ESSENTIAL ENERGY

Annual Report 2012–2013

28 October 2013

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

The Hon. Andrew Constance, MP
Minister for Finance and Services
Level 34, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Ministers

ESSENTIAL ENERGY ANNUAL REPORT 2012-2013
We are pleased to submit Essential Energy's Annual Report, detailing performance, operations and financial results for the year ended 30 June 2013.

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

Copies will be sent to the Premier of NSW, the Auditor General, the Minister for Resources and Energy, the Minister for Primary Industries, and other key stakeholders.

The report is available on our website essentialenergy.com.au

Yours sincerely

Roger Massy-Greene
Chairman

Vince Graham
Chief Executive Officer

About this report

Essential Energy's 2012/13 Annual Report documents our operating, financial and sustainability performance for the 2012-2013 financial year and has been approved by the board of directors.

The contents of this report are guided by:

> The *State Owned Corporations Act (1989)*

> The *Annual Report Statutory Bodies Act (1984).*

Assurance

The consolidated financial report has been audited by the Audit Office of NSW – the Independent Auditor's certified report is on page 30 of this report.

Cost for report production

The external cost for the production of this report was $14,530 excluding GST.

Contents

About us

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

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.

With more than 4,000 employees based across over 100 local depots and regional offices, Essential Energy is one of the largest employers in regional NSW.

Responsible network management

The Australian Energy Regulator (AER) regulates our network pricing. Through the regulatory framework administered by the 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.

Our service area

Our values

These five values are the basis for everything we do.

Safety excellence

- > Put safety as your number one priority
- > Do not participate in unsafe acts, and challenge unsafe behaviours
- > Think before you act
- > Lead by example
- > Take responsibility for the health and safety of yourself and others

Respect for people

- > Treat all people with respect, dignity, fairness and equity
- > Demonstrate co-operation, trust and support in the workplace
- > Practise open, two-way communication

Customer and community focus

- > Deliver value and reliable service to our customers and communities
- > Use resources responsibly and efficiently
- > Be environmentally and socially responsible

Continuous improvement

- > Look for safer and better ways to do your job
- > Improve our financial performance
- > Support innovation to add value to our business

Act with integrity

- > Act honestly and ethically in everything you do
- > Be accountable and own your actions
- > Follow the rules and speak up.

Year in review

During the 2012-2013 financial year, Essential Energy focused on improving safety performance, controlling costs and delivering a reliable electricity supply to our communities. Essential Energy has performed strongly in key areas during a year of significant network reform.

Commitment to safety

Safety remains Essential Energy's first priority, and we continue to work towards a culture where no employee knowingly participates in an unsafe act, while still recognising that professionals can make mistakes.

For the month of June 2013, Essential Energy recorded its best ever safety performance results, with no Lost Time Injuries (LTI) recorded and only nine Total Reportable Injuries (TRI). The June result followed strong safety performance over the previous 12 months. Our Total Recordable Injury Frequency Rate (TRIFR) was favourable to target – showing stable safety results during a year of organisational change.

Our continued commitment to improving safety performance has resulted in our LTI results and Lost Time Injury Frequency Rate (LTIFR) trending downwards over the past 10 years. In 2012-2013, we recorded 22 LTIs compared to 23 in the previous year, resulting in an LTIFR of 2.4, consistent with last year's results.

Network investment

Effective asset management is vital to running a safe, reliable and sustainable electricity network while containing network price increases to CPI.

In 2012-2013, Essential Energy invested approximately $1.1 billion in our network, delivering a capital works program of around $687 million and an operating program of around $457 million. During the reporting period, 236 major sub-transmission projects were commenced, completed or continued with a total capital investment of more than $132 million. Almost 5,000 distribution projects were completed in 2012-2013, ranging in value from $1,000 to more than $1 million per project – a total investment of around $220 million.

Strong financial performance

Essential Energy achieved a strong financial result for the year, with earnings of $819.8 million before interest and tax, exceeding budget expectations and contributing to the sustainability of our business. This was due to ongoing savings we achieved in operating expenditure, off-setting the lower than forecast consumption and revenue.

Delivering the NSW Government's network reform program, as well as other internally-led cost savings initiatives, has removed unnecessary costs and improved efficiencies across our operations. During the reporting period operating expenditure was reduced by more than $60 million (compared with the 2011-2012 year) by identifying and closely managing areas of discretionary expenditure.

Australia's largest electricity network

Essential Energy's network reliability performance has continued to improve, with a System Average Interruption Duration Index (SAIDI) normalised figure of 233 minutes per customer against a target of 320 minutes.

There were 158 Natural Disaster Declarations recorded across Essential Energy's footprint in 2012-2013, and extreme weather events including fires, floods and severe storms were a major cause of unplanned supply interruptions.

Reliability performance across our varying operating environments demonstrates that network investment and targeted improvement projects have improved network resilience and supply to our customers.

Our Supply Interruptions telephone line – 13 20 80 – received more than 636,000 calls in the reporting period, an increase of 46,000 on the previous year's result.

Transition to Origin Energy

Essential Energy customer service employees continue to provide retail services to Country Energy customers as part of the Transition Services Agreement (TSA) with Origin Energy. A key project in the year ahead will be the conclusion of TSA commitments and transition to network-only activities in October 2013.

Plans for 2013-2014

Our plans for the future reflect our continuing priorities, including our commitment to improved safety performance, cost control and network reliability.

Improving our safety performance for employees, contractors and the public remains our top priority, and we will again seek to reduce our Lost Time Injury Frequency Rate (LTIFR), on a pathway to achieving our ambition of ensuring no-one knowingly participates in an unsafe act.

Electricity network prices decreased by around three per cent for Essential Energy's residential customers on 1 July 2013 – the first time network prices have fallen in more than a decade. This is positive news for households in our distribution area, and we plan to continue containing our average electricity network price increases to CPI or below for the next five years.

Submitting a robust and prudent network investment proposal to the Australian Energy Regulator (AER) for the five year period commencing July 2014 will be a considerable challenge, and in 2012-2013 we made significant progress on developing our submission. This AER determination sets our revenue path and drives our customers' electricity network prices for the five year period.

Our plans and priorities

Our purpose is to be of service to our communities by efficiently distributing electricity to our customers in a way that is safe, reliable and sustainable.

Our priorities and obligations are reflected in our Corporate Plan, and measured through our performance against the key measures and targets in our Balanced Scorecard for 2012-2013.

Key result areas	Measures	Target 2012-2013	Result 2012-2013
SAFETY			
Safe, capable, motivated employees	Lost Time Injury Frequency Rate (LTIFR)	2.0	2.4
	Significant Electricity Network Incidents (SENI) – controllable	46	41
	Total Recordable Injury Frequency Rate (TRIFR)	28.7	27.4
CUSTOMER/COMMUNITY			
Valued by our community	Customer satisfaction	75%	74%
	Planned outage management	85%	90%
Protect public safety & environment	Reportable environment incidents – controllable	12	4
Reliable and sustainable network	System Average Interruption Duration Index (SAIDI) normalised	320	233
FINANCIAL			
Financial sustainability	Net Profit After Tax (NPAT)	$324.3M	$350.1M
	Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) – including capital contributions	$1130.9M	$1142.6M
Effective investment	Total capital expenditure (CAPEX)	$920.5M	$686.8M [1]
Efficient operations	Operating expenditure (OPEX)	$578.5M	$562.4M
BUSINESS PROCESS			
Network plan delivery	Delivery of the Network Plan (DONP)	100%	79% [2]
Governance, risk and compliance management	Audit recommendations outstanding > 90 Days	0	0
	Risk treatment plans outstanding > 90 days	0	1
CULTURE			
Safe, capable, motivated employees	Sick leave – days per person	5	5.17
	Number of employees with a Gross to Base pay Ratio (GBR) greater than 1.5	150	144

1. The result is mainly attributable to below budget expenditure in internally funded system assets, IT software, IT hardware, fleet and buildings. It also reflects fleet, property and IT savings initiatives along with planned and intentional reductions to the capital works program.

2. Network Plan delivery was below target due to delayed delivery of a small number of major capital projects, the impacts of significant weather events, and delayed progress on vegetation programs as a result of an increased focus on bushfire risk mitigation activities.

Essential Energy's 2012-2013 Corporate Plan was designed to promote the long term interests of our customers, employees and shareholders by delivering three key outcomes:

1. Continuous improvement in safety performance
2. Maintaining the reliability and sustainability of the network
3. Containing average distribution network tariff increases to CPI for our customers.

Our six strategic objectives and their related priority actions are designed to help us deliver these outcomes.

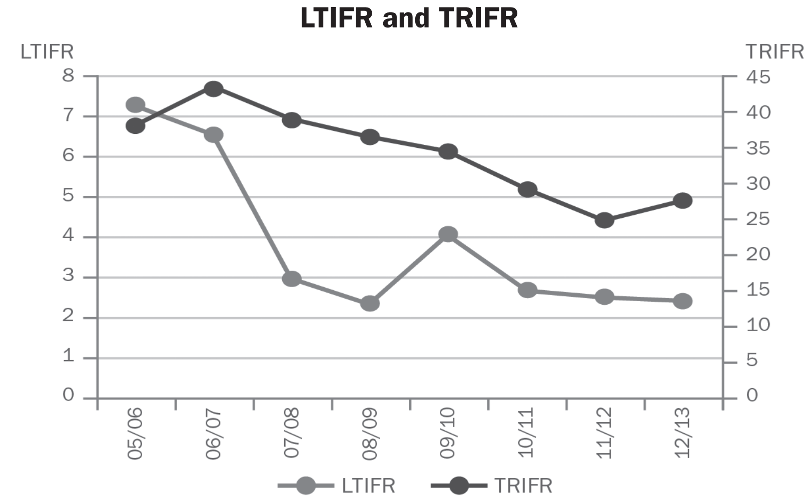
Strategic objective	Priority actions	Why we need to do this
Improve safety performance	Accept our personal responsibility to drive improvements in safety performance	Improve safety behaviours, culture and performance with a focus on fatal risk management, an effective safety management system, and safety training and development
Improve customer value	Support delivery of the Network Reform Program	Improve our efficiency through functional reviews, fleet policy initiatives and the workforce plan to contain average network prices to CPI or below
Deliver the network plan	Deliver our next Australian Energy Regulator submission	Develop a prudent capital and operating plan to deliver real improvements in network performance and efficiency
Deliver performance through people	Negotiate a new Enterprise Agreement	Develop programs for all leadership roles to foster a shared commitment to our purpose and values
Manage business risk	Deliver network operational readiness initiatives	Complete the transition of customers and relevant services to Origin Energy in line with the TSA and deliver operational readiness initiatives
Leverage technology	Deliver agreed reform initiatives	Use diagnostics to identify causes of incidents and develop initiatives that efficiently improve reliability.

Performance

1 Improve safety performance

Safety is Essential Energy's number one priority and the responsibility of every employee. We are working to develop a culture where no employee knowingly participates in an unsafe act. We have come a long way in the past 10 years with our Lost Time Injury (LTI) results and Lost Time Injury Frequency Rate (LTIFR) trending downwards. We recorded 22 LTIs in 2012-2013 compared to 23 in the previous year, resulting in an LTIFR of 2.4, consistent with the previous year's safety performance.

In June 2013, we recorded our best safety performance results ever, with no LTIs recorded in the month and nine Total Reportable Injuries. The June result followed a strong safety performance over the previous 12 months. Our Total Recordable Injury Frequency Rate (TRIFR) was favourable to target – showing stable safety results during a year of organisational change.



Significant Electrical Network Incidents

Under the Electricity Supply Act 1995 (NSW), Essential Energy is required to report on safety and asset related incidents on the electricity network.

In 2012-2013 there were 41 controllable Significant Electrical Network Incidents (SENIs) against a target of 46: 20 were the result of actions of Essential Energy employees, 10 were caused by contractors and 11 were the result of a network failure.

Management systems

Essential Energy's Health, Safety and Environment Management System (HSEMS) retained certification to AS/NZS 4801:2001 Occupational Health and Safety Management Systems and ISO 14001:2004 Guideline for an Environmental Management System in 2012-2013.

Manual handling program

Manual handling remains the major contributing factor in workplace injuries at Essential Energy, and the Manual Handling Solutions Program continued in 2012-2013 to mitigate this risk.

The program educates employees, encouraging them 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. The average cost of claims increased as a result of a small number of claims requiring ongoing specialist treatment.

Workers compensation performance

During the reporting period, there were 240 claims, down from 312 in the previous year – details are provided in the table below.

In 2012-2013, Essential Energy revised its approach to managing workers compensation claims, achieving significant reductions in ongoing insurance premiums through a range of initiatives designed to improve claims management and ensure injured employees are provided with the best possible direction back to work in a safe and sustainable manner.

Essential Energy's approach to workers compensation is proactive, with a focus on early intervention and return to work strategies that are sustainable for injured employees and the organisation. This revised approach is designed to improve the injury management process for employees, helping injured employees return to work with suitable duties sooner.

In the reporting period, Essential Energy worked to strengthening its relationship with workers compensation insurer *Employers Mutual Limited,* appointing a new account manager who will provide enhanced financial stewardship, and negotiating new and improved service

Workers' Compensation claims	Baseline date 05–06	08–09	09–10	10–11	11–12	12–13
Manual handling (MH) claim numbers	275	173	150	133	114	95
Total claims	380	369	369	329	312	240
Percentage MH from total claims	72%	46.8%	41%	40.3%	37%	40%
Employee numbers	3,721	4,353	4,534	4,573	4,720	4,394
Percentage employees – MH claims	7.4%	4.0%	3.4%	2.9%	2.4%	2.0%
Employee ratio with MH claims	1 in 13	1 in 25	1 in 29	1 in 34	1 in 41	1 in 46
Average cost of claims	$3,507	$1,362	$1,149	$994	$1,316	$3,045

level agreements and reporting to ensure better management and monitoring of the portfolio. At a business level, new key performance indicators that capture additional workers compensation data have increased transparency and visibility of workers compensation performance.

Safety Interactions

The Safety Interactions program was introduced in March 2013 following a successful pilot. Safety Interactions replaces parts of Essential Energy's compliance based auditing program, and is a move towards a more interactive, learning and culture-based approach to safety management. It provides an opportunity for for crews and supervisors to spend time in the field together, discussing and examining all aspects of safety on the worksite to help drive improvements in processes, tools and procedures. Safety Interactions also provide an opportunity for positive work feedback and insights into safety and environmental procedures, acceptable modes of communication, job planning and job efficiency.

Safety Week 2013

Essential Energy's Safety Week 2013 took place from 30 April to 3 May 2013, providing an opportunity for all employees to stop and take the time to reflect on our safety practices, performance and culture.

Separate programs for field and non-field employees focused on leadership, accountability and engagement. Senior leaders then spent a day in the field with frontline employees to learn more about the issues faced on Essential Energy's worksites each day.

More than 400 safety specific questions, suggestions and comments were raised by employees to the Health Safety and Environment Team during Safety Week and each were provided with a response to the feedback they raised. Many of these suggestions will be implemented during the coming year.

A major focus of Safety Week 2013 was to raise awareness about the importance of reporting near hits – incidents that have the potential to be serious or hurt our employees. In the month following the program 118 near hits were reported, representing the highest near hit reporting result on record at double the monthly average. The Safety Week program has established itself as an effective way of sharing safety messages and encouraging reporting to prompt future improvements to processes and systems.

Safety Pledge

The Executive Leadership Team (ELT) demonstrated their commitment to safety by signing a Safety Pledge. This means the ELT has pledged to keep safety as Essential Energy's number one priority and to ensure every employee leaves work as safely as they arrived.

To further demonstrate Essential Energy's commitment to safety, all leaders and managers will be asked to sign the Employee Safety Pledge and demonstrate their personal commitment to creating a workplace where no-one knowingly participates in an unsafe act.

Fair and Just Culture

The concept of a Fair and Just Culture was introduced during Safety Week 2013, setting out the expectations Essential Energy has of its employees, and clearly explaining what employees can expect from Essential Energy.

A fair and just culture is a culture where safety hazards are always reported, recognising that professionals will make mistakes, and that people often develop unhealthy or bad habits at work.

Essential Energy aims to foster not only a fair and just culture, but one that expects employees to have a fierce intolerance for reckless behaviour, placing accountability on those who choose unnecessarily to take risks.

Continued development of a Fair and Just Culture

The principles of a Fair and Just Culture, and the expectations set out in Safety Week 2013, will form the cornerstone of Essential Energy's approach to safety in the future, helping us to further build and develop the Fair and Just Culture program in 2013-2014.

Developing a Fair and Just Culture for Essential Energy is about more than safety – it covers all areas of our business, helping drive the way employees relate to colleagues, the organisation and the community. Essential Energy's continued focus on ensuring everything we do is fair and just – from dealing with suppliers, contractors and members of the public to the service levels we provide to customers.

Powerful Minds

Essential Energy is committed to improving the psychological wellbeing of employees, with the *Powerful Minds* program continuing in 2012-2013.

The program provides training and support for employees to help them identify, understand and manage factors that impact on workplace stress, and to reduce bullying and harassment in the workplace.

To facilitate this, Essential Energy offers a 12 hour Mental Health First Aid course that helps employees to learn about the signs and symptoms of specific mental health problems, and provides them with strategies for helping people in a mental health crisis and in accessing ongoing support.

During the reporting period, 181 Essential Energy employees completed a Mental Health First Aid course, with 875 employees completing the course since it was introduced in 2007.

The year ahead

WHAT the action is	WHY we're doing it	HOW we're doing it	WHEN it will be done
Implement our Strategic Safety Plan	To reduce the risk of incidents and injuries to our employees, contractors and the public	Improve safety behaviours, culture and performance with a focus on fatal risk management, an effective Safety Management System, and safety training and development	LTIFR ≤2.2 by June 2014

2 Deliver the Network Plan

Essential Energy's current five-year Network Plan, which runs to 30 June 2014, 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 peak energy demands.

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

We understand good asset management is the key to running a safe, reliable and sustainable electricity network while containing distribution network average price increases to CPI.

The continuing economic slowdown, high Australian dollar and electricity price rises since 2009 have led small to medium sized businesses and residential customers to reduce their electricity use. Electricity consumption continues to decline with the exception of the mining sector.

By 2014 Essential Energy will have largely completed major network investments that were needed to meet a number of licence conditions. This means that our network investment program will shift over the next five years from peak demand driven major projects to a focus on the replacement of ageing assets to maintain network reliability. The total capital program will decline.

In managing our network we will balance costs, reliability standards and benefits for our customers. Every dollar spent will be prioritised to deliver a safe, reliable and efficient network.

To maintain our network's reliability we will deliver the capital investment and maintenance tasks outlined in our Asset Management Plan.

Network Plan performance

Essential Energy invested more than $1.1 billion in the electricity network last year, delivering a capital program of around $687 million and around $457 million in maintenance programs.

In the past year 236 sub-transmission projects were commenced, continued or completed totalling a capital investment of more than $132 million have been delivered.

Almost 5,000 distribution projects were completed in 2012-2013, with network investment of $220 million.

Capital works program readjustment

Essential Energy revised its capital works program in early 2013, after analysing network data collected during the summer peak load periods. The program was readjusted to ensure all network projects were still required to meet consumer demand and other network investment drivers.

As a result of this process, a number of planned projects were deferred because Essential Energy's network was able to meet short term demands without additional investment in some areas.

Essential Energy will continue to revise its capital works needs to ensure we are delivering prudent network investment to maintain a safe and reliable power supply.

Capital/Operational 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 2012-2013, we completed an extensive network upgrade program, including:

- 48km high voltage underground cable installed
- 79km low voltage line installed or upgraded
- 960km high voltage line installed or upgraded
- 328 reclosers installed
- 71 padmount distribution transformers installed or upgraded
- 592 overhead distribution transformers installed or upgraded
- 917 gas switches installed
- 58 voltage regulators installed
- 6976 poles installed or replaced
- 10km low voltage underground cable installed or refurbished
- 290km sub-transmission line installed or upgraded
- 18 major zone and bulk supply substations constructed.

Operating program highlights

- 345,441 pole inspections
- 18,455 pillar inspections
- 119,006 network maintenance tasks completed
- 256 padmount substations inspected
- 24,594 substation earth tests.

Network investment highlights by region

North Coast Region

Koolkhan to Maclean sub-transmission line – $21 million

More than 10,000 customers in Maclean, Yamba, Iluka and surrounding areas are benefiting from the completion of a new 66,000 volt powerline from Koolkhan zone substation to Maclean zone substation.

The new line provides alternate supply to the Maclean area, ensuring a sustainable power supply for households and businesses while also providing the ability for Essential Energy to re-route power to a back-up line during maintenance or when an unplanned interruption occurs.

South Eastern Region

Bega Zone Substation to Eden South Zone Substation transmission line – $16.8 million

The new 66,000 volt powerline between the Bega Zone Substation and the Eden South Zone Substation was energised late in 2012. The project commenced in 2010 and involved the construction of more than 40 kilometres of new powerline. The new line establishes alternate supply options for the NSW Far South Coast towns of Merimbula, Eden and Pambula.

Southern Region

Wagga Wagga North CBD upgrade – $3.5 million

Essential Energy completed a major network improvement that will significantly benefit customers in the Wagga Wagga central business district.

This project has increased the capacity of the local electricity network and enhanced the Wagga Wagga CBD streetscape by removing overhead powerlines and placing them underground.

Improvement works involved the installation of new high and low voltage cables underground, five new substations and two new switching stations – allowing improved flexibility in managing the network and increased network capacity and reliability for business and residential customers in the northern end of Wagga Wagga's CBD.

These improvements will also cater for future development and the anticipated growth in peak demand over coming years.

Zone substations – Forest Hill, Wagga Wagga – $2.6 million; Morven, Culcairn – $3.8 million

Northern Region

Tamworth – new underground high voltage cable to CBD – $1.25 million

This new 1.5 kilometre underground cable is stage one of a four-part project to improve the security of supply to the Tamworth CBD. The project also involved a transformer upgrade, new underground cable and associated civil works in the main street of Tamworth. The work was mainly carried out at night due to the high volume of pedestrian traffic.

TransGrid – Goddards Lane Zone Substation sub-transmission line – $4.5 million

This new high voltage powerline provides a second link from the TransGrid bulk supply point (BSP) to Essential Energy's Goddards Lane zone substation, from which a number of large customers in the area receive their electricity supply. It provides alternate supply to the Goddards Lane zone substation that previously did not exist, improving security of supply. This new sub-transmission line provides Goddards Lane Zone Substation with N-1 backup supply.

Before this work was completed, the Lower Clarence Valley was adversely affected by a number of supply interruptions, resulting in up to 10,000 customers being without supply for extended periods.

Essential Energy completed construction of new zone substations in Forest Hill (Wagga Wagga) and Morven (Culcairn). The new zone substations will provide increased capacity and alternate supply options for customers in these areas.

Far West Region

Broken Hill – Williams/Iodide Street Upgrade – $800,000

The completed upgrade of Essential Energy's distribution network in Williams and Iodide streets improved power reliability to the city of Broken Hill to meet N-1 licence conditions.

The project began in March 2013 and was completed in June 2013. The upgrade included:

- Replacement of 19 power poles
- Replacement of 39 pole cross-arms
- Installation of 135 insulators
- Replacement of 3km of high voltage powerlines
- Installation of enclosed gas circuit breaker
- Transformer refurbishment.

Brewarrina to Goodooga high voltage powerline upgrade – $650,000

This project addresses the reliability performance of the 693 kilometre powerline between Brewarrina and Goodooga high voltage powerline.

The project, which aimed to improve the quality of supply for customers, included the refurbishment of 32km of main line, replacement of 47 power poles and replacement of 115 pole cross-arms.

Australian Energy Regulator (AER) submission

The Australian Energy Regulator (AER) will determine the network prices and revenue of Essential Energy for the five year period from 2015 to 2019. To facilitate this process, Essential Energy must justify its proposed capital and operating expenditure for the aforementioned period through a prescribed submission process in accordance with the National Electricity Rules.

The key priority of Essential Energy's submission to the regulator is the delivery of a safe and reliable supply. The long-term sustainability of our network investment must be balanced with the delivery of guaranteed outcomes for customers in terms of service, reliability and cost.

Significant changes to the National Electricity Rules in late 2012 resulted in changes to the regulatory process and the associated framework. The AER has instigated a 'better regulation' project aimed at providing clearer guidance to customers and stakeholders in respect of the processes, powers and expectations of the regulator. A key expectation of the regulator is that distributors must demonstrate an effective and genuine engagement of customers and stakeholders in formulating their service levels and network investments.

A Transitional Proposal must be submitted to the AER in January 2014 so that prices may be set for the 2014-2015 financial year. A Substantive Proposal must be submitted to the AER by May 2014 so that the price path and revenue may be determined for the period from July 2015 to June 2019.

The year ahead

WHAT the action is	WHY we're doing it	HOW we're doing it	WHEN it will be done
Develop our Network Reliability Plan	To maintain reliability for customers to meet service standards	Use diagnostics to identify causes of incidents and develop initiatives that improve reliability where appropriate	Network Reliability Plan developed by Dec 2013

3 Improve customer value

Controlling network prices

Electricity prices in NSW have risen sharply in recent years, with distribution network prices for Essential Energy's customers increasing by 74 per cent since July 2009. As a result, affordability has become a real concern for families and businesses.

While we will never compromise safety, it is important that Essential Energy operates our network reliably and efficiently so that we can contain costs for our customers.

Our network prices decreased by around three per cent on 1 July 2013 and our focus is to keep this downward pressure on prices by controlling costs and keep average network prices to CPI or below for the next five years.

Network reliability

While containing our prices, we remain committed to delivering a safe, reliable and sustainable electricity network for our customers. We have delivered steady improvements in our reliability performance since 2005-2006, and our network investment program and targeted reliability improvement projects have made our network even more resilient. Our customers are benefiting from a more reliable electricity supply compared to five years ago.

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 233 minutes against a target of 320 minutes set by the NSW Department of Trade and Investment.

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

For the financial year, an average of 1.85 interruptions was recorded against a target of 2.94 interruptions – a significant improvement on the 2.12 interruptions per customer reported in the previous year.

2012–2013 Network performance results (normalised)

	Feeder category	Target	Performance	Result
SAIDI (minutes)	Urban	125	73	✓
	Short rural	300	237	✓
	Long rural	700	450	✓
SAIFI (interruptions)	Urban	1.80	0.86	✓
	Short rural	3.00	1.94	✓
	Long rural	4.50	2.94	✓

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 200km (and not an urban feeder)

> Long Rural: total feeder route length is greater than 200km (and not an urban feeder).

Network Reform Program

Financial results were favourable in 2012-2013 as a result of prudent capital expenditure and an ongoing focus on controlling operating costs.

Delivering the Network Reform Program, as well as other internally led cost savings initiatives, has removed unnecessary costs and improved efficiency in key operating areas. During the reporting period operating expenditure was reduced by more than $60 million (compared with the 2011-2012 baseline), particularly in areas of discretionary expenditure.

As part of the Network Reform Program, Essential Energy:

1. Implemented new Level 2, 3 and 4 management structures
2. Delivered OPEX and CAPEX savings
3. Implemented governance requirements to our compliance and risk management frameworks.

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.

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, 878,837 customer calls were responded to, compared to 902,000 in the previous financial year.

Our customer service employees have continued to provide exceptional customer service with 74.6 per cent of customer enquiries responded to within 30 seconds, against a target of 70 per cent.

For general customer service enquiries, 94.97 per cent were resolved at first contact.

The year ahead

WHAT the action is	WHY we're doing it	HOW we're doing it	WHEN it will be done
Deliver our Customer Value Improvement Plan	To improve electricity affordability for our customers	Improve our efficiency through functional reviews, fleet policy initiatives and the workforce plan to contain average network prices to CPI or below	During 2014 to 2019
Develop our Network Reliability Plan	To maintain reliability for customers to meet service standards	Use diagnostics to identify causes of incidents and develop initiatives that improve reliability where appropriate	Network Reliability Plan developed by Dec 2013
Develop and deliver our AER submission on time	To deliver a safe, reliable, sustainable and affordable network throughout 2014 to 2019	Develop a prudent capital and operating plan to deliver real improvement in network performance and efficiency	FY15 transitional submission by Jan 2014 FY15 to FY19 submission by May 2014

4 Leverage technology

Our strategy

Essential Energy has an advanced network operations system that underpins our infrastructure and the way we deliver electricity to our customers; it is also integral to us becoming more efficient.

We continue to invest in new technologies, tools and equipment to improve the way crews work in the field. In November 2012, the Distribution and Outage Management System was upgraded to improve response times during severe weather events and unplanned power interruptions.

Across the three NSW network businesses – Essential Energy, Endeavour Energy and Ausgrid – opportunities exist for services to be provided to more than one company from a single system. We will look for opportunities to consolidate technology trials and apply these across the three businesses.

Key technology initiatives for the year ahead include focusing on joint procurement opportunities; automating processes to reduce manual capture of information in the field; and implementing technologies to support network performance in the areas of automated distribution management and customer load control.

We will also look to improve information-sharing with third parties, in particular by automating the flow of data from authorised service providers and electrical contractors.

Supervisory Control and Data Acquisition

In 2012-2013 Essential Energy installed Supervisory Control and Data Acquisition (SCADA) equipment in a further 30 zone substations, taking to 311 the number of zone substations that are remotely monitored. In coming years we will continue to deploy SCADA to a further 39 zone substations identified as suitable for the technology.

Reclosers and line fault indicators

An additional 460 reclosers are now able to be monitored remotely compared to the previous reporting period, following the installation of new electronic network protection equipment. The operations of these reclosers helps to reduce the amount of time people are without power during unplanned supply interruptions.

Essential Energy is trialling new line fault indicators and alternate communication devices and protocols. An automatic fault restoration system trial at Bega has also proved the technology successful. Lessons learned from these trials will form the basis for deployment of technology further afield over the next few years.

Online supply interruption information

Essential Energy customers are now able to source information on both planned and unplanned interruptions by visiting our external website.

The information available on the website will also be used in conjunction with social media to keep customers better informed during unplanned interruptions.

Distribution Management System upgrade

The new Distribution Management System (DMS) is used by our Network Operations and Customer Response group to record information about customer calls, assign fault and emergency work to field crews, manage switching across the network and prepare planned work for network upgrades.

The DMS now in service is one of the most advanced network management systems in Australia. Essential Energy is now well positioned to deliver improved customer service and optimised network performance.

Safety Library

In response to employee feedback, we introduced an online Safety Library. The Safety Library houses all Safety Alerts, Safety Briefs and incident investigation summaries, providing a searchable, up to date and categorised one stop shop for all our important safety documents.

Weather Portal

In 2012-2013 our online Weather Portal was introduced, providing an online tool that offers employees a quick snapshot of the current and forecast weather and environmental conditions in their region.

The new tool overlays real-time data sourced from meteorological service, Weatherzone, across detailed maps of Essential Energy's network – allowing employees to see what's happening in their area.

Because the weather portal is interactive, employees can turn on and off items such as asset locations, lightning strikes, rain, wind and bushfire information according to their needs – helping them identify potential hazards, plan work and respond to emergencies.

National Electricity Customer Framework

To ensure compliance with the National Electricity Customer Framework (NECF) from 1 July 2013, a number of business processes and supporting software systems were upgraded to improve the customer experience and increase our capability in planning, communicating and managing planned power interruptions.

The year ahead

WHAT the action is	WHY we're doing it	HOW we're doing it	WHEN it will be done
Develop our Network Reliability Plan	To maintain reliability for customers to meet service standards	Use diagnostics to identify causes of incidents and develop initiatives that improve reliability where appropriate	Network Reliability Plan developed by Dec 2013

5 Manage business risk

Risk management

During the reporting period Essential Energy has worked with Ausgrid and Endeavour Energy to develop a common risk management framework that enables us to identify and manage risks that could affect our people, our customers, the community, the environment, assets and financial resources. This common framework will ensure risks are assessed and reported in a comparable manner in 2013-14.

Throughout 2012–13, we reviewed the major risks to achieving our strategic objectives and developed and implemented action plans to help manage those risks.

Our management of business risk is based on three key behaviours:

1. We are aware of our activities, operations and objectives
2. We consider what can go wrong and the consequences
3. We take action to prevent what can go wrong.

Both the risk management strategy and risk management plan are reviewed by our board's Audit and Risk Committee of the board throughout the year. 'Risk owners' provide regular reports to management and to the Audit and Risk Committee on the results of ongoing monitoring and review of risks, and on action plans to manage them. Risks to achievement of our corporate plan are continually identified and assessed across nine categories, as shown in this table:

Managing bushfire risk

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

We also have two dedicated groups – the Bushfire Mitigation Working Group and the Bushfire Risk Assurance Panel – that work across Essential Energy 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 delivery of Bushfire Awareness Training to all Essential Energy field employees.

TSA delivery and preparation for transition to Origin Energy

During 2012-2013, Essential Energy met 99.7 per cent of all key performance indicators as part of the provisions of the Transition Services Agreement (TSA) with Origin Energy.

Origin Energy issued Essential Energy with a nine months service termination notice advising the end of TSA service schedules on 4 October 2013. Since that notice, we have commenced transferring all commercial and industrial customer information, wholesale and network use of system settlements functions, and new connection functions to Origin Energy. The balance of information and services are on track to transfer to Origin on the scheduled dates. The three month support period plan has been agreed to by Essential Energy and Origin Energy during which Essential Energy will provide Origin Energy business operators with first-hand knowledge and support on migrated customer information.

Designed and implemented a network-only business model

Preparation for operating as a network-only business after the end of the TSA with Origin is well underway. After the transition is complete, Essential Energy will operate as a network-only business and will no longer provide any electricity or gas retail services. The network business capability and capacity is being enhanced to accommodate the change in volume and type of business operations expected after the transition is complete.

Business risk category	Risk description
Safety	Fatality/serious injury of employee or member of public
Network	Significant customer impact related to the Network
Finance	Significant unbudgeted financial loss
Compliance	Liability associated with a dispute or material breach of legislation or licence
Reputation	Sustained public criticism of Essential Energy
Environment	Significant environmental incident
People	Failure to deliver performance through people
Strategy	Strategic objectives are not delivered and business opportunities are lost
ICT	Significant Information, Communication and Technology (ICT) and/or Organisational Technology (OT) service failure

The year ahead

WHAT the action is	WHY we're doing it	HOW we're doing it	WHEN it will be done
Comply with Transition Services Agreement (TSA) delivery and transition retail customers to Origin Energy	To meet our contractual obligations to Origin Energy	Completing the transition of customers and relevant services to Origin Energy in line with the TSA	By October 2013

6 Performance through people

Employee relations

Our Employee Relations team fosters effective working relationships between Essential Energy's various stakeholders and regulatory bodies, including management, employees, unions, government agencies and tribunals.

In March 2013, Essential Energy began negotiating new Enterprise Agreements (including the Essential Energy Enterprise Agreement, Essential Energy Far West Electricity Enterprise Agreement and the Essential Water Enterprise Agreement), to replace those that expired nominally on 30 June 2013. As at 30 June 2013, negotiations were still underway, with employees continuing to be covered by the 2011 Agreement until new Agreements are finalised.

In negotiating our 2013 Agreements, Essential Energy will consider the needs of our customers, employees and the community. We aim to:

- Provide fair and reasonable outcomes for our employees
- Bargain in good faith in accordance with the requirements of the Fair Work Act 2009
- Demonstrate value to our customers by improving our productivity so we can contain future network tariff increases to CPI or below, while maintaining network reliability
- Maintain safety outcomes for our employees, contractors and the public.

Our Employee Relations team also provided strategic and operational direction on industrial relations issues including employee grievances, dispute resolution, peak consultative forums, disciplinary actions and advice related to Enterprise Agreement provisions and entitlements.

Indigenous employment

Essential Energy's commitment to Indigenous employment and development opportunities was recognised, with our Indigenous Employment and Development Strategy receiving the Revitalising Regional NSW award, as part of the 2012 Premier's Public Sector Awards.

The Award recognised Essential Energy's commitment to a diversified workforce and providing opportunities for Indigenous employment in local communities.

By supporting Indigenous employees, we maintained a 96 per cent retention rate over the last three years, with our Indigenous employees representing 3.3 per cent of our total workforce.

Apprentices

Essential Energy's apprenticeship program is the cornerstone of our employment strategy with more than 1,200 new apprenticeships created since 2001.

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

In 2012-2013, comprehensive, tailored apprentice training was delivered at our training centres in Goulburn, Grafton and Parkes to 380 apprentices.

Our apprenticeship program remains a sought after employment opportunity in many regional cities and towns with 59 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.

Essential Management

Our Essential Management program is designed to ensure all Network Operations supervisors have a full understanding of their responsibilities and accountabilities in key areas of the business.

In 2012-2013, the original program was extended to cover coordinators who act in supervisory roles. We also completed a pilot for the second wave of Essential Management, using a combination of workbook, virtual web based training and online assessment. The program covered:

- HSE compliance
- Fatigue management
- Hazardous materials
- Performance recovery
- Apprentice supervision
- Contractor management
- Procurement
- Code of Conduct.

The full program will be rolled out to around 200 leaders and 115 coordinators in 2013-2014.

Leading Edge

Our Leading Edge Program supports frontline leaders as they implement 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 design provides an effective delivery method using a blended learning approach including a sourcebook, e-learning and webinar components.

In 2012-2013, 198 frontline leaders attended the program and will obtain the nationally recognised qualifications of Certificate IV Frontline Management, Diploma in Management or Advanced Diploma in Management during 2013-2014.

Technical training

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

Essential Energy supports employees with training and assessment programs including the apprentice training and assessment program, employee inductions and regulatory assessments in areas including CPR, pole-top rescue, Electrical Safety Rules and network close approach.

Around 3,300 employees attended 213 Regulatory Assessment days in 2012-2013.

The year ahead

WHAT the action is	WHY we're doing it	HOW we're doing it	WHEN it will be done
Implement aligned **leadership capability** programs	To improve performance and productivity	Deliver programs for all leadership roles to foster a shared commitment to our purpose and values	Aligned programs in place by December 2013

Our network

Strategy

Our objective is to be of service to our communities by efficiently distributing electricity to our customers in a way that is safe, reliable and sustainable.

We are committed to managing network assets in a manner that meets customers' expectations, fulfils our business needs and satisfies our obligations to stakeholders, the regulator and the community.

Essential Energy will commence the final year of our five-year Network Plan with a capital program of around $600 million to deliver in 2013-2014.

This investment is intended to address three significant challenges:

1. Servicing growth in Essential Energy's network area. Demand continues to increase for domestic, commercial and major customer connections, as well as connection of renewable generation to our network. Demand in many parts of our network is continuing to grow.
2. Renewing ageing network assets. Many assets in our footprint area were built more than 50 years ago and are reaching the end of their economic and operating life. They must be replaced to maintain network reliability and network safety.
3. Meeting our licence conditions to improve the security and reliability of electricity supply across the State. We need to deliver this network capital program as efficiently as possible to minimise price impacts on customers.

We are committed to exploring all opportunities to continue to meet the needs of our customers as efficiently as possible. This AER determination sets our revenue and drives our customers' electricity prices for the five year period.

We intend to continue to deliver on our ambition to contain average network distribution prices for our customers to CPI (or less) over the next five years. We understand the importance to our customers of achieving this significant reform.

Emergency response

Severe weather and environmental events impacted local communities across our five regions. Of particular note were bushfires in the Northern region in January 2013 that caused significant network and property damage, and storms that impacted the Northern and North Coast regions in January and February 2013. These three major network events were among the largest emergencies ever responded to within Essential Energy's service area, with crews praised for their dedication, efficiency and professional behaviour throughout the response.

Our Supply Interruptions telephone line – 13 20 80 – received more than 636,000 contacts during the reporting period, an increase of 46,000 compared to the previous year. The adverse events during January and February 2013 contributed to higher average monthly customer calls to the Supply Interruption line, with call numbers for January and February increasing from an average 45,000 a month to an average of 98,000 a month.

Major network incidents

Coonabarabran fires – 13 January to 20 January 2013

On Sunday 13 January, severe storms and bushfire activity caused extensive network damage, impacted on transmission supplies and interrupted power supplies. The emergency impacted around 25,000 homes and businesses in Baradine, Coonabarabran, Gunnedah, Moree, Narrabri, Quirindi, Tamworth, Warialda and surrounding areas at its peak.

From Thursday, 17 January to Sunday, 20 January, the main powerline that supplies electricity to Coonabarabran and its surrounding area was under direct threat from fire.

Essential Energy's Supply Interruptions Contact Centre responded to more than 14,000 incoming customer enquiries over two days – Sunday 13 and Monday 14 January – representing a 76 per cent increase in inbound calls when compared to average daily call rates. The team also made more than 3,000 outbound customer calls.

To repair the network, Essential Energy's emergency response workers replaced 229 poles, 48 transformers, 399 cross-arms and 1,217 fuses, in addition to several kilometres of conductor that needed to be re-strung or replaced due to storm and fire damage.

North Coast storms – 27 January to 1 February 2013

Major network activity was experienced as a result of severe storm activity and flooding from 27 January to 1 February 2013.

A slow moving low pressure system generated by Tropical Cyclone Oswald caused strong winds, heavy rainfall and widespread flooding across large parts of the North Coast region. Communities from the Tweed, through the Northern Rivers and the Mid North Coast to the Hastings were affected. In total just over 23,000 people were without power at the height of the weather activity.

Between 27 January and 1 February 2013, nearly 5,100 separate Fault and Emergency incidents were created in our distribution management system. More than 39,000 calls to Supply Interruptions' 13 20 80 number were received over the six-day period.

Power restoration from Port Macquarie to Tweed Heads was carried out progressively over the period, with additional crews brought in from across Essential Energy's footprint to improve response times.

North Coast storms – 22–25 February 2013

When extreme weather hit the NSW North Coast on Friday 22 February, the electricity network between Port Macquarie and the Queensland border suffered extensive damage, causing 40,000 customers to lose power. The worst affected areas included Ballina, Byron Bay, Maclean and Yamba, and from Woolgoolga south to Bellingen and Nambucca Heads.

Destructive winds in excess of 130 kilometres per hour were recorded along the coast, bringing trees down across powerlines, damaging poles and equipment, with driving rain and flash flooding hampered restoration efforts.

More than 500 workers from Essential Energy and Ausgrid worked with external contractors to repair the network. The majority of customers had power restored within 24 hours, with repairs completed by 26 February 2013. Helicopters were used to expedite repairs, and crews were commended on their safe, efficient and professional response to the emergency.

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 operations team manages this process and, together with our vegetation control contractors, ensure compliance with the required safety clearances.

Over the reporting period, more than 103,500 vegetation issues were addressed across our electricity network, an 18 per cent increase on the previous 12 months. Continued improvements in planning and programming, together with the ongoing reduction in reactive programs, have contributed to this positive result. Most notably in this decline in total reactive work are the results of the pre-bushfire risk mitigation patrols, which have seen total vegetation defects reduce by around 25 per cent on the previous year.

Streetlighting

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

An LED lighting trial is currently underway in Port Macquarie. The purpose of the trial is to:

> Learn, measure, and understand how to build a more intelligent network
> Inform the future deployment of intelligent technology
> Define the challenges and risks and identify mitigating strategies
> Identify the mix of customer and grid side initiatives to strengthen the network
> Promote energy efficiency and make it simpler for customers to achieve
> Enable Essential Energy to participate in industry debate about the adoption of intelligent technology.

The results of this trial and a previous trial at Bega are encouraging and show the potential of LED technology to produce financial savings whilst maintaining acceptable light levels.

Managing Australia's largest electricity network

> More than 200,000 kilometres of powerlines
> Around 1.4 million power poles
> Approximately 145,000 streetlights
> Around 135,000 substations
> Around 360 zone substations
> More than 800,000 network customers

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 345,000 poles, and made significant progress on reducing our pole inspection backlog.

Our new Capital Governance Framework is designed to drive investment efficiency across NSW. It means that new asset replacement criteria, reliability risk tolerance and risk mitigation strategies are being applied consistently across the State and ensures every dollar spent is prioritised to deliver a safe, reliable and efficient network.

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 96 per cent of domestic complaints within four days during the reporting period – improving on last year's performance of 91.7 per cent.

During 2012–2013, Essential Energy had 346 matters referred to the Energy and Water Ombudsman NSW (EWON). This represented 21.2 per cent of the 1,631 electricity distribution cases referred to the independent dispute resolution service. We were able to resolve more than 80 per cent of these matters without further investigation by EWON.

Seven matters relating to Essential Water were referred to EWON, representing less than 0.01 of one per cent of the total 33,975 retail complaints received by the service during the year.

Network connections

Essential Energy certified 1,440 designs for contestable works projects during the 2012-2013 reporting period, with a value of $49.25 million.

Over the same period, 1,312 contestable work projects worth $60 million were completed and gifted to Essential Energy.

Maintenance programs

Our Network Asset Management Plan analyses maintenance needs against business objectives and details what we need to do to ensure assets support our network strategy. This work includes vegetation management, asset inspections and pre-summer bushfire inspections of overhead electricity lines in bushfire-prone areas.

The plan is reviewed and updated annually to identify the network maintenance activities that will be needed over the ensuing 12 months.

In 2012–2013, we delivered a maintenance program of around $457 million, compared to just under $429 million in 2011-2012.

Major projects approved in 2012-2013

To replace ageing infrastructure, cater for future growth and improve power reliability, Essential Energy's Board approved four major projects, valued at $113.5 million, in 2012-2013. Construction on these projects will begin in coming years.

Projects	Estimated budget ($M)
Wagga Wagga to Temora – new transmission line	38.15
Dubbo to Gilgandra – new sub-transmission line	27.97
Gulgong to Dunedoo – new sub-transmission line	19.22
Wellington to Dubbo – convert sub-transmission line to 132,000 volts	28.16

National Energy Customer Framework

Preparation for new compliance obligations under the National Energy Customer Framework (NECF), that commenced on 1 July 2013, has been a key focus through the year.

The NECF is part of the national energy market reform program, agreed by the Council of Australian Governments to harmonise the regulation of the sale and supply of energy.

The focus of the NECF is on providing a consistent regulatory framework covering the relationship between customers and energy retailers and distributors as well as a set of energy specific consumer protections.

The NECF will help provide a simplified, consistent regulatory structure for energy retailers and distributors while providing a variety of energy related customer protections. Some of the key benefits of the NECF include:

> Enhancing energy consumer protections; ensuring customers have an acceptable level of access to energy services on reasonable terms and conditions

> Enabling distributors to communicate directly with customers, and offer services directly to customers, handle conflicts and provide customer choice

> Streamlining the regulatory environment to foster greater competition in retail markets

> Providing a new and simplified national framework that formalises relationships between retailers, distributors and customers.

In the lead-up to the introduction of the NECF, all relevant areas within Essential Energy underwent training and system improvements to ensure the transition to the new framework was as seamless as possible.

Reduction in fleet expenditure

Essential Energy reduced its fleet of light commercial and passenger vehicles by 255 during the reporting period, as part of its focus on cost control across all areas of the business. This increase in efficiency will result in savings of around $3.2 million each year.

The savings were achieved as a result of increased efficiency, and the revision of Essential Energy's Private Use policy for contract employees saw around 75 vehicles returned.

Pool vehicles were introduced at a number of Essential Energy sites, ensuring service levels were not affected by the reduction in fleet numbers. The introduction of pool vehicles also contributed towards a reduction in employee travel costs, with a decrease in car hire.

Savings in procurement

In 2012-2013, Essential Energy, Ausgrid and Endeavour Energy established the Networks NSW Joint Venture Operating Committee, designed to drive substantial savings in procurement activities across the three organisations. An Operating Committee including senior executives from across the three businesses oversees these activities with a focus on high volume and high value goods and services used across the three networks.

There are now more than 14 individual initiatives underway to streamline our purchasing processes and achieve savings through economies of scale. The focus on reducing costs through combined purchasing will continue into the future.

Major projects in progress during 2012-2013

In 2012-2013, works were in progress on 72 major projects valued at around $432 million, detailed below.

Description	Cost ($,000)			Practical completion date	Comments
	Before	2012-2013	Total cost to date		
Alstonville 132kV line relocation	3,306	166	3,472	Dec-12	Relocate 132kV powerline
Armidale Miller Street ZS	681	1,775	2,455	Dec-13	New 11kV indoor switchboard and building
Ballina ZS upgrade	7,222	24	7,246	Sep-12	Install 132kV busbar and two 132kV feeder bays
Bathurst - Russell St ZS upgrade	4,811	3,995	8,806	May-14	Rebuild existing ZS
Bega - Maher Street ZS upgrade	470	916	1,386	Dec-14	Install two new 66kV feeder bays
Bega River to Boundary Street feeder establishment	1,472	2,067	3,538	Jan-15	Build new 66/132kV feeder
Bega to Eden powerline establishment	21,394	2,448	23,842	Mar-13	Convert 44km 32kV powerline to 66kV
Bega to Maher St powerline upgrade	1,378	145	1,524	Jun-13	Upgrade powerlines to 66kV
Bombala ZS upgrade	1,631	879	2,511	Sep-13	Augment zone substation
Boronia Street ZS	269	1,611	1,879	Jul-14	New switchboard and building, along with new 20/30MVA transformer
Coffs Harbour North to South powerline	439	1,122	1,561	Aug-14	Build 66kV powerline
Coffs Harbour North ZS upgrade	1,205	277	1,482	Jul-14	Upgrade 66kV busbar to accommodate future works
Coffs Harbour South ZS upgrade	187	1,731	1,918	Aug-16	Rebuild existing ZS
Cooma to Bega powerline establishment	44,055	(450)	43,605	Nov-14	Build 100km powerline from Cooma to Bega
Dareton ZS upgrade	1,349	500	1,848	Dec-13	Install 66kV feeder bay for new Buronga feeder
Deniliquin to Moama feeder establishment	14,372	7,366	21,738	Dec-13	Build new 132kV feeder
Dubbo West to Narromine ZS powerline upgrade	662	9,874	10,537	Nov-13	Convert existing 66kV powerline to 132kV

Description	Cost ($,000)			Practical completion date	Comments
	Before	2012-2013	Total cost to date		
Dubbo West ZS Augmentation	532	2,354	2,886	Feb-14	Convert Dubbo West ZS from 66kV to 132kV
East Lismore ZS upgrade	1,163	1,423	2,586	Sep-14	Build 11kV switchboard, convert circuit breakers to 110V, install two battery banks and 66kV control panels
Ellerslie ZS establishment	452	4000	4,452	Apr-14	Build new 66/22kV 5/8 MVA ZS
Ewingsdale powerline establishment	3,404	2,254	5,658	Mar-13	Build 1.7km underground powerlines
Ewingsdale to Suffolk Park powerline upgrade	1,398	1,226	2,624	Jun-13	Upgrade powerlines to 132kV
Ewingsdale ZS upgrade	1,789	1,181	2,970	Jan-14	Install 2 x 132/11kV 30 MVA transformers
Finley powerline establishment	6,010	378	6,388	Nov-12	Build 7.8km dual circuit 132/22kV powerline
Finley to Mulwala powerline upgrade	15,394	1,368	16,762	Dec-13	Convert 49km existing 66kV powerline to 132kV
Forbes to West Jemalong powerline establishment	3,893	9,177	13,070	Dec-13	Build 40km 66kV powerline
Forster to Tuncurry upgrade	5,678	595	6,273	May-14	Build 2.3km underground powerline to replace ageing infrastructure
Gloucester ZS upgrade	875	2,857	3,732	Oct-14	Install new 11kV indoor switchboard
Gundagai South ZS upgrade	933	2,693	3,626	Aug-14	Rebuild existing 66/11kV sub on adjacent site
Hallidays Point / Tallwoods ZS establishment	7,083	1,894	8,977	Apr-14	Build 66/11kV ZS
Hawks Nest BSP establishment	7,716	592	8,308	Nov-13	Build new 132/33kV 30MVA ZS
Hawks Nest BSP powerline establishment	1,444	536	1,980	Oct-13	Build interconnecting 33kV powerlines
Inverell- Borthwick Street ZS upgrade	5,011	4,799	9,810	May-14	Rebuild existing ZS
Inverell to Ashford feeder upgrade	182	1,717	1,899	Apr-13	Replace 38 power poles on 66kV feeder
Junee ZS upgrade	18	1,516	1,534	May-15	Substation works associated with new 132kV line construction
Koolkhan to Maclean powerline establishment	24,866	6,066	30,932	Jun-14	Build 40km 66kV powerline
Lennox Head to Ballina powerline upgrade	1,351	2,249	3,600	Jun-13	Upgrade powerlines to 132kV
Lennox Head ZS upgrade	1,539	1,518	3,057	Dec-13	Install 2 x 132/11kV 30 MVA transformers
Lismore South to Lismore University powerline establishment	2,035	32	2,067	Aug-12	Build new 66kV powerline
Lismore to Mullumbimby communications upgrade	2,309	181	2,480	Jun-13	Install fibre optic cable from Lismore to Ballina
Maclean ZS upgrade	109	1,406	1,515	Jan-14	66kV and 33kV UG connections associated with new feeder
Manilla ZS upgrade	585	635	1,220	Apr-14	Replace HV transformer, circuit breaker and add line circuit breaker batteries
Moruya North to Moruya Town upgrade	927	5,837	6,764	Nov-13	Upgrade 7km powerline to 66kV
Morven ZS establishment	841	4,297	5,138	Apr-14	Build teed single transformer 132/66kV ZS
Mullumbimby 132kV extensions	3,103	207	3,310	Oct-12	Install 132kV feeder bays and extend busbar
Mullumbimby to Ewingsdale powerline upgrade	3,081	161	3,242	Jul-13	Upgrade powerlines to 132kV
Mullumbimby ZS upgrade	19	1,654	1,673	Nov-13	Install new 132/11kV 10/15MVA transformer
Mulwala powerline establishment	2,811	223	3,034	Dec-12	Build 2.1km dual circuit 132/22kV powerline
Mulwala ZS upgrade	9,614	194	9,808	Jul-13	Convert Mulwala ZS to 132kV
Nabiac / Hallidays Point BSP	1,179	1,686	2,865	Feb-15	Build new 132/66kV Bulk Supply Point
Narromine South 132kV Switching Station establishment	1,255	6,148	7,403	Nov-13	Build 132kV switching station
Narromine South tieline	1,307	2,792	4,099	Nov-13	Build 2.5km tieline
Narromine ZS upgrade	1,948	1,087	3,035	Dec-13	132kV Transformer upgrade and feeder bay conversion
Rocky Hill to Goulburn North powerline upgrade	1,536	2,590	4,126	Dec-13	Upgrade 8km 66kV powerline
South Tamworth to Oxley Vale (Feeder 801) feeder reconstruction	259	1,256	1,515	Jun-13	Re-construct existing 66kV feeder
South Tamworth to Oxley Vale (Feeder 803) feeder reconstruction	175	1,395	1,569	Jun-13	Re-construct existing 66kV feeder

Description	Cost ($,000)			Practical completion date	Comments
	Before	2012-2013	Total cost to date		
South West Rocks ring feed	10,033	2,340	12,373	Apr-14	Build second powerline into South West Rocks, including 4.5km underground.
Steeple Flat ZS establishment	11	3,348	3,359	Sep-14	Acquire land and easement and build new ZS
Stroud 132kV ZS upgrade	1,605	1,221	2,826	Aug-14	Add 132kV line bays - TransGrid
Suffolk Park powerline establishment	3,750	221	3,971	Sep-12	Build new 132kV powerline
Suffolk Park to Lennox Head powerline upgrade	1,277	1,268	2,545	Jul-13	Upgrade powerlines to 132kV
Suffolk Park ZS establishment	7,992	404	8,396	Sep-12	Build new 132/11kV ZS
Tamworth to Goddard feeder establishment	547	4,445	4,992	Jul-13	Build 8km 66kV feeder
Tea Gardens powerline establishment	1,290	585	1,875	Aug-13	Build 33kV powerlines from existing ZS to new ZS site
Uranquinty ZS augmentation	1,723	4,668	6,391	Apr-14	Build new 66/22kV ZS on adjacent site
Wagga Wagga - Ashmont ZS upgrade	12,481	17	12,498	May-13	Rebuild existing 66/11kV ZS
Wagga Wagga - Forest Hill ZS upgrade	310	3,242	3,552	Dec-13	Upgrade existing ZS
Wagga Wagga Bomen ZS establishment	8,453	64	8,517	May-13	Build new ZS
Wagga Wagga to Temora	145	6,940	7,085	Apr-14	Build 48km 132KV powerline
Willbriggie ZS establishment	960	2,255	3,215	Mar-14	Build 33/11kV ZS
Yarrandale to Gilgandra powerline establishment	327	7,477	7,804	Dec-14	Build 65km 66kV sub-transmission powerline
Yarrandale ZS upgrade	6,901	362	7,263	Sep-12	Install second feeder bay, two 66/11kV transformers, 1/2 switchboard, three 66kV feeder bays and capacitor bank

Essential Water

IPART approval for network investment

To fund Essential Water's 2012-2013 investment program the Independent Pricing and Regulatory Tribunal (IPART) approved a price increase of 8.8 per cent for a typical residential customer (consuming 280 kilolitres of treated water a year or less) and 10.3 per cent average price increase for a typical pensioner customer – both increases on average equate to $1.88 per week. IPART has extended the water pricing determination period by one year, with prices for 2013-2014 to remain on par with 2012-2013.

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 and secure water and sewerage services.

The NSW Government subsidised Essential Water's operating costs during the reporting period to ensure it provides an affordable water service in the Far West. This subsidy agreement expired on 30 June 2013.

Performance highlights

Reduced seasonal rainfall in the Far West region resulted in the capacity of the three local Essential Water reservoirs falling to 26 per cent. During this period Broken Hill's water supply was pumped from Menindee Lakes.

Total water consumption increased by around 426 megalitres (ML) (426,000 kilolitres) on the previous year, with 4,483 ML of treated water delivered over 200km 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 2,690 ML – up from 2,298 ML in 2011/2012.

Essential Water has invested around $83 million on major projects since forming in 2004 – including around $5.3 million in the 2012/2013 financial year.

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

Highlights of Essential Water's works program include:

- Investment of around $968,000 in the water mains renewal program
- Investment of $396,000 to replace overflow tanks at Warren Street Sewer Pumping Station
- Investment of $273,000 in Stage 2 upgrade of the telemetry systems at the Stephen's Creek and Umberumberka Pumping Stations
- Investment of $130,000 to replace rising main at Kaolin Street.

Essential Water crews also achieved the following:

- Replacement of around 1.3km of water reticulation pipeline
- Repair of 315 customer water services
- Repair of 92 water pipeline leaks and bursts
- Cleaning and rodding more than 29km of sewer mains
- Repair of 352 customer sewer connection blockages
- Repair of 311 pipeline blockages.

Our people

Employee equity and diversity

Essential Energy's equity and diversity model continued to have a strong operational focus, with Diversity Program Managers interacting with employees, managers and HR business partners to support the representation and retention of Equal Employment Opportunity (EEO) groups.

Our core employment and development strategies for Women and Indigenous employees are implemented and leveraged through our respective employee networks.

Essential Energy reviewed its EEO Management Plan and set goals and objectives for 2013-2017. The plan reflects the targets set in the respective strategies for Indigenous employees and Women, and outlines ways that Essential Energy is committed to improving access to services, facilities and jobs in the public sector for other EEO groups including people with disabilities.

Women's employment and development

The roll out of the Women's Employment and Development Strategy and a new Women@Work Charter has helped us to refresh our network of Regional Working Groups, delivering new enthusiasm and commitment for its intent and implementation within the wider business.

Essential Energy's Regional Working Groups now have a practical framework for their activity under the guidance of the Equity and Diversity Unit and a substantial increase in participation now provides the capability for the implementation of the strategy objectives.

The decline in the representation of women in recent years, from 20 per cent in 2010 to 18.8 per cent in 2013, reflects Essential Energy's transition from a retail to network-only business. The changing nature of our business highlights the need to continue creating awareness and opportunities in key talent segments where women have traditionally been under-represented, such as trades, technical and para-professional roles.

Indigenous employment and development

The Indigenous Employment & Development Steering Committee continued to meet quarterly to undertake planning and stakeholder consultation. Our Regional Indigenous Contact Officers also took part in EEO Contact Officer Training in February 2013 to assist them in supporting and assisting employees to weigh up their options to resolve issues that may occur from time to time.

In 2012-2013, Essential Energy's Indigenous employees represented 3.3 per cent of our workforce. Essential Energy's commitment to Indigenous employment and development opportunities was recognised, winning a 2012 Premier's Public Sector Award in the Revitalising Regional NSW category.

Encouraging diversity

Essential Energy is now planning a Work Inspirations pilot, designed to build networks between Essential Energy, education providers and community. The program will introduce students to a broad range of careers within Essential Energy and assist in the research and development of Koori Cadet and School Based Trainee programs.

Ongoing development of our employee networks will ensure they continue to play an active role in promoting and supporting the representation and retention of employees from diverse backgrounds.

In the year ahead, anti-bullying and EEO refresher training will be delivered to reinforce the obligations of the organisation, managers and employees, and set clear behavioural expectations that reflect our corporate values.

Disability planning

In 2012-2013, employees with a disability represented 1.8 per cent of Essential Energy's workforce, consistent with the previous year. As part of our commitment to improving access to services, facilities and jobs for people with a disability, we cater to their needs with special access to our major sites, as well as ensuring that all sites that are refurbished are disability friendly.

We also provide tailored programs and equipment to meet the needs of individual employees. In 2012-2013, we successfully accommodated the needs of employees with physical and mental disabilities including visual impairment, quadriplegia, psychological disorders and amputations.

Reduction in labour costs

In the reporting period, Essential Energy worked to achieve its goal of keeping network price increases to CPI or less for the next five years.

Staff related costs are the largest component of Essential Energy's operating costs, and improving productivity and controlling staff related costs is key to limiting customer price increases.

In 2012-2013, we reduced our overtime operating costs by around $12 million (more than 25 per cent) as a result of a reduction in planned overtime, and our workforce reduced through natural attrition, without affecting the services we provide to the community. We also reduced operating costs associated with agency workers by around a third in the reporting period.

Our community

Public safety incidents

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

Our strategy of educating 'at risk' groups to help prevent electrical safety incidents proved its effectiveness in 2012-2013, with a significant decrease in powerline strikes by agricultural aircraft and machinery associated with grain and cotton harvest activities – two of our focus areas for the year.

Despite our extensive and targeted educational campaigns, 442 public safety incidents were recorded in 2012-2013, an increase on the previous year and above our target of 180.

New key focus areas have now been determined, and in 2013-2014, public safety campaigns will be developed to help reduce electrical safety incidents in the construction and farming industries.

Community support

Essential Energy has a strong community support framework to foster community involvement and development. In 2012–2013 Essential Energy provided $396,000 in support through corporate sponsorships, Community Support applications and the Community Halls scheme including sponsorship of:

- The Regional Achievement and Community Awards, acknowledging individuals, communities, businesses and groups for their outstanding service to local communities
- Canowindra Sports Trust, providing broad community benefit by way of a public exercise facility that will be accessible by all
- 120 regional community organisations across our distribution area.

Essential Energy also participated in many regional events and field days to support rural communities across NSW including AgQuip, Primex, Henty Field Days and Mudgee Small Farm Field Days.

Community consultation

Essential Energy's commitment to regional communities has been recognised by stakeholders and members of the public, with 8 out of 10 customers and regional opinion leaders including local councillors, administrators and businesses, surveyed 'agreeing' or 'strongly agreeing' that Essential Energy is a responsible provider of an essential service.

In 2012-2013, Essential Energy continued its work with two customer representative groups – the Rural Advisory Group (RAG) and Customer Council. These groups act as advocates for their local communities and provide customer feedback to Essential Energy on a range of energy matters.

Multicultural Policies and Services Program

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.

To help meet our commitment to providing the same service levels for all customers, we provide a telephone interpreter service that is free for our customers. The Translating and Interpreting Service (TIS) is available 24 hours a day, 365 days a year, and is provided by the Australian Government Department of Immigration and Citizenship.

Our two customer representative groups – the RAG and Customer Council are an integral part of our commitment to working with culturally diverse groups across the community – with members advocating for various groups within regional communities.

Customer engagement

In 2012-2013, Essential Energy engaged an external research provider to develop a customer engagement model which will form the foundation of our future dealings with customers. The model clearly outlines the expectations customers have of Essential Energy, with a focus on meeting customer priorities including reliability, cost and community involvement.

Going forward, we will use this model to help drive changes in the way we interact with our customers and stakeholders, ensuring we can continue to meet their needs as we move into the next regulatory period from 2015-2019.

Our environment

Environmental Management System

In 2012/13 Essential Energy maintained accreditation to the international standard ISO 14001:2004 *Environmental Management Systems*. The Environmental Management system forms a major component of Essential Energy's combined Health, Safety and Environment (HSE) Management System.

The environmental 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 Services

Essential Energy is committed to environmental due diligence, with no EPA fines or prosecutions during the reporting period.

Under our environmental obligations, 16 incidents were reported to the regulator during 2012-2013, with three incidents of significance:

Oaky Dam: Heavy rain damaged dam infrastructure, leading to dam failure.
Nymboida: Water flow release caused significant creek erosion and sedimentation within private and public lands.
Koolkhan: Potential for environmental harm involving a contractor.

All reported incidents have been appropriately investigated and managed with particular focus placed on contractor management processes.

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 paper products, office consumables (such as toner cartridges), vegetation and landscaping material as well as construction and demolition material.

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

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.

Stewardship and recycling

As part of Essential Energy's commitment to the environment, we actively pursue opportunities to purchase sustainable products that are designed for their environmental benefits. In 2012-2013, Essential Energy replaced its hard hats as part of the regular safety biannual replacement program. All used hard hats were returned to the manufacturer for recycling, adopting a lifecycle approach to purchasing and disposal.

We have a comprehensive recycling program and in 2012-2013, recycled more than 2,800 tonnes of metal, compared with 1,600 tonnes in 2010-2011.

Reducing timber consumption

Essential Energy has made dramatic environmental and safety improvements by reducing the amount of timber crossarms used across the network, with 96 per cent of all crossarms now fully recyclable models made from composite fibre.

As well as being fully recyclable, composite fibre crossarms are a lightweight alternative to timber and steel, reducing the likelihood of manual handling injuries. They are also non-conductive and non-flammable.

While hardwood timber crossarms are still required for some applications, the changeover to composite fibre models has seen Essential Energy's purchase of timber crossarms reduce by more than 90 per cent to around 6.3 tonnes in 2012-2013 compared with almost 170 tonnes just two years ago.

Power pole recycling program

Essential Energy continues to donate used timber poles to charity and community groups to benefit the wider community. In 2012-2013, 1286 poles were recycled in this way, and will now be used for a variety of different purposes, including as horse jumps or on farms.

Working in partnership with our waste contractors, in 2012-2013, we diverted approximately 1700 tonnes of timber from landfill, helping the environment and reducing waste management costs.

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, as listed on the Section 170 register, are:

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

Corporate governance

Essential Energy is a State Owned Corporation subject to a number of statutory and legislative requirements. Its board has overall responsibility for corporate governance at Essential Energy.

Changes to governance and management structure

In 2012 the NSW Government announced plans to reform the three NSW electricity network companies – Essential Energy, Ausgrid and Endeavour Energy – to generate $400 million in efficiencies over four years to fund its energy rebate scheme for low income households and families.

Essential Energy, Ausgrid and Endeavour Energy continue to operate as separate legal entities but are managed by a joint board of directors and common Chief Executive Officer (CEO). The three network companies operate under a shared group management model known as Networks NSW. Each business remains focused on the objectives of the *State Owned Corporations Act*, including:

> operating a safe, reliable and sustainable network

> operating at least as efficiently as any comparable privately owned business

> maximising the value of the company to the State

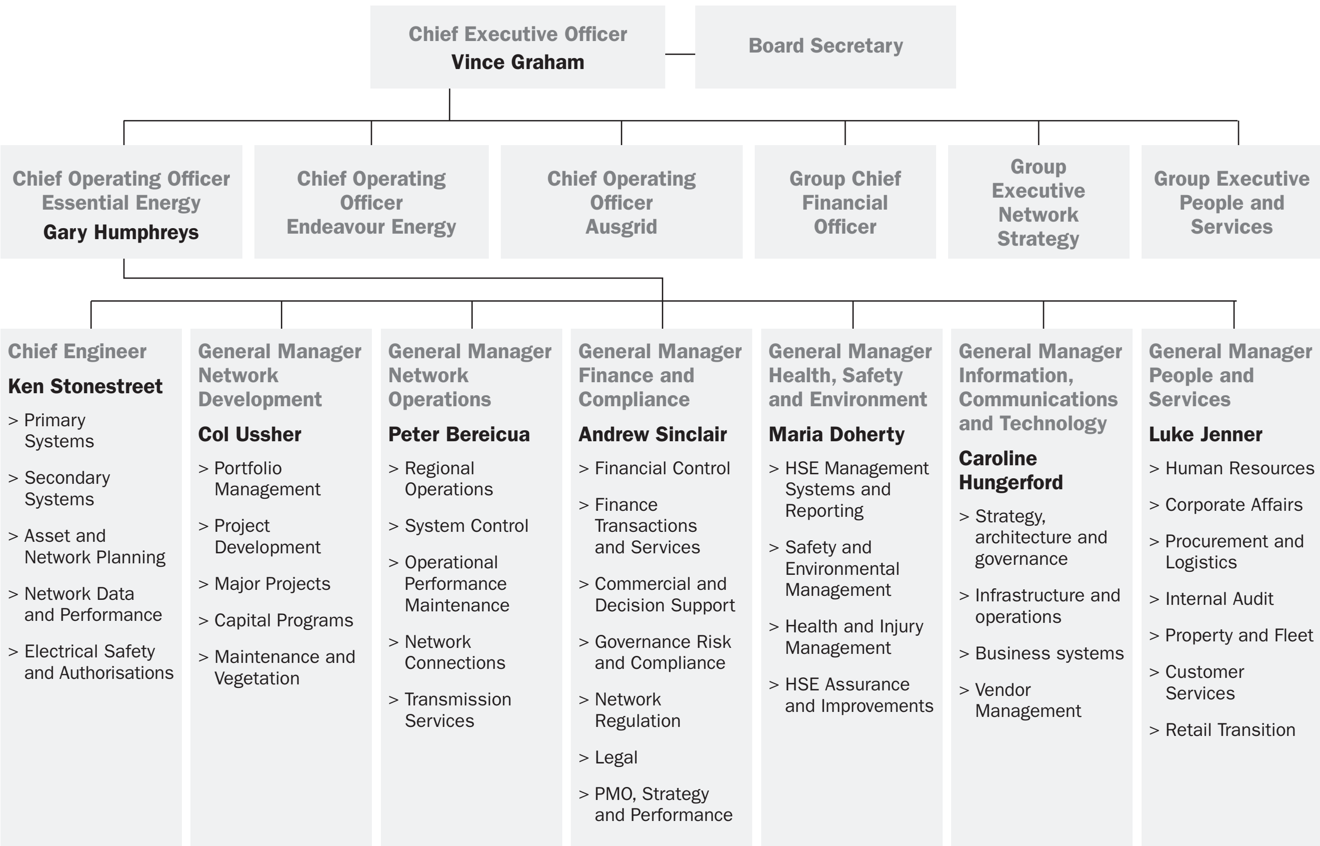
> balancing commercial, social, environmental and customer expectations.

The Executive Leadership Group (ELG) of Networks NSW includes the CEO, Group Executive Managers, the Chief Operating Officer from each network company and the Board Secretary.

The CEO reports to the board, which in turn is accountable to the two voting shareholders, the NSW Treasurer and the NSW Minister for Finance, who each hold one share in each of the three businesses for and on behalf of the NSW Government. The Portfolio Minister of each of the network companies is the NSW Minister for Energy.

The board is responsible for setting the overall strategic direction and performance targets, and monitoring the implementation of the strategy by the three organisations. The CEO leads the ELG in delivering the approved strategy and achieving the performance targets set by the board.

Essential Energy's organisational structure as at 30 June 2013



Board of directors – 2012-2013

A new governance and management structure commenced on 1 July 2012 with a common Chairman, Directors and CEO replacing the three Chairs, Directors and CEOs at Essential Energy, Ausgrid and Endeavour Energy. As a result, the term of the non-executive directors concluded on 30 June 2012. Ms Penny Le Couteur was re-appointed to serve a further term until 30 June 2013.

Board of directors

(as at 30 June 2013)

Roger Massy-Greene

BSc BE (Hons) MBA, FAICD

CHAIRMAN

Term: 1 July 2012 to 30 June 2015. Chairman of the Board from 1 July 2012; Chairman, Nominations Committee; Member, Audit and Risk Committee; Member, Safety, Human Resources and Environment Committee.

Other Directorships:

- Ausgrid, Chairman
- Endeavour Energy, Chairman
- Eureka Capital Partners Pty Ltd, Chairman
- Salvation Army's Red Shield Appeal Committee Sydney, Chairman
- Eureka Benevolent Foundation, Chairman
- OneVentures Pty Ltd, Director
- The Hunger Project Australia, Director.

Peter Dodd

PhD, MSc MCom, BCom, Dip Ed

NON-EXECUTIVE DIRECTOR

Term: 1 July 2012 to 31 December 2013. Chairman, Audit and Risk Committee; Member, Nominations Committee.

Other Directorships:

- Ausgrid, Director
- Endeavour Energy, Director
- The Centre for Independent Studies Ltd, Director
- Peter Dodd Pty Ltd, Director
- Collgar Wind Farm Pty Ltd, Director
- CWF Holding Pty Ltd, Director
- Energy Industries Superannuation Scheme (EISS), Director
- Investa Listed Funds Management Limited (ILFML), Director
- Macquarie University Group of companies, Director.

Philip Garling

B.Build, FAIB, FAICD, FIE (Aust), AFAIM

NON-EXECUTIVE DIRECTOR

Term: 1 January 2013 to 31 December 2015. Chairman, Safety, Human Resources and Environment Committee (from 25 March 2013).

Other Directorships:

- Ausgrid, Director
- Endeavour Energy, Director
- Australian Renewable Fuels Limited, Chairman
- Downer EDI Limited, Director
- Water Polo Australia Limited, Director
- Biofuel Producers Limited Scheme, Director
- Charter Hall Limited, Director
- Charter Hall Funds Management Limited, Director.

Penny Le Couteur

BSc (Hons), MAICD

NON-EXECUTIVE DIRECTOR

Term: 1 July 2012 to 30 June 2013. Chairman, Safety, Human Resources and Environment Committee (from 1 July 2012 to 25 March 2013); Member, Audit and Risk Committee; Member, Nominations Committee.

Note: Term expired on 30 June 2013 – did not seek re-appointment.

Other Directorships:

- Ausgrid, Director
- Endeavour Energy, Director
- Aurora New Music Inc
- Bennelong Forty Two Pty Ltd, Director
- The Song Company, Director
- WorkCover Tasmania, Director

Laura Reed

BBus, MBA, FCPA

NON-EXECUTIVE DIRECTOR

Term: 1 January 2013 to 31 December 2015. Member, Audit and Risk Committee.

Other Directorships:

- Ausgrid, Director
- Endeavour Energy, Director
- ATCO Australia Pty Limited, Director
- ATCO Gas Australia GP Pty Limited, Director
- MAPS Group, Director.

Vince Graham

BE (Civil), Grad Dip Mgmt, FAICD

CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR

Term: Inital appointment as Chief Executive Officer 1 July 2012 to 31 December 2012. Following a recruitment process, appointed as Chief Executive Officer December 2012.

Ex-officio member Audit and Risk Committee and Safety, Human Resources and Environment Committee.

Other Directorships:

- Ausgrid, CEO and Executive Director
- Endeavour Energy, CEO and Executive Director
- Graham Management Services Pty Limited, Director

Barbara Ward

BEc, MPol Econ, MAICD

NON-EXECUTIVE DIRECTOR

Term: 1 July 2012 to 31 December 2012.

Note: Term expired on 31 December 2012 – did not seek re-appointment.

Board and board committee meetings held in 2012–13

1 July 2012 to 30 June 2013 Directors' Attendance Schedule

	Board of Directors' Meeting		Audit and Risk Committee		Safety, Human Resources and Environment		Nominations	
	A	B	A	B	A	B	A	B
R Massy-Greene	16	16	6	6	2	2	3	3
P Dodd	16	16	6	6	-	-	3	3
P Garling	6	5	-	#1	2	2	-	-
P Le Couteur	16	15	3	3	2	2	3	3
L Reed	6	6	3	3	-	-	-	-
B Ward	10	10	3	3	-	-	-	3
V Graham	15	14	*6	6	*2	2	-	-

A – Indicates number of meetings held during the period the Director was entitled to attend
B – Indicates the number of meetings attended by the Director during the period
* – The CEO is an Ex-officio member of the Audit and Risk and Safety, Human Resources and Environment Committees
\# – Attended meetings while not a member of the Committee

Governance

Essential Energy is a statutory State Owned Corporation, established under the *Energy Services Corporations Act 1995 (NSW)* and the *State Owned Corporations Act 1989 (NSW)*. We are governed, principally, by the two statutes mentioned and our Constitution.

Essential Energy's board and executive believe that good governance is a critical prerequisite for a high-performance organisation with a sustainable future, and share a commitment to high standards of business integrity, ethics and professionalism across all activities.

Our Code of Conduct is fundamental to our business success, clearly defining expectations for employee behaviour and encouraging a culture of responsibility and accountability that promotes ethical and responsible decision making.

Good governance ensures the delivery of outcomes sought by our shareholders, supports our people and business operations, and ensures sound ethical, financial and risk management practices and effective compliance and auditing programs.

Board of directors

The *Energy Services Corporations Act 1995 (NSW)*, the *State Owned Corporations Act 1989 (NSW),* and the Constitution of Essential Energy address the membership of the board.

All members of Essential Energy's board of directors, with the exception of the Chief Executive Officer, are appointed by the voting shareholders for terms of up to five years. Appointments may be renewed by the voting shareholders.

The non-executive director's remuneration is determined by the voting shareholders. The Chief Executive Officer is not entitled to any additional remuneration for being a director.

Legislative changes

Two amendment bills were passed by Parliament and received assent from the Governor on 3 June 2013.

An amendment to the State Owned Corporations Legislation removed the requirement for a director nominated by Unions NSW.

An amendment to the Energy Services Corporations Legislation provided for the appointment of a single board of directors that is to be the board of each of the energy distributors (Ausgrid, Endeavour Energy and Essential Energy) to act in the best interests of energy distributors as if they formed part of a combined operation. The legislation was proclaimed on 27 August 2013.

The role and responsibilities of the board

The board is responsible for the corporate governance of Essential Energy including setting the strategic direction, establishing performance targets as set out in the Statement of Corporate Intent, and monitoring the achievement of those targets. In carrying out its responsibilities, the board undertakes to serve the interests of the voting shareholders, as well as its employees, suppliers and customers and the broader community, honestly, fairly, diligently and in accordance with all applicable laws.

The Board of Directors operates at all times in accordance with its Charter which is designed to complement the Constitution of Essential Energy.

Board committees

The role of the Board is to provide strategic guidance for the corporation and effective oversight of its management. In undertaking this role, the Board has established the following committees:

Audit and Risk Committee

The Audit and Risk Committee monitors audit and business risk matters, including compliance, dealing with them in an independent manner. The committee's responsibilities cover matters relating to the financial affairs and business risks of Essential Energy, internal and external audits, risk management, compliance and fraud prevention. In addition, the committee examines any other matters referred to it by the board.

Safety, Human Resources and Environment Committee

The Safety, Human Resources and Environment Committee meets at least four times a year and assists the board in fulfilling its responsibilities for work health and safety and environmental practices, and to discharge the board's responsibilities of oversight and corporate governance in relation to human resources and environment matters. In addition, the committee examines any other matters referred to it by the board.

Nominations Committee

The Nominations Committee meets as required and assists the board in fulfilling its responsibilities with regard to director appointments and re-appointments. The Nominations Committee consists of the Chairman of the board and two non-executive directors.

Director indemnity and insurance

Under the State Owned Corporations Act 1989 and the Company's Constitution, Essential Energy may, with the approval of its Shareholder Ministers, indemnify its Directors against certain liabilities incurred in the course of their duties. This indemnity does not cover the Director if the liability arises out of conduct involving lack of good faith. Essential Energy's non-executive Directors have been granted indemnity in accordance with Shareholder approval and the NSW Treasury State Owned Corporation Indemnity Policy. Essential Energy also has in place a Directors' and Officers' liability and professional indemnity insurance policy.

Essential Energy's Executive Leadership Team as at 30 June 2013

Chief Operating Officer

Gary Humphreys

Chief Engineer

Ken Stonestreet *BE (Hons)*

General Manager Network Development

Col Ussher *BE (Hons), GradDipBA*

General Manager Network Operations

Peter Bereicua *MBus*

General Manager People and Services

Luke Jenner *BE (Hons), EMBA*

General Manager Finance and Compliance

Andrew Sinclair *BCom, MBA (Hons)*

General Manager Information, Communications and Technology

Caroline Hungerford *BIT*

General Manager Health, Safety and Environment

Maria Doherty *BSc (Hons), GradDipEnvEdu, GradDipStat, MEnvSc*

Insurance

Essential Energy reviews the adequacy of insurance policy coverage and limits during each annual insurance renewal process. It ensures all participating insurers meet Essential Energy's counter-party risk requirements.

Compliance

Essential Energy has in place effective internal control processes monitored by its board of directors, and administered by its management and staff to deliver corporate objectives and ensure that laws and regulations, codes and policies are being complied with, and financial reporting is accurate.

Code of Conduct

In 2013, Essential Energy refreshed its Code of Conduct which outlines the way it does business.

Our Code of Conduct, which includes our values, sets the standards of behaviour we are all expected to uphold, to create the type of workplace we want at Essential Energy. Essential Energy's values are safety excellence, respect for people, customer and community focus, continuous improvement and act with integrity, and the Code of Conduct outlines the types of behaviour that underpin these values.

The Code of Conduct provides an ethical framework that helps employees to make the right choice when faced with an ethical issue, providing a model for the behaviours and work standards expected from employees and contractors.

Essential Energy's Code of Conduct is available at essentialenergy.com.au

Internal audit

The board and executive leadership team are committed to the operation of an objective and independent internal audit function. Internal audit assists management to achieve Essential Energy's statutory and business objectives by adopting a disciplined approach to evaluating and improving risk management, controls and governance processes.

External audit

The Auditor-General of New South Wales provides independent external audit services through the Audit Office of New South Wales. The Audit and Risk Committee reviews the NSW Audit Office Client Service Plan, issues raised in the Annual Management Letter and the results of the annual audit of financial statements.

Privacy

Essential Energy complies with the *Privacy and Personal Information Protection Act 1998 (PPIPA) (NSW)* and the National Privacy Principles which form part of the *Privacy Act 1988 (Cth)*. Essential Energy's Privacy Policy is available on our website, essentialenergy.com.au

Fraud and corruption management

Essential Energy is committed to a workplace culture that delivers the highest standards of safety, respect, performance and integrity for employees and the customers and communities we serve.

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.

As part of the revised Code of Conduct, all employees were briefed on the new values outlined by the Code. Identified leaders were also trained to deliver Ethics and Values (Make the Right Choice) workshops to all employees, and these sessions will continue in 2013–2014.

Our anonymous and confidential employee telephone reporting service, FairCall, continued during the year.

During the financial year there were 12 Section 11 referrals to the Independent Commission Against Corruption (ICAC).

Finance report

Performance

Essential Energy is required by legislation to submit a *Statement of Corporate Intent* (SCI) to NSW Treasury. The SCI is an annual agreement between Essential Energy and its shareholders, enhancing performance accountability and providing certainty around financial performance for shareholders. The SCI contains, amongst other key matters, future financial performance targets and capital programs.

In 2012-2013, Essential Energy continued to perform strongly, with a focus on providing value for money to our customers, controlling costs and increasing productivity.

Financial results	2011-2012 result	2012-2013 SCI	2012-2013 result	Variation to SCI
Earnings before interest, tax, depreciation & amortisation (EBITDA) ($M)	853.1	1130.9	1142.6	11.7
Earnings before interest and tax (EBIT) ($M)	559.1	808.4	819.8	11.4
Net profit before tax ($M)	209.8	463.8	499.2	35.4
Net profit after tax ($M)	154.3	324.3	350.1	25.8
Dividend ($M)	67.3	227.0	240.8	13.8
Total Distribution (Dividend + Income Tax Expense) ($M)	122.8	366.4	389.9	23.5
Return on assets	7.9%	10.6%	10.8%	0.2%
Return on equity	8.5%	17.5%	18.7%	1.2%
Capital Expenditure ($M)	805.3	920.5	686.8	(233.7)

Profit results

Essential Energy's net profit before tax was $499.2 million against a target of $463.8 million in the 2012-2013 SCI.

The better than forecast profit result reflects:

- Increased capital revenue, as a result of an increase in gifted asset revenue
- Reduced operating costs attributable to Essential Energy's focus on reducing discretionary spending
- Lower than expected capital expenditure, resulting in lower depreciation costs
- Lower than expected net interest expenditure
- The result was partly offset by lower than expected general revenue.

Balance sheet

Essential Energy's total assets increased by $391.7 million compared to the prior year. The major contributing factor was an increase in property, plant and equipment in the amount of $373 million resulting from capital expenditure.

Return on assets, calculated as EBIT divided by the average asset base, increased from 7.9 per cent in 2011–12 to 10.8 per cent at 30 June 2013. Total liabilities increased by $250.9 million compared to previous year driven by an increase in borrowings of $169.7 million, primarily due to the need to fund the capital expenditure program, and an increase in provisions totalling $99.5 million mainly attributable to the increased dividend provision of $173.5 million.

Return on equity, calculated as profit after tax divided by average equity, was 18.7 per cent at 30 June 2013. This result was a significant increase from the 2011-12 return of 8.5 per cent, with a 127 per cent increase in profit after tax compared to an increase of 3.5 per cent in average equity.

Cash flows

Cash and cash equivalents at the end of the financial year decreased by $41.9 million compared to 2011-2012. Net cash flows provided by operating activities for the year were $517.6 million, an increase of $115.2 million compared to 2011-12 reflecting increased receipts from customers.

Net cash flows used in investing activities for the year were $661.8 million, compared to $807.2 million used in investing activities in the prior year. The decrease of $145.4 million is mainly due to the decrease in payments for purchases of property, plant and equipment.

Net cash flows provided by financing activities for the year were $102.3 million, compared to $488.1 million in the prior year. The decrease is mainly attributable to the reduction in net proceeds from borrowings of $359.7 million.

Debt

Our balance sheet debt increased by $169.7 million compared to the prior year, primarily due to the continuing requirement to fund the capital expenditure program. The gearing ratio, calculated as debt divided by debt plus equity, reduced marginally from 69.3 per cent at 30 June 2012 to 68.8 per cent at 30 June 2013 reflecting the higher retained profits.

Shareholder return

Essential Energy is committed to improving value for money for our customers by placing downwards pressure on electricity prices. To do this, we are working to control costs, improve efficiency and increase productivity in all areas of our business.

Essential Energy's Directors declared a final dividend of $240.8 million, representing an increase of $13.8 million or 6.1 per cent increase compared to the 2012-13 SCI target, and an increase of $173.5 million compared with the prior year.

Capital works program

Essential Energy manages Australia's largest electricity network, and the Australian Energy Regulator's (AER) regulatory determination recognises the need to invest in the network to meet growing population demands, renew ageing assets, continue to meet safety requirements and improve reliability.

Our capital expenditure for 2012-2013, excluding gifted assets and capital stores was $686.8 million. Essential Energy's capital works program is underpinned by our Network Asset Management Plan, which sets priorities and summarises the network investment required to meet the needs of our communities. In early 2013, the capital works program was readjusted to ensure efficiency in capital spending, resulting in the deferral of a number of planned projects and programs.

Capital expenditure was below budget due mainly to lower spend on network infrastructure, information technology software, fleet and buildings. It also reflects planned and intentional reductions to the capital works program and fleet expenditure.
The review and reassessment of the IT and property capital portfolio has impacted the progression of numerous initiatives, which has resulted in delayed expenditure.

FINANCIAL STATEMENTS

For the year ended 30 June 2013

Contents

INDEPENDENT AUDITOR'S REPORT

Essential Energy

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Essential Energy (the Corporation), which comprise the statement of comprehensive income, the statement of financial position as at 30 June 2013, the statement of changes in equity and the statement 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 2013, and of its financial performance and its cash flows 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
- comply with International Financial Reporting Standards as disclosed in Note 1(b).

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 of the financial statements that give a true and fair view 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.

In Note 1(b), the Directors also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements' that the financial statements comply with International Financial Reporting Standards.

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.

Level 15, 1 Margaret Street, Sydney NSW 2000 | GPO Box 12, Sydney NSW 2001 | t 02 9275 7101 | f 02 9275 7179 | e mail@audit.nsw.gov.au | audit.nsw.gov.au

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 Corporation's preparation of the financial statements that give a true and fair view 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 Corporation'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.

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 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 other information that 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 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 roles by the possibility of losing clients or income.

AT Whitfield
Deputy Auditor-General

17 September 2013
SYDNEY

Statement by Directors

STATEMENT BY DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2013

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 2013 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.

....	....
Vince Graham	**Roger Massy-Greene**
Director	Chairman
Sydney	
13 September 2013	13 September 2013

Statement of Comprehensive Income

For the year ended 30 June 2013

		Consolidated and Corporation	
	Note	2013 $M	2012 $M
Revenue	2	2,164.3	1,875.8
Expenses excluding finance costs	3(a)	(1,338.5)	(1,316.2)
Finance costs	3(b)	(326.6)	(349.8)
Total expenses		**(1,665.1)**	**(1,666.0)**
Profit before income tax		**499.2**	**209.8**
Income tax expense	4	(149.1)	(55.5)
Profit for the year		**350.1**	**154.3**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Superannuation defined benefits actuarial gains/(losses)	23(b)	45.5	(141.2)
Income tax relating to items not reclassified	4	(13.7)	42.4
		31.8	**(98.8)**
Items that will be reclassified subsequently to profit or loss			
Changes in the fair value of cash flow hedges		(0.4)	(1.1)
Income tax relating to items that will be reclassified	4	0.1	0.3
		(0.3)	**(0.8)**
Total other comprehensive income for the year, net of tax		**31.5**	**(99.6)**
Total comprehensive income for the year		**381.6**	**54.7**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2013

		Consolidated and Corporation	
	Note	2013 $M	2012 $M
Current assets			
Cash and cash equivalents	6	52.6	96.1
Trade and other receivables	7	435.3	353.1
Inventories	1(j)	28.7	33.0
Intangible assets – green certificates		0.6	1.5
Derivative financial instruments	8	-	13.3
Total current assets		**517.2**	**497.0**
Non-current assets			
Trade and other receivables	7	1.2	0.9
Investment property	9	4.1	3.8
Property, plant and equipment	10	7,116.9	6,743.9
Intangible assets	11	139.7	141.7
Other assets		0.8	0.9
Total non-current assets		**7,262.7**	**6,891.2**
Total assets		**7,779.9**	**7,388.2**
Current liabilities			
Trade and other payables	12	313.4	361.8
Borrowings	13	60.0	217.6
Income tax payable		96.1	64.8
Other provisions	14	493.3	328.5
Other liabilities	15	0.5	1.5
Total current liabilities		**963.3**	**974.2**
Non-current liabilities			
Borrowings	13	4,275.8	3,948.5
Deferred tax liabilities	5	332.4	332.6
Provisions	14	261.7	327.0
Total non-current liabilities		**4,869.9**	**4,608.1**
Total liabilities		**5,833.2**	**5,582.3**
Net assets		**1,946.7**	**1,805.9**
Equity			
Contributed equity		130.5	130.5
Reserves		1,159.5	1,159.8
Retained profits		656.7	515.6
Total equity		**1,946.7**	**1,805.9**

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2013

Consolidated and Corporation

	Contributed Equity $M	Asset Revaluation Reserve $M	Hedge Revaluation Reserve $M	Retained Profits $M	Total Equity $M
Balance at 1 July 2011	130.5	1,159.5	1.1	527.4	1,818.5
Profit for the year	-	-	-	154.3	154.3
Other comprehensive income					
Superannuation defined benefits actuarial losses	-	-	-	(98.8)	(98.8)
Changes in the fair value of cash flow hedges	-	-	(0.8)	-	(0.8)
Total comprehensive income for the year	**-**	**-**	**(0.8)**	**55.5**	**54.7**
Transactions with owners recorded directly in Equity					
Dividend provided	-	-	-	(67.3)	(67.3)
Total transactions with owners	**-**	**-**	**-**	**(67.3)**	**(67.3)**
Balance at 30 June 2012	**130.5**	**1,159.5**	**0.3**	**515.6**	**1,805.9**
Balance at 1 July 2012	130.5	1,159.5	0.3	515.6	1,805.9
Profit for the year	-	-	-	350.1	350.1
Other comprehensive income					
Superannuation defined benefits actuarial gains	-	-	-	31.8	31.8
Changes in the fair value of cash flow hedges	-	-	(0.3)	-	(0.3)
Total comprehensive income for the year	**-**	**-**	**(0.3)**	**381.9**	**381.6**
Transactions with owners recorded directly in Equity					
Dividend provided	-	-	-	(240.8)	(240.8)
Total transactions with owners	**-**	**-**	**-**	**(240.8)**	**(240.8)**
Balance at 30 June 2013	**130.5**	**1,159.5**	**-**	**656.7**	**1,946.7**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2013

		Consolidated and Corporation	
	Note	2013 $M	2012 $M
Cash flows from operating activities			
Receipts from customers		2,210.2	1,894.6
Payments to suppliers and employees		(1,211.8)	(1,083.1)
Interest received		6.1	0.5
Interest paid		(355.4)	(295.9)
Income tax paid		(131.6)	(113.7)
Net cash inflow from operating activities	**22**	**517.6**	**402.4**
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(676.3)	(799.7)
Proceeds from sale of property, plant and equipment		14.5	13.5
True up payment on sale of business		-	(21.0)
Net cash outflows from investing activities		**(661.8)**	**(807.2)**
Cash flows from financing activities			
Proceeds from borrowings		232.5	529.3
Repayment of borrowings		(62.9)	-
Dividends paid		(67.3)	(41.2)
Net cash inflows from financing activities		**102.3**	**488.1**
Net (decrease)/ increase in cash held		(41.9)	83.3
Cash and cash equivalents at the beginning of the financial year		81.4	(1.9)
Cash and cash equivalents at the end of the financial year	**22**	**39.5**	**81.4**

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to Financial Statements

For the year ended 30 June 2013

1 Significant Accounting Policies

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

(a) 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.

The financial statements were authorised for issue by the Directors on 13 September 2013.

(b) Statement of compliance

The financial statements comprise a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, 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 of the consolidated entity and the Corporation also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

(c) Basis of preparation

(i) Basis of measurement

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, investment property provisions and items of property, plant and equipment.

(ii) Comparative figures

When the presentation or classification of items in the financial statements is amended in respect of changes in the current year, the comparative amounts are reclassified to enhance comparability unless the reclassification is impracticable.

The Corporation has adopted a policy to recognise revenue and expenses related to the collection of climate change levy on behalf of the Department of Environment and Heritage. The change has resulted in a gross up in prior year revenue and expenses by $38.9 million.

The Corporation has also adopted a policy to disclose easements as intangible assets as required by New South Wales Treasury Circular, *TC 13/02 Mandates of Options and Major Policy Decisions under Australian Accounting Standards*. To comply with this mandate, the easements balance of $48.3 million at 30 June 2012 has been reclassified from property, plant and equipment to intangible assets.

(iii) Presentation currency

The financial statements are presented in Australian dollars. The amounts shown in the accounts have been rounded to the nearest tenth of a million dollars, unless otherwise stated.

The Corporation is exempt from Part 2 paragraph 5 of *the Public Finance and Audit Regulation 2010*.

(d) Use of estimates and judgements

The preparation of financial statements require 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. These accounting policies have been consistently applied by each entity in the consolidated entity.

The 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. Judgements made by management in the application of AASBs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below and various respective notes.

(i) 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 limited value add to the Network business. This provision is a direct reflection of the costs of the stranded employees for the period in which those employees add limited value 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.

Notes to Financial Statements

For the year ended 30 June 2013

1 Significant Accounting Policies (continued)

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 limited 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 limited 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.

(ii) Employee Benefits Provision

A 3.5 per cent expected salary increase rate has been assumed for the purposes of actuarial valuations, however the NSW Government Wages Policy requires that any salary increase above 2.5 per cent would be offset by appropriate productivity savings made by the Corporation.

Unless otherwise indicated, the accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements. The accounting policies have been applied consistently by consolidated entities.

(e) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Essential Energy Group consists of the parent entity Essential Energy and its wholly owned subsidiary NorthPower Energy Services Pty Ltd. All entities are incorporated in Australia. NorthPower Energy Services Pty Ltd did not trade during the year. NorthPower Energy Services Pty Limited was deregistered effective 17 July 2013.

(ii) Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Ausgrid, Endeavour Energy and Essential Energy have entered into a joint venture agreement. A legal entity Networks NSW Pty Limited has been used as the vehicle for this joint venture. Networks NSW Pty Limited is incorporated in Australia. (Refer to Note 18 for details.)

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

(f) Income tax

Essential Energy and its controlled entities ("the Group") are exempt from federal income tax under the Income Tax Assessment Acts. However, the Group is subject to the National Tax Equivalent Regime which is based on the Income Tax Assessment Acts. Tax equivalents are payable to the Office of State Revenue.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position 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: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, nor 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 enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that 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 Significant Accounting Policies (continued)

Additional income taxes that arise from the distribution of dividends and other payments are recognised at the same time as the liability to pay the related dividend or payment.

(i) Tax consolidation

The Corporation and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Essential Energy.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'group allocation' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below).

The Corporation recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

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.

(ii) 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 obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

Contributions to fund the current tax liabilities are payable 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.

(g) Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, the amount of revenue can be reliably measured, and it is probable that the future economic benefits will flow to the entity.

(i) Network use of system revenue

The Group recognises revenue involving the rendering of electricity and water supply services in the Statement of Comprehensive Income when the goods are provided or when the fee in respect of services provided is receivable. Network use of system income (NUOS) is recognised on an accrual basis as revenue is accrued for consumption which is not invoiced at month end. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or if the costs incurred or to be incurred cannot be measured reliably.

(ii) Rental income

Rental income from properties leased under property leases is recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(iii) Developer and customer contributions

This represents sums contributed by customers and developers, mainly towards the capital cost of electricity connections. Cash and non-cash capital contributions have been reported in order to comply with Australian Accounting Interpretation 18 *Transfers of Assets from Customers*.

Cash capital contributions are initially recorded as liabilities. Once the network asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to revenue, and the asset is recognised at fair value.

Contributions of non-current assets are recognised as revenue and an asset when the Group gains control of the asset. The fair value of contributed assets is recognised at the date at which control is gained.

Notes to Financial Statements

For the year ended 30 June 2013

1 Significant Accounting Policies (continued)

(iv) Government grants

Government grants are recognised in the Statement of Financial Position initially as deferred income when they are received and the consolidated entity complies with the conditions attaching to them.

Grants that compensate the consolidated entity for the cost of an asset are recognised in the Statement of Comprehensive Income as revenue on a systematic basis over the useful life of the asset.

Grants that compensate the consolidated entity for expenses incurred are recognised as revenue in the Statement of Comprehensive Income in the same period in which the expenses are incurred.

(v) Unread meters

Revenue from unread meters for NUOS 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. 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.

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 per cent change in average tariff rates will result in a change in accrued revenue of $19.5 million and $21.6 million respectively.

(h) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash balances and call deposits.

For the purposes of the Statement of Cash Flows, cash includes cash assets net of bank overdraft excluding restricted cash.

(i) Trade and other receivables

Trade and other receivables are financial assets recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Collectability of trade receivables is reviewed on an ongoing basis in accordance with AASB 139 *Financial Instruments*. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the entity will not be able to collect the receivables such as evidence of financial difficulties of the debtor and default payments.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item. In the case of manufactured stock for internal use, costs include direct labour, materials and a portion of variable overhead which comprises the cost of bringing the inventories to their appropriate location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) 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 March 2013. 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.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially recognised at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

After initial recognition as an asset, items of property, plant and equipment are measured at fair value. Fair value is determined in accordance with NSW Treasury Accounting Policy TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value* and AASB 116 *Property, Plant and Equipment*, and reviewed annually for indicators of impairment in accordance with AASB136 *Impairment of Assets*.

1 Significant Accounting Policies (continued)

System assets
System assets were revalued at 30 June 2010 to reflect fair value. Fair value is best represented as current market price, however where this cannot be observed, an asset's fair value is measured at either depreciated replacement cost or an income approach in accordance with AASB 116. Treasury Circular NSW TC12/05 *Fair Value of Specialised Physical Assets* also allows the option in AASB 116 Property, Plant and Equipment to measure specialised assets using either depreciated replacement cost or an income approach.

The income approach valuation methodology reflects a discounted cash flow methodology to value the Group, and a calculation to subtract the value of other business assets and liabilities to arrive at a value for the Group's network assets.

The income approach is based on a discounted cash flow model using the following methods and assumptions:

- Use of an estimate of future cash flows to be derived based on financial forecasts;
- Expectations about possible variations in the amount/ timing of future cash flows to reflect the most likely outcome;
- The time value of money, represented by the current market risk-free rate and the price for bearing the uncertainty inherent in the asset, as encapsulated in the Weighted Average Cost of Capital (WACC);
- Other factors such as illiquidity that should be reflected in pricing future cash flows; and
- The regulated asset base (RAB) used as a proxy for the terminal value.

The Corporation is applying the income approach in the valuation of electricity system assets.

Water system assets were valued using an Optimised Depreciated Replacement Cost (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 2013. The recoverable amount of the Water system assets CGU was estimated to be zero as at 30 June 2013, 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 2013, based on a value in use calculation. Accordingly, no value is carried in the books of the Group in respect of Generation system assets.

System assets are revalued at least every five years in accordance with *TPP07-1 Valuation of Physical Non-Current Assets at Fair Value.* However, an assessment is made at each reporting date to ensure the net carrying value of system assets does not differ materially from its fair value, which is calculated on a 'cash generating unit' (CGU) basis using the discounted cash flow. The net carrying amount of system assets did not differ materially to the discounted cash flow.

Non-system land and buildings
Non-system land and buildings are valued at fair value of the asset.

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.

Other property, plant and equipment
Other property, plant and equipment assets comprise non-specialised assets with short useful lives. These assets are stated at fair value which is equivalent to their depreciated historical costs (deemed to be fair value in accordance with NSW Treasury Accounting Policy TPP07-1 *Valuation of Physical Non-Current Assets at Fair Value* as any difference is unlikely to be material).

Notes to Financial Statements

For the year ended 30 June 2013

1 Significant Accounting Policies (continued)

(ii) Revaluations

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss. Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset, they are debited directly to the asset revaluation reserve.

Gains and losses on disposal of revalued assets are included in the Statement of Comprehensive Income for the year. Any related revaluation increments in the asset revaluation reserve upon disposal are transferred to Retained Earnings.

(iii) Capitalisation policy

Non-system assets purchased below $600 are expensed as acquired. All costs of assets constructed by the 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, a proportion of overhead allocated on the basis of direct costs, other costs directly attributable to bringing the asset to a working condition for intended use and capitalised borrowing costs.

(iv) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense as incurred.

(v) Depreciation

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

Depreciation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods 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.

The residual value, if significant, is reassessed annually.

(m) Intangible assets

Intangible assets that are acquired externally or internally generated by the consolidated entity are stated at cost less accumulated amortisation and impairment losses (see Note 1(n)(ii)).

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Easements, which are an interest in land allowing access to network assets, are not amortised as they are granted for an unlimited time.

Amortisation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each statement of financial position date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives in the current and comparative periods are as follows:

Computer software	4 years

1 Significant Accounting Policies (continued)

(n) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying amount reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Significant receivables are individually assessed for impairment. Non-significant receivables are collectively assessed. Instead, by placing them in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of economic and credit conditions existing at each balance date.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories, derivatives and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually irrespective of any indication of impairment. The recoverable amount of an asset or cash generating unit (CGU) is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of CGU are allocated first to reduce the carrying amount of any goodwill (if any) allocated to CGU and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss has been recognised for the asset in prior years.

(o) 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.

Other assets relate to assets acquired from the purchase of renewable energy and costs for external, recoverable and contestable works carried out by the Group which are still work in progress at reporting date. Costs for work in progress are deferred to recognise in profit and loss until the completion of work and services. Other assets are measured at cost.

(p) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year and there is an obligation to make future payment. The amounts are unsecured and are usually paid within 30 days of recognition.

Subsequent to initial recognition of these liabilities at fair value, they are measured at amortised cost using the effective interest rate method. This measurement is equivalent to the original invoice amount.

Notes to Financial Statements

For the year ended 30 June 2013

1 Significant Accounting Policies (continued)

(q) Loans and Borrowings

Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. This includes capital indexed bonds whose carrying amount is restated at each reporting date by way of an indexation adjustment based on the Consumer Price Index (CPI) in Australia.

Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

The difference between the face value and the capital value of these debt securities is amortised over the life of the specific instrument. Interest associated with these instruments is brought to account on an accrual basis. Indexation adjustments on CPI indexed bonds are also recognised as part of finance costs in profit or loss.

Loan debt shown as a current liability is nominally due for repayment within twelve months. However due to the availability of roll-over facilities and the liquidity of the underlying debt instruments, the Group may not necessarily need to repay these loans within twelve months.

(r) Financial instruments

(i) Foreign exchange contracts

The Group enters into foreign exchange contracts for anticipated purchase commitments for the supply of parts and equipment which are denominated in foreign currencies. Where the instruments are not designated to hedging relationships, movements in the fair value of these instruments are recognised in the Statement of Comprehensive Income.

(ii) Non-novated energy derivatives

For any energy derivative contracts that were not novated to the purchaser of the Retail business during 2010–2011, a back to back arrangement is created for each contract that transfers the energy price risk back to Group. Derivative assets and liabilities for non-novated contracts are recognised in the Statement of Financial Position, with an offsetting asset and liability.

(iii) Derecognition of financial instruments

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and the associated liability.

The Group derecognises a financial liability when, and only when, the Group obligation specified in the contract is discharged, cancelled or expired.

(s) 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. Employee benefits also include a liability for underfunded superannuation.

The amounts provided have been apportioned between current and non-current provisions. The current provisions being that portion which is expected to be paid within the ensuing twelve months or where there is no unconditional right to defer settlement of the obligation. Non-current provisions are those amounts that are expected to be paid after twelve months and where there exists an unconditional right to defer settlement beyond twelve months.

In calculating wages and annual leave, nominal amounts have been used based on expected future remuneration.

The amounts recognised for sick leave and long service leave are calculated in accordance with Australian Accounting Standard AASB 119: *Employee Benefits*. Actuarial assessment of preserved sick leave and long service leave was calculated at 15 February 2012 (updated 19 July 2012 for long service leave) 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.

A liability is recorded when the accrued benefits of the defined benefits superannuation funds exceed the net assets of the funds. 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 Significant Accounting Policies (continued)

(t) Superannuation

(i) Defined contribution plan

A defined contribution plan is a post employment benefit under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the statement of financial position date on government bonds that have maturity dates approximating to the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses arising from defined benefit plans are recognised in other comprehensive income in the year in which they occur.

Where the calculation results in a benefit to the consolidated entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

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).

The Trustees are responsible for ensuring that the plans are independently valued by suitably qualified valuers. The plans are funded.

(u) Provisions

A provision is recognised in the Statement of Financial Position when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(v) Other liabilities

Other liabilities include prepaid revenue. The liabilities are classified as current or non-current, according to when their obligation for fulfilment is due.

Deferred revenue
Deferred revenue is recognised for customer prepayment for external, recoverable and contestable works carried out by the Corporation at reporting date. The revenue is deferred pending completion of the works and services.

(w) Share capital

The Corporation is incorporated under the *State Owned Corporations Act 1989* with issued capital of two fully paid $1 ordinary shares.

Current shareholders are the Treasurer and the Minister for Finance and Services on behalf of the NSW Government. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Corporation. The $2 share capital is included in Contributed Equity in the Statement of Financial Position.

(x) Reserve

(i) Asset revaluation reserve

The revaluation reserve relates to fair value movements in property, plant and equipment.

(ii) Hedging reserve

The hedging reserve is used to record unrealised gains or losses of effective cash flow hedges. The unrealised gains or losses of all other derivatives are recognised in profit and loss.

Notes to Financial Statements

For the year ended 30 June 2013

1 Significant Accounting Policies (continued)

(y) Finance costs

Finance costs are recognised as expenses in the Statement of Comprehensive Income in the period in which they are incurred and include:

- Interest expenses calculated using the effective interest method as described in AASB 139 *Financial Instruments: Recognition and Measurement*, e.g. interest on overdrafts and short-term and long-term borrowings, including amounts paid or received on interest rate swaps, amortisation of discounts or premiums relating to borrowings and indexation adjustments on CPI indexed bonds;
- Amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- A government loan guarantee fee assessed by NSW Treasury;
- Discount expense applied to provisions and amortised assets; and
- Net losses on valuations of interest rate futures classified as financial instrument 'loans and receivables'.

The amount excludes finance costs relating to qualifying assets, in which case they are capitalised as part of the cost of those assets in accordance with AASB 123 *Borrowing Costs*. Qualifying assets are assets that take a substantial period of time to get ready for their intended use. The Corporation considers this to be 12 months or more.

Capitalisation of borrowing costs is undertaken where a direct relationship can be established between the borrowings and the relevant projects giving rise to qualifying assets. Typically, these are projects whose expected total project expenditure is approximately $10 million or greater.

The amount of borrowing costs capitalised during the year was $12.0 million (2012: $5.1 million), and the capitalisation rate used to determine this amount was at a weighted average interest rate of 7.75 per cent (2012: 9.87 per cent).

(z) Leases

As lessee
Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense and spread over the lease term.

The Group has not entered into any finance leases as at reporting date. Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases.

The Group does have material leases of land with a term exceeding 50 years. The title of these leases has been retained and the aggregate fair value of the leased assets is negligible.

As lessor
The Group leases out its properties, including premises, land and communications towers, under operating lease agreements at market rentals, predominantly on a fixed term basis.

Rentals received from the tenants during the year are recognised as income in the Statement of Comprehensive Income and the costs of repairs and maintenance incurred on these properties for the year are recognised as an expense in the Statement of Comprehensive Income.

(aa) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(bb) Foreign currency

Foreign currency transactions are converted to Australian currency at the exchange rates at the date of the transaction, with resulting exchange differences recognised as income or expense in profit or loss.

At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date, with resulting exchange differences classified as equity and transferred to the foreign currency translation reserve.

1 Significant Accounting Policies (continued)

(cc) New and revised accounting standards and Australian Accounting Interpretations

Accounting standards and Interpretations issued but not yet effective.

Various new and revised accounting standards and Australian Accounting Interpretations have been published that are not mandatory for the 30 June 2013 reporting period.

The Group assessment of the impact of new standards and interpretations which may have an impact and have not been early adopted is set out below. The main impact of these standards and interpretations will be on presentation and disclosure except for AASB 119 *Employee Benefits*, which becomes mandatory for the entity's 2014 financial statements and will have an impact on classification between interest expenses and other comprehensive income for defined benefit schemes. The amendments to AASB 119 require retrospective application. Based on initial estimates, when the Group applies the amendments for the first time for the year ending 30 June 2014, the profit after income tax for the comparative period year ended 30 June 2013 would be reduced by $9.7 million and the other comprehensive income after income tax for the said year would be increased by $9.7 million.

- AASB 9 *Financial Instruments*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* [AASBs 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] and AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* [AASB 9, AASB 2010-7]
- AASB 9 (Revised), AASB 2010-7 and AASB 2012-6 are applicable to annual reporting periods beginning on or after 1 January 2015. The Group has not elected to adopt this standard early. The Group will apply these standards in the 2015/16 financial statements.
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]
- AASB 13 and AASB 2011-8 are applicable to annual reporting periods beginning on or after 1 January 2013. The Group has not elected to adopt this standard early. The Group will apply these standards in the 2013/14 financial statements.
- AASB 119 *Employee Benefits*, AASB 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] and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements.
- AASB 119, AASB 2011-10 and AASB 2011-11 are applicable to annual reporting periods beginning on or after 1 January 2013. The Group has not elected to adopt these standards early. The Group will apply these standards in the 2013/14 financial statements.
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* [AASB 7 & AASB 132] and AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* [AASB 132].
- AASB 2012-2 and AASB 2012-3 are applicable to annual reporting periods beginning on or after 1 January 2013 and 1 January 2014 respectively. The Group has not elected to adopt these standards early. The Group will apply these standards in the 2013/14 (AASB 2012-2) and 2014/15 (AASB 2012-3) financial statements.

All other new standards and interpretations have no impact on the Group and will not affect the Group financial statements.

Notes to Financial Statements

For the year ended 30 June 2013

2 Revenue

		Consolidated and Corporation	
	Note	2013 $M	2012 $M
Revenue			
Network use of system income		1,875.5	1,580.9
Public lighting system charge		8.9	8.3
Developer and customer contributions		65.4	73.5
Rental income		0.5	0.6
Solar Bonus Rebate Scheme Recovery		97.3	92.2
Other business revenue		47.8	52.4
Other income		62.8	67.4
Interest income		6.1	0.5
Total Operating Revenue		**2,164.3**	**1,875.8**

3 Expenses

	Note	Consolidated and Corporation 2013 $M	Consolidated and Corporation 2012 $M
(a) Expenses excluding finance costs			
Expenses relating to operating activities			
Distribution of energy and other services		547.0	491.0
Employee benefits		360.6	422.1
Operating leases rental		8.6	8.8
Consultants expenses		0.3	0.2
Superannuation expense (defined benefit plan) recognised in profit for the year	23(b)	9.3	9.8
Superannuation expense (defined contribution plan)		48.9	47.3
Total expenses relating to operating expenses		974.7	979.3
Depreciation of property, plant and equipment			
Buildings	10	4.1	3.1
System assets	10	244.6	239.2
Plant and equipment	10	64.5	62.9
Total depreciation		313.2	305.2
Amortisation of intangible assets			
Computer software	11	25.8	18.6
Total amortisation		25.8	18.6
Impairment losses on non financial assets			
Write off of non financial assets	11	0.7	8.4
Impairment losses on non financial assets*	10	24.1	4.6
Total impairment losses on non financial assets		24.8	13.0
Total expenses excluding finance costs		**1,338.5**	**1,316.2**
(b) Finance costs			
Interest and finance charges paid/payable		324.5	305.1
Net realised losses on interest rate futures		0.7	44.0
Fair value (gains)/losses in financial instruments net of amortisation of contract premiums and transitional cash settlements		-	(2.0)
Unwinding of discount on provisions		1.4	2.7
Finance costs recognised in the Statement of Comprehensive Income		**326.6**	**349.8**
(c) Maintenance expenses:			
Employee benefits expense		81.9	82.8
Contracted labour and other (non-employee related) expenses		374.8	346.5
Total maintenance expenses		**456.7**	**429.3**

* The expense reflect the impairment of generation, water and contestable metering assets.

Notes to Financial Statements

For the year ended 30 June 2013

4 Income tax expense

		Consolidated and Corporation	
	Note	2013 $M	2012 $M
(a) Income tax expense recognised in the Statement of Comprehensive Income			
Current tax expense			
Current year		170.2	117.0
Adjustments for prior years		(7.3)	(23.7)
		162.9	93.3
Deferred tax expense			
Origination and reversal of temporary differences	5	(19.7)	(54.1)
Under provided in prior years		5.9	16.3
		(13.8)	(37.8)
Total income tax expense in Statement of Comprehensive Income		**149.1**	**55.5**
(b) Numerical reconciliation between tax expense and pre-tax net profit			
Profit before tax		499.2	209.8
Income tax using domestic corporation tax rate of 30%		149.8	62.9
Increase/(decrease) in income tax expense due to:			
Adjustment in respect of current income tax of previous years		(7.3)	(23.7)
Investment Allowance		-	-
Recognition/derecognition of temporary differences relating to prior years		5.9	16.3
Expenditure not allowable for income tax purposes		0.7	0.4
Net tax gain on disposal of retail business not subject to tax equivalent		-	(0.4)
Income tax expense on pre-tax net profit		**149.1**	**55.5**
(c) Income tax recognised in other comprehensive income			
Items to be reclassified subsequently to profit or loss:			
Revaluation of hedge derivatives		(0.1)	(0.3)
Items not to be reclassified subsequently to profit or loss:			
Actuarial gains or losses on defined benefits superannuation		13.7	(42.4)
Income tax expense/(benefit) reported in equity		**13.6**	**(42.7)**

5 Deferred tax liabilities

	Consolidated and Corporation	
	2013 $M	2012 $M
Recognised deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Property, plant and equipment	(448.8)	(486.5)
Intangible assets	-	-
Employee benefits	53.9	71.0
Financial instruments	(1.2)	(1.3)
Provisions	101.3	107.6
Green emmission	(0.1)	(0.3)
Unbilled income	(37.6)	(23.3)
Other items	0.1	0.2
Net deferred tax liabilities	**(332.4)**	**(332.6)**

The deductible temporary differences and tax losses do not expire under current tax legislation.

2013	Balance 1 July 2012 $M	Recognised in income statement prior period $M	Recognised in income statement current period $M	Recognised directly in equity $M	Balance 30 June 2013 $M
Temporary differences					
Provisions	107.6	(0.6)	(5.7)	-	101.3
Green emission rights	(0.1)	-	-	-	(0.1)
Green emission obligations	(0.2)	-	0.2	-	-
Employee benefits	71.0	-	(3.4)	(13.7)	53.9
Financial instruments	(1.3)	-	-	0.1	(1.2)
Property, plant and equipment	(486.5)	(2.3)	40.0	-	(448.8)
Other	0.2	-	(0.1)	-	0.1
Unbilled income	(23.3)	(3.0)	(11.3)	-	(37.6)
Total deferred tax liabilities	**(332.6)**	**(5.9)**	**19.7**	**(13.6)**	**(332.4)**

Notes to Financial Statements

For the year ended 30 June 2013

Consolidated and Corporation

2012	Recognised in income statement prior period $M	Recognised in income statement current period $M	Recognised directly in equity $M	Balance 30 June 2012 $M
Temporary differences				
Provisions	(0.1)	19.2	-	107.6
Green emission rights	-	1.2	-	(0.1)
Green emission obligations	-	(1.6)	-	(0.2)
Employee benefits	-	(3.4)	42.4	71.0
Financial instruments	-	(0.6)	0.3	(1.3)
Property, plant and equipment	(1.2)	47.7	-	(486.5)
Other	-	(0.4)	-	0.2
Unbilled income	(15.0)	(8.0)	-	(23.3)
Total deferred tax liabilities	**(16.3)**	**54.1**	**42.7**	**(332.6)**

Essential Energy treats certain income from network distribution services as being derived for income tax purposes in the years in which meters are read and related income is billed. This treatment is consistent with the treatment applied in the prior year and reflects consideration of expert advice and relevant taxation case law. This treatment has resulted in the recognition of a deferred tax liability of $37.6 million as at 30 June 2013 (2012: $23.3 million).

It is noted that the Australian Taxation Office (ATO) has issued interpretive decision ATO ID 2012/15 Derivation of Income: Unbilled Supply of Energy. This document is an edited and summarised record of a decision made in respect of another taxpayer and relates to the retailing of electricity and gas to consumers. The ATO concluded that the taxpayer derived assessable income at the time of the supply of electrical and gas energy to certain customers.

Given that the interpretive decision relates to energy retailers, Essential Energy does not believe that the conclusions reached are directly relevant to the determination of when that income is derived for income tax purposes in relation to its network distribution services. This view has been further affirmed by external tax advice.

6 Cash and cash equivalents

	Consolidated and Corporation	
	2013 $M	2012 $M
Bank balances and term deposits	39.5	81.4
Restricted cash and deposits	13.1	14.7
Cash and cash equivalents	**52.6**	**96.1**

The Group's exposure to interest rate risk and a sensitivity analysis of financial assets and financial liabilities are disclosed in Note 16.

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.

7 Trade and other receivables

	Consolidated and Corporation	
	2013 $M	2012 $M
Current		
Trade receivables	133.1	87.7
Less: impairment of trade receivables	(0.1)	(0.1)
Trade receivables, net of provision	133.0	87.6
Accrued revenue from unread meters	241.4	198.7
Deposits on futures trading	-	1.8
Other receivables	45.8	50.0
Less: impairment of other receivables	(0.3)	(0.3)
	286.9	250.1
Trade and other receivables	**419.9**	**337.7**
Prepayments	15.4	15.4
Total current trade and other receivables	**435.3**	**353.1**

The movement in the impairment of trade receivables is detailed below:

Opening balance at 1 July	0.4	0.4
- additional provisions	0.4	0.6
- amounts used	(0.4)	(0.6)
Closing balance at 30 June	0.4	0.4
Prepayments	0.1	0.9
Over funded superannuation	1.1	-
Total non-current trade and other receivables	**1.2**	**0.9**

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note 16.

Notes to Financial Statements

For the year ended 30 June 2013

8 Derivative financial instruments

	Consolidated and Corporation	
	2013 $M	2012 $M
Derivative financial assets – current		
Energy trading derivatives		
Swap derivatives	-	4.5
Option derivatives	-	8.8
Total derivative current assets	**-**	**13.3**

The Group's exposure to credit, currency and interest rate risk related to derivatives is disclosed in Note 16.

The derivative financial assets and liabilities are largely related to the operations of the Retail business which was disposed on 1 March 2011. 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 2013 $nil million of net assets (2012: $16.3 million) included in unsecured creditors was payable to the acquirer.

9 Investment property

	Consolidated and Corporation	
	2013 $M	2012 $M
Investment property		
Opening carrying value	3.8	3.8
Change in fair value to profit or loss	0.3	-
Total investment property	**4.1**	**3.8**

10 Property, plant and equipment

	Note	Land and buildings $M	System assets $M	Plant and equipment $M	Total $M
					Consolidated and Corporation
At 1 July 2012 – fair value					
At cost		209.6	8,836.3	786.9	9,832.8
Accumulated depreciation and impairment		(12.9)	(2,642.7)	(433.3)	(3,088.9)
Net carrying amount		**196.7**	**6,193.6**	**353.6**	**6,743.9**
At 30 June 2013 – fair value					
At cost		212.4	9,525.4	790.7	10,528.5
Accumulated depreciation and impairment		(16.6)	(2,911.2)	(483.8)	(3,411.6)
Net carrying amount		**195.8**	**6,614.2**	**306.9**	**7,116.9**
Year ended 30 June 2013					
Net carrying amount at start of year		**196.7**	**6,193.6**	**353.6**	**6,743.9**
Additions		4.9	690.3	27.6	722.8
Disposals		(1.7)	(1.0)	(9.8)	(12.5)
Depreciation	3(a)	(4.1)	(244.6)	(64.5)	(313.2)
Impairment	3(a)	-	(24.1)	-	(24.1)
Net carrying amount at end of year		**195.8**	**6,614.2**	**306.9**	**7,116.9**
At 1 July 2011 – fair value					
At cost		192.3	8,171.1	713.4	9,076.8
Accumulated depreciation and impairment		(9.9)	(2,401.0)	(387.2)	(2,798.1)
Net carrying amount		**182.4**	**5,770.1**	**326.2**	**6,278.7**
At 30 June 2012 – fair value					
At cost		209.6	8,836.3	786.9	9,832.8
Accumulated depreciation and impairment		(12.9)	(2,642.7)	(433.3)	(3,088.9)
Net carrying amount		**196.7**	**6,193.6**	**353.6**	**6,743.9**
Year ended 30 June 2012					
Net carrying amount at start of year		**182.4**	**5,770.1**	**326.2**	**6,278.7**
Additions		18.0	718.1	98.1	834.2
Reclassification to intangible assets-Easements	11	-	(48.3)	-	(48.3)
Disposals		(0.6)	(2.5)	(7.8)	(10.9)
Depreciation	3(a)	(3.1)	(239.2)	(62.9)	(305.2)
Impairment	3(a)	-	(4.6)	-	(4.6)
Net carrying amount at end of year		**196.7**	**6,193.6**	**353.6**	**6,743.9**

Notes to Financial Statements

For the year ended 30 June 2013

10 Property, plant and equipment (continued)

Assets under construction

During the year ended 30 June 2013, the consolidated entity continued with its Network Capital Program.
At the statement of financial position date, the construction in progress totalled:

Land and buildings	$19.6 million (2012: $42.9 million)
System assets	$820.2 million (2012: $1,032.8 million)
Other assets	$18.3 million (2012: $52.2 million)

Historic cost of revalued assets

The carrying amount of assets had they been carried under the cost model is:

Land and buildings	$162.7 million (2012: $163.4 million)
System assets	$5,469.3 million (2012: $5,035.1 million)
Other assets	$306.9 million (2012: $353.6 million)

11 Non-current intangible assets

Consolidated and Corporation

	Note	Easements $M	Computer software $M	Total $M
At 1 July 2012				
Gross carrying amount		48.3	226.3	274.6
Accumulated amortisation and impairment		-	(132.9)	(132.9)
Net carrying amount		**48.3**	**93.4**	**141.7**
At 30 June 2013				
Gross carrying amount		60.9	238.4	299.3
Accumulated amortisation and impairment		-	(159.6)	(159.6)
Net carrying amount		**60.9**	**78.8**	**139.7**
Year ended 30 June 2013				
Net carrying amount at start of year		**48.3**	**93.4**	**141.7**
Acquisitions		12.6	12.0	24.6
Disposals		-	-	-
Amortisation	3(a)	-	(25.8)	(25.8)
Impairment	3(a)	-	(0.7)	(0.7)
Net carrying amount at end of year		**60.9**	**78.9**	**139.7**
At 1 July 2011				
Gross carrying amount		-	189.0	189.0
Accumulated amortisation and impairment		-	(105.9)	(105.9)
Net carrying amount		**-**	**83.1**	**83.1**
At 30 June 2012				
Gross carrying amount		48.3	226.3	274.6
Accumulated amortisation and impairment		-	(132.9)	(132.9)
Net carrying amount		**48.3**	**93.4**	**141.7**
Year ended 30 June 2012				
Net carrying amount at start of year		**-**	**83.1**	**83.1**
Acquisitions		-	37.3	37.3
Reclassification from system assets	10	48.3	-	48.3
Disposals		-	-	-
Amortisation	3(a)	-	(18.6)	(18.6)
Impairment	3(a)	-	(8.4)	(8.4)
Net carrying amount at end of year		**48.3**	**93.4**	**141.7**

Assets under construction

During the year ended 30 June 2013, the consolidated entity continued with its Capital Program.
At the statement of financial position date, the construction in progress totalled:

Computer software	$32.2 million (2012: $35.7 million)
Easements	$41.1 million (2012: $29.6 million)

Notes to Financial Statements

For the year ended 30 June 2013

12 Trade and other payables

	Consolidated and Corporation	
	2013 $M	2012 $M
Current		
Trade payables	9.0	15.8
Accruals	107.2	112.5
Other payables	44.9	61.3
Accrued interest	152.3	172.2
Total current trade and other payables	**313.4**	**361.8**

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 16.

13 Borrowings

Current		
Loans	60.0	217.6
Total current interest bearing liabilities	**60.0**	**217.6**
Non-current		
Loans	4,275.8	3,948.5
Total non-current interest bearing liabilities	**4,275.8**	**3,948.5**

The Group's exposure to liquidity and interest rate risk related to interest bearing liabilities is disclosed in Note 16.

At balance date the Corporation had access to the following finance facilities:

Bank overdraft	15.0	15.0
Lines of credit	222.1	226.2
Loans	5,381.1	5,381.1
Total available finance facilities	**5,618.2**	**5,622.3**

At balance date the unused amounts of those facilities listed above were:

Bank overdraft [(1), (2), (3)]	15.0	15.0
Lines of credit	162.3	98.7
Loans [(3)]	1,045.3	1,252.9
Total unused finance facilities	**1,222.6**	**1,366.6**

(1) Represents the bank overdraft limit in relation to any debit balances on the bank statements on the last day of the month.

(2) The bank statement balance at reporting date was $1.8 million credit (2012: $81.3 million credit).

13 Borrowings (continued)

	Consolidated and Corporation	
	2013 %	2012 %
(3) *Effective interest rates:*		
Bank overdraft	9.23	9.48
TCorp short term accommodation	2.90	3.65
TCorp loans – AUD fixed rate	5.85	6.04
TCorp loans – AUD floating rate	-	5.02
TCorp loans – AUD Inflation indexed	5.22	6.61

Financing arrangements

Bank overdrafts
Interest on bank overdrafts is charged at prevailing market rates plus an additional 5.0 per cent on any balance in excess of the approved Overdraft Facility Limit of $15.0 million.
The bank overdraft of the consolidated entity is unsecured. Bank overdrafts are payable on demand and are subject to review.

Lines of credit and other facilities
Essential Energy has approval under the Public Authorities (Financial Arrangements) Act 1987 (PAFA Act) to obtain $222.1 million in lines of credit and other financial accommodation including guarantees.
Included in this approval is a work cover guarantee facility of $100.0 million (2012 $100.0 million). $40.7 million (2012 $57.9 million) is unused.
An Australian Energy Market Operator guarantee facility was not required at 30 June 2013 (2012 $4.1 million available and $3.0 million unused).

Loans
Essential Energy has approval under the Public Authorities (Financial Arrangements) Act 1987 to obtain $5,381.1 million (2012: $5,381.1 million) in loan funds from TCorp.
The loan amounts in current liabilities includes the portion of the consolidated entity's TCorp loans payable within one year of $60.0 million (2012: $217.6 million).
The non-current TCorp loans are payable on or before 20 November 2035, with maturity dates ranging between 2 and 22 years from reporting date.
All TCorp debt is fully payable on maturity with the majority being fixed rate loans.

Notes to Financial Statements

For the year ended 30 June 2013

14 Other provisions

Consolidated and Corporation

	Dividends $M	Employee benefits $M	Environmental rectification $M	Asset rectification $M	Workers' compensation $M	Restructuring $M	Other $M	Total $M
Opening balance	67.3	513.9	8.4	2.3	10.7	47.8	5.0	655.4
Additional provision	240.8	38.9	14.3	-	2.1	1.5	0.2	297.8
Utilised during the period	(67.3)	(68.3)	(0.6)	-	(0.9)	(3.3)	(2.4)	(142.8)
Provisions reversed during the period	-	(46.9)	(0.1)	(0.4)	-	(9.3)	-	(56.7)
Unwinding discount	-	-	-	-	0.1	1.2	-	1.3
Closing balance	**240.8**	**437.6**	**22.0**	**1.9**	**12.0**	**37.9**	**2.8**	**755.0**
Current	240.8	221.4	9.8	1.9	4.8	11.8	2.8	493.3
Non-Current	-	216.2	12.2	-	7.2	26.1	-	261.7

(i) Provision for environmental rectification

Provisions for environmental rectification work are expected to be settled between 2014 and 2021. In respect of obligations to be settled by 2014 the effect of the time value of money has been deemed to be immaterial. Where settlement is expected by 2020, a discount rate of 3.4 per cent has been applied. During 2013 a provision was recognised for the partial remediation and subsequent decommissioning of the Nymboida hydro power station which is expected to be finalised during 2015. Additionally, a provision for site remediation was increased to cover site remediation extending out to 2021. A discount rate of 3.6 per cent is applicable to this provision.

(ii) Dividends and other payments

Provision is made for the amount of any dividend and other payments determined by the Directors on or before the end of the financial year but not distributed at balance date. The dividend has regard to the annual performance agreement (Statement of Corporate Intent) with NSW Treasury.

The current year dividend payable of $240.8 million has been based on the Government's dividend cap policy for the energy sector of State Owned Corporations and negotiations between NSW Treasury on behalf of the shareholders and Essential Energy prior to 30 June 2013, and is in compliance with TPP09-6 *Financial Distribution Policy for Government Businesses*. The prior year dividend payable of $67.3 million was calculated in accordance with NSW Treasury policy TPP09-6 *Financial Distribution Policy for Government Businesses*, which is based on profit adjusted for certain non-cash items.

(iii) Employee benefits

The provision for employee benefits relates to amounts accruing to employees up to reporting date in respect of employee benefits including defined benefit superannuation obligations, annual leave, maturing allowance, preserved sick leave and long service leave. Amounts provided for in relation to maturing allowance, long service leave, defined benefit superannuation obligations and preserved sick leave are based on an actuarial assessment and associated formulae provided for intervening periods between assessments as outlined in note 1(t). All other employee benefit amounts have been calculated at nominal amounts based on expected settlement rates.

(iv) Provision for asset rectification

A provision was recognised during 2012 for the remediation of Essential Energy's Heritage listed sites to comply with the relevant legislation. The obligation is expected to be settled during 2014.

(v) 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(d)) $34.1 million (2012: $42.0 million) and data migration $2.4 million (2012: $3.0 million). At 30 June 2013 no provision (2012: $2.6 million) was raised in relation to redundancies agreed with employees as a result of the electricity industry reform. The settlement of all obligations is expected by 2019 and a discount rates of 3.2 per cent has been applied.

14 Other provisions (continued)

(vi) 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 2018 for the 2012–2013 financial year cover. A discount rate of 3.0 per cent has been applied.

During 2012–2013, a consulting actuary, David A. Zaman , undertook the annual investigation of the Corporation's estimated liability for workers' compensation as at 30 June 2013. The liability is measured as the present value of future payments at 30 June 2013 and was estimated to be $12.0 million (2012: $10.7 million). This includes the liability for dust related diseases which is estimated at $1.0 million (2012: $0.8 million).

(vii) 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.

(viii) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of $55.4 million (2012: $60.9 million) is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	Consolidated and Corporation	
	2013 $M	2012 $M
Current leave obligations expected to be settled after 12 months	22.1	26.6

15 Other liabilities

	Consolidated and Corporation	
	2013 $M	2012 $M
Current		
Prepaid capital contributions	0.5	1.2
Green certificates	-	0.3
Total other current liabilities	**0.5**	**1.5**

The Group's exposure to liquidity and interest rate risk related to other financial liabilities is disclosed in Note 16.

Notes to Financial Statements

For the year ended 30 June 2013

16 Financial Instruments disclosure

(a) Financial risk management objectives and policies

Financial instruments apply to both Corporation and the consolidated entity which comprise cash, trade debtors, trade creditors, short term deposits, loans and derivatives. The main purpose of these financial instruments is to raise finance or invest surplus cash for the entity's operations, and to manage exposure to price movements.

The Corporation's Treasury function, leadership team and Board manage the Corporation's exposure to key financial risks including credit risk, currency risk, interest rate risk, liquidity risk and commodity price risk, in accordance with the Board's financial risk management policies. The Board reviews and agrees policies for managing each of the key financial risks. 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.

Exposure to credit, interest rate, energy price, foreign currency and liquidity risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are used to trade and hedge exposure to fluctuations in foreign exchange rates, interest rates and energy prices. 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.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(b) Credit risk

Credit risk is the risk of financial loss arising if counterparties failed to meet their financial obligations.

The credit risk on trade and other receivables, and accrued sales of energy of Corporation's that have been recognised in the Statement of Financial Position, is generally the carrying amount, net of any impairment provisions.

The Corporation's policy requires customers to pay in accordance with agreed payment terms. The payment terms are generally 15-30 days. All credit and recovery risks associated with trade receivables have been provided for in the Statement of Financial Position.

The ageing of trade receivables past due but not impaired at 30 June 2013 is detailed below:

	Consolidated and Corporation			
	Gross 2013 $M	Impairment 2013 $M	Gross 2012 $M	Impairment 2012 $M
Less than 3 months overdue	2.6	-	2.6	-
3 months to 6 months overdue	0.1	-	0.1	-
Later than 6 months overdue	0.7	0.4	4.0	0.4

16 Financial Instruments disclosure (continued)

The Corporation's credit risk on other assets is minimised as it transacts predominantly with other Government owned corporations in the energy industry. Where the counter-party is a non-Government owned corporation its credit worthiness is established in accordance with the Corporation's risk management policies which includes the use of external credit ratings which are used to derive risk limits as approved by the Board of Directors, and appropriate monitoring procedures.

At balance date the maximum credit exposure resulting from energy derivatives, excluding realised gains and losses not yet settled, amounted to $nil (2012: $16.3 million). 100.0 per cent of this exposure was attributable to one counterparty (2012: 100.0 per cent was attributable to five counterparties). These derivatives comprise the residual element of a larger portfolio of contracts that have been sold to, and are effectively held for Origin Energy Limited pending their formal novation. There was no credit exposure resulting from energy derivatives at 30 June 2013.

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The consolidated entity is exposed to foreign currency risk in respect of purchases of capital equipment that are denominated in a currency other than the AUD.

The consolidated entity uses forward exchange contracts to hedge its foreign currency risk for all foreign exchange exposures that exceed A$50,000 in value.

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.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

The consolidated entity adopts a policy of ensuring that its debt portfolio is managed within an approved risk framework. Interest rate risk is managed through a combination of fixed rate debts, inflation linked debts, floating rate debts and interest rate derivative instruments.

The interest rate profile for the Corporation's interest bearing financial instruments at the reporting date was:

	Consolidate and Corporation	
	2013 $M	2012 $M
Carrying amount		
Fixed rate		
Financial liabilities	(4,335.8)	(4,083.6)
	(4,335.8)	**(4,083.6)**
Floating rate		
Financial assets	39.6	81.4
Financial liabilities	-	(82.5)
	39.6	**(1.1)**

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. The Corporation has no variable rate financial liabilities at year end and it is estimated that a change in interest rates by one percentage point at reporting date would have no material impact on the consolidated entity's profit before tax (2012: nil). There would be no effect on equity.

Notes to Financial Statements

For the year ended 30 June 2013

16 Financial Instruments disclosure (continued)

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:

Consolidated and Corporation

	Notional Principal		Market Value Unrealised Gains/(Losses)	
	2013 $M	2012 $M	2013 $M	2012 $M
SFE 10 Year Bond Futures sold/(purchased)	-	275.8	-	1.9
	-	**275.8**	**-**	**1.9**

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 for the year 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 2012.

Consolidated and Corporation

	2013 $M	2012 $M
Variable rate instruments	(0.4)	-
Interest rate futures	-	27.1
	(0.4)	**27.1**

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. 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 increased (decreased) profit for the year by $0.4 million.

16 Financial Instruments disclosure (continued)

(e) Capital risk management

Consistent with TPP02-7 *NSW Treasury Policy Capital Structure Policy for Government Businesses* which is a component of the NSW Government's Commercial Policy Framework, the consolidated entity's objectives are to determine an appropriate capital structure to enable an appropriate return on equity and efficient investment decisions to be made on a commercial basis.

Under the policy, both an appropriate capital structure and a minimum to maximum capital structure range are determined whilst considering the following criteria:

- provision of an acceptable stream of dividends;
- maintenance of an appropriate investment grade rating, taking into account industry and entity specific factors;
- ability to meet key debt service criteria, based on industry benchmarks;
- capacity to finance the approved capital expenditure program through internally generated cash flows and debt, with consideration of the current phase of the investment cycle; and
- provision of sufficient flexibility for relevant contingencies.

The minimum to maximum capital structure 'range' includes an acceptable range of gearing levels within the consolidated entity's capital structure. The consolidated entity monitors gearing levels and ratios. The key ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and TCorp short term accommodation less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus net debt.

	Consolidated and Corporation	
	2013 $M	2012 $M
Total loans	4,335.8	4,166.1
Less: cash and cash equivalents	(39.5)	(81.4)
Net debt	4,296.3	4,084.7
Total equity	1,946.7	1,805.9
Total capital	6,243.0	5,890.6
Gearing ratio	68.8%	69.3%

The consolidated entity's agreed capital structure and range is reviewed every year as part of development of the *Statement of Corporate Intent* (SCI). The purpose of such a review is to confirm whether or not the current capital structure and range continue to be appropriate and, if not, to negotiate revised arrangements between the Board and Shareholders.

(f) Energy price risk

The Corporation's exposure to fluctuations in wholesale market electricity prices is not material at year end due to the sale of Retail business.

(g) Fair values

(i) Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. In the absence of current quoted market prices, the price of the most recent transaction will provide evidence of the current fair value.

The fair values of other financial assets and financial liabilities (excluding energy derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using maximum observable market input data which include prices from observable current market transactions and dealer quotes for similar instruments.

Notes to Financial Statements

For the year ended 30 June 2013

16 Financial Instruments disclosure (continued)

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Trade and other receivable/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Foreign exchange contracts

The net fair value of foreign exchange contracts is calculated by reference to the current spot and forward market currency exchange rates.

Deposits

Deposits represent liabilities for contractors' deposits which can be refunded at any time after the end of the financial year. The net fair value is the carrying value.

(ii) Fair values versus carrying amount

The carrying amounts and fair values of financial assets and liabilities at reporting date are:

		Consolidated and Corporation			
	Note	Carrying amount 2013 $M	Fair value 2013 $M	Carrying amount 2012 $M	Fair value 2012 $M
Financial instruments					
Financial assets at amortised cost					
Restricted cash	6	13.1	13.1	14.7	14.7
Cash and deposits		1.7	1.7	81.4	81.4
Trade and other receivables	7	419.9	420.0	337.7	337.8
Financial assets at fair value through profit and loss					
Investments TCorp		37.8	37.8	-	-
Financial assets carried at fair value					
Derivative financial instruments	8	-	-	13.3	13.3
		472.5	**472.6**	**447.1**	**447.2**
Financial liabilities					
Financial liabilities carried at amortised cost					
Trade and other payables (excluding statutory payables)	12	284.7	284.7	344.7	344.7
Borrowings	13	4,335.8	4,693.9	4,166.1	4,649.5
		4,620.5	**4,978.6**	**4,510.8**	**4,994.2**

(iii) Interest rates used for determining fair value

The Corporation uses the TCorp yield curve as at 30 June 2013 to value financial instruments.
The interest rates used are in the following ranges:

	2013	2012
Loans and borrowings	2.6%-5.0%	3.1%-4.3%

(iv) Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 : Valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable input).

Consolidated and Corporation

2013	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets at fair value through profit and loss - designated				
Investments TCorp	-	37.8	-	37.8
Total financial assets and financial liabilities	-	**37.8**	**-**	**37.8**

Consolidated and Corporation

2012	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets at fair value through profit and loss – designated				
Financial assets at fair value through profit and loss – classified as held for trading				
Derivative financial instruments	-	4.5	8.8	13.3
Total financial assets and financial liabilities	**-**	**4.5**	**8.8**	**13.3**

Movements in Level 3 investments

The following table provides an analysis of investments valued with reference to Level 3 inputs.

	2013 $M	2012 $M
Level 3		
Opening balance at 1 July 2012	8.8	(36.0)
Valuation of Retail retained contracts	-	(15.2)
Settlements	(8.8)	60.0
Closing balance at 30 June 2013	**-**	**8.8**

Transfer between categories

During the reporting period ended 30 June 2013, 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.

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For the year ended 30 June 2013

16 Financial Instruments disclosure (continued)

(h) Liquidity risk

Liquidity risk is the risk of difficulty in ensuring the availability of sufficient funds to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Corporation's liquidity risks are managed with the availability of readily accessible standby facilities and other funding arrangements and by investing surplus funds in marketable securities and deposits (see Notes 1(h), 1(r), 6 and 13).

The Corporation has obtained approval under the Public Authorities (Financial Arrangement) Act 1987 for a TCorp core debt borrowing limit of $5,381.1 million (2012 $5,381.1 million) of which $1,045.3 million was unused as at 30 June 2013 (2012 $1,252.9 million). There are also approvals for a TCorp Come and Go Facility limit of $100.0 million (2012 $100.0 million) and a bank overdraft facility limit of $15.0 million (2012 $15.0 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 2013 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 $100.0 million (2012 $17.5 million) unused and the bank overdraft facility limit had $15.0 million (2012 $15.0 million) unused as at 30 June 2013.

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 policy established prudential limits on the amount of debt that can mature within set periods. The policy sets out that not more than 20 per cent of its borrowings should mature within the first 12 months and no more than 20 per cent in any individual benchmark or preferred line with a maturity greater than 12 months. At 30 June 2013, 1.4 per cent of the Corporation's debt will mature in less than one year (5.2 per cent in 2012).

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. At 30 June 2013 the Corporation's term to maturity duration was within the policy limit approved by the Board. During the current and prior year no assets have been pledged as collateral.

The contractual maturity of the Corporation's fixed and floating rate financial liabilities and derivatives are shown in the following table.

Consolidated and Corporation

2013	Carrying amount $M	Contractual cash flows $M	1 year or less $M	1 to 5 years $M	More than 5 years $M
Non derivative financial liabilities					
Unsecured short term borrowings	60.0	61.6	61.6	-	-
Unsecured long term borrowings	4,275.8	6,042.2	228.9	2,374.7	3,438.7
Trade and other payables (excluding statutory payables)	284.7	284.7	284.7	-	-
	4,620.5	**6,388.5**	**575.2**	**2,374.7**	**3,438.7**

Consolidated and Corporation

2012	Carrying amount $M	Contractual cash flows $M	1 year or less $M	1 to 5 years $M	More than 5 years $M
Non derivative financial liabilities					
Unsecured short term borrowings	217.6	220.6	220.6	-	-
Unsecured long term borrowings	3,948.5	5,791.5	224.9	1,948.6	3,618.0
Trade and other payables (excluding statutory payables)	344.7	344.7	344.7	-	-
	4,510.8	**6,356.9**	**790.3**	**1,948.6**	**3,618.0**

17 Key management personnel disclosure

Key management personnel comprise members of the Board of Directors, Networks NSW (NNSW) executive management team and the Corporation's leadership management team.

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Directors

Mr Roger Massy-Greene (Chairman) [appointed 1 July 2012]

Dr Peter Dodd [appointed from 1 July 2012]

Ms Penny Le Couteur [appointed 1 July 2012- 30 June 2013] – term expired and did not seek a further term.

Ms Barbara Ward [reappointed 1 July 2012 -31 December 2012] – term expired and did not seek a further term.

Ms Laura Reed [appointed 1 January 2013]

Mr Philip Garling [appointed 1 January 2013]

Mr Vince Graham (Chief Executive Officer) [appointed 1 July 2012]

Key management personnel remuneration

In addition to their salaries, the consolidated entity also provides post employment benefits to key management personnel (see Note 1(s)). The allocation of the NNSW executive management team remuneration to Essential Energy is based on the proportion of customer numbers to the total customer numbers of Ausgrid, Endeavour Energy and Essential Energy combined.

The key management personnel compensation included in "employee benefits expense" (see Note 3(a)) are as follows:

	Consolidated and Corporation	
	2013 $M	2012 $M
Short term employee benefits	3.7	3.9
Long term benefits	0.5	0.2
Post employment benefits	0.2	0.3
Termination benefits	1.2	2.0
Total	**5.6**	**6.4**

Notes to Financial Statements

For the year ended 30 June 2013

18 Related parties

(i) Networks NSW structure

On 1 July 2012, the Networks NSW (NNSW) operating model commenced with Endeavour Energy, Ausgrid and Essential Energy (DNSPs) having separate Boards with common directors, a common Chairman and common Chief Executive Officer (CEO). A Group Management structure is being implemented to assist the Board and the CEO in undertaking reform of the industry consistent with the objectives of NSW Government policy and in line with the Umbrella Cooperation Agreement (UCA).

NNSW is not a legal entity and the personnel and associated costs of the group management have been captured by the individual DNSPs and equitably shared between the three DNSPs. The Umbrella Cooperation Agreement facilitatews the management and cooperation of NNSW and each of the DNSPs. It enables the DNSPs to identify and implement reform measures and realise and share the initiatives through acting collectively and co-operatively.

Subsequent to 30 June 2013 the Energy Services Corporations Amendment (Distributor Efficiency) Legislation was passed. The amendment legislation provides for the appointment of a single board of directors that is to be the board of each of the energy distributors (Ausgrid, Endeavour Energy and Essential Energy) to act in the best interests of energy distributors as if they formed part of a combined operation. The legislation was proclaimed on 27 August 2013.

(ii) Joint venture

Further to the Umbrella Cooperation Agreement, the DNSPs have entered into a joint venture agreement for the purpose of realising cost savings through joint procurement and service provision activities. A legal entity Networks NSW Pty Limited has been used as the vehicle for this joint venture. Networks NSW Pty Limited will not incur any costs in its own right or enter into any sourcing agreements. Essential Energy has a one third ownership interest in Networks NSW Pty Ltd.

(iii) Directors

Some Directors of Essential Energy are also Directors of other companies or have an interest in other companies or entities that may have had transactions with Essential Energy during the year. A Register of Directors' interests is maintained by the Board Secretary and updated as required during the year. In accordance with the Board Charter and company Code of Conduct, Directors' have declared any potential conflicts of interest in any matters discussed at the meetings.

(iv) Wholly owned Group

The Essential Energy Group consists of Essential Energy and its wholly owned subsidiary NorthPower Energy Services Pty Limited. NorthPower Energy Services Pty Limited was deregistered effective 17 July 2013. All entities are incorporated in Australia.

Shares and interest held

Entity	Shares held	Interest
Essential Energy	2 Ordinary shares – $1 each	

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.

19 Remuneration of auditors

	Consolidated and Corporation	
	2013 $M	2012 $M
Amounts paid and payable to the Audit Office of New South Wales	0.4	0.4

20 Capital commitments

	Consolidated and Corporation	
	2013 $M	2012 $M
Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date but not provided for		
– not later than one year	60.0	49.9
– later than one year and not later than five years	24.2	30.5
	84.2	**80.4**
Capital expenditure commitments include input tax credits	**7.7**	**7.3**

21 Operating leases

(a) Operating lease (property) expenditure commitments

– not later than one year	8.1	7.2
– later than one year and not later than five years	16.3	14.7
– later than five years	0.4	1.0
	24.9	**22.9**
Property lease expenditure commitments include input tax credits	**2.3**	**2.1**

(b) Operating lease (property) revenue commitments

– not later than one year	1.0	1.4
– later than one year and not later than five years	2.1	3.2
– later than five years	-	0.1
	3.1	**4.7**

There are no non-cancellable equipment leases. There are currently no leases for computer equipment.

There are 447 non-cancellable property leases referred to in (a) 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 $4.7 million (2012: $6.5 million) including input tax credits of $0.4 million (2012: $0.6 million).

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 $19.2 million (2012: $16.4 million), including input tax credits of $1.7 million (2012: $1.5 million).

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.

There are 270 property leases referred to in (b) above.

The majority of the leases have contingent rentals either based on CPI or some other increment, and renewal options between one and five years.

Minimum lease receipts total $3.1 million (2012: $4.7 million) including input tax credits of $0.3 million (2012: $0.4 million).

Notes to Financial Statements

For the year ended 30 June 2013

22 Reconciliation of cashflows from operating activities

		Consolidated and Corporation	
	Note	2013 $M	2012 $M
(a) Components of cash and cash equivalents			
Cash and cash equivalents	6	52.6	96.1
Less: restricted cash		(13.1)	(14.7)
		39.5	**81.4**
Bank overdraft		-	-
	6	**39.5**	**81.4**
(b) Reconciliation of cashflows from operating activities			
Profit for the year		350.1	154.3
Add/(less) non cash items:			
Non cash additions including capital contributions		(60.0)	(66.2)
Depreciation non current assets		313.2	305.2
Amortisation non current assets		25.8	18.6
Impairment of non-financial assets		24.1	4.6
Write off of software		0.7	8.4
Net gain on fair value of investment property		(0.3)	-
Prepaid superannuation		(11.5)	(11.3)
Net profit on disposal of property, plant and equipment		(1.7)	(2.5)
Deferred interest (income)/expense		-	(1.8)
Changes in assets and liabilities:			
Increase in unread meters		(42.7)	(71.2)
(Increase)/decrease in trade and other receivables		(38.7)	13.4
Decrease in inventories		5.0	0.7
(increase)/decrease other current assets-restricted cash		1.6	-
Decrease in other assets		0.1	-
Decrease/(Increase) in derivative financial assets		13.0	(57.4)
Increase/(decrease) in current tax balances		31.3	(20.4)
(Decrease)/Increase in trade and other payables		(60.4)	110.0
(Decrease)/Increase in provisions		(18.0)	58.4
Decrease in deferred taxes liabilities		(13.9)	(38.1)
Decrease in other liabilities		(0.1)	(2.3)
Net cash from operating activities		**517.6**	**402.4**

23 Superannuation – defined benefits plan

Superannuation benefits apply to both corporation and the consolidated entity.

The Corporation has a defined benefit superannuation plan covering a significant number of employees, which requires contributions to be made to a separately administered fund.

(a) 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.

(b) Summary of financial information

The following tables summarise the components of net benefit expenses recognised in the profit or loss, actuarial gains and losses recognised in other comprehensive income, and funded status and amounts recognised in the Statement of Financial Position.

	2013 $M	2012 $M
Employer contributions paid in relation to the defined contribution plan	48.6	46.9

Reconciliation of the assets and liabilities recognised in the statement of financial position		
Present value of defined benefit obligations at 1 July	601.7	604.8
Fair value of fund assets at end of the year	(422.0)	(368.3)
Net liability/(asset) recognised in the statement of financial position 30 June	**179.7**	**236.5**

Notes to Financial Statements

For the year ended 30 June 2013

23 Superannuation – Defined benefits plan (Continued)

	EISS		SSS	
	2013 $M	2012 $M	2013 $M	2012 $M
Reconciliation of the present value of the defined benefit obligation				
Present value of defined benefit obligations at 1 July	591.5	477.3	1.4	0.7
Current service cost	15.2	12.3	-	-
Interest cost	23.1	27.5	-	-
Contributions by fund participants	5.0	5.2	-	-
Actuarial (gains)/losses in other comprehensive income	(19.1)	105.2	(0.1)	0.6
Benefits paid	(25.8)	(36.0)	-	-
Present value of defined benefit obligations at 30 June	**589.9**	**591.5**	**1.3**	**1.3**
Reconciliation of the fair value of fund assets				
Fair value of fund assets at 1 July	355.8	369.3	0.9	0.9
Expected return on fund assets	28.5	29.7	0.1	0.1
Actuarial gains/(losses) in other comprehensive income	25.4	(33.4)	0.1	(0.1)
Employer contributions	20.8	21.1	-	-
Contribution by fund participants	5.0	5.2	-	-
Benefits paid	(25.8)	(36.0)	-	-
Fair value of fund assets at 30 June	**409.7**	**355.9**	**1.1**	**0.9**
Reconciliation of assets and liabilities recognised in the statement of financial position				
Defined benefit obligation at end of year	590.0	591.5	1.3	1.4
Fair value of scheme assets at end of year	(409.8)	(355.8)	(1.1)	(0.9)
Surplus in excess of recovery available from scheme	-	-	-	-
Net (asset)/liability recognised in statement of financial position at end of year	**180.2**	**235.7**	**0.3**	**0.5**
Expenses recognised in income statement				
Current service cost	15.2	12.3	-	-
Interest cost	23.1	27.5	-	-
Expected return on scheme assets	(28.5)	(29.7)	(0.1)	(0.1)
Expenses/(income) recognised	**9.8**	**10.2**	**(0.1)**	**(0.1)**
Expenses recognised in statement of comprehensive income				
Actuarial losses/(gains) recognised in year	(44.5)	138.6	(0.2)	0.6
Change in surplus in excess of recovery available from Scheme	-	-	-	-
Expenses/(income) recognised	**(44.5)**	**138.6**	**(0.2)**	**0.6**

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 July 2004 is $230.5 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.

	SANCS		SASS		ESISF (Qld)		Total
2013 $M	2012 $M	2013 $M	2012 $M	2013 $M	2012 $M	2013 $M	2012 $M
1.1	0.9	9.8	8.0	1.2	1.7	605.0	488.6
-	-	0.2	0.2	-	-	15.4	12.5
-	-	0.3	0.4	-	0.1	23.4	28.0
-	-	0.1	0.1	-	-	5.1	5.3
(0.1)	0.2	(0.3)	1.5	(0.1)	0.1	(19.7)	107.6
(0.1)	(0.1)	(1.2)	(0.4)	(0.6)	(0.7)	(27.7)	(37.2)
0.9	**1.0**	**8.9**	**9.8**	**0.5**	**1.2**	**601.5**	**604.8**
0.6	0.6	9.7	9.7	1.2	1.9	368.2	382.4
-	0.1	0.8	0.8	0.1	0.1	29.5	30.7
-	-	0.2	(0.6)	0.1	(0.1)	25.8	(34.2)
-	-	0.1	0.1	0.1	0.1	21.0	21.3
-	-	0.1	0.1	-	-	5.1	5.3
(0.1)	(0.1)	(1.2)	(0.4)	(0.6)	(0.7)	(27.6)	(37.2)
0.5	**0.6**	**9.7**	**9.7**	**0.9**	**1.2**	**421.9**	**368.3**
1.0	1.1	8.9	9.8	0.6	1.2	601.7	604.9
(0.6)	(0.6)	(9.7)	(9.7)	(0.9)	(1.2)	(422.0)	(368.2)
-	-	-	-	-	-	-	-
0.4	**0.5**	**(0.9)**	**0.1**	**(0.2)**	**-**	**179.7**	**236.7**
-	-	0.2	0.2	-	-	15.4	12.5
-	-	0.3	0.4	-	0.1	23.4	28.1
-	-	(0.8)	(0.8)	(0.1)	(0.1)	(29.4)	(30.7)
-	**-**	**(0.3)**	**(0.2)**	**(0.1)**	**-**	**9.3**	**9.8**
(0.2)	0.2	(0.5)	2.1	(0.1)	0.2	(45.5)	141.7
-	-	-	(0.5)	-	-	-	(0.5)
(0.2)	**0.2**	**(0.5)**	**1.6**	**(0.1)**	**0.2**	**(45.5)**	**141.2**

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For the year ended 30 June 2013

23 Superannuation – defined benefits plan (Continued)

(c) Fund assets

The percentage invested in each asset class at the statement of financial position date.

		EISS		SSS
	2013	2012	2013	2012
Australian equities	14.0%	25.9%	30.4%	28.0%
Overseas equities	22.0%	39.2%	26.1%	23.7%
Australian fixed interest securities	20.0%	12.1%	6.9%	4.9%
Overseas fixed interest securities	0.0%	0.0%	2.2%	2.4%
Property	7.0%	2.6%	8.3%	8.6%
Cash	9.0%	1.7%	13.1%	19.5%
Other	28.0%	18.4%	13.0%	12.9%

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

	2013 $M	2012 $M
EISS	53.9	(3.8)
SSS	0.2	0.0
SANCS	0.1	0.0
SASS	1.6	0.0
ESISF	0.1	(0.0)
	55.8	**(3.8)**

	SANCS		SASS		ESISF (Qld)
2013	2012	2013	2012	2013	2012
30.4%	28.0%	30.4%	28.0%	28.0%	28.0%
26.1%	23.7%	26.1%	23.7%	22.0%	22.0%
6.9%	4.9%	6.9%	4.9%	10.0%	10.0%
2.2%	2.4%	2.2%	2.4%	0.0%	0.0%
8.3%	8.6%	8.3%	8.6%	10.0%	10.0%
13.1%	19.5%	13.1%	19.5%	10.0%	10.0%
13.0%	12.9%	13.0%	12.9%	20.0%	20.0%

(d) 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
	2013	2012	2013	2012	2013	2012
Discount Rate	3.8%	3.1%	3.8%	3.1%	2.6%	2.2%
Expected return on plan assets	8.1%	8.1%	8.6%	8.6%	6.0%	6.0%
Expected salary increases	3.5%	4.0% for 2013 and 3.5% thereafter	3.5%	4.0% for 2013 and 3.5% thereafter	3.5%	4.0% for 2013 and 3.5% thereafter
Expected rate of CPI increase	2.5%	2.5%	2.5%	2.5%	2.5%	3.0%

Expected contributions during annual reporting period beginning after the reporting date

	2013 $M	2012 $M
EISS	18.2	18.6
SSS	-	-
SANCS	-	-
SASS	-	-
ESISF	-	-
	18.2	**18.6**

Notes to Financial Statements

For the year ended 30 June 2013

23 Superannuation – defined benefits plan (continued)

Summary of schemes financial positions in accordance with AAS25 *Financial Reporting by Superannuation Plans*

	EISS 2013 $M	EISS 2012 $M	SSS 2013 $M	SSS 2012 $M
Accrued benefits	434.5	402.3	0.6	0.5
Net market value of scheme assets	(409.8)	(355.8)	(1.1)	(0.9)
Net (surplus)/deficit	**24.8**	**46.5**	**(0.5)**	**(0.4)**

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 on fund assets under AAS 25 while a long-term government bond rate is used under AASB 119.

Recommended contribution rates for the defined benefit schemes are:

Fund	EISS Division B	EISS Division C	EISS Division D	SASS	SANCS	SSS	ESISF (Qld)
Contribution recommendations	Multiple of member contributions	% Member salary	Multiple of member contributions	Multiple of member contributions	% Member salary	Multiple of member contributions	% Member salary
Rate 2013	1.9	2.5%	1.6	-	-	-	-
Rate 2012	1.9	2.5%	1.6	-	-	-	-

In relation to EISS the actuary has recommended an additional contributions of $9 million per annum.

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	2013	2012
Expected rate of return on fund assets	7.0%	7.0%
Expected salary increase rate	3.5%	4.0% for 2013 and 3.5% thereafter
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	3.5% pa for 6 years then 4%pa	4.0% for 2013 and 3.5% thereafter
Expected rate of CPI increase	2.5%	2.5%

Weighted – average assumptions - ESI QLD

Expected rate of return on fund assets	10.0% in year 1 and 7.0% thereafter.	10.0% in year 1 and 7.0% thereafter.
Expected salary increase rate	5.0%	5.0%
Expected rate of CPI increase	2.5%	3.0%

	SANCS 2013 $M	SANCS 2012 $M	SASS 2013 $M	SASS 2012 $M	ESISF (Qld) 2013 $M	ESISF (Qld) 2012 $M	Total 2013 $M	Total 2012 $M
	0.8	0.9	6.8	7.4	2.7	2.7	445.4	413.9
	(0.6)	(0.6)	(9.7)	(9.7)	(2.6)	(2.6)	(423.8)	(369.6)
	0.2	**0.3**	**(2.9)**	**(2.3)**	**0.1**	**0.1**	**21.6**	**44.2**

In relation to the nature of the asset/liability generated from EISS, SASS, SANCS, SSS, and ESISF, if a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation. In relation to ESI QLD there is no legal liability to cover any deficit that exists in the fund.

The components of the amounts disclosed in the Statement of Comprehensive Income are as follows:

	2013 $M	2012 $M
Contribution valuation adjustment	(2.5)	(2.3)
Superannuation cost	60.6	59.5
	58.2	57.1

(f) Historical information

	2013 $M	2012 $M	2011 $M	2010 $M	2009 $M
Present value of defined benefit obligation	601.7	604.9	488.7	469.1	421.9
Fair value of fund assets	(422.0)	(368.2)	(382.4)	(349.9)	(319.8)
Deficit/(surplus) in fund	**179.7**	**236.7**	**106.3**	**119.3**	**102.1**
Experience adjustments – fund liabilities	(19.7)	107.5	9.1	27.8	(7.4)
Experience adjustments – fund assets	(25.8)	34.3	9.1	6.0	7.7

Notes to Financial Statements

For the year ended 30 June 2013

24 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.

25 Event subsequent to balance date

The financial statements of Essential Energy for the year ended 30 June 2013 were authorised for issue in accordance with a resolution of the Directors on 13 September 2013.

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

NorthPower Energy Services Pty Limited

FINANCIAL STATEMENTS

For the year ended 30 June 2013

AUDITOR-GENERAL
NEW SOUTH WALES

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 Ltd (the Company), which comprise the statement of comprehensive income, the statement of financial position as at 30 June 2013, 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 2013, and of its financial performance and its cash flows 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 of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *State Owned Corporations Act 1989* 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.

In Note 1(b), the Directors also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements' that the financial statements comply with International Financial Reporting Standards.

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.

Level 15, 1 Margaret Street, Sydney NSW 2000 | GPO Box 12, Sydney NSW 2001 | t 02 9275 7101 | f 02 9275 7179 | e mail@audit.nsw.gov.au | audit.nsw.gov.au

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 Company's preparation of the financial statements that give a true and fair view 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 company'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.

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 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 other information that 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 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 roles by the possibility of losing clients or income.

Karen Taylor
Director, Financial Audit Services

17 September 2013
SYDNEY

Statement by Director

NorthPower Energy Services Pty Limited

Statement by Director

For the Year Ended 30 June 2013

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, I state that in the opinion of 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 Australian Accounting Standards, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2010*, and Accounting Interpretations, and give a true and fair view of the financial position of the NorthPower Energy Services Pty Limited as at 30 June 2013 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 NorthPower Energy Services Pty Limited 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 this 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 Director.

Director

13 September 2013

Statement of Comprehensive Income

For the year ended 30 June 2013

	Note	2013 $	2012 $
Revenue		-	-
Remuneration of auditor		-	-
Other expenses		-	-
Loss before income tax		-	-
Income tax expense/(credit)	2	-	-
Loss for the year	3(b)	-	-
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive loss for the year		-	-

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

For the year ended 30 June 2013

	Note	2013 $	2012 $
Total assets		1	1
Total liabilities		-	-
Net assets		**1**	**1**
Equity			
Contributed equity	3(a)	1	1
Total equity		**1**	**1**

The above statements of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2013

	Note	Contributed equity $	Accumulated losses $	Total equity $
Balance at 1 July 2012		1		1
Total comprehensive loss for the year				
Loss for the year	3(b)	-	-	-
Total comprehensive loss for the year		1	-	1
Balance at 30 June 2013		1	-	1

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Payments to suppliers and employees		-	-
Net cash outflow from operating activities	5	-	-
Financing activities			
Increase in Loan to Parent Entity		-	-
Total financing activity		-	-
Net decrease in cash and cash equivalents		-	-
Opening cash and cash equivalents		-	-
Closing cash and cash equivalents		-	-

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes to Financial Statements

For the year ended 30 June 2013

1 Significant accounting policies

The financial statements were authorised for issue by the Director on 13 September 2013.

(a) Basis of preparation

The financial statements are presented in Australian dollars and prepared on the historical cost basis.

(b) Statement of compliance

The financial statements comprise a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, 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 of the Company also comply with International Financial Reporting Standards (IFRSs) and Interpretations adopted by the International Accounting Standards Board.

(c) Income tax

The Company is exempt from federal income tax under the Income Tax Assessment Acts. However, the Company is subject to the National Tax Equivalent Regime which is based on the Income Tax Assessment Acts. Tax equivalents are payable to the Office of State Revenue.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet 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: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and 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 enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(i) Tax consolidation

The Company is a wholly-owned subsidiary in a tax-consolidated group with Essential Energy as the head entity. The implementation date of the tax consolidation system for the tax-consolidated group was 1 July 2003.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'group allocation' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's Statement of Financial Position and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the Company are assumed by the head entity of the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below).

The Company recognises deferred tax assets arising from unused tax losses to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. The Company 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 applied in the context of the tax-consolidated group.

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.

(ii) Tax funding arrangements

The Company, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the Company recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed. The inter-company payable (receivable) is at call.

Contributions to fund the current tax liabilities are payable 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.

(d) Rounding of amounts

The amounts shown in the accounts have been rounded to the nearest dollar and are expressed in Australian currency.

(e) Going concern

Notwithstanding the deficiency of net assets in the Company, the financial statements of the Company have been prepared on a going concern basis adopting the principles of historical cost accounting. This basis has been adopted as the Director has received a guarantee of continuing financial support from the ultimate parent entity, and it is the Director's belief that such financial support will continue to be made available.

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flow on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(g) Remuneration of auditors

The financial audit fees for the Company for the year ended 30 June 2013 amounted to $2,500 (2012: $2,500).

(h) Financial instruments

The net fair value of the financial assets and financial liabilities represents the carrying values recorded at cost.

(i) New and revised accounting standards and Australian Accounting Interpretations

Certain new and revised accounting standards and Australian Accounting Interpretations have been published that are not mandatory for the 30 June 2013 reporting period. The Company has assessed that these new standards and interpretations, which have not been early adopted, will not impact the financial statements.

2 Income tax expense

	2013 $	2012 $
Recognised in the Statement of Comprehensive Income		
Current tax expense		
Current year	-	-
Adjustments for prior years	-	-
	-	-
Deferred tax expense		
Benefit of tax losses recognised		
	-	-
Total income tax expense/(credit) in the Statement of Comprehensive Income	-	-
Numerical reconciliation between tax expense and pre-tax profit		
Loss before tax	-	-
Income tax using the domestic corporation tax rate of 30% (2012: 30%)	-	-
Income tax expense/(credit) on pre-tax net profit/(loss)	-	-

3 Equity

	2013 $	2012 $
(a) Contributed equity		
Authorised capital		
1 Ordinary shares of $1 each	1	1
Issued and paid up capital		
1 Ordinary shares of $1 each	1	1
(b) Accumulated losses		
Accumulated losses at the beginning of the year		
Loss for the year	-	-
Accumulated losses at the end of the year	-	-

4 Related party transactions

(a) The name of the person who held the office of Director of the Company during the year is Peter Johnson.

(b) Director's benefits

No Director has received or become entitled to receive any benefit by reason of a contract made by the Company with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

5 Reconciliation of cash flows from operating activities

For the purpose of the Statement of Cash Flows, cash includes amounts paid and received by Essential Energy on behalf of NorthPower Energy Services Pty Limited. During the financial year, the Company had no operating bank account.

	2013 $	2012 $
Reconciliation of cash flows from operating activities		
Profit for the year	-	-
Less non-cash items:	-	-
Income tax expense/(credit)	-	-
Net cash from operating activities	-	-

6 Contingent assets and liabilities

At balance date the company had no legal matters outstanding which are expected to result in material claims for or against it (2012: nil).

7 Subsequent events

NorthPower Energy Service Pty Limited was deregistered on 17 July 2013.

END OF AUDITED FINANCIAL STATEMENTS

APPENDICES

Contents

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.

Disclosure of approved 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:

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.

Equal employment opportunity statistics

Trends in the representation of EEO groups				
EEO Group	Benchmark/Target	2011	2012	2013
Women	50%	19.2%	19.2%	19.0%
Aboriginal people and Torres Strait Islanders	2.6%	3.1%	3.6%	3.4%
People whose first language was not English	19.0%	0.5%	0.6%	1.0%
People with a disability	N/A	1.9%	1.8%	1.8%
People with a disability requiring work-related adjustment	1.5%	0.6%	0.0%	0.5%
People with a disability requiring work-related adjustment	7%	0.6%	0.5%	0.5%

Trends in the distribution of EEO groups				
EEO Group	Benchmark/Target	2011	2012	2013
Women	100	98	97	97
Aboriginal people and Torres Strait Islanders	100	81	84	85
People whose first language was not English	100	114	113	115
People with a disability	100	104	106	105
People with a disability requiring work-related adjustment	100	106	N/A	108

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.

Executive remuneration and changes to Essential Energy's Executive Officers

Changes to Essential Energy's Executive Officers

As a result of NSW Government reforms to state owned electricity networks, Ausgrid, Endeavour Energy and Essential Energy continue to operate as separate legal entities but are managed by a joint Board of Directors and a common Chief Executive Officer.

Under this operating model the Chairman, Board of Directors and Chief Executive Officers (CEO) at Ausgrid, Essential Energy and Endeavour Energy were replaced with a common Chairman, Directors and CEO on 1 July 2012.

An interim management structure was also established as work commenced to integrate the three network businesses. Essential Energy's senior management team was finalised in October 2012. Changes are shown in the table over.

At the end of the reporting period, Essential Energy employed 111 officers who received a total remuneration package equal to or exceeding the NSW Senior Executive Service Level 1 (SES1). This represents a decrease of 29 on the previous year. The number of female employees receiving a total remuneration package of SES1 or above was 18.

General principles for remuneration of Executive Officers

Essential Energy's remuneration strategies are designed to attract and retain Executive Officers who drive business performance and who consistently demonstrate high standards of behaviour consistent with Essential Energy's values and *Code of Conduct.*

Components of remuneration

Essential Energy Executive Officers are employed under performance-based, fixed term employment contracts. Total remuneration for Executive Officers consists of fixed remuneration (the annual salary paid inclusive of superannuation contributions and all salary sacrificed benefits), and an annual 'at risk' payment that represents the proportion of total remuneration that is 'at risk' for each Executive Officer.

Fixed remuneration

As a condition of employment, fixed remuneration of Executive Officers is reviewed in September each year in-line with market trends and is based on rigorous performance assessments of each Executive Officer. In approving increases to the fixed remuneration of Executive Officers, the board considers the outcomes of these performance assessments, advice from external remuneration specialists on Executive salary trends and contemporary remuneration practices, movement in the consumer price index and NSW State Wages Policy.

On 24 April 2013, the board approved increases in the fixed remuneration of Executive Officers of 2.5 per cent overall, consistent with the NSW Government Wages Policy.

Annual 'at risk' payment

Annual 'at risk' payments are made to contract managers on the basis of individual performance assessed against pre-agreed measures and targets aligned to Essential Energy's corporate plan and *Statement of Corporate Intent (SCI).*

Eligibility is contingent on a rigorous assessment of leadership performance and achievement of business targets for each manager during the course of the year. The board reviews these performance assessments and approves all annual performance payments for the CEO and all direct reports to the CEO.

Group Executive employed by Essential Energy

An eight member Executive Leadership Group (ELG) was established to drive industry reform in October 2012. Each Group Executive is paid by a nominated business. Essential Energy is responsible for contractual payments to the following executives and these costs are then shared by the three network businesses.

Name	Position at 30 June 2013	Remuneration [a]	'At risk' payment [b]	2012-13 Performance criteria
Vince Graham [c]	CEO Ausgrid, Endeavour Energy and Essential Energy	Paid by Endeavour Energy	Paid by Endeavour Energy	See Endeavour Energy's Annual Report.
Justin De Lorenzo [d]	Group Chief Financial Officer	$460,000	$49,000	Effective leadership in consolidating financial systems and reporting for the three network businesses. Delivered harmonisation of accounting policies. Managed development of next AER submission including the judgements of significance reporting to the Boards. Led the development of the corporate strategy and Statement of Corporate Intent.

a excludes "at risk" payment.
b "at risk" payments are based on 2012-13 performance against key criteria, approved by the Board in September 2013.
c Vince Graham was appointed interim CEO for Ausgrid, Endeavour Energy and Essential Energy from 1 July to 31 December 2012. Following a competitive selection process he was appointed Chief Executive Officer on 1 January 2013 for all three Networks NSW businesses: Endeavour Energy, Ausgrid and Essential Energy. He is remunerated by Endeavour Energy, and the costs shared by the three network businesses.
d appointed Interim Group Manager Corporate Services on 1 July to 14 October 2012. Following a competitive selection process was appointed Group Chief Financial Officer Networks NSW 15 October 2012.

Network business Executive employed by Essential Energy

Name	Position at 30 June 2013	Remuneration [a]	'At risk' payment [b]	2012-13 Performance criteria
Gary Humphreys [c]	Chief Operating Officer	$450,000	$68,000	Led extensive organisational change and achieved corporate plan targets. Delivered improved reliability, and financial and efficiency improvements. Championed reforms intended to place downward pressure on electricity prices and deliver better value for customers, including network price reductions of three per cent from 1 July 2013. Developed and implemented initiatives and structural changes aimed at achieving significant industry reform.
Ken Stonestreet [d]	Chief Engineer	$434,934	–	Improved reliability results, exceeding licence targets. Developed and implemented initiatives and structural changes aimed at achieving significant industry reform.
Col Ussher [e]	General Manager Network Development	$341,861	–	Delivered capital program and delivered strong results across performance measures. Developed and implemented Level 4 management structure.
Peter Bereicua [f]	General Manager Network Operations	$315,000	$26,889.35	Delivered strong performance in the areas of fault and emergency field response, asset construction and refurbishment, system control and regional operations. Developed and implemented initiatives and structural changes aimed at achieving significant industry reform.
Luke Jenner [f]	General Manager People and Services	$280,000	$28,310.68	Exceeded targets and captured savings from strategic procurement, fleet and labour costs. Developed and implemented initiatives and structural changes aimed at achieving significant industry reform.
Andrew Sinclair [g]	General Manager Finance and Compliance	$280,000	$27,336.05	Led Finance and Compliance division and significantly exceeded targets. Led delivery of initiatives to improve governance, risk and compliance frameworks. Developed and implemented initiatives and structural changes aimed at achieving significant industry reform.
Caroline Hungerford [f]	General Manager Information Communication and Technology	$260,000	$19,582.77	Delivered cost effective and reliable IT system. Developed and implemented initiatives and structural changes aimed at achieving significant industry reform.
Maria Doherty [f]	General Manager Health, Safety and Environment	$250,000	$18,000.82	Led the Health, Safety and Environment division. Achieved improvements in safety performance over the reporting period, including Essential Energy's best ever safety results in June 2013. Developed and implemented initiatives and structural changes aimed at achieving significant industry reform.

a excludes "at risk" payment
b "At risk" payments are based on 2012-13 performance against key criteria, and approved by the Board in September 2013
c appointed Interim COO on 1 July to 14 October 2012. Following a competitive selection process was appointed COO 15 October 2012
d previously Executive General Manager Engineering Services on the Executive Leadership Team
e previously Executive General Manager Infrastructure Strategy on the Executive Leadership Team
f new member of the Executive Leadership Team appointed 15 October 2012
g Acting Executive General Manager Finance and IT from 1 July – 31 October 2012 on the Executive Leadership Team

Other changes to Essential Energy's Executive Leadership Team during 2012-13

> Terri Benson, Managing Director, was seconded to the Network Electricity Reform Program from 1 July 2012. She resigned from Essential Energy on 14 September 2012.

> Mark Mulligan, Executive General Manager Human Resources, Safety and Organisational Transition, resigned from Essential Energy on 2 November 2012.

> Ben Hamilton, Head of Corporate Strategy and Communications, resigned from Essential Energy in 2 November 2012.

> Peter Johnson was Essential Energy's Company Secretary until 31 December 2012, when Lisa Maffina was appointed Company Secretary for all three Networks NSW businesses: Endeavour Energy, Ausgrid and Essential Energy. Peter is now Essential Energy's Manager Governance, Risk and Compliance.

Funds granted to non-government organisations

Essential Energy does not provide grants to non-government organisations. Instead, we support programs that benefit our communities by sponsoring not-for-profit community groups and organisations that reflect our obligations as a State-Owned Corporation and align to our Corporate Plan.

Government Information (Public Access) Regulation 2009

Essential Energy is a NSW State Owned Corporation, subject to the requirements of the *Government Information (Public Access) Act 2009* (GIPA Act).

Under section 7 of the GIPA Act, Essential Energy must review its programs for the release of government information to identify the kinds of information that can be made publicly available. This review must be completed at least once every year.

Essential Energy's program for the proactive release of information involves regular updates to the Essential Energy and Essential Water websites, sharing information of interest to members of the public, including media releases, on the website and through social media.

During the reporting period, Essential Energy reviewed this program by:

> Improving the information provided on planned power interruptions on the Essential Energy website, adding a 'Status' column to show planned interruptions cancelled after customers had been notified

> Expanding the information we share via social media – proactively posting information about major network incidents and providing regular updates on restoration works during emergencies

> Using our YouTube channel to post safety videos about Grain Harvest Safety and Aerial safety around powerlines – www.youtube.com/essentialenergytv.

During the reporting period, Essential Energy received a total of 13 formal access applications (including withdrawn applications but not invalid applications). We refused a total of six formal access applications because the information requested was information referred to in Schedule 1 to the GIPA Act. Of those applications, two were refused in full, and four were refused in part.

As required by Section 7 and Schedule 2 of the GIPA Act, the following information provides statistical detail related to the number of public access applications made during 2012-2013.

Table A: Number of Applications by type of application and outcome*

	Access Granted in full	Access Granted in part	Access refused in full	Info not held	Info already available	Refuse to deal with Application	Refuse to confirm/deny whether info is held	Application withdrawn
Media	0	0	0	0	0	0	0	0
Members of Parliament	0	0	0	0	0	0	0	0
Private Sector Business	0	0	0	0	0	0	0	0
Not for Profit organisation or community group	0	0	0	0	0	0	0	0
Members of the Public (application by legal representative)	0	2	2	1	0	2	0	1
Members of the Public (other)	5	2	0	0	0	0	0	0

* 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

	Access Granted in full	Access Granted in part	Access refused in full	Info not held	Info already available	Refuse to deal with Application	Refuse to confirm/deny whether info is held	Application withdrawn
Personal Information Applications*	0	0	0	0	0	0	0	0
Access applications (other than personal information applications)	5	4	2	1	0	2	0	1
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

* 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).
The total number of decisions in Table B should be the same as Table A.

Table C: Invalid applications	
Reason for Invalidity	Number
Application does not comply with formal requirements (section 41 of the Act)	2
Application is for excluded information of the agency (section 43 of the Act)	0
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	2
Invalid applications that subsequently became valid applications	2

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act	
	Number*
Overriding secrecy laws	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	0
Excluded information	0
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial code of conduct	0
Aboriginal and environmental heritage	0

* 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 the Act	
	Number
Responsible and effective government	0
Law enforcement and security	0
Individual rights, judicial process and natural justice	1
Business interests of agencies and other persons	2
Environment, culture, economy and general matters	0
Secrecy provisions	0
Exempt documents under interstate FOI Legislation	0

Table F: Timeliness	
	Number
Decided within statutory timeframe	8
Decided after 35 days (by agreement with applicant)	3
Not decided within timeframe (deemed refusal)	1
Total	12

Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)			
	Decision Varied	Decision Upheld	Total
Internal review			0
Review by Information Commissioner*			0
Internal review following recommendation under section 93 of Act			0
Review by ADT			0
Total	0	0	0

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

Table H: Applications for review under Part 5 of the Act (by type of applicant)	
	Number
Applications by access applicants	1
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

Network prices 2012-2013

Each June the Australian Energy Regulator (AER) is required to approve Essential Energy's proposed network prices for the upcoming financial year. As part of its annual review for 2013-2014, the AER approved decreases in Essential Energy's distribution use of system charges, which will result in a decrease in overall customer network charges for all residential customers.

The price change takes into account the Consumer Price Index (CPI), the pass-through of Transmission Use of Service charges and the Climate Change Fund contribution – charges incurred by Essential Energy.

The average decrease in network electricity prices for Essential Energy residential customers is around three per cent.

Overseas travel

Purpose of travel	Employee name	Organisation visited	Cities	Country	Date of departure from Australia	Date of arrival into Australia
Attend Integrated Safety Management Systems two week training course in Singapore	Maria Doherty David Nardi	Singapore Aviation Academy	Singapore	Singapore	12/04/2013	27/04/2013

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 our revised Code of Conduct booklet, and the rollout of ethics discussion sessions, our employees 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 dealt with six public interest disclosures from six public officials. As at 30 June 2013, three of these matters had been finalised. No public interest disclosures were received in relation to maladministration, serious and substantial waste or government information contravention.

Summary of legislative and judicial changes

Material changes to Commonwealth legislation

National Electricity Rules

The AEMC has published a number of final rule changes, including the following:

(a) Changes to normal voltage – effective 7 March 2013, the Australian Energy Market Operator (AEMO) is required to publish a notice notifying registered participants that it has received a request to change the normal voltage level at a connection point and a further notice notifying registered participants of the nature and reasons for the change in the normal voltage level.

(b) Economic regulation of network service providers – effective 29 November 2012, the AEMC changed the rules governing:
   - i rate of return;
   - ii capital expenditure incentives;
   - iii capital expenditure and operating expenditure allowances; and
   - iv regulatory process.

(c) Distribution network planning and expansion framework – effective 1 January 2013, the rule implements an annual planning and reporting process and a distribution project assessment process. The key components are:
   - i a distribution annual planning review;
   - ii a distribution annual planning report;
   - iii demand side engagement obligations on distribution businesses;
   - iv joint planning arrangements;
   - v the regulatory investment test for distribution (RIT-D); and a dispute resolution process for the RIT-D.

(d) Distribution losses in expenditure forecasts – effective 1 January 2013, distribution network service providers are required to provide an explanation of how they take the cost of distribution losses into account as part of the reporting requirements under the new Distribution Annual Planning Report.

(e) Cost pass through arrangements for distribution service providers – effective 2 August 2012, network businesses may nominate additional pass through events and may recover their efficient costs if a cost pass through event occurs in the final year of a regulatory control period.

Privacy Act 1988 (Cth)

Significant amendments made to this Act via the *Privacy Amendment (Enhancing Privacy Protection) Act 2012 (Cth)* will commence in March 2014. Following are some of the matters of note arising from the amendments:

- Organisations will need to have a compliance policy that demonstrates compliance with the legislation.
- Each organisation must have documented procedures for complying with the legislation.
- There is a new accountability regime for personal information that is held offshore.
- The implementation of procedures for dealing with complaints.
- There are restrictions on the collection and use of personal information for direct marketing.
- The powers of the Privacy Commissioner have been clarified and expanded.

Material changes to New South Wales legislation

Energy Services Corporations Act 1995 (NSW)

This Act will be amended by the *Energy Services Corporations Amendment (Distributor Efficiency) Act 2013,* assented to on 3 June 2013 and expected to commence in 2013/14. The amendment formally provides for a single board of directors as the joint board of each of the energy distributors. The board must act in the best interests of all of the energy distributors as if the individual businesses were a combined operation.

The amendment also addresses the cost of compliance with Ministerial directions. As a result of the amendment, a single distributor is not entitled to be reimbursed for compliance costs if the Ministerial direction is in the commercial interests of all three distributors combined, i.e. there is an overall net benefit for the distributors as a whole. Also, if a direction is not in the combined commercial interests of the energy distributors, any amount that a single distributor will be entitled to be reimbursed in connection with compliance is to be reduced by the amount of the net benefit accruing to any of the other distributors as a result of compliance.

Environmental Planning and Assessment Act 1979 (NSW)

Effective 1 March 2013, this Act was amended by the Environmental Planning and Assessment Amendment Act 2012 to clarify the purpose, status and content of development control plans and how they are to be taken into account during the development assessment process for achieving environmental objectives, to give more weight to development control instruments over development control plans, to require written contracts for certification work and to extend indemnification against possible copyright breaches of documents submitted by persons who do not have copyright where the documents are publicly notified or made use of under the Act.

Independent Commission Against Corruption Act 1988 (NSW)

Effective 19 April 2013, this Act was amended by the *Independent Commission Against Corruption Amendment (Disciplinary Proceedings) Act 2013* to enable employers to take disciplinary proceedings against public official employees on the basis of a formal finding of corruption by ICAC without the need for further investigation. It makes admissible in disciplinary proceedings evidence that may be self-incriminating. The public official must be given an opportunity to make a submission in relation to any proposed action following the determination of the disciplinary proceedings.

State Owned Corporations Act 1989 (NSW)

Effective 3 June 2013, amendments through the *State Owned Corporations Legislation Amendment (Staff Directors) Act 2013* have removed the mandatory requirement for staff directors to be appointed (including a union nominated director). Instead, merit-based appointments will be made as positions become vacant.

Work Health & Safety Act 2011 (NSW)

Throughout the reporting period, the *Work Health and Safety Act 2011* (WHS Act) and the related regulation were amended to:

(a) clarify that WorkCover must be notified of notifiable incidents, even if the incidents have also been notified under the Workplace Injury Management and Workers Compensation Act 1998;

(b) update the criteria relating to prohibited and restricted carcinogens and hazardous chemicals; and

(c) allow WorkCover to share information it obtains under the WHS Act with other persons to enable the administration of a range of other safety, criminal and environment Acts.

Significant judicial decisions

During the financial year, there were no judicial decisions significantly affecting the operations of Essential Energy or the users of its services.

Sick leave management

Essential Energy's average sick leave days per full time employee (FTE) benchmarked against the NSW Public Service is shown in the table below.

Essential Energy's average sick leave days per FTE					
2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
6.19	6.35	5.4	5.1	5.1	5.17
NSW Public Service average sick leave days per FTE					
2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
8.41	8.11	8.13	8.01	8.33	N/A

Source: Public Service Commission NSW Public Sector Workforce Profile: 2012 report.

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