Essential Energy

Annual Report 2011 – 2012

31 October 2012

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

The Hon. Greg Pearce, MLC
Minister for Finance and Services
Level 36
Governor Macquarie Tower
1 Farrer Place
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Dear Ministers

ESSENTIAL ENERGY ANNUAL REPORT 2011-2012

We are pleased to submit Essential Energy's Annual Report for presentation to Parliament, outlining our operational and financial performance for the 2011 to 2012 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, the Minister for Primary Industries, the Auditor General and key customer and stakeholder groups.

Yours sincerely

Roger Massy-Greene
Chairman

Vince Graham
Chief Executive Officer

Contents

Year in review

The reporting year has been a period of change for Essential Energy as the business responded to the challenges of our operating environment and focused on business improvements to provide safe and reliable network services at the lowest reasonable cost to our customers.

A strong financial result for the year was achieved with earnings of $571.2 million before interest and tax, exceeding budget expectations. Net profit after tax was $154.3 million.

The inherent dangers of our industry mean safety must always be our highest priority, and we strive to be an organisation where no person commits an unsafe act. Our efforts in safety have again produced solid results with a Lost Time Injury Frequency Rate (LTIFR) of 2.3 lost time injuries per million hours worked, compared to 2.9 in the previous year and 6.6 just five years ago.

We remain an industry leader in safety, with this result placing Essential Energy in the top quartile.

Lost Time Injuries (LTIs) totalled 21, a number that continues to trend down and compares favourably to last year's result of 26.

A suite of new initiatives are planned to drive our employee-focused *No unsafe acts* campaign, identifying top risk areas, encouraging ownership and implementing controls.

In July 2011 we entered the third year of our five-year Network Plan. This investment continues to strengthen ageing infrastructure, improve electricity supply reliability, support regional development and secure a sustainable network for the future. We are embedding improvements now that will cater for growing energy demand in years to come.

As in 2010–2011, major weather events and sustained rain across our footprint area hampered working conditions, making site access difficult and preventing crews from meeting planned works targets. Consequently our capital programs for 2011–2012 were underspent by 13 per cent.

Completed works included the installation or upgrade of more than 850 kilometres (km) of high voltage powerlines, construction or refurbishment of 12 zone substations, and installation or replacement of nearly 16,000 power poles. Almost 400 reclosers were installed, which will allow faster restoration of power when unplanned supply interruptions occur.

Essential Energy's network reliability figures continue to be favourable to our licence condition targets. The System Average Interruption Duration Index (SAIDI) normalised figure is 237 minutes per customer against a target of 321 minutes, consistent with 2010–2011. The System Average Interruption Frequency Index (SAIFI) normalised figure averaged 2.12 supply interruptions per customer, compared to 2.14 the previous year and well under the target of 2.94.

Extreme weather events were a significant cause of unplanned supply interruptions, with more than 100 Natural Disaster Declarations recorded across Essential Energy's footprint during the year. Prolonged rain led to extensive flooding west of the range in November, and predominantly coastal areas were affected in January and February. Widespread flood conditions prevailed in coastal and inland centres throughout February and March, severely affecting Wagga Wagga, Griffith, Hay and their surrounding districts.

Our Supply Interruptions telephone line – 13 20 80 – received more than 590,000 calls, an increase of 4,000 compared to the previous year. Adverse weather events from December 2011 to March 2012 contributed to higher average weekly customer calls to the Supply Interruption line, increasing from 7,500 to a peak of 21,000 calls.

Under a Transition Services Agreement (TSA) we continue to provide retail services to Origin Energy, with these services being progressively handed over during the 43 month contract period. Management of stranded costs following the sale of the retail business remains a priority.

Our two contact centres, located in Port Macquarie and Leeton, answered Country Energy retail general enquiries on 13 23 56 and Essential Energy network enquiries on 13 23 91, responding to 902,000 calls, down from 968,000 the previous year, as customers adjusted to the new retail environment.

Our Essential Water business invested around $4.1 million during the year to maintain and improve water and sewerage services for communities in far western New South Wales (NSW). A highlight has been the heavy rains across the region which filled Essential Water's three local reservoirs, reducing pumping costs and guaranteeing supply until at least 2014.

Essential Energy is aware of the impact of rising electricity prices on communities across regional NSW and we recognise our responsibility to ensure that our services are not only safe and reliable, but also delivered at the lowest reasonable cost to our customers.

To address this, on 1 July 2012 a new industry structure was implemented, with a common Chair, Board and Chief Executive appointed to the three NSW network businesses – Essential Energy, Endeavour Energy and Ausgrid. Roger Massy-Greene became the Chairman of all three companies, and Endeavour Energy's CEO, Vince Graham, was appointed as CEO of Networks NSW, to oversee the three network businesses.

In June 2012 Essential Energy Managing Director, Terri Benson, left this role after 14 years with the company. Terri is a respected leader and under her stewardship the business performed strongly through a period of significant industry change.

Under the new governance arrangement, Essential Energy will continue to operate as a separate organisation, with a business model focused on efficient and sustainable service delivery across our network area, and a strong focus on employee and public safety.

In the year ahead we will review all areas of capital and operating expenditure, and make the changes necessary across the business to reduce the cost of services leading into the next regulatory period, to lessen the impact of electricity prices on regional customers.

Essential Energy is well placed for the challenges ahead.

About us

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

As part of the NSW Government's energy industry reforms, on 1 July 2012 Essential Energy transitioned to a new operating model, with a common Board and Chief Executive Officer appointed to the three NSW electricity distribution businesses – Essential Energy, Endeavour Energy and Ausgrid. Under this model Essential Energy remains a stand-alone corporation, with a focus on the delivery of operational services across its network area.

Essential Energy delivers services under a decentralised regional operating structure with five regional management teams responding quickly and effectively to local needs and priorities.

We also provide retail services to electricity and natural gas customers on behalf of Origin Energy and will continue to do so for up to 43 months as part of the Transition Services Agreement (TSA) from the sale of the Country Energy retail business in March 2011.

Responsible network management

Under the regulatory framework established by the Australian Energy Regulator (AER), Essential Energy continues to invest in network upgrades to meet changing population and energy demands, renew ageing assets and ensure the continued delivery of safe, reliable and affordable essential services.

The AER, along with the Independent Pricing and Regulatory Tribunal (IPART), regulates network pricing, ensuring all network investment is necessary to meet the needs of Essential Energy's customers, while placing downwards pressure on electricity prices.

Essential Energy's regional operating area

Managing Australia's largest electricity network

- More than 200,000 km of powerlines
- Around 1.4 million power poles
- Approximately 145,000 streetlights
- Around 135,000 substations
- Almost 400 zone substations
- More than 800,000 network customers.

Encouraging energy efficiency

As a network services business, Essential Energy recognises the importance of managing demand on the electricity network and providing customers with information and resources to help them become more energy efficient.

Our *energyanswers* program and advice line, 1800 ENERGY, offers free, tailored energy efficiency advice to residents and small business owners across rural and regional NSW.

Essential Water

Essential Water is an operating division of Essential Energy, delivering water services to around 20,000 people in Broken Hill, Menindee, Sunset Strip and Silverton, and sewerage services to Broken Hill.

Providing regional employment opportunities

Essential Energy is a leading employer in regional NSW, providing meaningful and sustainable career opportunities for more than 4,000 employees in 1,500 communities across NSW, with more than 1,140 new apprenticeships created since 2001.

We are one of the largest direct employers of Indigenous apprentices in NSW, with more than 150 Indigenous apprentices and trainees joining the organisation since 2001.

Our aims and objectives

Essential Energy's aim is to be the leading provider of essential services in Australia and a trusted part of our communities.

Essential Energy's business strategy focuses on the key priority areas of safety, value and performance, measured through our corporate dashboard and developed across our annual business planning cycle. This strategy aligns Essential Energy's objectives with the *State Owned Corporations Act 1989* and the *Energy Services Corporations Act 1995*.

Planning for 2012 and beyond

Essential Energy is aware of the impact of rising network costs on regional NSW communities and is responding to this by reviewing all operating and capital expenditure areas across the business. Our priority in 2012 is to identify and implement initiatives that will ensure safe and reliable network services are provided at the lowest reasonable cost to our customers.

Essential Energy's focus areas include:

- Managing a network business that ensures public and employee safety
- Delivering network products and services at the lowest reasonable cost, that are valued by our customers, communities and shareholders
- Driving enhanced network and financial performance as part of being an efficient network asset manager.

Structuring for success

Essential Energy is structured along functional lines to drive business efficiencies and ensure the continued delivery of cost effective essential services to our network customers.

In October 2011, Essential Energy restructured its regional operations, consolidating our eight existing regions into five, with a focus on safety, productivity and consistency across the network.

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
> Safety	Lost Time Injuries (LTIs)
	Lost Time Injury Frequency Rate (LTIFR)
	Manual handling – number of Workers' Compensation claims attributed to manual handling
	Safety audits
	Australian Standard AS/NZS 4801:2001 Occupational Health and Safety Management Systems
> Performance	Corporate Reputation Rating – is derived from a survey asking participants from within Essential Energy's network area to rate reputation on a scale of 1 (very poor) to 5 (excellent)
	Delivery of the Network Plan – measure progress of capital and operational programs
	System Average Interruption Duration Index (SAIDI) normalised – for all Essential Energy feeder classes
	System Average Interruption Frequency Index (SAIFI) normalised – for all Essential Energy feeder classes
	Average customer minutes without supply for urban feeder powerlines
	Average customer minutes without supply for short rural feeder powerlines
	Average customer minutes without supply for long rural feeder powerlines
	Planned outage management
	Environmental compliance
	Australian Drinking Water Guideline health breaches
	Australian Drinking Water Guideline aesthetic breaches
> Value	Earnings Before Interest and Tax (EBIT)
	Return on assets

Our performance
21 (26 in the previous year)
2.3 LTIs per million hours worked (2.9 in the previous year)
114 (133 in the previous year)
99.3% independent audit compliance (96% in the previous year)
Achieved
61% of respondents rated Essential Energy as having a ‘good’ or ‘excellent’ brand reputation (67% in the previous year)
82% (84% in the previous year)
237 minutes without supply per customer (238 minutes in the previous year)
2.12 interruptions per customer (2.14 in the previous year)
80 minutes per customer (66 minutes in the previous year)
238 minutes per customer (245 minutes in the previous year)
478 minutes per customer (493 in the previous year)
85.5% of planned outages started and finished within 15 minutes of the nominated time and the customer had been notified (81% in the previous year)
98.5% independent environmental audit compliance (99% in the previous year)
Zero breaches
Zero breaches
$571.2 million
8.1%

Safety

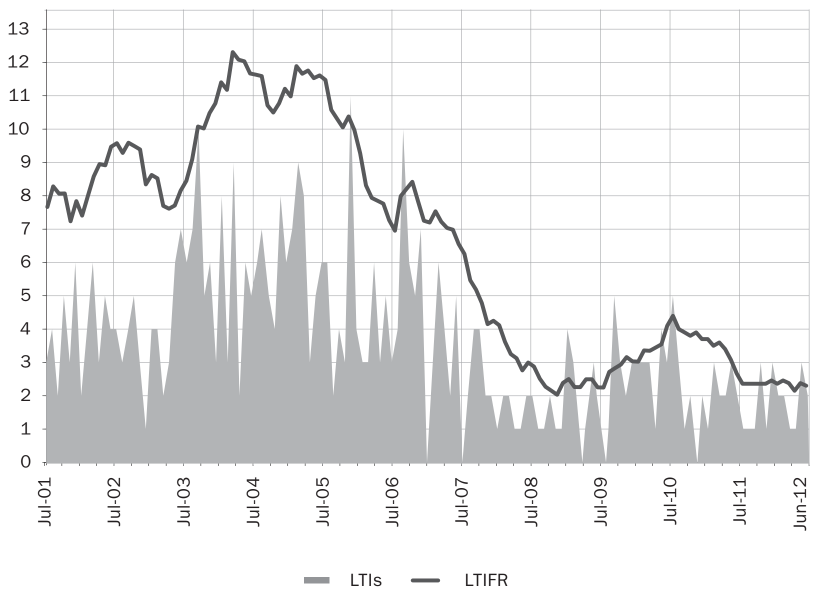
Safety is Essential Energy's number one priority. In 2011–2012, more than 2,000 Essential Energy employees regularly worked on the electricity network, at heights, with heavy plant, in high traffic zones and engaged in manual handling activities.

Essential Energy continues to focus on improving our safety culture, investing in safer tools and equipment, reviewing work practices and developing education programs to keep safety front-of-mind for all employees.

We are proud to have retained our position as the NSW electricity distributor with the lowest Lost Time Injury Frequency Rate (LTIFR) for this reporting period.

Essential Energy is building a workplace where no employee commits an unsafe act, with targeted awareness programs reinforcing a safety-first culture. Although we haven't yet achieved this goal, our safety performance is continually improving, demonstrated by a year-on-year reduction in the number of workplace injuries.

Essential Energy Lost Time Injuries (LTIs) and Lost Time Injury Frequency Rate (LTIFR) from July 2001 to June 2012



Safety performance

Our safety performance has improved across key measures with reductions in the number of Lost Time Injuries (LTIs) and the LTIFR.

In 2011–2012, 59 Essential Energy workplaces maintained a safety record of 10 years or more without an LTI – a 16 per cent improvement on the previous year.

Management systems

Essential Energy's Safety, Security, Health and Environment Management System (SSHEMS) retained certification to AS/NZS 4801:2001 *Occupational Health and Safety Management Systems* and ISO 14001:2004 *Guideline for an Environmental Management System*.

Internal auditing of Essential Energy's SSHEMS ensures we are able to maintain our certifications to AS 4801 and ISO 14001. In 2011–2012, safety audits focused on premises, work teams and individuals, and we exceeded our internal auditing compliance target of 96 per cent.

Manual handling program

Manual handling injuries remain the major contributor to workplace injuries across Essential Energy.

The *Manual Handling Solutions Program* continued in 2011–2012, encouraging employees to find safer ways of completing work tasks by developing new solutions to eliminate, or reduce, the risk of injury.

Essential Energy's *Manual Handling Solutions Program* continues to deliver strong results with a continued reduction in manual handling injuries – despite an increase in employee numbers. The average cost of claims increased as a result of a small number of claims requiring ongoing specialist treatment.

Workers' Compensation claims	Baseline date 05–06	07–08	08–09	09–10	10–11*	11–12
Manual handling (MH) claim numbers	275	220	173	150	133	114
Total claims	380	445	369	369	329	312
Percentage MH from total claims	72%	49.4%	46.8%	41%	40.3%	37%
Employee numbers	3,721	4,238	4,353	4,534	4,573	4,720
Percentage employees – MH claims	7.4%	5.2%	4.0%	3.4%	2.9%	2.4%
Employee ratio with MH claims	1 in 13	1 in 19	1 in 25	1 in 29	1 in 34	1 in 41
Average cost of claims	$3,507	$1,167	$1,362	$1,149	$994	$1,316

* 2010–2011 figures revised.

Safer futures for Australian workers

Essential Energy established the *Safety Research and Education Alliance* with the aim to be nationally and globally recognised as a leader in safety research, innovation and education.

The Alliance provides an opportunity to improve safety across high risk industries – with initial focus on the energy industry – by sharing safety research and statistics and developing best practice training and innovative safety resources.

The *Safety Research and Education Alliance* has committed to delivering:

- A pathway for sharing industry data
- Industry-led research, analysis and trend reporting
- Educational re-enactments of major incidents
- Interactive virtual and web-based training programs for workers and schools
- Publication of research findings.

As an industry partner of the Alliance, Essential Energy hopes to benefit from the exchange of information and ideas, allowing us to take advantage of the enhanced efficiency and productivity delivered by safer workplaces.

New drug and alcohol policy

Essential Energy recognises that employees, contractors and visitors who are under the influence of alcohol or drugs endanger themselves and are a potential danger to their workmates.

Following a successful trial, Essential Energy's new *Drug and Alcohol Policy* was introduced in September 2011, reinforcing our commitment to providing a safe work environment.

As a result of the changes, random drug and alcohol testing has been implemented across the business, and Essential Energy is now a 'dry' workplace – this means that the consumption of alcohol is prohibited on any site or premises where Essential Energy is the site controller.

Since the Policy began, 758 employees have been tested with two positive results recorded.

A six-month amnesty period applied to the new Policy.

Under the Policy an employee who registers a positive drug or alcohol result is stood down from normal duties until a negative result is obtained. The employee also receives a formal warning letter and is required to take part in an approved alcohol or drug rehabilitation program.

Essential Energy's new *Drug and Alcohol Policy* was implemented after consultation with employees and unions to manage the risks associated with alcohol and other drugs in the workplace.

Safety Week 2011

Essential Energy's *Safety Week 2011* was designed to ensure all employees took the time to reflect on safety practices, performance and culture, and to encourage the contribution of ideas to further improve safety.

Developed in response to several 'near hits' – incidents that have the potential to be serious or hurt our employees – *Safety Week 2011* provided an opportunity to review how we ensure safety remains our number one priority.

All employees attended compulsory awareness sessions that involved safety presentations and training, with targeted activities for field and office based employees to place an emphasis on safety behaviours.

Safety Week 2011 generated 421 ideas for improving workplace safety from employees. Each of these ideas has been assessed and reviewed with a number of process changes implemented.

The safety culture of an organisation improves when near hits are freely reported and investigated, with the lessons learned used to reduce the likelihood of recurrence. Essential Energy investigates near hits and implements improvements based on the results of these investigations.

In the month following *Safety Week 2011*, the number of reported near hits was the highest on record for the company. This trend continued with 285 near hits reported in the period from January to May 2012, compared to 112 for the same period the previous year. This represents a 155 per cent increase and an improved awareness of safety and workplace understanding of near hits.

Family Safety Week 2012

Feedback received after *Safety Week 2011* identified that Essential Energy needed to widen the target audience to include employees' family members in the delivery and understanding of our safety priority. As a result, *Family Safety Week 2012* was conducted from 14 to 18 May, to coincide with National Families Week Australia.

Family Safety Week 2012 encouraged employees to take the safety message home by inviting their family to visit designated Essential Energy depots and participate in safety focused activities.

The event proved popular and effective, with more than 600 adults and 300 children attending the depot open days during *Family Safety Week 2012*, and many more family members visiting non-designated sites that were 'open' for the week.

Powerful Minds

Essential Energy remains committed to both the physical safety and mental wellbeing of employees, with our *Powerful Minds* program providing practical management skills for:

- Effectively supporting employees with mental health conditions within their work groups
- Understanding and controlling factors that impact workplace stress, including leadership styles and work team characteristics
- Reducing and dealing with bullying and harassment in the workplace.

Since July 2007, around 670 Essential Energy employees have attended a 12-hour Mental Health First Aid course, designed to raise awareness of the signs and symptoms of specific mental health problems and ways to assist people in mental health crisis situations.

All Essential Energy employees who attend a Mental Health First Aid course form part of the Mental Health Support Network which aims to improve knowledge and understanding of mental health wellbeing across the organisation and encourages support of mental health initiatives such as *R U OK? Day.*

Public safety incidents

Essential Energy's *Public Electrical Safety Awareness Plan* targets at-risk groups such as farmers and the construction industry, providing education and assistance to help prevent electrical safety incidents.

Despite our extensive and targeted educational campaigns, 339 public safety incidents were recorded in 2011–2012, an increase on the previous year and above our target of 165.

This increase in public safety incidents coincides with an increase in agricultural activity as drought conditions continued to ease across large areas of regional NSW.

The majority of incidents in rural NSW were related to farm machinery and crop dusters coming into contact with the network – possibly due to the increasing size of equipment, as well as greater use.

Essential Energy responded to the increase with targeted messages to raise awareness of the hazards associated with working in the vicinity of powerlines, and created video and audio recordings of at-risk industry workers as a resource available on our website.

Continuing our work with industry groups to reduce public safety incidents during the coming year remains one of Essential Energy's main safety priorities.

Performance and value

Essential Energy is responsible for building, operating and maintaining Australia's largest electricity network.

Network Plan

Essential Energy's five-year Network Plan outlines our capital and operational programs.

The capital program focuses on the delivery of a safe, reliable and sustainable electricity supply to our customers, renewing ageing assets and meeting growing population and energy demands.

The operational program ensures our network meets performance standards, prevents equipment failure and avoids associated emergency response costs.

Every five years Essential Energy forecasts its expenditure needs to meet network priorities, which are assessed by the Australian Energy Regulator (AER) to ensure the proposed investment program is prudent. The current AER determination, covering the period from 1 July 2009 to 30 June 2014, approved Essential Energy's investment of around $4 billion in capital works programs and $2 billion in operational works programs.

The AER allowed for an average 20.24 per cent increase in Essential Energy's regulated electricity prices from 1 July 2011 to fund the 2011–2012 network investment programs.

Network Plan performance

Essential Energy delivered around $805 million in network investment and $454 million in maintenance programs in 2011–2012.

Major weather events and sustained rainfall across Essential Energy's footprint have affected the delivery of the Network Plan as field crews were hampered by access issues to work sites across the network. Incomplete projects in this financial year will be completed by the end of the current five-year regulatory period.

For the reporting period, 82 per cent of planned projects have been completed. This compares to 84 per cent for the same period last year.

Capital program highlights

Essential Energy invests in the electricity network to ensure power supply reliability and quality standards are met, to cater for future growth in peak demand and to keep pace with ageing assets. In 2011–2012, we completed an extensive network upgrade program, including:

> 54 km high voltage underground cable installed
> 84 km low voltage line installed or upgraded
> 857 km high voltage line installed or upgraded
> 393 reclosers installed
> 56 padmount distribution transformers installed or upgraded
> 779 overhead distribution transformers installed or upgraded
> 787 gas switches installed
> 34 voltage regulators installed
> 15,821 poles installed or replaced
> 10 km low voltage underground cable installed or refurbished
> 240 km sub-transmission line installed or upgraded
> 12 major zone and bulk supply substations constructed.

Operating program highlights

> 337,756 pole inspections
> 24,626 pillar inspections
> 113,000 network maintenance tasks completed
> 1,185 padmount substations inspected
> 23,482 substation earth tests.

Network investment highlights by region

South Eastern Region
Jindabyne East Zone Substation – $6.4 million

Essential Energy completed and commissioned a new zone substation and high voltage powerline upgrade in East Jindabyne, increasing power capacity to Jindabyne, Berridale and Dalgety and surrounding areas.

The new facility was necessary to meet increasing demand in the area, which has a population growing at a rate of almost twice the NSW average.

Southern Region
Wagga Wagga Ashmont and Bomen Zone Substations – $20 million

New zone substations in the Ashmont and Bomen areas of Wagga Wagga are providing a more reliable and responsive power supply to the town centre and surrounding residential areas.

The new zone substations and associated powerline upgrades provide a network of back-up options for the fast growing regional centre, meeting Essential Energy's licence conditions to provide N-1 network security for the area. N-1 allows resilience in the network, ensuring there is at least one independent backup component.

The project ensures Essential Energy meets the increased energy demand of this area, including the redevelopment of Wagga Wagga Base Hospital.

The Bomen Zone Substation improves power reliability to the Bomen industrial area and provides an additional back-up power option for the Wagga Wagga city centre. The upgrade included the replacement of end of life transformers and switching equipment and the addition of new circuit-breakers to improve network security.

Network investment highlights by region

(continued)

North Coast Region Ballina and Suffolk Park Zone Substations – $18 million

Essential Energy has constructed a new zone substation at Suffolk Park and significantly extended the Ballina Zone Substation, as part of the wider Lismore to Mullumbimby network upgrade.

The Ballina Zone Substation extensions and associated line reconstruction provide for the upgrade of the coastal 66,000 volt network to 132,000 volts, significantly improving capacity and capability, ensuring that N-1 licence conditions are delivered.

The construction of the new zone substation in Suffolk Park will increase power capacity and reliability to Byron Bay and Suffolk Park, catering for the fast-paced population growth on the NSW Far North Coast.

Northern Region Yarrandale Zone Substation and the Dubbo to Yarrandale transmission line upgrade – $11 million

This major improvement for Dubbo's electricity supply includes the extension of Essential Energy's Yarrandale Zone Substation with the addition of a second 66,000 volt powerline between the site and the region's main bulk supply substation at Wheelers Lane in Dubbo. A second main power transformer has also been installed.

The project at Yarrandale increases power capacity to cater for increased demand in and around Dubbo and meets Essential Energy's licence requirement to provide N-1 security to the area.

Far West Region Dareton Zone Substation upgrade – $2.8 million

The completed upgrade of Essential Energy's Dareton Zone Substation improves power reliability to the Wentworth and Buronga communities, providing two supplies to both the Dareton and Buronga Zone Substations to meet N-1 licence conditions.

The Dareton Zone Substation upgrade is part of an ongoing project that included a recently completed zone substation at Buronga and a second 66,000 volt powerline link to the Powercor transmission network in Victoria, effectively providing two sources of supply to both the Dareton and Buronga Zone Substations.

Network performance and reliability

During the year, Essential Energy's network reliability was favourable to the targets defined in our licence conditions, ensuring we delivered reliable essential services to families and businesses across regional NSW.

The average number of minutes that an Essential Energy customer was without power supply during the financial year – measured as System Average Interruption Duration Index (SAIDI) normalised – was 237 minutes against a target of 321 minutes. This remains consistent with the previous year's result.

Essential Energy also achieved a positive result for its System Average Interruption Frequency Index (SAIFI) normalised, which measures the average number of interruptions that a customer experienced.

For the financial year, an average of 2.12 interruptions was recorded against a target of 2.94 interruptions – an improvement on the 2.14 interruptions per customer reported in the previous year.

2011–2012 Network performance results (normalised)

	Feeder category	Target	Performance	Result
SAIDI (minutes)	Urban	125	80	✓
	Short rural	300	238	✓
	Long rural	700	478	✓
SAIFI (interruptions)	Urban	1.80	1.16	✓
	Short rural	3.00	2.20	✓
	Long rural	4.50	3.28	✓

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 0.3MVA/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).

Supply interruptions and customer response

Essential Energy's Network Operations and Customer Response group is the first point of contact when customers lose power supply. Essential Energy saw a marginal increase in total calls to its 24-hour supply interruption line – 13 20 80 – 590,126 calls received, compared to 586,000 calls in 2010–2011, with a weekly average of 7,500 customer calls received.

Essential Energy operators made more than 238,000 outbound calls to ensure that network repairs had successfully restored power to affected customers following unplanned supply interruptions, or to advise customers of planned interruptions.

Emergency response

Severe weather events impacted local communities across our five regions with over 100 Natural Disaster Declarations recorded across the network during the year, contributing to unplanned interruptions and a spike in average weekly calls to Essential Energy's 24-hour supply interruption line, 13 20 80.

In storm season, weekly call volumes peaked at 21,000 calls in the first week of December 2011, due to supply interruptions as a result of several adverse weather events across the State.

The North Coast Region received higher than normal rainfall throughout 2011–2012 and was affected by floods in late January to early February 2012. Flooding affected communities from the Tweed, through the Northern Rivers and Mid North Coast areas, and south to the Manning Valley. Field crews from across the region worked to restore supply to around 8,000 customers, putting into place contingency plans and practical tactics to safely overcome access difficulties in some areas.

During the floods, Essential Energy's average call volume per week increased to around 14,000 calls, with the highest daily call volume of 5,500 calls recorded on 20 February 2012.

The late February to early March 2012 floods throughout Southern NSW forced the NSW Government to declare 56 Local Government Areas as Natural Disaster Zones. In March, Essential Energy's weekly average supply interruptions fault and emergency call volume increased to around 13,000 calls, with the highest daily call volume of 4,000 calls recorded on 2 March.

The Network Operations teams undertook many hours of contingency planning for potential major shut downs in the affected areas of Wagga Wagga, Griffith and Hay. Working closely with local management under the direction of the State Emergency Service ensured the safety of local communities, emergency workers and Essential Energy employees.

In early June 2012, residents on the NSW South Coast were affected by gale force winds which affected power supplies to more than 6,000 customers. Essential Energy's field crews were dispatched from the Bega, Cooma, Moruya, Braidwood and Queanbeyan depots to deal with a range of faults caused by trees over powerlines, broken wires and waterlogged infrastructure.

Managing bushfire risk

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

Two dedicated groups within Essential Energy, the Bushfire Mitigation Working Group and the Bushfire Assurance Panel, work to assess our risk management approach and further develop prevention activities across all business activities.

These groups oversee a range of activities that underpin bushfire risk mitigation, including policy reviews, network planning processes, field-based operations such as vegetation management, asset inspection and the provision of Bushfire Awareness Training for all Essential Energy field employees.

Vegetation management

In line with our *Vegetation Management Plan,* Essential Energy works closely with local councils and other property owners to keep potentially hazardous vegetation away from electricity infrastructure. Our vegetation officers manage this process and, together with our vegetation control contractors, ensure compliance with the required safety clearances.

During the reporting period, Essential Energy launched an awareness campaign, *Plan Before You Plant,* to offer practical guidance on planting and maintaining trees near powerlines.

Over the reporting period more than 84,500 vegetation issues were addressed across our electricity network, a six per cent increase on the previous 12 months. Better planning and programming, and the introduction of an electronic process for the distribution and return of vegetation work pack data have contributed to this positive result.

Asset inspection

Essential Energy's asset inspectors are responsible for inspecting more than 1.4 million power poles, distributed across 95 per cent of the NSW land mass, to ensure our electricity network remains safe and reliable.

Inspection of assets involves many different network components and the geographic diversity in our footprint, which includes Snowy Mountains peaks, semi-arid plains stretching to the Far West, and the coastal and sub-tropical regions in the east.

Despite the challenging ground conditions experienced during the year, our Asset Operations team inspected more than 336,000 poles.

Essential Water

IPART approval for network investment

To fund Essential Water's 2011–2012 investment program 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 13 per cent average price increase for a typical pensioner customer – both increases equate to around $2.15 per week.

IPART acknowledged the increases were necessary to ensure Essential Water's prices reflect the cost to deliver essential water services, including building and maintaining water and sewerage infrastructure to support the delivery of safe, reliable, secure and quality water and sewerage services.

The NSW Government subsidises Essential Water's operating costs to ensure it provides 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. The *NSW Government's Pensioner Rebate Scheme* is also available to offset pensioners' water bills.

Essential Water
(continued)

Performance highlights

Heavy rains in the Far West during the reporting period filled Essential Water's three local reservoirs to 83 per cent capacity, providing Broken Hill with water supply for the next two years.

Total water consumption decreased by around 243 megalitres (ML) (243,000 kilolitres) on the previous year, with 4,057 ML of treated water delivered over 200 km of pipelines and mains to homes and businesses connected to our water network.

Around 91 per cent of Essential Water's customer base is residential and consumption for this group totalled 2,298 ML – up from 2,094 ML in 2010–2011.

Essential Water has invested around $78 million on major projects since forming in 2004 – including around $4.1 million in the 2011–2012 financial year.

Essential Water continued its program of stringent sampling and independent testing to ensure water quality met the *Australian Drinking Water Guidelines* (ADWG). No aesthetic or health related breaches were recorded during the reporting period.

Essential Water's Waste Water Treatment Plant in Wills Street treated on average 3 ML of sewage per day, and the South Broken Hill Waste Water Treatment Plant treated an average 0.8 ML per day.

Highlights of Essential Water's works program include:

> Investment of around $810,000 in the water mains renewal program

> Investment of $166,000 to reline 800 metres of sewer main

> Investment of $155,000 to upgrade telemetry systems at the Stephen's Creek and Umberumberka Pumping Stations.

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

> Replacement of around 1.5 km of water reticulation pipeline

> Repair of 376 customer water services

> Repair of 78 water pipeline leaks and bursts

> Cleaning and rodding more than 24 km of sewer mains

> Repair of 377 customer sewer connection blockages

> Repair of 255 sewer pipeline blockages

> Relining of 800 metres of sewer main.

Customer service

Essential Energy customer service employees continued to provide retail services to Country Energy customers as part of the Transition Services Agreement (TSA) with Origin Energy.

Throughout the year our two contact centres, located in Port Macquarie and Leeton, answered Country Energy general retail enquiries on 13 23 56, and Essential Energy network enquiries on 13 23 91. In total, 902,000 customer calls were responded to, compared to 968,000 in the previous financial year.

Our customer service employees have continued to provide exceptional customer service with 78 per cent of customer enquiries responded to within 30 seconds, against a target of 70 per cent.

For general customer service enquiries, 94 per cent were resolved at first contact.

Complaint resolution and Ombudsman relations

Essential Energy is focused on providing its customers with high levels of service and support, and works closely with customers to resolve issues as they arise. This approach was reflected in our complaint resolution results – resolving 91.7 per cent of domestic network complaints within four days during the reporting period – remaining steady compared to last year's performance.

During 2011–2012, Essential Energy had 304 matters referred to the Energy and Water Ombudsman NSW (EWON). This represented 18.1 per cent of the 1,677 electricity distribution cases referred to the independent dispute resolution service and was a small increase on the previous year's total of 16.4 per cent. We were able to resolve more than 80 per cent of these matters without further investigation by EWON.

Ten matters relating to Essential Water were referred to EWON, representing just 0.04 of one per cent of the total 22,820 retail complaints received by the service during the year.

Community involvement and development

Essential Energy has a strong community support framework to foster community involvement and development. In 2011–2012 Essential Energy provided $1.2 million to community partners, including:

> Royal Agricultural Society's *Young Farmer Challenge* – promotes the skills, equipment and techniques young farmers use every day through a set of practical field activities

> *Regional Achievement and Community Awards* acknowledges individuals, communities, businesses and groups for their outstanding service to local communities

> *Try a Trade Program* run by Skillset in conjunction with Central West Group Apprentices, aims to address a significant skills shortage in NSW by leveraging the Trade Training Centres programs in schools.

Essential Energy also participated in many regional events and field days to support rural communities across NSW including AgQuip, Primex, Henty Field Days, Australian National Field Days (Orange), AgFair (Broken Hill), Nyngan Ag Expo and Mudgee Small Farm Field Days.

Essential Energy's commitment to regional communities has been recognised with more than nine out of 10 regional opinion leaders, such as local councillors, administrators and businesses, surveyed through our Corporate Reputation Survey 'agreeing' or 'strongly agreeing' that Essential Energy is an active part of local communities.

In addition, 84 per cent of customers surveyed 'agreed' or 'strongly agreed' that Essential Energy is a responsible provider of an essential service.

Essential Energy also worked closely with two customer representative groups – the Regional Advisory Group (RAG) and Customer Council – that act as advocates for their local communities and provide customer feedback to Essential Energy on a range of energy matters.

Human Resources

Human Resource (HR) transformation

Essential Energy has a strong focus on workforce development, engagement and retention to ensure we have the people and skills necessary to build and maintain Australia's largest electricity network. To achieve this, Essential Energy launched a new HR Strategy and restructured the HR function, ensuring the delivery of improved and efficient services to employees to:

- > Evolve our culture
- > Attract and engage employees
- > Build talent and capability
- > Provide transparency, governance and consistency.

By introducing system automation and revised processes, HR delivered savings of 32 per cent against budget and reduced average time to hire from 82 to 46 days.

Sick leave management

Essential Energy continued to maintain low levels of sick leave, low levels of employee turnover and high employee engagement levels*.

To positively impact sick leave rates, Essential Energy proactively encourages employees' participation in a number of health and fitness, engagement, commitment and loyalty programs.

Essential Energy's average sick leave days per full-time employee (FTE) benchmarked against the NSW Public Service.

Essential Energy's average sick leave days per FTE					
2006 – 2007	2007 – 2008	2008 – 2009	2009 – 2010	2010 – 2011	2011 – 2012
6.04	6.19	6.35	5.4	5.1	5.1
NSW Public Service average sick leave days per FTE					
2006 – 2007	2007 – 2008	2008 – 2009	2009 – 2010	2010 – 2011	2011 – 2012
8.17	8.41	8.11	8.13	8.01	N/A

Source: *Public Service Commission NSW Public Sector Workforce Profile; a 2011 snapshot.*

*Essential Energy e-View Pulse Survey.

Employee equity and diversity highlights

Essential Energy recognises that an employment base that reflects the diversity of our customers and communities helps to foster a productive workplace.

To achieve this, our Indigenous Programs Unit was restructured to the Equity and Diversity Unit within the HR division – fostering Essential Energy's commitment to equity and diversity across the organisation. The unit consists of three diversity program streams – Indigenous, Women and Equal Employment Opportunity (EEO).

Each stream develops and implements equity, diversity and inclusion policy initiatives in line with Federal and State anti-discrimination legislation and the *Community Relations Commission's Multicultural Policies and Services Program.*

Implementing programs and candidate outreach activities in association with related employee networks – Regional Indigenous Contact Officers, Women@Work support network and Equity and Diversity Contact Officers – assists in embedding diversity principles across the organisation and within the communities we serve.

Disability planning

Essential Energy is committed to improving access to services, facilities and jobs in the public sector for people with a disability. A tangible example of this commitment was the Return to Work program for an apprentice substation technician following his involvement in a motorcycle accident that left him a quadriplegic.

The employee's return to work involved extensive modifications to his workplace to include automatic opening doors, internal ramps and updated bathroom facilities. His workstation was also redesigned to incorporate large mouse and voice activation software to assist him in performing his duties.

Multicultural programs

In line with the principles of the *Community Relations Commission's Multicultural Policies and Services Program*, Essential Energy recognises that having an employment base that reflects the diversity of our customers helps foster a productive workplace and cost-effective customer services. We offer a telephone interpreter service, 13 14 50, and have two customer representative groups – the Regional Advisory Group (RAG) and Customer Council – with members advocating for various groups within regional communities.

Indigenous employment and development

Essential Energy continued to develop its Indigenous employees through the delivery of our *Indigenous Employment and Development Program* and participation in various corporate and regional programs.

For the reporting period, Essential Energy's Indigenous employees represented 3.6 per cent of our total workforce, compared to 3.1 per cent for the previous year. The retention rate remained at 96 per cent, steady for the last three years.

To further strengthen our focus on equity and diversity, Essential Energy held its inaugural Indigenous Network Development Workshop – *Ngan-Girra* – providing participants with training in communication, networking, mentoring, behavioural based interview techniques and Aboriginal Mental Health First Aid. The Workshop was attended by members of the Indigenous employee network, along with the Minister for Energy and Resources, the Hon. Chris Hartcher, MP, and the Minister for Aboriginal Affairs, the Hon. Victor Dominello, MP.

Human Resources
(continued)

Women's employment and development

Employment in the energy industry has traditionally been male dominated, particularly in key talent segments of field, trade, technical and para-professional roles. During 2011–2012 women made up 19 per cent of Essential Energy's workforce, with 3.9 per cent working in key talent segments.

Essential Energy launched a targeted *Women's Employment and Development Strategy* in April 2012, establishing a framework for the organisation to identify and promote career opportunities for women. The Strategy aims to:

- Create a working environment where employees feel safe, valued, challenged, included and respected
- Increase the representation of women within our workforce, particularly in key talent segments
- Recognise, invest in and proactively manage our female talent to build a sustainable supply of critical talent and capabilities
- Ensure women have a collective voice to influence strategy and our future together.

Kath Knowles Scholarship

Essential Energy established an industry scholarship with Newcastle University to encourage and support women studying electrical engineering.

The memorial scholarship celebrates the life and achievements of the late Kath Knowles, a former employee and respected community leader who championed equality and career opportunities for women within and outside Essential Energy, along with the benefits of higher education.

The inaugural recipient of the Kath Knowles Scholarship is Amanda Cottingham, a second-year Bachelor of Electrical Engineering student at the University of Newcastle.

Equal Employment Opportunity

Essential Energy values diversity and the contribution made by employees from all backgrounds. Our *Equal Employment and Diversity Guideline* and *Building a Respectful Workplace Guideline* are consistent with EEO principles and provide a framework for a fair and equitable workplace. This involves eliminating all forms of workplace vilification, discrimination, harassment and bullying.

Essential Energy employees at all locations, including our suppliers, stakeholders and contractors, are performing their duties under the guidelines, ensuring business processes such as recruitment, promotion, transfer, training and development, and conditions of service are fair and transparent.

In 2011–2012, employees with a disability represented 1.8 per cent of Essential Energy's workforce. As part of our EEO commitment we cater for their needs with special access to our major sites and ensure that all sites that undergo refurbishment are disability friendly.

Essential Energy also provides tailored programs to meet individual needs, and in 2011–2012, we successfully accommodated the special needs of employees with physical/mental disabilities, including visual impairment, quadriplegia, psychological disorders and amputees.

Essential Energy's culturally diverse employees made up 0.6 per cent of our workforce. Where appropriate, internal and external training is offered to increase retention and further their career development.

Focus areas 2012–2013

Essential Energy's equity and diversity focus areas for the coming year include:

- Update the *EEO Management Plan (2012–2016)* and *Disability Action Plan*
- Implement the *Women's Employment and Development Strategy* and align the strategy with Women@Work employee network activities
- Implement the *Indigenous Employment and Development Strategy* and explore the potential for Koori cadetships and school-based traineeships
- Complete the *Respectful Workplace Behaviours* e-learning modules on discrimination, workplace bullying and harassment, and sexual harassment
- Develop a broader *Respectful Workplace Strategy* for leaders and employees that reflects the values and behaviours within Essential Energy's new Leadership Capability Framework
- Explore the potential impacts in regional areas of social policy changes at both a State and Federal level on Essential Energy's multicultural policies and services
- Implement greater use of data and metrics to assist business decisions and increase the diversity focus in business plans to improve performance and capability
- Leverage new recruitment, talent management and HR Service Desk systems to implement more targeted equity and diversity initiatives across the business and at different stages of the employment cycle.

Parliamentary Annual Report Tables

Trends in the representation of EEO Groups				
EEO Group	**Benchmark/Target**	**2010**	**2011**	**2012**
Women	50%	19.5%	19.2%	19.1%
Aboriginal people and Torres Strait Islanders	2.6%	2.8%	3.1%	3.6%
People whose first language spoken as a child was not English	19%	0.4%	0.5%	0.6%
People with a disability	N/A	2.1%	1.9%	1.7%
People with a disability requiring work-related adjustment	1.5%	0.6%	0.6%	0.0%

Trends in the distribution of EEO Groups				
EEO Group	**Benchmark/Target**	**2010**	**2011**	**2012**
Women	100	99	98	97
Aboriginal people and Torres Strait Islanders	100	75	81	84
People whose first language spoken as a child was not English	100	N/A	114	113
People with a disability	100	106	104	105
People with a disability requiring work-related adjustment	100	106	106	N/A

Note 1: 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. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels.

Note 2: The distribution index is not calculated where EEO groups or non-EEO group numbers are less than 20.

Note 3: All data is compiled from information volunteered by employees.

Apprenticeship program

Essential Energy's apprenticeship program is the cornerstone of our employment strategy with around 1,140 new apprenticeships created since 2001.

The program aims to deliver a skilled workforce to meet our current and future workplace demands addressing the issues of industry wide skill shortages, an ageing workforce and the difficulties of recruiting and retaining qualified employees in rural communities.

In 2011–2012, comprehensive, tailored apprentice training was delivered at our training centres in Goulburn, Grafton and Parkes to 410 apprentices. The curriculum was developed in-house and delivered by our workplace trainers and assessors.

Our apprenticeship program remains a sought after employment opportunity in many regional cities and towns with 116 apprenticeships commenced in 2012. Essential Energy achieves a completion rate of 94 per cent of all apprentices who start the program and retains nine out of every 10 as qualified tradespersons.

Technical training

As a Registered Training Organisation (RTO) Essential Energy delivers technical training services to our employees as well as those in the private sector who work on or near our energy network, to ensure competency, currency and consistency across the workforce.

Essential Energy supports employees with training and assessment programs including the Apprentice Training/Assessment Program, Employee Inductions and Regulatory Assessments in areas including CPR, Pole Top Rescue, Electrical Safety Rules and Network Close Approach.

Around 3,100 employees attended 235 Regulatory Assessment days during the reporting period.

Diploma of Electrical Supply Industry

This program provides participants with engineering skills to meet the technical challenges of managing and improving Essential Energy's electricity supply network, and meeting customer service and business objectives.

Essential Energy currently has 98 employees undertaking the Diploma of Electrical Supply Industry.

During the financial year, eight participants completed this qualification and have continued their education with the Advanced Diploma or Associate Degree program.

Engineering internship

Essential Energy offers employees a combined internship and Bachelor Degree in Electrical Engineering at the University of Southern Queensland by distance learning. Seven employees are currently studying under this program.

Electrical engineering cadetship program

This program offers an opportunity for school leavers or mature-age applicants to undertake a full-time electrical engineering degree, while also receiving a broad range of work experience across Essential Energy's network services operations. During the reporting period an additional four cadets were recruited.

Human Resources
(continued)

Graduate engineers

Essential Energy has seven graduate engineers participating in this three-year program designed to further develop skills and experience by providing graduate engineers access to all practical engineering aspects of a large electricity supply business. Six participants have graduated and started permanent engineering roles within the business.

Leading Edge

The *Leading Edge Program* supports frontline leaders to drive Essential Energy's business strategy.

It is a framework for training, balanced with coaching and workplace experience, to provide skills and knowledge for effective leadership. The program includes seven workshops and related assessments over approximately 15 months.

Participants who successfully complete the program obtain qualifications in Certificate IV Frontline Management, Diploma or Advanced Diploma in Management.

Environment

Environmental Management System

Essential Energy maintained accreditation to the international standard ISO 14001:2004 *Environmental Management Systems.*

The management system provides a platform for the implementation of policy initiatives and the achievement of environmental objectives. Its scope covers the full suite of Essential Energy's operations, activities, products and services, including the planning, maintenance and redevelopment of buildings, infrastructure and equipment.

Environmental audit scores achieved 98.5 per cent against a target of 96 per cent, compared to 99 per cent in the previous year.

Waste Reduction and Purchasing Policy

The *NSW Waste Reduction and Purchasing Policy* (WRAPP) requires Essential Energy, as a State-owned corporation, to bi-annually report on the generation and disposal methods of the following waste streams:

- Paper products
- Office consumables (e.g. toner cartridges)
- Vegetation and landscaping material
- Construction and demolition material.

Essential Energy submitted its 2011 WRAPP Report to the NSW Office of Environment and Heritage in August 2011. While delivery of the Network Plan has resulted in an increase in waste generation, recycling rates for many of these wastes have either remained constant, or increased from the previous reporting period.

WRAPP Plan

All State Government agencies and State-owned corporations are required to develop and implement a WRAPP Plan to reduce waste and increase the purchase of recycled content materials under the Waste Reduction and Purchasing Policy.

Essential Energy submitted its 2012 WRAPP Plan to the Office of Environment and Heritage in February 2012. Through the Plan, Essential Energy aims to:

- Increase recycling and reduce waste
- Better manage waste through project responsibility
- Continually review and improve waste disposal practices
- Ensure that all employees, contractors and service providers are aware of their responsibilities for waste minimisation and disposal.

Waste disposal

Power poles

Essential Energy has continued to focus on reusing and recycling wastes generated through our network operations. A highlight of our reuse component of waste was the gifting of safe, used power poles to not-for-profit and community groups such as:

- Men's Sheds
- Pony Clubs
- Disability Enterprise Workshops
- Show Societies.

The poles, although not structurally sound to continue to be used on the electricity network, have been transformed into hat racks, cross-country jumps and parking bollards. Not only does the reuse of these poles support local community groups, it reduces waste being disposed of to landfill.

Mercury containing lamps

Essential Energy undertakes best industry standards in the disposal of streetlight lamps. In Australia an estimated 95 per cent of lights that contain mercury – a hazardous waste – finds its way into landfill each year. Essential Energy recycles these lamps to prevent human and long-term environmental harm.

These actions have led to Essential Energy's participation in *FluoroCycle* – a Commonwealth Government scheme administrated by the Lighting Council of Australia. The scheme aims to increase the recycling of lamps containing mercury and gives public recognition to signatories for their commitment to recycling.

Energy Efficient Luminaire Program

Essential Energy is responsible for the maintenance of around 145,000 streetlights in local government areas across regional NSW.

Our *Energy Efficient Luminaire Program* will see the potential replacement of around 88,000 inefficient streetlights across Essential Energy's distribution area over three years, with new energy efficient technologies leveraging the organisation's *Bulk Lamp Replacement Program.*

This program could save local councils in total around $2.5 million in electricity charges every year. It will also reduce carbon emissions by around 17,900 tonnes annually, equivalent to taking 5,100 cars off the road per year when completed.

Tweed Shire Council participated in the program by replacing 2,400 mercury vapour lamps with more energy efficient compact fluorescent lights during the year – reducing annual greenhouse gas emissions by more than 570 tonnes of carbon dioxide.

After the successful launch of the program in Tweed Heads, the *Energy Efficient Luminaire Program* is now being rolled out across the State, with 34 council areas signed on since July 2011.

Heritage asset management

Essential Energy has statutory obligations under the *NSW Heritage Act*, to manage its heritage assets with due diligence.

Our *Heritage Asset Management Strategy* (HAMS) was prepared in accordance with the statutory obligations administered through the Office of Environment and Heritage NSW. It assists in managing and conserving Essential Energy's heritage assets.

Essential Energy maintains a heritage register which is updated as sites are determined by the community, local councils or Essential Energy.

Essential Energy's heritage asset sites:

Heritage asset	Suburb
Oaky Zone Hydro-Electric Power Station and Dam	Armidale
Broken Hill Water Board Offices	Broken Hill
Mica Street Filtration Plant and Reservoir	Broken Hill
Former Glen Innes Power Station	Glen Innes
Northern Rivers County Council Building	Grafton (Prince Street)
Former Lismore Power Station	Lismore
Nymboida Hydro-Electric Power Station	Nymboida
Former Tenterfield Power Station	Tenterfield

Value

Essential Energy meets the challenge of delivering value for money essential services across our vast and diverse network area with a focus on productivity, efficiency and service.

Reinforcing value across all levels of the business has seen a focus on organisational productivity, workplace efficiency and business improvement to deliver cost-effective essential services to homes, farms and businesses in regional NSW.

Our Earnings Before Interest and Tax (EBIT) for this period is $571.2 million and our Return on Assets (ROA) is 8.1 per cent.

Essential Energy is aware of the impact of rising electricity prices on communities across regional NSW and we recognise our responsibility to ensure that our services are not only safe and reliable, but also delivered at the lowest reasonable cost to our customers.

To address this, on 1 July 2012 a new industry structure was implemented with a common Chair, Board and Chief Executive appointed to the three NSW network businesses – Essential Energy, Endeavour Energy and Ausgrid.

Under this new governance arrangement, Essential Energy will continue to operate as a separate organisation with a business model focused on efficient service delivery across our network area.

In the year ahead, leading into the next regulatory period, we will review all areas of capital and operating expenditure and make the business changes necessary to reduce the cost of services to ensure we provide electricity services at the lowest reasonable cost to the communities we serve.

Corporate Governance

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.

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 *Energy Services Corporation Act 1995* is administered by the Minister for Energy.

In 2011–2012 the shareholders were the Treasurer of NSW and the 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 which addresses 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.

Changes to Essential Energy's Board of Directors

A new governance structure commenced on 1 July 2012.

Under the new arrangements, a common Chairman, Directors and CEO replaced the three Chairs, Directors and CEOs at Ausgrid, Endeavour Energy and Essential Energy.

As a result, the term of the non-executive directors concluded on 30 June 2012. The new Board of Directors is as follows:

Roger Massy-Greene
Bsc, BE (Hons), MBA, FAICD

Chairman

Term:
1 July 2012 to 30 June 2015.

Peter Dodd
PhD, MSc MCom, BCom, Dip Ed

Non-Executive

Term:
1 July 2012 to 31 December 2013.

Penny Le Couteur
BSc (Hons), MAICD

Non-executive

Term:
1 July 2012 to 30 June 2013.

Barbara Ward
AM, BEc, MPol Econ, MAICD

Non-executive

Term:
1 July 2012 to 31 December 2012.

Vince Graham
BE(Civil), Grad Dip Mgmt, FAICD

Executive, Chief Executive Officer

Vince Graham was appointed CEO of Essential Energy as part of the Network Reform Program for the period 1 July 2012 to 31 December 2012.

Board of Directors to 30 June 2012

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.

Barbara Ward

AM, BEc, MPol Econ, MAICD

Non-executive, Chairman

Current appointment:
1 March 2012 to 30 September 2012. Resigned 30 June 2012. Reappointed to Essential Energy Board, 1 July 2012 to 31 December 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. Appointment concluded 30 June 2012.

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. Term completed 31 August 2011.

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

Greg McLean OAM

OAM

Non-executive, Unions NSW nominee

Current appointment:
14 October 2010 to 13 October 2013. Resigned 30 June 2012.

Member of:
Safety and Environment Committee.

Rowena Sylvester

BBus

Non-executive

Current appointment:
5 August 2010 to 4 August 2012. Resigned 30 June 2012.

Member of:
Audit and Risk Committee (Chairman).

Kevin Murray

BE Elec, Dip Business Studies, FAICD

Non-executive

Current appointment:
8 February 2011 to 7 February 2014. Resigned 30 June 2012.

Member of:
Safety and Environment Committee (Chairman).

Ralph Kelly

BCom, MBA, SF Fin, FAICD

Non-executive

Current appointment:
8 February 2011 to 7 February 2014. Resigned 30 June 2012.

Member of:
Audit and Risk Committee.

Note: Industry reform and the transition to the new State-owned corporation required that Essential Energy's Directors resign, effective 30 June 2012.

Directors' attendance at meetings	Board meetings		Committee meetings	
	Eligible	Attended	Eligible	Attended
Barbara Ward AM	9	9	8	8
Terri Benson	9	9	4	4
The Hon. Michael Lee – term completed 31 August 2011	1	1	1	1
Greg McLean OAM	9	9	4	4
Rowena Sylvester	9	8	4	4
Kevin Murray	9	9	4	4
Ralph Kelly	9	9	4	4

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 which 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.

All Essential Energy non-executive Directors, the Managing Director and other officers fitting the criteria detailed in the Treasury Policy (TPP03-6), were 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, n 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.

Professional standards

Essential Energy's Professional Standards Guidelines were developed during the reporting year to combine a number of policies into one guideline. The Guideline covers code of conduct, conflicts of interest, gifts, public interest disclosures, privacy and other professional standards previously developed and adopted by our Board.

The Guideline has been communicated throughout the organisation and applies equally to the Board, management, employees and contractors. It is available on our website, essentialenergy.com.au

Governance

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

Purpose and vision

Essential Energy has an objective to improve value for money and reduce price pressures for electricity users, through adopting measures to enhance efficiency and productivity and ensure an appropriate and cost-effective investment program.

The Essential Energy Board is also committed to ensuring that the Government's commitment is met to cap distribution and transmission businesses' dividends at the forecast dividends in the 2010-11 NSW State Budget and to ensure that dividends do not place additional pressure on prices, service quality or future reliability.

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.

Our Executive

Chairman and Board of Directors

Managing Director
Terri Benson

Executive General Manager Infrastructure Strategy
Col Ussher

Executive General Manager Engineering Services
Ken Stonestreet

Executive General Manager Infrastructure Operations
Gary Humphreys

Head of Coporate Strategy and Communications
Ben Hamilton

Executive General Manager Finance and Information Technology
Justin De Lorenzo

Risk management and insurance

Corporate risk reviews are conducted annually using input from the Strategic Planning process, the Risk Workgroup 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.

During 2011–2012, 22 material business risks were identified, assessed and their management monitored. Performance against the risks ranked as high and moderate were 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 which also monitors 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.

Essential Energy operates a Business Continuity Management (BCM) framework as part of an enterprise security and resilience structure – the term 'resilience' has been adopted in line with industry best practice to reflect that the scope of this area is broader than business continuity plans.

The BCM 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.

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.

The BCM function was reviewed as part of the internal audit program with no major issues or gaps identified. The audit noted the significant progress made since completion of the BCM Refresh project in the previous year, which introduced the new framework.

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.

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

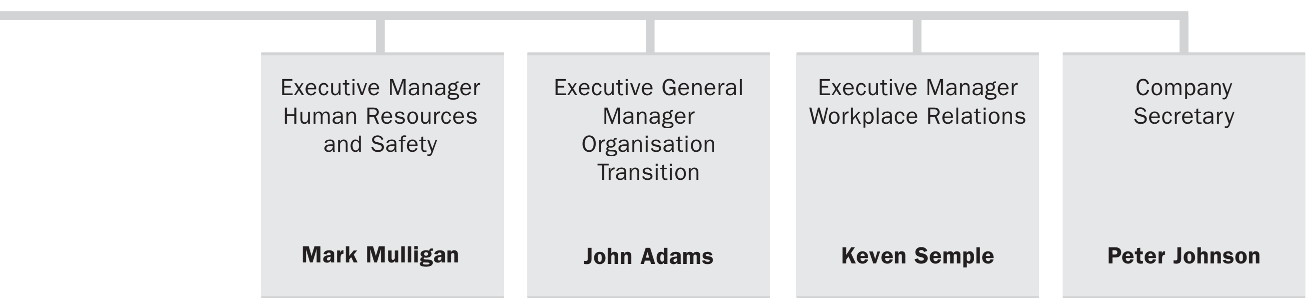
> The safety of employees, public, contractors and accredited service providers in any area of relevance to Essential Energy's activities, where reasonably under the control of Essential Energy

> 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.



Executive remuneration and performance

At the end of the 2011–2012 financial year Essential Energy employed 140 officers who received a total remuneration package equal to or exceeding the NSW Senior Executive Service Level 1 (SES1). This represents an increase of 28 on the previous year.

The number of female employees receiving a total remuneration package of SES1 or above was 27, compared to 15 last year.

Our executive remuneration policy specifically excludes bonus and 'at risk' payments and as such no bonus payments were paid to any employee during the reporting period.

Managing Director, Terri Benson, BBus, CPA – $615,000

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 2011–2012 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, BE (Hons) – $424,326

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, contestable works management, specialist engineering, streetlight management and trouble call management.

Executive General Manager Finance and Information Technology, Justin De Lorenzo, BCom, ACA, ASIA – $418,373

Seconded to the Network Electricity Reform Program (NERP) April 2012.

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 technology, strategic procurement and corporate administration.

Executive General Manager Infrastructure Operations, Gary Humphreys – $414,970

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, Dip (Elect Eng), BBus, FIE Aust – $398,403

Seconded to NERP April 2012.

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 transition services, network revenue systems, metering services, customer and market services and organisational change management.

Executive General Manager Infrastructure Strategy, Col Ussher, BE (Hons), GDipBA – $333,523

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 network strategy development, asset management system implementation, intelligent network, regulation strategy and compliance, and commercial strategy.

Executive Manager Human Resources and Safety, Mark Mulligan, MMgt – $305,381

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.

Executive Manager Workplace Relations, Keven Semple – $300,000

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 workplace relations, workplace investigations and corporate programs.

Head of Corporate Strategy and Communications, Ben Hamilton, BA (Communications – Broadcast Journalism) – $296,000

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, BBus, ACIS – $248,158

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, fraud prevention and control, and probity.

Fraud and corruption management

Essential Energy has set high standards for professional standards 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 of anonymity and protected disclosure.

In the reporting year, Essential Energy completed Professional Standards training for all employees, with 88 per cent of all employees receiving this training face-to-face.

The training provided 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 probity services to internal business units offering specialist advice and guidance in procurement and recruitment activities.

During the financial year there were four 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 which 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, 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.

Public Interest Disclosures Act

In compliance with the *Public Interest Disclosures Act 1994 NSW (PID* Act), Essential Energy has a policy for receiving, assessing and dealing with public interest disclosures.

Through the publication and distribution of the *Professional Standards Guideline* booklet and information sessions held with staff on the roll out of the Professional Standards Guidelines, our staff have been informed of the contents of the policy and the protections available under the PID Act.

During the period 1 January 2012 to 30 June 2012, Essential Energy did not receive any public interest disclosures.

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*

Type of applicant	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	1			2	1			
Members of Parliament								
Private sector business								
Not for profit organisations or community groups					1			
Members of the public (application by legal representative)								
Members of the public (other)	5	1						1

* 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 application and outcome

Type of application	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*	1							
Access applications (other than personal information applications)				1	1			
Access applications that are partly personal information applications and partly other	6	1		1				1

* 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 C: Invalid applications

Reason for invalidity	No of applications
Application does not comply with formal requirements (section 41 of the Act)	Nil
Application is excluded for information of the agency (section 43 of the Act)	Nil
Application contravenes restraint order (section 110 of the Act)	Nil
Total number of invalid applications received	Nil
Invalid applications that subsequently became valid applications	Nil

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 to Act	
Reason	**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	
Reason	**Number of occasions when application was not successful**
Responsible and effective government	N/A
Law enforcement and security	N/A
Individual rights, judicial processes and natural justice	1
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: Timeframes	
Timeframe	**Number of applications**
Decided within the statutory timeframe (20 disciplinary extensions)	11
Decided after 35 days (by agreement with applicant)	1
Not decided within time (deemed refusal)	
Total	12

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

Overseas travel

Purpose of travel	Employee name	Organisation visited	Cities	Country	Date of departure from Australia	Date of arrival into Australia
Group liability insurance scheme presentations to insurance underwriters	Lawrence Clark	Various insurance companies	Singapore, London, Hamilton	Singapore, England, Bermuda	3/09/2011	17/09/2011
Meter Reading Software Replacement Project – vendor site visit/ demonstration	Greg Toms James Byrne	DataCol and Trust Power	Auckland and Christchurch	New Zealand	26/09/2011	29/09/2011
Design review of GIS equipment	Tom Zielinski Peter Bowers Jason Streatfeild	XD Switchgear	Xian	China	19/09/2011	25/09/2011
Attendance at Global Intelligent Utility Network Coalition (GIUNC) meeting	Terri Benson Ben Hamilton	Alliander and GIUNC Members	Amsterdam	Netherlands	12/11/2011	19/11/2011
Attendance at SAP-Centric Enterprise Asset Management Conference and site visit to distribution organisation.	Deb Smith Peter Bereicua Paul Brazier	Perdernales Electric Co-op Inc.	San Antonio (TX), Johnson City (TX)	USA	2/03/2012	13/03/2012
Advanced cyber security training	Wayne Dafter	Idaho National Laboratories	Idaho Falls	USA	14/04/2012	29/04/2012
Testing of new software to cater for NECF	Paul Sinnock Deidre Kates	Hansen Technologies	Auckland	New Zealand	29/05/2012	9/06/2012

Relevant recent cases

Re Application by United Energy Distribution Pty Ltd [2012] ACompT 1

United Energy Distribution Pty Ltd (United Energy) applied to the Australian Competition Tribunal (ACT) for a review of the Australian Energy Regulator's (AER) determination as to the basis upon which electricity distribution services will be provided by United Energy in Victoria for the regulatory period 2011–2015. United Energy appealed the AER's final Electricity Distribution Price Review decision on the basis that errors were made, primarily in relation to sufficient funding for cost of capital, operational expenditure, S-factor penalty and asset-based indexation. The appeal was upheld by the ACT and United Energy reportedly stands to gain an extra $80 million in revenue over the next three years as a result.

Ergon Energy Corporation Ltd v Australian Energy Regulator [2012] FCA 393

The Federal Court considered whether street lighting services provided by Ergon Energy Corporation (Ergon) constitute a 'distribution service'. Ergon challenged the AER's ability to regulate public lighting and sought a review of the AER's determination that Ergon's street lighting services were a 'distribution service'. Ergon submitted that the AER did not have power under the National Electricity Rules (NER) to regulate street lighting services. Further, Ergon argued that street lighting services were not a 'distribution service'. The Federal Court found that Ergon's street lighting services were correctly classified by the AER as a distribution service for the purpose of the NER. The Court found that a street lighting services is 'incidental' to the supply of electricity to consumers and is therefore within the definition of 'electricity network service' (as a service provided 'in connection' with a distribution system). The Federal Court dismissed Ergon's application and ordered Ergon to pay the AER's costs.

ACCC v Energy Watch Pty Ltd [2012] FCA 425

The Federal Court found that Energy Watch Pty Ltd (Energy Watch) misled consumers in relation to its energy price comparison services and the savings that could be achieved using the service. The Court found that 80 Energy Watch advertisements, which were part of an extensive marketing campaign undertaken from January to September 2011, misled consumers in contravention of a number of sections of the Australian Consumer Law (ACL). The Court also found that Energy Watch had falsely represented the savings that consumers would make if they switch their service to Energy Watch. Energy Watch (now in liquidation) was ordered to pay $1.95 million for misleading advertising and its former CEO was ordered to pay $65,000 for his role in misleading radio advertisements.

Australian Energy Regulator v Stanwell Corporation Limited [2011] FCR 991

The case concerned a prosecution of Stanwell Corporation Limited (Stanwell) for an alleged breach of the requirement under the NER that rebids be made in good faith. Briefly, as a result of two days of extreme heat in Brisbane, electricity demands reached record levels. Stanwell used rebids to move electricity supply between low and high price bands in an effort to increase revenue based on price and volume. The AER investigated and subsequently took action against Stanwell. Rule 3.8.22A of the NER requires scheduled generators and market participants to make rebids in good faith. The AER submitted that Stanwell, in making the rebids, had in mind that if the price did not rise sufficiently another rebid would be made and therefore the rebids were not made in good faith. Stanwell submitted that a bid would be in good faith if it represented what Stanwell's trader was prepared to dispatch at the time the rebid was made. Stanwell further submitted that its traders did not, at the time of making the rebid, have an intention of displacing it with another rebid. The Court held that AER failed to demonstrate, on the balance of probabilities, that the Stanwell traders did not have a genuine intention to honour the rebids at the time they were made. The Court dismissed the AER's application and ordered the AER to pay Stanwell's costs.

Appeal by SPI Electricity Pty Ltd [2012] ACompT 11

SP AusNet applied to the ACT for a review of the AER's determination on smart meter budget and forecast charges for the period 2012 to 2015. In its October 2011 determination, the AER rejected $107 million of the $411 million spending proposed by SP AusNet to be passed onto Victorian customers on the grounds that SP AusNet had opted for more expensive technology than was necessary. The AER considered that SP AusNet should have re-evaluated its choice of technology to meet the Victorian Government's smart meter program requirements when it was evident that the costs were significantly higher than initially expected. In its appeal, SP AusNet claimed the AER made several material errors in determining that SP AusNet should have reconsidered its choice of smart meter technology. The ACT found that the AER had not erred in reaching its conclusion, but ordered the AER to amend its decision by considering the costs and delays if SP AusNet were to change to the cheaper technology.

Legislative Change

Commonwealth

Australian Energy Market Amendment (National Energy Retail Law) Act 2011 No.119 (Cth) amends the Australian Energy Market Act 2004 No.99 (Cth), the Administrative Decisions (Judicial Review) Act 1977 No.59 (Cth) and the Competition and Consumer Act 2010 1974 No.59 (Cth).

Australian National Registry of Emissions Units Act 2011 No.99 (Cth) was enacted. The Act modifies the Australian National Registry of Emissions Unit so that it can be used to track the location of units issued under the Carbon Farming Initiative, as well as to meet ongoing obligations under the Kyoto Protocol.

Australian National Registry of Emissions Units Amendment Regulation (2012) (No.1) 2012 No.76 (Cth) amends the Australian National Registry of Emissions Units Regulations 2011 No.266 (Cth).

Australian Renewable Energy Act 2011 No.151 (Cth) was enacted. The objective of the Act is to establish the Australian Renewable Energy Agency which will independently administer Australian Government funding.

Australian Renewable Energy Agency (Consequential Amendments and Transitional Provisions) Act 2011 No.152 (Cth) amends the Australian Centre for Renewable Energy Act 2010 No.18 (Cth).

Clean Energy Act 2011 (Cth) was enacted. This Act sets up the carbon pricing mechanism and deals with assistance for emissions-intensive trade-exposed industries and the coal-fired electricity generation sector.

Clean Energy Amendment Regulations (2012) (No.1) 2012 No.12 (Cth), the Clean Energy Amendment Regulations (2012) (No.2) 2012 No.51 (Cth) and the Clean Energy Amendment Regulations (2012) (No.3) 2012 No.100 (Cth) amend the Clean Energy Regulations 2011 No.221 (Cth).

Clean Energy (Consequential Amendments) Act 2011 (Cth) was enacted. This Act makes amendments to other laws to ensure that the mechanism is integrated with existing laws, regulatory schemes and processes.

Clean Energy (Consequential Amendments) Regulation 2012 No.32 (Cth) was made under the authority of the Clean Energy (Consequential Amendments) Act 2011 No.132 (Cth).

Clean Energy Finance Corporation Act 2012 No.104 (Cth) was enacted. The objective of the Act is to establish the Clean Energy Finance Corporation to facilitate increased flows of finance into the clean energy sector.

Clean Energy Legislation Amendment Act 2012 No.84 (Cth) was enacted. The Act amends the Australian National Registry of Emissions Units Act 2011 No.99 (Cth), the Australian Renewable Energy Agency Act 2011 No.151 (Cth), the Carbon Credits (Carbon Farming Initiative) Act 2011 No.101 (Cth), the Clean Energy Act 2011 No.131 (Cth), the Clean Energy Regulator Act 2011 No.163 (Cth), the Fuel Tax Act 2006 No.72 (Cth) and the National Greenhouse and Energy Reporting Act 2007 No.175 (Cth).

Clean Energy Regulator Act 2011 (Cth) was enacted. This Act sets up the Clean Energy Regulator as a statutory authority that will administer the carbon pricing mechanism, National Greenhouse and Energy Reporting Scheme, the Renewable Energy Target and the Carbon Farming Initiative.

Climate Change Authority Act 2011 (Cth) was enacted. This Act sets up the Climate Change Authority, which began on 1 July 2012. The Authority will advise the Australian Government on the setting of carbon pollution caps and periodic review of the carbon pricing mechanism and other climate change laws.

Climate Change Legislation Amendment Regulation (No.1) 2012 No.33 (Cth) amends the Renewable Energy (Electricity) Regulations 2001 No.2 (Cth).

Energy Efficiency Opportunities Amendment Regulations (2011) (No.2) 2011 No.156 (Cth) amends the Energy Efficiency Opportunities Regulations 2006 No. 160 (Cth).

Energy Grants (Cleaner Fuels) Scheme Amendment Regulations (2011) (No.1) 2011 No.194 (Cth) amends the Energy Grants (Cleaner Fuels) Scheme Regulations 2004 No.96 (Cth).

Other Clean Energy Acts: The following acts are procedural Acts that deal with the way in which charges are paid under the carbon pricing mechanism: Clean Energy (Unit Shortfall Charge General) Act 2011, Clean Energy (Unit Issue Charge Auctions) Act 2011, Clean Energy (Unit Issue Charge Fixed Charge) Act 2011, Clean Energy (Charges Excise) Act 2011, Clean Energy (Charges Customs) Act 2011, Clean Energy (International Unit Surrender Charge) Act 2011, Ozone Protection and Synthetic Greenhouse Gas (Manufacture Levy) Amendment Act 2011, Ozone Protection and Synthetic Greenhouse Gas (Import Levy) Amendment Act 2011, Clean Energy (Fuel Tax Legislation Amendment) Act 2011, Clean Energy (Excise Tariff Legislation Amendment) Act 2011, Clean Energy (Customs Tariff Amendment) Act 2011, Clean Energy (Household Assistance Amendment) Act 2011, Clean Energy (Tax Laws Amendments) Act 2011, Clean Energy (Income Tax Rates Amendments) Act 2011, Clean Energy Legislation Amendment Act 2012, Clean Energy (Customs Tariff Amendment) Act 2012, and the Clean Energy (Excise Tariff Legislation Amendment) Act 2012.

Renewable Energy (Electricity) Amendment Act 2009 No.78 (Cth) amends the Renewable Energy (Electricity) Act 2000 No.174 (Cth).

Renewable Energy (Electricity) Amendment Regulations (2012) (No.1) 2012 No.13 (Cth), the Renewable Energy (Electricity) Amendment Regulations (2012) (No.2) 2012 No.14 (Cth), the Renewable Energy (Electricity) Amendment Regulations (2012) (No.3) 2012 No.15 (Cth), the Renewable Energy (Electricity) Amendment Regulations (2011) (No.3) 2011 No.270 (Cth), the Renewable Energy (Electricity) Amendment Regulations (2011) (No.4) 2011 No.177 and the Renewable Energy (Electricity) Amendment Regulations (2011) (No.6) 2011 No.116 amend the Renewable Energy (Electricity) Regulations 2001 No.2 (Cth).

New South Wales

Clean Coal Administration Amendment Act 2011 No.29 (NSW) amends the Clean Coal Administration Act 2008 No.50 (NSW).

Electricity Generator Assets (Authorised Transactions) Act 2012 No.35 (NSW) was enacted. The object of the Act is to authorise and provide for the transfer of the State's electricity generator assets.

Electricity Supply (General) Amendment (Electricity Tariff Equalisation Fund) Regulation 2012 No.221 (NSW) amends the Electricity Supply (General) Regulation 2001 No.468 (NSW).

Electricity Supply (General) Amendment (GGAS Scheme) Regulation 2012 No.178 (NSW) amends the Electricity Supply (General) Regulation 2001 No.468 (NSW).

Electricity Supply (General) Amendment (Solar Bonus Savings) Regulation 2011 No.343 (NSW) amends the Electricity Supply (General) Regulation 2001 No.468 (NSW).

Electricity Supply (General) Amendment (Solar Feed-In Tariffs) Regulation 2012 No.169 (NSW) amends the Electricity Supply (General) Regulation 2001 No.468 (NSW).

Energy Legislation Amendment (National Energy Retail Law) Act 2012 No.38 (NSW) was enacted. The objective of the Act is to make amendments consequential on the enactment of the National Energy Retail Law (Adoption) Act 2012 (NSW) which would apply, as a law of NSW, the National Energy Retail Law.

Energy and Utilities Administration Amendment (Air Conditioners, Set-Top Boxes and Incandescent Lamps) Regulation 2012 No.154 (NSW) amends the Energy and Utilities Administration Regulation 2006 No.511 (NSW).

Energy and Utilities Administration Amendment (Minimum Energy Performance Standards) Regulation 2011 No.500 (NSW) amends the Energy and Utilities Administration Regulation 2006 No.511 (NSW).

National Energy Retail Law (Adoption) Act 2012 No.37 (NSW) was enacted. The objective of the Act is to establish a national energy customer framework for the regulation of the retail supply of energy to customers and make provision for the relationship between the distributors of energy and the consumers of energy.

Protection of the Environment Operations Amendment (Miscellaneous) Regulation 2011 No.554 (NSW) amends the Protection of the Environment Operations Act 1997 No.156 (NSW).

State Environmental Planning Policy (State and Regional Development) 2011 No.51 (NSW) was made under the authority of the Environmental Planning and Assessment Act 1979 No.203 (NSW).

Work Health and Safety Legislation Amendment Act 2011 No.67 (NSW) amends the Occupational Health and Safety Act 2000 No.40 (NSW), the Coal Industry Act 2001 No.107 (NSW), the Coal Mine Health and Safety Act 2002 No.129 (NSW), the Electricity (Consumer Safety) Act 2004 No.4 (NSW), the Radiation Control Act 1990 No.13 (NSW), and the Uranium Mining and Nuclear Facilities (Prohibitions) Act 1986 No.194 (NSW).

Victoria

Australian Consumer Law and Fair Trading Act 2012 No.21 (VIC) amends the Electricity Industry Act 2000 No.68 (VIC) and the National Electricity (Victoria) Act 2005 No.8 (VIC).

Electricity Industry Amendment (Transitional Feed-In Tariff Scheme) Act 2011 No.64 (VIC) amends the Electricity Industry Act 2000 No.68 (VIC) and the National Electricity (Victoria) Act 2005 No.8 (VIC).

Electricity Safety (Installations) Amendment (Fee) Regulations 2011 No.85 (VIC) amends the Electricity Safety (Installations) Regulations 2009 No.164 (VIC).

Electricity Safety Amendment (Bushfire Mitigation) Regulations 2011 No.110 (VIC) amends the Electricity Safety (Bushfire Mitigation) Regulations 2003 No.72 (VIC).

Energy Legislation Amendment (Bushfire Mitigation and Other Matters) Act 2011 No.59 (VIC) amends the Electricity Industry Act 2000 No.68 (VIC), the Electricity Safety Act 1998 No.25 (VIC) and the Victorian Energy Efficiency Target Act 2007 No.70 (VIC).

Victorian Energy Efficiency Target Amendment (Ductwork and Standby Power Controllers) Regulations 2011 No.56 (VIC) amends the Victorian Energy Efficiency Target Regulations 2008 No.158 (VIC).

Victorian Energy Efficiency Target Amendment (In-Home Displays) Regulations 2012 No.14 (VIC) amends the Victorian Energy Efficiency Target Regulations 2008 No.158 (VIC).

Victorian Energy Efficiency Target Amendment (Prescribed Activities) Regulations 2012 No.6 (VIC) and the Victorian Energy Efficiency Target Amendment (Prescribed Activities) Regulations 2011 No.146 (VIC) amend the Victorian Energy Efficiency Target Regulations 2008 No.158 (VIC).

Queensland

Electricity Amendment Regulation (No.2) 2011 No.254 (QLD), the Electricity Amendment Regulation (No.2) 2011 No.255 (QLD) and the Electricity Amendment Regulation (No.2) 2011 No.235 (QLD) amend the Electricity Regulation 2006 No.200 (QLD).

Electricity Price Reform Amendment Act 2011 No.29 (QLD) amends the Electricity Act 1994 No.64 (QLD) and the Electricity Regulation 2006 No.200 (QLD).

Electrical Safety Amendment Regulation (No.1) 2011 No.107 (QLD) amends the Electrical Safety Regulation 2002 No.260 (QLD).

Geothermal Energy (Postponement) Regulation 2011 No.156 (QLD) was made under the authority of the Geothermal Energy Act 2010 No.31 (QLD).

Geothermal Energy Regulation 2012 No.6 (QLD) was made under the authority of the Geothermal Energy Act 2010 No.31 (QLD).

South-East Queensland Water (Distribution and Retail Restructuring) and Other Legislation Amendment Act 2012 No.1 (QLD) amend the Energy and Water Ombudsman Act 2006 No.61 (QLD).

South Australia

Electricity (Miscellaneous) Amendment Act 2011 No.24 (SA) amends the Electricity Act 1996 No.96 (SA) and the National Electricity (South Australia) Act 1996 No.44 (SA).

Electrical Products (Energy Products) Amendment Act 2011 No.33 (SA) amends the Electrical Products Act 2000 No.78 (SA).

Electrical Products Variation Regulations 2011 No.217 (SA) amends the Electrical Products Regulations 2001 No.224 (SA).

National Energy Retail Law (South Australia) (Implementation) Amendment Act 2012 No.16 (SA) amends the National Energy Retail Law (South Australia) Act 2011 No.6 (SA).

Subordinate Legislation (Postponement of Expiry) Regulations 2011 No.204 (SA) amends the Electricity (General) Regulations 1997 No.161 (SA), the Electricity Corporations (Restructuring and Disposal) Regulations 1999 No.159 (SA), the Radiation Protection and Control (Ionising Radiation) Regulations 2000 No.194 (SA), and the Roxby Downs (Local Government Arrangement) Regulations 1997 No.194 (SA).

Western Australia

Electricity Amendment Regulations 2012 (WA) amends the Electricity Regulations 1947 (WA).

Energy Coordination (Ombudsman Scheme) Amendment Regulations (No.2) 2011 (WA) amends the Energy Coordination (Ombudsman Scheme) Regulations 2004 (WA).

Electricity Industry (Wholesale Electricity Market) Amendment Regulations 2012 (WA), the Electricity Industry (Wholesale Electricity Market) Amendment Regulations (No.2) 2012 and the Electricity Industry (Wholesale Electricity Market) Amendment Regulations 2011 (WA) amend the Electricity Industry (Wholesale Electricity Market) Regulations 2004 (WA).

Electricity (Licensing) Amendment Regulations 2012 (WA) and the Electricity (Licensing) Amendment Regulations (No.3) 2011 (WA) amends the Electricity (Licensing) Regulations 1991 (WA) to increase the fees for an application for a particular licences or permits issued under the Regulations.

Energy Operators (Electricity Retail Corporation) (Charges) Amendment By-Laws 2011 (WA) amends the Energy Operators (electricity Retail Corporation) (Charges) By-Laws 2006 (WA) to increase various fees and charges.

Energy Operators (Regional Power Corporation) (Charges) Amendment By-Laws 2011 (WA) amends the Energy Operators (Regional Power Corporation) (Charges) By-Laws 2006 (WA) to increase various fees and charges.

Electricity (Supply Standards and System Safety) Amendment Regulations 2012 (WA) amends the Electricity (Supply Standards and Systems Safety) Regulations 2001 (WA).

Personal Property Securities (Consequential Repeals and Amendments) Act 2011 No.42 (WA) was enacted. The Act affects the Chattel Securities Act 1987 No.101 (WA), the Co-operatives Act 2009 No.24 (WA), the Electricity Industry Act 2004 No.5 (WA) and the Energy Coordination Act 1994 No.71 (WA).

Petroleum and Geothermal Energy Safety Levies Act 2011 No.50 (WA) was enacted. The Act seeks to establish ample long term funding towards regulating occupational safety and health for the petroleum and geothermal energy industry in WA.

Northern Territory

Commercial Arbitration (National Uniform Legislation) Act 2011 No.23 (NT) *r*epealed and replaced the Commercial Arbitration Act. The new legislation affects various NT laws such as the Electricity Networks (Third Party Access) Act 2000 No.11 (NT).

Electricity Reform (Administration) Amendment Regulations 2012 No.10 (NT) amends the Electricity Reform (Administration) Regulations 2000 No.15 (NT).

Utilities Commission Amendment Regulations (No.2) 2011 No.51 (NT) amends the Utilities Commission Regulations 2001 No.30 (NT).

Tasmania **Electricity Supply Industry (Price Control) Amendment Regulations 2012 No.23 (TAS)** amends the Electricity Supply Industry (Price Control) Regulations 2003 No.54 (TAS).

Electricity Supply Industry Restructuring (Savings and Transitional Provisions) Amendment Act 2011 No.17 (TAS) amends the Electricity Supply Industry Restructuring (Savings and Transitional Provisions) Act 1995 No.49 (TAS).

National Energy Retail Law (Tasmania) Act 2012 No.11 (TAS) amends the Electricity – National Scheme (Tasmania) Act 1999 No.28 (TAS), the Electricity Supply Industry Act 1995 No.58 (TAS) and the Energy Ombudsman Act 1998 No.20 (TAS).

National Energy Retail Law (Tasmania) (Consequential Amendments) Act 2012 No.9 (TAS) amends the Electricity – National Scheme (Tasmania) Act 1999 No.28 (TAS), the Electricity Supply Industry Act 1995 No.58 (TAS) and the Energy Ombudsman Act 1998 No.20 (TAS).

Australian Capital Territory

Electricity Feed-In (Large-scale Renewable Energy Generation) Act 2011 No.56 (ACT) was enacted. The purpose of the Act is to establish a scheme to support the development of up to 210 MW of large-scale renewable energy generation capacity for ACT.

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

Energy Efficiency (Cost of Living) Improvement Act 2012 No.17 (ACT) was enacted. The Act proposes to reduce greenhouse gas emissions and costs associated with the production and use of energy by requiring electricity suppliers in the ACT to meet emissions reduction targets through energy efficiency activities.

National Energy Retail Law (ACT) Act 2012 No.31 (ACT) was enacted. The objective of the Act is to establish a national energy customer framework for the regulation of the retail supply of energy to customers and make provision for the relationship between the distributors of energy and the consumers of energy.

National Energy Retail Law (Consequential Amendments) Act 2012 No.32 (ACT) was enacted. The objective of the Act is to make amendments consequent to the National Energy Retail (ACT) Act 2012.

Planning and Building Legislation Amendment Act 2011 No.23 (ACT) amends the Building Act 2004 (ACT), the Construction Occupations (Licensing) Act 2004 (ACT), the Electricity Safety Act 1971 (ACT), the Gas Safety Act 2000 (ACT), the Gas Safety Regulation 2001(ACT), the Planning and Development Act 2007 (ACT), the Planning and Development Regulation 2008 (ACT), the Surveyors Act 2007 (ACT), the Unit Titles Act 2001 (ACT), and the Unit Titles Regulation 2001 (ACT).

Planning and Development Amendment Regulation (No.2) 2012 No.19 (ACT) amends the Planning and Development Regulation 2008 No.2 (ACT).

Statute Law Amendment Act (No.3) 2011 No.52 (ACT) amends the Electricity (Greenhouse Gas Emissions) Act 2004 No.71 (ACT), the Electricity (Greenhouse Gas Emissions) Regulation 2004 No.60 (ACT), the Electricity Feed-In (Renewable Energy Premium) Act 2008 No.21 (ACT) and the Independent Competition and Regulatory Commission Act 1997 No.77 (ACT).

2011 – 2012 Financial Statements

Contents

AUDITOR-GENERAL
NEW SOUTH WALES

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 2012, 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 2012, 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.

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 control 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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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

Peter Achterstraat
Auditor-General

11 September 2012
SYDNEY

Statement by Directors

STATEMENT BY DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2012

Pursuant to Section 41C of the *Public Finance and Audit Act 1983,* we state that in the opinion of the Directors of Essential Energy:

(a) The accompanying financial statements and notes are a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010*, any Accounting Interpretations, and give a true and fair view of the financial position of Essential Energy as at 30 June 2012 and its financial performance for the year ended on that date.

(b) At the date of this statement, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

(c) We are not aware of any circumstances at the date of the statement that would render any particulars included in the financial report to be misleading or inaccurate.

This declaration is made in accordance with a resolution of the Board of Directors.

....	....
Roger Massy-Greene	**Vince Graham**
Director	Director
5 September 2012	5 September 2012

Income Statements

For the year ended 30 June 2012

	NOTE	Consolidated 2012 $'000	Consolidated 2011 $'000	Corporation 2012 $'000	Corporation 2011 $'000
Continuing operations					
Revenue	2	1,834,478	1,464,319	1,834,478	1,458,338
Other income, excluding fair value movements in financial instruments	2	3,535	9,236	3,535	22,693
Total revenue and other income		**1,838,013**	**1,473,555**	**1,838,013**	**1,481,031**
Cost of sale and delivery of energy		(457,934)	(407,170)	(457,934)	(401,021)
Employee benefits expense		(485,047)	(404,569)	(485,047)	(404,569)
Depreciation and amortisation expense	2	(323,834)	(307,455)	(323,834)	(305,846)
Finance costs	2	(351,775)	(288,173)	(351,775)	(288,173)
Other expenses	2	(12,981)	(7,981)	(12,981)	(7,981)
Total expenses		**(1,631,571)**	**(1,415,348)**	**(1,631,571)**	**(1,407,590)**
Profit before income tax and fair value movements in financial instruments		**206,442**	**58,207**	**206,442**	**73,441**
Income tax on profit before income tax and fair value movements in financial instruments	3	(54,927)	(15,548)	(54,927)	(14,670)
Profit before fair value movements in financial instruments		**151,515**	**42,659**	**151,515**	**58,771**
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	2	1,989	1,933	1,989	1,933
Income tax on gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	3	(597)	(580)	(597)	(580)
Profit for the year from continuing operations		**152,907**	**44,012**	**152,907**	**60,124**
Discontinued operations					
Revenue – sale of energy		(151)	830,946	(151)	836,369
Other income		-	570	-	570
Total revenue and other income		**(151)**	**831,516**	**(151)**	**836,939**
Cost of sale of energy		2,547	(712,519)	2,547	(717,942)
Total cost of sales		**2,547**	**(712,519)**	**2,547**	**(717,942)**
Profit before income tax and fair value movements in financial instruments		**2,396**	**118,997**	**2,396**	**118,997**
Income tax on profit before income tax and fair value movements in financial instruments	3	-	(27,497)	-	(27,497)
Profit before fair value movements in financial instruments		**2,396**	**91,500**	**2,396**	**91,500**
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	2	-	5,143	-	5,143
Income tax on gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	3	-	(1,543)	-	(1,543)
Profit for the year from discontinued operations		**2,396**	**95,100**	**2,396**	**95,100**
Gain/(loss) on disposal of operation	25	(963)	1,075,742	(963)	1,075,742
Profit for the year from discontinued operations		**1,433**	**1,170,842**	**1,433**	**1,170,842**
Profit for the year		**154,340**	**1,214,854**	**154,340**	**1,230,966**

The accompanying notes form part of these Income Statements.

Statements of Comprehensive Income

For the year ended 30 June 2012

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Profit for the year		**154,340**	**1,214,854**	**154,340**	**1,230,966**
Other comprehensive income					
Cash flow hedges:					
Gains/(losses) on cash flow hedges recognised directly to equity	1.6.1	(299)	(59,723)	(299)	(59,723)
(Gains)/losses transferred from the cash flow hedge reserve to cost of sales	1.6.1	(751)	24,307	(751)	24,307
(Gains)/losses transferred to income statement on disposal of Retail business	25.1	-	92,847	-	92,847
Tax effect of net changes in fair value of cash flow hedges		315	(17,229)	315	(17,229)
Superannuation actuarial adjustment:					
Superannuation actuarial gains/(losses) and changes in surplus in excess of recovery available from scheme	24	(141,233)	456	(141,233)	456
Income tax on superannuation actuarial gains/(losses) and changes in surplus in excess of recovery available from scheme		42,370	(137)	42,370	(137)
Other comprehensive gain/(loss) for the year		**(99,598)**	**40,521**	**(99,598)**	**40,521**
Total comprehensive gain/(loss) for the year		**54,742**	**1,255,375**	**54,742**	**1,271,487**

The accompanying notes form part of these Statements of Comprehensive Income.

Statements of Financial Position

As at 30 June 2012

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current assets					
Cash and cash equivalents	5	96,119	5,868	96,119	5,868
Trade and other receivables	6	154,427	212,889	154,427	212,889
Estimated revenue from unread meters	1.8.1	198,681	127,484	198,681	127,484
Inventories	1.9.5	32,986	33,387	32,986	33,387
Intangibles – green certificates	16	1,540	9,393	1,540	9,393
Derivative financial instruments	7	13,312	4,406	13,312	4,406
Total current assets		**497,065**	**393,427**	**497,065**	**393,427**
Non-current assets					
Trade and other receivables	6	866	3,110	866	3,110
Investment property	8	3,834	3,834	3,834	3,834
Property, plant and equipment	10	6,792,198	6,278,650	6,792,198	6,278,650
Intangible assets	11	93,436	83,124	93,436	83,124
Other assets	9	893	937	893	937
Total non-current assets		**6,891,227**	**6,369,655**	**6,891,227**	**6,369,655**
Total assets		**7,388,292**	**6,763,082**	**7,388,292**	**6,763,082**
Current liabilities					
Trade and other payables	12	361,696	303,489	361,696	303,489
Deposits	1.13.2	97	172	97	172
Interest bearing liabilities	13	217,588	137,035	217,588	137,035
Income tax payable	4	64,794	85,226	64,794	85,226
Provisions – green certificates	16	318	9,669	318	9,669
Other provisions	14	328,496	253,306	328,496	253,306
Derivative financial instruments	7	2	47,744	2	47,744
Other liabilities	15	1,219	2,056	1,219	2,056
Total current liabilities		**974,210**	**838,697**	**974,210**	**838,697**
Non-current liabilities					
Interest bearing liabilities	13	3,948,521	3,503,635	3,948,521	3,503,635
Deferred tax liabilities	4	332,633	413,072	332,633	413,072
Provisions	14	90,245	80,902	90,245	80,902
Other liabilities	15	236,771	108,309	236,771	108,309
Total non-current liabilities		**4,608,170**	**4,105,918**	**4,608,170**	**4,105,918**
Total liabilities		**5,582,380**	**4,944,615**	**5,582,380**	**4,944,615**
Net assets		**1,805,912**	**1,818,467**	**1,805,912**	**1,818,467**
Equity					
Contributed equity		130,485	130,485	130,485	130,485
Hedge revaluation reserve		349	1,084	349	1,084
Asset revaluation reserve		1,159,466	1,159,466	1,159,466	1,159,466
Retained profits		515,612	527,432	515,612	527,432
Total equity		**1,805,912**	**1,818,467**	**1,805,912**	**1,818,467**

The accompanying notes form part of these Statements of Financial Position.

Statements of Changes in Equity

For the year ended 30 June 2012

Consolidated	NOTE	Contributed Equity $'000	Asset Revaluation Reserve $'000	Hedge Revaluation Reserve $'000	Retained Profits $'000	Total Equity $'000
Balance at 1 July 2010		130,485	1,159,466	(39,118)	526,059	1,776,892
Total comprehensive income for the year		-	-	40,202	1,215,173	1,255,375
Special dividend paid	1.13.8	-	-	-	(1,172,600)	(1,172,600)
Ordinary dividends provided	1.13.8	-	-	-	(41,200)	(41,200)
Balance at 30 June 2011		**130,485**	**1,159,466**	**1,084**	**527,432**	**1,818,467**
Balance at 1 July 2011		130,485	1,159,466	1,084	527,432	1,818,467
Total comprehensive income for the year		-	-	(735)	55,477	54,742
Ordinary dividend provided	1.13.8	-	-	-	(67,297)	(67,297)
Balance at 30 June 2012		**130,485**	**1,159,466**	**349**	**515,612**	**1,805,912**

Corporation	NOTE	Contributed Equity $'000	Asset Revaluation Reserve $'000	Hedge Revaluation Reserve $'000	Retained Profits $'000	Total Equity $'000
Balance at 1 July 2010		130,485	1,159,466	(39,118)	509,947	1,760,780
Total comprehensive income for the year		-	-	40,202	1,231,285	1,271,487
Special dividend paid	1.13.8	-	-	-	(1,172,600)	(1,172,600)
Ordinary dividends provided	1.13.8	-	-	-	(41,200)	(41,200)
Balance at 30 June 2011		**130,485**	**1,159,466**	**1,084**	**527,432**	**1,818,467**
Balance at 1 July 2011		130,485	1,159,466	1,084	527,432	1,818,467
Total comprehensive income for the year		-	-	(735)	55,477	54,742
Ordinary dividend provided	1.13.8	-	-	-	(67,297)	(67,297)
Balance at 30 June 2012		**130,485**	**1,159,466**	**349**	**515,612**	**1,805,912**

The Asset Revaluation Reserve comprises increments and decrements resulting from revaluations of land and buildings $35.776 million ($35.776 million in 2011), and system assets $1,123.690 million ($1,123.690 million in 2011). 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 Flows

For the year ended 30 June 2012

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash flows from operating activities					
Receipts from customers		1,855,696	2,315,054	1,855,696	2,320,477
Payments to suppliers and employees		(1,044,722)	(1,645,905)	(1,044,722)	(1,651,328)
Interest received		536	3,367	536	3,367
Interest and other costs of finance paid		(295,851)	(271,369)	(295,851)	(271,369)
Income tax paid		(113,709)	(116,828)	(113,709)	(116,828)
Net operating cash flows	18	**401,950**	**284,319**	**401,950**	**284,319**
Cash flows from investing activities					
Payments for property, plant and equipment	1.11.4	(762,291)	(721,590)	(762,291)	(721,590)
Proceeds from sale of property, plant and equipment		13,486	13,608	13,486	13,608
Purchase of non-current intangible assets		(37,318)	(24,670)	(37,318)	(24,670)
Repayment of loan by sale of subsidiary		-	56,500	-	56,500
Proceeds from sale of business		(21,039)	1,289,640	(21,039)	1,289,640
Net cash (outflows)/inflows from investing activities		**(807,162)**	**613,488**	**(807,162)**	**613,488**
Cash flows from financing activities					
Proceeds from borrowings		529,267	316,231	529,267	316,231
Net community service obligations received/(paid)		460	(351)	460	(351)
Dividends paid		(41,200)	(1,220,200)	(41,200)	(1,220,200)
Net cash inflows/(outflows) from financing activities		**488,527**	**(904,320)**	**488,527**	**(904,320)**
Net increase/(decrease) in cash held		**83,315**	**(6,513)**	**83,315**	**(6,513)**
Cash and cash equivalents at the beginning of the financial year		(1,888)	4,625	(1,888)	4,625
Cash and cash equivalents at the end of the financial year	18	**81,427**	**(1,888)**	**81,427**	**(1,888)**

The accompanying notes form part of these Statements of Cash Flows.

Notes to Financial Statements

For the year ended 30 June 2012

Note 1: Summary of significant Accounting Policies

The significant policies which have been adopted in the preparation of the financial statements are:

1.1 Reporting Entity

Essential Energy (the Corporation) was formed on 1 July 2001 as Country Energy. Country Energy was formed 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 Country Energy and Australian Inland Energy Water Infrastructure (Australian Inland), a New South Wales State Owned Corporation. On 1 March 2011 the Country Energy retail business and name was sold. The remaining business was renamed Essential Energy.

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 Basis of preparation

The accompanying statements are 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 (refer Note 19.1.2).

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 23.

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 2012 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 are those 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 2011, the Group has adopted the following standards and interpretations, and all consequential amendments, which became applicable on 1 July 2011.

1.5.1.1 New and revised AIFRS affecting the reported financial performance and/ or financial position

- AASB112: *Income Taxes,* revised 2010
- AASB118: *Revenue,* revised 2010
- AASB119: *Employee Benefits,* revised 2011
- AASB121: *The Effects of Changes in Foreign Exchange Rates,* revised in 2011
- AASB137: *Provisions, Contingent Liabilities and Contingent Assets,* revised 2010
- AASB139: *Financial Instruments: Recognition and Measurement,* revised 2010
- AASB140: *Investment Property,* revised 2010.

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.

- AASB3: *Business Combinations,* revised in 2010
- AASB4: *Insurance Contracts,* revised in 2010
- AASB5: *Non-Current Assets Held for Sale and Discontinued Operations,* revised in 2011
- AASB7: *Financial Instruments: Disclosure,* revised in 2010
- AASB8: *Operating Segments,* revised in 2009
- AASB101: *Presentation of Financial Statements,* revised 2011
- AASB107: *Statement of Cash Flows,* revised in 2011
- AASB108: *Accounting Policies, Changes in Accounting Estimates and Errors,* revised in 2011
- AASB110: *Events after the Reporting Period,* revised in 2009
- AASB124: *Related Party Disclosures,* revised in 2009
- AASB132: *Financial Instruments: Presentation,* revised in 2011
- AASB1023: *General Insurance Contracts*, revised in 2010
- AASB1031: *Materiality,* revised in 2009
- AASB1054: *Australian Additional Disclosures*
- 2010-6: *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* [AASB 1 and AASB 7]
- 2010-9: *Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [AASB 1]
- 2011-1: *Amendments to Australian*

Note 1: Significant Accounting Policies (continued)

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]

- 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]
- 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]
- 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]
- 2011-5: *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation* [AASB 127, AASB 128 and AASB 131].

1.5.2 Significant accounting judgements, estimates and assumptions

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

Restructuring provision (stranded costs)

The stranded costs provision is a direct result of Retail affected employees being retained (stranded) after the end of the Transition Services Agreement (TSA) in which they will provide no value add to the Network business.

This provision a direct reflection of the costs of the stranded employees for the period in which those employees do not value add to the Essential Energy business, generally the period after the completion of the TSA until they either leave the organisation or find a value add role within the organisation. The process in measuring this provision requires management judgement in making estimations based on experience and existing plans.

The key drivers of the provision are as follows:

- *Number of affected employees:* the number of Retail employees retained (stranded) after the end of the TSA in which they will provide no value add to the Network business
- *Total unavoidable costs:* the unavoidable costs for Retail employees retained (stranded) after the end of the TSA in which they will provide no value add to the Network business
- *Natural attrition rate:* the rate at which employees of similar skills to the Retail affected employees have historically exited the business
- *Discount rate:* the rate at which future cash flows have been discounted.

At 30 June 2012 there were a number of improvements in the information available and changes in the industry which affect the provision.

The announcement of the Industry Reform (refer Note 27) has had a direct impact on the application of natural attrition on the stranded provision. The effect of Industry Reform has restricted the expected future availability of vacancies and in turn the expediency in which stranded employees can be absorbed into the business. This deferral lengthens and increases the total cost of the provision.

1.6 Historical cost

These financial statements have been prepared under the historical costs basis, modified to be compliant with AIFRS in the cases of:

- Assets measured at fair value, 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.

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.

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.

Notes to Financial Statements

For the year ended 30 June 2012

Note 1: Significant Accounting Policies (continued)

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.

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 2012. The assets were last tested for impairment at 30 June 2010.
- **Intangible assets**
  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.

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.

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 services provided.

Revenue relating to the Corporation's core operations is classified as Network Use of System (NUOS) revenue. Revenue from other business activities is classified as other revenue (refer Note 2).

1.8.1 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). The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared, however, existing circumstances and assumptions about future developments may change due to consumer behaviour or circumstances arising beyond the control of the Corporation. Major assumptions included in the model in calculating the unread meters revenue accrual include assumptions about Distribution Loss Factors (DLF) and average tariff rates.

Prior to the sale of the Retail business on 1 March 2011 (refer Note 25) the model to calculate the unread meters accrued was Retail centric. Subsequent to the Retail business sale a Network Services business model for unread meters accrual was developed and applied for the 30 June 2011 financial statements. During the year ended 30 June 2012 further development of this model has continued. Such improvements in methodology developed include the ability to measure and utilise Essential Energy's own DLF experience and improvements have been developed in the capability in estimating average tariff rates by segment.

The determination of inputs used is based on historical trends and revenue accrued is materially sensitive to minor movements in DLF and average tariff rates used. An increase in one percentage point in DLF or a 10% change in average tariff rates will result in a change in accrued revenue of $10.616 million and $15.783 million respectively.

1.8.2 Finance revenue

The following transactions are recognised as finance revenue and are recorded in the Income Statement:

- Interest received or receivable on futures deposits (refer Note 1.9.8)
- 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' (refer Note 19.1.3.2)
- Net gain on foreign currency contracts that are classified as financial instruments.

1.8.3 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.

1.8.4 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 Cash Flow Statement these revenues are not recognised as cash inflows (refer Note 1.11.4).

1.8.5 Changes in valuation of TCorp investments

All New South Wales Treasury Corporation (TCorp) investments are held in TCorp's Hour Glass Cash Facility (refer Note 1.9.2). In accordance with a NSW Treasury mandate, movements in the value of this facility are disclosed as finance 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).

Note 1: Significant Accounting Policies (continued)

For the purposes of the Cash Flow Statement, cash includes cash assets net of bank overdraft excluding restricted cash (refer Note 18).

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 19.1).

- **TCorp investments**
  Investments held in TCorp's Hour Glass Cash 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 and other debtors and prepayments.

- **Debtors**
  Trade and other 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 and other 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 12 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 1.8.1).

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 19).

1.9.8 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 12 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 12 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 24).

1.10.2 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 January 2012. 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 8).

1.10.3 Investments in subsidiaries

Shares held by the Corporation in its subsidiaries are recorded at cost and are eliminated in the consolidated financial statements.

1.10.4 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 20).

1.10.5 Other assets

Non-current other assets are assets whose economic benefit is expected to be realised in a period longer than 12 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 9).

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
- 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

Notes to Financial Statements

For the year ended 30 June 2012

Note 1: Significant Accounting Policies (continued)

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.

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, and prior to the release of NSW Treasury Circular NSW TC 12/05*: Fair Value of Specialised Physical Assets* released March 2012, TPP 07-1 initially required 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.

In accordance with TPP07-1, 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 Note 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.

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. At 30 June 2012 this assessment was conducted using the income approach in accordance with NSW TC12/05. 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. No revaluation was deemed necessary for the 2011-12 year.

1.11.2 Land and buildings

At 30 June 2012 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 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.

Non-system assets purchased below $600 are expensed as acquired. All cost of assets constructed by the Essential Energy Group (system assets) are capitalised. This includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and a proportion of overhead is allocated on the basis of labour hours.

Assets that are contributed by customers are recorded at fair value. In the Cash Flow Statement the acquisition of these assets is not recognised as purchases of property, plant and equipment (refer Note 1.8.4).

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.

Note 1: Significant Accounting Policies (continued)

1.12 Valuation of intangible assets

Intangible assets are identifiable non physical assets that have been acquired or developed by the Corporation. These are recorded at amortised cost (refer Note 11). The intangible assets form part of the assets of a number of CGUs.

1.12.1 Natural Gas business licence

The licence was acquired when the former Great Southern Energy purchased the Natural Gas Business from the Council of the City of Wagga Wagga. This licence is an entitlement to distribute and retail natural gas within the Wagga Wagga region, as well as to other contestable markets.

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.

1.13 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 12).

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. 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 13).

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 12 months or where there is no unconditional right to defer settlement of the obligation (refer Note 14). Non-current provisions are those amounts that are expected to be paid after 12 months and where there exists an unconditional right to defer settlement beyond 12 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 December 2011 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.

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 24). 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 and Statement of Comprehensive Income. 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

Notes to Financial Statements

For the year ended 30 June 2012

Note 1: Significant Accounting Policies (continued)

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 14).

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 14).
- **Special**
  A special dividend of $1.1726 billion was paid at 30 June 2011 representing the proceeds from the sale of the Retail business less estimated costs of the sale (refer Note 25).

1.13.9 Derivative liabilities

Derivative liabilities are recognised in the course of energy trading and debt management (refer Notes 7 and 19).

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 12 months of receipt of the revenue. The liability is classified as current. It is measured at cost and is not amortised (refer Note 15).
- **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. Decreases in fair value of previously revalued assets is treated as a revaluation decrease and is recognised as a reduction in the asset revaluation reserve to the extent that the decrease in fair value does not exceed the amount in the asset revaluation reserve for the same asset.

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 12 months after the date of acquittal. These assets are not amortised because the amortisation adjustment would not be material.

- **Energy Saving Certificates (ESCs)**
  The New South Wales 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.
- **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 16.

Note 1: Significant Accounting Policies (continued)

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 13)
- 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 14)
- 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 10 year period. These forecasts are a component of the Corporation's SCI which is a 10 year business plan prepared by the Corporation's management and approved by its Shareholders. The use of 10 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, 10 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).

Notes to Financial Statements

For the year ended 30 June 2012

Note 1: Significant Accounting Policies (continued)

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**
  Subsequent to the sale of the Retail business on 1 March 2011, the Group has one reportable business segment, that being the distribution of electricity.
- **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

These 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 19.1.3.1).

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.

AASB number	AASB title	Application date for the group
9	Financial Instruments	1 July 2013
10	Consolidated Financial Statements	1 July 2013
11	Joint Arrangements	1 July 2013
12	Disclosure of Interests in Other Entities	1 July 2013
13	Fair Value Measurement	1 July 2013
119	Employee Benefits	1 July 2013
127	Separate Financial Statements	1 July 2013
128	Investments in Associates and Joint Ventures	1 July 2013
1053	Application of Tiers of Australian Accounting Standards	1 July 2013

Note 1: Significant Accounting Policies (continued)

AASB number	AASB title	Application date for the group
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 & Interpretations 10 & 12] [Superseded by AASB 2010-7]	1 July 2013
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 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052]	1 July 2013
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 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	1 July 2013
2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	1 July 2012
2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054]	1 July 2013
2010-10	Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7]	1 July 2013
2011-3	Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]	1 July 2012
2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	1 July 2013
2011-6	Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements [AASB 127, AASB 128 & AASB 131]	1 July 2013
2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17]	1 July 2013
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 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]	1 July 2013
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 & 1049]	1 July 2012
2011-10	Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011-8 and Interpretation 14]	1 July 2013
2011-11	Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements	1 July 2013
2011-12	Amendments to Australian Accounting Standards arising from Interpretation 20 [AASB 1]	1 July 2013
2011-13	Amendments to Australian Accounting Standard – Improvements to AASB 1049	1 July 2012
2012-1	Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements [AASB 3, AASB 7, AASB 13, AASB 140 & AASB 141]	1 July 2013
2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 7 & AASB 132]	1 July 2013
2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132]	1 July 2014
2012-4	Amendments to Australian Accounting Standards – Government Loans [AASB 1]	1 July 2013
2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle [AASB 1, AASB 101, AASB 116, AASB 132 & AASB 134 and Interpretation 2]	1 July 2013

(a) Standards and Interpretations that are not yet operative and have no application to the Group.

Notes to Financial Statements

For the year ended 30 June 2012

Note 1: Significant Accounting Policies (continued)

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 & 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.

Note 2: Components of revenue and expenses

	NOTE	Consolidated 2012 $'000	Consolidated 2011 $'000	Corporation 2012 $'000	Corporation 2011 $'000
Revenue from continuing operations					
Network use of system income		1,737,614	1,373,934	1,737,614	1,367,955
Developer and customer contributions	1.8.4	73,516	57,063	73,516	57,061
Rental income	1.10.2	603	817	603	817
Other revenue		22,274	23,675	22,274	23,675
Other finance revenue	1.8.2	470	8,830	470	8,830
Total operating revenue from continuing operations		**1,834,478**	**1,464,319**	**1,834,478**	**1,458,338**
Other Income from continuing operations					
Net gains on disposal of property, plant and equipment	1.8.3	3,535	2,738	3,535	2,738
Net gains on sale of business		-	6,498	-	19,955
Change in fair value of investment properties	1.10.2	-	-	-	-
Total other income from continuing operations		**3,535**	**9,236**	**3,535**	**22,693**
Finance costs from continuing operations					
Interest expense		305,052	287,987	305,052	287,987
Net unrealised losses on valuation of interest rate futures		-	79	-	79
Net realised losses on interest rate futures		44,059	-	44,059	-
Discount expense applied to provisions and amortised assets		2,664	107	2,664	107
Total finance costs from continuing operations	1.15	**351,775**	**288,173**	**351,775**	**288,173**
Other expenses from continuing operations					
Write off of non financial assets		8,364	-	8,364	-
Impairment losses on non financial assets *	1.7.2	4,617	7,981	4,617	7,981
Total other expenses from continuing operations		**12,981**	**7,981**	**12,981**	**7,981**
Continuing operations fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements					
Net unrealised gain on valuation of interest rate futures		1,928	-	1,928	-
Change in fair value of TCorp investments	1.8.5	66	1,933	66	1,933
Net gain/(loss) on foreign exchange	1.24	(5)	-	(5)	-
		1,989	**1,933**	**1,989**	**1,933**
The continuing operations income statement includes the following items of finance expense/(income)					
Interest income on bank deposits and investments at call		(470)	(955)	(470)	(955)
Discount revenue applied to provisions and amortised assets		-	(479)	-	(479)
Net realised gains on interest futures		-	(7,396)	-	(7,396)
Net unrealised gain on valuation of interest rate futures		(1,928)	-	(1,928)	-
Change in fair value of TCorp investments		(66)	(1,933)	(66)	(1,933)
Net gain on foreign exchange		-	-	-	-
Finance income		**(2,464)**	**(10,763)**	**(2,464)**	**(10,763)**

* The expense reflects the impairment of the generation and water assets.

Notes to Financial Statements

For the year ended 30 June 2012

Note 2: Components of revenue and expenses (continued)

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Interest expense on financial liabilities measured at amortised cost		305,052	287,987	305,052	287,987
Net unrealised losses on valuation of interest rate futures		-	79	-	79
Net realised losses on interest rate futures		44,059	-	44,059	-
Discount expense applied to provisions and amortised assets		2,664	107	2,664	107
Net loss on foreign exchange		5	-	5	-
Impairment loss on trade and other debtors	1.7.1	569	1,045	569	1,045
Finance expense		**352,349**	**289,218**	**352,349**	**289,218**
Net finance expense/(income)		**349,885**	**278,455**	**349,885**	**278,455**
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		(470)	(2,488)	(470)	(2,488)
Total interest expense on financial liabilities		305,052	287,987	305,052	287,987
The continuing operations income statement includes the following items of other expense/(income)					
Depreciation of property, plant and equipment	10	305,192	284,038	305,192	282,894
Amortisation of intangible assets	11	18,642	23,417	18,642	22,952
Total depreciation and amortisation		323,834	307,455	323,834	305,846
Amounts charged against provisions for employee benefits	14	110,138	58,750	110,138	58,750
Consultants expenses (Amounts capitalised $0.005 million ($0.057 million in 2011))		242	561	242	561
Inventories		26,803	25,135	26,803	25,135
Bad debts expense		-	484	-	484
Minimum lease payments on operating leases		8,838	9,151	8,838	9,151
Direct operating expenses that relate to income earning investment property	1.10.2	184	116	184	116
Research and development expenses		255	77	255	77
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		66	(4,743)	66	(4,743)
Financial assets and liabilities held for trading		(5)	-	(5)	-
Fee expenses arising from financial assets or financial liabilities that are not at fair value through the profit or loss		(37)	2,789	(37)	2,789
Maintenance expenses:					
Employee related maintenance expenses included in employee benefits expense		99,206	97,905	99,206	97,480
Contracted labour and other (non-employee related) expenses		375,655	321,601	375,655	320,322
Total maintenance expenses		**474,861**	**419,506**	**474,861**	**417,802**

Note 2: Components of revenue and expenses (continued)

	NOTE	Consolidated 2012 $'000	Consolidated 2011 $'000	Corporation 2012 $'000	Corporation 2011 $'000
Discontinued operations fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements					
Net gains/(losses) on remeasurement of energy purchase derivatives (ineffective cash flow hedges)		-	(2,485)	-	(2,485)
Amortisation of premiums on energy purchases CAP contracts		-	14,327	-	14,327
Settlement of ineffective energy Contracts for Differences		-	(6,699)	-	(6,699)
Total discontinued operations fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements		**-**	**5,143**	**-**	**5,143**
The discontinued operations income statement includes the following items of other expense/(income)					
Bad debts expense		-	4,353	-	4,353
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	-	5,143

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 revenue from these activities was $22.274 million ($26.910 million in 2011), there were no internal sales ($2.234 million in 2011) included in other revenue. The aggregate of expenses from these activities of $20.083 million ($25.814 million in 2011) is included in cost of sales and delivery of energy.

Notes to Financial Statements

For the year ended 30 June 2012

Note 3: Income tax expense

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Continuing operations					
The major components of income tax expense are:					
Income statement					
Current income tax					
Current income tax charge		116,961	69,437	116,961	68,559
Adjustments in respect of current income tax of previous years		(23,683)	(7,427)	(23,683)	(7,427)
Adjustment in respect of acquisitions and disposals		-	11	-	-
Deferred income tax					
Relating to origination and reversal of temporary differences	4	(54,056)	(49,056)	(54,056)	(49,045)
Adjustments in respect of deferred income tax of previous years		16,302	3,162	16,302	3,162
Income tax expense/(benefit) reported in the income statement		**55,524**	**16,128**	**55,524**	**15,250**

Statement of changes in equity				
Deferred income tax related to items charged or credited directly to equity:				
Financial instruments gains/(losses)	(315)	-	(315)	-
Superannuation gains/(losses)	(42,370)	137	(42,370)	137
Income tax expense/(benefit) reported in equity	**(42,685)**	**137**	**(42,685)**	**137**

Reconciliation of tax expense to pre tax profit				
Profit before income tax and fair value movements in financial instruments	206,442	58,207	206,442	73,441
Income tax at rate of 30%	61,932	17,462	61,932	22,032
Adjustment in respect of current income tax of previous years	(23,683)	(7,427)	(23,683)	(7,427)
Investment allowance	-	-	-	-
Recognition/derecognition of temporary differences relating to prior years	16,302	3,162	16,302	3,162
Sale of shares held in subsidiary	-	1,089	-	(2,937)
Foregiveness of loan between group entities	-	-	-	(1,282)
Expenditure not allowable for income tax purposes	376	1,262	376	1,122
Income tax on profit before fair value movements in financial instruments	**54,927**	**15,548**	**54,927**	**14,670**
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	1,989	1,933	1,989	1,933
Income tax at rate of 30%				
Income tax on gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	**597**	**580**	**597**	**580**
Total income tax expense	**55,524**	**16,128**	**55,524**	**15,250**

Note 3: Income tax expense (continued)

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Discontinued operations					
The major components of income tax expense are:					
Income Statement					
Current income tax					
Current income tax charge		-	78,320	-	78,320
Deferred income tax					
Relating to origination and reversal of temporary differences	4	-	(49,280)	-	(49,280)
Income tax expense/(benefit) reported in the income statement		**-**	**29,040**	**-**	**29,040**
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	-	17,229
Income tax expense/(benefit) reported in equity		**-**	**17,229**	**-**	**17,229**

Reconciliation of tax expense to pre tax profit				
Profit before income tax and fair value movements in financial instruments	1,434	1,194,739	1,434	1,194,739
Income tax at rate of 30%	430	358,422	430	358,422
Net tax gain on disposal of retail business not subject to tax equivalent	(430)	(330,925)	(430)	(330,925)
Income tax on profit before income tax and fair value movements in financial instruments	**-**	**27,497**	**-**	**27,497**
Fair value gains/(losses) in financial instruments net of amortisation of contract premiums and transitional cash settlements	-	5,143	-	5,143
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**	**-**	**1,543**
Total income tax expense	**-**	**29,040**	**-**	**29,040**

Notes to Financial Statements

For the year ended 30 June 2012

Note 4: Tax assets and liabilities

4.1 Income tax payable

	Consolidated Statement of Financial Position		Corporation Statement of Financial Position	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Provision for income tax	64,794	85,226	64,794	85,226
Total income tax payable	**64,794**	**85,226**	**64,794**	**85,226**

4.2 Deferred tax balances

Consolidated	Opening Balance		Recognised in Income Statement – Prior Period		Recognised in Income Statement – Current Period	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Temporary differences						
Provisions	88,469	71,441	(116)	(451)	19,203	17,479
Green emission rights	(1,293)	(11,077)	-	-	1,164	9,784
Green emission obligations	1,376	10,509	-	-	(1,614)	(9,133)
Project costs	-	1,944	-	-	-	(1,944)
Under funded superannuation	32,047	35,956	-	-	(3,402)	(3,772)
Business related costs	-	68	-	-	-	(3)
Financial instruments	(970)	25,191	2	-	(580)	(8,932)
Property, plant and equipment	(532,998)	(581,715)	(1,235)	(2,711)	47,683	48,784
Unearned income	644	163	-	-	(417)	481
Unbilled income	(347)	(45,939)	(14,952)	-	(7,982)	45,592
Total deferred tax liabilities	**(413,072)**	**(493,459)**	**(16,302)**	**(3,162)**	**54,056**	**98,336**

Corporation	Opening Balance		Recognised in Income Statement – Prior Period		Recognised in Income Statement – Current Period	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Temporary differences						
Provisions	88,469	71,441	(116)	(451)	19,203	17,479
Green emission rights	(1,293)	(11,077)	-	-	1,164	9,784
Green emission obligations	1,376	10,509	-	-	(1,614)	(9,133)
Project costs	-	1,944	-	-	-	(1,944)
Under funded superannuation	32,047	35,956	-	-	(3,402)	(3,772)
Business related costs	-	-	-	-	-	-
Financial instruments	(970)	25,191	2	-	(580)	(8,932)
Property, plant and equipment	(532,998)	(579,057)	(1,235)	(2,711)	47,683	48,770
Unearned income	644	163	-	-	(417)	481
Unbilled income	(347)	(45,939)	(14,952)	-	(7,982)	45,592
Total deferred tax liabilities	**(413,072)**	**(490,869)**	**(16,302)**	**(3,162)**	**54,056**	**98,325**

Recognised Directly in Equity		Acquisition/Disposals		Closing Balance	
2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
-	-	-	-	107,556	88,469
-	-	-	-	(129)	(1,293)
-	-	-	-	(238)	1,376
-	-	-	-	-	-
42,370	(137)	-	-	71,015	32,047
-	-	-	(65)	-	-
315	(17,229)	-	-	(1,233)	(970)
-	-	-	2,644	(486,550)	(532,998)
-	-	-	-	227	644
-	-	-	-	(23,281)	(347)
42,685	**(17,366)**	**-**	**2,579**	**(332,633)**	**(413,072)**

Recognised Directly in Equity		Acquisition/Disposals		Closing Balance	
2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
-	-	-	-	107,556	88,469
-	-	-	-	(129)	(1,293)
-	-	-	-	(238)	1,376
-	-	-	-	-	-
42,370	(137)	-	-	71,015	32,047
-	-	-	-	-	-
315	(17,229)	-	-	(1,233)	(970)
-	-	-	-	(486,550)	(532,998)
-	-	-	-	227	644
-	-	-	-	(23,281)	(347)
42,685	**(17,366)**	**-**	**-**	**(332,633)**	**(413,072)**

Notes to Financial Statements

For the year ended 30 June 2012

Note 5: Cash and cash equivalents

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash and deposits	1.9.1	81,391	77	81,391	77
Investments at call – TCorp	1.9.2	30	64	30	64
Investments at call – Other	1.9.2	6	6	6	6
Restricted cash and deposits	5.1	14,692	5,721	14,692	5,721
Total cash and cash equivalents		**96,119**	**5,868**	**96,119**	**5,868**

The Group's exposure to interest rate risk and a sensitivity analysis of financial assets and financial liabilities are disclosed in Note 19.

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 Transition 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

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current					
Trade debtors		87,662	73,266	87,662	73,266
Provision for doubtful debts		(90)	(149)	(90)	(149)
Trade debtors, net of provision	1.9.3	87,572	73,117	87,572	73,117
Other debtors		49,967	125,794	49,967	125,794
Provision for doubtful debts		(283)	(241)	(283)	(241)
Other debtors, net of provision	1.9.3	49,684	125,553	49,684	125,553
Deposits on futures trading	1.9.8	1,767	7,205	1,767	7,205
Loans and receivables		**139,023**	**205,875**	**139,023**	**205,875**
Prepayments	1.9.3	15,404	7,014	15,404	7,014
Total current trade and other receivables		**154,427**	**212,889**	**154,427**	**212,889**
Non-current					
Other debtors		48	58	48	58
Loans and receivables		**48**	**58**	**48**	**58**
Prepayments		787	1,594	787	1,594
Over funded superannuation		31	1,458	31	1,458
Total non-current trade and other receivables	1.10.1	**866**	**3,110**	**866**	**3,110**

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 effect of discounting is immaterial and has not been included in the balance above.

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note 19.

Note 7: Derivative financial instruments

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Derivative financial assets – current					
Energy trading derivatives					
Swap derivatives		4,536	3,488	4,536	3,488
Option derivatives		8,776	918	8,776	918
Futures derivatives		-	-	-	-
Total derivative current assets	1.9.7	**13,312**	**4,406**	**13,312**	**4,406**
Derivative financial liabilities – current					
Energy trading derivatives					
Swap derivatives		-	28,532	-	28,532
Option derivatives		-	19,206	-	19,206
Futures derivatives		-	-	-	-
Other derivatives					
Foreign exchange derivatives		2	6	2	6
Total derivative current liabilities	1.13.9	**2**	**47,744**	**2**	**47,744**

The Group's exposure to credit, currency and interest rate risk related to derivatives is disclosed in Note 19.

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 25). 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 PTA, at 30 June 2012 $16.271 million of net assets ($45.878 million net liability in 2011) included in unsecured creditors was payable to the acquirer (receivable from acquirer in 2011) .

Note 8: Investment property

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Investment property					
Opening carrying value		3,834	3,834	3,834	3,834
Change in fair value to profit or loss		-	-	-	-
Total investment property	1.10.2	**3,834**	**3,834**	**3,834**	**3,834**

Note 9: Other assets

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Non-current					
Other assets	1.10.5	893	937	893	937
Total other non-current assets		**893**	**937**	**893**	**937**

The Group's exposure to interest rate risk related to other assets is disclosed in Note 19.

Notes to Financial Statements

For the year ended 30 June 2012

Note 10: Property, plant and equipment

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
System assets:					
Opening 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 opening carrying value		**5,770,029**	**5,423,894**	**5,770,029**	**5,333,264**
Movements					
Additions		718,107	665,036	718,107	664,108
Disposals		(2,495)	(90,427)	(2,495)	(13)
Depreciation		(239,204)	(220,493)	(239,204)	(219,349)
Impairment		(4,617)	(7,981)	(4,617)	(7,981)
Net movements		**471,791**	**346,135**	**471,791**	**436,765**
Closing carrying value					
At fair value		8,760,973	8,047,475	8,760,973	8,047,475
Accumulated depreciation		(2,519,153)	(2,277,446)	(2,519,153)	(2,277,446)
Net closing carrying value		**6,241,820**	**5,770,029**	**6,241,820**	**5,770,029**
Land and buildings					
Opening carrying value					
At fair value		188,794	168,950	188,794	168,950
Accumulated depreciation		(6,398)	(3,095)	(6,398)	(3,095)
Net opening carrying value		**182,396**	**165,855**	**182,396**	**165,855**
Movements					
Additions		17,971	20,009	17,971	20,009
Disposals		(567)	(250)	(567)	(250)
Depreciation		(3,132)	(3,218)	(3,132)	(3,218)
Net movements		**14,272**	**16,541**	**14,272**	**16,541**
Closing carrying value					
At fair value		206,092	188,794	206,092	188,794
Accumulated depreciation		(9,425)	(6,398)	(9,425)	(6,398)
Net closing carrying value		**196,667**	**182,396**	**196,667**	**182,396**
Plant and equipment					
Opening carrying value					
At fair value		711,700	666,380	711,700	666,380
Accumulated depreciation		(385,475)	(354,855)	(385,475)	(354,855)
Net opening carrying value		**326,225**	**311,525**	**326,225**	**311,525**

Note 10: Property, plant and equipment (continued)

	NOTE	Consolidated 2012 $'000	Consolidated 2011 $'000	Corporation 2012 $'000	Corporation 2011 $'000
Movements					
Additions		98,141	86,544	98,141	86,544
Disposals		(7,800)	(11,517)	(7,800)	(11,517)
Depreciation		(62,856)	(60,327)	(62,856)	(60,327)
Net movements		**27,485**	**14,700**	**27,485**	**14,700**
Closing carrying value					
At fair value		785,208	711,700	785,208	711,700
Accumulated depreciation		(431,497)	(385,475)	(431,497)	(385,475)
Net closing carrying value		**353,711**	**326,225**	**353,711**	**326,225**
Net carrying value of property, plant and equipment	1.11	**6,792,198**	**6,278,650**	**6,792,198**	**6,278,650**
Historical cost of revalued assets					
Carrying amount of revalued assets had they been carried under the cost model:					
System assets		5,035,123	4,470,440	5,035,123	4,470,440
Land and buildings		163,417	149,405	163,417	149,405

Notes to Financial Statements

For the year ended 30 June 2012

Note 11: Non-current intangible assets

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Natural gas business licences					
Opening carrying value					
At cost		10,657	24,845	10,657	10,657
Accumulated amortisation		(10,657)	(17,369)	(10,657)	(7,437)
Net opening carrying value		**-**	**7,476**	**-**	**3,220**
Movements					
Additions		-	-	-	-
Disposals		-	(3,791)	-	-
Amortisation		-	(1,223)	-	(758)
Impairment		-	(2,462)	-	(2,462)
Net movements		**-**	**(7,476)**	**-**	**(3,220)**
Closing carrying value					
At cost		10,657	10,657	10,657	10,657
Accumulated amortisation		(10,657)	(10,657)	(10,657)	(10,657)
Net closing carrying value	1.12.1	**-**	**-**	**-**	**-**
IT software					
Opening carrying value					
At cost		189,018	162,221	189,018	162,221
Accumulated amortisation		(105,894)	(83,699)	(105,894)	(83,699)
Net opening carrying value		**83,124**	**78,522**	**83,124**	**78,522**
Movements					
Additions		37,318	26,797	37,318	26,797
Disposals		-	(1)	-	(1)
Write off		(8,364)	-	(8,364)	-
Amortisation		(18,642)	(22,194)	(18,642)	(22,194)
Net movements		**10,312**	**4,602**	**10,312**	**4,602**
Closing carrying value					
At cost		226,336	189,018	226,336	189,018
Accumulated amortisation		(132,900)	(105,894)	(132,900)	(105,894)
Net closing carrying value	1.12.2	**93,436**	**83,124**	**93,436**	**83,124**
Total non-current intangible assets		**93,436**	**83,124**	**93,436**	**83,124**

Note 12: Trade and other payables

	NOTE	Consolidated 2012 $'000	Consolidated 2011 $'000	Corporation 2012 $'000	Corporation 2011 $'000
Current					
Trade creditors – unsecured	1.13.1	15,682	21,126	15,682	21,126
Other creditors – unsecured	1.13.1	59,276	54,721	59,276	54,721
Accrued interest expense		172,249	116,810	172,249	116,810
Accrued energy and transmission purchases		37,680	51,871	37,680	51,871
Accrued trade creditors		69,316	51,123	69,316	51,123
Accrued inventory purchases		5,483	4,780	5,483	4,780
Interest rate futures trading liabilities		-	-	-	-
Other accrued expenses		2,010	3,058	2,010	3,058
Total current trade and other payables		**361,696**	**303,489**	**361,696**	**303,489**

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 19.

Note 13: Interest bearing liabilities

	NOTE	Consolidated 2012 $'000	Consolidated 2011 $'000	Corporation 2012 $'000	Corporation 2011 $'000
Current					
Bank overdraft		-	2,035	-	2,035
Loans	1.13.3	217,588	135,000	217,588	135,000
Total current interest bearing liabilities		**217,588**	**137,035**	**217,588**	**137,035**
Non-current					
Loans	1.13.3	3,948,521	3,503,635	3,948,521	3,503,635
Total non-current interest bearing liabilities		**3,948,521**	**3,503,635**	**3,948,521**	**3,503,635**
Due to be repaid:					
Not later than one year		217,588	137,035	217,588	137,035
Later than one year but not later than two years		59,849	108,211	59,849	108,211
Later than two years but not later than three years		416,627	59,743	416,627	59,743
Later than three years but not later than four years		190,832	358,287	190,832	358,287
Later than four years but not later than five years		492,219	169,358	492,219	169,358
Later than five years		2,788,995	2,808,036	2,788,995	2,808,036
Total interest bearing liabilities		**4,166,109**	**3,640,670**	**4,166,109**	**3,640,670**

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 19.

Notes to Financial Statements

For the year ended 30 June 2012

Note 14: Other provisions

	NOTE	Consolidated 2012 $'000	Consolidated 2011 $'000
Current			
Dividends	1.13.8	67,297	41,200
Employee benefits	1.13.4	238,076	192,167
Workers' compensation		6,239	2,301
Provision for environmental rectification		6,690	7,186
Provision for system asset rectification		2,288	2,288
Restructuring provision		2,877	2,049
Other provisions		5,030	6,115
Total current provisions		**328,496**	**253,306**
Non-current			
Employee benefits	1.13.4	39,104	27,748
Workers' compensation		4,462	3,352
Provision for environmental rectification		1,735	1,877
Restructuring provision		44,944	47,925
Total non-current provisions		**90,245**	**80,902**

Movement in provisions	**Dividends**	**Employee Benefits**	**Environmental Rectification**	**Asset Rectification**
	2012 $'000	2012 $'000	2012 $'000	2012 $'000
Opening balance	41,200	219,915	9,063	2,288
Additional provision	67,297	110,138	749	-
Utilised during the period	(41,200)	(52,873)	(1,244)	-
Provisions reversed during the period	-	-	(238)	-
Unwinding discount	-	-	96	-
Closing balance	**67,297**	**277,180**	**8,426**	**2,288**

Provision for environmental rectification
Provisions for environmental rectification work are expected to be settled by 2013 and 2020. In respect of obligations to be settled by 2013 the effect of the time value of money has been deemed to be immaterial. Where settlement is expected by 2020, a discount rate of 2.780% 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 (stranded costs, refer Note 1.5.2) $42.044 million (2011 $45.910 million), data migration $2.990 million (2011 $2.940 million) and removing the "Country Energy" brand $0.203 million (2011 $1.124 million). At 30 June 2012 a further provision of $2.583 million was raised in relation to employee redundancies as a result of Electricity Industry Reform (refer Note 27). The settlement of all obligations is expected by 2019 and discount rates of 2.470% and 2.735% have been applied.

	Corporation	
	2012 $'000	2011 $'000
	67,297	41,200
	238,076	192,167
	6,239	2,301
	6,690	7,186
	2,288	2,288
	2,877	2,049
	5,030	6,115
	328,496	**253,306**
	39,104	27,748
	4,462	3,352
	1,735	1,877
	44,944	47,925
	90,245	**80,902**

	Workers' Compensation	Restructuring	Other	Total
	2012 $'000	2012 $'000	2012 $'000	2012 $'000
	5,653	49,974	6,115	334,208
	6,331	2,583	1,403	188,500
	(1,439)	(1,345)	(1,488)	(99,589)
	-	(5,803)	(1,000)	(7,041)
	156	2,412	-	2,664
	10,701	**47,821**	**5,030**	**418,741**

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 2017 for the 2011-12 financial year cover. A discount rate of 2.480% has been applied.

Other provisions
Other provisions include legal claims relating to property damage, personal injury and workplace incidents. The amount of each obligation is the best estimate of the expenditure required to settle the obligation based on current legal requirements.

Notes to Financial Statements

For the year ended 30 June 2012

Note 15: Other liabilities

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current					
Prepaid capital contributions	1.8.4	1,219	2,056	1,219	2,056
Total other current liabilities	1.13.10	**1,219**	**2,056**	**1,219**	**2,056**
Non-current					
Under funded superannuation liability		236,746	108,279	236,746	108,279
Other financial liabilities		25	30	25	30
Total other non-current liabilities	1.13.10	**236,771**	**108,309**	**236,771**	**108,309**

The Group's exposure to liquidity and interest rate risk related to other financial liabilities is disclosed in Note 19.

Note 16: Green Certificates

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Green certificate current intangible assets					
Renewable Energy Certificates (RECs)		-	4,313	-	4,313
Large-scale Generation Certificates (LGCs)		160	-	160	-
Small-scale Generation Certificates (SGCs)		173	-	173	-
NSW Greenhouse Abatement Certificates (NGACs)		-	3,417	-	3,417
Green Power Rights (GPRs)		-	257	-	257
Gas Electricity Certificates (GECs)		-	238	-	238
Victorian Renewable Energy Certificates (VRECs)		-	-	-	-
Victorian Energy Efficiency Certificates (VEECs)		-	60	-	60
Energy Savings Certificate (ESCs)		1,206	1,108	1,206	1,108
Total green certificate current intangible assets	1.14	**1,540**	**9,393**	**1,540**	**9,393**
Green certificate current liabilities					
Large-scale Generation Certificates (LGCs)		160	4,445	160	4,445
Small-scale Generation Certificates (SGCs)		158	144	158	144
NSW Greenhouse Abatement Certificates (NGACs)		-	3,417	-	3,417
Green Power Rights (GPRs)		-	257	-	257
Gas Electricity Certificates (GECs)		-	238	-	238
Victorian Renewable Energy Certificates (VRECs)		-	-	-	-
Victorian Energy Efficiency Certificates (VEECs)		-	60	-	60
Energy Savings Certificates (ESCs)		-	1,108	-	1,108
Total green certificate current liability	1.14	**318**	**9,669**	**318**	**9,669**

Note 16: Green Certificates (continued)

Movement in provisions

	LGCs	SGCs	NGACs	GPRs	GECs	VRECs	VEECs	ESCs	TOTAL
	2012 $'000	2012 $'000	2012 $'000	2012 $'000	2012 $'000	2012 $'000	2012 $'000	2012 $'000	2012 $'000
Opening balance	4,445	144	3,417	257	238	-	60	1,108	9,669
Additional provisions	277	482	-	-	-	-	-	-	759
Utilised during the year	(4,562)	(468)	(3,417)	(257)	(238)	-	(60)	(1,108)	(10,110)
Closing balance	**160**	**158**	**-**	**-**	**-**	**-**	**-**	**-**	**318**

Note 17: Finance facilities

	Consolidated		Corporation	
	2012 $'000	2011 $'000	2012 $'000	2011 $'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	226,200	179,500	226,200	179,500
Loans	5,381,100	3,908,093	5,381,100	3,908,093
Lease facilities	-	-	-	-
Total available finance facilities	**5,622,300**	**4,102,593**	**5,622,300**	**4,102,593**
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	98,729	113,920	98,729	113,920
Loans	1,252,889	289,458	1,252,889	289,458
Lease facilities	-	-	-	-
Total unused finance facilities	**1,366,618**	**418,378**	**1,366,618**	**418,378**

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:

- WorkCover guarantee facility of $100 million (2011 $100 million) of which $57.907 million (2011 $57.907 million) is unused
- Australian Energy Market Operator guarantees of $4.1 million (2011 $11.4 million) of which $3.0 million (2011 $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 25) – as part of the TSA, the acquirer has provided back to back guarantees for the obligations related to the disposed business. At 30 June 2012 the back to back guarantees provided by the acquirer totalled $3.1 million (2011 $10.4 million).

Notes to Financial Statements

For the year ended 30 June 2012

Note 18: Notes to the Cash Flow Statements

		Consolidated		Corporation	
	NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
(a) Components of cash and cash equivalents					
Cash and cash equivalents	5	96,119	5,868	96,119	5,868
Less: restricted cash	5.1	(14,692)	(5,721)	(14,692)	(5,721)
		81,427	**147**	**81,427**	**147**
Bank overdraft		-	(2,035)	-	(2,035)
		81,427	**(1,888)**	**81,427**	**(1,888)**

	Consolidated 2012 $'000	Consolidated 2011 $'000	Corporation 2012 $'000	Corporation 2011 $'000
(b) Reconciliation of operating profit after income tax expense to cash provided by operating activities				
Profit for the period	154,340	1,214,854	154,340	1,230,966
Non cash items:				
Gifted assets	(66,243)	(48,339)	(66,243)	(48,339)
Depreciation	305,192	284,038	305,192	282,894
Amortisation	18,642	23,417	18,642	22,953
Impairment of non-financial assets	4,617	7,981	4,617	7,981
Write off of software	8,364	-	8,364	-
Prepaid superannuation	(11,339)	(12,574)	(11,339)	(12,574)
Items classified as investing/finance activities:				
(Profit)/loss on sale of property, plant and equipment	(3,535)	(2,738)	(3,535)	(2,718)
Loss/(profit) from sale of businesses	963	(1,082,240)	963	(1,095,697)
Impairment included in profit on sale	-	2,462	-	2,462
Net community service obligation (income)/expense	(460)	351	(460)	351
Deferred Interest (income)/expense	(1,793)	6,074	(1,793)	6,074
Changes in assets and liabilities:				
(Increase)/decrease in unread meters	(71,196)	(33,750)	(71,196)	(33,750)
(Increase)/decrease in receivables	12,580	(95,548)	12,580	(93,812)
(Increase)/decrease in inventories	720	770	720	770
(Increase)/decrease in green certificate assets (liabilities)	(1,498)	(1,047)	(1,498)	(1,047)
(Increase)/decrease in operating non-current receivables	817	529	817	529
(Increase)/decrease other current assets – restricted cash	(28)	(5,721)	(28)	(5,721)
(Increase)/decrease in other operating non-current assets	(5,045)	(2,742)	(5,045)	(2,742)
(Increase)/decrease in energy trading derivative assets/(liabilities)	(57,380)	31,780	(57,380)	31,780
Increase/(decrease) in operating payables	94,787	63,394	94,787	63,170
Increase/(decrease) in customer deposits	(76)	(265)	(76)	(265)
Increase/(decrease) in provisions	58,436	15,808	58,436	15,808
Increase/(decrease) in deferred taxes payable	(38,069)	(80,523)	(38,069)	(83,102)
Increase/(decrease) in other operating liabilities	(846)	(1,651)	(846)	(1,651)
Net cash provided by operating activities	**401,950**	**284,319**	**401,950**	**284,319**

Note 19: Financial instruments

19.1 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 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 remeasurement 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 25) 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:

			Carrying Amount			
Financial assets	**Category**		**Consolidated**		**Corporation**	
		NOTE	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash and deposits	N/A	5	81,391	77	81,391	77
Investments TCorp	At fair value through profit and loss - designated	5	30	64	30	64
Investments other	N/A	5	6	6	6	6
Restricted cash	N/A	5.1	14,692	5,721	14,692	5,721
Receivables	Loans and receivables (at amortised cost)	6	139,071	205,933	139,071	205,933
Estimated revenue from unread meters	Loans and receivables (at amortised cost)		198,681	127,483	198,681	127,483
Derivative financial instruments	At fair value through profit and loss - classified as held for trading	7	13,312	4,406	13,312	4,406
			447,183	**343,690**	**447,183**	**343,690**

Notes to Financial Statements

For the year ended 30 June 2012

Note 19: Financial instruments (continued)

Financial liabilities	Category	NOTE	Carrying Amount Consolidated 2012 $'000	Consolidated 2011 $'000	Corporation 2012 $'000	Corporation 2011 $'000
Payables	Financial Liabilities measured at amortised cost	12	361,696	303,489	361,696	303,489
Deposits	Financial Liabilities measured at amortised cost		97	172	97	172
Borrowings	Financial Liabilities measured at amortised cost	13	4,166,109	3,640,670	4,166,109	3,640,670
Derivative financial Instruments	At fair value through profit and loss – classified as held for trading	7	2	47,744	2	47,744
Other liabilities	Financial Liabilities measured at amortised cost	15	25	30	25	30
			4,527,929	**3,992,105**	**4,527,929**	**3,992,105**

19.1.1 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 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 in the form of unconditional bank guarantees from major Australian financial institutions 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 Group and Corporation's maximum credit exposure for trade receivables at the reporting date by type of customer was:

	Carrying Amount Consolidated 2012 $'000	Consolidated 2011 $'000	Corporation 2012 $'000	Corporation 2011 $'000
Small customers	1,536	1,845	1,536	1,845
Large customers	-	-	-	-
Network	84,667	59,787	84,667	59,787
Other	51,101	137,096	51,101	137,096
	137,304	**198,728**	**137,304**	**198,728**

Note 19: 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 $198.754 million ($127.484 million in 2011).

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.

The Corporation policy establishes that 100% of committed exposures in foreign currency with an equivalent value of $50,000 or greater must be hedged.

The carrying amount of the Group's financial assets represent the maximum credit exposure.

19.1.1.1 Credit risk – impairment losses

The ageing of the past due financial assets at the reporting date was:

Consolidated and Corporation	Gross	Impairment	Gross	Impairment
	2012 $'000	2012 $'000	2011 $'000	2011 $'000
Past due 0–30 days	1,720	-	70,177	-
Past due 31–60 days	696	-	1,225	-
Past due 61–90 days	205	-	360	1
Past due 91–120 days	73	15	188	15
Past due 121 days and over	4,043	358	1,174	374

The movement in the provision for doubtful debts during the year was as follows:

	Consolidated		Corporation	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Opening balance	390	5,611	390	5,611
Disposed as part of retail sale (refer Note 25)	-	(5,997)	-	(5,997)
Amounts written off during the year	(586)	(269)	(586)	(269)
Impairment loss recognised	569	1,045	569	1,045
Closing balance	**373**	**390**	**373**	**390**

Notes to Financial Statements

For the year ended 30 June 2012

Note 19: Financial instruments (continued)

The Group assesses impairment on an individual basis when that asset is material in size and shows an indication of impairment, or are unique in their characteristics. Large 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 $0.283 million ($0.157 million for 2011) 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 is 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.

19.1.2: Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due. The Corporation continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holdings of high quality liquid assets.

The Corporation has *Public Authorities Financial Arrangement Act* approval of a TCorp borrowing limit of $5,381 million (2011 $3,908 million) of which $1,253 million was unused as at 30 June 2012 (2011 $289 million). The approval also provides for TCorp Come and Go Facility of $100 million (2011 $50 million) and a bank overdraft facility limit of $15 million (2011 $15 million) to fund working capital. Planned future capital expenditure will be funded through TCorp borrowings. Future committed expenditure is disclosed in Note 20.

While current liabilities are greater than current assets as at 30 June 2012 the Corporation continues to trade as a going concern. It is noted that the Corporation derives revenue from non-current assets. The TCorp Come and Go Facility had $17.5 million (2011 $30 million) unused and the bank overdraft facility limit was $15 million (2011 $15 million) unused as at 30 June 2012.

During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. The Corporation's exposure to liquidity risk is deemed insignificant based on prior periods data and current assessment of risk.

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 within set periods. The policy sets out that not more than 20% of its borrowings should mature within the first 12 months and no more than 20% in any individual benchmark or preferred line with a maturity greater than 12 months. At 30 June 2012, 5.2% of the Corporation's debt will mature in less than one year (4.0% in 2011).

Details of the Corporation's finance facilities and the unused portion is disclosed in Note 17.

Note 19: Financial instruments (continued)

The contractual maturities of financial liabilities, including estimated interest payments, were as follows:

Consolidated

	Carrying Amount	Contractual Cash Flows	1 Year or Less	1 to 5 Years	More than 5 Years
2012	$'000	$'000	$'000	$'000	$'000
Non derivative financial liabilities					
Unsecured bank overdraft	-	-	-	-	-
Unsecured short term borrowings	217,588	220,621	220,621	-	-
Unsecured long term borrowings	3,948,521	5,791,535	224,946	1,948,603	3,617,986
Payables	361,696	361,696	361,696	-	-
Customer deposits	97	97	97	-	-
Call loans on interest rate futures trading	-	-	-	-	-
Other	25	25	25	-	-
Derivative financial liabilities					
Energy trading swap/option derivatives	-	-	-	-	-
Energy trading futures derivatives	-	-	-	-	-
Interest rate swaps	-	-	-	-	-
Foreign exchange derivatives	2	-	-	-	-
	4,527,928	**6,373,974**	**807,385**	**1,948,603**	**3,617,986**

Consolidated

	Carrying Amount	Contractual Cash Flows	1 Year or Less	1 to 5 Years	More than 5 Years
2011	$'000	$'000	$'000	$'000	$'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	303,489	303,489	303,489	-	-
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	-	-
	3,992,105	**5,937,546**	**677,814**	**1,443,729**	**3,816,003**

Notes to Financial Statements

For the year ended 30 June 2012

Note 19: Financial instruments (continued)

Corporation

	Carrying Amount	Contractual Cash Flows	1 Year or Less	1 to 5 Years	More than 5 Years
2012	$'000	$'000	$'000	$'000	$'000
Non derivative financial liabilities					
Unsecured bank overdraft	-	-	-	-	-
Unsecured short term borrowings	217,588	220,621	220,621	-	-
Unsecured long term borrowings	3,948,521	5,791,535	224,946	1,948,603	3,617,986
Payables	361,696	361,696	361,696	-	-
Customer deposits	97	97	97	-	-
Call loans on interest rate futures trading	-	-	-	-	-
Other	25	25	25	-	-
Derivative financial liabilities					
Energy trading swap/option derivatives	-	-	-	-	-
Energy trading futures derivatives	-	-	-	-	-
Interest rate swaps	-	-	-	-	-
Foreign exchange derivatives	2	-	-	-	-
	4,527,928	**6,373,974**	**807,386**	**1,948,603**	**3,617,986**

Corporation

	Carrying Amount	Contractual Cash Flows	1 Year or Less	1 to 5 Years	More than 5 Years
2011	$'000	$'000	$'000	$'000	$'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	303,489	303,489	303,489	-	-
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	-	-
	3,992,105	**5,937,546**	**677,813**	**1,443,729**	**3,816,003**

Note 19: Financial instruments (continued)

The cash flows and profit and loss impact associated with derivatives at 30 June 2012 is minimal because of the sale of the Retail business (refer Note 25). Expected cash flows and profit and loss impact associated with derivatives that are cash flow hedges are as follows:

Consolidated and Corporation

			Carrying Amount	Expected Cash Flow and profit & loss impact	1 Year or Less	1 to 5 Years	More than 5 Years
2012	Inflow/(outflow)	$'000	$'000	$'000	$'000	$'000	$'000
Energy trading swap/option derivatives							
Assets			498	498	498	-	-
Liabilities			-	-	-	-	-
			498	**498**	**498**	**-**	**-**

Consolidated and Corporation

			Carrying Amount	Expected Cash Flow and Profit & Loss Impact	1 Year or Less	1 to 5 Years	More than 5 Years
2011	Inflow/(outflow)	$'000	$'000	$'000	$'000	$'000	$'000
Energy trading swap/ option derivatives							
Assets			1,549	1,549	721	828	-
Liabilities			-	-	-	-	-
			1,549	**1,549**	**721**	**828**	**-**

19.1.3 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.

19.1.3.1 Currency risk

The Corporation enters into forward foreign exchange contracts to hedge certain purchase commitments for goods and services in foreign currency which are exposed to fluctuations in those foreign currencies.

The Corporation policy establishes that 100% of committed exposures in foreign currency with an equivalent value of $50,000 or greater must be hedged.

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% strengthening of the Australian dollar at balance date would have an immaterial effect on profit and loss.

19.1.3.2 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 20% of the face value of the core portfolio can mature in the first 12 months and no more than 20% in any individual benchmark or preferred line with a maturity greater than 12 months. 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 $4,201.012 million (2011: $3,631.366 million).

Notes to Financial Statements

For the year ended 30 June 2012

Note 19: Financial instruments (continued)

The interest rate profile of the Group's interest bearing financial instruments excluding the Hour Glass facility at the balance date was:

	Carrying value	
	2012 $'000	2011 $'000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(4,083,609)	(3,503,635)
	(4,083,609)	**(3,503,635)**
Variable rate instruments		
Financial assets	81,397	6
Financial liabilities	(82,500)	(137,035)
	(1,103)	**(137,029)**

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 2012 or 30 June 2011.

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)	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
SFE 90 Day Bill Futures sold/(purchased)	-	605,000	-	(284)
SFE 3 Year Bond Futures sold/(purchased)	-	21,200	-	6
SFE 10 Year Bond Futures sold/(purchased)	275,800	61,300	1,928	6
	275,800	**687,500**	**1,928**	**(272)**

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 2011.

	Consolidated and Corporation	
	2012 $'000	2011 $'000
Variable rate instruments	11	1,170
Interest rate futures	27,084	6,957
	27,095	**8,127**

Note 19: Financial instruments (continued)

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.

19.1.3.3 Price risk
The Corporation's exposure to fluctuations in wholesale market electricity prices is not material at year end due to the sale of the Retail business (refer Note 25).

19.2 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.

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.

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.

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.

Notes to Financial Statements

For the year ended 30 June 2012

Note 19: 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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Financial assets				
Restricted cash	14,692	5,721	14,692	5,721
Cash and deposits	81,391	77	81,391	77
Investments TCorp	30	64	30	64
Investments other	6	6	6	6
Receivables	139,071	205,933	139,071	205,933
Estimated revenue from unread meters	198,681	127,483	198,681	127,483
Derivative financial instruments	13,312	4,406	13,312	4,406
	447,183	**343,690**		
Financial liabilities				
Payables	361,696	303,489	361,696	303,489
Deposits	97	172	97	172
Borrowings	4,166,109	3,640,670	4,649,477	3,734,572
Derivative financial instruments	2	47,744	2	47,744
Other liabilities	25	30	25	30
	4,527,929	**3,992,105**		

Corporation	Carrying Amount		Fair Value	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Financial assets				
Restricted cash	14,692	5,721	14,692	5,721
Cash and deposits	81,391	77	81,391	77
Investments TCorp	30	64	30	64
Investments other	6	6	6	6
Receivables	139,071	205,933	139,071	205,933
Estimated revenue from unread meters	198,681	127,483	198,681	127,483
Derivative financial instruments	13,312	4,406	13,312	4,406
	447,183	**343,690**		
Financial liabilities				
Payables	361,696	303,489	361,696	303,489
Deposits	97	172	97	172
Borrowings	4,166,109	3,640,670	4,649,477	3,436,609
Derivative financial instruments	2	47,744	2	47,744
Other liabilities	25	30	25	30
	4,527,929	**3,992,105**		

Note 19: 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 assets 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

			Level 1	Level 2	Level 3	Total
2012	Category	NOTE	$'000	$'000	$'000	$'000
Financial assets						
Investments TCorp	At fair value through profit and loss – designated	5	–	30	–	30
Derivative financial instruments	At fair value through profit and loss – classified as held for trading	7	–	4,536	8,776	13,312
Financial liabilities						
Derivative financial instruments	At fair value through profit and loss – classified as held for trading	7	–	(2)	–	(2)
Total financial assets and financial liabilities			**–**	**4,564**	**8,776**	**13,340**

Consolidated and Corporation

			Level 1	Level 2	Level 3	Total
2011	Category	NOTE	$'000	$'000	$'000	$'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
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)**

Notes to Financial Statements
For the year ended 30 June 2012

Note 19: 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	2012 $'000	2011 $'000
Opening balance at 1 July 2011		**(36,013)**	**(28,994)**
Transfer on sale of Retail business	25	-	(1,205)
Unrealised gain to comprehensive income		-	(11,287)
Purchases		-	(16,801)
Valuation of Retail retained contracts	7	(15,172)	(4,813)
Settlements		59,956	27,087
Closing balance at 30 June 2012		**8,771**	**(36,013)**

Transfer between categories
During the reporting period ended 30 June 2012, 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.

19.3 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.

	2012		**2011**	
	Actual	Target	Actual	Target
Gearing (%)	69.8%	70.4%	66.7%	72.1%
Interest cover (times)	1.4	1.4	1.4	0.8

Note 20: Commitments

		Consolidated		Corporation	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
a.	**Capital expenditure commitments**				
	Estimated capital expenditure contracted for at balance date but not provided for				
	– not later than one year	49,915	34,105	49,915	34,105
	– later than one year and not later than five years	30,465	490	30,465	490
		80,380	**34,595**	**80,380**	**34,595**
	Capital expenditure commitments include input tax credits	**7,307**	**3,145**	**7,307**	**3,145**
b.	**Operating expenditure commitments excluding leases**				
	Estimated capital expenditure contracted for at balance date but not provided for				
	– payable not later than one year	104,050	45,471	104,050	45,471
	– later than one year and not later than five years	113,309	13,782	113,309	13,782
	– later than five years	-	-	-	-
		217,359	**59,253**	**217,359**	**59,253**
	Operating expenditure commitments include input tax credits	**19,760**	**5,387**	**19,760**	**5,387**
c.	**Operating lease (equipment) expenditure commitments (refer Note 1.10.4)**				
	– not later than one year	-	26	-	26
	– later than one year and not later than five years	-	-	-	-
		-	**26**	**-**	**26**
	Equipment lease expenditure commitments include input tax credits	**-**	**2**	**-**	**2**
d.	**Operating lease (property) expenditure commitments (refer Notes 1.10.4)**				
	– not later than one year	7,209	6,467	7,209	6,467
	– later than one year and not later than five years	14,693	7,589	14,693	7,589
	– later than five years	1,010	4,271	1,010	4,271
		22,912	**18,327**	**22,912**	**18,327**
	Property lease expenditure commitments include input tax credits	**2,076**	**1,653**	**2,076**	**1,653**
e.	**Operating lease (property) revenue commitments**				
	– not later than one year	1,372	1,925	1,372	1,925
	– later than one year and not later than five years	3,232	4,303	3,232	4,303
	– later than five years	52	442	52	442
		4,656	**6,670**	**4,656**	**6,670**

Notes to Financial Statements

For the year ended 30 June 2012

Note 20: Commitments (continued)

There are no non-cancellable equipment leases referred to in Section c above. There are currently no leases for computer equipment.

There are 481 non-cancellable property leases referred to in Section 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 $6.528 million ($11.063 million in 2011) including input tax credits of $0.587 million ($0.992 million in 2011)
- There are no conditions or restrictions
- Additional to the group noted above, there are seven leases with five year plus five year renewal options
- Minimum lease payments are $16.384 million ($7.265 million in 2011), including input tax credits of $1.489 million ($0.660 million in 2011)
- 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 $4.656 million ($6.669 million in 2011) including input tax credits of $0.421 million ($0.599 million in 2011).

Note 21: Auditors' remuneration

	Consolidated		Corporation	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Remuneration received, or due and receivable, by the auditor of the economic entity for:				
– an audit or review of the financial statements	398	467	395	464
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	65	32	65	32

Note 22: Key management personnel compensation

Key management personnel comprise members of the Board of Directors and the Corporation's Executive General Management Team.

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.

	Consolidated and Corporation					
	Executive		Non-executive Directors		Total	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Short term employee benefits	3,490	3,644	395	404	3,885	4,048
Post employment benefits	247	264	35	36	282	300
Other long term benefits	239	269	-	-	239	269
Termination benefits	1,975	334	-	-	1,975	334
Total	**5,951**	**4,511**	**430**	**440**	**6,381**	**4,951**

Note 23: Related parties

Directors

The Board of Directors of Essential Energy was required to resign on 30 June 2012 as part of the Industry Reform (refer Note 27). The names of persons holding the position of Director of Essential Energy during the financial year were:

- Barbara Ward AM, Chairman (resigned 30 June 2012)
- Terri Benson, Managing Director (resigned 30 June 2012)
- The Hon. Michael Lee (resigned 31 August 2011)
- Greg McLean OAM (resigned 30 June 2012)
- Rowena Sylvester (resigned 30 June 2012)
- Kevin Murray (resigned 30 June 2012)
- Ralph Kelly (resigned 30 June 2012).

The names of persons holding the position of Director of Essential Energy from 1 July 2012 are:

- Roger Massy-Greene, Chairman (appointed 1 July 2012)
- Barbara Ward AM (appointed 1 July 2012)
- Penny Le Couteur (appointed 1 July 2012)
- Peter Dodd (appointed 1 July 2012)
- Vince Graham, Chief Executive Officer (appointed 1 July 2012).

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. 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	1 Ordinary share – $1 each	100%

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 (29 October 2010). 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 $Nil million ($4.265 million in 2011) and $Nil million ($3.701 million in 2011) 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 $Nil million ($3.321 million in 2011).

Country Energy Gas Pty Limited asset construction.

Transactions recorded for asset construction were $Nil million ($0.927 million in 2011).

Country Energy Gas Pty Limited income tax

The subsidiary was a member of the 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 $Nil million during the period ($1.057 million in 2011).

Balances outstanding with the parent

The interest free loan between the parent and the subsidiary of $56.457 million was settled on the date of disposal. The intercompany account was forgiven on disposal. There are no outstanding balances between the parent and subsidiary at 30 June 2012 and 30 June 2011.

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.

Notes to Financial Statements

For the year ended 30 June 2012

Note 24: 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.

	2012 $'000	2011 $'000
Employer contributions paid in relation to the defined contribution plan	46,872	42,709

Reconciliation of the present value of the defined benefit obligation

	Defined Benefit Obligation at Start of Year		Current Service Cost		Interest Cost	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Energy Industries Superannuation Scheme (EISS)	477,338	458,922	12,308	13,040	27,547	25,948
State Superannuation Scheme (SSS)	742	683	18	17	39	35
State Authorities Non-Contributory Superannuation Scheme (SANCS)	909	764	38	34	45	38
State Authorities Superannuation Scheme (SASS)	8,012	7,136	166	161	406	356
Electricity Supply Industry Superannuation Fund (Qld) (ESISF)	1,671	1,609	40	40	66	60
	488,672	**469,114**	**12,570**	**13,292**	**28,103**	**26,437**

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)	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
EISS	369,336	338,137	29,673	27,303	(33,428)	9,299
SSS	878	803	76	69	(71)	(1)
SANCS	632	557	50	45	(49)	1
SASS	9,699	8,865	811	741	(565)	131
ESISF	1,857	1,491	104	88	(143)	64
	382,402	**349,853**	**30,714**	**28,246**	**(34,256)**	**9,494**

Contribution by Scheme Participants		Actuarial (Gains)/Losses		Benefits Paid		Defined Benefit Obligation at End of Year	
2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
5,172	5,194	105,153	8,638	(35,998)	(34,404)	591,520	477,338
9	8	570	8	(11)	(9)	1,367	742
-	-	172	44	(67)	29	1,097	909
89	78	1,529	510	(444)	(229)	9,758	8,012
10	12	104	(123)	(713)	73	1,178	1,671
5,280	**5,292**	**107,528**	**9,077**	**(37,233)**	**(34,540)**	**604,920**	**488,672**

Employer Contributions		Contributions by Scheme Participants		Benefits Paid		Fair Value of Scheme Assets at End of Year	
2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
21,085	23,807	5,172	5,194	(35,998)	(34,404)	355,840	369,336
8	8	9	8	(11)	(9)	889	878
-	-	-	-	(67)	29	566	632
111	113	89	78	(444)	(229)	9,701	9,699
94	129	10	12	(713)	73	1,209	1,857
21,298	**24,057**	**5,280**	**5,292**	**(37,233)**	**(34,540)**	**368,205**	**382,402**

Notes to Financial Statements

For the year ended 30 June 2012

Note 24: Superannuation plans (continued)

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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
EISS	591,520	477,338	(355,840)	(369,336)
SSS	1,367	742	(889)	(878)
SANCS	1,097	909	(566)	(632)
SASS	9,758	8,012	(9,701)	(9,699)
ESISF	1,178	1,671	(1,209)	(1,857)
	604,920	**488,672**	**(368,205)**	**(382,402)**

Expenses recognised in Income Statement

	Current Service Cost		Interest Cost	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
EISS	12,308	13,040	27,547	25,948
SSS	18	17	39	35
SANCS	38	34	45	38
SASS	166	161	406	356
ESISF	40	40	66	60
	12,570	**13,292**	**28,103**	**26,437**

Expenses recognised in Statement of Comprehensive Income

	Actuarial Losses/(Gains) Recognised in Year		Change in Surplus in excess of Recovery Available from Scheme	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
EISS	138,581	(661)	-	-
SSS	641	9	(41)	3
SANCS	221	43	-	-
SASS	2,094	379	(510)	(42)
ESISF	247	(187)	-	-
	141,784	**(417)**	**(551)**	**(39)**

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 July 2004 is $276.039 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	
	2012	2011	2012	2011	2012	2011
EISS	25.9%	24.5%	39.2%	39.0%	12.1%	13.4%
SSS	28.0%	33.4%	23.7%	29.5%	4.9%	5.7%
SANCS	28.0%	33.4%	23.7%	29.5%	4.9%	5.7%
SASS	28.0%	33.4%	23.7%	29.5%	4.9%	5.7%
ESISF	28.0%	28.0%	22.0%	22.0%	10.0%	15.0%

Surplus in Excess of Recovery Available from Scheme		Net (asset)/Liability Recognised in Statement of Financial Position at End of Year	
2012 $'000	2011 $'000	2012 $'000	2011 $'000
-	-	235,680	108,002
-	41	478	(95)
-	-	531	277
-	510	57	(1,177)
-	-	(31)	(186)
-	**551**	**236,715**	**106,821**

Expected Return on Scheme Assets		Expenses/(Income) Recognised	
2012 $'000	2011 $'000	2012 $'000	2011 $'000
(29,673)	(27,303)	10,182	11,685
(76)	(69)	(19)	(17)
(50)	(45)	33	27
(811)	(741)	(239)	(224)
(104)	(88)	2	12
(30,714)	**(28,246)**	**9,959**	**11,483**

Expenses/(Income) Recognised	
2012 $'000	2011 $'000
138,581	(661)
600	12
221	43
1,584	337
247	(187)
141,233	**(456)**

Overseas Fixed Interest Securities		Property		Cash		Other	
2012	2011	2012	2011	2012	2011	2012	2011
-	-	2.6%	2.4%	1.7%	3.1%	18.4%	8.5%
2.4%	3.1%	8.6%	9.9%	19.5%	5.1%	12.9%	12.7%
2.4%	3.1%	8.6%	9.9%	19.5%	5.1%	12.9%	12.7%
2.4%	3.1%	8.6%	9.9%	19.5%	5.1%	12.9%	12.7%
-	-	10.0%	10.0%	10.0%	5.0%	20.0%	20.0%

Notes to Financial Statements

For the year ended 30 June 2012

Note 24: Superannuation plans (continued)

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.

Actual return on scheme assets

	2012 $'000	2011 $'000
EISS	(3,755)	36,602
SSS	1	68
SANCS	1	46
SASS	11	743
ESISF	(39)	104
	(3,781)	**37,563**

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**	
	2012	2011	2012	2011	2012	2011
Discount rate	3.1%	5.3%	3.1%	5.3%	2.2%	4.2%
Expected return on plan assets	8.1%	8.1%	8.6%	8.6%	6.0%	6.0%
Expected salary increases	4.0% for 2013 and 3.5% thereafter	4.0%	4.0% for 2013 and 3.5% thereafter	3.5%	4.0% for 2013 and 3.5% thereafter	5.5%
Expected rate of CPI increase	2.5%	2.5%	2.5%	2.5%	3.0%	3.0%

	Present Value of Defined Benefit Obligation		**Fair Value of Scheme Assets**	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
EISS	591,520	477,338	(355,840)	(369,336)
SSS	1,367	742	(889)	(878)
SANCS	1,097	909	(566)	(632)
SASS	9,758	8,012	(9,701)	(9,699)
ESISF	1,178	1,671	(1,209)	(1,857)
	604,920	**488,672**	**(368,205)**	**(382,402)**

(Surplus)/Deficit in Scheme		Experience Adjustments – Scheme Liabilities		Experience Adjustments – Scheme Assets	
2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
235,680	108,002	105,153	8,638	33,428	(9,299)
478	(136)	570	8	71	1
531	277	172	44	49	(1)
57	(1,687)	1,529	510	565	(131)
(31)	(186)	104	(123)	143	(64)
236,715	**106,270**	**107,528**	**9,077**	**34,256**	**(9,494)**

Notes to Financial Statements

For the year ended 30 June 2012

Note 24: Superannuation plans (continued)

Expected contributions during annual reporting period beginning after the reporting date

	2012 $'000	2011 $'000
EISS	18,646	18,603
SSS	-	-
SANCS	-	-
SASS	-	-
ESISF	-	-
	18,646	**18,603**

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	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
EISS	402,344	405,870	(355,841)	(369,336)	46,503	36,534
SSS	509	452	(889)	(878)	(380)	(426)
SANCS	893	841	(566)	(632)	327	209
SASS	7,441	7,132	(9,701)	(9,698)	(2,260)	(2,566)
ESISF	2,700	2,700	(2,649)	(2,649)	51	51
	413,887	**416,995**	**(369,646)**	**(383,193)**	**44,241**	**33,802**

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.

Note 24: Superannuation plans (continued)

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 2012	**1.9**	**2.5%**	**1.6**	**-**	**-**	**-**	**-**
Rate 2011	**1.9**	**2.5%**	**1.6**	**-**	**-**	**-**	**-**

In relation to EISS the actuary has recommended an additional contribution of $76.4 million over the period of 8.5 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.

The economic assumptions adopted to make funding recommendations are:

Weighted – Average Assumptions – EISS	**2012**	**2011**
Expected rate of return on fund assets	7.0%	7.0%
Expected salary increase rate	4.0% for 2013 and 3.5% thereafter	4.0%
Expected rate of CPI increase	2.5%	2.5%
Weighted – Average Assumptions – SASS, SANCS, & 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	4.0% for 2013 and 3.5% thereafter	4.0%
Expected rate of CPI increase	2.5%	2.5%
Weighted – Average Assumptions - ESISF QLD		
Expected rate of return on fund assets	10.0% in year 1 and 7.0% thereafter.	(13.0%) in year 1 and 7.0% thereafter.
Expected salary increase rate	5.0%	5.0%
Expected rate of CPI increase	3.0%	3.0%

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 ESISF 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:

	2012 $'000	2011 $'000
Contribution valuation adjustment	(2,345)	(1,915)
Superannuation cost	59,489	56,341
	57,144	**54,426**

Notes to Financial Statements

For the year ended 30 June 2012

Note 25: Disposal of operations

25.1 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 profit for the period from disposal is as follows:

Net gain on sale of Retail business		**Consolidated**		**Corporation**
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Consideration received	1,784	1,215,666	1,784	1,215,666
Net liabilities/(assets) disposed	(2,746)	13,022	(2,746)	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	**(963)**	**1,075,742**	**(963)**	**1,075,742**
Cashflows from discontinued operations				
Net cash inflows from operating activities	-	143,473	-	143,473
Net cash inflows from investing activities	-	-	-	-
Net cash inflows from financiang activities	-	-	-	-
Net cash inflows/(outflows)	**-**	**143,473**	**-**	**143,473**

Analysis of assets and liabilities over which control was lost:

		Consolidated		**Corporation**
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current assets				
Receivables	(151)	138,628	(151)	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	3,716	(197,145)	3,716	(197,145)
Deposits	-	(9,806)	-	(9,806)
Electricity derivatives	(819)	(107,672)	(819)	(107,672)
Provision – Green Certificates	-	(8,431)	-	(8,431)
Net assets sold	**2,746**	**(13,021)**	**2,746**	**(13,021)**

Note 25: Disposal of operations (continued)

Retail sale working capital true-up

The financial statements at 30 June 2011 included an adjustment to the final Retail sale consideration for an estimate of the "true-up" of working capital in accordance with the sale agreement. At 7 November 2011, the amount payable to the purchaser in relation to the working capital "true-up" was agreed and paid. This adjustment resulted in $2.396 million gain being disclosed in relevant components of the discontinued operations section of the income statement.

25.2 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 distribution assets. The proceeds on disposal of $107.6 million (including $56.5 million intercompany loan repayment) were received in cash. The profit for the period from disposal was as follows:

	Consolidated		Corporation	
	2012 $'000	2011 $'000	2012 $'000	2011 $'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 26: Contingent liabilities

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 12 months.

Note 27: Electricity Industry Reform

On 18 March 2012, the NSW Government announced a reform of the electricity distribution network in NSW under which the three current network businesses – Ausgrid, Endeavour Energy, and Essential Energy – would be integrated under a single new State-owned corporation (SOC). The timing for implementation of the single corporate structure has not yet been confirmed.

On 21 May 2012, the NSW Government announced that key elements of the reform would commence from 1 July 2012. As part of these transitional arrangements, a common Chairman, Board and Chief Executive Officer commenced their roles on 1 July 2012.

The above arrangements do not result in any impacts on Essential Energy's 30 June 2012 financial statements.

Note 28: Events Subsequent to Balance Date

The financial statements of Essential Energy for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the Directors on 5 September 2012.

There are no known events that would impact on the state of affairs of the Group or have a material impact on these statements up to that date.

END OF AUDITED FINANCIAL STATEMENTS

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 2012, 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 2012, 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.

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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.

Steven Martin
Director Financial Audit

11 September 2012
SYDNEY

Statement by Director

STATEMENT BY DIRECTOR
FOR THE YEAR ENDED 30 JUNE 2012

Pursuant to Section 41C of the *Public Finance and Audit Act 1983,* I am of the opinion as the Director of NorthPower Energy Services Pty Limited:

(a) The accompanying financial statements and notes are a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010*, any Accounting Interpretations, and give a true and fair view of the financial position of NorthPower Energy Services Pty Limited as at 30 June 2012 and its financial performance for the year ended on that date.

(b) At the date of this statement, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

(c) I am not aware of any circumstances at the date of the statement that would render any particulars included in the financial report to be misleading or inaccurate.

This declaration is made in accordance with a resolution by the Director.

....
Peter Johnson
Director / Secretary
5 September 2012

Statement of Comprehensive Income

For the year ended 30 June 2012

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 2012

	NOTE	2012 $	2011 $
Non-current assets			
Other	2	1	1
Total non-current assets		**1**	**1**
Total assets		**1**	**1**
Net assets		**1**	**1**
Equity			
Contributed equity		1	1
Total parent entity interest		**1**	**1**
Total equity		**1**	**1**

The accompanying notes form part of this Statement of Financial Position.

Cash Flow Statement

For the year ended 30 June 2012

There were no movements of cash or cash equivalents during the current or comparative periods.

Statement of Changes in Equity

For the year ended 30 June 2012

	2012 $	2011 $
Contributed equity	1	1
Contributed equity closing balance	**1**	**1**

There were no movements recorded in equity during the current or comparative periods.

Notes to Financial Statements

For the year ended 30 June 2012

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 one (1) ordinary share of $1.00 each. The share is issued to Essential 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 12 months to 30 June 2012.

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 one dollar ($1) 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 one dollar ($1). 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

	2012 $	2011 $
Non-current		
Loan to parent entity	1	1
Total non-current other assets	**1**	**1**

Note 3: Financial Instruments

Financial assets		**Non-Interest Bearing**		**Statement of Financial Position**	
	NOTE	2012 $	2011 $	2012 $	2011 $
Related entity	1.5	1	1	1	1
Total financial assets		**1**	**1**	**1**	**1**

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.

Notes to Financial Statements

For the year ended 30 June 2012

Note 4: Auditor's remuneration

	2012 $	2011 $
Remuneration received, or due and receivable, by the auditor of the economic entity for an audit or review of the financial statements.	2,500	2,500
	2,500	**2,500**

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.

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 2012 was authorised for issue by the Director on 5 September 2012.

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 Albury NSW 2640
Monday to Friday 8.30 am – 5.00 pm

Balranald Essential Service Centre
90 Market Street Balranald NSW 2715
Monday to Friday 8.30am – 5.00pm

Batemans Bay Essential Service Centre
Shop 7 – 6 Orient Street
Batemans Bay NSW 2536
Monday to Friday 9.00 am – 5.00 pm

Bathurst Essential Service Centre
151 George Street
Bathurst NSW 2795
Monday to Friday 8.30 am – 5.00 pm

Bega Essential Service Centre
219 – 221 Carp Street
Bega NSW 2550
Monday to Friday 8.30 am – 5.00 pm

Broken Hill Customer Service Centre
160 Beryl Street
Broken Hill NSW 2880
Monday to Friday 8.30 am – 4.30 pm

Cooma Essential Service Centre
138 Sharp Street Cooma NSW 2630
Monday to Friday 9.00 am – 5.00 pm

Cowra Essential Service Centre
40 Grenfell Street Cowra NSW 2794
Monday to Friday 8.30 am – 5.00 pm

Deniliquin Essential Service Centre
26 Napier Street Deniliquin NSW 2710
Monday to Friday 9.00 am – 5.00 pm

Dubbo Essential Service Centre
168 Macquarie Street Dubbo 2830
Monday to Friday 8.30 am – 5.00 pm

Forbes Essential Service Centre
9 Oxford Street Forbes NSW 2871
Monday to Friday 8.30 am – 5.00 pm

Forster Essential Service Centre
16 Breese Parade Forster NSW 2428
Monday to Friday 8.30 am – 4.30 pm

Goulburn Essential Service Centre
148 Auburn Street
Goulburn NSW 2580
Monday to Friday 9.00 am – 5.00 pm

Grafton Essential Service Centre
17 Prince Street Grafton NSW 2460
Monday to Friday 8.30 am – 4.30 pm

Griffith Essential Service Centre
310 Banna Avenue Griffith NSW 2680
Monday to Friday 8.30 am – 5.00 pm

Gulgong Essential Service Centre
102 Herbet Street
Gulgong NSW 2852
Monday to Friday 8.30 am – 5.00 pm

Hay Essential Service Centre
81 Lachlan Street Hay NSW 2711
Monday to Friday 8.30 am – 5.00 pm

Leeton Essential Service Centre
19 Pine Avenue Leeton NSW 2705
Monday to Friday 8.30 am – 5.00 pm

Lismore Essential Service Centre
81 – 83 Molesworth Street
Lismore NSW 2480
Monday to Friday 8.30 am – 4.30 pm

Moree Essential Service Centre
223 Balo Street Moree NSW 2400
Monday to Friday 9.00 am – 4.00 pm

Moruya Essential Service Centre
210 Araluen Road Moruya NSW 2537
Monday to Friday 9.00 am – 4.30 pm

Mudgee Essential Service Centre
102 Church Street Mudgee NSW 2850
Monday to Friday 8.30 am – 5.00 pm

Narrandera Essential Service Centre
113 East Street
Narrandera NSW 2700
Monday to Friday 9.00 am – 5.00 pm

Oberon Essential Service Centre
157 Oberon Street Oberon NSW 2787
Monday to Friday 9.00 am – 5.00 pm

Orange Essential Service Centre
187 Summer Street
Orange NSW 2800
Monday to Friday 8.30 am – 5.00 pm

Parkes Essential Service Centre
298 Clarinda Street Parkes NSW 2870
Monday to Friday 8.30 am – 5.00 pm

Port Macquarie Essential Service Centre
140 Lake Road
Port Macquarie NSW 2444
Monday to Friday 8.30 am – 5.00 pm

Tamworth Essential Service Centre
Electra Street Tamworth NSW 2340
Monday to Friday 9.00 am – 5.00 pm

Trundle Essential Service Centre
37 Forbes Street Trundle NSW 2875
Monday to Friday 9.00 am – 4.00 pm

Tweed Heads Essential Service Centre
39 Sunshine Avenue
Tweed Heads South NSW 2486
Monday to Friday 8.30 am – 4.30 pm

Wagga Wagga Essential Service Centre
2 – 209 Baylis Street
Wagga Wagga NSW 2650
Monday to Friday 8.30 am – 5.00 pm

Wentworth Customer Service Centre
24 – 26 Darling Street
Wentworth NSW 2648
Monday to Friday 8.30 am – 5.00 pm

Young Essential Service Centre
53 Boorowa Street Young NSW 2594
Monday to Friday 8.30 am – 5.00 pm

Contacts

Contacts

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Annual Report 2011–2012

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