,843	57,534	8,843	57,534
Accrued interest expense		116,810	103,366	116,810	103,366
Accrued energy and transmission purchases		51,871	137,939	51,871	137,939
Accrued trade creditors		51,123	59,933	51,124	59,722
Accrued inventory purchases		4,780	5,015	4,780	5,015
Other accrued expenses		3,058	3,246	3,058	3,246
Subsidiary creditors – unsecured		–	–	–	3,740
Total current trade and other payables		**257,611**	**380,360**	**257,611**	**383,888**

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 22.

Note 15: Deposits

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current					
Electricity customers		–	9,954	–	9,954
Contractors and others		172	289	172	289
Total current deposits	**1.13.2**	**172**	**10,243**	**172**	**10,243**

The Group's exposure to liquidity risk related to deposits is disclosed in note 22.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 16: Interest Bearing Liabilities

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current					
Bank overdraft		2,035	9,372	2,035	9,372
Loans	1.13.3	135,000	34,292	135,000	34,292
Total current interest bearing liabilities		**137,035**	**43,664**	**137,035**	**43,664**
Non-current					
Loans	1.13.3	3,503,635	3,282,038	3,503,635	3,282,038
Total non-current interest bearing liabilities		**3,503,635**	**3,282,038**	**3,503,635**	**3,282,038**
Due to be repaid:					
Not later than one year		137,035	43,664	137,035	43,664
Later than one year but not later than two years		108,211	682,044	108,211	682,044
Later than two years but not later than three years		59,743	157,724	59,743	157,724
Later than three years but not later than four years		358,287	–	358,287	–
Later than four years but not later than five years		169,358	387,742	169,358	387,742
Later than five years		2,808,036	2,054,528	2,808,036	2,054,528
Total interest bearing liabilities		**3,640,670**	**3,325,702**	**3,640,670**	**3,325,702**

All loans are guaranteed by the NSW Government.
The Group's exposure to liquidity and interest rate risk related to interest bearing liabilities is disclosed in note 22.

Note 17: Other Provisions

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current					
Dividends	1.13.8	41,200	47,600	41,200	47,600
Employee benefits	1.13.4	192,167	181,809	192,167	181,809
Workers' compensation		2,301	–	2,301	–
Provision for environmental rectification		7,186	2,238	7,186	2,238
Provision for system asset rectification		2,288	–	2,288	–
Restructuring provision		2,049	–	2,049	–
Other provisions		6,115	14,327	6,115	14,327
Total current provisions		**253,306**	**245,974**	**253,306**	**245,974**
Non-current					
Employee benefits	1.13.4	27,748	26,748	27,748	26,748
Workers' compensation		3,352	–	3,352	–
Provision for environmental rectification		1,877	2,104	1,877	2,104
Restructuring provision		47,925	–	47,925	–
Total non-current provisions		**80,902**	**28,852**	**80,902**	**28,852**

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 17: Other Provisions (Continued)

Movement in provisions	Dividends	Employee Benefits	Environmental Rectification	Asset Rectification	Workers Compensation	Restructuring	Other	Total
	2011 $'000	2011 $'000	2011 $'000	2011 $'000	2011 $'000	2011 $'000	2011 $'000	2011 $'000
Opening balance	47,600	208,557	4,342	–	–	–	14,327	274,826
Additional provision	41,200	58,750	5,200	2,288	5,653	49,974	773	163,838
Utilised during the period	(47,600)	(47,392)	(252)	–	–	–	(8,985)	(104,229)
Provisions reversed during the period	–	–	(334)	–	–	–	–	(334)
Unwinding discount	–	–	107	–	–	–	–	107
Closing balance	**41,200**	**219,915**	**9,063**	**2,288**	**5,653**	**49,974**	**6,115**	**334,208**

Provision for environmental rectification
Provisions for environmental rectification work are expected to be settled by 2012 and 2020. In respect of obligations to be settled by 2012 the effect of the time value of money has been deemed to be immaterial. Where settlement is expected by 2020, a discount rate of 5.165% has been applied.

Provision for restructure
A provision for restructure was recognised during 2011. The provision is a direct result of the sale of the retail business which includes future fixed costs after the completion of the TSA , data migration and removing of the "Country Energy" brand. The settlement of all obligations is expected by 2018 and discount rates of 4.890% and 5.055% have been applied.

Workers' compensation
On 1 July 2010 Essential Energy moved to a Work Cover Retro Paid Loss Scheme for its workers compensation insurance. The scheme structure involves a premium calculation which is finalised over a five-year period finishing in 2016 for the 2010-11 financial year cover. A discount rate of 4.81% has been applied.

Other provisions
Other provisions include legal claims relating to property damage, personal injury, workplace incidents, and workers compensation. The amount of each obligation is the best estimate of the expenditure required to settle the obligation based on current legal requirements. The settlement of all obligations is expected by 2016 and a discount rate of 4.805% has been applied.

Essential Energy

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 18: Other Liabilities

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current					
Other financial liabilities	1.13.10	–	178	–	–
Prepaid capital contributions	1.8.5	2,056	3,524	2,056	3,524
Total other current liabilities		**2,056**	**3,702**	**2,056**	**3,524**
Non-current					
Under funded superannuation liability	1.13.10	108,279	121,110	108,279	121,110
Other financial liabilities	1.13.10	30	34	30	34
Total other non-current liabilities		**108,309**	**121,144**	**108,309**	**121,144**

The Group's exposure to liquidity and interest rate risk related to other financial liabilities and loan to subsidiary is disclosed in note 22.

Note 19: Green Certificates

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Green certificate current intangible assets					
Renewable Energy Certificates (RECs)		4,313	22,670	4,313	22,670
NSW Greenhouse Abatement Certificates (NGACs)		3,417	10,295	3,417	10,295
Green Power Rights (GPRs)		257	1,054	257	1,054
Gas Electricity Certificates (GECs)		238	1,706	238	1,706
Victorian Renewable Energy Certificates (VRECs)		–	2	–	2
Victorian Energy Efficiency Certificates (VEECs)		60	723	60	723
Energy Savings Certificate (ESCs)		1,108	475	1,108	475
Total green certificate current intangible assets	**1.14**	**9,393**	**36,925**	**9,393**	**36,925**
Green certificate current liabilities					
Renewable Energy Certificates (RECs)		–	18,359	–	18,359
Large-scale Generation Certificates (LGCs)		4,445	–	4,445	–
Small-scale Generation Certificates (SGCs)		144	–	144	–
NSW Greenhouse Abatement Certificates (NGACs)		3,417	11,676	3,417	11,676
Green Power Rights (GPRs)		257	1,054	257	1,054
Gas Electricity Certificates (GECs)		238	997	238	997
Victorian Renewable Energy Certificates (VRECs)		–	983	–	983
Victorian Energy Efficiency Certificates (VEECs)		60	302	60	302
Energy Savings Certificates (ESCs)		1,108	1,659	1,108	1,659
Total green certificate current liability	**1.14**	**9,669**	**35,030**	**9,669**	**35,030**

Movement in provisions

	RECs	LGCs	SGCs	NGACs	GPRs	GECs	VRECs	VEECs	ESCs	TOTAL
	2011 $'000	2011 $'000	2011 $'000	2011 $'000	2011 $'000	2011 $'000	2011 $'000	2011 $'000	2011 $'000	2011 $'000
Opening balance	18,359	–	–	11,676	1,054	997	983	302	1,659	35,030
Transfers from RECs to LGCs	(18,359)	18,359	–	–	–	–	–	–	–	–
Additional provisions	–	20,812	7,098	18,267	1,244	1,353	12	394	4,715	53,895
Utilised during the year	–	(34,726)	(6,954)	(26,526)	(2,041)	(2,112)	(995)	(636)	(5,266)	(79,256)
Closing balance	**–**	**4,445**	**144**	**3,417**	**257**	**238**	**–**	**60**	**1,108**	**9,669**

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 20: Finance Facilities

	Consolidated		Corporation	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
At balance date the Corporation had access to the following finance facilities:				
Bank overdraft	15,000	15,000	15,000	15,000
Lines of credit	179,500	471,200	179,500	471,200
Loans	3,908,093	3,908,093	3,908,093	3,908,093
Lease facilities	–	–	–	–
Total available finance facilities	**4,102,593**	**4,394,293**	**4,102,593**	**4,394,293**
At balance date the unused amounts of those facilities listed above were:				
Bank overdraft	15,000	15,000	15,000	15,000
Lines of credit	113,920	420,838	113,920	420,838
Loans	289,458	591,764	289,458	591,764
Lease facilities	–	–	–	–
Total unused finance facilities	**418,378**	**1,027,602**	**418,378**	**1,027,602**

Finance facilities are reviewed and approved on a regular basis by NSW Treasury. The facilities are subject to the provisions of the *Public Authorities (Financial Arrangements) Act 1987*. Included in line of credit facilities are the following:

- Work cover guarantee facility of $100 million of which $57.907 million is unused.
- Australian Energy Market Operator guarantees of $11.4 million of which $9.593 million is unused. These guarantees largely relate to the operations of the retail business which was disposed on 1 March 2011 (refer note 29) – as part of the TSA, the acquirer has provided back to back guarantees for the obligations related to the disposed business. At 30 June 2011, the back to back guarantees provided by the acquirer totalled $10.4 million.

Note 21: Notes to the Cash Flow Statements

		Consolidated		Corporation	
	NOTE	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Components of cash					
Cash and cash resources	5	5,868	13,997	5,868	13,997
Less: restricted cash	5.1	(5,721)	–	(5,721)	–
		147	**13,997**	**147**	**13,997**
Bank overdraft		(2,035)	(9,372)	(2,035)	(9,372)
		(1,888)	**4,625**	**(1,888)**	**4,625**
(b) Reconciliation of operating profit after income tax expense to cash provided by operating activities					
Profit for the period		1,214,854	162,342	1,230,966	161,357
Non-cash items:					
Gifted assets		(48,339)	(56,394)	(48,339)	(56,394)
Depreciation		284,038	186,831	282,894	183,421
Amortisation		23,417	16,456	22,953	15,038
Impairment of non-financial assets		7,981	30,452	7,981	30,452
Net gain on fair value of investment property		–	630	–	630
Prepaid superannuation		(12,574)	(4,358)	(12,574)	(4,358)
Items classified as investing/finance activities:					
(Profit)/loss on sale of property, plant and equipment		(2,738)	(682)	(2,718)	(682)
Profit from sale of businesses		(1,082,240)	–	(1,095,697)	–
Impairment included in profit on sale		2,462	–	2,462	–
Net community service obligation expense		351	(267)	351	(267)
Deferred interest		6,074	17,742	6,074	17,742
Changes in assets and liabilities:					
(Increase)/decrease in unread meters		(33,750)	(73,592)	(33,750)	(73,592)
(Increase)/decrease in receivables		(95,548)	110,331	(93,812)	110,354
(Increase)/decrease in inventories		770	(10,230)	770	(10,230)
(Increase)/decrease in green certificate assets/(liabilities)		(1,047)	(13,759)	(1,047)	(13,759)
(Increase)/decrease in operating non-current receivables		529	1,023	529	1,023
(increase)/decrease other current assets-restricted cash	5	(5,721)	–	(5,721)	–
(Increase)/decrease in other operating non-current assets		(2,742)	(3,824)	(2,742)	(3,824)
(Increase)/decrease in energy trading derivative assets/(liabilities)		31,780	13,414	31,780	13,414
Increase/(decrease) in operating payables		63,394	64,002	63,170	65,782
Increase/(decrease) in customer deposits		(265)	(401)	(265)	(401)
Increase/(decrease) in provisions		15,808	(1,343)	15,808	(1,343)
Increase/(decrease) in deferred taxes payable		(80,523)	(32,401)	(83,102)	(32,471)
Increase/(decrease) in other operating liabilities		(1,651)	(21,181)	(1,651)	(20,825)
Net cash provided by operating activities		**284,319**	**384,791**	**284,318**	**381,067**

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 22: Financial Instruments

22.1 Financial risk management objectives

The Group and Corporation are exposed to credit, liquidity and market risk through their use of financial instruments. Information about these risks and their objectives, processes and policies in managing these risks follows.

The Corporation's treasury and energy trading functions provide services to the business, coordinate access to domestic financial markets, enter into wholesale market contracts in the National Electricity Market, the Short Term Trading Market and the Victorian Wholesale Gas Market, and manage the financial risk relating to operations of the Corporation. The Corporation does not enter into or trade in financial instruments for speculative purposes. The use of financial derivatives is governed by the Corporation's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. Breaches of compliance with these policies are reported to the Board of Directors.

The Corporation's principal financial instruments other than derivatives comprise borrowings, cash and investments. The main purpose of these financial instruments is to finance the Corporation's operations. The Corporation has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations. The Corporation also enters into derivative transactions to hedge its exposure to fluctuations in interest rates, foreign exchange rates and commodity prices.

Borrowings are interest bearing loans which are actively managed under a risk management agreement with TCorp. Other financial assets and financial liabilities are not readily traded on organised markets in standardised form.

Derivative financial instruments are used to hedge the Corporation's exposure to changes in interest rates, foreign exchange rates and commodity prices from its activities. The instruments are in the form of: interest rate swaps, interest rate futures contracts, forward foreign exchange contracts and forward commodity price contracts. These derivative financial instruments are not held for speculative or trading purposes, however there are some derivatives that do not qualify for hedge accounting and are accounted for as trading instruments.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Income Statement except where the instrument is subject to cash flow hedge accounting principles whereby the unrealised gains and losses are recognised in equity. Upon realisation all gains and losses are recognised in the Income Statement.

The sale of majority of the Retail business at 1 March 2011 (refer note 29) has resulted in a significantly reduced level of risk associated with the wholesale market.

Accounting policies in relation to financial instruments including the basis of recognition and measurement have not materially changed from last year.

The Group and Corporation's financial instrument categories at the reporting date were:

Financial assets	Category	NOTE	Carrying Amount Consolidated 2011 $'000	2010 $'000	Corporation 2011 $'000	2010 $'000
Cash and deposits	N/A	5	77	70	77	70
Investments TCorp	At fair value through profit and loss – designated	5	64	583	64	583
Investments other	N/A	5	6	13,344	6	13,344
Restricted cash	N/A	5.1	5,721	–	5,721	–
Receivables	Loans and receivables (at amortised cost)	6	160,055	196,382	160,055	196,231
Estimated revenue from unread meters	Loans and receivables (at amortised cost)		127,483	256,801	127,483	256,801
Derivative financial instruments	At fair value through profit and loss – classified as held for trading	7	4,406	17,287	4,406	17,287
Available-for-sale investments	Available-for-sale financial asset (at fair value)	9	–	1,205	–	1,205
Loan to subsidiaries	Loans and receivables (at amortised cost)	11	–	–	–	56,457
Total financial assets			**297,812**	**485,672**	**297,812**	**541,978**

Note 22: Financial Instruments (Continued)

Financial liabilities	Category	NOTE	Carrying Amount Consolidated 2011 $'000	2010 $'000	Corporation 2011 $'000	2010 $'000
Payables	Financial liabilities measured at amortised cost	14	257,611	380,360	257,611	383,888
Deposits	Financial liabilities measured at amortised cost	15	172	10,243	172	10,243
Borrowings	Financial liabilities measured at amortised cost	16	3,640,670	3,325,702	3,640,670	3,325,702
Derivative financial instruments	At fair value through profit and loss – classified as held for trading	7	47,744	79,850	47,744	79,850
Other liabilities	Financial liabilities measured at amortised cost	18	30	212	30	34
Total financial liabilities			**3,946,227**	**3,796,367**	**3,946,227**	**3,799,717**

22.1.1 Credit risk

Credit risk represents the expected loss that would be recognised if counterparties failed to meet their financial obligations.

Trade and other receivables

The Corporation minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties in Australia.

The credit risk of these financial assets which have been recognised on the Statement of Financial Position is reflected in the carrying amount net of any provision for doubtful debts.

Corporation policy requires credit evaluations be performed on customers requiring credit over certain amounts when specified circumstances exist.

The Group's maximum credit exposure for trade receivables at reporting date is geographically wholly within Australia.

The Corporation minimises the credit risk by requiring security, including cash, bank guarantees and director's guarantees, in certain circumstances against payment of the Corporation's billing activities or use of the Corporation's assets. Customers and contractors pay a security against payment of the Corporation's billing or use of the Corporation's assets. Deposits are repaid when the customer's payment risk is removed or the Corporation's assets cease being used. The carrying value of the deposits held are disclosed in note 15.

The Group and Corporation's maximum credit exposure for trade receivables at the reporting date by type of customer was:

	Carrying Amount Consolidated 2011 $'000	2010 $'000	Corporation 2011 $'000	2010 $'000
Small customers	1,845	104,297	1,845	104,297
Large customers	–	40,019	–	40,019
Network	59,787	28,849	59,787	28,849
Other	91,218	23,155	91,218	23,004
	152,850	**196,320**	**152,850**	**196,169**

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 22: Financial Instruments (Continued)

Estimated revenue from unread meters

Estimated Revenue from Unread Meters is calculated with reference to those customers who, at balance date, did not have their meters read and invoiced. The calculation uses an estimate based on their historical consumption.

The Group and Corporation maximum credit exposure for estimated revenue from unread meters is $136.023 million ($256.801 million in 2010).

Investments

The majority of the Corporation's credit exposure is with government owned entities or other counterparties with an investment grade credit rating. Therefore, any change in fair value due to credit risk would be immaterial.

Derivatives

The Group's credit risk framework incorporates exposure limits based on duration and replacement cost of transactions that are relative to the counterparties' credit rating. Over the counter (OTC) transactions are executed under International Swaps and Derivatives Association Inc. (ISDA) Master Agreements with netting arrangements on cash flows to further minimise any losses given a default event. The Group enters into derivative contracts with both government and non-government enterprises.

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties which are principally large banks. The maximum credit risk exposure on foreign exchange contracts is the positive fair value of the contract.

Corporation policy establishes that 100% of committed exposures to foreign exchange movements with a value of Australian $50,000 or greater must be hedged.

The carrying amount of the Group's financial assets represent the maximum credit exposure.

22.1.1.1 Credit risk – impairment losses

The ageing of the past due financial assets at the reporting date was:

Consolidated and corporation	Gross	Impairment	Gross	Impairment
	2011 $'000	2011 $'000	2010 $'000	2010 $'000
Past due 0–30 days	70,177	–	46,724	38
Past due 31–60 days	1,225	–	11,061	31
Past due 61–90 days	360	1	6,141	58
Past due 91–120 days	188	15	4,164	318
Past due 121 days and over	1,174	374	15,686	5,166

The movement in the provision for doubtful debts during the year was as follows:

		Consolidated		Corporation
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Opening balance	5,611	6,186	5,611	6,186
Disposed as part of retail sale (refer note 29)	(5,997)	–	(5,997)	–
Amounts written off during the year	(269)	(1,123)	(269)	(1,123)
Impairment loss recognised	1,045	548	1,045	548
Closing balance	**390**	**5,611**	**390**	**5,611**

The Group assesses impairment on an individual basis when that asset is material in size and shows an indication of impairment, or is unique in its characteristics. Large Customer debtors and Sundry debtors that are material and show an indication of impairment, and all Network debtors are assessed for impairment individually. Generally all Small Customer debtors are assessed collectively as they are deemed individually immaterial in size. At balance date the Group and Corporation's balance for the provision for doubtful debts includes $0.157 million ($0.978 million for 2010) for individual receivables deemed to be impaired.

The provision for doubtful debts balance at reporting date for individually assessed receivables is determined by a risk rating process which takes into consideration various risk factors. Collectively assessed receivables provision for doubtful debts balance is determined by historical experience based on ageing write off averages.

The provision for doubtful debt accounts are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at that point the amount is considered irrecoverable and is written off against the receivable directly unless otherwise provided.

Based on historical default rates, the Group believes that there is no material impairment allowance necessary in respect of receivables not past due.

Note 22: Financial Instruments (Continued)

22.1.2 Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due.

The Corporation's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and investment holdings in conjunction with interest bearing liabilities.

The Corporation's policy establishes prudential limits on the amount of debt that can mature in a 12 month period. The policy sets out that not more than 30% of its borrowings should mature in any 12 month period. At 30 June 2011, 4% of the Corporation's debt will mature in less than one year (1% in 2010).

Details of the Corporation's finance facilities and the unused portion is disclosed in note 20.

During the current and prior years, there were no defaults or breaches on any loans payable. No financial assets have been pledged as collateral.

The contractual maturities of financial liabilities, including estimated interest payments, were as follows:

Consolidated

2011	Carrying amount $'000	Contractual cash flows $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000
Non-derivative financial liabilities					
Unsecured bank overdraft	2,035	2,035	2,035	–	–
Unsecured short term borrowings	135,000	136,531	136,531	–	–
Unsecured long term borrowings	3,503,635	5,447,545	196,261	1,435,281	3,816,003
Payables	257,611	257,611	257,611	–	–
Customer deposits	172	172	172	–	–
Call loans on interest rate futures trading	–	–	–	–	–
Other	30	30	–	30	–
Derivative financial liabilities					
Energy trading swap/option derivatives	47,738	47,738	39,320	8,418	–
Energy trading futures derivatives	–	–	–	–	–
Interest rate swaps	–	–	–	–	–
Foreign exchange derivatives	6	6	6	–	–
	3,946,227	**5,891,668**	**631,936**	**1,443,729**	**3,816,003**

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Notes to Financial Statements

For the Year Ended 30 June 2011

Note 22: Financial Instruments (Continued)

Consolidated

2010	Carrying amount $'000	Contractual cash flows $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000
Non-derivative financial liabilities					
Unsecured bank overdraft	9,372	9,372	9,372	–	–
Unsecured short term borrowings	34,292	35,608	35,608	–	–
Unsecured long term borrowings	3,282,038	4,858,883	301,502	1,716,973	2,840,408
Payables	380,360	380,360	380,360	–	–
Customer deposits	10,243	10,243	10,243	–	–
Call loans on interest rate futures trading	–	–	–	–	–
Other	212	212	178	34	–
Derivative financial liabilities					
Energy trading swap/option derivatives	78,357	78,358	5,702	72,656	–
Energy trading futures derivatives	1,487	1,487	1,346	141	–
Interest rate swaps	–	–	–	–	–
Foreign exchange derivatives	6	6	6	–	–
	3,796,367	**5,374,529**	**744,317**	**1,789,804**	**2,840,408**

Corporation

2011	Carrying amount $'000	Contractual cash flows $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000
Non-derivative financial liabilities					
Unsecured bank overdraft	2,035	2,035	2,035	–	–
Unsecured short term borrowings	135,000	136,531	136,531	–	–
Unsecured long term borrowings	3,503,635	5,447,545	196,261	1,435,281	3,816,003
Payables	257,611	257,611	257,611	–	–
Customer deposits	172	172	172	–	–
Call loans on interest rate futures trading	–	–	–	–	–
Other	30	30	–	30	–
Derivative financial liabilities					
Energy trading swap/option derivatives	47,738	47,738	39,320	8,418	–
Energy trading futures derivatives	–	–	–	–	–
Interest rate swaps	–	–	–	–	–
Foreign exchange derivatives	6	6	6	–	–
	3,946,227	**5,891,668**	**631,936**	**1,443,729**	**3,816,003**

Note 22: Financial Instruments (Continued)

Corporation

2010	Carrying amount $'000	Contractual cash flows $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000
Non-derivative financial liabilities					
Unsecured bank overdraft	9,372	9,372	9,372	–	–
Unsecured short term borrowings	34,292	35,608	35,608	–	–
Unsecured long term borrowings	3,282,038	4,858,883	301,502	1,716,973	2,840,408
Payables	383,888	383,888	383,888	–	–
Customer deposits	10,243	10,243	10,243	–	–
Call loans on interest rate futures trading	–	–	–	–	–
Other	34	34	–	34	–
Derivative financial liabilities					
Energy trading swap/option derivatives	78,357	78,358	5,702	72,656	–
Energy trading futures derivatives	1,487	1,487	1,346	141	–
Interest rate swaps	–	–	–	–	–
Foreign exchange derivatives	6	6	6	–	–
	3,799,717	**5,377,879**	**747,667**	**1,789,804**	**2,840,408**

The cash flows and profit and loss impact associated with derivatives at 30 June 2011 is minimal because of the sale of the retail business (refer note 29). Expected cash flows and profit and loss impact associated with derivatives that are cash flow hedges are as follows:

Consolidated and Corporation

2011	Inflow/ (Outflow)	Carrying amount $'000	Expected cash flow and profit and loss impact $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000
Energy trading swap/option derivatives						
	Assets	1,549	1,549	721	828	–
	Liabilities	–	–	–	–	–
Energy trading futures derivatives						
	Assets	–	–	–	–	–
	Liabilities	–	–	–	–	–
		1,549	**1,549**	**721**	**828**	**–**

Consolidated and Corporation

2010	Inflow/ (Outflow)	Carrying amount $'000	Expected cash flow and profit and loss impact $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000
Energy trading swap/option derivatives						
	Assets	10,130	10,130	10,083	47	–
	Liabilities	(67,605)	(67,605)	11,722	(79,327)	–
Energy trading futures derivatives						
	Assets	2,806	2,806	2,798	8	–
	Liabilities	(1,213)	(1,213)	(1,072)	(141)	–
		(55,882)	**(55,882)**	**23,531**	**(79,413)**	**–**

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 22: Financial Instruments (Continued)

22.1.3 Market risk
Market risk relates to the effect that changes in market prices, such as foreign exchange rates, interest rates and commodity prices would have on the Group's income and the value of its portfolio.

The Group utilises various instruments including financial derivatives in managing its risks. The use of derivatives in risk minimisation may result in the generation of financial liabilities.

22.1.3.1 Currency risk
The Corporation enters into forward foreign exchange contracts to hedge certain purchase commitments for goods and services which are exposed to fluctuations in foreign currencies.

The Corporation's policy is to enter into forward foreign exchange contracts to hedge 100% of foreign currency risk where the contract value exceeds Australian $50,000.

At balance date, for both current and prior year, there is no material exposure to any foreign currency net of estimated purchases and forward exchange contracts.

Sensitivity analysis
A 10 percent strengthening of the Australian dollar at balance date would have an immaterial effect on profit and loss.

22.1.3.2 Cash flow interest rate risk
The Corporation's debt portfolio is comprised of a mixture of fixed and variable rate borrowings with a range of maturities over a number of years. The balance and composition of the portfolio is governed by a Corporation policy document which establishes prudential limits on the amount of debt that can mature in a given financial period. The policy establishes that no more than 30% of the face value of the core portfolio can mature in any 12 month period. The Corporation maintains a number of debt portfolios whose modified durations vary depending on the instruments utilised. The policy also limits the type of instruments that can be obtained.

TCorp manages interest rate risk exposures applicable to specific borrowings of Essential Energy in accordance with a debt portfolio mandate agreed between the two parties. TCorp receives a fee for this service, which includes a performance component where TCorp is able to add value by achieving a reduction in the Corporation's debt costs against an agreed benchmark. TCorp uses derivatives, primarily interest rate futures, to establish short term (tactical) and longer term (strategic) positions within agreed tolerance limits to manage portfolio duration and maturity profiles. At reporting date the carrying value of borrowings and derivatives (net of funds held at call) managed by TCorp stood at $3,631.366 million (2010: $3,316.435 million).

The interest rate profile of the Group's interest bearing financial instruments excluding the Hour Glass facility at the balance date was:

	Carrying Value	
	2011 $'000	2010 $'000
Fixed rate instruments		
Financial assets	–	–
Financial liabilities	(3,503,635)	(3,181,816)
	(3,503,635)	**(3,181,816)**
Variable rate instruments		
Financial assets	6	13,094
Financial liabilities	(137,035)	(143,885)
	(137,029)	**(130,791)**

Note 22: Financial Instruments (Continued)

Interest rate swaps
The Corporation's policy prescribes the instruments that can be transacted, having regard to legislative requirements and the potential risk faced by both the Corporation and those inherent in the instrument.

There were no interest rate swap contracts at 30 June 2011 or 30 June 2010.

Interest rate futures contracts
Interest rate futures contracts are undertaken to hedge the risk of adverse movements in interest rates.

The details of interest rate futures are listed in the following table:

	Notional Principal		Market Value Unrealised Gains/(Losses)	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
SFE 90 Day Bill Futures	605,000	(101,000)	(284)	18
SFE 3 Year Bond Futures	21,200	44,500	6	(295)
SFE 10 Year Bond Futures	61,300	20,500	6	(381)
	687,500	**(36,000)**	**(272)**	**(658)**

Interest costs sensitivity analysis

Fixed rate financial instruments
The Group does not account for any fixed rate financial instruments at fair value through the profit or loss, and the Group does not designate derivatives (interest rate swaps and interest rate futures) as hedging instruments under a fair value accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Variable rate financial instruments
A decrease (increase) of one percentage point in interest rates on variable rate financial instruments at reporting date would have increased (decreased) the profit and loss by the amounts shown below. No amounts are taken directly to equity. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010.

	Consolidated	Corporation
	2011 $'000	2010 $'000
Variable rate instruments	1,170	1,308
Interest rate futures	6,957	2,678
	8,127	**3,986**

Hour glass investment facility
The Corporation holds units in the Hour Glass investment cash facility. The cash facility investment sectors are cash and money market instruments with an investment horizon of up to 18 months.

The unit price of the facility is equal to the total fair value of the net assets held by the facility divided by the total number of units on issue for that facility. Unit prices are calculated and published daily.

TCorp as trustee for the above facility is required to act in the best interest of the unit holders and to administer the trusts in accordance with the trust deeds. Up until April 2007 TCorp as trustee had appointed external managers to manage the performance and the risks of the facility in accordance with a mandate agreed by the parties. From April 2007 TCorp commenced acting as one of the managers. A significant portion of the administration of the facility is outsourced to an external custodian.

Hour glass investment sensitivity analysis
An increase (decrease) of one percentage point in unit price at reporting date would have an immaterial effect on profit and loss.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 22: Financial Instruments (Continued)

22.1.3.3 Price risk
The Corporation's exposure to fluctuations in wholesale market electricity prices is not material at year end due to the sale of Retail business (refer note 29).

22.2 Fair values
The fair values of financial assets and liabilities are determined as follows:

Financial Assets

Cash and deposits
The nominal value of cash and deposits approximate their fair value.

Investments in TCorp
The fair value is determined by reference to their quoted unit price of each facility. The unit price of each facility is equal to the total fair value of the net assets held by the facility divided by the total number of units on issue for that facility.

Investments other
The nominal cost approximates their fair value.

Receivables
The fair value of receivables is estimated to be the present value of the future cash flows discounted at the original effective interest rate.

Estimated revenue from unread meters
The fair value of receivables is estimated to be the present value of the future cash flows discounted at the original effective interest rate.

Derivative financial instruments
The fair value of commodity swaps and futures are based on observable market quotations (refer note 22.1.3.3).

The fair values of commodity option contracts which are regularly traded are determined based on the most recent available transaction prices for the same instruments.

The fair values of forward foreign exchange contracts are determined using quoted forward exchange rates at the balance sheet date.

Available-for-sale investments
The fair value is estimated to be the present value of the future cash flows discounted at the weighted average cost of capital.

Loan to subsidiaries
The nominal cost approximate their fair value.

Financial Liabilities

Payables
The fair value is estimated to be the present value of the future cash flows discounted at the market interest rate.

Customer deposits
The fair value is estimated to be the present value of the future cash flows discounted at the market interest rate.

Borrowings
The fair value is the estimated market value.

Derivative financial instruments
The fair value of commodity swaps and futures are based on observable market quotations (refer note 22.1.3.3).

The fair values of commodity option contracts which are regularly traded are determined based on the most recent available transaction prices for the same instruments.

The fair value of interest rate swaps is estimated to be the present value of the future cash flows discounted at the market interest rate.

Call loans on interest rate futures trading
The fair value is estimated to be the present value of the future cash flows of the instruments.

Other
The fair value is estimated to be the present value of the future cash flows discounted at the market interest rate.

Note 22: Financial Instruments (Continued)

Set out below is a comparison by category of carrying amounts and fair values of all the financial assets and liabilities recognised in the financial statements.

Consolidated	**Carrying Amount**		**Fair Value**	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Financial assets				
Restricted cash	5,721	–	5,721	–
Cash and deposits	77	70	77	70
Investments TCorp	64	583	64	583
Investments other	6	13,344	6	13,344
Receivables	160,055	196,382	160,055	196,382
Estimated revenue from unread meters	127,483	256,801	127,483	256,801
Derivative financial instruments	4,406	17,287	4,406	17,287
Available-for-sale investments	–	1,205	–	1,205
	297,812	**485,672**		
Financial liabilities				
Payables	257,611	380,360	257,611	380,360
Deposits	172	10,243	172	10,243
Borrowings	3,640,670	3,325,702	3,734,572	3,443,945
Derivative financial instruments	47,744	79,850	47,744	79,850
Other liabilities	30	212	30	212
	3,946,227	**3,796,367**		

Corporation	**Carrying Amount**		**Fair Value**	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Financial assets				
Restricted cash	5,721	–	5,721	–
Cash and deposits	77	70	77	70
Investments TCorp	64	583	64	583
Investments other	6	13,344	6	13,344
Receivables	160,055	196,231	160,055	196,231
Estimated revenue from unread meters	127,483	256,801	127,483	256,801
Derivative financial instruments	4,406	17,287	4,406	17,287
Available-for-sale investments	–	1,205	–	1,205
Loan to subsidiaries	–	56,457	–	56,457
	297,812	**541,978**		
Financial liabilities				
Payables	257,611	383,888	257,611	383,888
Deposits	172	10,243	172	10,243
Borrowings	3,640,670	3,325,702	3,436,609	3,443,945
Derivative financial instruments	47,744	79,850	47,744	79,850
Other liabilities	30	34	30	34
	3,946,227	**3,799,717**		

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 22: Financial Instruments (Continued)

Fair value hierarchy
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 : Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 : Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 : Valuation is based on inputs for the asset or liability that are not based on observable market data (unobservable).

Consolidated and Corporation 2011

	Category	NOTE	Level 1 2011 $'000	Level 2 2011 $'000	Level 3 2011 $'000	Total 2011 $'000
Financial assets						
Investments TCorp	At fair value through profit and loss – designated	5	–	64	–	64
Derivative financial instruments	At fair value through profit and loss – classified as held for trading	7	–	3,488	918	4,406
Available-for-sale investments	Available-for-sale financial asset (at fair value)	9	–	–	–	–
Financial liabilities						
Derivative financial instruments	At fair value through profit and loss – classified as held for trading	7	–	(10,813)	(36,931)	(47,744)
Total financial assets and financial liabilities			**–**	**(7,261)**	**(36,013)**	**(43,274)**

Consolidated and Corporation 2010

	Category		Level 1 2010 $'000	Level 2 2010 $'000	Level 3 2010 $'000	Total 2010 $'000
Financial assets						
Investments TCorp	At fair value through profit and loss – designated	5	–	583	–	583
Derivative financial instruments	At fair value through profit and loss – classified as held for trading	7	–	12,986	4,301	17,287
Available-for-sale investments	Available-for-sale financial asset (at fair value)	9	–	–	1,205	1,205
Financial liabilities						
Derivative financial instruments	At fair value through profit and loss – classified as held for trading	7	(6)	(45,344)	(34,500)	(79,850)
Total financial assets and financial liabilities			**(6)**	**(31,775)**	**(28,994)**	**(60,775)**

Note 22: Financial Instruments (Continued)

Movements in level 3 investments
The following table provides an analysis of investments valued with reference to level 3 inputs.

Level 3	NOTE	2011 $'000
Opening balance at 1 July 2010		**(28,994)**
Transferred on sale of retail business	29	(1,205)
Unrealised gain to comprehensive income		(16,100)
Purchases		(16,801)
Settlements		27,087
Closing balance at 30 June 2011		**(36,013)**

Transfer between categories
During the reporting period ended 30 June 2011, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements.

22.3 Capital management
The Group's objective is to maintain a capital base that enables the entity to continue as a going concern. This objective is met in ensuring that the investor and creditor confidence is maintained whilst meeting its regulatory requirements.

Capital can be directly adjusted through adjustments in dividend payout ratio, capital injection and/or return of capital subject to shareholder approval.

The Board monitors its capital through reporting of gearing and interest cover ratios. Gearing is defined as interest bearing liabilities divided by interest bearing liabilities plus equity. Interest cover is defined as funds from operations divided by net interest costs.

There were no changes in the Corporation's approach to capital management during the financial year.

	2011		2010	
	Actual	Target	Actual	Target
Gearing (%)	66.7%	72.1%	65.1%	68.8%
Interest cover (times)	1.4	0.8	1.7	1.2

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 23: Commitments

	Consolidated		Corporation	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
a. Capital expenditure commitments				
Estimated capital expenditure contracted for at balance date but not provided for				
– not later than one year	34,105	26,277	34,105	26,277
– later than one year and not later than five years	490	1,991	490	1,991
	34,595	**28,268**	**34,595**	**28,268**
Capital expenditure commitments include input tax credits	3,145	2,570	3,145	2,570
b. Operating expenditure commitments excluding leases				
Estimated operating expenditure contracted for at balance date but not provided for				
– payable not later than one year	45,471	23,154	45,471	22,879
– later than one year and not later than five years	13,782	21,531	13,782	20,156
– later than five years	–	825	–	–
	59,253	**45,510**	**59,253**	**43,035**
Operating expenditure commitments include input tax credits	5,387	4,137	5,387	3,912
c. Operating lease (equipment) expenditure commitments (refer note 1.10.5)				
– not later than one year	26	69	26	69
– later than one year and not later than five years	–	–	–	–
	26	**69**	**26**	**69**
Equipment lease expenditure commitments include input tax credits	2	6	2	6
d. Operating lease (property) expenditure commitments (refer notes 1.10.5)				
– not later than one year	6,467	7,102	6,467	7,102
– later than one year and not later than five years	7,589	6,146	7,589	6,146
– later than five years	4,271	2,073	4,271	2,073
	18,327	**15,321**	**18,327**	**15,321**
Property lease expenditure commitments include input tax credits	1,653	1,367	1,653	1,367
e. Operating lease (property) revenue commitments (refer note 1.10.5)				
– not later than one year	1,925	1,275	1,925	1,275
– later than one year and not later than five years	4,303	2,531	4,303	2,531
– later than five years	442	637	442	637
	6,670	**4,443**	**6,670**	**4,443**
f. Green certificate purchase commitments				
– not later than one year	–	29,647	–	29,647
– later than one year and not later than five years	–	–	–	–
– later than five years	–	–	–	–
	–	**29,647**	**–**	**29,647**

Note 23: Commitments (Continued)

There is a non-cancellable equipment lease referred to in section c above. There are currently no leases for computer equipment.

The majority of the leases have no contingent rentals, renewal options, conditions or restrictions. Minimum lease payments total $0.026 million ($0.069 million in 2010), including input tax credits of $0.002 million ($0.006 million in 2010).

There are 464 non-cancellable property leases referred to in d above. The majority of the leases have contingent rentals either based on CPI or some other increment, and renewal options between one and five years. Minimum lease payments total $11.063 million ($7.186 million in 2010) including input tax credits of $0.992 million ($0.627 million in 2010). There are no conditions or restrictions.

Additional to the group noted above, there are six leases with five year plus five year renewal options. Minimum lease payments are $7.265 million ($8.136 million in 2010), including input tax credits of $0.660 million ($0.740 million in 2010). Minimum lease payments upon renewal, will be based on the market value applying at the time. The lease may be assigned in part or in whole, and sublet in part or in whole, with the consent of the lessor.

The majority of the leases have contingent rentals either based on CPI or some other increment, and renewal options between one and five years. Minimum lease receipts total $3.366 million ($4.443 million in 2010) including input tax credits of $0.298 million ($0.395 million in 2010).

There are 270 property leases referred to in e above. The majority of the leases have contingent rentals either based on CPI or some other increment, and renewal options between one and five years. Minimum lease receipts total $3.366 million ($4.443 million in 2010) including input tax credits of $0.298 million ($0.395 million in 2010). There are no conditions or restrictions.

There are no green certificate contracts (19 in 2010) remaining referred to in f above.

Note 24: Auditors' Remuneration

	Consolidated		Corporation	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Remuneration received, or due and receivable, by the auditor of the economic entity for:				
– an audit or review of the financial statements	467	442	464	420
Remuneration received, or due and receivable, by auditors, other than of the auditor of the economic entity for:				
– an audit or review of the financial statements	32	31	32	31

Note 25: Key Management Personnel Compensation

	Consolidated		Corporation	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Short term employee benefits	4,048	3,984	4,048	3,984
Post employment benefits	300	304	300	304
Other long term benefits	269	262	269	262
Termination benefits	334	312	334	312
Total	**4,951**	**4,862**	**4,951**	**4,862**

Key management personnel comprise members of the Board of Directors and the Corporation's Executive General Management Team.

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For the Year Ended 30 June 2011

Note 26: Related Parties

Directors

The names of persons holding the position of Director of Essential Energy during the financial year are:

Barbara Ward, Chairman
Terri Benson, Managing Director
The Hon. Michael Lee (resigned 31 August 2011)
Greg McLean
Rowena Sylvester
Mervyn Davies, (resigned on 27 October 2010)
Craig Murray (resigned on 1 January 2011)
Kevin Murray (appointed 8 February 2011)
Ralph Kelly (appointed 8 February 2011)

Some Directors of Essential Energy are also Directors of other companies or have a substantial interest in other companies or entities that may have had transactions with Essential Energy during the year. A Register of Directors' interests is confirmed and noted at each meeting of the Board. During the year no Directors declared material interests in any matters discussed at the meetings.

Wholly-owned Group

The Essential Energy Group consists of Essential Energy and its wholly owned subsidiary NorthPower Energy Services Pty Limited. On 29 October 2010 the wholly owned subsidiary Country Energy Gas Pty Limited was sold and is no longer a member of the Group. All entities are incorporated in Australia.

Shares and interest held

Entity	Shares Held	Interest
Essential Energy	2 Ordinary shares – $1 each	
NorthPower Energy Services Pty Limited	2 Ordinary shares – $1 each	100%

Other related parties

Essential Energy had an interest in a wind farm which was sold as a component of the Retail sale at 1 March 2011. Details are set out in note 1.10.2.

Transactions and outstanding balances between Essential Energy and Country Energy Gas Pty Limited

The parent administered the subsidiary's business operations up to the date of disposal. This includes recording and receiving sales revenue. The parent also operated, maintained and constructed the gas assets and paid the subsidiary's expenses.

Country Energy Gas Pty Limited sales
Sales for the year that were passed through the intercompany account were $4.265 million ($10.089 million in 2010) and $3.701 million ($8.940 million in 2010) of these were to the parent.

Country Energy Gas Pty Limited administrative, operating and asset maintenance costs
Transactions recorded for administration, operating and maintenance costs were $3.321 million ($6.365 million in 2010).

Country Energy Gas Pty Limited asset construction
Transactions recorded for asset construction were $0.927 million ($3.724 million in 2010).

Country Energy Gas Pty Limited income tax
The subsidiary was a member of the a tax consolidated group up to the date of disposal (refer note 1.17). The subsidiary's tax balances were recorded in the intercompany account. These were $1.057 million during the period ($0.960 million in 2010). The intercompany account was forgiven on disposal.

Balances outstanding with the parent
The are no outstanding balances between the parent and subsidiary at 30 June 2011 ($3.740 million in 2010). This is disclosed in note 14. The major components of the balance at 30 June 2010 were tax balances $3.684 million sales, administration, operating, maintenance and construction costs $7.424 million. The intercompany account was forgiven on disposal.

The interest free loan between the parent and the subsidiary of $56.457 million disclosed in note 11 was settled on the date of disposal.

Transactions and outstanding balances between Essential Energy and NorthPower Energy Services Pty Limited

There were no transactions between the parent and the subsidiary during the year. There were no material balances outstanding between the parent and subsidiary.

Note 27: Superannuation Plans

General description of the type of plan
The Energy Industries Superannuation Scheme – Division B
The Energy Industries Superannuation Scheme – Division C
The Energy Industries Superannuation Scheme – Division D
State Authorities Superannuation Scheme (SASS)
State Superannuation Scheme (SSS)
State Authorities Non-Contributory Superannuation Scheme (SANCS)
Electricity Supply Industry Superannuation Fund (QLD) (ESISF)

These schemes are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership. All the schemes are closed to new members.

Accounting policy for recognition of actuarial gains/losses
In 2008/09, NSW Treasury mandated a change in policy for all NSW public sector agencies to recognise actuarial gains and losses immediately outside profit and loss in the year in which they occur. Previously actuarial gains and losses were recognised in profit or loss.

	2011 $'000	2010 $'000
Employer contributions paid in relation to the defined contribution plan	36,078	36,078

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 27: Superannuation Plans (Continued)

Reconciliation of the present value of the defined benefit obligation

	Defined Benefit Obligation at start of year		Current Service Cost		Interest Cost		Contribution by Scheme Participants		Actuarial (Gains)/Losses		Benefits paid		Defined Benefit Obligation at end of year	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Energy Industries Superannuation Scheme (EISS)	458,922	412,225	13,040	14,944	25,948	23,960	5,194	5,235	8,638	27,450	(34,404)	(24,892)	477,338	458,922
State Superannuation Scheme (SSS)	683	673	17	15	35	37	8	7	8	(30)	(9)	(19)	742	683
State Authorities Non-Contributory Superannuation Scheme (SANCS)	764	708	34	34	38	38	–	–	44	54	29	(70)	909	764
State Authorities Superannuation Scheme (SASS)	7,136	6,723	161	168	356	364	78	94	510	386	(229)	(599)	8,012	7,136
Electricity Supply Industry Superannuation Fund (QLD) (ESISF)	1,609	1,552	40	40	60	64	12	9	(123)	(76)	73	20	1,671	1,609
	469,114	**421,881**	**13,292**	**15,201**	**26,437**	**24,463**	**5,292**	**5,345**	**9,077**	**27,784**	**(34,540)**	**(25,560)**	**488,672**	**469,114**

Reconciliation of the fair value of scheme assets

	Fair Value of Scheme Assets at start of year		Expected Return on Scheme Assets		Actuarial Gains/ (Losses)		Employer Contributions		Contributions by Scheme Participants		Benefits Paid		Fair Value of Scheme Assets at end of year	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
EISS	338,137	308,699	27,303	24,605	9,299	6,142	23,807	18,348	5,194	5,235	(34,404)	(24,892)	369,336	338,137
SSS	803	736	69	62	(1)	9	8	8	8	7	(9)	(19)	878	803
SANCS	557	575	45	48	1	4	–	–	–	–	29	(70)	632	557
SASS	8,865	8,574	741	720	131	12	113	64	78	94	(229)	(599)	9,699	8,865
ESISF	1,491	1,219	88	73	64	77	129	93	12	9	73	20	1,857	1,491
	349,853	**319,803**	**28,246**	**25,508**	**9,494**	**6,244**	**24,057**	**18,513**	**5,292**	**5,345**	**(34,540)**	**(25,560)**	**382,402**	**349,853**

Reconciliation of assets and liabilities recognised in the statement of financial position

	Defined Benefit Obligation at end of year		Fair Value of Scheme Assets at end of year		Surplus in Excess of Recovery available from Scheme		Net (Asset)/Liability Recognised in Statement of Financial Position at end of year	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
EISS	477,338	458,922	(369,336)	(338,137)	–	–	108,002	120,785
SSS	742	683	(878)	(803)	41	38	(95)	(82)
SANCS	909	764	(632)	(557)	–	–	277	207
SASS	8,012	7,136	(9,699)	(8,865)	510	553	(1,177)	(1,176)
ESISF	1,671	1,609	(1,857)	(1,491)	–	–	(186)	118
	488,672	**469,114**	**(382,402)**	**(349,853)**	**551**	**591**	**106,821**	**119,852**

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 27: Superannuation Plans (Continued)

Expenses recognised in Income Statement

	Current Service Cost		Interest Cost		Expected Return on Scheme Assets		Expenses/(Income) Recognised	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
EISS	13,040	14,944	25,948	23,960	(27,303)	(24,605)	11,685	14,299
SSS	17	15	35	37	(69)	(62)	(17)	(10)
SANCS	34	34	38	38	(45)	(49)	27	23
SASS	161	168	356	365	(741)	(720)	(224)	(187)
ESISF	40	40	60	64	(88)	(73)	12	31
	13,292	**15,201**	**26,437**	**24,464**	**(28,246)**	**(25,509)**	**11,483**	**14,156**

Expenses recognised in Statement of Comprehensive Income

	Actuarial Losses/(Gains) Recognised in year		Change in Surplus in Excess of Recovery available from Scheme		Expenses/(Income) Recognised	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
EISS	(661)	21,308	–	–	(661)	21,308
SSS	9	(38)	3	17	12	(21)
SANCS	43	50	–	–	43	50
SASS	379	373	(42)	(82)	337	291
ESISF	(187)	(153)	–	–	(187)	(153)
	(417)	**21,540**	**(39)**	**(65)**	**(456)**	**21,475**

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 July 2004 is a net loss of $134.672 million.

Before 1 July 2004 and the adoption of AEIFRS, it is not practical to determine the cumulative actuarial gains/losses as if the new policy had always been applied, given that the actuarial gains and losses were not separately identified and accumulated, and the superannuation expense was calculated on a different basis.

Scheme assets
The percentage invested in each asset class at the statement of financial position date.

	Australian Equities		Overseas Equities		Australian Fixed Interest Securities		Overseas Fixed Interest Securities		Property		Cash		Other	
	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
EISS	25%	36%	39%	32%	13%	15%	–	–	2%	3%	3%	6%	18%	9%
SSS	33%	31%	30%	27%	6%	6%	3%	4%	10%	10%	5%	10%	13%	13%
SANCS	33%	31%	30%	27%	6%	6%	3%	4%	10%	10%	5%	10%	13%	13%
SASS	33%	31%	30%	27%	6%	6%	3%	4%	10%	10%	5%	10%	13%	13%
ESISF	28%	28%	22%	22%	15%	15%	–	–	10%	10%	5%	5%	20%	20%

Fair value of scheme assets
All EISS, SSS, SANCS, SASS, and ESISF scheme assets are invested by the trustees at arm's length through independent managers.

Expected rate of return on assets
The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 27: Superannuation Plans (Continued)

Actual return on scheme assets

	2011 $'000	2010 $'000
EISS	36,602	33,536
SSS	68	67
SANCS	46	52
SASS	743	786
ESISF	104	150
	37,563	**34,591**

Valuation method and principal actuarial assumptions at balance date

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

	EISS		**SSS, SANCS, and SASS**		**ESISF**	
	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
Discount rate	5%	5.2%	5%	5.2%	4%	4%
Expected return on plan assets	8%	8.1%	9%	8.6%	6%	6%
Expected salary increases	4%	4%	4%	3.5%	6%	3.5%
Expected rate of CPI increase	3%	2.5%	3%	2.5%	3%	3%

	Present Value of Defined Benefit Obligation		**Fair Value of Scheme Assets**		**(Surplus)/Deficit in Scheme**		**Experience Adjustments – Scheme Liabilities**		**Experience Adjustments – Scheme Assets**	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
EISS	477,338	458,922	(369,336)	(338,137)	108,002	120,785	8,638	27,450	(9,299)	(6,142)
SSS	742	683	(878)	(803)	(136)	(120)	8	(30)	1	(9)
SANCS	909	764	(632)	(557)	277	207	44	54	(1)	(4)
SASS	8,012	7,136	(9,699)	(8,865)	(1,687)	(1,729)	510	386	(131)	(12)
ESISF	1,671	1,609	(1,857)	(1,491)	(186)	118	(123)	(76)	(64)	(77)
	488,672	**469,114**	**(382,402)**	**(349,853)**	**106,270**	**119,261**	**9,077**	**27,784**	**(9,494)**	**(6,244)**

Expected contributions during annual reporting period beginning after the reporting date

	2011 $'000	2010 $'000
EISS	18,603	20,639
SSS	–	–
SANCS	–	35
SASS	–	–
ESISF	–	130
	18,603	**20,804**

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 27: Superannuation Plans (Continued)

Summary of schemes financial positions in accordance with AAS25 "Financial Reporting by Superannuation Plans"

	Accrued Benefits		Net Market Value of Scheme Assets		Net (Surplus)/Deficit	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
EISS	405,870	382,591	(369,336)	(338,137)	36,534	44,454
SSS	452	400	(878)	(803)	(426)	(403)
SANCS	841	697	(632)	(557)	209	140
SASS	7,132	6,267	(9,698)	(8,865)	(2,566)	(2,598)
ESISF	2,700	2,423	(2,649)	(2,294)	51	129
	416,995	**392,378**	**(383,193)**	**(350,656)**	**33,802**	**41,722**

The AAS 25 surplus or deficit will vary from the AASB 119 net asset or net liability due to use of an expected rate of return under AAS 25 while a long-term government bond rate is used under AASB 119.

Recommended contribution rates for the Defined Benefit Schemes are:

Fund	**EISS Division B**	**EISS Division C**	**EISS Division D**	**SASS**	**SANCS**	**SSS**	**ESISF (QLD)**
Contribution Recommendations	Multiple of member contributions	% Member Salary	Multiple of member contributions	Multiple of member contributions	% Member Salary	Multiple of member contributions	% Member Salary
Rate 2011	1.9	2.5%	1.64	–	–	–	–
Rate 2010	1.9	2.5%	1.64	–	–	–	54%

In relation to EISS, the actuary has recommended an additional contribution of $36.000 million for the period 1 January 2011 to 31 December 2014 (4 years). $31.500 million remaining to be paid at 30 June 2011 over the next 3.5 years.

In relation to the contribution recommendations for EISS, SASS, SANCS, SSS, and ESISF, the method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding method. The method adopted affects the timing of the costs to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

Essential Energy

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 27: Superannuation Plans (Continued)

The economic assumptions adopted to make funding recommendations are:

Weighted – average assumptions – EISS	**2011**	**2010**
Expected rate of return on fund assets	7%	7%
Expected salary increase rate	4%	4%
Expected rate of CPI increase	2.5%	2.5%

Weighted – average assumptions – SASS, SANCS, and SSS		
Expected rate of return on fund assets	8.3% on pension liabilities. 7.3% on other liabilities.	8.3% on pension liabilities. 7.3% on other liabilities.
Expected salary increase rate	4%	4%
Expected rate of CPI increase	2.5%	2.5%

Weighted – average assumptions – ESI QLD		
Expected rate of return on fund assets	-13% in year 1 and 7% thereafter.	-13% in year 1 and 7% thereafter
Expected salary increase rate	5%	5%
Expected rate of CPI increase	3%	3%

In relation to the nature of the asset/liability generated from EISS, SASS, SANCS, SSS, and ESISF, if a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation. In relation to ESI QLD there is no legal liability to cover any deficit that exists in the fund.

The components of the amounts disclosed in the Income Statement are as follows:

	2011 $'000	2010 $'000
Contribution valuation adjustment	(1,915)	1,804
Superannuation cost	56,341	48,911
	54,426	**50,715**

Note 28: Contingent Liabilities

28.1 Legal issues

The Corporation is a defendant in a legal action involving the alleged failure of the entity to supply services in accordance with the terms of a contract. The directors are confident of a favourable outcome based on legal advice that the action will be successfully defended. The legal claims are expected to be settled in the course of the next twelve months.

28.2 Land remediation

The Corporation has engaged experts to assess the risk of the existence of contamination on its sites. The expert has identified a number of sites where the risk of existing contamination is high. These sites will be assessed further to determine the existence and extent of contamination. The assessment will provide the extent of work and the related costs necessary to remediate the sites. The assessment will be completed in the next twelve months.

Note 29: Disposal of Operations

29.1 Electricity reform

On 14 December 2010, the Board of the Corporation entered into a sale agreement to dispose of the retail operations. The disposal was completed on 1 March 2011, on which date control of the Retail operations was passed to the acquirer.

The disposal of the retail business is consistent with the New South Wales Government Energy Reform Strategy. The Government's reforms include maintaining public ownership of existing power stations and electricity transmission and distribution networks; transferring the electricity retailing operations of Energy Australia, Integral Energy and Country Energy to the private sector; selling a number of potential development sites for new power stations; and contracting to the private sector the right to sell electricity produced by the State-owned generators, namely Delta Electricity, Macquarie Generation and Eraring Energy (the Gentrader model).

Note 29: Disposal of Operations (Continued)

The profit for the period from disposal is as follows:

Net gain on sale of retail business

	Consolidated		Corporation	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Consideration received	1,215,666	–	1,215,666	–
Net liabilities/(assets) disposed	13,022	–	13,022	–
Transaction related costs	(60,099)	–	(60,099)	–
Cumulative losses on hedging instruments reclassified from equity on loss of retail operations	(92,847)	–	(92,847)	–
Net gain on sale of retail business	**1,075,742**	**–**	**1,075,742**	**–**
Cashflows from discontinued operations				
Net cash inflows from operating activities	143,473	110,929	143,473	110,929
Net cash inflows from investing activities	–	–	–	–
Net cash inflows from financing activities	–	–	–	–
Net cash inflows/(outflows)	**143,473**	**110,929**	**143,473**	**110,929**
Analysis of assets and liabilities over which control was lost.				
Current assets				
Receivables	138,628	–	138,628	–
Estimated revenue from unread meters	154,528	–	154,528	–
Electricity derivatives	4,023	–	4,023	–
Intangibles – green certificates	11,649	–	11,649	–
Non-current assets				
Available-for-sale investment	1,205	–	1,205	–
Current liabilities				
Creditors	(197,145)	–	(197,145)	–
Deposits	(9,806)	–	(9,806)	–
Electricity derivatives	(107,672)	–	(107,672)	–
Provision – green certificates	(8,431)	–	(8,431)	–
Net assets sold	**(13,022)**	**–**	**(13,022)**	**–**

29.2 Disposal of interest in Country Energy Gas Pty Limited

On 29 October 2010, the Corporation disposed of Country Energy Gas Pty Limited, which operated, maintained and constructed gas assets. The proceeds on disposal of $107.642 million (including $56.456 million intercompany loan repayment) were received in cash. The profit for the period from disposal is analysed as follows:

	Consolidated		Corporation	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Gain on sale of Country Energy Gas Pty Ltd	10,858	–	24,315	–
Transaction related costs	(4,360)	–	(4,360)	–
Net gain on sale of Country Energy Gas Pty Ltd	**6,498**	**–**	**19,955**	**–**

Note 30: Events Subsequent to Balance Date

The financial statements of Essential Energy for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the Directors on 22 September 2011.

There are no other known events that would impact on the state of affairs of the economic entity or have a material impact on these statements.

END OF AUDITED FINANCIAL STATEMENTS

AUDITOR-GENERAL NEW SOUTH WALES

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

NorthPower Energy Services Pty Limited

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of NorthPower Energy Services Pty Limited (the Company), which comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Company as at 30 June 2011, and of its financial performance for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

My opinion should be read in conjunction with the rest of this report.

The Director's Responsibility for the Financial Statements

The Director of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act and for such internal control as the Director determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Director, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Company
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.

Peter Achterstraat
Auditor-General

27 September 2011
SYDNEY

Statement by Members of the Board

STATEMENT BY MEMBERS OF THE BOARD

Pursuant to Section 41C of the *Public Finance and Audit Act 1983* we state that:

1. The accompanying financial statements are a general purpose financial report which have been prepared in accordance with the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010*, the *State Owned Corporations Act 1989*, any relevant Treasurer's Directions, applicable Accounting Standards and other mandatory professional reporting requirements.

2. The accompanying financial statements exhibit a true and fair view of the financial position of NorthPower Energy Services Pty Limited as at 30 June 2011 and of the profit and cash flows of the corporation for the year ended 30 June 2011.

3. At the date of this statement, there are reasonable grounds to believe that NorthPower Energy Services Pty Limited will be able to pay its debts as and when they become due and payable.

4. We are not aware of any circumstances which would render any particulars included in these statements to be misleading or inaccurate.

Signed in accordance with a resolution of Directors.

Peter Johnson
Director / Secretary

22 SEPT 2011
Dated

Statement of Comprehensive Income

For the Year Ended 30 June 2011

There were no amounts recognised in the Statement of Comprehensive Income during the current or comparative periods.

Statement of Financial Position

As at 30 June 2011

	NOTE	2011 $	2010 $
Non-current assets			
Other assets	2	2	2
Total non-current assets		2	2
Total assets		**2**	**2**
Net assets		**2**	**2**
Equity			
Contributed equity		2	2
Total parent entity interest		**2**	**2**
Total equity		**2**	**2**

The accompanying notes form part of this Statement of Financial Position.

Statement of Changes in Equity

For the Year Ended 30 June 2011

	2011 $	2010 $
Contributed equity	2	2
Contributed equity closing balance	**2**	**2**

There were no movements recorded in equity during the current or comparative periods.

Cash Flow Statement

For the Year Ended 30 June 2011

There were no movements of cash or cash equivalents during the current or comparative periods.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 1: Statement of Significant Accounting Policies

1.1 Reporting Entity

NorthPower Energy Services Pty Limited is a registered Company incorporated in Victoria. The Company is incorporated with a share capital of two (2) ordinary shares of $1.00 each. These shares are issued to Essential Energy (formerly known as Country Energy (the parent)), a NSW State Owned Corporation incorporated under the *State Owned Corporations Act 1989*.

1.2 Financial Reporting Framework and Statement of Compliance

The accompanying statements are a general purpose financial report which has been prepared in accordance with the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010* and the *State Owned Corporations Act 1989*. The financial statements have been prepared on an accrual accounting, going concern basis in accordance with these Acts and Regulation, and are in conformity with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

The financial statements have been prepared in accordance with the historical cost convention except where otherwise indicated.

1.3 Changes in Accounting Policies

The accounting policies are consistent with those applied in the previous year.

1.4 Operating Activities

There were no operating activities carried out for the twelve months to 30 June 2011.

1.5 Financial Instruments

Financial instruments give rise to positions that are a financial asset of either the Company or its counterparty and a financial liability (or equity instrument) of the other party.

The only financial instrument recorded is a two dollar ($2) loan by the Company to the parent. This is disclosed in notes 2 and 3. The loan is recorded at cost and has not been amortised.

1.6 Rounding of Amounts

The closing balance of net assets and equity is two dollars ($2). To ensure full disclosure all amounts in the financial statements have been disclosed in whole dollars.

1.7 Income Tax

The Company operates within the National Tax Equivalent Regime (NTER) administered by the Australian Taxation Office on behalf of the NSW Government.

The Company is a wholly owned subsidiary within a tax consolidated group with Essential Energy as the head entity.

There were no income tax related transactions recorded during the period.

1.8 Early Adoption of Standards

At reporting date a number of Australian Accounting Standards have been issued by the AASB but are not yet operative. These have not been adopted early by the Company. These Standards have been assessed for their possible impact on the financial report, if any, in the period of their initial application.
The assessment concluded that there will be no material impact.

Note 2: Other Assets

Non-current	2011 $	2010 $
Loan to parent entity	2	2
Total non-current other assets	**2**	**2**

Note 3: Financial Instruments

Financial asset		**Non-Interest Bearing**		**Balance Sheet**	
	NOTE	2011 $	2010 $	2011 $	2010 $
Related entity	1.5	2	2	2	2
Total financial asset		**2**	**2**	**2**	**2**

The fair value of the financial asset is equal to its carrying value and is not past due.

Financial risk management

The Corporation has no material credit, liquidity or market risk through the use of financial instruments.

Note 4: Auditor's Remuneration

	2011 $	2010 $
Remuneration received, or due and receivable, by the auditor of the economic entity for an audit or review of the financial statements.	2,500	2,000
	2,500	**2,000**

Audit fees were paid by the parent on behalf of the Company. These were not recorded in the Company's Statement of Comprehensive Income for the current or comparative period.

Notes to Financial Statements

For the Year Ended 30 June 2011

Note 5: Related Parties

Directors

The name of the person holding the position of Director of NorthPower Energy Services Pty Limited during the financial year was:
Peter Johnson

Key management personnel

The Director carries out his responsibilities on behalf of the parent. Compensation is paid by the parent.
The Company does not employ staff.

Note 6: Contingent Liabilities

There are no known contingent liabilities that would impact on the state of affairs of the economic entity or have a material effect on these financial statements.

Note 7: Events Subsequent to Balance Date

The financial report of NorthPower Energy Services Pty Limited for the year ended 30 June 2011 was authorised for issue by the Director on 22 September 2011.

There are no known events that would impact on the state of affairs of the economic entity or have a material effect on these financial statements.

END OF AUDITED FINANCIAL STATEMENTS

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Essential Service Centre locations and service hours

Albury Essential Service Centre
621 Dean Street
Monday to Friday 8.30am – 5pm

Balranald Essential Service Centre
2/92 Market Street
Monday to Friday 8.30am – 5pm

Batemans Bay Essential Service Centre
Shop 7-6 Orient Street
Monday to Friday 9am – 5pm

Bathurst Essential Service Centre
151 George Street
Monday to Friday 8.30am – 5pm

Bega Essential Service Centre
219-221 Carp Street
Monday to Friday 8.30am – 5pm

Broken Hill Essential Service Centre
13 Chloride Street
Monday to Friday 9am – 5pm

Coffs Harbour Essential Service Centre
102 Thompsons Road
Monday to Friday 8.30am – 5pm

Cooma Essential Service Centre
138 Sharp Street
Monday to Friday 9am – 5pm

Cowra Essential Service Centre
Shop 12 Calare Building
95-109 Kendal Street
Monday to Friday 8.30am – 5pm

Deniliquin Essential Service Centre
26 Napier Street
Monday to Friday 9am – 5pm

Dubbo Essential Service Centre
168 Macquarie Street
Monday to Friday 8.30am – 5pm

Forbes Essential Service Centre
91 Lachlan Street
Monday to Friday 8.30am – 5pm

Forster Essential Service Centre
16 Breese Parade
Monday to Friday 8.30am – 4.30pm

Goulburn Essential Service Centre
148 Auburn Street
Monday to Friday 9am – 5pm

Grafton Essential Service Centre
17 Prince Street
Monday to Friday 8.30am – 4.30pm

Griffith Essential Service Centre
310 Banna Avenue
Monday to Friday 8.30am – 5pm

Gulgong Essential Service Centre
102 Herbett Street
Monday to Friday 8.30am – 5pm

Hay Essential Service Centre
81 Lachlan Street
Monday to Friday 8.30am – 5pm

Hillston Essential Service Centre
151 High Street
Monday to Thursday 10am – 2.30pm,
Friday 10am – 4.30pm

Leeton Essential Service Centre
19 Pine Avenue
Monday to Friday 8.30am – 5pm

Lismore Essential Service Centre
81-83 Molesworth Street
Monday to Friday 8.30am – 5pm

Moree Essential Service Centre
223 Balo Street
Monday to Friday 7.30am – 4pm

Moruya Essential Service Centre
210 Araluen Road
Monday to Friday 9am – 4.30pm

Mudgee Essential Service Centre
102 Church Street
Monday to Friday 8.30am – 5pm

Narrandera Essential Service Centre
113 East Street
Monday to Friday 9am – 5pm

Oberon Essential Service Centre
157 Oberon Street
Monday to Friday 9am – 5pm

Orange Essential Service Centre
187 Summer Street
Monday to Friday 8.30am – 5pm

Parkes Essential Service Centre
298 Clarinda Street
Monday to Friday 8.30am – 5pm

Port Macquarie Essential Service Centre
140 Lake Road
Monday to Friday 8.30am – 5pm

Queanbeyan Essential Service Centre
Ground Level, City Link Plaza
30 Morisset Street
Monday to Friday 9am – 5pm

Tamworth Essential Service Centre
Electra Street
Monday to Friday 9am – 5pm

Taree Essential Service Centre
Whitbread Street
Monday to Friday 7.30am – 4pm

Trundle Essential Service Centre
37 Forbes Street
Monday to Friday 9am – 4pm

Tweed Heads Essential Service Centre
39 Sunshine Avenue
Monday to Friday 8.30am – 4.30pm

Wagga Wagga Essential Service Centre
2-209 Baylis Street
Monday to Friday 8.30am – 5pm

Wentworth Essential Service Centre
24-26 Darling Street
Monday to Friday 8.30am – 5pm

Young Essential Service Centre
53 Boorowa Street
Monday to Friday 8.30am – 5pm

Contacts

Contacts

General enquiries: **13 23 91**
Supply interruptions: **13 20 80**
Interpreter services: **13 14 50**

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Annual Report 2010–2011

This report was produced at a cost of $57,781.25 (GST inclusive)

For copies of the report:

Visit **www.essentialenergy.com.au**
or call **13 23 91**

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