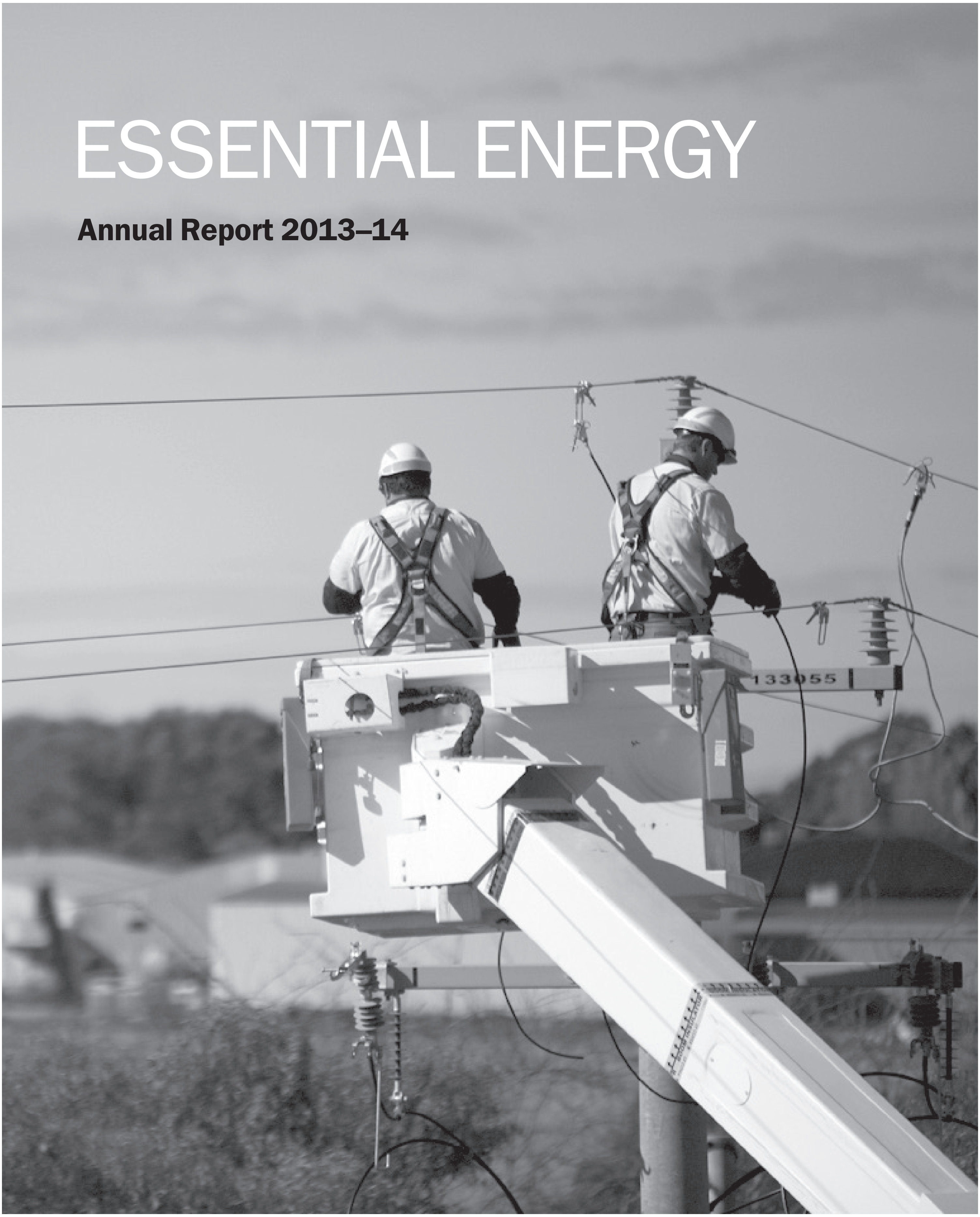
# ESSENTIAL ENERGY

## Annual Report 2013–14




essential energy

31 October 2014

The Hon. Andrew Constance, MP
Treasurer
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

The Hon. Dominic Perrottet, MP
Minister for Finance and Services
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Ministers

**ESSENTIAL ENERGY ANNUAL REPORT 2013 –14**

We are pleased to submit for presentation to Parliament, Essential Energy's Annual Report covering performance, operations and financial results for the year ended 30 June 2014.

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

Copies of the report will be sent to the Premier of New South Wales and the Auditor General, the Minister for Resources and Energy, 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**

PO Box 5730 Port Macquarie NSW 2444 | Telephone 13 23 91 | essentialenergy.com.au

## About this report

Essential Energy's 2013–14 Annual Report documents our operating, financial and sustainability performance for the 2013–14 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 financial report has been audited by the Audit Office of NSW – the Independent Auditor's certified report is on page 32 of this report.

**Cost for report production**

The external cost for the production of this report was $14,000 excluding GST.



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Cover image:
Field crew in Griffith, NSW.

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# Contents

# About us

**As a State Owned Corporation, Essential Energy is responsible for delivering and maintaining safe, reliable and affordable network electricity services to around 815,000 New South Wales residents, across an area spanning 95 per cent of the state and parts of southern Queensland.**

Additionally, Essential Water, as an operating division of Essential Energy, delivers water services to over 10,000 customers in Broken Hill, Menindee, Sunset Strip and Silverton and sewerage services to around 9,500 customers in Broken Hill.

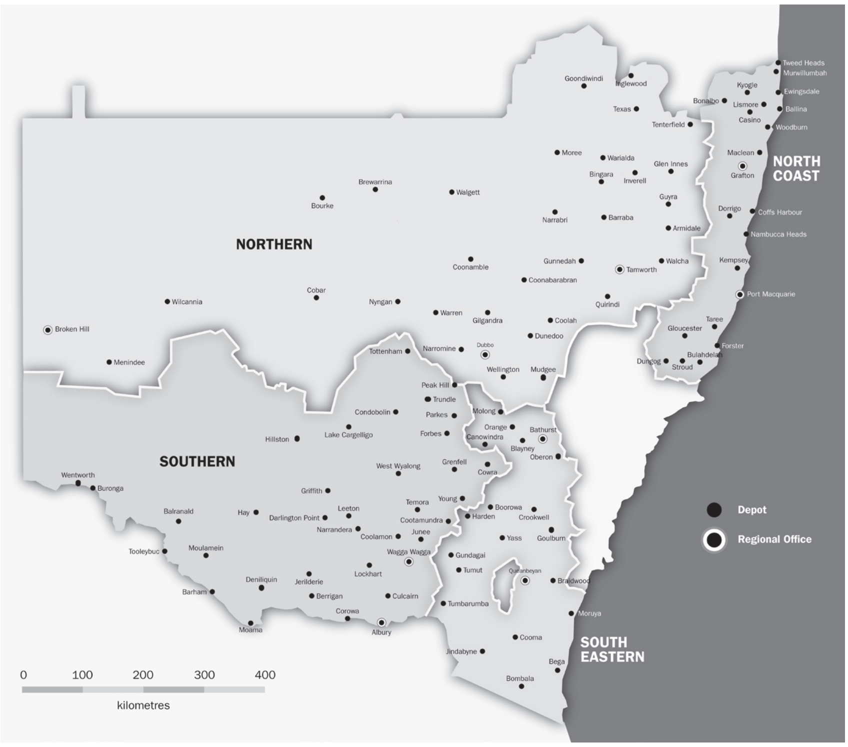
With more than 4,000 employees based across more than 100 depots and regional offices, Essential Energy is a strong contributor to the regional areas it serves.

## Responsible network management

The Australian Energy Regulator (AER) regulates the prices that energy distributors, including Essential Energy, can charge customers.

Through this regulatory framework, Essential Energy continues to invest in a program of maintenance, refurbishment and network construction to ensure that we provide safe, reliable and affordable network services to our customers and the communities in which we operate.

## Our service area – Essential Energy regions and locations




## 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

**The 2013–14 financial year consolidated Essential Energy's position as a safe, reliable, sustainable and customer focused energy network provider. Coupled with the successful completion of the Transition Services Agreement (TSA) with Origin Energy, Essential Energy moves into the new financial year in a strong position to deliver on its commitment to contain average increases in our share of customers' electricity bills to the Consumer Price Index (CPI) or below.**

## Commitment to safety

Safety remains Essential Energy's number one priority. We continue to work towards a culture where no employee knowingly participates in an unsafe act. Our overarching objective is to continually improve our safety performance to protect the safety of our workers and the communities we serve.

Essential Energy takes pride in the improvements we have achieved in safety performance over the last financial year; our Lost Time Injury (LTI) and Lost Time Injury Frequency Rate (LTIFR) both trending downwards from the previous year. In 2013–14 we recorded 17 LTIs compared to 25 in the previous year resulting in an LTIFR of 2.03.

As we strive for continual improvement in health and safety we also acknowledge the tragic passing of one of our employees in September 2013 and the enduring effect that this has had on his family, work colleagues and our organisation.

Essential Energy has established a Safety Review Working Group to consider safety improvement opportunities following this workplace fatality. The group comprises representatives from our field teams, the Unions, industry experts and senior management from Essential Energy and Networks NSW, who are working to identify and consider improvement opportunities around specific work practices. We will not compromise on our commitment to safety and will focus on steps to eliminate fatal risks in 2014–15 and beyond.

## Network reform program

In July 2012, the NSW Government initiated a network reform program in response to community concerns about rising electricity prices. The combined savings of these reforms is expected to deliver more than $5.4 billion in savings over the five years to 2016 and will help to rein in network charges for our customers.

## Controlling network prices

Customers were at the centre of Essential Energy's plans in 2013–14 as we worked to deliver more affordable network charges and improve our engagement with customers and the community.

Electricity prices had risen sharply in past years due in part to our investment in the network to meet the former NSW Government's reliability standards and meet growth in regional communities.

We introduced efficiency measures to contain further increases in electricity network charges to no more than CPI for the next five years.

Essential Energy's five year regulatory proposal submitted to the Australian Energy Regulator in May 2014 will contain average increases in network charges to within CPI, while continuing to maintain safety and reliability of the network.

We are also working to better align our business operations with consumers' long term interests through our comprehensive customer engagement program.

## Completion of the Transition Services Agreement (TSA)

In October 2013, Essential Energy completed its contractual requirements under the TSA that had been in place with Origin since the sale of the Country Energy retail business in March 2011.

Origin Energy commended Essential Energy for the quality and efficiency of the data migration of 492,000 customer sites. The migration of 99.985 per cent of data without exception was considered by Origin to be the best migration to date and ensured a seamless customer experience.

The completion of the TSA finalised Essential Energy's shift to a network and water only business, allowing it to focus on its core functions of delivering safe, reliable and sustainable energy and water services to customers.

## National Electricity Customer Framework (NECF)

Essential Energy introduced new processes and procedures to align our operations with NECF legislation that commenced on 1 July 2013.

As part of the national energy market reform program, the NECF provides a consistent regulatory framework for the relationship between customers and energy retailers and distributors, and establishes energy specific consumer protections.

Disappointingly, Essential Energy recorded 26 type 1 breaches in 2013–14. Of these, 14 incidents involved customers known to require life support equipment. They were not given four days' notice of a power outage and so unexpectedly lost electricity supply. Fortunately, no customer suffered ill-effects during the time they were without power. We are working to improve our performance in 2014–15.

Since the NECF introduction, we have worked to embed all NECF processes, engaging field workers and business units to ensure all operations impacting customers are optimised to reduce the risk of NECF breaches and improve customer service.

*continued next page*

One of these business initiatives, our Planned Outage Principles (POPs) campaign, underpinned improvements to our end-to-end planned outage process to ensure NECF compliance by establishing defined customer notification and escalation processes.

Alongside this, we introduced data verification and quarterly reconciliation of our life support customer data with retailers. These changes help to minimise the risks to this vulnerable customer group along with the potential for Type 1 breaches to occur.

Essential Energy's Retailer Handbook was also updated during the financial year. This handbook has been fundamental in formalising the relationship between the network business and retail operations.

We also prepared for the introduction of the second component of the NECF legislation. This focused on the regulations that underpin the management and billing of retailers, management of new connections and network credit. These changes were successfully implemented on 1 July 2014.

## Network investment

Effective asset management is vital to running a safe, reliable and sustainable electricity network while maintaining affordability for our customers.

Essential Energy invested more than $932 million in the electricity network last year, delivering a capital program of around $537 million and around $395 million in maintenance programs. In the past year, around 275 sub transmission projects were commenced, continued or completed, totalling a capital investment of more than $90 million. More than 5,000 distribution projects were completed in 2013–14, with network investment of $205 million.

## Reliability

Reliability improved significantly this year. The average time our customers were without electricity because of unplanned events dropped to its lowest since records began, recording a figure of 181 minutes per customer against a Licence Condition target of 322. This improved performance was primarily due to generally favourable weather conditions across our distribution network area. There were two major event days during the year as a result of widespread storms on 1 October 2013 and 16 March 2014.

Compared with 2003, customers today experience approximately 60 minutes less interruption time per year. The frequency of interruptions has also decreased by 26 per cent, to approximately two outages per year.

In line with customer feedback, our future expenditure plans will focus on maintaining current levels of reliability to ensure network reliability does not deteriorate.

Our Supply Interruptions telephone line – 13 20 80 – received more than 589,000 contacts, a decrease of 47,000 compared to the previous year. The adverse weather events during October 2013 and March 2014 contributed to higher average monthly activity on the Supply Interruption line, increasing from 45,000 a month to an average of 69,000 during these months.

## Regional redistribution

Key changes to Essential Energy's water and sewerage services division, Essential Water, resulted in the reorganisation of the electricity businesses in the Far West region of NSW.

This reform saw the number of electricity regions within Essential Energy consolidated from five to four, allowing a stronger focus to be placed on achieving cost and efficiency gains within Essential Water, while continuing to maintain and operate the local electricity network.

These gains are necessary to ensure the continued provision of quality water and sewerage services in the Far West region, following the Independent Pricing and Regulatory Tribunal's (IPART) determination on water prices that delivered a significant reduction in revenue, operational and capital expenditure.

## Financial performance

Essential Energy achieved a strong financial result for the year, with profit after tax of $295.4 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of $1,017.4 million, exceeding budget expectations and contributing to the sustainability of our business.

This was due to higher than budget network energy revenue influenced by increased demand in the industrial sector in addition to reduced operating expenditure attributable to the continued focus on reducing discretionary spending and cost savings initiatives.

Profit after tax was $44.9 million lower than the prior year result, mainly revenue related, however this was partly offset by a tax benefit of $50 million resulting from a change in tax treatment of unread meters income and reduced operating expenditure.

The decrease against prior year revenue performance reflected reduced consumption in the residential and commercial sectors influenced by mild weather conditions and the uptake of solar by a broad number of customers.

Essential Energy achieved a return on equity of 14.5 per cent, which was 5.4 per cent above the target of 9.1 per cent.

## Plans for 2014–15

In 2014–15 our purpose will continue to focus on being of service to our communities by efficiently distributing electricity to our customers in a way that is safe, reliable and sustainable.

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 a culture where no-one knowingly participates in an unsafe act.

We will focus on enhancing our customers' experience at the key points where we contact them. We will do this by improving our communications with all types of customers and re-engineering our processes to be more customer-centred.

We aim to become more efficient and competitive by implementing a sustainability program designed to safely improve capital efficiency and internal productivity as well as testing our productivity with external providers. This continuing program will help to provide a safe and sustainable business for our customers and communities and help to sustain jobs for our employees.

# Our plans and priorities

**Essential Energy's 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*'.**

The achievement of our purpose is monitored by a number of key performance indicators (KPIs) that are tracked via our 2013–14 Corporate Scorecard (below).

The scorecard links Essential Energy's performance to its Business Plan which paves the way for the organisation to continue supplying safe, reliable and sustainable essential electricity services.

| Key result areas | Measures | Target | Year end result | |
|---|---|---|---|---|
| **SAFETY OUTCOMES** | | | | |
| Safe, capable, motivated employees | Lost Time Injury Frequency Rate (LTIFR) | 2.2 | 2.0 | ✓ |
| | Total Recordable Injury Frequency Rate (TRIFR) | 25 | 23.7 | ✓ |
| | Reportable incidents – controllable SENI | 37 | 11 | ✓ |
| **CUSTOMER/COMMUNITY** | | | | |
| Valued by our community | Customer satisfaction | 75 | 81.4 | ✓ |
| | Reportable incidents – NECF Type 1 Breach | – | 26 | |
| Protect public safety and environment | Reportable incidents – controllable environmental | 4 | 5 | ✗ |
| Reliable and sustainable network | Network reliability – average unplanned SAIDI (minutes) | 236 | 181 | ✓ |
| **FINANCIAL OUTCOMES** | | | | |
| Financial sustainability | Net Profit After Tax (NPAT $m) | 176.5 | 295.4 | ✓ |
| Efficient operations | Operating expenses ($m) | 550.7 | 510.2 | ✓ |
| | Overtime expenditure – total ($m) incl. capital and operating | 34.2 | 29.3 | ✓ |
| **BUSINESS PROCESS** | | | | |
| Network plan delivery | Asset Management Plan (AMP) % complete | 95% | 83% | ✗ |
| Governance, risk and compliance management | Audit recommendations outstanding ≥ 90 days | 0 | 0 | ✓ |
| | Risk treatment plans outstanding ≥ 90 days | 0 | 0 | ✓ |
| **BUSINESS ENABLERS** | | | | |
| Safe, capable, motivated employees | Absenteeism days (excluding family/carer's leave) | 4.9 | 5.7 | ✗ |
| | Number of employees with a gross to base ratio (at or above 1.5) | 75 | 32 | ✓ |

Essential Energy's 2013–14 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 were 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 remains Essential Energy's number one priority and as an organisation, we continue to work towards a culture where no employee knowingly participates in an unsafe act. All employees are responsible and accountable for actions and for behaviours that influence the safety of themselves, others and the environment.**

We take pride in the improvements we have achieved in safety performance over the last financial year; our Lost Time Injury (LTI) and Lost Time Injury Frequency Rate (LTIFR) both trending downwards from the previous year. In 2013–14 we recorded 17 LTIs compared to 25 in the previous year resulting in an LTIFR of 2.03.

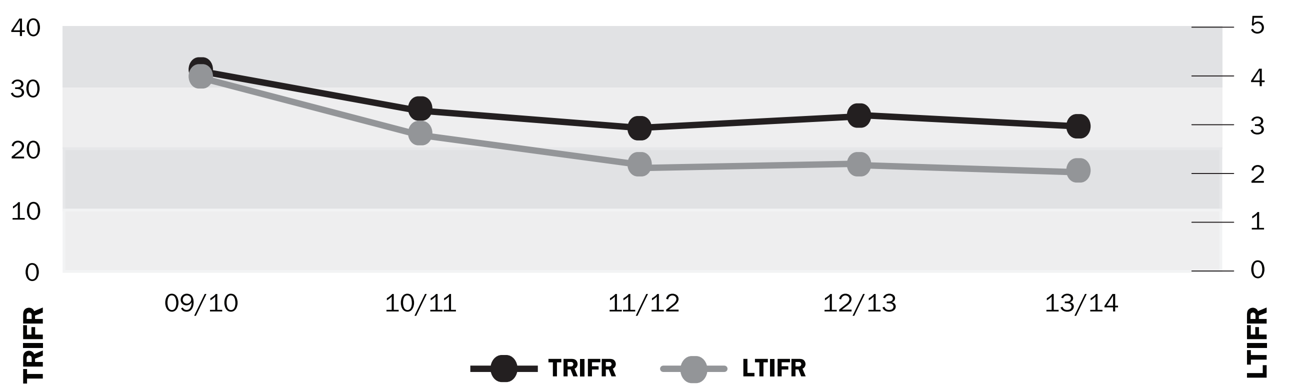
We also acknowledge the tragic passing of one of our employees in September 2013 and the enduring effect that this has, and will continue to have, on our organisation.

Essential Energy continued working on implementing the HSE Strategic Safety Plan which provides a framework for safety excellence and establishes the organisational expectations for developing a shared safety culture and reaching our goal of no-one knowingly participating in an unsafe act. The Safety Strategic Plan outlines the key initiatives NNSW will implement to reduce our Lost Time Injury Frequency Rate (LTIFR) to less than 2 by June 2015, on a pathway to zero, and to position Essential Energy at the pinnacle of safety performance within the electrical industry.

### Significant Electrical Network Incidents (SENI)

Under the Electricity Supply Act 1995 (NSW), Essential Energy is required to report safety and asset related incidents on the electricity network. In 2013–14, Essential Energy recorded 11 controllable SENIs relating to employees, 21 involving public workers or members of the general public and three involving Accredited Service Providers (ASPs) or contractors.

### Essential Energy LTIFR and TRIFR 2008–09 through 2013–14

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## Management systems

During 2013–14, Essential Energy continued with surveillance audits for certification to AS/NZS Standard 4801 and ISO14001 ensuring our Health, Safety and Environment (HSE) management system remains compliant and effective. In addition to our surveillance audits, we tested our HSE management systems with a number of focused external audits covering asbestos and other hazardous materials, noise and chemical management.

Work was also undertaken to advance the HSE Management System to define minimum requirements and better practice principles for controlling the risks associated with our business operations.

## Manual handling program

Manual handling continues to be the major contributing factor in workplace injuries at Essential Energy, accounting for about 30 per cent of all workplace injuries.

Although the rate of manual handling injuries has significantly decreased, there has been a levelling off over the last couple of years. As a result, manual handling training solutions have been improved to include videos and printable documentation. These training tools demonstrate appropriate lifting and handling techniques and tools and equipment to make tasks safer, easier and ultimately reduce the risk of injury.

## Workers compensation performance

During the reporting period there were 211 claims for workers compensation, down from 244 in the 2012–13. The average cost of claims also decreased from $7,194 in 2012–13 to $5,789 in 2013–14.

Essential Energy's approach to workers compensation continues to focus on early intervention strategies and providing suitable and sustainable return to work duties in the event of an injury. In addition, we continue to work closely with our workers compensation insurer, Employers Mutual Limited to ensure that business level key performance indicators are in place and reviewed on a regular basis in line with the service level agreement signed by both parties.

## Safety leadership

Continuous improvement in safety performance and effective implementation of HSE management systems requires strong safety leadership. We expect managers to promote and influence safety performance and behaviours.

Essential Energy, in conjunction with Networks NSW, performed a review of existing safety leadership capabilities with a view to continuously improve safety performance through targeted safety training and leadership development in 2014–15.

## The year ahead

| Priority action is | WHY we're doing it | HOW we're doing it |
|---|---|---|
| Put our safety systems into action | Improve our safety performance | Continue to implement our safety strategic plan with a focus on fatal risk management, safety leadership competency training and development of the "Network Fatal Risks: Rules we live by". |

# 2 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 substantially from July 2009 to July 2012. As a result, affordability became 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 two per cent on 1 July 2013 and three per cent on 1 July 2014. 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 four years.

## Building efficiency

In order to contain average network prices to CPI or below, Essential Energy has focused on ensuring business operations are efficient through a number of programs such as overtime control. 2013–14 saw significant reductions in overtime. A favourable storm season provided a $2 million underspend in non-discretionary overtime leading to a total overtime expenditure of $29.3million, which was favourable to a target of $34.2 million for both operating and capital expenditure related overtime.

Increased governance around overtime planning and approvals has proved beneficial in reviewing and assessing the benefits of all overtime expenditure. Further to this, focus on employee gross earnings compared to base award rates (Gross to Base Ratio (GBR)) through corporate scorecards has played a significant role in ensuring equity and necessity in overtime expenditure.

## AER submission

Essential Energy's 2014–19 regulatory proposal was submitted to the Australian Energy Regulator (AER) on 31 May 2014. The regulatory proposal reflects our vision and objectives to keep our network safe and reliable and, importantly, aims to ensure that the services we provide our customers are affordable.

Our proposal was based on a concerted effort to engage with and listen to our customers so that we can better match our plans with the long term interests of our customers.

We know from our discussions with customers that the double digit price increases of the past could not continue. We learned that customers are generally happy with levels of network reliability and do not want to pay for extra improvements. We also confirmed our customers view that safety should continue to be a priority. The 2014–19 regulatory proposal reflects those wishes. It sets out plans to keep network electricity prices below CPI, or the rate of inflation, for the next five years. It includes our plans to maintain network reliability and improve safety for our people and the public.

We will continue to engage with our customers and stakeholders over the coming year on this proposal and hope to submit a final revised proposal in January 2015. This will be considerate of customer feedback and aims to deliver a plan that reflects the objectives of ensuring a safe, reliable and affordable service for the next regulatory period.

## Network reliability

We have delivered steady improvements in our reliability performance since 2005–06, and our network investment program and targeted reliability improvement projects have made our network even more resilient.

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 181 minutes against a target of 322 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 1.73 interruptions was recorded against a target of 1.96 interruptions – a significant improvement on the 1.85 interruptions per customer reported in the previous year.

The good performance has been reflected in the number of poor performing feeders. At the end of June there were 41 feeders that exceeded the Licence Condition targets and in total there have been 124 that have exceeded the targets during the year. Essential Energy has a responsibility under its Licence Conditions to improve the performance of these feeders and report on them to the Regulator.

| | Feeder category | Target | Performance | Result |
|---|---|---|---|---|
| SAIDI (minutes) | Urban | 74 | 63 | ✓ |
| | Short rural | 240 | 180 | ✓ |
| | Long rural | 474 | 357 | ✓ |
| SAIFI (interruptions) | Urban | 0.96 | 0.78 | ✓ |
| | Short rural | 2.17 | 1.83 | ✓ |
| | Long rural | 3.19 | 2.69 | ✓ |

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).

## Customer feedback and Ombudsman relations

Essential Energy is focused on providing customers with high levels of service. We work closely with customers and retailers to resolve issues and foster relationships on a daily basis.

In 2013–14, 86 per cent of domestic complaints were resolved to the customers' satisfaction in less than four business days. Similarly of 334 matters referred to the Energy and Water Ombudsman NSW (EWON), 80 per cent of these matters were resolved without investigation by EWON.

In September 2013 a single means of measuring and reporting customer perceptions of electricity supply and related infrastructure maintenance was adopted. This is known as the Customer Satisfaction Index (CSI) and is a consistent approach to understanding the customer experience and enabling more effective benchmarking across the three NSW distribution businesses.

A phone survey is utilised to contact 450 Essential Energy customers per quarter, ensuring at least one customer is surveyed from each postcode within the distribution network area.

The survey aims to understand the customer experience and perception of key network service 'events' relating to the supply of electricity and maintenance of related infrastructure that are likely to impact customers. The service 'events' covered in the survey relate specifically to:

> unplanned outages
> planned outages
> streetlighting
> vegetation management
> infrastructure maintenance
> meter usage, reading and testing
> construction
> customer interaction.

In the three quarters since the introduction of the Metric, Essential Energy has consistently scored the highest satisfaction across the three NSW distribution businesses with a strong average CSI metric score of 81.4 percent.

| | Essential Energy | Ausgrid | Endeavour Energy |
|---|---|---|---|
| **October to December 2013** | 80.9 | 75.4 | 75.7 |
| **January to March 2014** | 80.7 | 76.4 | 78.3 |
| **April to June 2014** | 82.7 | 80.6 | 80.7 |
| **Average** | 81.4 | 77.5 | 78.2 |

## The year ahead

| Priority action is | Why we're doing it | How we're doing it |
|---|---|---|
| Improve customer service and engagement | Improve our customers' experience | Building a customer centred culture by focusing on improving customer service at five key customer touch points – planned outage notification, retailers, Accredited Service Providers (ASPs), contact centres, life support requirements |

# 3 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 locations across the State where peak energy demand continues to grow.

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 improved efficiency of appliances, increased small scale solar generation, high Australian dollar and past electricity price rises have led small to medium sized businesses and residential customers to reduce their electricity use from the network.

Total electricity consumption continues to decline with the exception of the mining sector however growth is still occurring in many pockets within the network due to growing populations and commercial activities.

Essential Energy has largely completed major network investments that were needed to meet a number of network licence conditions. This means that our network investment program will shift over the next five years from major projects driven by security and reliability to a focus on the replacement of ageing assets to maintain network sustainability into the future. 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 $932 million in the electricity network last year, delivering a capital program of around $537 million and around $395 million in maintenance programs. In the past year, around 275 sub transmission projects were commenced, continued or completed, totalling a capital investment of more than $90 million. More than 5,000 distribution projects were completed in 2013–14, with network investment of $205 million.

## Capital works program

The 2013–14 capital program was one of the largest distribution network capital programs to be under taken by Essential Energy in the 2009–2014 regulatory period.

Under the guidance of Networks NSW, Essential Energy saw the introduction of new operational business models and changes to the reporting and program delivery accountabilities throughout 2013–14.

The capital works program was impacted with the introduction of the National Energy Customer Framework (NECF) starting on 1 July 2013. This new frame work highlighted issues with customer data within the first month of operation, resulting in the cancellation of planned outages throughout August to resolve customer data quality issues.

In September, an Essential Energy employee was involved in a fatal accident which resulted in the review of particular work practices, with some work practices suspended across Essential Energy.

The transition to a network only business in October 2013 required certain systems and business processes to migrate into new systems and processes. This required a "blackout" on existing systems resulting in restrictions to planned outages for the month.

These interruptions had an impact on the delivery of the capital programs within the early part of the financial year but favourable mild weather and a focused effort saw good delivery results in the second half of the year.

## 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 2013–14, we completed an extensive network upgrade program, including:

> 17.3km high voltage underground cable installed
> 8.9km low voltage underground cable installed or refurbished
> 680km high voltage overhead line installed or upgraded
> 72km low voltage overhead line installed or upgraded
> 294 reclosers installed
> 23 padmount distribution transformers installed or upgraded
> 356 overhead distribution transformers installed or upgraded
> 526 gas switches installed
> 27 voltage regulators installed
> 6,718 poles installed or replaced
> 279km sub-transmission line installed or upgraded
> 5 zone substations constructed.

### Operating program highlights

> 345,246 pole inspections
> 15,116 pillar inspections
> 378,698 network maintenance tasks completed
> 663 padmount substations inspected
> 27,013 substation earth tests.

## Network investment highlights by region

| Region | Project overview | Details |
|---|---|---|
| **North Coast** | **Tyalgum – $800,000** | Essential Energy crews from across the Far North Coast completed a power upgrade project at Tyalgum, in the Tweed Valley.<br>The carefully planned project, carried out in one day, involved co-ordinating more than 100 workers, 22 elevated work platforms and their operators and other heavy plant and equipment.<br>The crews upgraded around three kilometres of old copper powerlines to aluminium. They also installed poles, pole cross-arms and new network switching equipment, providing a significant boost to electricity supply reliability and sustainability across the area. |
| | **Tweed Heads – $540,000** | Customers at Tweed Heads benefitted from a significant network upgrade along Kennedy Drive, with enhancements to the power quality and supply reliability for local households and businesses.<br>The project included the replacement of 26 ageing power poles and the installation of a second high voltage powerline above the existing lines along Kennedy Drive, creating a more sustainable power supply for years to come.<br>The work strengthened the electrical infrastructure in Tweed Heads, supporting the forecast continued population growth in the area. |
| | **Gloucester – $195,000** | Customers in the Gloucester area are seeing the benefits of the replacement of nearly four kilometres of old steel powerlines at Wollombah.<br>The new aluminium powerlines are more robust, higher capacity conductors.<br>The two-stage project included the installation of new power poles, 26 new pole cross-arms and associated equipment to help reduce the incidence of unplanned power supply interruptions. |
| **South Eastern** | **Binda to Bigga powerline – $3.23 million** | Essential Energy completed the fifth and final stage of a major network improvement project in the Crookwell area that saw the rebuilding of a total of 50 kilometres of powerline. The project, which began in 2008, substantially increases the reliability of supply for rural customers in this area. |
| | **Orange CBD upgrade – $1 million** | Customers in the Orange CBD are benefiting from improved reliability of supply following the installation of new cabling, high voltage switch gear and transformers in an underground network project involving major civil works and night work.<br>Reliability improvement works in the Orange CBD will continue in the next financial year with a further $1.4 million to be injected into the CBD network. |
| **Southern** | **Hillston to Ivanhoe – $678,000** | More than 350 customers in the Hillston and Ivanhoe areas are benefiting from completion of a centre phase pin insulator replacement program on the 33,000 volt powerline between Hillston and Ivanhoe to further strengthen the electricity network.<br>During eight planned power supply interruptions crews replaced 630 centre phase insulators along 150 kilometres of powerline during November 2013 and March 2014.<br>The work has resulted in improved quality and reliability of the electricity supply between Hillston and Ivanhoe. |
| | **Wangamong – $624,000** | Between July 2013 and June 2014 Essential Energy completed a major network improvement project to significantly improve reliability and quality of supply for customers in the Wangamong and Oaklands area. The work will also cater for future growth of the Oaklands village area.<br>Crews extended six kilometres of high voltage powerline, installed 53 new timber power poles, upgraded 15 existing power poles and installed automated network equipment which will improve network flexibility and minimise the number of customers affected in the case of a fault or planned work.<br>As a result of this project, customers in Wangamong, Oaklands and rural surrounds can anticipate a more reliable, robust essential service that offers improved safety and better network protection. |
| | **Estella (Wagga Wagga) – $1.2 million** | Estella is a high growth area located north of Wagga Wagga. Work included construction of a second powerline into Estella from Cartwrights Hill zone substation, installation of two kilometres of underground cable and installation of a switching station for increased network flexibility.<br>As a result of this project, customers in Estella have a more reliable, robust electricity network. |

*continued next page*

| Region | Project overview | Details |
|---|---|---|
| **Northern** | **Armidale – $502,000** | This project included the replacement of 440m of high voltage underground cable, 485m of low voltage underground cable, the replacement of 9 low voltage commercial pillars and the replacement of a high voltage/low voltage cable pole.<br>This work increased the feeder capacity to the central business district of Armidale and will allow crews to restore power more quickly in the event of an unplanned power interruption and reduce the number of customers affected by planned power interruptions into the future. |
| | **Broken Hill – $457,677** | This project will reduce the number of customers affected by planned power interruptions in the central business district of Broken Hill as well as rectifying the overloaded distribution substation capacity through an upgraded substation site and the installation of 50m of high voltage underground cable and 200m of low voltage underground cable.<br>This undergounding work enabled the removal of several overhead low voltage and high voltage conductors, resulting in a more reliable and sustainable power supply for the Broken Hill central business district. |
| | **Coonabarabran – $319,000** | The aim of this project was to replace an overloaded transformer in Timor Street that supplies central business district customers in Coonabarabran. This project saw a new padmount substation site established which consolidated two existing transformers that are presently separated by one span and an additional low voltage circuit created which will overcome the presently overloaded single low voltage circuit into the central business district. |

## Regulatory proposal submission

The Australian Energy Regulator (AER) will determine the network prices and revenue of Essential Energy for the five year period from 1 July 2014 to 30 June 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 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.

The AER made a transitional determination to set prices for the 2014–15 financial year. A substantive regulatory proposal was submitted to the AER in May 2014 so that the price path and revenue may be determined by the AER for the period from July 2015 to June 2019. The process will be concluded with a final determination from the AER in April 2015.

## The year ahead

| Priority action is | Why we're doing it | How we're doing it |
|---|---|---|
| Develop our sustainability program | Meet customers' long term priorities and build business value | Identify benefits to customers and our shareholder through:<br>> Efficient capital investment<br>> Improved labour productivity<br>> Blended delivery<br>> Efficiency network support costs<br>> Competitive Enterprise Agreement. |

# 4 Manage business risk

## Risk management

During 2013–14 Essential Energy implemented a common risk framework that was agreed with the other NSW distributors, Ausgrid and Endeavour Energy. The common risk framework enables Essential Energy to identify and manage business risks that could affect our people, our customers, the community, the environment, assets and financial resources.

Throughout 2013–14, 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 risks is based on three key categories:

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 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:

| 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 |

## Business continuity management (BCM)

BCM is a key control mechanism under the Risk Management Framework. Essential Energy is committed to continuing its critical business processes in the event that a serious unplanned event or catastrophic incident occurs, which may disrupt the normal execution of those processes. This includes putting plans and systems in place to enable the business to respond to, and recover from, any business interruption, including but not limited to people, facilities, equipment, ICT, and suppliers.

The Company works to continually improve its business continuity capability and strategies through lessons learnt from debriefs of declared incidents, other industry lessons or experiences, scheduled exercise programs, and regular review and reliable reporting.

## Risk Mitigation Defence of Network Fatal Risks

The Network Fatal Risk program was established by Networks NSW towards the end of 2012–13, with the identification of nine network fatal risks. The aim of this program is to eliminate high consequence, low frequency life-changing events, that may result in loss of life or permanent disabilities. By reducing these events, we aim to systematically reduce all injuries in line with our safety strategic plan.

During 2013–14, Essential Energy worked to determine areas within the safety system that needed to be enhanced. As a result of this process, we have identified 11 areas for enhancement which will now be included as Treatment Action Plans in the 2014–15 Safety Risk Management Plan. A Networks NSW Fatal Risk Steering Committee was also established to oversee the implementation of the fatal risk program.

## Managing bushfire risk

Essential Energy understands the threat to public safety posed by bushfires and has a 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 also monitor Essential Energy's continued implementation of initiatives associated with the Victorian Bushfire Review Committee recommendations.

Vegetation management and asset inspection programs have a direct impact on bushfire mitigation capability. The asset inspection program was enhanced in 2013–14 with the implementation of Light Detection and Ranging (LiDAR) inspections and HD photography of pole tops for target High Bushfire Risk areas. Due to the increased accuracy of LiDAR data, the quantity of pole, line and vegetation defects has increased, and will be addressed on a prioritisation basis to mitigate bushfire risk. In addition, the asset inspection program was reviewed and now includes closer monitoring of all rural low voltage open wire spans for the development of additional programs relating to fitting of spreaders to prevent conductor clashing.

The 2012–13 initiative to establish and implement an industry based Fire Risk Rating Methodology for electricity distribution assets moved into the second stage in July 2014. This will result in a complete mapping of potential consequential loss risk across the whole state of NSW.

# 5 Performance through people

## Industrial relations

Essential Energy aims to foster effective working relationships between our various stakeholders and regulatory bodies, including employees, unions, government agencies and tribunals. The Industrial Relations team is responsible for maintaining consultative forums and ensuring compliance with employment related legislation.

The Industrial Relations team also deals with employee grievances and union disputes, peak consultative forums and disciplinary actions and manages any litigation arising from these mechanisms.

The Essential Energy Enterprise Agreement 2013 was approved by employees during a ballot conducted by the Australian Electoral Commission on 24 June 2014. The Fair Work Commission approved the Agreement effective from 16 July 2014.

The Essential Energy Far West Electricity Enterprise Agreement 2013 was approved by the Fair Work Commission in December 2013, while negotiations for the Essential Water Enterprise Agreement 2013 are ongoing.

In late 2014, Essential Energy will commence the planning process for the next round of Enterprise Agreement bargaining. In negotiating our 2015 Agreements, Essential Energy will continue to 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.

## Apprentices

Our apprenticeship program remains a sought after employment opportunity in many regional cities and towns with 30 apprenticeships commencing across our three training centres in Grafton, Goulburn and Parkes in 2013–14.

Of the new apprentices, 14 were already employed by Essential Energy as either electrical workers or meter readers, making the apprentice program an important training and progression opportunities for internal employees. The 16 new employees have been a great addition to our workforce with their enthusiasm and appreciation shining through to meet our current and future workplace demands.

## Technical training

Essential Energy delivered 220 regulatory assessment days to around 2,900 employees on-site during 2013–14.

The team also delivered Cert iii Distribution Powerline Worker training to around 290 apprentices in a blended delivery model either at their place of work or at one of organisation’s three dedicated training centres located at Goulburn, Parkes and Grafton.

As a Registered Training Organisation (RTO), Essential Energy delivers this training in-house to employees and externally to those in the private sector who work on or near our network – ensuring competency, currency and consistency of skills.

The program delivers crucial training and assessment for apprentices, new employees via inductions and regulatory refresher assessments in various rescues, resuscitation, Electrical Safety Rules and network access procedures.

## Powerful Minds

During 2013–14 Essential Energy continued to provide initiatives through the Powerful Minds program to promote the psychological wellbeing of employees. A further six Mental Health First Aid (MHFA) courses were conducted with a total of 100 participants. Since 2007, a total of 975 employees have been trained. The training not only provides participants with knowledge and resources to support others, it promotes a positive organisational culture toward mental health.

Employees trained in MHFA are offered the opportunity to be contact people for both promoting psychological wellbeing and supporting other employees by being involved in Essential Energy’s MHFA Network. There are 703 employees who have volunteered to be part of the MHFA Network. The Network receives a quarterly information pack providing the most up to date resources and national health promotional events.

The Powerful Minds program supports other health and wellbeing initiatives such as the employee assistance program, online information and resources, and targeted health campaigns.

## Emergency warden training

There were 213 Emergency Wardens trained across the business during 2013–14. The training was an interactive classroom experience provided by the NSW Rural Fire Service during which Wardens were provided with information on the risks of fire and emergency situations in the workplace and the necessary actions should an emergency occur. The Warden Training incorporated Emergency Preparedness as well as Security Operations.

## Essential Knowledge and Skills (EKAS)

Over 158,000 enrolments took place in EKAS during 2013–14. Over 4,500 regulatory assessments have been managed through the EKAS system during the period, while 12,000 online modules were completed in preparation for the commencement of the NECF. There are currently 270 courses available in the EKAS system with many courses available for self-enrolment.

## Electrical Engineering Programs

This program provides school leavers with the opportunity to undertake a full-time electrical engineering degree, while receiving a broad range of work experience across Essential Energy's network services operations. During 2013–14, one cadet graduated and moved to the Graduate Engineering Program.

The Graduate Engineering Program currently has seven graduate engineers and is designed to further develop skills and experience by providing access to all practical engineering aspects of a large electricity supply business. During 2013–14 one graduate secured a permanent engineering role within the business.

## Fair and Just Culture

This year saw work to embed a Fair and Just Culture. A Fair and Just Culture is a culture where everyone manages their everyday behaviour in a way that is consistent with Essential Energy's corporate values. In practice, this means everyone knows what is expected of them and embraces a consistent approach to reward and acknowledge behaviour.

It requires each and every employee's participation to build a Fair and Just Culture. Essential Energy will work with employees across the business to implement the Fair and Just Culture framework in 2014–15.

## The year ahead

| Priority action is | Why we're doing it | How we're doing it |
|---|---|---|
| Increase leadership effectiveness | Deliver performance through people | Deliver leadership training to improve leadership effectiveness, improve employee engagement and embed a Fair and Just Culture. |

# 6 Leverage technology

Essential Energy has adopted the NSW Government recommended standard for information security management, ISO27001 and has developed internal policies and procedures related to digital information security in alignment to that standard. Essential Energy operates an Information Security Management System that complies with the requirements of ISO/IEC 27001:2005 and was recertified on 24 April, 2013. This certification is current as of 30 June 2014 (certificate number IS 517890).

## Connections Portal

In July 2013 Essential Energy introduced an online web portal that allows applicants to submit their low voltage connection applications or enquiries electronically. The connections portal has a high level of automation that allows for a connection offer to be made immediately where defined parameters are met.

Since the introduction of the online tool, 36,000 applications have been submitted with the handling time for basic and standard contracts reduced from up to 10 weeks down to less than the regulated 10 business days for a response to an application or the provision of an appropriate connection offer to the applicant. The average handling time for the 2013–14 financial year was 1.6 days, well within the requirements of the NECF.

## Network planning and reporting

During 2013–14, the Network Performance and Reliability (NPR) project was completed. This initial deployment provides network outage data for over 300,000 incidents, allowing users immediate access to six years of incident details, statistics and trends. Data for all new incidents and outages is automatically captured and incorporated into the NPR database making the information available to system users in real-time.

A major component of the NPR system is the ability for raw outage data to validated, cleansed and optimised for statistical analysis providing much greater flexibility for internal and external reporting needs, as well as a powerful set of tools for analysing incident history and forecasting future trends.

The delivery of the NPR project has enabled the business to discard its historical, independent and unconnected data repositories to a fully integrated, multi-user information management system.

## Reclosers and line fault indicators

The installation of new electronic network protection equipment has allowed an additional 384 reclosers to be remotely monitored in Essential Energy's network compared to 2012–13, assisting to reduce the amount of time customers are without power during unplanned supply interruptions.

Following successful trials, 15 line fault indicator sites have also been commissioned into PowerOn Fusion, Essential Energy's network monitoring program, during 2013–14. Essential Energy's PowerOn Fusion platform now has 3,915 reclosers and 311 zone substations being monitored in real-time.

With over 325,000 individual quantities being monitored in real-time, the platform is arguably the largest in the southern hemisphere. Live data is also exported and displayed from PowerOn Fusion directly to the Australian Energy Market Operator (AEMO) via Essential Energy's own dedicated communication portal.

## NextGen telephony

In January 2014 a significant milestone for Essential Energy's telecommunications team was achieved with the completion of the rollout of a new telephony system. Over an 18 month period, this IP based, centrally managed platform was installed at over 60 locations across the state and phones were deployed to over 3,500 end users. Essential Energy contact centres were also migrated and training was provided to all 250 contact centre staff.

The new system has enabled Essential Energy to decommission many disparate end-of-life telephony platforms and merge operations into one single platform. This has and will continue to see a reduction in maintenance and carrier costs. The new technology has enabled extension to extension dialling between all 60 sites and enhanced contact centre features have improved the way we communicate with our customers.

## Digital media

Our digital channels continue to grow both in use and functionality. Over 360,000 unique users visited essentialenergy.com.au and spent a combined total of over 770,000 minutes viewing content. In total, the site received 1,441,793 visits.

The supply interruption pages on our website were viewed a total of 171,975 times and continue to provide a self-serve solution for customers to access information during supply interruptions. A map-based page containing all current outages was launched in May 2014 for both web and mobile, proving to be a popular resource to our customers with the mobile version being accessed as frequently as the browser version.

Our social media presence has been well received by customers, who continue to engage with us through Facebook, Twitter and YouTube. As well as collaborating with other industry pages such as the Networks NSW social community at 'Your Power, Your Say', we have plans in place to increase our own community size, expand the frequency and nature of the content, and improve engagement levels further in the next stage of development, with the overall aim of providing accessible communications channels for our customers.

# 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' reasonable expectations with regards to investment priorities as well as meeting business needs and the expectations of the regulator.

Essential Energy will commence the first year of our five year network plan in 2014–15 with the delivery of a capital program of around $555 million (nominal).

Capital expenditure in the 2009–14 regulatory control period was largely focussed on improving network security and reliability as reflected in the NSW Design, Reliability and Planning Licence Conditions. Having achieved substantial progress towards compliance, these issues will no longer be a focus for the 2014–19 regulatory control period.

For the 2014–19 regulatory control period, the major component of the capital expenditure program is to replace aged and deteriorated assets on the network. We have also proposed capital expenditure to augment the network to connect new customers and meet localised demand. In addition, we have a small program of works related to reliability, compliance and non-system assets such as IT and corporate property.

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.

## Managing Australia's largest electricity network

Essential Energy currently manages:

> More than 200,000 kilometres of powerlines
> Around 1.4 million power poles
> Approximately 151,000 streetlights
> Around 135,000 substations
> Around 360 zone substations
> More than 85,000 network customers.

## Emergency response

Our Supply Interruptions telephone line – 13 20 80 – received more than 589,000 contacts, a decrease of 47,000 compared to the previous year. Adverse weather events during October 2013 and March 2014 contributed to higher than average monthly activity on the Supply Interruption line, increasing from 45,000 a month to 69,000 during these months.

## Major network incidents

There were two major event days during the year both caused by widespread storms.

***Inverell storms and winds – 1 October 2013***

On 1 October 2013, wet weather, storms and wild wind swept across the New England North West causing a number of outages across the region. An outage at Inverell during this period was declared a major network incident affecting approximately 7,524 customers.

For safety reasons during the total fire ban, the electricity network automatically switched power off to 1,914 customers. Investigations by local crews detected a broken 66 kV cross-arm on a critical pole near the Inverell zone substation, resulting in power being switched off to a further 5,610 customers to allow repairs to be carried out safely.

The first customers were switched off at approximately 6.59pm with power restored to all customers by 6.01am the following morning after crews safely replaced the failed cross-arm.

***North Coast and Northern storms – 16–19 March 2014***

On Sunday 16 March 2014, a storm impacted our Northern region which caused network damage at Inverell, Gunnedah and Tamworth, impacting approximately 9,000 customers.

The storm front continued to move south impacting approximately 32,000 North Coast customers from Coffs Harbour to Gloucester and Tea Gardens. The Bureau of Meteorology weather alerts indicated the wind speeds were between 90–120kmh across all areas.

The majority of the network damage came from vegetation and debris blown across the powerlines, with numerous broken crossarms and lines brought down. Lightning strikes also damaged electrical infrastructure.

80 local employees were dispatched from local depots with a further 60 support employees despatched from surrounding areas. Ausgrid also provided 27 employees to assist with the network restoration from their Maitland depot. In addition, more than 20 specialist vegetation crews were required to clear debris.

Essential Energy's Supply Interruptions Contact Centre responded to more than 31,200 customer calls from 16–19 March 2014.

## 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 together with our vegetation control contractors work to maintain compliance with the required safety clearances.

During 2013–14, more than 115,300 vegetation issues were addressed across our network, a 10 per cent increase on the previous 12 months.

The results of pro-active maintenance work were realised during 2013–14 with the notification of defects as part of the aerial patrol program decreasing by 10 per cent from 2012–13.

The introduction of LiDAR (Light Detecting and Ranging) technology as part of an enhanced aerial patrol in high bushfire risk areas has shown that a significant increase in LiDAR detected encroachments is likely. This was implemented in conjunction with the adoption of a revised defect profile and the inclusion of all low voltage networks in our bushfire mitigation patrols.

Essential Energy expects to incur higher risk mitigation costs as a consequence of more effective defect identification using LiDAR technology.

## Streetlighting

The number of streetlights that Essential Energy services rose by around 6,000 this financial year to more than 151,000 across more than 100 local councils.

Two Light Emitting Diode (LED) streetlighting trials concluded in Port Macquarie and Bega. Further in-house trials are underway to ensure the new technology can withstand the harsh conditions experienced across our r

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egional footprint, and deliver cost and energy efficiency savings for public lighting customers.

On 30 May 2014, Essential Energy submitted its Substantive Regulatory Proposal (SRP) to the Australian Energy Regulator (AER) for public lighting services for the 2015–19 regulatory period.

The SRP proposes the move to a more cost reflective model, which aims to ensure effective, efficient and compliant operations. In the meantime, the AER approved a transitional proposal for public lighting prices for the 2014–15 financial year which will see a price increase in line with CPI only.

## Asset inspection

Essential Energy's asset inspectors are responsible for inspecting approximately 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.

This inspection program is spread across a four yearly cycle and despite the challenging ground conditions experienced during the year, our Asset Operations team inspected more than 345,000 poles achieving 99.6 per cent of the inspection target established for the year. In addition, this team made significant progress on reducing our pole inspection backlog with the backlog reduced below the set target by 375 poles.

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.

## Network connections

Essential Energy certified 1,441 designs for contestable works projects during the 2013–14 reporting period, with a combined value of approximately $60 million.

Over the same period, 1,109 contestable work projects worth $60.9 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 2013–14, we delivered a maintenance program of around $395 million, compared to approximately $457 million in 2012–13.

## Reliability centred maintenance

A major review of Essential Energy's reliability centred maintenance (RCM) strategy commenced in the 2013–14 financial year. The RCM will help Essential Energy better plan maintenance, prevent asset failures and improve reliability for customers.

Essential Energy conducted a detailed analysis of its zone substations and distribution network and has created a system for identifying and prioritising potential failures of plant and components, greatly enhancing targeted network maintenance efforts. The new system will 'go live' in the 2014–15 financial year.

## Improvements in fleet efficiency

Essential Energy continued with its fleet reduction program and removed 226 vehicles during 2013–14 as part of its focus on cost control through improved asset utilisation across the organisation. The total distance travelled by the fleet in the year reduced by 14 per cent to 61.7 million kilometres.

The reduced fleet size and improved efficiency in usage helped achieve financial results that were favourable to budget by $4.8 million for operating expenditure and by $9.9 million for capital expenditure.

Other initiatives introduced that provided financial and operational benefits included:

- new plant maintenance contracts that allow for the option of heavy vehicle rebuilds rather than replacements
- an electronic load monitoring system to help avoid and highlight crane overloads which can result in costly downtime
- introduction of the National Heavy Vehicle Accreditation Scheme (NHVAS)
- revised procurement processes including standardisation of vehicles and extended working life periods.

Utilising opportunities provided by technology developments was well demonstrated by the adoption of an online booking system to support the move to an increased use of pool vehicles.

## Savings in procurement

In 2012–13, 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. Since the establishment of the Joint Venture, five procurements have been completed with a further 18 projects underway.

## Major projects approved in 2013–14

To replace ageing infrastructure, and maintain power reliability, three major projects were approved, valued at $30.1 million, in 2013–14.

| Projects | Estimated budget |
|---|---|
| Googong Town – Construct new 132/11kV Zone Substation | $16,528,767 |
| Leeton Zone Substation – Zone Substation refurbishment | $6,760,480 |
| Parkes TransGrid to Parkes Zone Substation – construct new 66kV line. | $6,846,784 |

A continued focus on Procurement Policy and Governance has seen the release of a new streamlined Procurement Manual incorporating the new Statement of Business Ethics.

The new Statement of Business Ethics, released in October 2013, sets out the business principles we apply in our dealings with suppliers and in turn the expectations that we have of our business partners, suppliers and contractors.

## Major projects in progress during 2013–14

In 2013–14, works were in progress and/or completed on more than 30 major projects valued at around $156 million, detailed below:

| Description | Cost ($,000) | | | Practical completion date | Comments |
|---|---|---|---|---|---|
| | Before | 2013–2014 | Total cost to date | | |
| Bathurst – Russell Street Zone Substation Rebuild | $5,894 | $1,710 | $7,604 | 27 Nov 14 | Bathurst Zone Substation – Rebuild sub on land adjacent to existing site |
| Bega – Maher Street Zone Substation – Install 2 New 66kV Feeder Bays | $998 | $87 | $1,085 | 19 May 15 | Maher St ZS – Install 2 new 66,000 volt feeder bays to relocate existing supply line from Boundary St Zone Substation and another to land a second supply from Bega 132,000 volt Zone Substation |
| Beryl to Dunedoo – construct 66kV line | $245 | $2,548 | $2,792 | 24 Jun 15 | Beryl to Dunedoo – construct 66,000 volt line (45km) |
| Boronia Street Zone Substation – new switchboard and building and 20/30MVA transformer | $1,316 | $1,964 | $3,280 | 23 Oct 14 | Boronia Street ZS – new switchboard and building and new 20/30MVA tx1 (Stage 1) |
| Coffs Harbour North to South – construct 66kV line | $1,103 | $6,437 | $7,541 | 20 Feb 15 | West Coffs – 66,000 volt line construct (underground may be required) |
| Coffs Harbour South Zone Substation Rebuild | $1,331 | $2,049 | $3,379 | 26 May 15 | Coffs South – construct new 66kV busbar and 66kV FI plant |
| Coolamon Zone Substation – Construct new 66/11kV Substation | $289 | $1,816 | $2,105 | 9 Feb 15 | Coolamon Zone Substation– Construct new 66/11kV Substation |
| Cooma to Bega–Stage 2– Brown Mountain Power Station to Bega River | $9,451 | $9,391 | $18,842 | 25 Jun 15 | Bega River–Convert 66kV line to dual cct 132,000/66,000 volt (42 kilometres) including Tees to Quira and Brown Mountain Power Station |
| Deniliquin – Moama, construct new 132kV/66kV line | $13,803 | $530 | $14,333 | 25 Aug 14 | Deniliquin to Moama – build 66,000 volt line (71kilometres ) |
| Dubbo West to Narromine Zone Substation – Construct 132kV Transmission Line | $6,966 | $1,426 | $8,392 | 1 May 14 | Dubbo South to Narromine Switching Station Construct 132kV Transmission Line |
| East Lismore – Zone Substation Refurbishment | $1,939 | $1,264 | $3,203 | 14 Jan 15 | East Lismore – Replace 11,000 volt switchboard and recable to busbar. Convert existing 66,000 volt circuit breakers to 110V DC operation and install 2x 110 volt battery banks. Install new 66,000 volt control panels (with new protection relays) |
| Ellerslie – New 66/22kV Zone Substation | $3,231 | $1,271 | $4,502 | 4 Jun 14 | Design, procure materials and equipment and construct a 66,000/22,000 5/8 MVA zone substation in conjunction with mining developer. |
| Forbes to West Jemalong – construct a new 66kV line | $8,956 | $522 | $9,478 | 17 Jul 14 | Forbes to West Jemalong – construct 66,000 volt line (40km) |
| Gloucester Zone Substation – new 11kV indoor switchboard | $2,786 | $280 | $3,067 | 5 Aug 14 | Gloucester Zone Substation – new 11,000 volt indoor switchboard or outdoor rebuild |
| Goulburn – Rocky Hill to Goulburn North – upgrade 66kV line | $2,911 | $49 | $2,960 | 10 Dec 13 | Goulburn – Rocky Hill to Goulburn Nth – upgrade 66,000 volt line (8 kilometres) |
| Gundagai South Zone Substation Rebuild | $2,865 | $4,579 | $7,444 | 10 Aug 15 | Gundagai South – Gundagai South – rebuild existing zone sub on adjacent land (66,000/11,000 volt 5/8 MVA transformers) |
| Hallidays Point/Tallwoods – establish new 66/11kV Substation | $5,732 | $1,306 | $7,038 | 20 Oct 14 | Establish 66,000/11,000 volt substation and install 2 x 66,000/11,000 volt 20/30 MVA transformers |

*continued next page*

| Description | Cost ($,000) | | | Practical completion date | Comments |
|---|---|---|---|---|---|
| | Before | 2013–2014 | Total cost to date | | |
| Herons Creek – Establish New 132/66/11kV Bulk Supply Point | $1,152 | $1,587 | $2,740 | 25 Sep 14 | Herons Creek – establish new 132,000/66,000/11,000 volt Bulk Supply Point |
| Inverell– Borthwick Street Zone Substation Rebuild | $6,718 | $758 | $7,475 | 30 Apr 15 | Inverell Zone Substations – Wynne St and Borthwick St–Rebuild both sub–stations |
| Koolkhan to Maclean – construct 66kV line | $18,520 | $265 | $18,785 | 15 Jul 14 | Koolkhan to Maclean – construct new 66,000 volt line (40 kilometres) |
| Lennox Head – install 2 x 132/11kV 30 MVA transformers | $2,163 | $295 | $2,457 | 14 Apr 14 | Lennox Head – install 2 x 132,000/11,000 volt 30 MVA transformers |
| Moruya North to Moruya Town 66kV line | $4,708 | $762 | $5,471 | 25 Feb 14 | Moruya – Moruya Nth to Moruya Town Line – upgrade line to 66,000 volt 70 MVA |
| Nabiac / Hallidays Point Bulk Supply Point – establish 132/66kV Bulk Supply Point | $1,941 | $1,020 | $2,961 | 12 Jul 16 | Nabiac – establish 132,000/66,000/11,000 volt substation |
| Orange South Zone Substation Refurbishment | $155 | $2,979 | $3,134 | 8 Dec 14 | Orange South Zone Substation – Substation Augmentation-construct new 66kV busbar and 2 transformer bays |
| South West Rocks – construct new 66kV line | $7,904 | $465 | $8,368 | 10 Nov 14 | South West Rocks – 2nd Line (including 4.5 kilometre underground cable) |
| Steeple Flat – Construction of new Zone substation | $2,536 | $1,984 | $4,520 | 18 Nov 14 | Steeple Flat – Construction of new Zone Substation and land and easement acquisition |
| Stroud 132kV Zone Substation – add 132kV feeder bays | $2,110 | $468 | $2,578 | 13 Oct 14 | Stroud Zone Substation – add 132,000 volt line bays per TransGrid |
| Uranquinty Zone Substation – construct new 66/22 substation | $4,606 | $1,063 | $5,669 | 28 Oct 14 | Uranquinty Zone Substation – Design, procure and install upgraded transformer(s) – and 66,000 volt busbar augmentation |
| Wagga Bourkelands Zone Substation – construct ring bus | $2,951 | $32 | $2,983 | 17 Nov 14 | Bourkelands Zone Substation – upgrade 3xline circuit breakers , 2xtransformer circuit breakers, fans onto transformer for 13 MVA, one extra 11,000 volt feeder |
| Wagga to Temora– Construct 132kV Line (Junee to Temora Section) | $4,822 | $4,954 | $9,777 | 19 Jan 15 | Temora to Junee – Re–construct 66,000 volt subtransmission line (50km) |
| Wagga–Forest Hill Zone Substation refurbishment | $2,523 | $98 | $2,622 | 9 Sep 14 | Forest Hill Zone Substation – Upgrade Stage 1 – new indoor 11,000 volt switchboard and 11,000 volt capacitor bank. |
| Willbriggie Zone Substation | $2,468 | $430 | $2,898 | 8 Aug 14 | Willbriggee ZS (formerly known as Mirrool Creek – Pelizzer Road) Install 33,000/11,000 volt 5/8 MVA kiosk |
| Yarrandale to Gilgandra – construct new 66kV Sub Transmission Line | $5,410 | $5,276 | $10,686 | 9 Oct 14 | Yarrandale to Gilgandra – construct 66,000 volt line (65km) |
| Bathurst – Russell Street Zone Substation Rebuild | $5,894 | $1,710 | $7,604 | 27 Nov 14 | Bathurst Zone Substation – Rebuild sub on land adjacent to existing site |
| Beryl to Dunedoo – construct 66kV line | $245 | $2,548 | $2,792 | 24 Jun 15 | Beryl to Dunedoo – construct 66,000 volt line (45km) |

## Essential Water

Essential Water's prices and investment program remained stable during 2013–14 while the business delivered the 2014–18 Water and Sewerage Services Proposal and awaited the Independent Pricing and Regulatory Tribunal (IPART) determination.

On 23 June 2014, IPART handed down its determination for 2014–18 Prices for Water and Sewerage Services to Broken Hill and surrounds. Under the final IPART determination, the typical water and sewerage bill for residential customers using 300 kilolitres of water a year will increase on average by just 3.6 per cent a year – about 92 cents per week.

The pricing model determined by IPART also reduces Essential Water's proposed capital expenditure on water infrastructure over the four years from $52.2 million to $38.8 million. Similarly, operating expenditure has been reduced by 12.8 per cent, with savings to be achieved through increased efficiencies, particularly around service levels.

As a consequence of the IPART determination, Essential Water is reviewing proposed operating and capital programs to prioritise activities in line with the available funding determined by IPART.

***Performance highlights***

Limited rainfall in the Far West during 2013–14 decreased Essential Water's three local reservoirs to one per cent capacity. As a result, Broken Hill's water supply was piped from the Menindee Lakes from November 2013, with only emergency supplies available in the local reservoirs.

Total water consumption decreased by around 85 megalitres (ML) from 2012–13, with 4,500 ML of treated water delivered over 200 km of pipelines and mains to homes and businesses connected to our water network.

Around 91 per cent of Essential Water's customer base is residential. Consumption for this group totalled 2,697 ML – up from 2,269 ML in 2012–13. Raw water customers consumed 1,302 ML. This was a decrease of 23 ML from 2012–13.

Essential Water continued its program of stringent sampling and independent testing to ensure water quality met the Australian Drinking Water Guidelines (ADWG). No aesthetic or health related breaches were recorded during 2013–14.

Essential Water's Waste Water Treatment Plant in Wills Street treated an average of 3 ML of sewage per day, and the South Broken Hill Waste Water Treatment Plant treated an average 0.9 ML per day

Essential Water invested around $87 million on major projects since forming in 2004 – including around $4.1 million during 2013–14.

***Highlights of Essential Water's works program include investments of:***

- $1,417,000 in the water mains renewal program
- $419,298 in water pump station upgrades and pump overhauls
- $324,962 in sewer pump station upgrades
- $285,000 in Stage 4 upgrades of the telemetry systems at Imperial Lake and Menindee Pump Stations, Menindee and Sunset Strip Water Treatment Plants and Stephen's Creek and Umberumberka Reservoirs.

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

- Replacement of around 1.3 km of water reticulation pipeline
- Repair of 349 customer water services
- Repair of 69 water pipeline leaks and bursts
- Cleaning and rodding of more than 33 km of sewer mains
- Repair of 358 customer sewer connection blockages
- Repair of 280 pipeline blockages.

# Our people

## Workforce diversity and equity

Essential Energy’s Equal Employment Opportunity (EEO) Management Plan outlines strategies to improve access to services, facilities and jobs for EEO groups including Indigenous employees, women, people with disabilities and those from culturally diverse backgrounds.

Our EEO Management Plan and core employment and development strategies for female and Indigenous employees were implemented via our respective employee networks. These networks ensure a strong support base with programs tailored to the needs and interests of local employees and community stakeholders.

Our employment and development strategies are currently being revised as part of a broader review and development of an EEO and Diversity Plan for all operating companies under the auspices of Networks NSW. This plan will seek to maintain the diversity ‘identity’ of each operating company, which reflects the different journeys that the organisations have taken over the years to build a workplace where all employees feel valued and respected.

There is potential to further leverage the resources and programs across all three organisations to have a single diversity framework which takes into account the strengths of each organisation.

## Women’s employment and development

Women@Work Regional Working Groups have embraced Essential Energy’s Women’s Employment and Development Strategy (WEDS) and the opportunities for professional growth it has presented. The diversity of activity and the opportunity for each Regional Working Group to identify and define their own objectives based on the needs they see in their particular region, has proven to be one of the biggest benefits of the WEDS and its underpinning Charter.

The Women@Work structure has resulted in increased participation, provided the ability to establish and run local and regional projects, and created opportunities to build skills and gain experience outside current substantive roles. Regional Working Group members are drawn from diverse locations and levels of the business, which has had led to the additional benefit of an increase in communication capability and collaboration skills for participants.

The representation of women within Essential Energy has declined during this period of organisational restructuring and industry reform. Being a network-only business presents challenges to the recruitment and retention of women, and particularly in the key talent segments of trades, technical and para-professional roles where women have traditionally been under-represented. The development of targeted strategies for bulk-recruitment campaigns such as apprentice intakes is planned for 2014–15.

## Indigenous employment and development

Essential Energy’s commitment to Indigenous Employment was reflected in the development and implementation of a “Work Essentials” pilot program in the regional city of Orange. The program was delivered over three days in May with four Indigenous high school students from differing backgrounds and schools.

Work Essentials provided the students with an opportunity to explore a variety of career possibilities in Essential Energy. The program differed from conventional work experience where students shadow trade-qualified workers with little exposure to actual roles they may be interested in. Instead, they were provided with hands on experience where appropriate, and exposure to company success stories told by carefully selected mentors.

The Work Essentials pilot enabled Essential Energy to engage directly with schools, Indigenous students and communities to encourage future candidates for our Apprenticeship Program and promote the organisation as an employer of choice for regional NSW. The vision is to mirror the program across Essential Energy’s entire footprint for Indigenous and female students, in particular.

Our broader commitment to Indigenous employment has been maintained through employee networking and support provided by Regional Indigenous Contact Officers as well as operational HR support to managers and employees. This has assisted in maintaining an Indigenous employee retention rate of 88.1 per cent in 2013–14, compared to 87.3 per cent for 2012–13. This was achieved during the current period of organisational restructuring and industry reform.

## Disability planning

As part of our commitment to improving access to services, facilities and jobs for people with a disability, we cater to needs for 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. Over the past year, we successfully accommodated the needs of employees with a range of physical and mental disabilities including visual impairment, quadriplegia and psychological disorders.

# Our community

## Public safety

Essential Energy's Public Electrical Safety Awareness Plan (PESAP) is based on an assessment of risk associated with public interaction with our electrical distribution network. An analysis of these risks allows Essential Energy to target specific awareness programs and initiatives.

During 2013–14 two public fatalities occurred as a result of interaction with Essential Energy's network. A farmer was fatally injured when farm equipment was raised into high voltage conductors. A second fatality occurred when a recreational aircraft contacted power lines whilst flying along a river course.

A joint initiative between Networks NSW, Essential Energy, Endeavour Energy, Ausgrid and the Civil Aviation Safety Authority, has been proposed to examine further initiatives to assist in the reduction of the number of aircraft strikes on the electrical distribution network.

Essential Energy will continue to deliver public safety awareness information to all at risk groups. In 2014–15 this will include an electrical safety awareness letter to landholders across the majority of rural properties in NSW.

Construction and transport sectors are also targeted for media awareness programs to improve public safety in 2014–15.

A total of 261 public safety incidents were reported for 2013–14 down from 442 in the previous reporting period.

Essential Energy also participated in many events to support rural communities and provide public safety advice to customers across NSW. Events included AgQuip, Primex, Henty Field Days and Mudgee Small Farm Field Days.

## Electricity Safety Week – Primary School Electricity Safety Program

Essential Energy is committed to delivering safe and reliable essential network services across regional NSW with a strong focus on electricity safety and education. In its third year, the Electricity Safety Week Primary School Program reached a sign up rate of 94 per cent of all primary schools in Essential Energy's footprint (around 900 schools). Educational activities and lessons that utilise interactive white boards have been designed to raise primary school children's awareness of safety hazards around electricity. The program was developed in conjunction with the Department of Education and Communities.

## Essential Giving Program

In December 2013, Essential Energy launched the Essential Giving Program – a workplace giving program where employees can make pre-tax donations. Through an employee survey, five charities were selected to be involved in the program - Can Assist, Lifeline, Garvan Institute of Medical Research, Variety and Westpac Rescue Helicopter Services. To demonstrate Essential Energy's commitment to workplace giving, employee donations are matched dollar for dollar. In the first six months, 381 employees signed up for the program and $36,135.20 has been donated to the partner charities (including both employee and matched donations).

## Community Support

Essential Energy continues to support the communities in which it operates through a grass roots sponsorship program called Community Support. Since inception in 2012, the program has supported around 300 charities and organisations within the network service area. In 2013–14, Essential Energy provided $240,972 in support through the Community Support program and the Community Halls scheme.

## Community engagement

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.

Essential Energy continued its work with two customer representative groups – the Rural Advisory Group (RAG) and the Customer Council. These groups act as advocates for their local communities and provide customer feedback to Essential Energy on a range of matters. Essential Energy held six meetings with the advisory groups during 2013–14.

Essential Energy undertook a range of engagement activities with customers and stakeholders throughout 2013–14 to gather customer insights and information on what we do and how we should plan for the future. We utilised research, social media, face to face meetings and written feedback to inform our approach to stakeholder engagement into the next regulatory control period.

Moving forward, the business will utilise the stakeholder engagement framework in line with the customers' strategic plan to connect with customers to ensure they receive a safe, efficient and sustainable energy distribution service that meets their needs and long term interests.

## 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 environment

## Environmental Management System

Essential Energy is committed to environmental due diligence, with no EPA fines or prosecutions during the reporting period. Under our environmental obligations, six incidents were reported to the regulator during 2013–14, with all reported incidents appropriately managed.

Essential Energy has complied with and maintained accreditation to the International Standard for Environmental Systems Management ISO 14001:2004. The environmental management system provides a platform for the implementation of policy initiatives and the achievement of environmental objectives.

Improvements noted since the previous audit include an increased understanding of Global Audits and the benefits of safety interactions as experience and data accrues. Other areas found to be effective include consultation through the Regional Health Safety and Environment Committee, the inspection and testing of equipment, Hazard Identification Risk Assessment and Controls (HIRAC) and incident investigations.

## Communication and training initiatives

An important component of Essential Energy's combined Health, Safety and Environment (HSE) management operations is training and communication initiatives aimed to develop the awareness and skills of employees charged with duties associated with environmental risks. For example, the development and piloting of the EIA002 – Conducting Environmental Impact Assessment Screening training, which is an assessed face-to-face course, delivered through the "Essential Knowledge and Skills" (EKAS) training system.

A further example is the development and publishing of the documents CEOH1070.04 How To: Decommission Oil Filled Equipment and CEOH1070.05 How To: Oil or Fuel Spill Remediation. These documents are a two page summary of Essential Energy procedures that give field staff and managers practical solutions to procedural and regulatory requirements. Similar documents are also developed for managing liquid waste and dealing with burnt Chromated Copper Arsenate (CCA) poles.

## Stewardship, recycling and waste reduction

Stewardship and recycling is part of Essential Energy's commitment to the environment, as we actively pursue opportunities to purchase sustainable products that are designed for their environmental benefits.

The NSW Waste Reduction and Purchasing Policy 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 paper and toner cartridges), vegetation and landscaping material, as well as construction and demolition material. Essential Energy has a comprehensive recycling program and was able to report the following for 2013–14:

> 100 per cent of all paper or 21,455 reams purchased was manufactured by recycling redundant products

> 21.42 tonnes or 100 per cent of office paper that was disposed of was recycled again

> 100 per cent of all vegetation waste or 188,231 tonnes was recycled by mulching or habitat creation in rural areas

> More than 1,278 tonnes or 100 per cent of steel disposed of and similarly 1,227 tonnes or 100 per cent of non-ferrous metals were recycled.

| Heritage asset | Location |
|---|---|
| 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 Country Council Building | Grafton (Prince Street) |
| Former Lismore Power Station | Lismore |
| Nymboida Hydro-Electric Power Station | Nymboida |
| Former Tenterfield Power Station | Tenterfield |

## Establishing an environmental strategy

As an electricity distribution business, Essential Energy has a responsibility to comply with various and complex environmental legislation, outlining how we are to interact with our environment. The community has expectations that we will act in an environmentally conscious manner, reducing and mitigating our impact on the environment.

In order to achieve this, an Environmental Strategy has been established across the Networks NSW business:

The focus points identified include:

1. Strengthening environmental management systems by developing minimum environmental standards
2. Establishing a consistent risk management framework to support system improvements
3. Developing employee skills in environmental responsibilities and environmental awareness concerning significant environmental risks
4. Aligning with the Strategic Safety Plan in creating a positive culture to guide environmental performance and behaviour
5. Minimising the consumption of energy, water and materials and the output of waste.

## Heritage Asset Management

Essential Energy has a Heritage Asset Management Strategy that assists in the management and conservation of its heritage assets. Essential Energy also maintains a heritage register which is updated as sites are determined by the community, local councils or Essential Energy.

Recent heritage related activities include works at Broken Hill Water Board Office and heritage photographic archival and reporting for the 'Northern Rivers County Council' building in Grafton, both of which were completed in accordance with a Conservation Management Plan. Archival logs are also provided to the Historical Society, Local Government, Heritage Branch of NSW and housed within Essential Energy.

# Corporate 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). It is governed, principally, by the two statutes mentioned and its Constitution.**

Good governance is a critical prerequisite for a high-performance organisation. It provides a platform for a sustainable future and demonstrates our commitment to high standards of business integrity, ethics and professionalism across all activities. Our Code of Conduct sets out the expectations for the staff behaviour that is fundamental to our business success. The Code of Conduct encourages 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 to benefit our customers and effective compliance and auditing programs.

## Joint Board of Directors

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).

All members of the Joint Board, 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 voting shareholders may appoint the other directors at their discretion.

Each non-executive director's remuneration is determined by the voting shareholders and is paid out of Essential Energy's funds. The Chief Executive Officer is not entitled to any additional remuneration for being an executive director.

## Role and responsibilities of the Joint Board

The Joint Board is responsible for governance and, ultimately, the performance of the company. The Joint Board gives direction and exercises judgment in setting the company's strategy and objectives, and is responsible for overseeing its implementation. The Joint Board's role is to govern the company rather than to manage it. The CEO is responsible to the Joint Board for the day-to-day management of the company and leads the Executive Leadership Group in delivering the approved strategy and achieving the performance targets set by the Joint Board.

In governing the company, the directors must act in the best interests of the company subject to the requirement for the Joint Board to act in the best interests of the three companies as a combined entity (as if the individual businesses were being operated as parts of a single enterprise) even if acting in that way is not in the best interests of one company.

The Joint Board operates at all times in accordance with its Charter which is designed to provide an overarching statement of authority and accountability for governance and management of Essential Energy, consistent with the Constitution of Essential Energy, applicable legislation and Government policy. The Directors of the Joint Board have adopted Board Policies that implement the Board Charter and have declared that they will be bound by the company's Code of Conduct.

## Joint Board Committees

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

## Audit and Risk Committee

The Audit and Risk Committee meets at least five times per year. 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 Joint Board.

## Safety, Human Resources and Environment Committee

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

## Nominations Committee

The Nominations Committee meets as required and assists the Joint Board in fulfilling its responsibilities with regard to Director appointments and re-appointments. The Nominations Committee consists of the Chairman of the Joint Board and two non-executive directors. Membership is subject to rotation so that non-executive directors are not participating in the review of their own re-appointment.

## Board of Directors 2013–14

Board of Directors (as at 30 June 2014)

**Roger Massy–Greene**

*BSc BE (Hons) MBA, FAICD, FIE Aust*

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
- Illawarra Coke Company Pty Limited, Director
- ICC Holdings Pty Limited, Director
- Dovose Pty Limited, Director and Secretary

**Peter Dodd**

*PhD, MSc MCom, BCom, Dip Ed*

NON-EXECUTIVE DIRECTOR
Term: 1 July 2012 to 31 December 2016
Chairman, Audit and Risk Committee
Member, Nominations Committee

*Other Directorships:*
- Ausgrid, Director,
- Endeavour Energy, Director

*continued next page*

- 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), Chairman
- Investa Listed Funds Management Limited (ILFML), Director
- Macquarie University Group of companies, Director

**Diana Eilert**

*BSc, MComm, GAICD*

NON-EXECUTIVE DIRECTOR
Term: 23 June 2014 to 22 June 2017

*Other Directorships:*
- Ausgrid, Director,
- Endeavour Energy, Director
- AMP Life Ltd, Director
- The National Mutual Life Association of Australia Ltd, Director
- Veda Group Ltd, Director
- Queensland Urban Utilities, Director
- Blue Sky Consulting Pty Ltd, Director

**Philip Garling**

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

NON-EXECUTIVE DIRECTOR
Term: 1 January 2013 to 31 December 2015
Chairman, Safety, Human Resources and Environment Committee

*Other Directorships:*
- Ausgrid, Director,
- Endeavour Energy, Director
- Australian Renewable Fuels Limited, Chairman (resigned 28 August 2014)
- Downer EDI Limited, Director
- Water Polo Australia Limited, President
- Biofuel Producers Limited Scheme, Director (resigned 28 August 2014)
- Charter Hall Limited, Director
- Charter Hall Funds Management Limited, Director
- Tellus Holdings Limited, Chairman

**Laura Reed**

*BBus, MBA, FCPA*

NON-EXECUTIVE DIRECTOR
Term: 1 January 2013 to 31 December 2015
Member, Audit and Risk Committee, Nominations Committee

*Other Directorships:*
- Ausgrid, Director,
- Endeavour Energy, Director
- ATCO Australia Pty Limited, Director
- ATCO Gas Australia GP Pty Limited, Director
- Canadian Utilities Limited, Director (an ATCO company)
- MAPS Group, Director

**Patrick Strange**

*PhD BE (Hons)*

NON-EXECUTIVE DIRECTOR
Term: 25 November 2013 to 24 November 2016
Member, Safety, Human Resources and Environment Committee

*Other Directorships:*
- Ausgrid, Director,
- Endeavour Energy, Director
- WorkSafe NZ, Director
- Transpower NZ Ltd, CEO until 31 January 2014
- Mighty River Power, Director

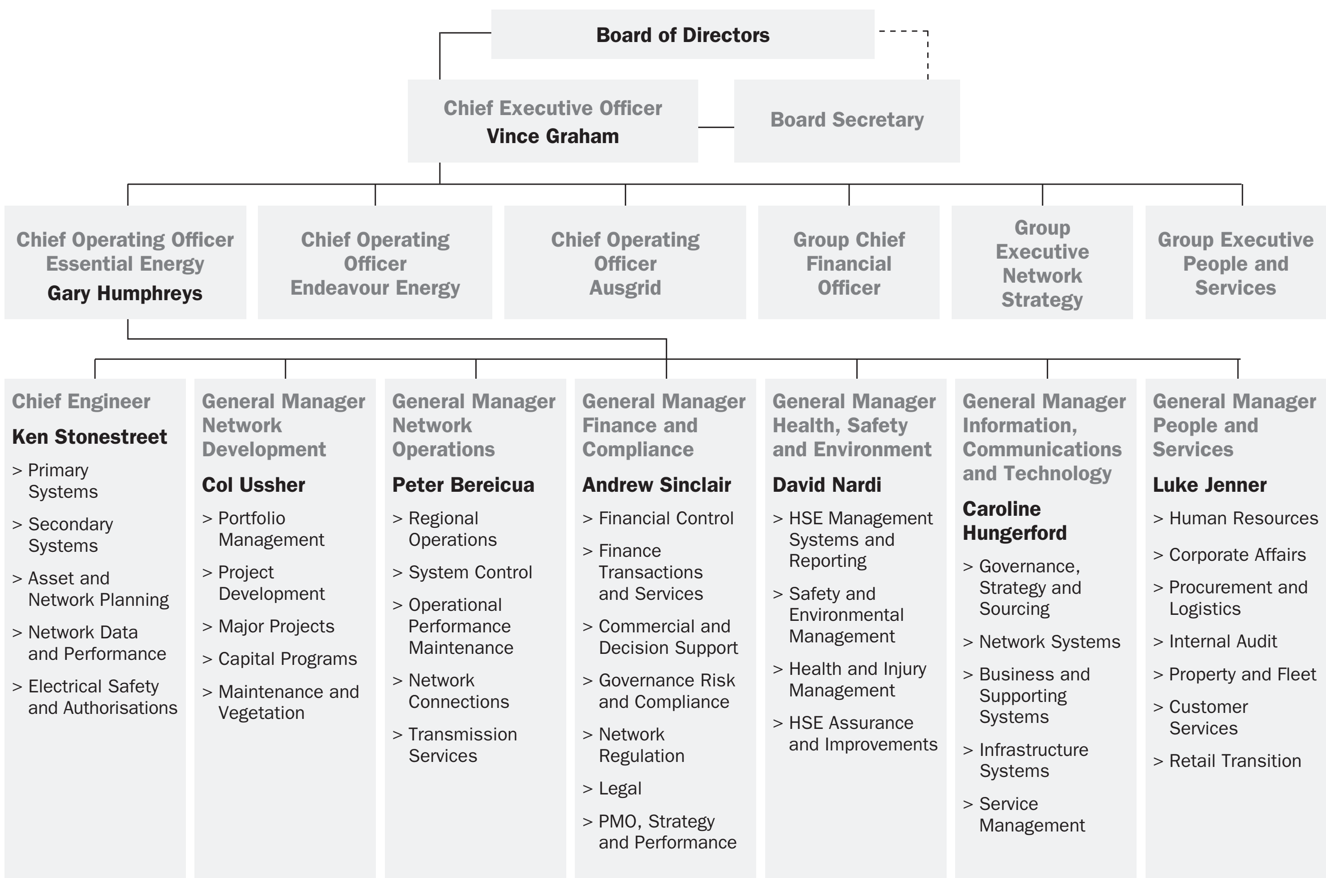
**Vince Graham**

*BE (Civil), Grad Dip Mgmt, FAICD*

CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR
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
- Networks NSW Pty Limited, Chairman
- Energy Supply Association of Australia, Director
- Mamre Plains Limited, Chairman
- Graham Management Services Pty Limited, Director

## Essential Energy's organisational structure as at 30 June 2014



### Board and board committee meetings held in 2013–14

1 July 2013 to 30 June 2014 Directors' Attendance Schedule

| | Board of Directors' Meetings | | Audit and Risk Committee | | Safety, Human Resources and Environment | | Nominations | |
|---|---|---|---|---|---|---|---|---|
| Director | A | B | A | B | A | B | A | B |
| **R Massy-Greene** | 13 | 13 | 9 | 8 | 4 | 4 | 5 | 5 |
| **P Dodd** | 13 | 13 | 9 | 9 | – | – | 5 | 5 |
| **P Garling** | 13 | 13 | – | – | 4 | 4 | – | 3# |
| **L Reed** | 13 | 13 | 9 | 8 | – | – | 5 | 5 |
| **P Strange** | 7 | 7 | – | – | 2 | 2 | – | 2# |
| **D Eilert** | 1 | 1 | – | – | – | – | – | – |
| **V Graham*** | 13 | 12 | 8 | *6 | 4 | 4 | – | 4# |

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. The ARC held one meeting for non-executive directors only

\# Attended meetings while not a member of the Committee. Note: CEO was on leave for one board meeting and one ARC meeting and A/CEO's attended meetings.

## Essential Energy's Executive Leadership Team as at 30 June 2014

**Chief Operating Officer**
Gary Humphreys *GAICD*

**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**
David Nardi *Mbus*

## 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

Two organisation-wide ethical discussion sessions were rolled-out to employees as part of the *Make the Right Choice* program, building on the inaugural session rolled out the previous financial year.

The discussion sessions underpin Essential Energy's Code of Conduct and help embed corporate values into daily workplace behaviour.

The two sessions, 'Time and attendance' and 'Too close for comfort' explored the ethical considerations around accurate time recording and contractor management.

*Make the Right Choice* is an ongoing program that will continue to be rolled out to employees in the next financial year as part of the organisation's corporate governance.

## 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 Australian Privacy Principles which form part of the Privacy Act 1988 (Cth) and govern how organisations handle personal information. Essential Energy's Privacy Policy is available on our website, essentialenergy.com.au

## Fraud, 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.

Supporting this culture is Essential Energy's Code of Conduct and the discussion sessions held with all employees to ensure their understanding of a the values of Essential Energy.

During the financial year there were 16 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 represents the performance agreement between Essential Energy and our shareholders, outlining our objectives and strategies and defining our obligations to shareholders. The SCI also places limits on the types of activity Essential Energy is permitted to undertake, setting clear financial targets.

In 2013–14, Essential Energy continued to perform strongly, with a focus on providing value for money to our customers, controlling costs and increasing productivity.

| Financial results | Restated 2012–13 result* | 2013–14 result | 2013–14 SCI | Variation to SCI |
|---|---|---|---|---|
| Earnings before interest, tax, depreciation and amortisation (EBITDA) ($M) | 1,154.3 | 1,017.4 | 940.1 | 77.3 |
| Earnings before interest and tax (EBIT) ($M) | 805.9 | 677.3 | 603.2 | 74.2 |
| Operating profit before tax ($M) | 485.3 | 350.0 | 252.6 | 97.4 |
| Operating profit after tax ($M) | 340.3 | 295.4 | 176.5 | 118.9 |
| Dividend ($M) | 240.8 | 133.9 | 123.5 | 10.4 |
| Total Distribution (Dividend + Income Tax Expense) ($M) | 385.8 | 188.5 | 199.6 | (11.1) |
| Return on assets ( per cent) | 10.6% | 8.6% | 7.5% | 1.1% |
| Return on equity ( per cent) | 18.1% | 14.5% | 9.1% | 5.4% |
| Capital Expenditure ($M) # | 674.7 | 600.1 | 763.1 | (163.0) |

* The comparative amounts have been restated following the adoption of the revised accounting standard AASB 119 *Employee Benefits* which resulted in a decrease in the 2012–13 profit before tax of $13.9 million (2014: $13.8 million). Comparative EBITDA amounts have also been restated to include fleet depreciation of $17 million for 2012–13.# Capital Expenditure excludes gifted assets and capitalised borrowing costs, SCI and comparative amounts have been amended accordingly.

## Profit results

Essential Energy's operating profit before tax was $350 million against a target of $252.6 million in the 2013–14 SCI.

The better than budget profit result reflects:

- Higher gross margin driven by increased demand in the industrial sector
- 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 due to better than budgeted rates for borrowings and lower than anticipated capital expenditure
- Operating profit after tax was impacted by a tax benefit of $50 million resulting from the change in tax treatment of unread meters income.

## Balance sheet

Essential Energy's total assets increased by $256.8 million compared to the prior year. The major contributing factor was an increase in property, plant and equipment in the amount of $315.4 million resulting from capital expenditure net of depreciation.

Return on assets, calculated as EBIT divided by the average asset base, decreased from 10.6 per cent in 2012–13 to 8.6 per cent at 30 June 2014.

Total liabilities increased by $86.0 million compared to the previous year driven by an increase in borrowings (inclusive of discounts/premiums) of $360.7 million, primarily due to the need to fund the capital expenditure program. This was offset by a decrease in provisions totalling $134.6 million, mainly attributable to a decrease in the dividend provision of $106.9 million, and a decrease in deferred taxation liabilities of $69.0 million, which included a $37.6 million reduction due to a change of tax treatment of unread meters income.

Return on equity, calculated as profit after tax divided by average equity, was 14.5 per cent at 30 June 2014. This result compared favourably with the SCI return of 9.1 per cent but represents a decrease from the 2012–13 return of 18.1 per cent, with a 13.2 per cent decrease in profit after tax compared to an increase of 8.3 per cent in average equity.

## Cash flows

Cash and cash equivalents at the end of the financial year decreased by $36.2 million compared to 2012–13 (excluding restricted cash movements). Net cash flows provided by operating activities for the year were $449.3 million, a decrease of $68.3 million compared to 2012–13 reflecting decreased receipts from customers and higher taxation payments, partly offset by lower payments to suppliers and employees.

Net cash flows used in investing activities for the year were $591.7 million, compared to $661.8 million used in investing activities in the prior year. The decrease of $70.1 million is mainly due to the decrease in payments for purchases of property, plant and equipment and intangible assets.

Net cash flows provided by financing activities for the year were $106.2 million, compared to $102.3 million in the prior year. The increase in net proceeds from borrowings of $177.4 million was offset by an increase in dividend payments of $173.5 million.

## Debt

Our balance sheet debt increased by $360.7 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, increased marginally from 68.8 per cent at 30 June 2013 to 68.9 per cent at 30 June 2014.

## 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.

Our Board has an objective to ensure that dividends do not place additional pressure on prices, service quality or future reliability. Essential Energy's Directors declared a final dividend of $133.9 million, representing an increase of $10.4 million or 8.4 per cent increase compared to the 2013–14 SCI target, and a decrease of $106.9 million compared to 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 renew ageing assets, continue to meet safety requirements, and maintain reliability in future years.

Our capital expenditure for 2013–14, excluding gifted assets and capitalised borrowing costs, was $600 million, $163 million below our target of $763.1 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.

Capital expenditure was below budget mainly attributable to lower network infrastructure expenditure primarily due to progress delays and the suspension of a few major network infrastructure projects.

# FINANCIAL STATEMENTS

**For the year ended 30 June 2014**

# Contents

AUDITOR-GENERAL NEW SOUTH WALES

# 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 financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

## Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2014, 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, the PF&A Act 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 give a true and fair view and that are free from material misstatement, whether due to fraud or error.

In Note 1(b), the Directors 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.

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
- 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

12 September 2014
SYDNEY

# Statement by Directors

## Statement by Directors

### For the Year Ended 30 June 2014

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 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 Corporation as at 30 June 2014 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; and

(c) We are 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 Directors.

Vince Graham
Chief Executive Officer
Sydney

10 September 2014

Roger Massy-Greene
Chairman

10 September 2014

# Statement of Comprehensive Income

For the year ended 30 June 2014

| | Note | 2014 $M | 2013 $M |
|---|---|---|---|
| **Profit and loss** | | | |
| Revenue | 2 | 1,965.1 | 2,164.3 |
| **Expenses excluding finance costs** | 3(a) | **(1,287.7)** | **(1,352.4)** |
| Finance costs | 3(b) | (327.4) | (326.6) |
| **Profit before income tax** | | **350.0** | **485.3** |
| Income tax expense | 4 | (54.6) | (145.0) |
| **Profit for the year** | | **295.4** | **340.3** |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Superannuation defined benefits actuarial gains/(losses) | 25(f) | 19.6 | 59.4 |
| Asset revaluation reserve reversal on asset impairment | | (2.1) | – |
| Income tax relating to items that will not be reclassified | 4 | (5.3) | (17.8) |
| | | **12.2** | **41.6** |
| **Items that will be reclassified subsequently to profit or loss** | | | |
| Changes in the fair value of cash flow hedges | | (4.2) | (0.4) |
| Income tax relating to items that will be reclassified | 4 | 1.3 | 0.1 |
| | | (2.9) | **(0.3)** |
| **Total other comprehensive income for the year, net of tax** | | **9.3** | **41.3** |
| **Total comprehensive income for the year** | | **304.7** | **381.6** |

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

# Statement of Financial Position

As at 30 June 2014

| | Note | 2014 $M | 2013 $M |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 3.3 | 52.6 |
| Trade and other receivables | 7 | 427.2 | 435.3 |
| Inventories | 1(j) | 25.1 | 28.7 |
| Intangible assets | | – | 0.6 |
| **Total current assets** | | **455.6** | **517.2** |
| **Non-current assets** | | | |
| Trade and other receivables | 7 | 1.5 | 1.2 |
| Investment property | 9 | 4.5 | 4.1 |
| Property, plant and equipment | 10 | 7,432.3 | 7,116.9 |
| Intangible assets | 11 | 142.1 | 139.7 |
| Other non-current assets | | 0.7 | 0.8 |
| **Total non-current assets** | | **7,581.1** | **7,262.7** |
| **Total assets** | | **8,036.7** | **7,779.9** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | 322.8 | 313.4 |
| Borrowings | 13 | 458.8 | 60.0 |
| Derivative financial instruments | 8 | 4.2 | – |
| Current tax liabilities | | 4.9 | 96.1 |
| Provisions | 14 | 374.9 | 493.3 |
| Other current liabilities | 15 | 7.0 | 0.5 |
| **Total current liabilities** | | **1,172.6** | **963.3** |
| **Non-current liabilities** | | | |
| Borrowings | 13 | 4,237.7 | 4,275.8 |
| Deferred tax liabilities | 5 | 263.4 | 332.4 |
| Provisions | 14 | 245.5 | 261.7 |
| **Total non-current liabilities** | | **4,746.6** | **4,869.9** |
| **Total liabilities** | | **5,919.2** | **5,833.2** |
| **Net assets** | | **2,117.5** | **1,946.7** |
| **EQUITY** | | | |
| Contributed equity | | 130.5 | 130.5 |
| Reserves | | 1,155.0 | 1,159.5 |
| Retained earnings | | 832.0 | 656.7 |
| **Total equity** | | **2,117.5** | **1,946.7** |

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 2014

| | Contributed Equity $M | Asset Revaluation Reserve $M | Hedge Revaluation Reserve $M | Retained Earnings $M | Total Equity $M |
|---|---|---|---|---|---|
| Balance at 1 July 2012 | 130.5 | 1,159.5 | 0.3 | 515.6 | 1,805.9 |
| Profit for the year | – | – | – | 340.3 | 340.3 |
| **Other comprehensive income** | | | | | |
| Effective portion of changes in the fair value of cash flow hedges | – | – | (0.3) | – | (0.3) |
| Superannuation defined benefits actuarial gains/(losses) net of tax | – | – | – | 41.6 | 41.6 |
| **Total comprehensive income for the year** | **–** | **–** | **(0.3)** | **381.9** | **381.6** |
| **Transactions with owners recorded directly in Equity** | | | | | |
| Dividend provided for or paid | – | – | – | (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** |
| Profit for the year | – | – | – | 295.4 | 295.4 |
| **Other comprehensive income** | | | | | |
| Net increase (decrease) in revaluation reserve net of tax | – | (1.6) | (2.9) | – | (4.5) |
| Superannuation defined benefits actuarial gains | – | – | – | 13.8 | 13.8 |
| **Total comprehensive income for the year** | **–** | **(1.6)** | **(2.9)** | **309.2** | **304.7** |
| **Transactions with owners recorded directly in Equity** | | | | | |
| Dividend provided for or paid | – | – | – | (133.9) | (133.9) |
| **Total transactions with owners** | **–** | **–** | **–** | **(133.9)** | **(133.9)** |
| **Balance at 30 June 2014** | **130.5** | **1,157.9** | **(2.9)** | **832.0** | **2,117.5** |

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 2014

| | Note | 2014 $M | 2013 $M |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 2,103.5 | 2,210.2 |
| Payments to suppliers and employees | | (1,105.9) | (1,211.8) |
| Interest received | | 0.3 | 6.1 |
| Interest paid | | (329.8) | (355.4) |
| Income taxes paid | | (218.8) | (131.6) |
| **Net cash inflow from operating activities** | **24** | **449.3** | **517.6** |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment and intangible assets | | (600.1) | (676.3) |
| Proceeds from sale of property, plant and equipment | | 8.4 | 14.5 |
| **Net cash outflow from investing activities** | | **(591.7)** | **(661.8)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 347.0 | 232.5 |
| Repayment of borrowings | | – | (62.9) |
| Dividends paid | | (240.8) | (67.3) |
| **Net cash inflow from financing activities** | | **106.2** | **102.3** |
| Net decrease in cash and cash equivalents held | | (36.2) | (41.9) |
| Cash and cash equivalents at the beginning of the year | | 39.5 | 81.4 |
| **Cash and cash equivalents at the end of the year** | **24** | **3.3** | **39.5** |

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 2014

## 1 Significant Accounting Policies

**(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 statutory state owned corporation (for profit) 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 of the Corporation for the year ended 30 June 2014 comprises the Corporation only. Separate financial statements are not presented for the wholly owned subsidiary NorthPower Energy Services Pty Ltd as it was deregistered on 17 July 2013, had no operations since 1 July 2012 and had $1 of assets and liabilities from that time to the date of de-registration. NSW Treasury provided Essential Energy with an exemption from preparing financial statements for NorthPower Energy Services Pty Ltd for the period 1 July 2013 to 17 July 2013.

The financial statements were authorised for issue by the Directors on 10 September 2014.

**(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 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, provisions, items of property, plant and equipment, investment property and intangibles.

(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. Refer note 1(v) for restated comparative amounts.

(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) Fair value measurement**

The Corporation measures financial instruments, such as derivative financial instruments, provisions and items of property, plant and equipment, intangible assets and investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 17.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Corporation.

The fair value of an asset or liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Corporation determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

*continued next page*

# Notes to Financial Statements

For the year ended 30 June 2014

## 1 Significant Accounting Policies (continued)

### (e) 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.

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 in various respective notes.

Note 1(l), 10 – Property, plant equipment

Note 1(m), 11 – Intangible assets

Note 1(w), 14 – Provisions

Note 16 – Financial instruments

Note 25 – Superannuation – Defined benefits plan

**Restructuring provision**

The restructuring provision includes Retail stranded costs and Network restructure costs.

The Retail stranded costs provision is a direct result of Retail affected employees being retained (stranded) after the end of the Transition Services Agreement (TSA) in October 2013 in which they will provide limited value to the Corporation. The Network restructure provision was made in 2014 and represents the expected costs relating to employees who no longer have a permanent role as a result of organisational changes resulting from the NSW Electricity Industry Reform program and the employees being retained but providing limited value to the Corporation.

The provision reflects the costs of the employees for the period in which those employees add limited value to the business, generally the period from the completion of the TSA until they either leave the organisation or find a value add role within the organisation. The provision also includes the cost of redundancy payments expected to be made.

The process in measuring this provision requires management judgement in making estimations based on experience and existing plans. The key drivers of the provision are as follows:

- *Number of affected employees*: the number of affected employees retained (stranded), after the end of the TSA or as a result of the Network restructure, in which they will provide limited value add to the Corporation
- *Total unavoidable costs*: the unavoidable costs for employees retained (stranded) in which they will provide limited value add to the Corporation
- *Natural attrition rate*: the rate at which employees of similar skills to the affected employees have historically exited the business
- *Discount rate*: the rate at which future cash flows have been discounted.

**Employee Benefits Provision**

A 2.7% expected salary increase rate for 2014–15 and 3.5% thereafter has been assumed for the purposes of defined benefit superannuation actuarial valuations. The NSW Government Wages Policy requires that any salary increase above 2.5% 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 financial statements. The accounting policies have been applied consistently by the Corporation.

### (f) Income tax

Essential Energy is exempt from federal income tax under the Income Tax Assessment Acts. However, the Corporation 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 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.

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.

## 1 Significant Accounting Policies (continued)

**(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 Corporation.

(i) Network use of system revenue

The Corporation recognises revenue involving the rendering of electricity and water supply services in profit and loss 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) 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 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% change in average tariff rates will result in a change in accrued revenue of $18.5 million (2013: $19.5 million) and $20.2 million (2013: $21.6 million) respectively.

(iii) Rental income

Rental income from properties leased under property leases is recognised in profit and loss 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.

(iv) Contributions for capital works

This represents cash and non-cash capital 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 Corporation gains control of the asset. The fair value of contributed assets is recognised at the date at which control is gained.

(v) Solar Bonus Rebate Scheme Recovery and other revenue

The Corporation recognises solar and other revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Corporation's activities.

**(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 Corporation 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.

*continued next page*

# Notes to Financial Statements

For the year ended 30 June 2014

## 1 Significant Accounting Policies (continued)

**(k) Investment property**

Investment property is property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of business. Investment property is stated at fair value and changes to fair value are taken directly to profit or loss. Fair value has been determined based on valuations performed by Opteon Valuers Unit Trust (Opteon) as at February 2014. 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, rental returns and rental growth rates for similar properties in the same location as Essential Energy's investment properties. There have been no material changes to the value since February 2014.

**(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, including costs of materials, services, direct labour and an appropriate proportion of overheads.

Management judgement is required in the assessment of the types of costs that are directly attributable to the construction of our property, plant and equipment. Satisfying the directly attributable criteria requires an assessment of those unavoidable costs that, if not incurred, would result in the property, plant and equipment not being constructed. Directly attributable overheads are allocated to the cost of construction of an asset using direct labour costs for labour related overheads with other overheads being allocated based on direct cost of capital projects as a proportion of total direct project costs.

Property, plant and equipment transferred from customers is initially measured at fair value at the date on which control is obtained in accordance with Interpretation 18 Transfer of assets from customers, AASB 13 *Fair value measurement* and AASB 116 *Property, Plant and Equipment*.

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 14-01, AASB 13 and AASB 116, and reviewed annually for impairment in accordance with AASB 136 *Impairment of Assets*.

*System assets and land and buildings*

System assets and land and buildings are stated at fair value less accumulated depreciation and impairment losses. The fair value of system assets and land and buildings is determined using the income approach in accordance with AASB 13.

The valuation methodology reflects a discounted cash flow methodology to value the Corporation, and a calculation to subtract the value of other business assets and liabilities to arrive at a value for the Corporation's system assets and land and buildings.

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 discount rate;
- 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

System assets and land and buildings are revalued at least every three years in accordance with TPP 14-01 and AASB 13. However, an assessment is made at each reporting date to ensure the net carrying value of system asset and land and buildings does not differ materially from their fair value, which is calculated on a 'cash generating unit'(CGU) basis using the discounted cash flow. As at 30 June 2014 a revaluation was performed internally and reviewed by an independent professional firm. The net carrying amount of system assets and land and buildings did not differ materially to the discounted cash flows.

The Corporation's view is that the distribution network, comprising system assets and land and buildings, as a whole should be considered to be a 'single asset' for the purposes of revaluation. This includes system assets and land and buildings. This is because all components within the network must work together in order to reliably supply electricity. Further, due to the specialised nature of the Corporation's network, system assets and land and buildings cannot be readily sold to third parties for different uses.

The recoverable amount of the Water CGU was estimated to be zero as at 30 June 2014 (2013: $nil), based on a value in use calculation. Accordingly, no value is carried in the books of the Corporation in respect of water assets.

The recoverable amount of the Generation system assets CGU was estimated to be zero as at 30 June 2014 (2013: $nil), based on a value in use calculation. Accordingly, no value is carried in the books of the Corporation in respect of Generation system assets.

## 1 Significant Accounting Policies (continued)

The recoverable value of the Contestable Metering CGU was estimated to be $0.7million at 30 June 2014 (2013: $1.8 million), based on a value in use calculation. Accordingly only $0.7million is carried in the books of the Corporation in respect of contestable metering assets.

*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 TPP14-01 as any difference is unlikely to be material).

(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. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Gains and losses on disposal of revalued assets are included in profit and loss 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 Corporation (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 in accordance with AASB 116 and AASB 123 *Borrowing costs.*

(iv) Subsequent costs

The Corporation 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 Corporation and the cost of the item can be measured reliably. All other costs are recognised in profit and loss 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 profit and loss 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 | 40 years |
| Leasehold improvements | Term of lease |
| System assets | 7 – 50 years |
| Other assets | 4 – 20 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(m) Intangible assets**

Intangible assets that are acquired externally or internally generated by the Corporation 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 profit and loss 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 |

*continued next page*

# Notes to Financial Statements

For the year ended 30 June 2014

## 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 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 profit and loss, 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 goodwill (if any) allocated to CGU and then, to reduce the carrying amount of the other assets in the CGU 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.

**(p) Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the Corporation 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.

**(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

## 1 Significant Accounting Policies (continued)

brought to account on an accrual basis. Indexation adjustments on CPI indexed bonds are also recognised as part of finance costs in profit and loss.

Gains and losses are recognised in profit and loss when the liabilities are derecognised as well as through the amortisation process.

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 Corporation may not necessarily need to repay these loans within twelve months.

**(r) Financial instruments**

1) Derivative financial instruments and hedge accounting

(i) Initial recognition and subsequent measurement

The Corporation uses derivative financial instruments, such as forward currency contracts and forward interest rate contracts, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Corporation will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the criteria for hedge accounting are accounted for as described below:

(ii) Fair value hedges

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the Corporation revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

(iii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading hedge revaluation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains or loss' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition on a non-financial asset or non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial assets or non-financial liability.

Hedge accounting is discontinued when the Corporation revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

2) Derecognition of financial instruments

The Corporation 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 Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognise the financial asset and the associated liability.

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# Notes to Financial Statements

For the year ended 30 June 2014

## 1 Significant Accounting Policies (continued)

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

**(s) Employee benefits**

All liabilities for employee benefits that are expected to be paid for services provided by employees to balance date represent present obligations and are fully provided for in the financial statements.

Liabilities for employee benefits for wages, salaries, annual leave, preserved sick leave and long service leave that are expected to be wholly settled within twelve months of the reporting date, representing present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Corporation expects to pay as at reporting date including related on-costs, such as workers compensation, insurance and payroll tax.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employees' departures and periods of service.

Expected future payments (over twelve months) are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The amounts recognised for preserved sick leave and long service leave are calculated in accordance with Australian Accounting Standard AASB 119: *Employee Benefits*. Actuarial assessment of preserved sick leave, annual leave and long service leave was calculated at 31 October 2013 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 and the component of annual leave not expected to be wholly settled within twelve months have 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.

**(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 Corporation'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 Corporation, 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).

In 1996/97 predecessor entities now forming part of the Corporation contributed to three defined benefits schemes, namely the State Authorities Superannuation Scheme (SASS), the State Authorities Non-Contributory Superannuation Scheme (SANCS) and the State Superannuation Scheme (SSS). On 1 July 1997 the bulk of employees' benefits were transferred from these superannuation schemes to three divisions of the Energy Industries Superannuation Scheme (EISS) as follows:

- SASS – Division B
- SANCS – Division C
- SSS – Division D

The Corporation has determined that detailed disclosure of the defined benefit schemes of SASS, SANCS, and SSS (13 members) and Electricity Supply Industry Superannuation Fund (Qld) (nil members) will not materially influence the users of the financial statements and therefore financial information relating to the funds has been aggregated.

The Corporation has classified the defined benefits schemes wholly as a non-current liability to reflect the appropriate timing of the obligation.

## 1 Significant Accounting Policies (continued)

**(u) Termination benefits**

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognises termination benefits at the earlier of the following dates: (a) when the Corporation can no longer withdraw the offer of those benefits; and (b) when the Corporation recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to present value.

**(v) Changes in accounting policy**

The adoption of the revised AASB 119 *Employee Benefits* resulted in a change to the Corporation's accounting policy which significantly affected items recognised in the financial statements:

- The amount of net defined benefit expense that is recognised in profit or loss under the revised standard is higher than the amount that would have been recognised under the pre 1 July 2013 rules. There is an equal and opposite change to the amount that is recognised as remeasurement in other comprehensive income. This is the result of the replacement of the expected return on plan assets and separate interest expense with a net interest amount. The net impact on total comprehensive income is nil and there is also no adjustment to the amounts recognised in the Statement of Financial Position from this change.
- As the revised standard must be adopted retrospectively, adjustments to the retirement benefit obligation have been recognised at the beginning of the earliest period presented (1 July 2012) and the profit for the period and other comprehensive income in the statement of comprehensive income were restated for the comparative period. The impact on these adjustments on the individual line items in the financial statements is shown below.

### Statement of comprehensive income (extract)

| | Current year impact | | | Prior year restatement | | |
|---|---|---|---|---|---|---|
| | 2014 $M | Profit increase/ (decrease) $M | 2014 as presented $M | 2013 (Previously stated) $M | Profit increase/ (decrease) $M | 2013 (Restated) $M |
| Expenses excluding finance costs | 1,273.9 | 13.8 | 1,287.7 | 1,338.5 | 13.9 | 1,352.4 |
| Profit before income tax | 363.8 | (13.8) | 350.0 | 499.2 | (13.9) | 485.3 |
| Income tax expense | (58.7) | 4.1 | (54.6) | (149.1) | 4.1 | (145.0) |
| Profit for the year | 305.1 | (9.7) | 295.4 | 350.1 | (9.8) | 340.3 |
| **Other comprehensive income** | | | | | | |
| Superannuation defined benefits actuarial gains/(losses) | 5.8 | 13.8 | 19.6 | 45.5 | 13.9 | 59.4 |
| Income tax relating to items not reclassified | (1.7) | (4.1) | (5.8) | (13.7) | (4.1) | (17.8) |
| Total other comprehensive income for the year, net of tax | (0.4) | 9.7 | 9.3 | 31.5 | 9.8 | 41.3 |

The revised standard has also changed the accounting for the Corporation's annual leave obligations. As the Corporation does not expect all annual leave to be taken within 12 months of the respective service being provided, annual leave is now classified as long-term employee benefits. This changed the measurement of these obligations, as they are now measured on a discounted basis. However, the impact of this change was immaterial since the majority of the leave is still expected to be taken within a short period after the end of the reporting year.

**(w) Provisions**

A provision is recognised in the Statement of Financial Position when the Corporation 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.

**(x) Other liabilities**

*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.

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# Notes to Financial Statements

For the year ended 30 June 2014

## 1 Significant Accounting Policies (continued)

### (y) 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.

### (z) Reserves

*Asset revaluation reserve*

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

*Hedge revaluation reserve*

The hedge revaluation 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 statement of comprehensive income.

### (aa) Finance costs

Finance costs are recognised as expenses in profit and loss 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;
- Discount expense applied to provisions and amortised assets
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- a government loan guarantee fee assessed by NSW Treasury.

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. 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 $13.5 million (2013: $12.0 million), and the capitalisation rate used to determine this amount was at a weighted average interest rate of 7.4% (2013: 7.8%).

### (bb) Leases

*As lessee*

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

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

The Corporation 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 Corporation 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 profit and loss and the costs of repairs and maintenance incurred on these properties for the year are recognised as an expense in profit and loss.

## 1 Significant Accounting Policies (continued)

**(cc) 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 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.

**(dd) 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 and loss.

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

**(ee) 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 2014 reporting period.

The Corporation's assessment of the impact of the 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 AASB 9 *Financial Instruments,* as issued, reflects the first phase of the IASB's work on the replacement of AASB 139 and applies to classification and measurement of financial assets and financial liabilities as defined in AASB 139. The standard was initially effective for annual periods beginning on or after 1 July 2013, but as a result of Amendments to AASB 9 Mandatory Effective Date of AASB 9 and Transition Disclosures, issued in December 2011 (AASB2012-16), the mandatory effective date is yet to be determined. In subsequent phases, the AASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of AASB 9 will have an effect on the classification and measurement of the Corporation's financial assets, but will not have an impact on classification and measurements of the Corporation's financial liabilities. The Corporation will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

- AASB 9, 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 and 1038 and Interpretations 2, 5, 10, 12, 19 and 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 2018. The Corporation has not elected to adopt this standard early. The Corporation will apply these standards in the 2018/19 financial statements.
- AASB 2012-3 is applicable to annual reporting periods beginning on or after 1 July 2014.
- The Corporation has not elected to adopt these standards early. The Corporation will apply these standards in the period determined by the Australian Accounting Standards Board.

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

# Notes to Financial Statements

For the year ended 30 June 2014

## 2 Revenue

| | 2014<br>$M | 2013<br>$M |
|---|---|---|
| Network use of system revenue | 1,733.7 | 1,875.5 |
| Public lighting system charge | 9.0 | 8.9 |
| Capital contributions | 69.3 | 65.4 |
| Rental income | 0.5 | 0.5 |
| Interest income | 0.3 | 6.1 |
| Other business revenue * | 39.4 | 49.8 |
| Transitional services agreement | 13.0 | 60.8 |
| Solar Bonus Rebate Scheme recovery ** | 99.9 | 97.3 |
| | **1,965.1** | **2,164.3** |

* Other business revenue includes connection fees, external sales of stores, metering services, and revenues from sales and services in other areas.

** Solar bonus scheme provides a feed-in tariff payment to households for small-scale solar system generation for a period to 31 December 2016. The Corporation is reimbursed the amount paid to households under the NSW Government's Solar Bonus Scheme Reimbursement Program (SBSRP) when conditions of the scheme are met.

## 3 Expenses

| | Note | 2014 $M | 2013 $M |
|---|---|---|---|
| **(a) Expenses excluding finance costs** | | | |
| Expenses relating to operating activities: | | | |
| Distribution of energy and other services | | 523.0 | 561.2 |
| Employee benefits expense | | 346.5 | 360.6 |
| Bad debts and impairment of trade receivables | | 0.4 | 0.4 |
| Operating leases rental | | 8.5 | 8.6 |
| External consultants | | 1.0 | 0.3 |
| Superannuation expense (defined benefit plan) recognised in profit for the year | 25(f) | 21.5 | 23.2 |
| Superannuation expense (defined contribution plan) | | 46.7 | 48.9 |
| Total expenses relating to operating activities | | 947.6 | 1,003.2 |
| | | | |
| Depreciation of property, plant and equipment | 10 | 322.7 | 313.2 |
| Plant and equipment depreciation capitalised * | | (10.5) | (14.6) |
| Depreciation expense | | 312.2 | 298.6 |
| Amortisation of intangible assets | 11 | 22.5 | 25.8 |
| Impairment losses on non financial assets | | | |
| Write off of non financial assets | 11 | – | 0.7 |
| Impairment losses on non financial assets ** | | 5.4 | 24.1 |
| Total impairment losses on non-financial assets | | 5.4 | 24.8 |
| **Total expenses excluding finance costs** | | **1,287.7** | **1,352.4** |
| **(b) Finance costs** | | | |
| Interest and finance charges paid/payable | | 326.0 | 324.5 |
| Unwinding of discount on provisions | | 1.4 | 1.4 |
| Net realised (gains)/losses on interest futures | | – | 0.7 |
| **Finance costs recognised in the Statement of Comprehensive Income** | | **327.4** | **326.6** |
| **(c) Maintenance expenses** | | | |
| Employee benefits expense | | 74.6 | 81.9 |
| Contracted labour and other (non-employee related) expenses | | 336.2 | 374.8 |
| | | **410.8** | **456.7** |

* Plant and equipment depreciation charge. The depreciation of heavy vehicles and the related plant and equipment used in the construction and maintenance of electricity network is allocated to cost of projects. Costs allocated to capital projects are recognised in the statement of comprehensive income as depreciation of the constructed network assets.

** The expense reflects the impairment of generation, water and contestable metering assets, and investment property, net of asset revaluation reversals.

# Notes to Financial Statements

For the year ended 30 June 2014

## 4 Income tax expense

| | Note | 2014 $M | 2013 $M |
|---|---|---|---|
| **Recognised in profit and loss** | | | |
| **Current tax expense** | | | |
| Current year | | 129.1 | 170.2 |
| Adjustments for prior years | | (1.5) | (7.3) |
| | | 127.6 | 162.9 |
| **Deferred tax expense** | | | |
| Origination and reversal of temporary differences | | (74.1) | (23.8) |
| Under provided in prior years | | 1.1 | 5.9 |
| | | (73.0) | (17.9) |
| **Total income tax expense in profit and loss** | | **54.6** | **145.0** |
| **Numerical reconciliation between tax expense and pre-tax net profit** | | | |
| Profit before tax | | 350.0 | 485.3 |
| Income tax using domestic corporation tax rate of 30% (2013: 30%) | | 104.9 | 145.6 |
| **Increase/(decrease) in income tax expense due to:** | | | |
| (Under)/over provided in previous years | | (0.4) | (1.3) |
| Change in tax treatment of accrued unread meters income | 5 | (50.0) | – |
| Non-deductible expenses | | 0.1 | 0.7 |
| **Income tax expense on pre-tax net profit** | | **54.6** | **145.0** |
| **Income tax recognised in other comprehensive income** | | | |
| Items not to be reclassified subsequently to profit or loss: | | | |
| Actuarial gains or losses on defined benefits superannuation | | 5.9 | 17.8 |
| Revaluation reversal – property, plant and equipment | | (0.6) | – |
| | | 5.3 | 17.8 |
| Items to be reclassified subsequently to profit or loss: | | | |
| Revaluation of hedge derivatives | | (1.3) | (0.1) |
| **Income tax charged directly to other comprehensive income** | | **4.0** | **17.7** |

## 5 Deferred tax assets/liabilities

| | 2014 $M | 2013 $M |
|---|---|---|
| **Recognised deferred tax assets and liabilities** | | |
| Deferred tax assets and liabilities are attributable to the following: | | |
| Property, plant and equipment | 412.2 | 448.8 |
| Employee benefits | (48.5) | (53.9) |
| Financial instruments | (1.2) | 1.2 |
| Provisions | (97.7) | (101.3) |
| Green emissions | (0.1) | 0.1 |
| Unread meters income | – | 37.6 |
| Other items | (1.3) | (0.1) |
| **Net tax (assets) liabilities** | **263.4** | **332.4** |

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

| | 1 July 2013 $M | Recognised in profit or loss $M | Recognised in other comprehensive income $M | 30 June 2014 $M |
|---|---|---|---|---|
| **Movement in temporary differences during the year** | | | | |
| Property, plant and equipment | 448.8 | (36.0) | (0.6) | 412.2 |
| Employee benefits | (53.9) | (0.5) | 5.9 | (48.5) |
| Financial instruments | 1.2 | (1.1) | (1.3) | (1.2) |
| Provisions | (101.3) | 3.6 | – | (97.7) |
| Green emission rights | 0.1 | (0.2) | – | (0.1) |
| Unread meters income | 37.6 | (37.6) | – | – |
| Other items | (0.1) | (1.2) | – | (1.3) |
| | **332.4** | **(73.0)** | **4.0** | **263.4** |

# Notes to Financial Statements

For the year ended 30 June 2014

| | 1 July 2012 $M | Recognised in profit or loss $M | Recognised in other comprehensive income $M | 30 June 2013 $M |
|---|---|---|---|---|
| **Movement in temporary differences during the year** | | | | |
| Property, plant and equipment | 486.5 | (37.7) | – | 448.8 |
| Employee benefits | (71.0) | (0.7) | 17.8 | (53.9) |
| Financial instruments | 1.3 | – | (0.1) | 1.2 |
| Provisions | (107.6) | 6.3 | – | (101.3) |
| Green emission rights | 0.3 | (0.2) | – | 0.1 |
| Unread meters income | 23.3 | 14.3 | – | 37.6 |
| Other items | (0.2) | 0.1 | – | (0.1) |
| | **332.6** | **(17.9)** | **17.7** | **332.4** |

Essential Energy has for many years, treated certain income from network distribution services as being derived for income tax purposes in the years in which the meters are read and the related income is billed. This treatment reflects the consideration of expert advice and relevant case law.

This treatment resulted in the recognition of a deferred tax liability of $37.6 million as at 30 June 2013.

Following a consultation process conducted between the Australian Taxation Office (ATO) and the electricity industry, Essential Energy and the ATO have agreed a revised approach effective from the 2014 year of income whereby Essential Energy`s tax treatment transitions to the accrual method which is used for accounting. The resultant changeover adjustment in the 2014 year of income giving rise to a reduction in tax payable of $12.5 million.

The change in tax treatment also results in an income tax benefit of $50.0 million  which reflects the tax effect on the closing unread meters balance in the 2009 year which falls outside the statutory amendment period and which is accordingly not subject to tax. This change in tax treatment has resulted in a reduction in effective tax rate for the year ended 30 June 2014 from 29.9% to 15.6%. The ATO has confirmed that in the circumstances penalties and interest are not applicable.

## 6 Cash and cash equivalents

| | 2014 $M | 2013 $M |
|---|---|---|
| Cash and bank balances | 3.3 | 1.7 |
| Money market securities and deposits | – | 37.8 |
| Restricted cash and deposits | – | 13.1 |
| **Cash and cash equivalents** | **3.3** | **52.6** |

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

Up to January 2014 restricted cash and deposits were held on behalf of the acquirer of Essential Energy's retail operations as part of the Transition Services Agreement (TSA). These cash resources were not available to finance the Corporation's day to day operations and were due and payable to the acquirer of Essential Energy's Retail operations as part of the TSA.

## 7 Trade and other receivables

| | 2014 $M | 2013 $M |
|---|---|---|
| **Current** | | |
| Trade receivables | 146.5 | 133.1 |
| Less: impairment of trade receivables | (0.1) | (0.1) |
| | 146.4 | 133.0 |
| Accrued revenue from unread meters | 221.9 | 241.4 |
| | 368.3 | 374.4 |
| Prepayments | 15.5 | 15.4 |
| Other receivables | 43.7 | 45.8 |
| Less: impairment of other receivables | (0.3) | (0.3) |
| | **427.2** | **435.3** |
| The movement in the impairment of trade receivables is detailed below: | | |
| Opening balance at 1 July | 0.4 | 0.4 |
| – additional provisions | 0.3 | 0.4 |
| – amounts used | (0.3) | (0.4) |
| Closing balance at 30 June | **0.4** | **0.4** |

| | | |
|---|---|---|
| **Non-current** | | |
| Receivables | 1.5 | 1.1 |
| Prepayments | – | 0.1 |
| | **1.5** | **1.2** |

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 2014

## 8 Derivative financial instruments

| | 2014 $M | 2013 $M |
|---|---|---|
| **Derivative financial liabilities – current** | | |
| Forward interest rate contracts | 4.2 | – |

## 9 Investment property

| | 2014 $M | 2013 $M |
|---|---|---|
| Opening carrying value | 4.1 | 3.8 |
| Additions | 2.2 | – |
| Change in fair value to profit and loss | (1.8) | 0.3 |
| | **4.5** | **4.1** |

## 10 Property, plant and equipment

| | Note | Land and Buildings $M | System Assets $M | Plant and equipment $M | Total $M |
|---|---|---|---|---|---|
| **At 1 July 2013 – fair value** | | | | | |
| Gross carrying amount | | 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** |
| **At 30 June 2014 – fair value** | | | | | |
| Gross carrying amount | | 215.0 | 7,079.9 | 813.7 | 8,108.6 |
| Accumulated depreciation and impairment * | | (5.0) | (147.7) | (523.6) | (676.3) |
| **Net carrying amount** | | **210.0** | **6,932.2** | **290.1** | **7,432.3** |
| **Year ended 30 June 2014** | | | | | |
| Net carrying amount at start of year | | 195.8 | 6,614.2 | 306.9 | 7,116.9 |
| Additions | | 21.6 | 582.5 | 49.3 | 653.4 |
| Disposals | | (1.9) | – | (7.7) | (9.6) |
| Depreciation expense | 3(a) | (3.5) | (260.8) | (58.4) | (322.7) |
| Impairment | | (2.0) | (3.7) | – | (5.7) |
| **Net carrying amount at end of year** | | **210.0** | **6,932.2** | **290.1** | **7,432.3** |
| **At 1 July 2012 – fair value** | | | | | |
| Gross carrying amount | | 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** | | | | | |
| Gross carrying amount | | 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 expense | 3(a) | (4.1) | (244.6) | (64.5) | (313.2) |
| Impairment | | – | (24.1) | – | (24.1) |
| **Net carrying amount at end of year** | | **195.8** | **6,614.2** | **306.9** | **7,116.9** |

* accumulated depreciation on Network system assets and land and buildings was eliminated against gross carrying value on revaluation at 30 June 2014. Remaining amounts, other than plant and equipment, relate to the Water assets which were not revalued.

# Notes to Financial Statements

For the year ended 30 June 2014

## 10 Property, plant and equipment (continued)

| **Assets under construction** | 2014 $M | 2013 $M |
|---|---|---|
| During the year ended 30 June 2014, the Corporation continued with its Network Capital Program. At the statement of financial position date, the construction in progress totalled: | | |
| Land and buildings | 31.8 | 19.6 |
| System assets | 657.3 | 820.2 |
| Plant and equipment | 26.5 | 18.3 |

| **Historic cost of revalued assets** | | |
|---|---|---|
| The carrying amount of assets had they been carried under the cost model is: | | |
| Land and buildings | 176.9 | 162.7 |
| System assets | 5,910.3 | 5,469.3 |
| Plant and equipment | 290.1 | 306.9 |

## 11 Intangible assets

| | Note | Easements $M | Computer software $M | Total $M |
|---|---|---|---|---|
| **At 1 July 2013** | | | | |
| At cost | | 60.9 | 229.3 | 290.2 |
| Accumulated amortisation and impairment | | – | (150.5) | (150.5) |
| **Net carrying amount** | | **60.9** | **78.8** | **139.7** |
| **At 30 June 2014** | | | | |
| At cost | | 67.4 | 247.9 | 315.3 |
| Accumulated amortisation and impairment | | – | (173.2) | (173.2) |
| **Net carrying amount** | | **67.4** | **74.7** | **142.1** |
| **Year ended 30 June 2014** | | | | |
| Net carrying amount at start of year | | 60.9 | 78.8 | 139.7 |
| Acquisitions | | 6.5 | 18.4 | 24.9 |
| Disposals | | – | – | – |
| Amortisation | 3(a) | – | (22.5) | (22.5) |
| **Net carrying amount at end of year** | | **67.4** | **74.7** | **142.1** |
| **At 1 July 2012** | | | | |
| At cost | | 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** | | | | |
| At cost | | 60.9 | 229.3 | 290.2 |
| Accumulated amortisation and impairment | | – | (150.5) | (150.5) |
| **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 | 11.9 | 24.5 |
| Amortisation | 3(a) | – | (25.8) | (25.8) |
| Impairment loss | | – | (0.7) | (0.7) |
| **Net carrying amount at end of year** | | **60.9** | **78.8** | **139.7** |

| **Assets under construction** | **2014 $M** | **2013 $M** |
|---|---|---|
| During the year ended 30 June 2014, the Corporation continued with its Capital Program. At the statement of financial position date, the construction in progress totalled: | | |
| Computer software | 38.4 | 32.2 |
| Easements | 26.7 | 41.1 |

# Notes to Financial Statements

For the year ended 30 June 2014

## 12 Trade and other payables

| | 2014 $M | 2013 $M |
|---|---|---|
| Trade payables | 14.1 | 9.0 |
| Interest payable | 148.2 | 152.3 |
| Accruals | 118.6 | 107.2 |
| Other payables | 41.9 | 44.9 |
| | **322.8** | **313.4** |

Details regarding credit risk and liquidity risk including a maturity analysis of the above payables are disclosed in note 16.

## 13 Borrowings

**Current liabilities**

| | | |
|---|---|---|
| Current portion of loans | 458.8 | 60.0 |

**Non-current liabilities**

| | | |
|---|---|---|
| Non-current portion of loans | 4,237.7 | 4,275.8 |

Loans are unsecured and repayable in full on various maturity dates. For more information about the Corporation's exposure to interest rate risk see note 16.

## 14 Provisions

| | Dividends $M | Employee benefits $M | Environmental and asset rectification $M | Workers' compensation $M | Restructuring $M | Other $M | Total $M |
|---|---|---|---|---|---|---|---|
| Opening balance at 1 July 2013 | 240.8 | 437.6 | 23.9 | 12.0 | 37.9 | 2.8 | 755.0 |
| – additional provision | 133.9 | 46.3 | 2.4 | 2.3 | 19.7 | 4.2 | 208.8 |
| – amounts used | (240.8) | (66.0) | (2.8) | (0.9) | (8.5) | (0.6) | (319.6) |
| – amounts reversed | – | (8.7) | (0.5) | (7.8) | (8.1) | – | (25.1) |
| – unwinding discount | – | – | 0.4 | 0.1 | 0.8 | – | 1.3 |
| **Closing balance at 30 June 2014** | **133.9** | **409.2** | **23.4** | **5.7** | **41.8** | **6.4** | **620.4** |
| Current | 133.9 | 211.8 | 10.2 | 3.0 | 10.6 | 5.4 | 374.9 |
| Non-Current | – | 197.4 | 13.2 | 2.7 | 31.2 | 1.0 | 245.5 |
| **Closing balance at 30 June 2014** | **133.9** | **409.2** | **23.4** | **5.7** | **41.8** | **6.4** | **620.4** |
| Current | 240.8 | 221.4 | 11.7 | 4.8 | 11.8 | 2.8 | 493.3 |
| Non-Current | – | 216.2 | 12.2 | 7.2 | 26.1 | – | 261.7 |
| **Closing balance at 30 June 2013** | **240.8** | **437.6** | **23.9** | **12.0** | **37.9** | **2.8** | **755.0** |

(i) **Dividends**

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 dividend is calculated in accordance with TPP14-04 Financial Distribution Policy for Government Businesses. It is based on the Government's dividend cap policy for the distribution and transmission sector of State Owned Corporations and negotiations between NSW Treasury on behalf of the shareholders and Essential Energy prior to 30 June 2014. The prior year dividend payable of $240.8 million was calculated 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. The dividend payable of $133.9 million was approved by the share holding Ministers before 30 June 2014 and was calculated based on forecast profit adjusted for certain non-cash items.

(ii) **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, annual leave, 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(s). All other employee benefit amounts expected to be settled within 12 months have been measured at the amounts expected to be paid when the liabilities are settled.

The non-current provision for employee benefits also includes $163.2 million (2013: $180.8 million) relating to the Defined Benefits Superannuation liability as detailed in note 25.

*continued next page*

# Notes to Financial Statements

For the year ended 30 June 2014

(iii) **Environmental and asset rectification**

Provisions for environmental rectification work are expected to be settled between 2015 and 2021. In respect of obligations to be settled by 2015 the effect of the time value of money has been deemed to be immaterial. Where settlement is expected by 2021 a discount rate of 3.2% has been applied. A provision is included for the asset remediation of the Corporation's heritage listed sites to comply with the relevant legislation. The obligation is expected to be settled by 2016. A discount rate of 2.5% is applicable to this provison.

(iv) **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 2013–14 financial year cover. A discount rate of 2.9% has been applied.

During 2013–14, a consulting actuary, David A. Zaman, undertook the annual investigation of the Corporation's estimated liability for workers' compensation as at 30 June 2014. The liability is measured as the present value of future payments at 30 June 2014 and was estimated to be $5.7 million (2013: $12.0 million).

(v) **Restructure**

A provision for retail restructure was recognised during 2011. The provision relates to the sale of the Retail business and includes fixed costs expected to be incurred subsequent to the completion of the TSA in October 2013 (stranded costs refer note 1(e)) $24.0 million (2013: $34.1 million) and data migration $0.0 million (2013: $2.4 million). The settlement of all obligations is expected by 2021 and a discount rate of 3.2% has been applied. A provision for network restructure was recognised during 2014. The provision relates to the NSW Electricity Industry Reform program and includes fixed costs of $17.1 million (2013: Nil) expected as a result of reforms implemented at year end. The settlement of all obligations is expected by 2020 and a discount rate of 2.95% has been applied. A further provision of $0.6 million (2013: $1.3 million) exists in relation to redundancies agreed with employees as a result of the Electricity Industry reform.

(vi) **Other**

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.

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

The current provision for employee benefits includes accrued annual leave, preserved 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 for accrued annual leave, vesting sick leave and unconditional entitlements to long service leave of $50.8 million (2013: $55.4 million) is presented as current, since the Corporation does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Corporation 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.

| | 2014<br>$M | 2013<br>$M |
|---|---|---|
| Current leave obligations expected to be settled after 12 months | 16.6 | 22.1 |

## 15 Other liabilities

| | 2014<br>$M | 2013<br>$M |
|---|---|---|
| **Current** | | |
| Prepaid capital contributions | 7.0 | 10.5 |

## 16 Financial Instruments disclosure

### (a) Financial risk management objectives and policies

Financial instruments 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 Corporation'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.

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.

Derivative financial instruments can be used to trade or hedge exposure to fluctuations in foreign exchange rates, commodity prices, interest rates and energy prices. Derivative financial instruments are not held for speculative or trading purposes.

### (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 income from unread meters of the Corporation 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 2014 is detailed below:

| | 2014<br>$M | 2013<br>$M |
|---|---|---|
| Less than 3 months overdue | 1.4 | 2.6 |
| 3 months to 6 months overdue | 0.3 | 0.1 |
| Later than 6 months overdue | 0.6 | 0.7 |
| | **2.3** | **3.4** |

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# Notes to Financial Statements

For the year ended 30 June 2014

## 16 Financial Instruments disclosure (continued)

The Corporation's credit risk on other assets is minimised as it transacts predominantly with other corporations in the energy industry. Where the counter-party is a non-Government owned corporation its credit worthiness is established in accordance with Essential Energy'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.

### (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 Corporation is exposed to foreign currency risk in respect of purchases of capital equipment that are denominated in a currency other than the AUD.

The Corporation uses forward exchange contracts to hedge its foreign currency risk for all foreign exchange exposures that exceed $A500,000 in value (2013: $A50,000). At balance date, for both current and prior year, there is no material exposure to any foreign currency.

There are no other significant assets or liabilities denominated in currencies other than AUD.

### (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 Corporation adopts a policy of ensuring that its debt portfolio is managed within a risk framework including approved duration ranges and debt maturity profiles. Interest rate risk is managed through a combination of fixed rate long duration debts, inflation linked securities, 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:

| | 2014 $M | 2013 $M |
|---|---|---|
| **Carrying amount** | | |
| **Fixed rate** | | |
| Financial (liabilities) | (3,894.1) | (3,660.8) |
| | **(3,894.1)** | **(3,660.8)** |
| **Floating rate** | | |
| Financial assets | 3.3 | 39.6 |
| Financial liabilities | (42.5) | – |
| | **(39.2)** | **39.6** |
| **Inflation Indexed** | | |
| Financial liabilities | (760.0) | (675.0) |
| | **(760.0)** | **(675.0)** |

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. The Corporation has 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 an impact on the Corporation's profit before tax of $0.4 million (2013: nil). In addition the Corporation has variable rate financial assets at year end and it is estimated that a change in interest rates by one percentage point at reporting date would have an immaterial impact on the Corporation's profit before tax (2013: $0.4 million).

**(e) Capital risk management**

Consistent with NSW Treasury Accounting Policy *Capital Structure Policy for Government Businesses* [TPP02-7] which is a component of the NSW Government's Commercial Policy Framework, the Corporation'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 Corporation's capital structure. The Corporation monitors gearing levels and ratios. The key ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus net debt.

| | 2014<br>$M | 2013<br>$M |
|---|---|---|
| Total loans | 4,696.5 | 4,335.8 |
| Less: cash and cash equivalents | (3.3) | (39.5) |
| Net debt | 4,693.2 | 4,296.3 |
| Total equity | 2,117.5 | 1,946.7 |
| Total capital | 6,810.7 | 6,243.0 |
| Gearing ratio | 68.9% | 68.8% |

The Corporation's agreed capital structure and range is reviewed every year as part of the SCI "Statement of Corporate Intent" process. 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) 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(q), 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 (2013: $5,381.1 million) of which $687.0 million was unused as at 30 June 2014 (2013: $1,045.3 million). There are also approvals for a TCorp Come and Go Facility limit of $100.0 million (2013: $100.0 million) and a bank overdraft facility limit of $15.0 million (2013: $15.0 million) to fund working capital. Planned future capital expenditure will be funded through TCorp borrowings. Future committed expenditure is disclosed in Note 22.

While current liabilities are greater than current assets as at 30 June 2014 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 $97.5 million (2013 $100.0 million) unused and the bank overdraft facility limit had $15.0 million (2013 $15.0 million) unused as at 30 June 2014.

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# Notes to Financial Statements

For the year ended 30 June 2014

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% of the Corporation's short term borrowings can mature in less than 1 year and no more than 20% of its long term borrowings can mature in any rolling 12 month period beyond 1 year. Furthermore, the combined maximum portion of total debt that has a maturity of less than 1 year cannot exceed 25%. At 30 June 2014, 9.8% of the Corporation's debt will mature in less than one year (1.4% in 2013). The Corporation's funding requirement and strategy is reviewed annually and monitored on an ongoing basis. During the current and prior years, there were no defaults or breaches on any loans payable and no assets have been pledged as collateral. The Corporation's exposure is deemed insignificant based on prior periods' data and current assessment of risk.

The Corporation maintains a balance between continuity of funding and flexibility through the use of bank overdrafts and debt. The Corporation's funding requirement and strategy is reviewed annually and monitored on an ongoing basis. The Corporation manages debt via a portfolio approach. At 30 June 2014 the weighted average life of the Corporation's debt portfolio was within the policy limit approved by the Board.

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

| | Carrying amount $M | Contractual cash flows Total $M | 1 year or less $M | 1–5 years $M | More than 5 years $M |
|---|---|---|---|---|---|
| **30 June 2014** | | | | | |
| **Derivative financial liabilities** | | | | | |
| Forward interest rate contracts | 4.2 | 4.2 | 0.5 | 2.3 | 1.4 |
| | **4.2** | **4.2** | **0.5** | **2.3** | **1.4** |
| **Non derivative financial liabilities** | | | | | |
| Fixed rate loans | 3,894.1 | 5,145.6 | 420.7 | 2,411.8 | 2,313.0 |
| Floating rate loans | 42.5 | 43.1 | 43.1 | – | – |
| Inflation indexed loans | 760.0 | 1,182.6 | 21.8 | 68.8 | 1,092.0 |
| Trade and other payables (excluding statutory payables) | 304.3 | 304.3 | 304.3 | – | – |
| | **5,000.9** | **6,675.6** | **789.9** | **2,480.6** | **3,405.0** |
| **30 June 2013** | | | | | |
| **Non derivative financial liabilities** | | | | | |
| Fixed rate loans | 3,660.8 | 4,977.6 | 271.2 | 2,307.7 | 2,398.6 |
| Inflation indexed loans | 675.0 | 1,126.3 | 19.3 | 66.9 | 1,040.1 |
| Trade and other payables (excluding statutory payables) | 284.7 | 284.7 | 284.7 | – | – |
| | **4,620.5** | **6,388.6** | **575.2** | **2,374.7** | **3,438.7** |

*Note: The amounts disclosed above for loans are the contractual undiscounted cash flows. These disclosed contractually committed cash flows will not differ from the timing and the amounts expected to be incurred for these liabilities, however liabilities will change for floating loans and inflation indexed loans due to changes in market rates and CPI inflation rates.*

**Cash flow hedges**

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and the profit and loss impact.

| | Carrying amount $M | Expected cash flows and profit and loss impact $M | 1 year or less $M | 1–5 years $M | More than 5 years $M |
|---|---|---|---|---|---|
| **30 June 2014** | | | | | |
| Forward interest rate contracts – liabilities | 4.2 | 4.2 | 0.5 | 2.3 | 1.4 |
| The Corporate had no cashflow hedges at 30 June 2013. | | | | | |

## 17 Fair value measurements

This note provides information about how the Corporation determines fair value of all assets and liabilities for which fair value is measured or disclosed in the financial statements.

**(a) Fair value hierarchy**

*(i) Recognised fair value measurements*

The following table presents the Corporation's assets and liabilities measured and recognised at fair value at 30 June 2014. Comparative information for non-financial assets has not been provided as permitted by the transitional provisions of the new rules.

| | Notes | Level 1 $M | Level 2 $M | Level 3 $M | Total $M |
|---|---|---|---|---|---|
| **30 June 2014** | | | | | |
| **Recurring fair value measurements** | | | | | |
| **Non-financial assets** | | | | | |
| System assets | | – | – | 6,932.2 | 6,932.2 |
| Land and buildings | | – | – | 210.0 | 210.0 |
| Investment properties | | – | 4.5 | – | 4.5 |
| **Total non-financial assets** | | **–** | **4.5** | **7,142.2** | **7,146.7** |
| **Financial liabilities** | | | | | |
| Derivative financial instruments | | – | 4.2 | – | 4.2 |
| **Total Financial liabilities** | | **–** | **4.2** | **–** | **4.2** |
| **30 June 2013** | | | | | |
| **Recurring fair value measurements** | | | | | |
| **Financial assets** | | | | | |
| TCorp Investments | | – | 37.8 | – | 37.8 |
| **Total financial assets** | | **–** | **37.8** | **–** | **37.8** |
| **Non–financial assets** | | | | | |
| System assets | | – | – | 6,614.2 | 6,614.2 |
| Land and buildings | | – | 195.8 | – | 195.8 |
| Investment properties | | – | 4.1 | – | 4.1 |
| **Total non–financial assets** | | **–** | **199.9** | **6,614.2** | **6,814.1** |

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements refer b) below.

The Corporation's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

*(ii) Disclosed fair values*

The Corporation also has a number of assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes.

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# Notes to Financial Statements

For the year ended 30 June 2014

*Receivables and payables*

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

*Interest bearing loans and borrowings*

Fair value is calculated based on discounted expected future principal and interest cash flows at the current market interest rates that are available to the Corporation for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant (level 2).

*Interest rates used for determining fair value*

The Corporation uses the government yield curve as at 30 June 2014 plus an adequate constant credit spread to discount financial instruments. The interest rates used are in the following ranges:

| | 2014 | 2013 |
|---|---|---|
| Loans and borrowings | 2.5% – 4.5% | 2.6% – 5.0% |

*Deposits*

Deposits, included in trade and other payables, 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.

*(iii) Valuation techniques used to derive level 2 and level 3 fair values*

The Corporation measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Forward Interest Rate Contracts
- TCorp Investments
- System assets
- Land and buildings
- Investment properties.

*(iv) Recurring fair value measurements*

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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 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.

*TCorp Investments*

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.

*Investment properties*

The Corporation obtains independent valuations annually. The valuation is a market based valuation taking into account rates of returns and sales of similar properties.

*System assets and land and buildings*

System assets and land and buildings are valued using techniques described in note 1(l). All resulting fair value estimates for system assets and land and buildings are included in level 3.

## 17 Fair value measurements (continued)

**(b) Fair value measurements using significant unobservable inputs (level 3)**

The following table presents the changes in level 3 items for the periods ended 30 June 2014 and 2013 for recurring fair value measurements:

| Assets | System assets $M | Land and buildings $M | Total $M |
|---|---|---|---|
| **Opening balance 1 July 2012** | 6,193.6 | – | 6,193.6 |
| Acquisitions | 690.3 | – | 690.3 |
| Disposals | (1.0) | – | (1.0) |
| Depreciation and impairment | (268.7) | – | (268.7) |
| **Closing balance 30 June 2013** | **6,614.2** | **–** | **6,614.2** |
| Adoption of AASB 13 | – | 195.8 | 195.8 |
| Acquisitions | 582.5 | 21.6 | 604.1 |
| Disposals | – | (1.9) | (1.9) |
| Depreciation and impairment | (264.5) | (5.5) | (270.0) |
| Gains recognised in other comprehensive income | – | – | – |
| Gain recognised in other income | – | – | – |
| **Closing balance 30 June 2014** | **6,932.2** | **210.0** | **7,142.2** |

*(i) Transfers between levels 2 and 3 and changes in valuation techniques*

In 2014 the Corporation transferred land and buildings from level 2 into level 3 as a result of the change from a market approach to an income approach due to the market approach not representing the assets' highest and best use given the specialised nature of the buildings.

Other than described above, there were no changes in valuation techniques during the year.

*(ii) Valuation inputs and relationships to fair value*

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

| Description | Fair value at 30 June 2014 $M | Unobservable inputs | Range of inputs (probability weighted average) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|
| System assets and land and buildings | 7,142.1 | Discount rate | 7.5% – 8.5% (8.0%) | The higher the discount rate, the lower the fair value. A 50 basis point increase/decrease in the discount rate results in a $148.5 million decrease/ increase in the fair value. |
| | | 5 year forecast capital expenditure | +/– 10% ($1,925 million) | The higher the capital expenditure the higher the fair value. A 10% movement in the capital expenditure results in a $5.2 million change in the fair value. |

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# Notes to Financial Statements

For the year ended 30 June 2014

*(iii) Valuation processes*

The finance department of the Corporation includes a team that performs the valuations of system assets and land and buildings required for financial reporting purposes, including level 3 fair values. This team reports directly to the General Manager Finance and Compliance. Discussions of valuation processes and results are held between the General Manager Finance and Compliance and the valuation team at least once every year, in line with the Corporation's reporting dates. A comprehensive valuation was performed as at 30 June 2014, the Corporation engaged external, independent and qualified valuers to perform a review of the valuation. A comprehensive valuation is performed and reviewed every three years.

The Corporation engages external, independent and qualified valuers to determine the fair value of the Corporation's investment properties at the end of every financial year. As at 30 June 2014, the fair value of the investment property has been determined by Opteon.

The main level 3 inputs used by the Corporation are derived and evaluated as follows:

- a discounted cash flow model is used to perform a value in use calculation using inputs such as future cash flows and discount rates to determine fair value (refer to Note 1(l)(i)). The cash flow model is used to formulate a discount rate used to discount cash flows which is based upon several inputs, primarily the risk free rate and debt risk premium and adjustments which are made within the model. The risk free rate is observable data based on government bond rates, and the debt risk premium data is obtained from observable data of corporate bond yields and spreads and is adjusted as required for use in the model.
- The forecast capital expenditure represents non-growth capital expenditure expected to be spent between 1 July 2014 and 30 June 2019 and based on latest management estimates.

**(c) Fair values versus carrying amount**

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

| | Note | Carrying Amount 2014 $M | Fair Value 2014 $M | Carrying Amount 2013 $M | Fair Value 2013 $M |
|---|---|---|---|---|---|
| **Financial instruments** | | | | | |
| **Financial assets carried at amortised cost** | | | | | |
| Cash and cash equivalents, excluding restricted cash | 6 | 3.3 | 3.3 | 1.7 | 1.7 |
| Restricted cash | 6 | – | – | 13.1 | 13.1 |
| Trade and other receivables (excluding prepayments) | 7 | 413.1 | 413.1 | 420.0 | 420.0 |
| | | 416.4 | 416.4 | 434.8 | 434.8 |
| **Financial assets carried at fair value** | | | | | |
| TCorp Investments | 6 | 0.0 | – | 37.8 | 37.8 |
| | | 0.0 | – | 37.8 | 37.8 |
| | | **416.4** | **416.4** | **472.6** | **472.6** |
| **Financial assets carried at amortised cost** | | | | | |
| Borrowings | 13 | 4,696.5 | 5,243.1 | 4,335.8 | 4,693.9 |
| Trade and other payables (excluding statutory payables) | 12 | 304.3 | 304.3 | 284.7 | 284.7 |
| | | 5,000.8 | 5,547.4 | 4,620.5 | 4,978.6 |
| **Financial liabilities carried at fair value** | | | | | |
| Forward rate interest contracts | 8 | 4.2 | 4.2 | – | – |
| | | 4.2 | 4.2 | – | – |

## 18 Key management personnel disclosure

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

The following were key management personnel of the Corporation 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)

Dr Peter Dodd [reappointed 1 January 2014]

Ms Laura Reed

Mr Phil Garling

Dr Patrick Strange [appointed 25 November 2013]

Ms Diana Eilert [appointed 23 June 2014]

Mr Vince Graham (Chief Executive Officer)

**Key management personnel remunerations**

In addition to their salaries, the Corporation also provides post employment benefits to Directors and executive officers (see Notes 1(s) and 1(t)). For Directors post employment benefit relates to compulsory superannuation contributions.

The allocation of the NNSW executive management team remuneration to the Corporation 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:

| | 2014<br>$M | 2013<br>$M |
|---|---:|---:|
| Short-term employee benefits | 3.6 | 3.7 |
| Long-term benefits | 0.3 | 0.5 |
| Post-employment benefits | 0.2 | 0.2 |
| Termination benefits | – | 1.2 |
| **Total** | **4.1** | **5.6** |

# Notes to Financial Statements

For the year ended 30 June 2014

## 19 Related parties transactions

*(i) Networks NSW structure*

On 1 July 2012, the Networks NSW (NNSW) operating model commenced with Ausgrid, Endeavour Energy and Essential Energy (DNSPs) having separate Boards with common Directors, a common Chairman and common Chief Executive Officer (CEO). NNSW is not a legal entity.

The Umbrella Cooperation Agreement facilitates cooperation between the energy distributors to enable the identification and delivery of reform and other efficiency measures by acting collectively and co-operatively.

On 27 August 2013 amendments to Energy Services Corporations Act (the governing legislation) were enacted to provide for the appointment of a single Board of Directors as the board of Ausgrid, Endeavour Energy and Essential Energy to act in their best interests as if they formed part of a combined operation.

*(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 Limited.

*(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 particular, in accordance with the Board Charter and the Corporation's Code of Conduct, Directors have declared any potential conflicts of interest in matters discussed at the meetings.

*(iv) Transactions with other related parties*

The proclamation of the Energy Services Corporations Amendment (Distributor Efficiency) legislation discussed above has put Ausgrid, Endeavour Energy and Essential Energy under the control of a single board of Directors. This new requirement means that transactions between these Corporations starting from 27 August 2013 should be disclosed as related party transactions. Transactions before 27 August 2013 are not considered to be between related parties, therefore no comparatives have been disclosed at 30 June 2014. The following transactions occurred with Ausgrid and Endeavour Energy.

| | 2014<br>$M |
|---|---|
| Network use of system income * | 0.4 |
| Management fee recharge income | 2.5 |
| Other income | – |
| **Total related party income** | **2.9** |
| Network use of system expense * | 4.9 |
| Management fee recharge expense | 4.6 |
| Other expense | 0.7 |
| **Total related party expense** | **10.2** |

*representing inter distributor charges.

## 19 Related parties transactions (continued)

*(v) Outstanding balances arising from sales/purchases of goods and services*

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

| | 2014 $M |
|---|---|
| **Current receivables** | |
| – amounts receivable | 0.8 |
| **Current payables** | |
| – amounts payable | 3.2 |

No impairment provision in respect of receivables has been raised in relation to any outstanding balances, and no other expense has been recognised in respect of impaired receivables from related parties.

*(vi) Terms and conditions*

Management fee recharge income and recharge expenses are calculated at a rate which reflects the cost of providing the service, and are made on normal commercial terms and conditions.

Network use of system income recoveries are based on normal commercial terms and conditions. Network use of system income recoveries represent inter distributor charges where Essential Energy supplies electricity to other distribution network service providers (DNSPs), Ausgrid and Endeavour Energy, where the respective DNSPs are not in a position to get supply from a Bulk Supply Point (BSP).

Amounts receivable are unsecured and made on normal commercial terms and conditions. Amounts payable are unsecured and made on normal commercial terms and conditions.

## 20 Remuneration of auditor

| | 2014 $M | 2013 $M |
|---|---|---|
| **Audit Office of New South Wales** | | |
| – Audit of financial statements | 0.4 | 0.4 |
| – Other assurance services | – | – |
| | **0.4** | **0.4** |

## 21 Contingent liabilities and contingent assets

**Land Remediation**

The Corporation has engaged experts to assess the risk of the existence of contamination on sites. The expert has identified a number of sites where the risk of existing contamination is high. These sites are being assessed to determine the existence and extent of contamination. The assessment provides the extent of work and the related costs necessary to remediate the sites. A limited number of sites have been assessed to date, with a provision made for estimated remediation costs. The extent of contamination and cost of remediation of the remaining sites cannot yet be reliably estimated.

# Notes to Financial Statements

For the year ended 30 June 2014

## 22 Capital commitments

| | 2014 $M | 2013 $M |
|---|---|---|
| **Capital commitments** | | |
| – Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities, payable (including GST) | 99.1 | 84.2 |
| | | |
| GST credits | 9.0 | 7.7 |

## 23 Operating leases

| | 2014 $M | 2013 $M |
|---|---|---|
| **Leases as lessee** | | |
| Non-cancellable operating leases are payable as follows: | | |
| Within twelve months | 7.8 | 8.1 |
| Twelve months or longer and not longer than five years | 11.1 | 16.3 |
| Longer than five years (#) | 0.3 | 0.5 |
| **Total (including GST)** | **19.2** | **24.9** |
| | | |
| GST credits | 1.7 | 2.3 |

There are 438 non-cancellable property leases.

- 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 upon renewal will be based on the market value applying at the time

There are no non-cancellable equipment or computer leases.

(#) The leases greater than 5 years are mainly leases with no fixed term contract and are expected to continue for an indefinite period.

| | 2014 $M | 2013 $M |
|---|---|---|
| **Leases as lessor** | | |
| The Corporation leases out its properties, including premises, land and communications towers, under operating lease agreements at market rentals, predominantly on a fixed term basis. The future minimum lease payments under non-cancellable leases are as follows: | | |
| Within twelve months | 1.8 | 1.0 |
| Twelve months or longer and not longer than five years | 4.1 | 2.1 |
| Longer than five years (#) | 0.2 | 0.0 |
| **Total (including GST)** | **6.1** | **3.1** |
| | | |
| GST debits | 0.5 | 0.3 |

During the year ended 30 June 2014 $1.7 million (2013: $1.5 million) was recognised as rental income in profit and loss.
(#) The leases greater than 5 years are mainly leases with no fixed term contract and are expected to continue for an indefinite period.

## 24 Reconciliation of cashflows from operating activities

| | Note | 2014 $M | 2013 $M |
|---|---|---|---|
| **Components of cash and cash equivalents** | | | |
| Cash and cash equivalents | 6 | 3.3 | 52.6 |
| Less: restricted cash | | – | (13.1) |
| | | 3.3 | 39.5 |
| **Reconciliation of cashflows from operating activities** | | | |
| **Profit for the year** | | 295.4 | 340.3 |
| **Add/(less) non-cash items:** | | | |
| Depreciation, amortisation, write off and impairment of non-financial assets | | 348.8 | 363.8 |
| Non cash additions including capital contributions | | (67.2) | (60.0) |
| Net loss (gain) on fair value of investment property | | 1.8 | (0.3) |
| Prepaid superannuation | | 1.5 | (1.7) |
| Net profit on disposal of property, plant and equipment | | 1.2 | (1.7) |
| Deferred Interest (income)/ expense | | 12.2 | – |
| **Changes in assets and liabilities:** | | | |
| Decrease (increase) in unread meters | | 19.5 | (42.7) |
| (Increase)/decrease in other receivables | | (11.5) | (38.7) |
| (Increase)/decrease in inventories | | 4.1 | 5.0 |
| Decrease in restricted cash | | 13.1 | 1.6 |
| Decrease in other assets | | 0.7 | 0.1 |
| Decrease in derivative assets | | – | 13.0 |
| (Decrease)/ increase in accrued operating expenditure | | (2.5) | (60.4) |
| Increase/(decrease) in income tax payable | | (91.2) | 31.3 |
| Decrease in deferred tax liabilities | | (73.0) | (13.9) |
| Increase in other provisions | | (10.1) | (18.0) |
| Increase/(decrease) in other liabilities | | 6.5 | (0.1) |
| **Net cash from operating activities** | | **449.3** | **517.6** |

# Notes to Financial Statements

For the year ended 30 June 2014

## 25 Superannuation – Defined benefits plan

Superannuation benefits apply to the Corporation. The Corporation has defined benefit superannuation plans covering a significant number of employees, which requires contributions to be made to separately administered funds.

### (a) Nature of the benefits provided by the funds

The Energy Industries Superannuation Scheme (EISS) is divided into seven divisions, of which Divisions B, C and D provide defined benefits, that is at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. Divisions B, C and D are closed to new members except for members of eligible schemes who can transfer their entitlements into the Scheme.

In addition the Corporation has defined benefit superannuation plans through the following schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non Contributory Superannuation Scheme (SANCS)

The SAS Trustee Corporation (STC) Pooled Fund (the Pooled Fund) holds in trust the investments of the above closed NSW public sector superannuation schemes. 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. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal.

In addition, the Corporation had one defined benefit member in the Electricity Supply Industry Superannuation Fund (Qld) (ESISF) at 30 June 2013. The Corporation no longer has any current employees in the ESISF defined benefit plan as at 30 June 2014 and there is no legal responsibility to cover any deficits that exist in the plan.

In respect of EISS the disclosures below are prepared in relation to Divisions B, C and D only, these Divisions together with the above schemes are referred to collectively as “the Schemes” hereafter.

### (b) Description of the regulatory framework

**EISS**

EISS was established on 30 June 1997 by a Trust Deed made under an Act of the NSW Parliament, for the purpose of providing retirement benefits for employees of certain Energy Industries bodies in NSW.

EISS is regulated primarily by the Superannuation Industry (Supervision) Act 1993 (Cth) (“the SIS legislation”), but is also subject to regulation under the Superannuation Administration Act 1996 (NSW).

The SIS legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions, unless an exemption has been obtained.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

EISS has received an exemption from annual actuarial valuation and therefore actuarial valuations are only required triennially. The last actuarial valuation of the Scheme was performed as at 30 June 2012.

**SASS, SSS and SANCS**

The schemes in the Pooled Fund are established and governed by the following NSW legislation: Superannuation Act 1916, State Authorities Superannuation Act 1987, Police Regulation (Superannuation) Act 1906, State Authorities Non-Contributory Superannuation Scheme Act 1987, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the Commonwealth Superannuation Industry (Supervision) Act 1993 (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth’s retirement incomes policy relating to preservation, vesting and reporting to members and that members’ benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board’s adherence to the principles of the Commonwealth’s retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2012.

## 25 Superannuation – Defined benefits plan (continued)

### (c) Risk exposure

There are a number of risks to which the Funds expose the Employer. The more significant risks relating to the defined benefits are:

- Investment risk – The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- Longevity risk – The risk that pensioners live longer than assumed, increasing future pensions.
- Pension indexation risk – The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- Salary growth risk – The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- Legislative risk – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Funds have no significant concentration of investment risk or liquidity risk.

### (d) Description of other entities' responsibilities for the governance of the funds

The Schemes' Trustees are responsible for the governance of the Schemes. The Trustees have a legal obligation to act solely in the best interests of the Schemes' beneficiaries. The Trustees have the following roles:

- Administration of the Scheme and payment to the beneficiaries from Scheme/Fund assets when required in accordance with the Scheme/Fund rules;
- Management and investment of the Scheme/Fund assets;
- Compliance with other applicable regulations, and
- Compliance with the Trust Deed.

### (e) Description of significant events

There were no fund amendments, curtailments or settlements during the year.

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# Notes to Financial Statements

For the year ended 30 June 2014

## 25 Superannuation – Defined benefits plan (continued)

**(f) Reconciliation of the Net Defined Benefit (Liability)/Asset**

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.

| | EISS Present Value of Obligation $M | EISS Fair Value of Plan Asset $M | Other Present Value of Obligation $M | Other Fair Value of Plan Asset $M | Total Present Value of Obligation $M | Total Fair Value of Plan Asset $M | Total $M |
|---|---|---|---|---|---|---|---|
| **At 1 July 2012** | (591.5) | 355.8 | (13.4) | 12.4 | (604.9) | 368.2 | (236.7) |
| Current service cost | (17.2) | – | (0.3) | – | (17.5) | – | (17.5) |
| Interest (expense)/ income | (16.7) | 10.8 | (0.4) | 0.4 | (17.1) | 11.2 | (5.9) |
| (Expense) / income recognised in profit or loss | (33.9) | 10.8 | (0.7) | 0.4 | (34.6) | 11.2 | (23.4) |
| **Contributions by Fund participants** | | | | | | | |
| Employers | – | 20.8 | – | 0.2 | – | 21.0 | 21.0 |
| Plan participants | (5.0) | 5.0 | (0.1) | 0.1 | (5.1) | 5.1 | – |
| | (5.0) | 25.8 | (0.1) | 0.3 | (5.1) | 26.1 | 21.0 |
| **Remeasurements** | | | | | | | |
| Return on plan assets, excluding amounts included in interest (expense)/income | – | 43.1 | – | 1.0 | – | 44.1 | 44.1 |
| Gain/(loss) from change in demographic assumptions | (10.9) | – | (0.3) | – | (11.2) | – | (11.2) |
| Gain/(loss) from change in financial assumptions | 53.9 | – | 1.1 | – | 55.0 | – | 55.0 |
| Gain/(loss) from change in liability experience | (28.3) | – | (0.2) | – | (28.5) | – | (28.5) |
| **(Expense)/income recognised in other comprehensive income** | 14.7 | 43.1 | 0.6 | 1.0 | 15.3 | 44.1 | 59.4 |
| Benefits, taxes, premiums and expenses paid | 25.8 | (25.8) | 1.8 | (1.8) | 27.6 | (27.6) | 0.0 |
| **At 30 June 2013** | **(589.9)** | **409.7** | **(11.8)** | **12.3** | **(601.7)** | **422.0** | **(179.7)** |

## 25 Superannuation – Defined benefits plan (continued)

| | EISS Present Value of Obligation $M | EISS Fair Value of Plan Asset $M | Other Present Value of Obligation $M | Other Fair Value of Plan Asset $M | Total Present Value of Obligation $M | Total Fair Value of Plan Asset $M | Total $M |
|---|---|---|---|---|---|---|---|
| **At 1 July 2013** | **(589.9)** | **409.7** | **(11.8)** | **12.3** | **(601.7)** | **422.0** | **(179.7)** |
| Current service cost | (15.6) | – | (0.3) | – | (15.9) | – | (15.9) |
| Interest (expense)/ income | (21.0) | 15.4 | (0.4) | 0.4 | (21.4) | 15.8 | (5.6) |
| (Expense) / income recognised in profit or loss | (36.6) | 15.4 | (0.7) | 0.4 | (37.3) | 15.8 | (21.5) |
| **Contributions by Fund participants** | | | | | | | |
| Employers | – | 19.8 | – | 0.1 | – | 19.9 | 19.9 |
| Plan participants | (4.6) | 4.6 | (0.1) | 0.1 | (4.7) | 4.7 | – |
| | (4.6) | 24.4 | (0.1) | 0.2 | (4.7) | 24.6 | 19.9 |
| **Remeasurements** | | | | | | | |
| Return on plan assets, excluding amounts included in interest (expense)/income | – | 29.8 | – | 0.8 | – | 30.6 | 30.6 |
| Gain/(loss) from change in financial assumptions | (7.4) | – | (0.1) | – | (7.5) | – | (7.5) |
| Gain/(loss) from change in liability experience | (3.1) | – | (0.4) | – | (3.5) | – | (3.5) |
| (Expense)/income recognised in other comprehensive income | (10.5) | 29.8 | (0.5) | 0.8 | (11.0) | 30.6 | 19.6 |
| Benefits, taxes, premiums and expenses paid | 51.8 | (51.8) | 2.1 | (2.1) | 53.9 | (53.9) | – |
| **At 30 June 2014** | **(589.8)** | **427.5** | **(11.0)** | **11.6** | **(600.8)** | **439.1** | **(161.7)** |

The total net defined benefit liability of $161.7 million (2013: $179.7 million) comprises a liability of $163.2 million (2013: $180.8 million) disclosed within non-current provisions and an asset of $1.5 million (2013: $1.1 million) disclosed within non-current receivables.

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# Notes to Financial Statements

For the year ended 30 June 2014

## 25 Superannuation – Defined benefits plan (continued)

### (g) Fair Value of Fund assets

All EISS Division B, C and D assets are held in Pool B of the Scheme, Pool B in turn holds units invested in the Energy Investment Fund, a pooled superannuation trust. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities, and the disclosures below relate to total assets of Pool B of the Scheme.

| **As at 30 June 2014**<br>**Asset category** | Total<br>$M | Quoted prices in active markets for identical assets<br>Level 1<br>$M | Significant observable inputs<br>Level 2<br>$M | Unobservable inputs<br>Level 3<br>$M |
|---|---|---|---|---|
| Energy Investment Fund | 2,377.1 | – | 2,377.1 | – |
| **Total** | **2,377.1** | **–** | **2,377.1** | **–** |

All STC Pooled Fund assets are invested at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

| **As at 30 June 2014**<br>**Asset category** | Total<br>$M | Quoted prices in active markets for identical assets<br>Level 1<br>$M | Significant observable inputs<br>Level 2<br>$M | Unobservable inputs<br>Level 3<br>$M |
|---|---|---|---|---|
| Australian equities | 11,738.6 | 11,494.5 | 241.4 | 2.7 |
| International equities | 10,953.3 | 8,172.7 | 2,780.5 | 0.1 |
| Property | 3,273.0 | 894.1 | 692.3 | 1,686.6 |
| Alternatives | 6,329.5 | 565.4 | 4,897.2 | 866.9 |
| Fixed income | 3,245.5 | 10.9 | 3,234.6 | – |
| Cash and short term securities | 2,452.7 | 1,572.6 | 880.1 | – |
| **Total *** | **37,992.6** | **22,710.2** | **12,726.1** | **2,556.3** |

*Additional to the assets disclosed above, at 30 June 2014 STC Pooled Fund has provisions for receivables/ (payables) estimated to be around $2.2 billion, giving estimated assets totalling approximately $40.2 billion.

Some EISS Pool B assets are invested in accordance with member investment choices. For Pool B assets invested in the Energy Investment Fund but not subject to member investment choice are included under EISS in the table below. For the SASS, SSS, and SANCS defined benefit schemes the assets invested in the STC Pooled Fund are not subject to member choice. The percentage invested in each asset class at the reporting date is:

| | **EISS** | | **Other** | |
|---|---|---|---|---|
| **As at** | **30 June 2014** | **30 June 2013** | **30 June 2014** | **30 June 2013** |
| Australian listed equities | 17.0% | 14.0% | 30.9% | 30.4% |
| Overseas listed equities | 23.0% | 22.0% | 28.8% | 26.1% |
| Emerging market equities | 4.0% | – | – | – |
| Property | 7.0% | 7.0% | 8.6% | 8.3% |
| Private equity | 1.0% | – | – | – |
| Infrastructure | 10.0% | – | – | – |
| Alternatives | 25.0% | 28.0% | 16.7% | 13.0% |
| Fixed income | 12.0% | 20.0% | 8.5% | 9.1% |
| Cash and short term securities | 1.0% | 9.0% | 6.5% | 13.1% |
| **Total** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

## 25 Superannuation – Defined benefits plan (continued)

All Scheme assets are invested by the Trustees at arm's length through independent managers.

**The use of derivatives is restricted as follows:**

**EISS**

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.

**The Pooled Fund**

Derivatives can be used by investment managers, however strict investment guidelines detail all limits approved on the use of derivatives. The use of derivatives is governed by the investment policies, which permit the use of derivatives to change the Fund's exposure to particular assets. The Trustee requires derivative financial instruments are not entered into for speculative purposes or to gear the Fund, and that all derivatives positions are (a) fully cash covered; (b) are offset to existing assets; or (c) are used to alter the exposures in underlying asset classes. Compliance with policies and exposure limits are reviewed by the Trustee on a continual basis. As such the investment managers make limited use of derivatives.

**(h) Fair value of the Corporation's own financial instruments**

The fair value of Plan assets includes no amounts relating to:

- any of the Corporation's own financial instruments
- any property occupied by, or other assets used by, the Corporation.

**(i) Significant Actuarial Assumptions at the Reporting Date**

| | 2014 | 2013 |
|---|---|---|
| Expected salary increase rate (excluding promotional increases) | 2.7% pa until 30/06/2015; 3.5% pa thereafter | 3.5% pa |
| Rate of CPI increase | 2.5% pa | 2.5% pa |
| Discount rate | 3.6% pa | 3.8% pa |
| Pensioner mortality | based on Mercer 2005–09 Standard Pensioner Mortality Table | |

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# Notes to Financial Statements

For the year ended 30 June 2014

## 25 Superannuation – Defined benefits plan (continued)

### (j) Sensitivity Analysis

The Corporation's total defined benefit obligation as at 30 June 2014 under several scenarios is presented below.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

| | Base Case | Scenario A –1.0% discount rate | Scenario B +1.0% discount rate |
|---|---|---|---|
| Discount rate | 3.6% pa | 2.6% pa | 4.6% pa |
| Rate of CPI increase | 2.5% pa | 2.5% pa | 2.5% pa |
| Salary inflation rate | 2.7% pa until 30/06/2015; 3.5% pa thereafter | 2.7% pa until 30/06/2015; 3.5% pa thereafter | 2.7% pa until 30/06/2015; 3.5% pa thereafter |
| Defined benefit obligation ($M) | 600.8 | 673.0 | 542.4 |

| | Base Case | Scenario C +0.5% rate of CPI increase | Scenario D –0.5% rate of CPI increase |
|---|---|---|---|
| Discount rate | 3.6% pa | 3.6% pa | 3.6% pa |
| Rate of CPI increase | 2.5% pa | 3.0% pa | 2.0% pa |
| Salary inflation rate | 2.7% pa until 30/06/2015; 3.5% pa thereafter | 2.7% pa until 30/06/2015; 3.5% pa thereafter | 2.7% pa until 30/06/2015; 3.5% pa thereafter |
| Defined benefit obligation ($M) | 600.8 | 612.5 | 590.2 |

| | Base Case | Scenario E +0.5% salary increase rate | Scenario F –0.5% salary increase rate |
|---|---|---|---|
| Discount rate | 3.6% pa | 3.6% pa | 3.6% pa |
| Rate of CPI increase | 2.5% pa | 2.5% pa | 2.5% pa |
| Salary inflation rate | 2.7% pa until 30/06/2015; 3.5% pa thereafter | 3.2% pa until 30/06/2015; 4.0% pa thereafter | 2.2% pa until 30/06/2015; 3.0% pa thereafter |
| Defined benefit obligation ($M) | 600.8 | 624.4 | 578.7 |

| | Base Case | Scenario G +0.5% Pensioner Mortality rate | Scenario H –0.5% Pensioner Mortality rate |
|---|---|---|---|
| Defined benefit obligation ($M) | 600.8 | 599.0 | 602.7 |

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Comparative information has not been provided for the sensitivity analysis as permitted by the transitional provisions of the revised standard.

## 25 Superannuation – Defined benefits plan (continued)

### (k) Asset-Liability matching strategies

For EISS we are not aware of any asset and liability matching strategies currently adopted by the Fund.

In respect of the STC Pooled Fund the Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements.

### (l) Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2012. Contribution rates are set after discussions between the employer and the trustee. In the case of the STC Pooled Fund, NSW Treasury is consulted.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

**Surplus/deficit**

The following is a summary of the 30 June 2014 financial position of the Fund calculated in accordance with AAS 25 “Financial Reporting by Superannuation Plans”:

| | EISS | | Other | | Total | |
|---|---|---|---|---|---|---|
| | 2014 $M | 2013 $M | 2014 $M | 2013 $M | 2014 $M | 2013 $M |
| Accrued benefits | 429.6 | 434.5 | 7.8 | 10.9 | 437.4 | 445.4 |
| Net market value of Fund assets | (427.6) | (409.8) | (11.3) | (14.0) | (438.9) | (423.8) |
| Net (surplus)/deficit | 2.0 | 24.7 | (3.5) | (3.1) | (1.5) | 21.6 |

*Contribution recommendations*

Recommended contribution rates for the Corporation to the main scheme (EISS) are:

| Division B multiple of member contributions | Division C % member salary | Division D multiple of member contributions | Additional Lump Sum $M pa |
|---|---|---|---|
| 1.9 | 2.5% | 1.64 | 9.0 |

Recommended contribution rates for the Corporation to the Pooled Fund are $nil.

**Significant Actuarial Assumptions at the Reporting Date**

The economic assumptions adopted for the 30 June 2012 actuarial investigation of the Fund were:

| Weighted-Average Assumptions | EISS | Other |
|---|---|---|
| Expected rate of return on Fund assets backing current pension liabilities | 7% pa | 8.3% pa |
| Expected rate of return on Fund assets backing other liabilities | 7% pa | 7.3% pa |
| Expected salary increase rate | 2.7% pa until 30/06/2015; 3.5% pa thereafter | 2.7% pa until 30/06/2018; 4.0% pa thereafter |
| Expected rate of CPI increase | 2.5% pa | 2.5% pa |

*continued next page*

# Notes to Financial Statements

For the year ended 30 June 2014

## 25 Superannuation – Defined benefits plan (continued)

| Expected contributions | | Financial Year to 30 June 2015 $M |
|---|---|---|
| Expected employer contributions | – EISS | 17.2 |
| | – Other | Nil |

*Maturity profile of defined benefit obligation*

The weighted average duration of the defined benefit obligation is 13.4 years for the EISS, while it is 1.8 years for the pooled fund.

### (m) Nature of asset/liability

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.

## 26 Events subsequent to balance date

The financial statements of the Corporation for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the Directors on 10 September 2014.

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

**END OF AUDITED FINANCIAL STATEMENTS**

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# 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* (PFandAA) 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 | 2012 | 2013 | 2014 |
| Women | 50% | 19.2% | 19.0% | 17% |
| Aboriginal people and Torres Strait Islanders | 2.6% | 3.6% | 3.4% | 3.3% |
| People whose first language was not English | 19% | 0.6% | 1% | 1% |
| People with a disability | 12% | 1.8% | 1.8% | 1.8% |
| People with a disability requiring work-related adjustment | 50% | 19.2% | 19% | 17% |

| Trends in the distribution of EEO groups | | | | |
|---|---|---|---|---|
| EEO Group | Benchmark/Target | 2012 | 2013 | 2014 |
| Women | 100 | 97 | 97 | 101 |
| Aboriginal people and Torres Strait Islanders | 100 | 84 | 85 | 85 |
| People whose first language was not English | 100 | 113 | 115 | 115 |
| People with a disability | 100 | 106 | 105 | 105 |
| People with a disability requiring work-related adjustment | 100 | N/A | 108 | 108 |

Note 1: A distribution index of 100 indicates that the centre of distribution of the Workforce Diversity group across salary levels is equivalent to that of other staff. Values less than 100 mean that the Workforce Diversity 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 Workforce Diversity group is less concentrated at lower salary levels.

Note 2: The Distribution Index is not calculated where Workforce Diversity groups or non-Workforce Diversity 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.

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] | 2013–14 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 | $471,500 | $77,489 | Led the delivery of AER regulatory submissions. Led the development of debt management and tariff strategies. Delivered effective financial reporting. |

a excludes "at risk" payment.
b "at risk" payments are based on 2013-14 performance against a key criteria, approved by the Board in September 2014.
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] | 2013–14 Performance criteria |
|---|---|---|---|---|
| Gary Humphreys | Chief Operating Officer | $461,250 | $59,420 | Delivered effective cost savings and reform initiatives resulting in improved value for customers alongside network price reductions. Led significant business and industry reform including the effective, efficient transfer of Transitional Service Arrangement (TSA) activities to Origin Energy. |
| Ken Stonestreet | Chief Engineer | $434,934 | Not applicable | Successfully implemented network reform initiatives to deliver consistent asset management policies and alignment of Network Fatal Risk controls with Electrical Safety rules. Achieved improved network reliability. |
| Col Ussher | General Manager Network Development | $341,861 | Not applicable | Implemented a new vegetation management strategy for improved efficiency. Facilitated development of the network workforce plan to improve sustainability and value to customers. |
| Peter Bereicua | General Manager Network Operations | $323,000 | $33,915 | Implemented a portfolio of customer value initiatives including overtime management strategies and fleet reduction initiatives. Successfully delivered a revised safety field audit and interaction system, resulting in reduced workplace injuries. |
| Luke Jenner | General Manager People and Services | $291,200 | $42,224 | Surpassed TSA targets and delivered network operational readiness following the retail sale. Delivered strong performance in the roll out of the new network operating models across the business, including reform initiatives for fleet, property, procurement and logistics. |
| Andrew Sinclair | General Manager Finance and Compliance | $288,500 | $50,488 | Exceeded key financial performance targets and applied a financial reporting framework consistent with Networks NSW policy. Successfully oversaw the delivery of an extensive 2015-19 submission to the AER and supported implementation of an Investment Governance and Evaluation framework. |
| Caroline Hungerford | General manager Information Communication and Technology (ICT) | $267,750 | $29,988 | Delivered the ICT Strategic Plan, realising a number of defined efficiencies for better customer value. Implemented the ICT portfolio investment plan to ensure ongoing sustainability of the ICT network. |
| David Nardi [c] | Acting General Manager Health, Safety and Environment | $265,000 | $30,599 | Successfully implemented the Safety Strategic Plan, delivering assurance programs to manage Network Fatal Risks and a more effective safety management system. Implemented an HSE Customer Service model and successfully developed a Customer Value Improvement Plan. |
| Maria Doherty [d] | General Manager Health, Safety and Environment | $257,500 | Not applicable | Not applicable |

a excludes "at risk" payment.
b "at risk" payments are based on 2013-14 performance against key criteria, approved by the Board in September 2014.
c new acting member of the Executive Leadership Team appointed 12 May 2014.
d resigned from Essential Energy on 15 May 2014.

## Senior Executives

| Band [1] | Range ($) | Average ($) | Female | Male |
|---|---|---|---|---|
| above Band 4 [2] | > 488,100 | 536,331 | 0 | 2 |
| Band 4 | 422,501 – 488,100 | 443,371 | 0 | 1 |
| Band 3 | 299,751 – 422,500 | 327,371 | 1 | 6 |
| Band 2 | 238,301 – 299,750 | 263,825 | 1 | 10 |
| Band 1 | 167,100 – 238,300 | 197,051 | 24 | 90 |
| below Band 1 [3] | < 167,000 | 158,650 | 0 | 5 |
| | | | 26 | 112 |
| | | | 138 | |

[1] Bands are as defined in the Initial Determination of Remuneration Packages for Public Service senior executives under the *Government Sector Employment Act 2013* (dated 3 February 2014). Reporting is limited to contract managers employed on individual performance-based employment contracts.

[2] Includes contract managers employed on individual performance based contracts receiving remuneration at levels above Band 4. The common CEO of all three network businesses is included in Endeavour Energy's statistics.

[3] Includes contract managers employed on individual performance based contracts receiving remuneration at levels below Band 1.

## 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 undertaken at least once every 12 months.

Essential Energy's program for the proactive release of information involves regularly maintaining and updating two websites – essentialenergy.com.au and essentialwater.com.au – with information of interest to members of the public, including media releases and the use of social media.

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

> enhancing the supply interruption information on Essential Energy website to show current interruption information (planned and unplanned) on a map based display that is optimised for tablets and smartphones

> continued expansion of information disseminated via social media. In storm situations earlier this year we were proactively posting restoration information, and providing regular updates on the work that was being done in each area, as well as posting relevant safety information as events unfolded. The main channels utilised were Twitter and Facebook

> utilisation of our YouTube channel to post safety videos relating to Cotton Harvest Safety, Transporting High Loads Near Powerlines, and a video about the three distribution network businesses. – www.youtube.com/essentialenergytv.

**Essential Energy has released the following information proactively:**

General documents and publications made publicly available during the reporting year at essentialenergy.com.au

| Document/Publication | Release or Publication Date |
|---|---|
| Health, Safety and Environmental Policy | 13/02/2013 |
| Code of Conduct | 20/05/2013 |
| Summary of customer rights, entitlements and obligations (NECF) | 1/07/2013 |
| Guaranteed Service Level Scheme (NECF) | 1/07/2013 |
| Complaints and Dispute Resolution Procedure (NECF) | 1/07/2013 |
| Connecting to the Network (NECF) | 1/07/2013 |
| Connection offers and contracts | 1/07/2013 |
| Statement of Business Ethics | 6/11/2013 |
| Annual Report for year ending 30 June 2013 | 22/11/2013 |
| Statement of Corporate Intent | 24/12/2013 |
| Information regarding planned outages | Live* |
| Information regarding unplanned outages | Live* |
| Government Contracts Register | Monthly |
| Property Contracts Register | Monthly |

*Updated every 10 minutes

Documents and publications relating to contestable works made publicly available during the reporting year at essentialenergy.com.au

| Document/Publication | Release or Publication Date |
|---|---|
| CEOM8014.50 – EM5100 Polyphase Electronic Meter: Installation and Use | 04/03/2013 |
| CEOF6496 – Creation of easements: For services (installed by level 2 accredited service providers) | 12/04/2013 |
| CEOP8046 – Easement Requirements | 12/04/2013 |
| CEOP2411 – Distribution: LV Circuit Breaker Settings | 07/05/2013 |
| CEOM8014.40 – Metering Services: Net Plus Gross Metering Arrangements | 31/05/2013 |
| CEOF6274A – Requirements for the Connection of Electricity Supply Prior to Easement Registration | 30/10/2013 |
| CEOF6274B – Creation of Easement: Customer Deed | 30/10/2013 |
| CEOF6274C – Creation of Easement: Landowner Deed | 30/10/2013 |
| CEOF9090 – Solicitor's Advice That Easement Has Been Created | 30/10/2013 |
| CEOF9091 – Advice for Suitability of Easement Documentation | 27/02/2014 |
| CEOS8027 – Network Metering Standard | 24/06/2014 |

**Documents and publications relating to Approved Accredited Service Providers made publicly available during the reporting year at essentialenergy.com.au**

| Document/Publication | Release or Publication Date |
|---|---|
| CEOM7150 – Attachment of Fibre optic Cable (FOC) to Essential Energy's network by External Telecommunications Carriers: Design and Construction Requirements | 08/02/2013 |
| CEOF4601.05 – Fibre optic Cable Aerial Stringing: Completion Notice | 6/08/2013 |
| CEOP2072 – Network Support: Two Lot Subdivisions | 12/08/2013 |
| ASP Training – | 09/12/2013 |
| Annual refresher training information | 09/12/2013 |
| ASP 2014 schedule dates | 09/12/2013 |
| RTO enrolment form | 09/12/2013 |
| WNP course information | 26/03/2014 |
| WNP schedule dates | 26/03/2014 |
| WNP enrolment form | 26/03/2014 |
| CEOP2065 – Network Operations: Authorisation | 21/10/2013 |
| CERM2066 – Entry requirements to Essential Energy electrical stations | 11/4/2014 |
| CEOM8014.35 – Single-phase accumulation meter: EM500 | 20/06/2014 |
| CEOM8014.36 – Three-phase accumulation meter: EM3030 | 20/06/2014 |
| CEOP8008 – Vegetation Management Plan | 24/06/2014 |
| CEOS8027 – Network Metering Standard | 24/06/2014 |

**Documents and publications relating to electricity network pricing and information made publicly available during the reporting year at essentialenergy.com.au**

| Document/Publication | Release or Publication Date |
|---|---|
| Network Price List and Explanatory Notes 2013–14 | 01/07/2013 |
| Annual Network Prices Report 2013/2014 | 01/07/2013 |
| Price schedule for Miscellaneous, Emergency Recoverable Works and Monopoly Fees 2013–14 | 01/07/2013 |
| CEOP2513.08 Negotiation Framework Low Voltage | 01/07/2013 |
| Streetlighting Price Schedule 2013–14 | 01/07/2013 |
| Deemed Standard Connection Contract | 01/07/2013 |
| Model Standing Offer for Low Voltage Standard Connection Service with Large Embedded Generation – Document currently unavailable Pending AER approval | 01/07/2013 |
| Customer Guide – Requests for alternate power supply | 01/08/2013 |
| AER Approved Deemed Standard Connection Contract for Large Low Voltage Customers with Large Embedded Generation | 02/09/2013 |
| AER Approved Deemed Standard Connection Contract for Large Customers – High Voltage | 02/09/2013 |
| CEOP8004 – Network Management Plan Chapter 2: Customer Installation Plan | 23/09/2013 |
| CEOP8022 – Network Management Plan Chapter 4: Bushfire Risk Management Plan | 23/09/2013 |
| CEOP8005 – Network Management Plan Chapter 3: Public Electrical Safety Awareness Plan | 24/10/2013 |
| Network Performance Report 2012–13 | 18/12/2013 |
| Distribution Annual Planning Report 2013 | 20/12/2013 |
| Distribution Loss Factors – Methodology | 11/03/2014 |
| This document sets out Essential Energy's methodology for calculating DLFs, in accordance with the principles and requirements set out in clause 3.6.3 of the National Electricity Rules. | |
| CEOP8029 – Network Management Plan Chapter 1: Network Safety and Reliability | 10/04/2014 |
| Essential Energy's Regulatory Proposal 2014–19 | 31/05/2014 |

**Network Investment Consultation Reports available at essentialenergy.com.au**

| Document/Publication | Release or Publication Date |
|---|---|
| Final report – Augmentation of Electricity Supply to the Quirindi area of NSW | 20/08/13 |

**Documents and publications relating to water network pricing and information made publicly available during the reporting year at essentialwater.com.au**

| Document/Publication | Release or Publication Date |
|---|---|
| Schedule of Water and Sewerage Charges | 01/07/2013 |
| Essential Water – Water and Sewer Price List | 01/07/2013 |
| Broken Hill Drinking Water Quality Report 1 July 2013 to 30 September 2013 | 22/10/2013 |
| Waste Water Treatment Plant Monitoring Data – South Waste Water Treatment Plant | |
| – July 2013 | 27/08/2013 |
| – November 2013 | 26/11/2013 |
| – January 2014 | 12/02/2014 |
| – April 2014 | 14/05/2014 |
| Media release – IPART releases final determination on Broken Hill water and sewerage prices | 24/06/2014 |
| Waste Water Treatment Plant Monitoring Data – Wills Street Waste Water Treatment Plant | Monthly following data collection |

During the reporting period, Essential Energy received a total of seven (7) formal access applications. Of those applications, six (6) were released in full, and one (1) was refused in full because the information requested was information referred to in Schedule 1 to the GIPA Act.

The following information regarding access applications during the reporting year is provided in accordance with the requirements of Clause 7(d) and Schedule 2 of the GIPA Regulation.

**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 | 1 | 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) | 2 | 0 | 1 | 0 | 0 | 1 | 0 | 0 |
| Members of the Public (other) | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**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) | 6 | 0 | 1 | 0 | 0 | 1 | 0 | 0 |
| Access applications that are partly personal information applications and partly other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Table C: Invalid applications**

| Reason for Invalidity | Number |
|---|---|
| Application does not comply with formal requirements | 1 |
| Application is for excluded information of the agency | 0 |
| Application contravenes restraint order | 0 |
| Total number of invalid applications received | 1 |
| Invalid applications that subsequently became valid applications | 0 |

**Table D: Conclusive presumption of overriding public interest against disclosure**

| | 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 |

*continued next page*

| 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 | 0 |
| Business interests of agencies and other persons | 1 |
| 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 | 7 |
| Decided after 35 days (by agreement with applicant) | 0 |
| Not decided within timeframe (deemed refusal) | 0 |
| Total | 7 |

| 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 | 2 | 0 | 2 |
| Review by Information Commissioner | 1 | 0 | 1 |
| Internal review following recommendation under section 93 of Act | 1 | 0 | 1 |
| Review by ADT | 0 | 0 | 0 |
| Total | 4 | 0 | 4 |

| Table H: Applications for review under Part 5 of the Act (by type of applicant) | |
|---|---|
| | Number |
| Applications by access applicants | 3 |
| Applications by persons to whom information the subject of access application relates (see section 54 of the Act) | 0 |

## Customer service standards

The NSW Government introduced Customer Service Standards for reliability in 2006 to provide financial compensation to eligible customers who have experienced poor reliability of supply from our distribution network and who make a valid claim.

The standards require us to compensate eligible customers who experience too many supply interruptions in one year or if supply is interrupted for too long. Eligibility criteria apply. Supply interruptions that are part of normal network operations or are beyond our reasonable control are not eligible for compensation.

## Interruption Frequency Standard

The Interruption Frequency Standard is the maximum number of supply interruptions a customer should experience in a financial year. The standard for non-metropolitan areas is outlined in the table below.

| Location | Number of interruptions |
|---|---|
| Non-metropolitan area | 4 interruptions (each interruption must be ≥ 5 hours duration) |

Interruption Duration Standard

The Interruption Duration Standard is the maximum duration of any supply interruptions you should experience. The standard for non-metropolitan areas is outlined in the table below.

| Location | Duration of interruption (in hours) |
|---|---|
| Non-metropolitan area | 18 |

Further information on eligibility criteria, exclusions and how to make a claim are available on our website esssentialenergy.com.au.

As at 30 June 2014, Essential Energy compensated 80 customers for a total cost of $6,400 for not meeting these service levels. The majority of these claims relate to a single major event in March 2014.

## Land disposal

Essential Energy did not dispose of any land worth more than $5 million during 2013-14.

## Network prices 2013–2014

Each year, 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 2014–15, 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 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 two per cent.

## Overseas travel

| Purpose of travel | Employee name | Organisation visited | Cities | Country | Date of departure from Australia | Date of arrival into Australia |
|---|---|---|---|---|---|---|
| Vegetation management software due diligence evaluation | John Menzies<br>Patrick Kelleher<br>Osvaldo Griffani | Connecticut Power and Light, Florida Power and Light, Clearion Software | Berlin – Connecticut<br>Jupiter – Florida<br>Atlanta - Georgia | USA | 7/12/13 | 16/12/13 |

## 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 July 2013 to 30 June 2014, Essential Energy dealt with 32 public interest disclosures from 33 public officials. As at 30 June 2014, 19 of these matters had been finalised.

| Disclosure type | Public Interest disclosures received |
|---|---|
| Corrupt conduct | 30 |
| Maladministration | 1 |
| Serious substantial waste of money | 1 |

## Summary of Legislative changes and Judicial decisions for 1 July 2013 to 30 June 2014

### Material changes to Commonwealth legislation

*Australian Jobs Act 2013 (Cth)*

The Act was assented to on 27 June 2013 and commenced on 27 December 2013. Pursuant to this Act, if Essential Energy is responsible for any projects that establish, expand or upgrade electricity facilities with an estimated capital expenditure of at least $500 million, it must submit an Australian Industry Participation Plan for approval. An Australian Industry Participation plan outlines how a project proponent or proponents of a major project will provide full, fair and reasonable opportunity to Australian industry to supply goods and services to the project during its construction and initial operation stage.

*Fair Work Act 2009 (Cth)*

This Act was amended by the Fair Work Amendment Act 2013, assented to on 28 June 2013. The changes, commencing on 1 July 2013 and 1 January 2014, affect employers and employees and include:

> the expansion of circumstances in which an employee may request flexible working arrangements and obtain concurrent unpaid parental leave;

> requirements that modern awards and enterprise agreements ensure consultation with employees about changes to regular rosters or ordinary hours of work; and

> empowering workers (including employees and contractors) who have been bullied at work to apply to the Fair Work Commission for any appropriate orders, other than pecuniary orders.

*Privacy Act 1998 (Cth)*

The Privacy Amendment (Enhancing Privacy Protection) Act 2012 (Cth) and the Privacy Regulation 2013 both commenced on 12 March 2014. Some of the important matters arising from the amendments are:

> organisations need to have a clearly written privacy policy and develop practices, procedures and systems to ensure proactive compliance with the legislation;

> the introduction of a new accountability regime for personal information that is held offshore;

> restrictions on the collection and use of personal information for direct marketing;

> the expansion of the powers of the Office of the Australian Information Privacy Commissioner, including the ability to impose civil penalties of up to $1.7 million; and

*continued next page*

- the introduction of a new Credit Reporting Code binding all credit reporting bodies, credit providers and affected information recipients and requiring greater comprehensive credit reporting.

## Material changes to New South Wales legislation

*National Energy Customer Framework*

The NECF came into effect in NSW on 1 July 2013.

NECF introduces a consistent national framework for providing electricity and gas services to retail customers. NECF includes protections for small energy customers, such as:

- rights to an offer to connect;
- mandatory minimum contract terms;
- disconnection process;
- notification of planned interruptions;
- rules to ensure customers are fully informed of the terms of their contract.

NECF was implemented in NSW by the adoption of the National Energy Retail Law, the National Energy Retail Rules, and the National Energy Retail Regulations as NSW law. The *National Energy Retail Law (Adoption) Act 2012 (NSW)* was passed in 2012, but commenced on 1 July 2013 together with the *National Energy Retail Law (Adoption) Regulation 2013 (NSW).*

The Regulation deals with the transition to NECF, including savings and transitional provisions for distributors in relation to the transition of their customer contracts. This Regulation was amended by the *National Energy Retail Law (Adoption) Amendment (Early Termination and site Specific Conditions) Regulation 2013* to, among other things, provide for site specific conditions contained in contracts for initial or upgraded electricity connections to continue to apply to future occupants of the premises.

In 2012, the South Australian Energy Minister made amendments to the National Electricity Rules through the *National Electricity (National Energy Retail Law)* Amendment Rules to primarily implement a new Chapter 5A relating to connection of retail customers, and a new Chapter 6B relating to billing and credit support rules between distributors and retailers. These amendments applied in NSW from 1 July 2013.

Amendments to NSW legislation to implement the NECF were made by the *Energy Legislation Amendment (National Energy Retail Law) Act 2012* and the *Electricity Supply (General) Amendment (National Energy Retail Law) Regulation 2013* which took effect on 1 July 2013.

As part of the NECF implementation, all the NSW Energy Market Operations Rules (MOR) were repealed on 1 July 2013. MOR 6 was replaced by MOR 1 (NSW Electricity Business to Business Procedures) which took effect on 25 June 2013.

As a consequence, the laws and rules for the protection of electricity retail customers have been removed from the *Electricity Supply Act 1995* (NSW) and *Electricity Supply (General) Regulation 2001* (NSW). However some transitional jurisdictional arrangements and certain distributor service standards remain in these instruments.

*National Electricity Law*

A major reform of the limited merits review regime in the National Electricity Law (which applies in NSW under the *National Electricity (New South Wales) Act 1997* (NSW)) took effect on 19 December 2013. The amendments seek to make the reviewable regulatory decision making process and any subsequent reviews more robust, transparent, and focused on delivering the national electricity objective. Key amendments provide that:

- the AER must make the 'preferable reviewable regulatory decision,' give reasons for its decision and explain interrelationships between constituent components of a decision;
- the Australian Competition Tribunal can only set aside, vary or remit a decision if it is satisfied that to do so is likely to result in a materially preferable decision;
- parties who made a submission or comment to the AER during the regulatory process subject to the review can now apply for review of a decision;
- applicants must meet a higher threshold to obtain leave to appeal to the Tribunal; and
- network businesses cannot pass through costs of a review to consumers, either prospectively or following a review.

*National Electricity Rules*

The National Electricity Rules apply in NSW under the *National Electricity (New South Wales) Act 1997* (NSW). In addition to the NECF-related amendments made by the South Australian Energy Minister, the AEMC has made the following rule changes:

(a) *Publication of Zone Substation data* – effective 13 March 2014, distribution network service providers (DNSP) are required to make historical Zone Substation information on electricity loads available on request to interested parties. Obligations under the rule will apply to each DNSP's next Distribution Annual Planning Report.

(b) *Connecting embedded generators* – effective 1 October 2014, the key components of the rule change are:
   - i distributors are required to publish specified information to assist embedded generators;
   - ii a new two-stage connection enquiry process and an application process with information requirements for both parties; and
   - iii distributors may charge an enquiry fee for preparing detailed enquiry responses.

(c) N*etwork Service Provider expenditure objectives* – effective 26 September 2013, the rule clarifies the existing expenditure objectives by giving primacy to jurisdictional standards relating to reliability, security, and quality of supply. This aims to avoid inconsistency between jurisdictional requirements and the level of expenditure that the AER is required to approve through the regulatory determination process.

*Electricity Supply Act 1995 (NSW)*

In addition to the NECF-related amendments set out above, effective 1 January 2014, amendments were made to the Act and the *Electricity Supply (General) Regulation 2001* to replace the Administrative Decisions Tribunal with the Civil and Administrative Tribunal as the relevant tribunal for administrative reviews.

*Electricity Supply (General) Regulation 2001 (NSW)*

In addition to the NECF-related amendments set out above, effective 1 July 2013, this Regulation was amended to:

- re-make provisions about customer consultative committees for distribution network service providers and to establish distributor service standards; and
- provide for the adoption of a Social Programs for Energy Code.

*Electricity Supply (Safety and Network Management) Regulation 2008 (NSW)*

The repeal of this Regulation was postponed from 1 September 2013 to 1 September 2014.

*Building and Construction Industry Security of Payment Act 1999 (NSW)*

The Act was amended by the *Building and Construction Industry Security of Payment Amendment Act 2013*, assented to on 20 November 2013 and commenced on 21 April 2014. The amendments introduce maximum time limits for making progress payments for all construction contracts entered into from 21 April 2014, and require payment claims by head contractors to include a supporting statement indicating that all subcontractors have been paid what is due and payable. Further, payment claims no longer have to state that they are being made under the Act.

*Home Building Act 1989 (NSW)*

Amendments to this Act will commence on a date to be proclaimed by NSW Parliament. These changes will apply in respect of residential building work or specialist work (including electrical wiring work):

> increasing the penalties for unlicensed individuals or a licensee who hires the unlicensed individual and making imprisonment an option;

> extending the matters which contracts must address;

> requiring notification of certain events by holders of contractor licences;

> implying further statutory warranties into contracts and associated amendments; and

> amending building dispute procedures.

## Material changes to Queensland legislation

*Electricity Act 1994 (Qld)*

(d) Effective 1 July 2014, amendments give effect to the Queensland Government's policy regarding the Queensland Solar Bonus Scheme. The amendments ensure that after the 8c/KWh feed-in tariff expires on 30 June 2014 that Queensland Special Approval Customers in the Essential Energy network continue to receive a mandatory feed-in tariff payment, and the cost of funding this payment is not borne by Queensland electricity customers.

(e) Effective 1 November 2013, a new executive (deemed) liability provision came into effect. An executive will be liable for a corporation's offence if he/she authorised, permitted or was knowingly concerned in the corporation's conduct.

*Electrical Safety Act 2002*

Amendments increase the maximum penalty for offences under the Regulations to 300 penalty units, replacing the current maximum of 40 penalty units.

## Summary of significant judicial decisions, new codes of practice and compliance exemptions

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

# Index

# Contacts

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