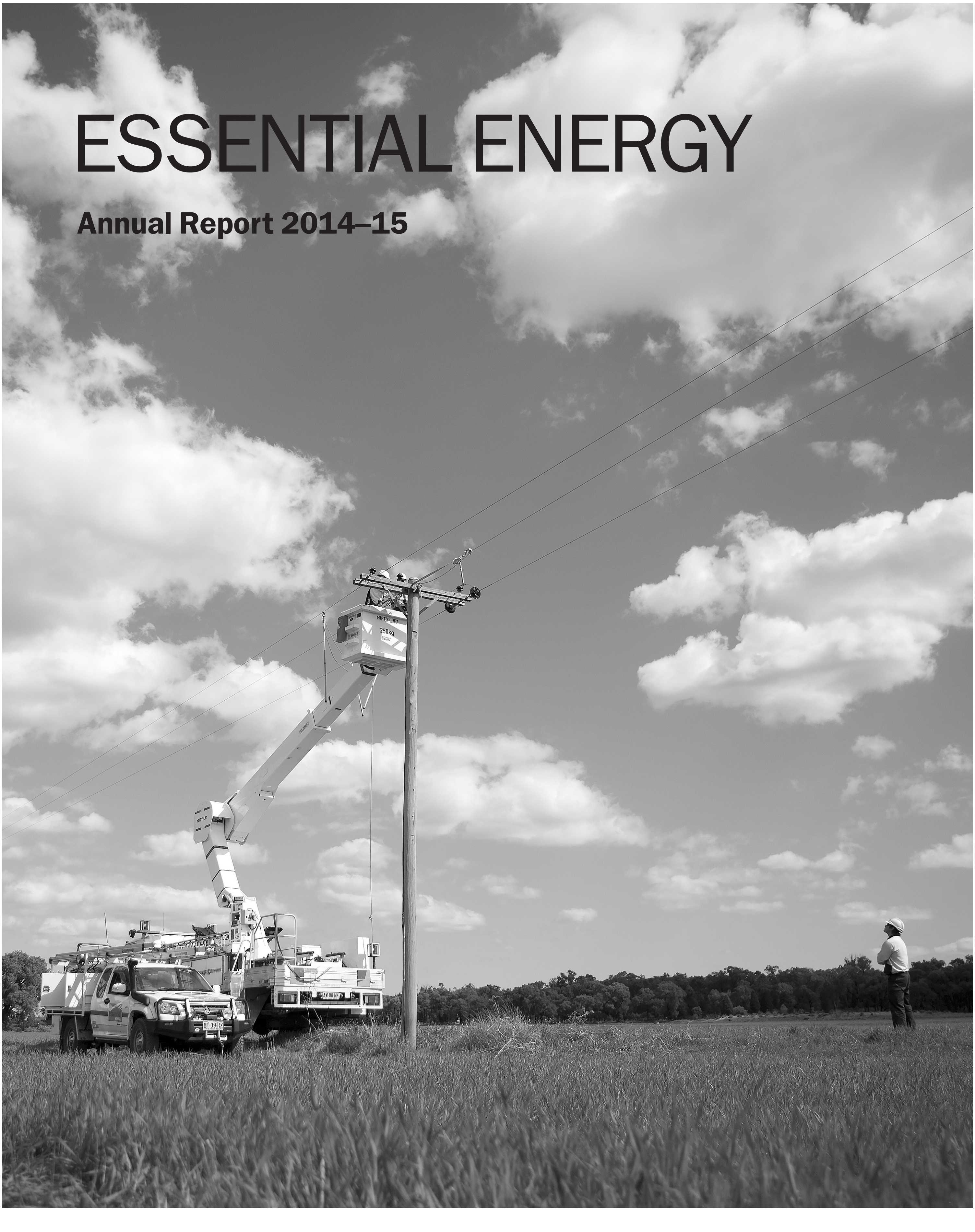
ESSENTIAL ENERGY

Annual Report 2014–15



essential
energy

31 October 2015

The Hon. Gladys Berejiklian, MP
Treasurer
52 Martin Place
Sydney NSW 2000

The Hon. Dominic Perrottet MP
Minister for Finance, Services and Property
52 Martin Place
Sydney NSW 2000

Dear Ministers

REPORT ON PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

We are pleased to submit Essential Energy's annual report detailing performance, operations and financial results for the year ended 30 June 2015.

The report has been prepared in accordance with the *Annual Reports (Statutory Bodies) Act (1984)* and is submitted for tabling in Parliament.

Copies are being sent to the Premier of New South Wales, the Auditor General, the Minister for Industry, Resources and Energy, and other key stakeholders.

Once tabled, the report will be available on our website – essentialenergy.com.au

Yours sincerely

Roger Massy-Greene
Chairman

Vince Graham
Chief Executive Officer

About this report

Essential Energy's Annual Report documents our operating, financial and sustainability performance for the 2014-15 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 34 of this report.

Cost for report production

The external cost for the production of this report was $15,840 excluding GST.

Manager Corporate Affairs
Essential Energy
PO Box 5730
Port Macquarie NSW 2444

Cover image:
Field crew in Dubbo, NSW.

ABN: 37 428 185 226

Contents

About us

Essential Energy is a State Owned Corporation (SOC) responsible for building, operating and maintaining Australia's largest electricity network and delivering safe and reliable energy supplies to around 815,000 customers.

Spanning 95 per cent of New South Wales, the company's distribution area covers diverse terrain including humid coastal environments in the north coast, semi-arid desert in the far west, alpine peaks in the south and a grain belt that crosses central NSW from north to south.

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

Employing around 3,800 people, Essential Energy is a significant contributor to regional and rural economies.

Regulatory environment

Essential Energy is bound by obligations imposed by the National Electricity Rules (the Rules), which the Australian Energy Regulator (AER) is responsible for administering.

Under the Rules, the AER determines the maximum allowable revenue required by electricity distributors to recover costs of network investments and operations.

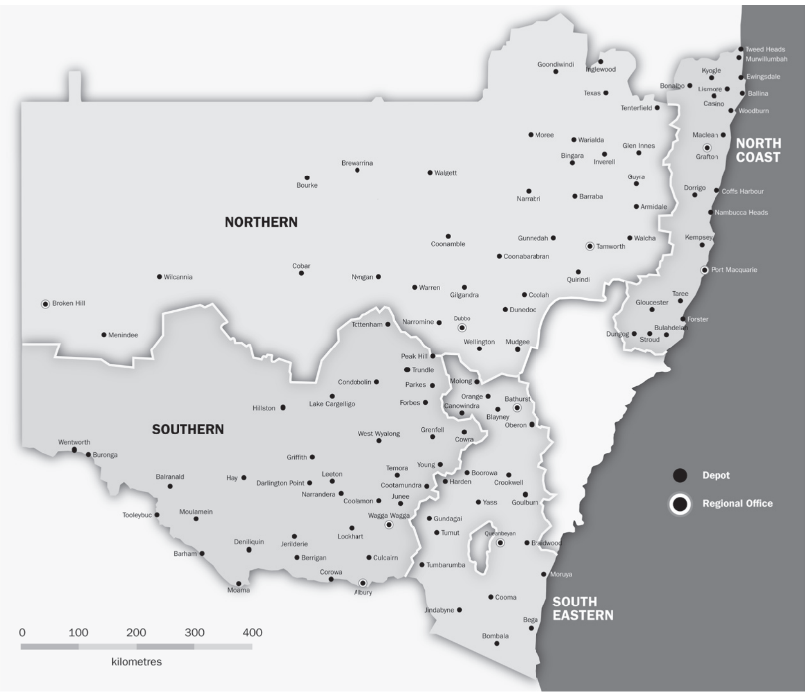
The AER applies a five-year regulatory period to electricity distribution businesses, with the 2009-14 regulatory period ending on 30 June 2014.

On 30 April 2015, the AER handed down its final determination on Essential Energy's revenues for the 2014-19 period. This determination included the 2014-15 financial year, in which the AER previously handed down a transitional determination.

The significant reductions contained within the AER's final determination, applied retrospectively and throughout the regulatory period, present many challenges and will have substantial impacts on Essential Energy's operations during the current regulatory period and beyond.

On 21 May 2015, Essential Energy announced a decision to appeal some elements of the AER's final determination.

Essential Energy's service area – regions and locations



Essential Energy will move from four to three regions during the 2015 – 16 financial year.

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 2014–15 financial year saw Essential Energy consolidate our reform efforts under the Network Reform Program - delivering real value to customers in the provision of safe, reliable and sustainable electricity distribution services.

Strong efficiency gains were achieved, saving around $568 million this financial year, which helped deliver lower network electricity prices to customers for the second year in a row.

The most significant challenge experienced by the business over this period was the development of the organisation's submission, and revised submission, to the AER.

Commitment to safety

Essential Energy employees have worked hard to deliver improvements in safety performance over the past financial year; with our Lost Time Injury (LTI) and Lost Time Injury Frequency Rate (LTIFR) both trending down from previous years.

In 2014-15, the company recorded 12 LTIs compared to 17 the previous financial year. The LTIFR result for 2014-15 was 1.53, favourable to the target of 2.0. Essential Energy's Total Recordable Injury Frequency Rate (TRIFR) was 20.27, favourable against a target of 22.80.

National Energy Customer Framework

The second phase of the National Energy Customer Framework (NECF) commenced in NSW on 1 July 2014 and introduced consistent regulations governing billing and credit support arrangements between distributors and retailers. Essential Energy introduced new processes and procedures to align its operations with the new regulations.

The NECF was initially introduced to NSW on 1 July 2013, and provides a consistent regulatory framework for the relationship between customers, energy retailers and distributors; it establishes specific consumer protections.

Essential Energy recorded 11 Type 1 breaches in 2014-15. Of these, two incidents involved customers registered as requiring life support equipment who were not provided the required four business days written notification of a planned power supply interruption. No customer suffered ill-effects as a result of the breaches.

Essential Energy maintains its ongoing commitment to improving customer service levels and, more importantly, customer safety as defined by the NECF obligations. In response to operational issues and ongoing work, the 2014-15 NECF Optimisation Program key priorities were introduced to reduce incidences of reportable breaches and to guide the organisation through the process of managing and improving NECF compliance.

An additional focus has been placed on the areas of people, data and governance, which have been included in the full scope of the Program.

AER determination

The AER's final determination on the revenue, operating expenditure (OPEX), capital expenditure (CAPEX) and the Weighted Average Cost of Capital (WACC) for Essential Energy for the five-year regulatory period from 1 July 2014 to 30 June 2019, imposed reductions of:

- 25 per cent on revenue
- 30 per cent on OPEX
- 7 per cent in CAPEX
- 2.11 per cent in the WACC.

In its Revised Regulatory Proposal, Essential Energy had proposed to continue reducing its workforce via natural attrition over the four years to June 2019, however the AER determined a similar reduction was required immediately, without any provision for redundancy payments.

This left Essential Energy with 1,395 unfunded positions at 1 July 2015 and instigated a period of union and employee consultation to facilitate an immediate workforce reduction program. This program is supplemented by existing Voluntary Redundancy and Mix and Match programs.

Essential Energy, as part of Networks NSW, lodged appeals with the Australian Competition Tribunal and the Federal Court over some elements of the AER determination, citing employee and public safety concerns. We did not appeal the capital expenditure component of the determination.

The outcome of these appeals will be known during the 2015-16 financial year. Regardless, we will continue to strive to make our operations as efficient as possible and ensure we deliver safe, reliable and sustainable electricity distribution services across rural and regional NSW.

Electricity Network Safety Management System Plan

During the year, Essential Energy implemented the Electricity Network Safety Management System Plan (CEOM8047) as required by the *Electricity Supply (Safety and Network Management) Regulation 2014*.

Under the regulation, Network Operators must have implemented an Electricity Network Safety Management System, which aligns to the requirements of the Regulation and the relevant Australian Standard AS5577, by 1 March 2015.

The primary objective of the safety management system is to support network operators to take all reasonable steps to ensure the safe design, construction, commissioning, operation and decommissioning of network assets.

Essential Energy conducted an initial external audit of the system and submitted the report to the Secretary of the Department before the due date of 1 June 2015.

Network reform

Essential Energy continued its cost saving efforts while preparing the business to respond to the obligations imposed by the AER's final determination for the 2014-2019 regulatory period.

Operational changes have delivered productivity efficiencies and savings across all expenditure items including:

Expenditure items	Savings achieved (FY15 compared to FY12)
Fleet and Property	42%
Network expenditure	45%
Travel	68%
Consultants	61%
Marketing	89%
Labour	18%

Network Asset Management planning

This year, Essential Energy submitted its proposed five-year Network Asset Management Plan (NAMP), which runs to 30 June 2019, to the AER.

The focus of the NAMP is to ensure the continuity of safe, reliable and sustainable electricity supplies to Essential Energy's largely rural and regional customer base.

Of particular importance are the requirements to renew ageing assets, with Essential Energy's network continuing to increase in average age, and to respond to the changing energy needs of customers across the State.

The NAMP also identifies areas of consumption growth where future network investment will be required to meet customers' energy demands and support regional economic growth.

A significant number of large scale investments, such as the construction of an additional 132,000 volt powerline between Cooma and Bega, were completed during the year. The focus of future planning will shift to the replacement of ageing assets and ensuring the network remains sustainable.

In managing Essential Energy's network, we will balance costs, reliability standards and customer benefits, with every dollar spent prioritised to deliver a safe, reliable and efficient network.

Financial performance

Essential Energy achieved a strong financial result for the year, with profit after tax of $266.3 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of $1,083.3 million, exceeding budget expectations.

This result was due to higher than budget network revenue, which was influenced by increased energy demand across all sectors. Contributing were higher than budget capital contributions revenue, and reduced operating expenditure attributable to lower than budget labour expenditure. There was a continued focus on cost savings initiatives.

Profit after tax was $29.1 million lower than the previous year, mainly attributable to an increase in the impairment of intangible assets in 2014-15 and increased transmission use of system expenditure. This was partly offset by reduced labour expenditure and higher capital contributions revenue.

Essential Energy achieved a return on equity of 11.8 per cent, which was 8.1 per cent above the target of 3.7 per cent.

In April 2014, the AER published a transitional regulatory determination and approved network charges to apply for the 2014-15 financial year. The AER's final determination was published in April 2015 and applied retrospectively to 1 July 2014. As a consequence of the AER's retrospective reduction in network revenue, $315.6 million of revenue collected from Essential Energy's customers in the 2014-15 financial year is being returned to customers through lower charges from 1 July 2015.

Reliability

Essential Energy recorded strong reliability performance throughout the year, with the average time customers were without electricity due to unplanned events sitting at 222 minutes per customer, against a licence condition target of 323 minutes.

This result can generally be attributed to mostly favourable weather conditions across our distribution area. There were however, five 'major event days' recorded as a result of widespread storms on 5 November 2014, 11 December 2014, 18 December 2014, 16 February 2015 and 21 April 2015.

A comparison with reliability figures 10 years ago (2004-05 financial year), illustrates that customers today experience approximately 77 fewer minutes interruption time per year. The frequency of interruptions has also decreased by 30 per cent, to approximately two outages per year.

Essential Energy will continue its efforts to maintain favourable reliability results as it moves into the new regulatory period.

Looking forward

We will continue to focus on our three key objectives and priorities – safety, reliability and sustainability.

Essential Energy and our employees continue our commitment to keep each other safe, live our corporate values and empower leaders at every level to mobilise their teams to shape the future business. It is inevitable that in future we will employ fewer people and by necessity, learn how to safely improve productivity and efficiency.

Further reform

Essential Energy must continue our transformational program in order to operate within the allowances imposed by the AER.

In the meantime, we await the outcome of the legal appeals lodged against the AER determination.

Enterprise Agreements

Essential Energy commenced the process for negotiating a replacement electricity Enterprise Agreement in April 2015. These negotiations will determine the wages and conditions of employees covered by the Enterprise Agreement.

Our primary focus will be to implement a modern, flexible and competitive Enterprise Agreement in order to provide a safe and sustainable future, at the same time addressing the reform challenges we face.

Building on safety

As Essential Energy moves into a period of transformational change, our number one priority remains the safety of our employees, contractors and the public.

We will continue to implement the Health, Safety and Environment (HSE) Strategic Plan which has a strong focus on the effective integration of safety leadership capability and behavioural programs, designed to further develop safety culture maturity.

As an organisation, we continue to foster a workplace environment in which safety is the responsibility of every employee and no-one knowingly participates in an unsafe act.

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.

Five corporate values underpin the way in which we strive to achieve our purpose, while five key priority areas allow us to focus our efforts where they're needed most.

Essential Energy's Scorecard is the company's performance measurement tool that helps monitor progress and make adjustments as needed, to enable us to continue to deliver safe and reliable energy supplies to customers.

Key result areas	Measures	2014-15 Target	2014-15 Actual	2015-16 Target
SAFETY OUTCOMES				
Safe, capable, motivated employees	Lost Time Injury Frequency Rate (LTIFR)	≤ 2.0	1.53	≤ 1.35
	Total Recordable Injury Frequency Rate (TRIFR)	≤ 22.8	20.3	≤ 18.5
	Reportable incidents – controllable SENI	≤ 11	12	≤ 21[1]
	High Potential Incident Frequency Rate (HPIFR)	Monitor only	2.42	Monitor only
CUSTOMER/COMMUNITY OUTCOMES				
Valued by our community	Customer satisfaction	≥ 80%	81.8%	≥ 80%
	Reportable incidents – controllable NECF	≤ 11	11	≤ 6
Protect public safety and environment	Reportable incidents – controllable environmental	4	2	≤ 3
Reliable and sustainable network	Network reliability – unplanned SAIDI (mins)	≤ 236	222	≤ 212.4
	STPIS revenue benefit/penalty ($m)	Monitor only	19.1[2]	≥0
FINANCIAL OUTCOMES				
Financial stability	NPAT ($m)	≥ 77.3	266.3	≥ (77.3)
	Borrowing requirements (Operating cash flow less investing cash flow) ($m)			≥ (291.0)
Efficient operations	OPEX ($m)	≤ 575.8	504.5	≤ 446.9
BUSINESS PROCESSES				
Network Asset Management plan delivery	Capital delivery – % complete of agreed milestones	≥ 95%	87%	≥ 95%
	Capital delivery – % budget spent on delivered milestones	≤ 95%	94%	≤ 95%
	Maintenance delivery – % complete of agreed milestones	≥ 98%	97%	≥ 98%
Governance, risk & compliance management	Corrective actions outstanding > 60 days – Safety, Audit, Risk	0	0	0
BUSINESS ENABLERS				
Safe, capable, motivated employees	Absenteeism days (excluding family/carer's leave)	≤ 5.7	5.88	≤ 5.7
	Gross to base ratio at or above 1.5[4]	≤ 20	11	0
	Gross to base ratio at or above 1.3[4]	n/a	n/a	Monitor Only

[1] In FY16 Reportable incidents – controllable SENI includes incidents from employees, contractors and members of the public. In FY14 and FY15 incidents involving members of the public were not included

[2] Based on the network reliability and telephone answering targets included in the Substantive Regulatory Proposal (SRP). Based on the targets approved by the AER in its final determination, Essential Energy's STPIS result in 2014-15 would have been $15.9 million (unfavourable).

[3] In April 2014, the AER published a transitional regulatory determination and approved network charges to apply for the 2014-15 financial year. The AER's final determination was published in April 2015 and applied retrospectively to 1 July 2014. As a consequence of the AER's retrospective reduction in network revenue, $315.6 million of revenue collected from Essential Energy's customers in the 2014-15 financial year is being returned to customers through lower charges from 1 July 2015.

[4] The Gross to Base Ratio (GBR) compares actual gross earnings against base wages, providing an indication of equity in distribution of employees' overtime and allowances.

Our Business Plan outlines the strategic objectives and priorities that are designed to promote the long term interests of customers by delivering three key goals:

1. Safety – improve safety performance for employees, contractors and the community
2. Reliability – maintain the reliability, security and efficiency of the network
3. Sustainability – ensure that Essential Energy is sustainable by making it efficient, affordable and competitive so that we can meet future challenges.

Essential Energy's Corporate Plan outlined the following five priority areas for 2014-15:

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.
Improve customer service and engagement	Improve our customers' experience	Build a customer-centric culture by focusing on improving customer service at four key customer touch points – planned outage process, Accredited Service Providers (ASPs), retailers and Contact Centres.
Align our workforce plan to the AER's decision on our proposals	Our reduced capital program means we need to adjust job numbers	Respond to the AER determination through productivity benchmarking and our workforce plan.
Develop our sustainability program	Meet customers' long-term priorities and build business value	Identify benefits to customers and our shareholder through: > Efficient capital investment > Improved labour productivity > Blended delivery > Efficient network support costs > Competitive Enterprise Agreement.
Increase leadership effectiveness	Deliver performance through people	Deliver leadership training to improve leadership effectiveness, improve employee engagement and embed a Fair and Just Culture.

Performance – improve safety

1 Improve safety performance

Safety remains Essential Energy's number one priority. We continue to foster a culture where no employee knowingly participates in an unsafe act and where all employees are responsible and accountable for the actions and behaviours that influence their safety, the safety of others and the environment.

Essential Energy continued to make improvements in our safety performance over the financial year. We recorded 12 Lost Time Injuries (LTIs) compared to 17 in the previous year, and recorded a Lost Time Injury Frequency Rate (LTIFR) result of 1.53 against a target of 2.0. The Total Recordable Injury Frequency Rate (TRIFR) was 20.27, favourable to the target of 22.80.

The financial year also saw Essential Energy continue to work to the Health, Safety and Environment (HSE) Strategic Plan through the implementation of key initiatives across the business.

The HSE Strategic Plan provides a framework for optimising health, safety and environmental outcomes. It establishes the organisational expectations for developing a shared and positive safety culture.

Significant Electrical Network Incidents (SENI)

The *Electricity Supply Act 1995* (NSW) requires that Essential Energy report safety and asset related incidents on the electricity network. In 2014-15, Essential Energy recorded three controllable SENIs relating to employees, nine involving contractors and nine involving public workers or members of the general public contacting the network.

Management Systems

During 2014-15, Essential Energy's HSE Management System was recertified to AS/NZS4801 and ISO14001. Risk-based system audits were undertaken including the introduction of focused Network Fatal Risk (NFR) audits for NFR1 Exposure to unintended discharge of electricity, NFR 3 Fall from heights and NFR4 Motor vehicle accident control standards.

Essential Energy's HSE Incident Management System, TotalSAFE, underwent a number of enhancements designed to simplify the process for users to log an incident and improve the structure and quality of data captured.

This will, in turn, facilitate more effective incident analysis and reporting.

Stage two enhancements will be rolled out in the next financial year and will include the development of pages to manage specific incident types, and additional functionality to allow for independent workflow, analysis and reporting of the specific incident types recorded.

Safety Culture Assessment

More than 1,100 Essential Energy employees provided feedback through a Safety Culture Assessment conducted in August 2014.

The assessment aimed to better understand our safety culture and inform programs to improve safety outcomes.

Essential Energy developed a roadmap for implementation of agreed actions within the business over the next 18 months. Work has progressed on a number of key action areas contained in the roadmap, with various initiatives introduced to help improve our safety performance.

Network Fatal Risk program

Essential Energy has established the Network Fatal Risk (NFR) program to identify and eliminate high consequence, low frequency, life-changing events that may result in the loss of life or permanent disabilities. By reducing these events, we aim to systematically reduce all injuries.

One of the key elements of the NFR program is the development of minimum control standards or performance requirements for each of the nine NFRs to ensure that consistent and effective controls are in place across the organisation.

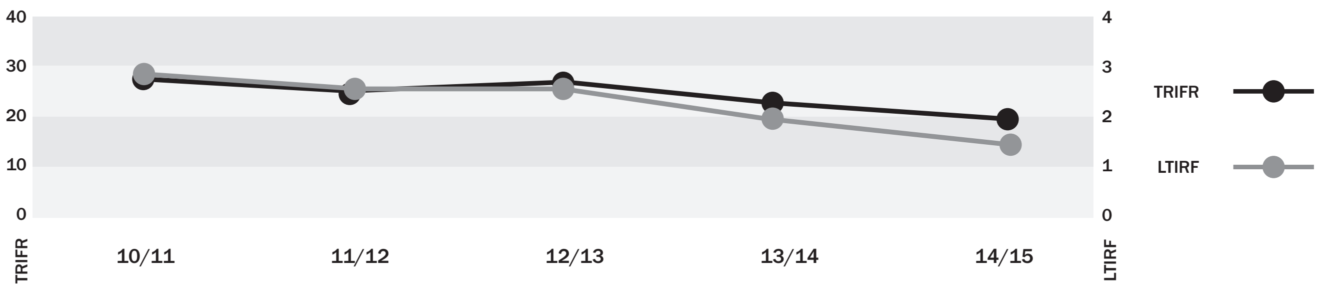
The NFR control standards were developed by analysing investigations of fatal and near fatal incidents, applying what we learnt from Work Health and Safety prosecutions, and consulting with operational, technical and specialist people across the business via bow-tie risk workshops, as well as benchmarking established risk controls in other industries.

An Essential Energy NFR Control Standards Technical Working Group was established in October 2014 to drive the implementation of the nine NFRs. The working group completed a desktop gap analysis of current controls against those contained in the NFR Control Standards. They also developed an implementation plan including key actions, timeframes and responsibilities to close the gaps identified in the final gap analysis. This work commenced in May 2015 and will be completed in the next financial year.

Rules We Live By

Essential Energy has developed a set of Rules We Live By for each of the nine NFRs. The Rules We Live By will influence positive safety behaviours and shape our safety culture. It will be fundamental to our 'Fair and Just Culture' process in determining the

Essential Energy LTI/LTIFR (2014–15 Financial Year)



need for personal consequence management when the Rules We Live By (having been determined by our workforce) have been breached.

Essential Energy engaged with our frontline employees, who are most at risk, to ensure the Rules We Live By are practical and representative of our work practices. In the 2015-16 financial year we will focus on embedding the NFR Rules We Live By.

Safety Leadership Competency Framework

The Safety Leadership Competency Framework was established to reinforce positive safety behaviours and support management action where behaviours stray from the expected norms.

A safety leadership training package was completed in February 2015 to facilitate the delivery of a consistent set of curriculum, behavioural learnings, assessment methodology and expected cultural outcomes for frontline supervisors.

Essential Energy completed safety leadership training to 467 safety critical leaders at 19 locations across Essential Energy's footprint. The sessions were introduced by a member of our Executive team to actively demonstrate the importance of the program and highlight individual commitment to being a visible safety leader role model. Participant feedback was constructive, with an overall positive endorsement average of more than 90 per cent for the two-day program.

To ensure the learning outcomes of the training were applied and sustainable, the Framework requires each participant to develop their own Personal Safety Leadership Action Plan. Employees self-assessed areas of improvement identified throughout the Safety Leadership Training Program and solicited feedback from direct managers on their demonstrated behaviours and performance. Work will continue in 2015-16 to implement the Personal Safety Plans developed during the training sessions.

Automatic External Defibrillators (AED)

Through a Networks NSW strategic initiative that commenced in 2013, Essential Energy successfully introduced 178 AEDs across 32 sites. Site selection was based on appropriate risk assessment criteria that were reviewed and confirmed by Deloitte.

An AED has not been discharged or required to be discharged since the inception of the program.

Essential Energy has established a working group to monitor the implementation, device utilisation levels and program effectiveness, and to identify improvement opportunities.

Manual Handling Solutions Program

To maintain focus on manual handling risks, Essential Energy produced a set of Manual Handling videos and communicated them across the business. Each video focused on an identified manual handling risk and provided solutions on how to best manage that risk. In addition to the videos, a paper-based instruction manual was developed, which included more visual aids that could be referred to whilst working in the field.

In 2015-16, the Manual Handling Solutions Program will launch a Manual Handling Mentoring Program.

Powerful Minds

A Psychological Wellness Strategy 2014–16 has been developed in acknowledgment of the potential impact of industry and business reform on employees.

In the Strategy's first year, Essential Energy partnered with the Queensland University of Technology and the Australian National University to assess the general psychological well-being of the company's workforce. Results from the 'People at Work' assessment will allow us to develop targeted programs to support employees in the areas of most need.

Additionally, Mental Health First Aid training and resilience programs were rolled out to many employees. The training aimed to build awareness and understanding of the importance of psychological well-being and its impact on employees and the company.

Further information was provided on our intranet site and distributed via email to employees.

Essential Energy's Employee Assistance Program remains available and continues to be promoted to employees and their immediate families. A Manager Hotline is also available to leaders to access advice and support on people related issues.

Workers' Compensation performance

During the reporting period, there were 219 Workers' Compensation claims, with an average gross cost per claim of $2,939; a significant decrease from $5,789 in 2013-14.

Essential Energy maintains a clear focus on continuing quality assurance of claims management. Effective injury management strategies have enabled consistent monitoring of return-to-work timeframes, effective early intervention, proactive claims management and strategies in line with promoting recovery at work.

We work collaboratively with our insurer, Employers Mutual Limited, to ensure key performance indicators are in place and reviewed on a regular basis.

Safety Week 2014

In October 2014, Essential Energy employees participated in Safety Week, which focused on promoting the key elements of a positive safety culture, safety leadership, risk management and the principles of a fair and just culture.

The event provided an opportunity for all employees to reflect on our safety practices, performance and culture.

Sessions were delivered to almost 3,500 office and field employees and supported learnings based around the themes of Network Fatal Risks, Rules We Live By and Incident Cause Analysis and Method (ICAM) investigations.

PRIORITY	WHY we're doing it	HOW we're doing it
Put our safety systems into action	Improve our safety performance	Continue to focus on fatal risk controls including rolling out the 'Network Fatal Risks: Rules we live by', and conduct safety leadership competency training.

2 Performance – customer centred

Customer Commitment Statement

Essential Energy formalised its commitment to high standards of customer service with the launch of a Customer Care Essentials campaign as one of the priorities outlined in our 2014-15 Business Plan.

The campaign and accompanying Customer Commitment Statement were developed through research and in consultation with customer representatives and employees.

The common themes that emerged from consultation were that we must continue to listen to customers' needs, respect them, and deliver on our promises.

The campaign equips employees with critical information and tools to focus on customers, and reminds them of the basic elements of customer service and how they can provide quality customer service at all times.

Customer Hardship Policy

We revised our Customer Hardship Policy to make it more relevant for a network business and to better address the challenges our rural and regional customers may face.

The revised Policy was developed following wide consultation with various stakeholder groups to ensure it was appropriate for, and reflected, their needs.

The Policy recognises that there are customers who may experience financial stress or hardship and require support to meet their payment obligations for maintenance work carried out by Essential Energy.

Customer Satisfaction measure

The 2014-15 financial year was one of renewed customer focus, with a view to enhancing customers' experiences with our company.

Through the introduction of the Customer Commitment Statement, we promoted a common understanding of the behaviours and actions required to support a more customer-centred organisation.

The results of these efforts were measured through Essential Energy's quarterly Customer Satisfaction Index (CSI) surveys, which reported a favourable average result for the financial year of 81.8 per cent - a slight increase of 0.4 per cent from last year's result, and above the target of 80 per cent.

These results and examples of employees' commitment to customer service were shared with employees through the Customer Care Essentials program.

Enhanced Customer Communications trial

Following research which identified that customers said improved communication would help them better prepare for planned interruptions and allow them to make informed decisions during unplanned interruptions, we trialled the use of digital communication methods as an additional channel to notify customers of planned and unplanned power outages.

Around 1,375 customers, including 175 life support customers, were invited to participate in the trial, which was conducted during February and March 2015.

The trial provided participating customers with updates during unplanned interruptions via SMS text messages and automated text-to-voice landline messages.

A further 1,200 business and residential customers received information about planned interruptions via SMS, landline messages and email.

Use of digital 'push' notifications allowed us to communicate with customers in 'real time', keeping them updated about their local situation.

The trial complemented existing planned and unplanned supply interruption communications such as postal and local notifications, which we continued to use.

In the coming year, this technology and the supporting processes will be embedded into daily operations to routinely advise customers of cancelled outages affecting their premises.

CUSTOMER COMMITMENT STATEMENT

We will listen to and respect our customers, safely deliver on our promises and place customers at the centre of everything we do.

Our job, as a poles and wires business, is to deliver electricity safely, reliably and efficiently.

Our commitment to customers is that we will:

Listen:

> to understand their needs
> to act on and address their feedback
> to provide service that is courteous, fair and professional

Respect:

> their safety and well-being
> their diversity and the communities in which they live
> their property and privacy

Deliver:

> on our promises
> information that is clear and timely
> our services efficiently and be easy to deal with

More information: Go to Essentialnet and type 'Customer Care Essentials' into the search bar for more customer care information.

essential energy

Customer Service Standards

The NSW Government's Customer Service Standards for reliability support the payment of 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 distributors to compensate eligible customers based on the frequency and duration of interruptions. Supply interruptions resulting from normal network operations, or that are beyond our reasonable control, are not eligible for compensation.

We had 53 valid claims for frequency of supply interruptions and one valid claim for the duration of an interruption, representing a total cost of $4,320. The majority of these claims relate to one major incident in May 2015, when customers experienced an extended outage.

Customer feedback

We experienced a 22 per cent decrease in customer complaints for the year, with 2,765 complaints received compared to 3,576 for 2013-14. This reduction is largely attributable the Customer Care Essentials program and improved network reliability as a result of significant network investment in past years.

Strong efforts by our Customer Service team saw 91 per cent of complaints resolved within four business days.

The Energy and Water Ombudsman advised that Essential Energy matters accounted for 21 per cent of all matters raised with them.

Network reliability

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 222 minutes against the target of 323 minutes set by the NSW Department of Trade and Investment.

We also posted a positive result for our System Average Interruption Frequency Index (SAIFI) normalised, which measures the average number of interruptions that a customer experienced. For the financial year, an average of 1.97 interruptions was recorded against a target of 2.96 interruptions.

As at 30 June 2015, there were 73 high voltage powerlines (feeders) that exceeded licence condition targets, and in total, there were 103 that exceeded the targets during the year. Under our licence conditions, we must improve the performance of these feeders and report on them to the Regulator.

Major event days

Extensive storms during the year resulted in the declaration of five 'major event days', totalling 61 minutes. 'Major event days' are excluded from Essential Energy's overall reliability results. They were:

> 5 November 2014 – storm activity in the Northern Region, especially around Armidale, Inverell and Tamworth. The SAIDI impact was 6.2 minutes, which is above the threshold for 2014-15 of 4.99 minutes.

> 11 December 2014 – storm activity caused the failure of six 66,000 volt poles near Tamworth. The SAIDI impact was 9.6 minutes.

> 18 December 2014 – storm activity caused a large outage affecting the Mallanganee, Bonalbo and Urbenville areas. The SAIDI impact was 6.9 minutes.

> 16 February 2015 – storm activity in the Griffith area resulted in a SAIDI impact of 6.2 minutes.

> 21 April 2015 – widespread storm activity in the Dungog and Tea Gardens area. The SAIDI impact was 32.1 minutes.

Keeping customers informed

We remain committed to maintaining communication with customers during planned and unplanned outages.

Over the 12-month period to 30 June 2015, Essential Energy's Contact Centre recorded total customer contacts of more than 630,500, achieving an average service level of 74 per cent – favourable against the target of 70 per cent. This target measures the number of calls answered within 30 seconds.

Our contacts with customers included:

> 471,498 inbound calls

> 159,046 outbound calls for planned and unplanned outage updates.

These included:

> 277,645 calls about supply interruptions

> 103,633 calls about general network enquiries such as network connections, Essential Water and solar installations.

December 2014 was the Contact Centre's busiest month, averaging 1,216 supply interruption calls per day. On the busiest day – 11 December, which was a 'major event' day – 2,548 supply interruption calls were recorded.

In April, storms on the Mid North Coast generated almost 10,000 customer enquiries in just five days.

	Feeder category	Target	Performance	Result
SAIDI (minutes)	Urban	74	72	✓
	Short rural	238	207	✓
	Long rural	474	489	×
SAIFI (interruptions)	Urban	0.93	0.97	×
	Short rural	2.08	1.99	✓
	Long rural	3.14	3.28	×

Online media helps people connect

During the financial year, more than 450,000 unique users visited Essential Energy's website - *essentialenergy.com.au* - spending a combined total of almost 4 million minutes on the site. In total, the site received 1,820,739 visits for the year.

We continue to utilise social media to reach specific groups and individuals during emergencies, and engagement through these channels continues to increase with the number of Facebook fans more than doubling in the past 12 months.

Social media, including Facebook, is proving increasingly popular with customers who use these tools to seek information about unplanned outages.

NSW Premier thankful for storm response

Our employees received thanks from New South Wales Premier, Mike Baird, for their power restoration efforts after a once-in-a-decade severe storm event left more than 200,000 households and businesses across the State without electricity.

Cyclonic winds of up to 135 km/h and widespread rain battered parts of Sydney, the Central Coast and the Hunter over two days, causing flash flooding, three fatalities and a damage bill estimated to be in excess of $250 million.

At the height of the storm, around 14,000 of our customers were without power from Pacific Palms to Tea Gardens, across to Bulahdelah, Stroud and Markwell, and Martins Creek to Gresford.

The storm caused extensive damage to our network and left many areas inaccessible due to floodwaters and fallen vegetation.

In response, more than 300 Essential Energy crew members and vegetation contractors were on the ground repairing the network and restoring supply for Essential Energy and Ausgrid customers.

The storm hit on the night of Monday, 20 April and progressive clean-up and restoration efforts saw the last of our customers reconnected to the network on Sunday, 26 April.

Crews worked in challenging conditions to restore power, efforts that were appreciated by our customers, many of whom expressed their thanks and gratitude to the business.

Customer Information System upgrade

We completed a major upgrade to our Customer Information System (CIS), improving end user functionality and significantly reducing costs.

The upgrade aligns with technological advancements and industry changes borne from the move to a network services-only business and the introduction of the National Energy Customer Framework (NECF).

Significant efficiencies were gained, including data quality improvements and automated processing of transactions, ensuring that market compliance and customer life support and hazard information remains current.

The benefits to our business as a result of this automation include:

- Improved data quality through reducing manual intervention
- Improved turn-around through the automated processing of transactions
- Reduced likelihood of market non-compliance through delays and inaccurate data
- Better security around ensuring that customer life support and hazard information is up to date.

The year ahead

PRIORITY	WHY we're doing it	HOW we're doing it
Improve customer service and engagement	Improve our customers' experience	Embed the principles of the Customer Commitment Statement – listen, respect and deliver – into everything we do.

3 Performance – be competitive

Essential Energy's reform efforts over the past three years have resulted in reduced expenditure and lower network costs for customers.

This was achieved through the implementation of a number of cost savings measures, and productivity and efficiency gains. Works programs were closely monitored and revised where necessary.

Network Capability Improvement Program

The Network Capability Improvement Program (NCIP) commenced in August 2014 with the key objective of driving improvements in safety, portfolio, program, project and contract management. The program focused on improving network safety, productivity and competitiveness and helped to ensure the delivery of network programs on time and to budget.

The NCIP changes to business planning, monitoring and implementation have provided the business with a more informed view, allowing us to respond to change, and better meet deadlines and budgets.

Some notable achievements include:

- Greater visibility of continuous improvement in areas relating to works program procurement, contractor management and design
- Provision of transparent reporting on network delivery, which facilitates regular meaningful discussion with the right stakeholders
- More rigorous governance and control of the overall portfolio
- Improved ability to forecast supply and demand for resources by depot and skill type
- Better management of delivery preparation and resource allocation
- Greater visibility of forecast achievement for distribution maintenance and capital programs, coupled with a higher level of accountability to achieve outcomes
- Introduction of new policies and procedures to better identify and control project risk management
- Introduction of new tools to better manage contracts and contractors.

The NCIP program will play a key role in measuring and tracking progress against our corporate objectives in the 2015-16 financial year.

Fleet savings

Focusing on cost control through improved asset utilisation, we continued our Fleet Reduction Program, removing 570 vehicles from the fleet in 2014-15.

Our Fleet Reduction Program focused on four key areas:

- Removal of 'private use' vehicles – this targeted more than 155 vehicles, with 50 retained for use by all employees as pool vehicles. Those vehicles with remaining life were reallocated within the business to replace end-of-life assets
- Non-network operations – vehicles that were not in the field every day were disposed of at auction or introduced into the pool for use as shared vehicles, resulting in a net reduction of 244 vehicles
- Network Operations – regional vehicle reduction targets were agreed with Network Operations management, who identified specific vehicles for disposal. The Fleet team coordinated the collection and removal of all vehicles, which provided the balance of the total reduction
- The reduced fleet size and improved usage efficiency helped achieve financial results that were favourable to budget by $8 million for operating expenditure and $16 million for capital expenditure.

Other initiatives introduced included:

- The introduction of 'extended useful life' conditions, raising the replacement target of light commercial vehicles to 150,000 km and passenger vehicles to 120,000 km. This reduced the number of vehicles requiring replacement
- A review of heavy fleet maintenance contracts and the introduction of additional efficiencies
- The introduction of new plant maintenance contracts that allow for the option of heavy vehicle rebuilds rather than replacements
- Better use of technology, including the adoption of an online booking system to support the move to an increased use of pool vehicles.

Savings in procurement

In March 2015, a comprehensive Procurement Framework was implemented across the three Networks NSW businesses to establish a consistent approach to all procurement activity - whether conducted solely by the company or two or more companies working together.

Six principles underpinned the framework to improve cost and generate efficiencies. These were:

- Commercially focused to drive value for money and achieve sustainable benefits
- Governance focused via embedded controls and approvals to manage risk and compliance
- Adaptable
- Integrated
- Practical
- Change Aware.

The Networks NSW Joint Venture Operating Committee continued to oversee procurement activities that were designed to drive substantial savings across the three organisations.

Since its establishment in 2012-13, the Joint Venture program has completed 13 procurements, with estimated annual savings of 9.8 per cent.

Property savings

Over the financial year, Essential Energy's Property branch achieved annual cost savings of $1.3 million through the rationalisation of properties and termination of leases, including office accommodation and storage facilities.

Employees were relocated from leased properties at Banksmeadow, Bathurst, Bega, Grafton, Port Macquarie and Thomastown into company owned sites.

Other property leases were terminated from identified surplus storage locations at Bega, Cooma, Dubbo, Kyogle, Orange and Wagga Wagga.

Further savings were achieved through the annual renewal of grounds maintenance and air-conditioning service contracts.

PeopleSoft Upgrade

Essential Energy upgraded our PeopleSoft application to the latest version, which enhanced functionality and reduced risk and support costs.

The upgrade improved our ability to electronically manage our Human Resource (HR) systems such as Payroll, Employee and Manager Self Service, Financials, and delivered a more modern and functional experience to users.

Working with the vendor, we were able to remove many previous customisations, allowing a more out-of-the-box implementation to improve work flows and reduce the need for manual intervention. The boosted level of vendor support will also reduce technical risks.

The upgrade provides us with the future option to install new modules and application functionality, potentially further streamlining business processes and providing easier access to critical business information.

Windows 7

With Windows XP approaching end-of-life and Microsoft ceasing support, Essential Energy's ICT branch commenced an upgrade of the Standard Operating Environment (SOE) from Windows XP to Windows 7 in July 2014.

The new SOE enables us to more efficiently manage and deploy software across the statewide network and more effectively manage licensed applications.

Windows 7 also brings benefits such as a wireless network and an upgraded version of Internet Explorer to provide better compatibility and response times.

As at 30 June 2015, 68 per cent of Essential Energy devices had been upgraded to Windows 7 and 91 per cent of the required software applications have been remediated, replaced or moved into Windows 7 production.

Data Centre Optimisation

The consolidation of Essential Energy's data centres and the relocation of our ICT infrastructure from IBM's Ultimo data centre will deliver savings of almost $1 million per year.

Relocation to Fujitsu's data centre in Homebush, Equinix's data centre in Mascot and Essential Energy's own facility at Bathurst will deliver efficiencies and savings for customers.

At 30 June 2015, most of the equipment had been moved, with full relocation expected by September 2015.

The year ahead

PRIORITY	WHY we're doing it	HOW we're doing it
Implement our Transformation Program	Safely improve business efficiency to meet customers' long term priorities	Deliver benefits to customers and our shareholder through: > Efficient capital investment > Improved labour productivity > Blended delivery > Efficient network support costs > Competitive Enterprise Agreement > Streamlined back office operations.

4. Performance through people

Industrial relations

Essential Energy's Industrial Relations team is responsible for maintaining dialogue and consultation with relevant stakeholders and regulatory bodies including employees, unions, government agencies and tribunals.

As part of its role, the team is responsible for ensuring we comply with the appropriate employment related legislation, deal with employee grievances and union disputes, manage peak consultative forums and disciplinary actions, and respond to any litigation arising from these mechanisms.

Over the past 12 months, there has been an increase in industrial consultations, driven by significant reform change, including the recent AER determination and plans by the NSW Government to partially lease the other Networks NSW businesses - Ausgrid and Endeavour Energy.

The *Essential Energy Enterprise Agreement* 2013 and the *Essential Energy Far West Electricity Enterprise Agreement 2013* nominally expired on 30 June 2015. Essential Energy commenced the process for negotiating with the relevant Unions for new enterprise agreements in April 2015.

Negotiations for the *Essential Water Enterprise Agreement 2013* are ongoing.

In negotiating the new modern and competitive agreements, Essential Energy will continue to consider the needs of its customers, employees and the community.

Fair and Just Culture

Building on the efforts of the previous year, our transformation to a 'Fair and Just Culture' (FJC) within Essential Energy has involved a blended model of education and cultural activities in three phases.

Phase 1 was rolled out between October 2014 and April 2015 and involved educating leaders and employees on what a FJC is (and is not), how a FJC is to be applied to everyday behaviours, and how these behaviours align with our corporate values.

As the drivers of the FJC message, leaders attended facilitated workshops and subsequently presented the program to their teams.

Progress was monitored and reported to the Executive Leadership Team (ELT) on a weekly basis, with completion rates of 95 per cent attendance for leaders and 90 per cent for employees.

Phase 2 of the FJC education strategy will focus on further embedding these behavioural and cultural messages across Essential Energy.

Leadership programs

The Executive Leadership Team (ELT) has placed considerable focus on leadership effectiveness during 2014-15, through quarterly Executive leadership meetings to drive the Leadership Competency Framework, leadership development, succession planning and talent identification activities. The ELT also provided input into a pilot program to develop the Cultural Pulse Check and Leadership Effectiveness measure to be implemented in 2015-16.

Leadership development throughout 2014-15 focused on strategic and active leadership programs delivered to managers. These programs have supported leaders to begin to self-assess and develop their capability in line with the Leadership Competency Framework.

Work will continue in 2015-16 to engage and develop more levels of leadership within our business and to build leadership resilience across all levels.

Engineering graduates and cadets

Three engineering cadets, currently in their fourth year of study, commenced a 15-month work placement with Essential Energy in December 2014.

This placement involves the cadets rotating through five business areas including Primary Systems, Secondary Systems, Network Operations, Network Planning and Project Development.

The rotations allow the cadets to develop technical skills and gain experience in all practical engineering aspects of the business.

Delivery Analysis as at 1 June 2015

Leader workshops	Leaders trained	Leader attendance	Employees trained	Employees not trained	Employee attendance
11	126	92%	3,546	311	92%

EKAS online learning

There were more than 33,000 individual enrolments in EKAS (our online learning management system) in 2014-15.

During this period, business-wide roll-out of courses included ‘Acceptable use of Technology’ and ‘Conflict of Interest and Secondary Employment Declaration’ for all employees.

More than 4,000 regulatory assessments have been managed through EKAS and our Corporate Induction Program was also piloted and successfully rolled out.

There are currently more than 100 courses in EKAS, of which the majority are available for employees to self-enrol for self-paced learning and development as appropriate.

Study assistance

Eligible employees may apply for course fee reimbursement for the qualification relevant to their position description or study included in their individual development plan. At 30 June 2015, there were 98 employees undertaking supported study. This includes 55 seeking to obtain the qualification for their role, 35 for professional development, and eight for engineering development (such as cadets and trainees).

Technical training

Essential Energy delivered 210 regulatory assessment days to around 2,900 employees on site during 2014-15.

The training team also delivered Certificate III Distribution Powerline Worker training to around 200 apprentices in a blended delivery model, either at their place of work or at one of the organisation’s three dedicated training centres 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 and new employees via inductions, switching training and regulatory refresher assessments in various rescues, resuscitation, Electrical Safety Rules and network access procedures.

The year ahead

PRIORITY	WHY we’re doing it	HOW we’re doing it
Develop our employee capability and commitment	Support employees and provide skills to cope with ongoing change in the workplace	We will: > Keep investing in targeted leadership training > Embed Fair and Just Culture consistently throughout our business > Build employee productivity, resilience and engagement.

Our network

Introduction

During the year, Essential Energy's proposed five-year Network Asset Management Plan (NAMP), which runs to 30 June 2019 and outlines our capital and operational programs, was submitted to the Australian Energy Regulator (AER).

Our capital program focuses on the delivery of a safe, reliable and sustainable electricity supply to customers, renewing ageing assets and meeting population growth and capacity demands across the State.

Our operational program ensures our network meets performance standards, reduces equipment failure and avoids associated emergency response costs. We understand that good asset management is the key to running a safe, reliable and sustainable electricity network while delivering these outcomes in an efficient way.

A challenge we face is that over several years, the improved efficiency of appliances and trend towards small scale solar generation have led some small to medium sized businesses and residential customers to reduce their electricity use.

At the same time, pockets of consumption growth are still occurring within Essential Energy's footprint due to growing populations and commercial activities – and network investment is required to meet customer needs in these locations.

The installation of domestic and small business solar photovoltaic (PV) systems is a continuing trend. However, network investment is still required to meet the peak evening demands when solar generation is not available.

In future years, it is expected that the uptake of domestic battery storage will potentially have a positive benefit in reducing peak demand, putting downward pressure on the need for network upgrades.

Essential Energy has completed a large number of major network investments that were required to meet various network licence conditions. This means 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 is forecast to decline to a long term sustainable level over the same period.

In managing the network, we will need to focus on balancing costs and maintaining reliability standards and benefits for its customers. Every dollar spent will be prioritised to deliver a safe, reliable and efficient network.

To ensure safety and reliability is not compromised, we will continue to prioritise work, mindful that the average age of our network is increasing and a growing percentage of network components are approaching their end of life.

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

NAMP performance

Essential Energy invested more than $811 million in the electricity network last year, delivering a capital program of $439 million and maintenance programs of $372 million.

In the past year, around 206 sub-transmission projects were commenced, continued or completed, totalling a capital investment of more than $41 million.

More than 5,000 distribution projects were completed in 2014-15, with network investment of $204 million.

Annual capital works program

The 2014-15 capital works program was lower than the previous year as a result of completing supply security projects, the trend to overall lower demand, improved network reliability and the increasing impact of efficiencies created in the delivery process.

The capital works program was impacted by a major storm event in the Hunter region in April 2015, with significant interruption to planned capital projects while resources were diverted to emergency restoration work. It was also affected by additional maintenance and the provision of additional resources to assist Ausgrid with storm damage repairs on their network.

Two major renewable generation projects were successfully connected to the network, requiring considerable engineering analysis and network design to meet the unique needs of intermittent renewable generation:

> The Nyngan Solar PV Project is the largest PV generation facility in Australia at just over 100 megawatts. This generation facility was connected to the existing 132,000 volt network between Nyngan and Cobar in western NSW, approximately 10 km west of Nyngan.

> The Boco Rock windfarm of approximately 100 megawatt output capacity, was connected at 132,000 volts via the new Steeple Flat Zone Substation, in conjunction with the new, second 132,000 volt powerline from Cooma to Bega.

Improving load control

Controlling energy load on the network is crucial for distributors who must manage and respond to peak periods and demands, and have the capacity to load shed if and when required.

During the financial year, we improved load management with the installation and replacement of equipment that facilitates load control, under our Frequency Injection Refurbishment Program.

This program saw the installation of a new frequency injection system at the Moree Zone Substation and installation of a new transmitter at the Eulomogo Zone Substation, near Dubbo. This system allows us to securely control the load of around 25,000 customers located across approximately 14 per cent of the geographical area of NSW. These customers have a load base of about 100 megawatts.

Almost 14,000 frequency injection relays at customer installations across NSW were upgraded under a bulk replacement program, restoring approximately 11 megawatts to the load under control. Essential Energy now has 1800 megawatts of controlled load, which equates to more than 480,000 customers using this facility.

Controlling the network remotely

Supervisory Control and Data Acquisition (SCADA) and Distribution System Automation (DSA) are digital tools and equipment that allow Essential Energy to communicate and control our network remotely.

Significant efforts over the past 12 months, including the commissioning of an additional 13,000 SCADA control points in major substation sites and a further 333 devices in our distribution network, have positioned us as the operator of one of the largest single Network Management Systems in Australia. At the same time, we have the largest application of PowerOn Fusion (software that communicates with SCADA and DSA) in the Asia-Pacific region.

As at 30 June 2015, Essential Energy recorded:

- 354,648 SCADA points
- 110,153 SCADA points associated with Zone Substations
- 244,495 SCADA points associated with DSA.

The installation of this equipment on the network significantly increases the speed with which Essential Energy can locate and respond to network faults and restore power for customers.

Taking this work 'out of the field' and into a centralised digital location helps reduce the costs associated with managing and operating Australia's largest energy network.

Broken Hill generators

The control systems of Broken Hill's backup generators were replaced and upgraded and are ready for use in the event of an emergency situation.

The two 40-year-old generators are each capable of producing 25 megawatts and deliver backup capability to Broken Hill and areas to the north, including White Cliffs (excluding mining loads).

Power supplies to Broken Hill are delivered from a 300 km long, 220,000 volt radial line from Buronga. The generators play a key role in providing backup supply to the area during planned and unplanned supply interruptions.

Streetlighting

Essential Energy maintains and services more than 154,000 streetlights across 100 Local Government Areas.

The delivery of these services is costly and, during the financial year, the AER approved our proposal to shift to a more cost reflective pricing model for the 2015–19 regulatory period.

Price smoothing – where councils receive the price increase spread over the five-year determination period – has been introduced to minimise price shock and assist local councils to budget for the increase.

With energy efficiency top of mind, the Northern Inland Regional Councils group (which consists of Armidale Dumaresq, Glen Innes, Guyra, Gwydir, Inverell, Tenterfield and Walcha councils) has secured Commonwealth funding through the Community Energy Efficiency Program for high efficiency luminaire upgrades in their municipalities.

Light Emitting Diode (LED) streetlighting installation will commence in 2015-16 in the Northern Inland Regional Councils area as part of an Efficient Streetlighting Bulk Replacement Program.

LED streetlighting will become available to all councils within our footprint area during the 2015-16 financial year.

Maintenance programs

Essential Energy's NAMP also identifies our annual maintenance needs, aligning these costs and priorities with our business objectives and ensuring that maintenance requirements support our network strategy.

Maintenance programs include vegetation management, asset inspections and pre-summer bushfire inspections of overhead electricity lines in bushfire-prone areas.

The NAMP is reviewed and updated each year to identify the network maintenance activities required in the following 12 months.

In 2014-15, we delivered a maintenance program of around $372 million, compared to approximately $395 million in 2013-14.

Asset inspection

Essential Energy inspected more than 345,000 poles during the 2014-15 financial year, representing 99.8 per cent of the inspection target.

Our 1.4 million poles are inspected over a four year cycle, across challenging and diverse terrain that presents many accessibility issues for employees.

Managing bushfire risk

Essential Energy employs ongoing hazard management through a range of programs, always mindful of the potential for bushfires associated with powerlines.

We are committed to ongoing monitoring and management of bushfire risk, with hazard mitigation embedded into policies and practices associated with asset management, operation of the network and delivery of services.

This includes our network systems which are designed, constructed, inspected and maintained to ensure they meet industry standards.

Essential Energy has continued our increased use of insulated and underground systems to prevent bushfires, and introduced similar standards for private electrical contractors constructing extensions or connecting to our network.

In 2014-15, we continued our work with the NSW Rural Fire Service and University of Melbourne to develop bushfire risk classifications through the Phoenix Rapid Fire system, to better understand the potential bushfire threat across locations where powerlines exist.

Aerial patrols are conducted in line with the calendar year, and in 2014 we completed a survey of around 42,000 kilometres of overhead powerlines using Light Detection and Ranging (LiDAR) and high resolution photography of pole tops in bushfire prone areas. This increased investment in network inspection resulted in the identification and completion of additional maintenance tasks, leading to a reduction in the potential overall bushfire risk.

As a rural service provider with a predominantly overhead network, we recognise that the majority of our network is exposed to weather extremes.

These weather events influence the number of potential network-related bushfires each year and we are constantly working to improve the resilience of our network to such events. As an example, on Total Fire Ban days, the network protection schemes are placed on bushfire prevention settings to reduce potential arcing of overhead conductors in the event of a fault or storm damage.

Legislative changes were introduced in 2014-15 allowing additional measures to be implemented by NSW distributors to ensure defects identified in private installations are rectified in a timely manner, further reducing the risk of bushfires from privately owned assets.

The *Essential Energy Bushfire Risk Management Plan* and *Vegetation Management Plan* are key instruments in managing the bushfire risk associated with our network. These plans, as well as other community bushfire safety messages, are publicly available through our website, *essentialenergy.com.au.*

Vegetation management

Essential Energy has started market testing and transitioning to outcome-based Vegetation Management Service contracts in order to deliver a range of commercial benefits that will result in cost savings, more equitable risk scenarios and compliance with statutory requirements and agreed industry standards.

This decision reflects our commitment to safely maintain network tariffs as low as possible.

Vegetation Information Management System

A new Vegetation Information Management System (VIMS) was introduced to assist us achieve performance target improvements around cyclic vegetation management.

The comprehensive new system aims to:

- Support the effective and timely identification and management of vegetation risks – especially within bushfire prone areas
- Contribute significantly to reducing average direct expenditure for vegetation management in the 2014-19 regulatory period and limiting cost increases to customers
- Replace the end-of-life hardware and software that was impacting field operations
- Deliver improved data management and integrity to reduce administrative time, and provide more effective control of vegetation management cycles and objectives
- Facilitate the implementation of alternate contractual models
- Provide integrated access, in a user friendly format, to more effectively manage environmental aspects and areas of cultural or heritage significance
- Facilitate the implementation of technology such as LiDAR.

Nymboida Hydro-Electric Power Station

During a major flood event in February 2013, a catastrophic failure of equipment at Essential Energy's Nymboida Hydro-Electric Power Station caused significant infrastructure and environmental damage.

Remediation work was completed and it was determined the power generation plant would not re-open.

In early 2015, Essential Energy commenced discussions with Clarence Valley Council and the Nymboida Canoe Centre to transfer ownership of the Nymboida water licences and assets associated with water supply to these organisations that derive benefit from them.

Capital program highlights

Essential Energy invests in the electricity network to ensure power supply safety, reliability and quality standards are met, to cater for future growth in peak demand and to keep pace with ageing assets.

In 2014-15, we completed an extensive network upgrade and maintenance program, including the installation or upgrade of:

- 28 km of high voltage underground cable
- 9 km of low voltage underground cable
- 506 km of high voltage overhead line
- 68 km of low voltage overhead line.

Major projects in progress during 2014-15

Description	Before FY15 Inc Overheads (direct project $'s)	2014–2015 Inc Overheads (direct project $'s)	Total Cost to Date Inc Overheads (direct project $'s)	Estimated completion date	Comments
Cooma to Bega – Brown Mountain Power Station to Bega River powerline construction	27,387,070.06	3,776,295.70	31,163,365.76	Oct–15	Construct a dual circuit 132,000/66,000 volt (42 kilometres) including Tees to Quira and Brown Mountain power station
Wagga to Temora – Construct new 132kV powerline between Junee and Temora	15,565,914.26	1,012,415.89	16,578,330.15	Feb–16	Construct a 66,000 volt subtransmission line (50 kilometres)
Wagga to Temora – construct new 132kV powerline between Junee and Wagga	1,579,843.77	1,036,750.56	2,616,594.33	May–16	Construct a dual circuit 132,000/66,000 volt (32 kilometres)
Junee Zone Substation – construction of 132kV yard	2,122,855.64	4,996,559.46	7,119,415.10	May–16	Associated Substation works for new 132,000 volt line
Junee Zone Substation – replace 11kV switchboard	2,239,392.10	674,953.53	2,914,345.63	Jun–16	Replace switchboard
Forbes to West Jemalong – construct a new 66kV powerline	14,927,113.54	167,520.10	15,094,633.64	Jul–15	Construct a 66,000 volt subtransmission line (40 kilometres)
Bathurst Russell Street Zone Substation rebuild	12,454,627.49	1,329,536.77	13,784,164.26	May–16	Rebuild substation on land adjacent to existing site
Inverell Borthwick Street Zone Substation rebuild	12,066,040.11	1,583,233.83	13,649,273.94	Jul–18	Wynne St & Borthwick St – Rebuild and combine to one substation
Beryl to Dunedoo – construct new 66kV powerline	4,553,600.24	4,267,593.00	8,821,193.24	Mar–16	Construct a 66,000 volt line (45 kilometres)

Description	Before FY15 Inc Overheads (direct project $'s)	2014–2015 Inc Overheads (direct project $'s)	Total Cost to Date Inc Overheads (direct project $'s)	Estimated completion date	Comments
Dunedoo – works associated with new powerline	564,278.13	1,380,403.80	1,944,681.93	May–16	Substation works associated with new 66,000 volt subtransmission line
Googong Town – construct a 132/11kV Zone Substation	1,007,621.80	8,496,021.84	9,503,643.64	May–16	Construct a 30 Mega Volt Amp 132,000/11,000 volt substation
Coffs Harbour South Zone Substation rebuild	5,206,557.71	1,560,228.11	6,766,785.82	Aug–15	Construct a new 66,000 volt busbar and 66,000 frequency injection plant
Leeton Zone Substation reconstruction	2,594,840.89	3,473,389.90	6,068,230.79	Apr–16	Construct a Zone Substation
Port Macquarie Boronia Street Zone Substation – new switchboard and transformer	5,030,115.87	979,175.39	6,009,291.26	Jul–15	Install new switchboard and building, and new 20/30MVA transformer
Orange South Zone Substation rebuild	4,860,371.09	1,151,023.97	6,011,395.06	Sep–15	Substation augmentation and construction of a new 66,000 volt busbar and 2 transformer bays
Dubbo Wheelers Lane to Dubbo West – Construct new 132kV powerline	2,167,063.66	3,433,293.01	5,600,356.67	Aug–15	Construct a new 132,000 volt powerline
Coolamon Zone Substation – construct new 66/11kV substation	3,209,588.05	1,660,933.79	4,870,521.84	Jul–15	Construct new 66,000 and 11,000 volt substation
Bega – construction of new powerlines	3,480,057.28	719,507.11	4,199,564.39	Aug–15	Construct new dual 132,000/132,000 and 132,000/66,000 volt powerlines (including section to Boundary Street Zone Substation)
Kempsey Prince Street Zone Substation – install new switchboards	2,684,043.18	1,147,630.84	3,831,674.02	Aug–16	Install new 11,000 volt and 33,000 volt switchboards and buildings
Murwillumbah Zone Substation – install new switchboard 66kV busbar replacement	1,478,083.31	2,306,773.81	3,784,857.12	Jun–16	Install new indoor 11,000 volt switchboard and new building and replace 66,000 volt circuit breakers
Parkes TransGrid to Parkes Zone Substation – construct new 66kV powerline	3,059,268.72	739,275.37	3,798,544.09	Aug–15	Construct a new powerline from TransGrid substation supply point to Parkes Zone Substation (12 kilometres)
Moree Zone Substation refurbishment	917,865.92	2,299,592.55	3,217,458.47	Dec–15	Install new 22,000 volt switchboard with new building and upgrade protection systems
Woodlawn Zone Substation – refurbishment	533,302.21	2,083,118.12	2,616,420.33	Jun–16	Replace fence and earth grid, install second 66,000/11,000 volt transformer and 66,000 volt line circuit breakers.
Nyngan to Cobar CSA Zone Substation 132kV powerline refurbishment	15,484.53	1,653,778.69	1,669,263.22	Apr–16	Replace aged cross arms and end of life pole replacements between Nyngan and Cobar CSA on 132,000 volt powerline
	$129,704,999.56	$51,929,005.14	$181,634,004.70		

Major projects completed during 2014-15

Description	Before FY15 Inc Overheads (direct project $'s)	2014–2015 Inc Overheads (direct project $'s)	Total Cost to Date Inc Overheads (direct project $'s)	Completion date	Comments
Koolkhan to Maclean – construct new 66kV powerline	$33,630,418.18	$2,178,774.95	$35,809,193.13	Dec–14	Koolkhan to Maclean – construct new 66,000 volt line (40 kilometres)
Deniliquin to Moama – construct new 132kV/66kV powerline	$24,499,552.57	$127,437.97	$24,626,990.54	Jun–15	Deniliquin to Moama – construct new 132,000 / 66,000 volt line (71 kilometers)
Yarrandale to Gilgandra – construct 66kV STL	$16,427,529.42	$1,951,269.16	$18,378,798.58	Jun–15	Yarrandale to Gilgandra – construct new 66,000 volt line (65 kilometres)
Coffs Harbour North to South – construct new 66kV powerline	$12,137,402.80	$2,638,970.74	$14,776,373.54	Jun–15	Coffs Harbour – construct new 66,000 volt line
South West Rocks – construct new powerline	$8,536,216.32	$208,250.04	$8,744,466.36	Dec–14	South West Rocks – construct new second powerline to South West Rocks
Gundagai South Zone Substation rebuild	$10,990,916.65	$496,881.19	$11,487,797.84	May–15	Gundagai South – rebuild existing Zone Substation on adjacent land
Uranquinty Zone Substation rebuild	$8,350,682.84	$56,515.47	$8,407,198.31	Apr–15	Uranquinty Zone Substation – rebuild existing Zone Substation on adjacent land
Steeple Flat – construction of new Zone Substation	$5,746,054.83	$157,365.03	$5,903,419.86	Apr–15	Steeple Flat– Construction of new Zone Substation
Steeple Flat – construct new 132kV powerline for new Zone Substation	$1,107,430.74	$300,323.26	$1,407,754.00	Jan–15	Steeple Flat– 132kV line connections
East Lismore – rebuild Zone Substation	$4,815,474.85	$555,729.17	$5,371,204.02	May–15	Replace 11,000 volt switchboard and battery protection systems
Hallidays Point BSP – establish new 132/66kV Bulk Supply Point	$4,942,294.69	$790,238.82	$5,732,533.51	Jun–15	Nabiac – establish 132,000/66,000/11,000 volt Substation
Herons Creek – establish new 132/66/11kV Bulk Supply Point	$4,339,995.82	$382,512.07	$4,722,507.89	Oct–14	Herons Creek – establish new 132,000/66,000/11,000 volt Bulk Supply Point
Wagga Bourkelands Zone Substation – construct 66kV bus section	$4,202,322.52	$54,821.34	$4,257,143.86	Jan–15	Upgrade to 5 66,000 volt circuit breakers
Wagga Forest Hill Zone Substation – upgrade existing Zone Substation	$3,716,929.15	$142,194.67	$3,859,123.82	Jun–15	Install new indoor 11,000 volt switchboard and 11,000 volt capacitor bank.
Stroud 132kV Bulk Supply point – construct additional 132kV line bays	$3,669,381.61	$39,454.35	$3,708,835.96	Nov–14	Stroud Zone Substation – add 132,000 volt line bays
Lismore 132kV Zone Substation – installation of 132kV & 66kV circuit breakers	$1,674,530.10	$1,063,424.66	$2,737,954.76	Jun–15	Lismore 132 Zone Substation – Installation of 132,000 volt and 66,000 volt feeder and transformer circuit breakers
Wagga Morrow Street Zone Substation – upgrade existing Zone Substation	$2,076,893.23	$447,506.98	$2,524,400.21	Mar–15	Install new indoor 11,000 volt switchboard and upgrade to protection systems
Manilla Zone Substation – refurbish Zone Substation	$2,117,402.70	$275,336.87	$2,392,739.57	Mar–15	Manilla Zone Substation – Replace circuit breakers, batteries and control room
	$152,981,429.02	$11,867,006.74	$164,848,435.76		

Essential Water

About us

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

Pricing determination

On 23 June 2014, IPART handed down the 2014-18 price determination for Water and Sewerage Services to Broken Hill and surrounds.

This pricing model reduced Essential Water's proposed capital expenditure on water infrastructure over the four years from $52.2 million to $38.8 million, and imposes an operating expenditure of $13.1 million for year four of the determination; a reduction of 12.8 per cent from the 2013-14 base.

As a result, in 2014-15, Essential Water conducted a review of operating and capital programs and activities prioritised in line with IPART's regulatory determination and identified savings to be achieved through increased efficiencies, particularly around service levels.

Drought preparedness

Lack of significant rainfall in the Darling Catchment and Far Western NSW, and subsequent reduced inflows to the Menindee Lakes system since late 2013, have led to water storage levels falling to well below 12 months' water supply for Broken Hill and Menindee.

In response, Essential Water introduced Level 1 Water Restrictions in December 2014.

As water storage levels reduce, salinity levels increase, challenging Essential Water's existing treatment processes' ability to remove high levels of dissolved solids and salts.

In response to the looming water supply crisis, on 19 June 2015 the Minister for Industry, Resources and Energy provided a direction to Essential Energy under section 20P of the *State Owned Corporations Act 1989* to construct, operate and maintain the necessary infrastructure to be able to supply 13 megalitres of drinking water per day to Broken Hill. This project, which incorporates the construction of a reverse osmosis plant, associated pipeline and brine ponds, is expected to be fully operational by November 2015.

Performance highlights

Limited rainfall during 2014-15 kept local reservoir storage well below capacity.

At the end of June 2015, storage levels were:

> ***Imperial Lake – 113 megalitres (17 per cent)***

> ***Stephens Creek reservoir – 68 megalitres (< 1 per cent)***

> ***Umberumberka reservoir – 125 megalitres (<2 per cent).***

Broken Hill's water supply for the year was drawn primarily from the Darling River/Menindee Lakes.

Total treated water consumption decreased by approximately 370 megalitres (ML) from 2013-14, resulting in 4,100 ML of water distributed through 200km of pipelines and mains to homes and businesses connected to the water network.

Around 91 per cent of our water customer base is residential. Consumption for this group totalled 2,471 ML; down 8 per cent from 2,697 ML in 2013-14. Raw water customers consumed 874 ML; a decrease of 427 ML (33 per cent) from 2013-14.

Essential Water continued a program of stringent sampling and independent testing to ensure water quality met the Australian Drinking Water Guidelines (ADWG). There was one aesthetic or health related breach recorded during 2014-15, resulting from a fluoride dosing malfunction at the Mica Street filtration plant.

A low chlorine event also occurred within the year with a 'boil water' notice issued to customers in south Broken Hill. This area, fed from the Hebbard Street reservoir, was under precautionary measures for approximately 24 hours following the failure of a reservoir chlorine dosing unit. The NSW Department of Health was notified and the appropriate processes and procedures were followed.

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 of 0.9 ML per day.

We have invested approximately $94 million on major projects since forming in 2004 – including $6.3 million during 2014-15.

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

> ***$735,000 in the water mains renewal program***

> ***$881,300 in water pump station upgrades and pump overhauls***

> ***$1,380,500 in reticulation upgrades***

> ***$444,800 in Stage 5 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 1.3km of water reticulation pipeline***

> ***Repair of 250 customer water services***

> ***Repair of 30 pipeline leaks and bursts***

> ***Replacement of around 700 metres of sewer main***

> ***Cleaning and rodding of more than 35 km of sewer mains***

> ***Repair of 399 connection blockages.***

Financial performance

Essential Water's earnings before interest and tax (EBIT) were $0.68 million against a target of $0.64 million.

Essential Energy invested more than $18.6 million in the water network last year, delivering a capital program of around $6.3 million and around $12.3 million in maintenance programs.

Our people

Diversity planning and strategy

Essential Energy's Diversity Plan 2015 - 2018 and Diversity Strategy 2015 - 2018, outline the organisations legislative obligations, aligns with workforce planning and sustains the organisation's commitment to diversity principles.

The Diversity Council Charter was established in 2015, and provides a framework that can be applied to the management of workplace diversity and inclusion, ensuring the company can accommodate workers with a disability and support a multicultural approach to talent recruitment and retention.

Disability inclusion planning

Essential Energy is committed to improving access to services, facilities and jobs for people with a disability.

We provide tailored support for employees working with a disability by accommodating a range of circumstances and requirements, including visual impairment and psychological disorders.

Our major sites cater for people with special access needs and all sites that are refurbished are provided with disability access.

Multicultural policies and services

Essential Energy recognises that having an employment base that reflects the diversity of the communities we serve helps to improve customer service and employee engagement and productivity.

To provide consistent service levels for all customers, we provide a free telephone interpreter service – 13 14 50. The service is available 24 hours a day and is provided by the Commonwealth Department of Immigration and Citizenship.

Workforce diversity achievements

Essential Energy's equity and diversity strategies were reviewed this year in collaboration with the other Networks NSW distributors – Endeavour Energy and Ausgrid.

Information and ideas were shared across the three organisations to develop an overarching diversity strategy that leveraged best practices, resources and programs across the three organisations.

An Executive Diversity Council structure is now in place to check progress against the strategy on a quarterly basis.

Diversity Contact Officers

The Equity and Diversity Contact Officer network, including Regional Indigenous Contact Officers (RICOs), was revitalised with refresher training throughout February and March. In the current environment of organisational reform and change, our Contact Officer network continues to be valued 'eyes and ears' on the ground.

Our Contact Officers are located in all areas within our business and include powerline workers, electrical technicians, administration officers, human resource services officers and managers. From the refresher training, we have established bi-monthly network meetings to maintain regular contact and support.

Cultural insights

Opportunities for a Cultural Competency program have been explored with our RICOs.

Building cultural awareness, confidence and capability will help to improve cross-cultural understanding and acceptance, and support the retention of Indigenous employees – particularly during times of change.

The development of a Cultural Competency program is a key initiative under our Indigenous Employment and Development Strategy.

Following extensive research and consultation, the Australian Government's Interactive Ochre e-learning module has been identified as the most appropriate resource for implementation at Essential Energy. Interactive Ochre is designed to be an entertaining and engaging way of providing an Aboriginal perspective on culture that aims to foster and develop inclusive work and learning environments. We are currently tailoring the resource for our organisation and employee base.

Change support

Providing support to staff who may reach out in times of need remains a priority. Our Equity and Diversity team continues to monitor apprentices and employees across the business, providing coaching and mediation support to operational and human resources managers.

Feedback is also sought from Indigenous employees and apprentices who may leave the business, to ensure that potential issues or concerns are addressed.

Domestic violence response

A new 'Triple R' program (recognise, respond, refer) has been developed to provide genuine support to employees who may be experiencing some form of family violence.

Triple R is modelled on the best practice initiatives contained in Lifeline's DV-Alert program and goes beyond the Domestic Violence Leave provisions within Essential Energy's Enterprise Agreements. The model equips employees with information, referrals to expert service providers and facilitates internal support and appropriate workplace interventions.

Often in situations where domestic violence exists, the person experiencing violence finds themselves as the sole provider for their family, making their ability to maintain employment even more crucial to their welfare. Triple R aims to ensure that anyone experiencing domestic violence in their private life has every opportunity to continue their employment with confidence and safety.

The Triple R program has created greater awareness of the role we all have to play in tackling the social and workplace impacts of domestic violence. Essential Energy 'Responders' have been trained and a toolkit created to ensure that anyone requesting assistance can be assured of confidentiality, accurate information, strategic referrals and a consistent, considered response.

Women@Work

The impacts of reduced recruitment, industry reform and organisational restructuring have proved challenging. While the representation of women within Essential Energy has declined during this period, the climate has also presented opportunity for those who seek it.

Women@Work Regional Working Groups have choreographed a range of activities across our business, from projects aimed at professional and personal development, to events targeted at peer support and social engagement.

Of particular note is the effort of the North Coast Regional Working Group in delivering resilience workshops and hosting events featuring a variety of motivational speakers. These have been open to all who have wanted to attend.

Our community

Public safety

Essential Energy's Public Electrical Safety Awareness Plan (PESAP) is a document that is developed by each electricity network company in NSW 'to warn the public of the hazards associated with electricity in relation to a network operator's transmission or distribution system'.

Specific target audiences are the focus of the PESAP and are identified according to analysis of incident data and assessment of risks that have the potential to impact public safety.

During 2014-15, one public fatality occurred as a result of an interaction with Essential Energy's network - an aircraft contacted overhead high voltage mains, causing it to crash and resulting in the pilot suffering fatal injuries.

Essential Energy continues to work with the Civil Aviation Safety Authority to examine and implement strategies to assist in the reduction of the number of aircraft strikes on the electrical distribution network. These strategies aim to reinforce our electrical safety messages and assist in the reduction of these hazardous incidents.

In 2014-15, we continued to deliver public safety awareness information to identified 'at risk' groups. This information included:

- The launch of an agri-business campaign featuring the L.A.N.D safety message, building on the success of past campaigns such as 'Look Up and Live'
- We also launched media awareness programs targeted at agri-businesses doing stubble burn off
- An integrated safety campaign advertising safety messages relating to grain harvest across the grain belt areas
- Use of social media to remind customers to keep at least eight metres clear of fallen powerlines – we also use social media to provide updates on unplanned power outages during 'major event days'
- Participation in the Henty and AgQuip field days to promote public safety to rural and regional customers
- The Electricity Safety Week Primary School Program which was developed in conjunction with the Department of Education and Communities - the program achieved a sign up rate of 95 per cent of all primary schools across our footprint area (around 900 schools).

L.A.N.D Campaign targets rural residents

Maintaining a safe network and raising public awareness of electrical safety hazards continues to be our key focus. This year we rolled out the L.A.N.D campaign, targeting rural property owners and residents.

L.A.N.D stands for: **L**ook Up and Live; **A**lways be Aware; **N**eed to Know: (the height of farm machinery); **D**on't Disembark: (if machinery comes into contact with powerlines).

The campaign was developed as a simple way to communicate multiple public safety messages to people who work and live on the land.

Community engagement

As part of our ongoing commitment to listen, respect and deliver, we have continued our relationship with the Customer Council (CC) and Rural Advisory Group (RAG).

During the year, the RAG met three times and the CC met twice, to discuss the business changes we have made to meet our strategic objectives; the challenges of the AER determination; and to gain feedback on the effect our operations have on various sections of the community.

The groups were also consulted on the new Customer Commitment Statement and provided positive feedback.

Employees give generously

Our employees' donation of nearly $69,000 through the Employee Giving Program in the 2014-15 financial year was matched by Essential Energy, ultimately providing $137,215 to our five charity partners.

Contribution highlights included:

- Lifeline – more than $11,000 donated to Lifeline enabled 500 calls to be answered from Australians in crisis and helping to save lives. Comments from those people Lifeline has supported include: 'Lifeline literally saved my life when I was in a very dark place' and 'I would not be alive today if not for the telephone volunteer I spoke with the other night'
- Garvan Institute of Medical Research – donations of more than $13,000 have been directed to the Neuroscience Division of the Garvan Institute of Medical Research to help fund the work of Dr Greg Neely and Dr Adam Cole, who are conducting vital research regarding the master regulator of the nervous system, which has implications for Alzheimer's disease, a condition that affects around 245,000 Australians
- Variety Australia – almost $13,000 in donations allowed Variety to provide a $10,000 grant to a 14-year-old boy from Wagga Wagga whose family required a modified vehicle to enable him to travel in his powered wheelchair. Thanks to this grant, the boy and his family are now able to get out into the community and participate in activities they would not have previously been able to
- Westpac Rescue Helicopter – support of around $89,000 through the Essential Giving program helps ensure that no one who uses the service needs to pay, providing better outcomes for patients no matter where they live
- Can-Assist – more than $10,000 in donations helped provide accommodation, financial assistance and practical support for country families struggling with the challenges of a cancer diagnosis, and the difficulties associated with travelling long distances for medical and other treatment. All funds were distributed to Can-Assist branches within our footprint area.

Community Halls Rebate Scheme

Our Community Hall Rebate Scheme is designed to ease the financial burden on not-for-profit halls run and used by communities and community groups.

Through the scheme, eligible groups save a standard, flat rate of $200 to offset the Supply Availability Charge (SAC) component of their energy account.

Seventy-nine community halls were granted rebates through the scheme in the 2014-15 financial year.

Regional support snapshot

Remembering the ANZACs

As part of our commitment to the Centenary of ANZAC, crews from Moruya Depot provided in-kind support to the community of Nelligen to fix their flagpole for the local ANZAC Day ceremony.

The small south coast community had purchased the part to repair the flag pole but didn't possess an elevated work platform to carry out the task and approached Essential Energy for assistance.

AgQuip Field Days

Essential Energy attended AgQuip in Gunnedah, which attracts more than 100,000 visitors each year. We educated attendees about the potential dangers of working around the electricity network and provided advice on how to improve safety.

AgQuip is the nation's largest showcase of agri-products and provides us with a unique opportunity to interact with agricultural workers and property owners.

Community art projects

Community based art initiatives in Ballina and Orange have helped to reduce graffiti on local electricity infrastructure and boost community morale.

Year 9 students from the Southern Cross School in Ballina created a work of art on a padmount substation as part of the school's 'Transform Community Art Project'.

Golden Damper Awards

For 12 years Essential Energy and predecessor organisations have sponsored the Golden Damper Poetry Awards, which are held as part of the Tamworth Country Music Festival regularly attended by more than 50,000 visitors annually.

The Golden Damper Awards are held over two sections, Original Poetry and Traditional and Established Poetry.

NSW Rural Fire Service – 2015 Supportive Employer Special Commendation

In June 2015, Essential Energy received a 2015 Supportive Employer Special Commendation from the NSW Rural Fire Service.

The NSW Rural Fire Service Supportive Employer Program recognises the vital contribution employers make to the NSW Rural Fire Service, particularly by releasing volunteers to attend incidents and other NSW Rural Fire Service activities during work hours.

Essential Energy was nominated for the Commendation by a Dubbo based Essential Energy employee who is a Rural Fire Service member.

Acting Regional Manager Northern, Peter Hyde, was presented with the commendation by the Rural Fire Service Commissioner in a ceremony held at the Service's Sydney headquarters.

Our environment

Environmental Management System

Essential Energy's Health, Safety and Environment Strategic Plan includes environmental initiatives that have been implemented to establish a positive environmental stewardship, prevent reportable pollution incidents and uphold the environmental needs of future generations.

Essential Energy maintains accreditation to the International Standard for Environmental Management Systems ISO 14001:2004. Our Environmental Management System (EMS) supports the implementation of a suite of policies and initiatives aimed at achieving best practice environmental management and compliance with our statutory obligations.

We reported two incidents to the regulator during 2014-15; no environmental prosecutions or fines have been incurred for this period.

Environmental Control Standards

We worked with Networks NSW and the other network businesses throughout the year to establish Environmental Control Standards (ECS) that are minimum, mandatory and consistent practices to manage significant hazardous environmental events.

The requirements of the ECS are based on current best practice controls derived from legislative requirements, Australian Standards, industry codes, audits and inspections, and environmental incident investigations.

To inform the implementation of the ECS, a gap analysis was undertaken to assess our performance against each of the key requirements. An implementation strategy is currently under development to address the gaps and enable consistent and effective deployment of the ECS.

Contaminated Land Management

Essential Energy's Contaminated Land Management (CLM) program is managed through a risk minimisation process that incorporates progressive and prioritised detailed site investigations and ongoing remediation. This year, the CLM program has undertaken detailed site investigations at 20 higher risk facilities and carried out necessary remediation at several of these sites.

Resource efficiency

Resource efficiency investigations were conducted at depots across our footprint in order to capture empirical evidence of the management of stores, materials, waste and other resources and to identify gaps and opportunities to promote the efficient utilisation of resources.

The investigations included an assessment of operations and production processes to identify opportunities for efficiency improvements, such as minimising waste and using fewer resources, while reducing financial costs.

Environmental Strategy

Essential Energy has a responsibility to comply with environmental legislation and outline how we interact with our environment. The community has expectations that we will act in an environmentally conscientious manner, reducing and mitigating our impact on the environment.

Essential Energy has an Environmental Strategy that focuses on:

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

Heritage Asset Management

Essential Energy's Heritage Asset Management Strategy aims to manage and conserve our heritage assets. We maintain a heritage register, which is updated as sites are determined by the community, local councils or Essential Energy, as having heritage significance.

Heritage related activities include works at the Broken Hill Water Board Office and 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, NSW Office of Local Government and NSW Environment and Heritage, and housed within Essential Energy.

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

Corporate governance

Essential Energy is a State Owned Corporation established under the *Energy Services Corporations Act 1995 (NSW)* and the *State Owned Corporations Act 1989 (NSW)*. It is governed, principally, by these two statutes and its Constitution.

Good governance is a critical prerequisite for a high-performance organisation. It provides a platform for a sustainable future and reflects board commitment to high standards of business integrity, ethics and professionalism across all activities.

Our *Code of Conduct* sets out the expectations for staff behaviour that we believe are fundamental to our business success. The Code encourages a culture of responsibility and accountability that promotes ethical and responsible decision making.

Good governance helps to ensure the delivery of results for our shareholder; supports our people and business operations; and helps ensure we adopt sound ethical, financial and risk management practices to benefit our customers. It also ensures we have effective compliance and auditing programs.

Joint Board of Directors

During 2014-15, Essential Energy, Ausgrid and Endeavour Energy continued to operate as separate legal entities although they were managed by a Joint Board of Directors and common Chief Executive Officer (CEO).

All directors on the Joint Board, with the exception of the CEO, are appointed by the voting shareholders for terms of up to five years. Appointments may be renewed by the voting shareholders, who may appoint 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 CEO is not entitled to additional remuneration for being an executive director.

The role and responsibilities of the Joint Board

The Joint Board is responsible for governance and, ultimately, the performance of the company. It gives direction and exercises judgment in setting the company's strategy and objectives and is responsible for overseeing their implementation.

The Joint Board's role is to govern the company rather than to manage it. The Chief Executive Officer (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 overall best interests of the company although in respect of any particular issue the Joint Board may 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 board authority and accountability for governance and management of Essential Energy, consistent with its Constitution of Essential Energy and applicable legislation. The Joint Board has adopted Board Policies that implement the Board Charter and have declared that they will be bound by the company's Code of Conduct.

Conflicts of interest

To ensure their independent status, all directors of Essential Energy are subject to the statutory duties and prohibitions regarding conflicts of interest. We rely on the integrity of the Board of Directors to identify and disclose issues which may give rise to any conflict of interest. The Company Secretary maintains the Register of Disclosures, which is reviewed, as a minimum, every six months to ensure the information held by the organisation is up to date.

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

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

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

The Nominations Committee meets as required and assists the Joint Board in fulfilling its responsibilities with regard to director appointments and reappointments. 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 do not participate in the review of their own reappointment.

Board of Directors – 2014-15 (as at 30 June 2015)

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

CHAIRMAN
Term: 1 July 2012 to 30 June 2015
(Reappointment: 1 July 2015 to 30 June 2018)
Chairman of the Board from 1 July 2012
Chairman, Nominations Committee
Member, Audit and Risk Committee

Other Directorships:

- Ausgrid, Chairman
- Endeavour Energy, Chairman
- Cranbrook School, Vice President
- Dovose Pty Limited, Director and Secretary
- Eureka Benevolent Foundation, Chairman
- Eureka Capital Partners Pty Ltd, Chairman
- ICC Holdings Pty Limited, Director
- Illawarra Coke Company Pty Limited, Director
- OneVentures Pty Ltd, Director
- Salvation Army Sydney Advisory Board, Chairman (from April 2015)
- The Hunger Project Australia, Director.

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
- 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
- Peter Dodd Pty Ltd, Director
- The Centre for Independent Studies Ltd, 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
- Botanic Gardens, Trustee
- Navitas
- Queensland Urban Utilities, Director
- Sydney Festival, Director
- The National Mutual Life Association of Australia Ltd, Director
- Veda Group 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
- Charter Hall Funds Management Limited, Director
- Charter Hall Limited, Director
- Downer EDI Limited, Director
- Tellus Holdings Limited, Chairman
- Water Polo Australia Limited, President.

Laura Reed

BBus, MBA, FCPA

NON-EXECUTIVE DIRECTOR

Term: 1 January 2013 to 31 December 2015

Member, Audit and Risk Committee
Member, 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
- Chorus Limited, Director (7 April 2015)
- Mighty River Power, Director
- NZX, Director (1 May 2015)
- WorkSafe NZ, 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
- Catholic Care Social Services Council, Diocese of Parramatta, Member
- Energy Supply Association of Australia, Director
- Graham Management Services Pty Limited, Director (inactive).

Board and Board Committee meetings held in 2014-15

1 July 2014 to 30 June 2015 Directors' Attendance Schedule

	Joint Board of Directors' Meetings		Audit and Risk Committee		Safety, Human Resources and Environment		Nominations Committee	
Director	A	B	A	B	A	B	A	B
R Massy-Greene	14	14	7	7	–	4#	–	–
P Dodd	14	14	8	8	–	–	1	1
D Eilert	14	13	–	1#	3	1	–	1#
P Garling	14	14	–	1#	4	4	–	1#
L Reed	14	13	8	8	–	–	1	1
P Strange	14	14	–	1#	4	4	–	1#
V Graham*	14	13	7	6	4	3	–	–

Notes:

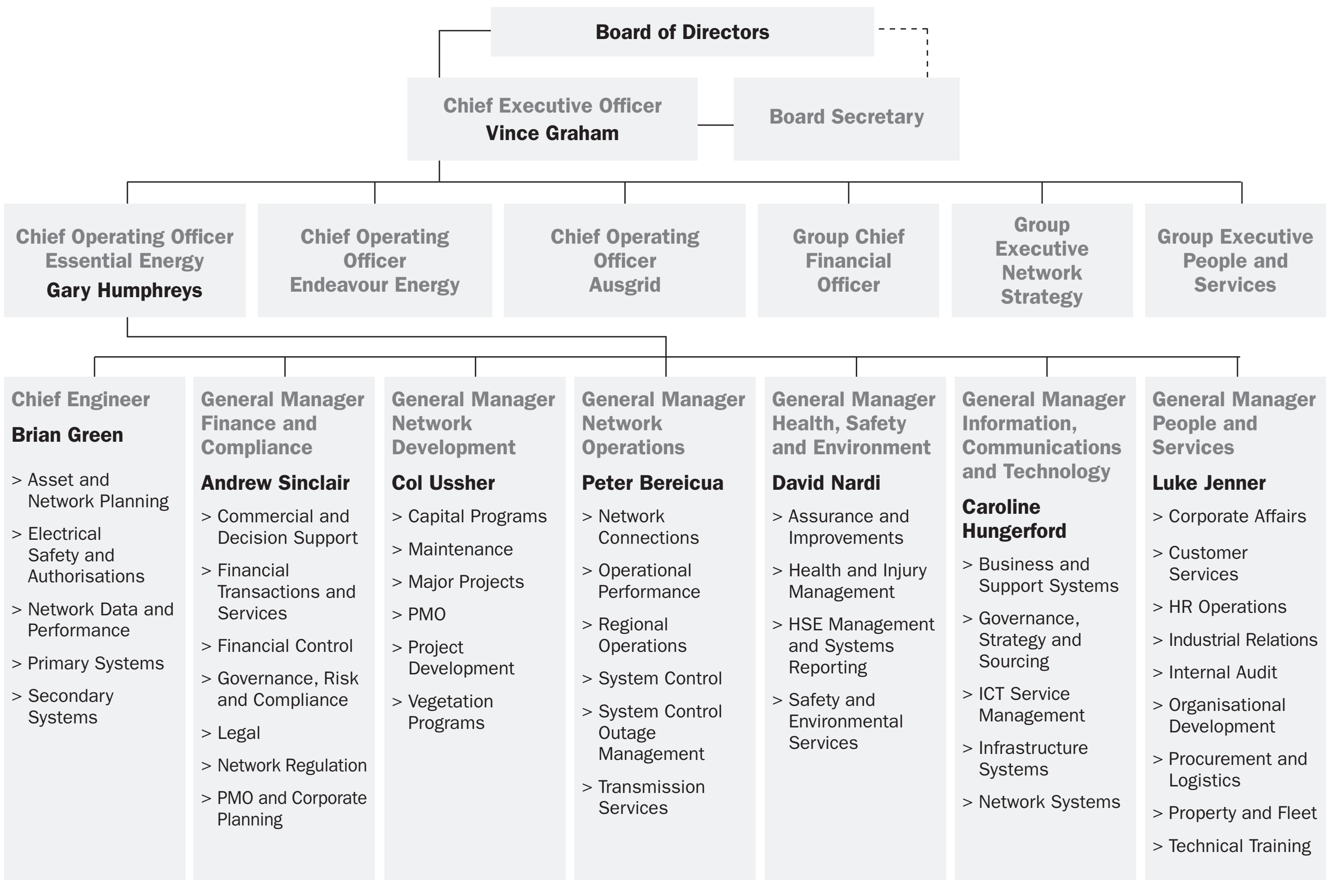
A Indicates number of meetings held during the period the Director was entitled to attend

B Indicates the number of meetings attended by the Director during the period

* The CEO is an ex-officio member of the Audit and Risk and Safety, Human Resources and Environment Committees.

Attended meetings while not a member of the Committee

Essential Energy's organisational structure as at 30 June 2015



Essential Energy's Executive Leadership Team

Chief Operating Officer
Gary Humphreys *GAICD*

Chief Engineer
Brian Green *BSc (Hons), MBA, FIEAust, CPEng* – from January 2015 to current

Ken Stonestreet *BE (Hons)* – left Essential Energy in December 2014

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), CPA*

General Manager Information, Communications and Technology
Caroline Hungerford *BIT*

General Manager Health, Safety and Environment
David Nardi *MBus*

Code of Conduct

Essential Energy's Code of Conduct states the corporate values and behaviours expected of employees. Supporting the Code is the Statement of Business Ethics, which sets out the business principles for our dealings with suppliers. Both documents are available on our website, *essentialenergy.com.au.*

Continued communications supporting our ethical culture have been delivered to make our corporate values meaningful to employees in their everyday work, encourage a culture of personal accountability for behaviour and provide tools to apply in ethical dilemmas.

Compliance

Our Compliance Management Plan (CMP) 2013–2015 is a key control for the business risk category BR4 Compliance in the company's Corporate Risk Management Plan. The Plan's status was regularly reported to the Audit and Risk Committee throughout the year.

The Audit and Risk Committee also approved the CMP 2015-2017, which builds on the company's progress in developing a culture of integrity and compliance, while enhancing the Compliance Management Framework through the implementation of risk-based actions.

The CMP 2015-2017 is aligned to the recently released International Standard ISO 19600:2014 Compliance Management Systems – Guidelines and the Policy. The compliance framework is structured around four pillars that align with the focus areas of Commitment, Implementation, Monitoring and Measurement, and Continuous Improvement. The Plan provides an efficient road map to maintain the Compliance Management Framework.

Managing business risk

During 2014-15, significant actions were taken to further align and embed a consistent Governance, Risk and Compliance (GRC) framework based on the principle of the management of risk to deliver outcomes that are aligned to company objectives.

Essential Energy continued to implement an improved framework in conjunction with Ausgrid and Endeavour Energy to identify and manage risks that could affect our customers, the community, the environment, our people, assets or financial resources.

This common approach across all three NSW network companies enabled comparable assessment and reporting of risks to the Audit and Risk Committee of the Board.

This year we reviewed major risks to achieving our strategic objectives and developed and implemented action plans to help manage them. The 2015-16 risk profile was updated to reflect the expected impacts of the AER final determination.

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

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

We also strengthened risk management practices across Essential Energy. These practices are aligned to the NSW Treasury's *Risk Management Toolkit for NSW Public Sector Agencies*, the Audit Office of NSW Governance Lighthouse Model and AS/NZS ISO 31000:2009 – Risk Management – Principles and Guidelines.

Throughout the year, the Audit and Risk Committee reviewed our Risk Management Strategic Plan and identified hazardous events in the Corporate Risk Management Plan.

Risk owners provided 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 were continually identified and assessed across nine categories, as shown in this table:

Business Risk Categories

BR1 Safety	Fatality/serious injury of an employee or member of the public
BR2 Network	Significant customer impact related to the network
BR3 Finance	Significant unbudgeted financial loss
BR4 Compliance	Liability associated with a dispute or material breach of legislation or licence
BR5 Reputation	Sustained public criticism
BR6 Environment	Significant environmental incident
BR7 People	Failure to deliver performance through people
BR8 Strategy	Strategic objectives are not delivered and business opportunities lost
BR9 ICT	Significant ICT and / or Operational Technology service failure

Incident management and business continuity

Essential Energy is committed to maintaining continuity of supply and business systems during network and other events.

An important initiative in conjunction with Ausgrid and Endeavour Energy was the implementation of the Business Continuity Management Framework Plan 2014-16 to advance key initiatives aimed at minimising the impact of disruption related risks on essential service delivery.

Our Incident Management Plan provides a framework to guide the organisation through major disruptive events. This is supported by our business continuity and disaster recovery plans for critical processes and systems. Plans are regularly reviewed and tested. The Incident Management Plan was activated several times during the year and exercises completed for business continuity and disaster recovery plans.

Insurance

Essential Energy reviews the adequacy of insurance policy coverage and limits annually. All participating insurers must meet acceptable security requirements.

A review was completed that achieved harmonisation of the claims management process across the three companies. The review also aligned claims management structures, implemented the required governance to support effective oversight of the claims function, and developed common policies and procedures to support the claims function.

Fraud and corruption management

Key initiatives in our Fraud and Corruption Control Plan (FCCP) 2013–2015 drive continuous improvement and build on past progress in developing a fraud and corruption resistant culture. They address new and emerging fraud and corruption risks at a time of increased economic uncertainty and industry restructure.

Supporting the FCCP is the Fraud Risk Register which is monitored and updated by process owners throughout the year as the business environment changes. A review of the identified key risk areas in the Fraud Risk Register was conducted in the financial year to help build the new FCCP 2015-2017. The new FCCP 2015-2017 was approved by the Audit and Risk Committee and, like the 2015-2017 CMP, is aimed at maintaining and supporting a strong governance framework.

Internal audit

The Board and Executive Leadership Team are committed to the operation of an objective and independent internal audit function. Internal audits assist management to achieve our statutory and business objectives by adopting a disciplined approach to evaluating and improving risk management, controls and governance processes.

During the year we completed 34 internal audits across the organisation, with suitable actions put in place to address the issues identified.

External audit

The Auditor-General of New South Wales provides independent external audit services through the Audit Office of New South Wales. The Auditor-General does not provide other services to Essential Energy. 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.

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 shareholder, outlining our objectives and strategies, and defining our obligations to our shareholder. The SCI sets clear financial targets and also places limits on the types of activity Essential Energy is permitted to undertake.

In 2014-15, we continued to perform strongly, with a focus on providing value for money to our customers, controlling costs and increasing productivity.

Profit results

Essential Energy's operating profit before tax was $381.2 million, against a target of $108.5 million in the 2014-15 SCI.

The better than budget profit result reflects:

> Higher gross margin driven by increased energy consumption across all sectors and higher capital contributions revenues attributable to a significant increase in acceptance of distribution gifted assets and sub transmission projects. It should be noted that from 2014-2015 a Maximum Allowed Revenue (MAR) is set by the Australian Energy Regulator (AER). Due to energy consumption exceeding expectations Essential Energy exceeded the MAR by a total of $83.6 million in 2014-2015 for Distribution Use of System. The AER will adjust future prices to reflect this excess. Refer to Note 1 of the financial statements for further details

> Reduced operating costs across most expenditure categories, attributable to our focus on reducing costs through a range of efficiency measures

> Lower than expected net interest expenditure due to better than budgeted rates for borrowings and lower than anticipated capital expenditure.

Financial results

Financial results	2013–14 result	2014–15 result	2014–15 SCI	Variation to SCI
Network revenue (total sales)* ($M)	1,742.7	1,738.7	1,630.1	108.6
Earnings before interest, tax, depreciation & amortisation (EBITDA) ($M)~	1,017.4	1,083.3	814.5	268.8
Earnings before interest and tax (EBIT) ($M)	677.3	709.9	468.8	241.1
Operating profit before tax ($M)	350.0	381.2	108.5	272.7
Operating profit after tax ($M)	295.4	266.3	77.3	189.0
Dividend ($M)	133.9	58.7	115.4	(56.7)
Total Distribution (Dividend + Current Income Tax Expense + Government Guarantee Fee) ($M)	342.2	284.2	270.6	13.6
Return on assets (%)^	8.6%	8.7%	5.8%	2.9%
Return on equity (%)^	14.5%	11.8%	3.7%	8.1%
Capital Expenditure ($M)#	600.1	490.9	607.6	(116.7)

*Network Revenue excludes capital contributions and solar bonus rebate scheme recovery and other income included as part of Revenue in the statement of Comprehensive Income in section 5- Financial Statements. ^Ratios include capital contributions. #Capital Expenditure excludes gifted assets and capitalised borrowing costs, SCI and comparative amounts have been amended accordingly. ~EBITDA includes an adjustment for net fleet depreciation of $15.6 million (2014: $17 million).

Debt

Our debt increased by $101.3 million in 2014-15 compared to the previous year, primarily due to the continuing requirement to fund the capital expenditure program. The gearing ratio, calculated as debt divided by debt plus equity, decreased from 68.9 per cent at 30 June 2014, to 66.8 per cent at 30 June 2015.

Shareholder return

Total company assets were $8.2 billion at 30 June 2015, with a return on assets, calculated as EBIT divided by the average asset base, of 8.7 per cent, which compared favourably to the SCI return of 5.8 per cent, mainly attributable to the higher than budget EBIT result.

Essential Energy achieved a return on equity, calculated as profit after tax divided by average equity, of 11.8 per cent at 30 June 2015. This result compared favourably with the SCI return of 3.7 per cent but represents a decrease from the 2013–14 return of 14.5 per cent, with a 9.8 per cent decrease in profit after tax compared to an increase of 10.7 per cent in average equity.

Essential Energy's distributions to the NSW Government were $284.2 million, with dividends provided at 30 June 2015 of $58.7 million, current income tax expense of $144.2 million and government guarantee fee of $81.3 million.

The final dividend comprises a nil ordinary dividend, a tax adjustment special dividend relating to the benefit arising from the change in tax treatment of unbilled income in 2013-14 of $35 million and Essential Energy's contribution to the Government's energy rebate program of $23.7 million. This represents a decrease of $56.7 million compared to the 2014–15 SCI target, and a decrease of $75.2 million compared to the prior year.

Capital works program

Essential Energy's capital expenditure for 2014-15, excluding gifted assets and capitalised borrowing costs, was $490.9 million (for electricity and water businesses), $116.7 million below our budget of $607.6 million. Our 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. This was mainly attributable to lower network infrastructure expenditure, primarily due to progress delays. Lower than budget fleet, property and ICT capital expenditure also contributed to the result. This was mainly attributable to the higher utilisation of existing fleet assets and a review of expenditure in light of the AER's final revenue determination, which allowed for reduced capital expenditure.

Gifted assets of $161.2 million were recognised in 2014-15. This included $39.5 million of assets from previous years.

FINANCIAL STATEMENTS

For the year ended 30 June 2015

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 2015, 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 2015, 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* (PF&A Act) and the Public Finance and Audit Regulation 2015
- comply with the 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 preparing 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 financial statements that give a true and fair view and 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 an 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 management, as well as evaluating the overall presentation of the financial statements.

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

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 carried out its activities effectively, efficiently and economically
- about the effectiveness of the 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.

A T Whitfield PSM
Acting Auditor-General

14 September 2015
SYDNEY

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

Statement by Directors

Essential Energy Financial Statements

For the year ended 30 June 2015

Statement by Directors

For the Year Ended 30 June 2015

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 (and also comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board), the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983 and*, the *Public Finance and Audit Regulation 2015*, and Accounting Interpretations and give a true and fair view of the financial position of the Corporation as at 30 June 2015 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 2015

Roger Massy-Greene
Chairman

10 September 2015

Statement of Comprehensive Income

For the year ended 30 June 2015

	Note	2015 $M	2014 $M
Profit and loss			
Revenue	2	2,053.5	1,965.1
Expenses excluding finance costs	3(a)	**(1,343.6)**	**(1,287.7)**
Finance costs	3(b)	(328.7)	(327.4)
Profit before income tax		**381.2**	**350.0**
Income tax expense	4	(114.9)	(54.6)
Profit for the year		**266.3**	**295.4**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Superannuation defined benefits actuarial gains/(losses)	26(f)	81.3	19.6
Asset revaluation reserve reversal on asset impairment		(0.8)	(2.1)
Income tax (expense)/credit relating to items that will not be reclassified	4	(24.1)	(5.3)
		56.4	**12.2**
Items that will be reclassified subsequently to profit or loss			
Net gains (losses) on cash flow hedges		0.7	(4.2)
Income tax (expense)/credit relating to items that will be reclassified	4	(0.2)	1.3
		0.5	**(2.9)**
Total other comprehensive income for the year, net of tax		**56.9**	**9.3**
Total comprehensive income for the year		**323.2**	**304.7**

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

Statement of Financial Position

As at 30 June 2015

	Note	2015 $M	2014 $M
ASSETS			
Current assets			
Cash and cash equivalents	6	0.4	3.3
Trade and other receivables	7	363.4	427.2
Inventories	1(j)	20.7	25.1
Assets classified as held for sale	8	7.2	–
Total current assets		**391.7**	**455.6**
Non-current assets			
Trade and other receivables	7	1.7	1.5
Investment property	9	–	4.5
Property, plant and equipment	10	7,683.2	7,432.3
Intangible assets	11	150.5	142.1
Other non-current assets		0.7	0.7
Total non-current assets		**7,836.1**	**7,581.1**
Total assets		**8,227.8**	**8,036.7**
LIABILITIES			
Current liabilities			
Trade and other payables	12	298.1	322.8
Borrowings	13	439.1	458.8
Derivative financial instruments	14	–	4.2
Current tax liabilities		24.5	4.9
Provisions	15	308.5	374.9
Deferred revenue	16	14.0	7.0
Total current liabilities		**1,084.2**	**1,172.6**
Non-current liabilities			
Borrowings	13	4,358.7	4,237.7
Deferred tax liabilities	5	258.4	263.4
Provisions	15	144.5	245.5
Total non-current liabilities		**4,761.6**	**4,746.6**
Total liabilities		**5,845.8**	**5,919.2**
Net assets		**2,382.0**	**2,117.5**
EQUITY			
Contributed equity		130.5	130.5
Reserves		1,154.9	1,155.0
Retained earnings		1,096.6	832.0
Total equity		**2,382.0**	**2,117.5**

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 2015

	Contributed Equity $M	Asset Revaluation Reserve $M	Hedge Revaluation Reserve $M	Retained Earnings $M	Total Equity $M
Balance at 1 July 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 reserves net of tax	–	(1.6)	(2.9)	–	(4.5)
Superannuation defined benefits actuarial gains/(losses) net of tax	–	–	–	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**
Balance at 1 July 2014	**130.5**	**1,157.9**	**(2.9)**	**832.0**	**2,117.5**
Profit for the year	–	–	–	266.3	266.3
Other comprehensive income					
Net increase (decrease) in reserves net of tax	–	(0.6)	0.5	0.1	–
Superannuation defined benefits actuarial gains/(losses) net of tax	–	–	–	56.9	56.9
Total comprehensive income for the year	**–**	**(0.6)**	**0.5**	**323.3**	**323.2**
Transactions with owners recorded directly in Equity					
Dividend provided for or paid	–	–	–	(58.7)	(58.7)
Total transactions with owners	**–**	**–**	**–**	**(58.7)**	**(58.7)**
Balance at 30 June 2015	**130.5**	**1,157.3**	**(2.4)**	**1,096.6**	**2,382.0**

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 2015

	Note	2015 $M	2014 $M
Cash flows from operating activities			
Receipts from customers		2,146.0	2,103.5
Payments to suppliers and employees		(1,169.0)	(1,105.9)
Interest received		0.2	0.3
Interest paid		(336.0)	(329.8)
Income taxes paid		(124.6)	(218.8)
Net cash inflow from operating activities	**25**	**516.6**	**449.3**
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(490.1)	(600.1)
Proceeds from sale of property, plant and equipment		13.4	8.4
Net cash outflow from investing activities		**(476.7)**	**(591.7)**
Cash flows from financing activities			
Proceeds from borrowings		346.0	347.0
Repayment of borrowings		(254.9)	–
Dividends paid		(133.9)	(240.8)
Net cash (outflow) inflow from financing activities		**(42.8)**	**106.2**
Net decrease in cash and cash equivalents held		(2.9)	(36.2)
Cash and cash equivalents at the beginning of the year		3.3	39.5
Cash and cash equivalents at the end of the year	**6**	**0.4**	**3.3**

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

Notes to the Financial Statements

For the year ended 30 June 2015

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 a statutory state owned corporation (for profit) incorporated under the *State Owned Corporations Act 1989*.

(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 2015*, 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, assets classified as held for sale and investment property.

(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.

(iii) Presentation currency

The financial statements are presented in Australian dollars (AUD). The amounts shown in the financial statements 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 2015.*

(d) Fair value measurement

The Corporation measures financial instruments (such as derivative financial instruments), provisions and items of property, plant and equipment, 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 18.

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 is 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.

Notes to the Financial Statements

For the year ended 30 June 2015

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.

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(m), 10 – Property, plant and equipment

Note 1 (g), 7 – Unread meters

Note 1 (n), 11 – Intangible assets

Note 1(w), 15 – Provisions

Note 17 – Financial instruments

Note 26 – 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 when their positions became redundant. The Network restructure provision was established in the 30 June 2014 financial year and represents the expected costs relating to employees who no longer have a permanent role following organisational changes resulting from the NSW Electricity Industry Reform program and the employees being retained but providing limited value to the Corporation.
A further provision has been recognised in the 30 June 2015 financial year relating to the restructure of the meter reading function and represents expected costs relating to employees who are expected to no longer have a role following the outsourcing of the meter reading function.

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 or restructure 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 and Meter Reading restructures
- *Total unavoidable costs*: the unavoidable costs for employees retained (stranded)
- *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.

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.

1 Significant Accounting Policies (continued)

(g) Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured, and to the extent that it is probable that the future economic benefits will flow to the Corporation. Revenue for the sale of goods is recognised when significant risks and rewards of ownership of the goods has passed to the buyer. Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

(i) Network use of system (NUOS) revenue

The Corporation recognises revenue involving the rendering of electricity and water supply services in profit and loss on an accrual basis based on the consumption of electricity and water supply services. 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 $18.2 million (2014: $18.5 million) and $20.1 million (2014: $20.2 million) respectively.

(iii) Excess/shortfall in regulatory revenue

Network use of system revenue comprises of the following three components:

- Distribution use of system revenue – with effect from 1 July 2014 the AER determined the Corporation start operating under a revenue cap pricing framework where revenue from distribution services exceeds or is below the Maximum Allowed Revenue (MAR) as determined by the Australian Energy Regulator (AER) and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.
- Transmission revenue – where revenue related to transmission costs, which operates as a pass-through cost to customers exceeds or is below the actual transmission costs paid to transmission network service providers and embedded generators, and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.
- Climate Change Fund revenue – where revenue related to the receipt of contributions to the Climate Change Fund, which operates as a pass-through cost to customers, exceeds or is below the actual contributions paid to the NSW government Office of Environment & Heritage, and adjustments will be made to future prices to reflect this excess or shortfall, no liability or asset is recognised, as such an adjustment relates to the provision of future services.

It is estimated that at 30 June 2015 the Corporation NUOS revenue exceeded the maximum amount permitted by regulatory agreement by $86.1 million (2014: $26.1 million) and future prices will be adjusted to reflect this excess.

(iv) Rental income

Rental income from investment 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.

(v) 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 and the assets are ready for use.

(vi) Government Grant Revenue

Notes to the Financial Statements

For the year ended 30 June 2015

1 Significant Accounting Policies (continued)

Government grants are recognised in the Statement of Financial Position initially as deferred income when they are received and the Corporation complies with the conditions attaching to them, in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance.*

Grants that compensate the Corporation for the cost of an asset are recognised in profit and loss as revenue on a systematic basis over the useful life of the asset.

Grants that compensate the Corporation for expenses incurred are recognised as revenue in profit and loss in the same period in which the expenses are incurred.

(vii) 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.

(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.

(k) Assets classified as held for sale

Non current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell, If their carrying amount will be recovered principally through a sale transaction as opposed to use. Once classified as held for sale, depreciation and amortisation ceases. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

Non-current assets held for sale for the Corporation relate to investment property.

(l) 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.

Transfers are made to or from investment property when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Corporation accounts for such property in accordance with accounting policy 1(m) up to the date of change in use.

(m) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially recognised at cost. Non-system assets purchased below $600 are expensed as acquired. All costs of assets constructed by the Corporation (system assets) are capitalised. Cost includes expenditure that is directly attributable to the acquisition and or construction of the asset including costs of materials, services, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an allocated proportion of supporting overhead costs. Capitalised costs also include borrowing costs in accordance with AASB 116 *Property, Plant and Equipment* and AASB 123 *Borrowing costs*.

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 measurements* and AASB 116.

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 *Valuation of Physical Non-Current Assets at Fair Value*, AASB 13 and AASB 116, and reviewed annually

1 Significant Accounting Policies (continued)

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
- A multiple of the forecast regulated asset base (RAB) at the end of the forecast period used as a proxy for the terminal value. The terminal RAB multiple is determined with reference to market observable multiples.

System assets and land and buildings are revalued at least every three years in accordance with TPP 14-01 and AASB13. 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.

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 and Generation CGUs was estimated to be zero as at 30 June 2015 (2014: $nil), based on a value in use calculation. Accordingly, no value is carried in the books of the Corporation in respect of water and generation assets. The recoverable value of the Contestable Metering CGU was estimated to be $0.4 million at 30 June 2015 (2014: $0.7 million), based on a value in use calculation. Accordingly only $0.4 million 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 in accordance with TPP14-01.

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) 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.

Notes to the Financial Statements

For the year ended 30 June 2015

1 Significant Accounting Policies (continued)

(iv) 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.

(n) 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(o) (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 assessed for impairment at each reporting date.

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

Easements	indefinite
Computer software	4 years
Other intangibles	4-10 years

(o) 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

1 Significant Accounting Policies (continued)

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.

(p) 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.

(q) 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.

(r) Loans and borrowings

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

Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. The difference between the face value and the capital value of these debt securities is amortised over the life of the specific instrument. Interest associated with these instruments is brought to account on an accrual basis. Indexation adjustments on CPI indexed bonds are also recognised as part of finance costs in profit 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.

(s) 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 to their fair value at the end of each reporting period.

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.

Notes to the Financial Statements

For the year ended 30 June 2015

1 Significant Accounting Policies (continued)

(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 of 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. At that time any gain or loss recognised in other comprehensive income and accumulated in equity remains in equity and is transferred to profit and loss 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.

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

(t) Employee benefits

All liabilities for employee benefits that are expected to be paid for services provided by employees to reporting 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 on national government bonds as at reporting date 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 as at 30 April 2015 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 market yields on national government bonds as at reporting date. Employee benefits are recorded in the Statement of Financial Position as current liabilities where the Corporation has no unconditional right to defer settlement.

1 Significant Accounting Policies (continued)

(u) 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 market yields on national 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 remeasurements 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). Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Past service costs and net interest expense or income are recognised in profit and loss.

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 (11 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.

(v) 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 *Provisions, Contingent Liabilities and Contingent Assets* 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 12 months after the end of the reporting period are discounted to present value.

Notes to the Financial Statements

For the year ended 30 June 2015

1 Significant Accounting Policies (continued)

(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.

(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, Services and Property 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 profit and loss.

(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 $13.3 million (2014: $13.5 million), and the capitalisation rate used to determine this amount was at a weighted average interest rate of 7.1% (2014: 7.4%).

(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.

Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss and the costs of repairs and maintenance incurred on these properties for the year are recognised as an expense in profit and loss.

(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.

1 Significant Accounting Policies (continued)

(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.

(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 2015 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 for the following:

- AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts*, Interpretation 13 *Customer Loyalty Programmes* and Interpretation 18 *Transfers of Assets from Customers*. AASB 15 is effective for the Corporation from periods beginning 1 July 2017, with early adoption permitted. The initial application of AASB 15 is not expected to materially affect the recognition of revenue in the Corporation's financial statements. Application of the standard is expected to result in changes in the presentation and disclosure of information relating to revenue.
- AASB 9 *Financial Instruments*, published in December 2014, which replaces AASB 9 Financial Instruments (December 2009), AASB 9 *Financial Instruments* (December 2010), the existing guidance in AASB 139 and Interpretation 9 *Reassessment of Embedded Derivatives*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedging accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for the Corporation from annual reporting periods beginning 1 July 2018, with early adoption permitted. The initial application of AASB 9 is not expected to materially affect the recognition of financial instruments in the Corporation's financial statements. The application of the standard is expected to result in changes in the presentation and disclosures of information related to financial instruments.
- AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (as amended), Part E of AASB 2014-1 Amendments to Australian Accounting Standards and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) are applicable for the Corporation from annual reporting periods beginning 1 July 2018.
- 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 the Financial Statements

For the year ended 30 June 2015

2 Revenue

	2015 $M	2014 $M
Network use of system revenue	1,708.6	1,712.9
Water and waste water treatment revenue	20.4	20.8
Public lighting system charge	9.6	9.0
Capital contributions	170.8	69.3
Rental income	1.0	0.5
Interest income	0.2	0.3
Other business revenue*	49.3	39.4
Transitional services agreement	–	13.0
Solar Bonus Rebate Scheme recovery**	93.6	99.9
	2,053.5	**1,965.1**

*Other business revenue includes connection fees, external sales of stores, metering services, insurance recoveries 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	2015 $M	2014 $M
(a) Expenses excluding finance costs			
Expenses relating to operating activities:			
Distribution of energy and other services		557.7	523.0
Employee benefits expense		334.7	346.5
Bad debts and impairment of trade receivables		0.4	0.4
Operating leases rental		8.2	8.5
External consultants		2.1	1.0
Superannuation expense (defined benefit plan) recognised in profit for the year	26(f)	18.9	21.5
Superannuation expense (defined contribution plan)		45.9	46.7
Total expenses relating to operating activities		**967.9**	**947.6**
Depreciation of property, plant & equipment	10	333.6	322.7
Plant & equipment depreciation capitalised*		(11.3)	(10.5)
Depreciation expense		**322.3**	**312.2**
Amortisation of intangible assets	11	18.6	22.5
Impairment losses on and write off of non financial assets			
Write off of non financial assets**		27.4	–
Impairment losses on capitalised assets***		6.3	3.6
Impairment losses on investment property	9	1.1	1.8
Total write off and impairment losses on non-financial assets		**34.8**	**5.4**
Total expenses excluding finance costs		**1,343.6**	**1,287.7**
(b) Finance Costs			
Interest and finance charges paid/payable		327.9	326.0
Unwinding of discount on provisions		0.8	1.4
Finance costs recognised in the Statement of Comprehensive Income		**328.7**	**327.4**
(c) Maintenance expenses			
Employee benefits expense		75.6	74.6
Contracted labour and other (non-employee related) expenses		308.6	336.2
		384.2	**410.8**

* 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 write off of intangible assets and property, plant and equipment which were assessed as having nil value.

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

Notes to the Financial Statements

For the year ended 30 June 2015

4 Income tax expense

	Note	2015 $M	2014 $M
Recognised in profit and loss			
Current tax expense			
Current year		146.2	129.1
Adjustments for prior years		(2.0)	(1.5)
		144.2	**127.6**
Deferred tax (credit) expense			
Origination and reversal of temporary differences		(30.6)	(74.1)
Under provided in prior years		1.3	1.1
		(29.3)	**(73.0)**
Total income tax expense in profit and loss		**114.9**	**54.6**
Numerical reconciliation between tax expense and pre-tax net profit			
Profit before tax		381.2	350.0
Income tax using domestic corporation tax rate of 30% (2014: 30%)		114.4	104.9
Increase/(decrease) in income tax expense due to:			
Over provided in previous years		(0.7)	(0.4)
Change in tax treatment of accrued unread meters income	5	–	(50.0)
Non-deductible expenses		1.2	0.1
Income tax expense on pre tax net profit		**114.9**	**54.6**
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		24.4	5.9
Revaluation reserve utilisation - property, plant and equipment		(0.3)	(0.6)
		24.1	**5.3**
Items to be reclassified subsequently to profit or loss:			
Revaluation of hedge derivatives		0.2	(1.3)
Income tax charged directly to other comprehensive income		**24.3**	**4.0**

5 Deferred tax assets/liabilities

	2015 $M	2014 $M
Recognised deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Property, plant and equipment	374.1	412.2
Employee benefits	(24.1)	(48.5)
Financial instruments	(1.0)	(1.2)
Provisions	(94.2)	(97.7)
Accrued income	3.3	–
Green emissions	–	(0.1)
Other items	0.3	(1.3)
Net tax (assets) liabilities	**258.4**	**263.4**

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

	1 July 2014 $M	Recognised in profit or loss $M	Recognised in other comprehensive income $M	30 June 2015 $M
Movement in temporary differences during the year				
Property, plant and equipment	412.2	(37.8)	(0.3)	374.1
Employee benefits	(48.5)	–	24.4	(24.1)
Financial instruments	(1.2)	–	0.2	(1.0)
Provisions	(97.7)	3.5	–	(94.2)
Accrued income	–	3.3	–	3.3
Green emission rights	(0.1)	0.1	–	–
Other items	(1.3)	1.6	–	0.3
	263.4	**(29.3)**	**24.3**	**258.4**

Notes to the Financial Statements

For the year ended 30 June 2015

	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**

Essential Energy had 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 reflected the consideration of expert advice and relevant case law and resulted in the recognition of a deferred tax liability of $37.6 million as at 30 June 2013.

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

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

6 Cash and cash equivalents

	2015 $M	2014 $M
Cash and bank balances	0.4	3.3
Cash and cash equivalents in the statement of cash flows	**0.4**	**3.3**

The Corporation's exposure to interest rate risk and a sensitivity analysis of financial assets and financial liabilities are disclosed in note 17.

7 Trade and other receivables

	2015 $M	2014 $M
Current		
Trade receivables	85.2	146.5
Less: impairment of trade receivables	(0.3)	(0.1)
	84.9	**146.4**
Accrued revenue from unread meters	221.5	221.9
	306.4	**368.3**
Prepayments	7.1	15.5
Other receivables	50.1	43.7
Less: impairment of other receivables	(0.2)	(0.3)
	363.4	**427.2**

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

Opening balance at 1 July	0.4	0.4
– additional provisions	0.3	0.3
– amounts used	(0.2)	(0.3)
Closing balance at 30 June	**0.5**	**0.4**

Non-current		
Receivables	1.7	1.5
	1.7	**1.5**

The Corporation's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 17.

Notes to the Financial Statements

For the year ended 30 June 2015

8 Assets classified as held for sale

	2015 $M	2014 $M
Investment property	7.2	–

The investment property (note 9) was actively marketed and offers were received in June 2015. Management have decided to sell the property and are currently negotiating a sale of the property with potential purchasers. The property was revalued to current fair value based on the expected sales price less costs to sell with an impairment loss being recognised.

9 Investment property

	2015 $M	2014 $M
Opening carrying value	4.5	4.1
Additions	–	2.2
Transfers from property, plant and equipment	3.8	–
Change in fair value to profit and loss	(1.1)	(1.8)
Property reclassified as held for sale (note 8)	(7.2)	–
	–	**4.5**

10 Property, plant and equipment

	Note	Land and Buildings $M	System Assets $M	Plant and equipment $M	Total $M
At 1 July 2014 – fair value					
Gross carrying amount		210.0	6,932.2	813.7	7,955.9
Accumulated depreciation and impairment*		–	–	(523.6)	(523.6)
Net carrying		**210.0**	**6,932.2**	**290.1**	**7,432.3**
At 30 June 2015 – fair value					
Gross carrying amount		209.4	7,506.2	801.2	8,516.8
Accumulated depreciation and impairment		(5.7)	(282.2)	(545.7)	(833.6)
Net carrying		**203.7**	**7,224.0**	**255.5**	**7,683.2**
Year ended 30 June 2015					
Net carrying amount at start of year		210.0	6,932.2	290.1	7,432.3
Additions		4.6	574.0	33.8	612.5
Disposals, write offs and transfers		(5.4)	(1.9)	(13.5)	(20.9)
Depreciation	3(a)	(4.7)	(274.0)	(54.9)	(333.6)
Impairment		(0.8)	(6.3)	–	(7.1)
Net carrying amount at end of year		**203.7**	**7,224.0**	**255.5**	**7,683.2**
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		**195.8**	**6,614.2**	**306.9**	**7,116.9**
At 30 June 2014 – fair value					
Gross carrying amount		210.0	6,932.2	813.7	7,955.9
Accumulated depreciation and impairment*		–	–	(523.6)	(523.6)
Net carrying		**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	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**

* accumulated depreciation on system assets and land and buildings was eliminated against gross carrying value on revaluation at 30 June 2014.

Notes to the Financial Statements

For the year ended 30 June 2015

10 Property, plant and equipment (continued)

Assets under construction	2015 $M	2014 $M
During the year ended 30 June 2015, the Corporation continued with its Network Capital Program. At the statement of financial position date, the construction in progress totalled:		
Land and buildings	7.0	31.8
System assets	555.0	657.3
Plant and equipment	9.6	26.5

Historic cost of revalued assets		
The carrying amount of assets had they been carried under the cost model is:		
Land and buildings	172.5	176.9
System assets	6,291.5	5,910.4
Plant and equipment	255.5	290.1

11 Intangible assets

	Note	Easements $M	Computer software $M	Other $M	Total $M
At 1 July 2014					
At cost		67.4	243.1	4.8	315.3
Accumulated amortisation and impairment		–	(173.2)	–	(173.2)
Net carrying amount		**67.4**	**69.9**	**4.8**	**142.1**
At 30 June 2015					
At cost		77.9	248.3	16.1	342.3
Accumulated amortisation and impairment		–	(191.8)	–	(191.8)
Net carrying amount		**77.9**	**56.5**	**16.1**	**150.5**
Year ended 30 June 2015					
Net carrying amount at start of year		67.4	69.9	4.8	142.1
Acquisitions		10.5	30.3	11.3	52.1
Amortisation	3(a)	–	(18.6)	–	(18.6)
Impairment and write offs		-	(25.1)	–	(25.1)
Net carrying amount at end of year		**77.9**	**56.5**	**16.1**	**150.5**
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	243.1	4.8	315.3
Accumulated amortisation and impairment		–	(173.2)	–	(173.2)
Net carrying amount		**67.4**	**69.9**	**4.8**	**142.1**
Year ended 30 June 2014					
Net carrying amount at start of year		60.9	78.8	–	139.7
Acquisitions		6.5	13.6	4.8	24.9
Amortisation	3(a)	–	(22.5)	–	(22.5)
Net carrying amount at end of year		**67.4**	**69.9**	**4.8**	**142.1**

Assets under construction	**2015 $M**	**2014 $M**
During the year ended 30 June 2015, the Corporation continued with its Capital Program. At the statement of financial position date, the construction in progress totalled:		
Computer software	21.8	33.6
Easements	19.0	26.7
Other intangible assets	16.1	4.8

Notes to the Financial Statements

For the year ended 30 June 2015

12 Trade and other payables

	2015 $M	2014 $M
Trade payables	11.5	14.1
Interest payable	146.8	148.2
Accruals	98.5	118.6
Other payables	41.3	41.9
	298.1	**322.8**

Details regarding credit risk and liquidity risk including a maturity analysis of the above payables are disclosed in note 17.

13 Borrowings

	2015 $M	2014 $M
Current liabilities		
Current portion of loans	**439.1**	**458.8**
Non-current liabilities		
Non-current portion of loans	**4,358.7**	**4,237.7**

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 17.

14 Derivative financial instruments

	2015 $M	2014 $M
Derivative financial liabilities – current		
Forward interest rate contracts	**–**	**4.2**

The Corporation's exposure to credit and interest rate risk related to derivatives is disclosed in note 17.

15 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 2014	133.9	409.2	23.4	5.7	41.8	6.4	620.4
– additional provision	58.7	(23.7)	2.4	1.3	18.5	3.4	60.6
– amounts used	(133.9)	(64.6)	(3.5)	–	(7.4)	(1.2)	(210.6)
– amounts reversed	–	–	(3.5)	–	(14.7)	–	(18.2)
– unwinding discount	–	–	0.4	0.1	0.3	–	0.8
Closing balance at 30 June 2015	**58.7**	**320.9**	**19.2**	**7.1**	**38.5**	**8.6**	**453.0**
Current	58.7	206.0	6.7	5.4	23.5	8.2	308.5
Non-Current	–	114.9	12.5	1.7	15.0	0.4	144.5
Closing balance at 30 June 2015	**58.7**	**320.9**	**19.2**	**7.1**	**38.5**	**8.6**	**453.0**
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**

(i) **Dividends**

Provision is made for the amount of any dividend and other payments determined by the Directors and approved by the shareholding ministers on or before the end of the financial year but not distributed at balance reporting 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*. The dividend payable was approved by the shareholding ministers before 30 June 2015.

(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(t). 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 $82.8 million (2014: $163.2 million) relating to the Defined Benefits Superannuation liability as detailed in note 26.

Notes to the Financial Statements

For the year ended 30 June 2015

(iii) **Environmental and asset rectification**

Provisions for environmental rectification work are expected to be settled between 2016 and 2022. In respect of obligations to be settled by 2016 the effect of the time value of money has been deemed to be immaterial. Where settlement is expected by 2022 a discount rate of 2.6% (2014: 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 2017. A discount rate of 2.0% (2014: 2.5%) is applicable to this provision.

(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 four-year period finishing in 2019 for the 2014-15 financial year cover. A discount rate of 2.1% (2014: 2.9%) has been applied.

During 2014-15, a consulting actuary, David A. Zaman, undertook the annual investigation of the Corporation's estimated liability for workers' compensation as at 30 June 2015. The liability is measured as the present value of future payments at 30 June 2015 and was estimated to be $7.1 million over the five years (2014: $5.7 million over the four years to June 2014).

(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)) $7.4 million (2014: $24.0 million). The settlement of all obligations is expected by 2018 and a discount rate of 2.1% (2014: 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 unavoidable costs of $11.0 million (2014: $17.1 million) expected to be incurred as a result of reforms implemented in 2014 and prior. The settlement of all obligations is expected by 2017 and a discount rate of 2.0% (2014: 2.95%) has been applied. A further provision has been recognised in 2015 relating to the restructure of the meter reading function and includes unavoidable costs of $14.4 million (2014: $nil). The settlement of all obligations is expected by 2020 and a discount rate of 2.1% (2014: nil) has been applied.In addition a provision of $5.8 million (2014: $0.6 million) exists in relation to agreed redundancies expected to be paid by 31 December 2015.

(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 $45.1 million (2014: $50.8 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.

	2015 $M	2014 $M
Current leave obligations expected to be settled after 12 months	13.2	16.6

16 Deferred Revenue

	2015 $M	2014 $M
Deferred government grants	13.4	–
Prepaid capital contributions	0.6	7.0
	14.0	**7.0**

The Corporation has received NSW Government Grant monies under the NSW Government's Water Security for Regions Program, which is part of the Restart NSW Fund, which has been set up to improve water security for Regional New South Wales. At reporting date the project comprising two components was yet to commence. These project components, associated with drought related emergency water supply, include the recommissioning of desalination facilities and associated infrastructure in Broken Hill ($12.5 million) and preparatory administration and project management resourcing ($0.9 million). The project is expected to be completed during the 2015/16 financial year.

17 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 hedge exposure to fluctuations in foreign exchange rates, commodity prices, and interest rates.

(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 2015 is detailed below:

	2015 $M	2014 $M
Less than 3 months overdue	1.4	1.4
3 months to 6 months overdue	0.2	0.3
Later than 6 months overdue	0.5	0.6
	2.1	**2.3**

The Corporation's credit risk on other assets is minimised as it transacts predominantly with other corporations in the energy industry. Where the counterparty 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.

(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 uses forward exchange contracts to hedge its foreign currency risk for all foreign exchange exposures that exceed $A500,000 in value (2014: $A500,000). 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.

Notes to the Financial Statements

For the year ended 30 June 2015

17 Financial Instruments disclosure (continued)

(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 rates.

The Corporation adopts a policy of ensuring that its debt portfolio is managed within a risk framework including board approved weighted average life ranges and debt maturity profiles. Interest rate risk is managed through a combination of fixed rate long term 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:

Carrying amount	2015 $M	2014 $M
Fixed rate		
Financial (liabilities)	(3,824.2)	(3,894.1)
	(3,824.2)	**(3,894.1)**
Floating rate		
Financial assets	0.4	3.3
Financial liabilities	(203.1)	(42.5)
	(202.7)	**(39.2)**
Inflation Indexed		
Financial liabilities	(770.5)	(760.0)
	(770.5)	**(760.0)**

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 $2.0 million (2014: $0.4 million). 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.

(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.

	2015 $M	2014 $M

Total loans	4,797.8	4,696.5
Less: cash and cash equivalents	(0.4)	(3.3)
Net debt	**4,797.4**	**4,693.2**
Total equity	2,382.0	2,117.5
Total capital	**7,179.4**	**6,810.7**
Gearing ratio	66.8%	68.9%

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(r), and 13).

The Corporation has an approved core debt borrowing limit of $5,381.1 million (2014: $5,381.1 million) of which $586.9 million was unused as at 30 June 2015 (2014: $687.0 million). The Corporation also has an approved TCorp Come and Go Facility limit of $100.0 million (2014: $100.0 million) and approval to obtain a commercial bank overdraft facility limit of up to $15.0 million (2014: $15.0 million) to fund working capital (at 30 June 2015 a facility of $2.0 million was in place). Planned future capital expenditure will be funded through TCorp borrowings. Future committed expenditure is disclosed in Note 23.

While current liabilities are greater than current assets as at 30 June 2015 the Corporation continues to trade as a going concern. It is noted that the Corporation derives revenue from non-current assets. The TCorp Come and Go Facility had $100.0 million (2014: $97.5 million) unused and the commercial bank overdraft facility limit had $2.0 million unused against a $2.0 million arranged limit as at 30 June 2015 (2014: $15.0 million).

The Corporation's policy established prudential limits on the amount of debt that can mature within set periods. The policy sets out that no 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 2015, 9.1% of the Corporation's debt will mature in less than one year (9.8% in 2014). 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 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 2015 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.

17 Financial Instruments disclosure (continued)

Notes to the Financial Statements

For the year ended 30 June 2015

	Carrying amount $M	Contractual cash flows Total $M	1 year or less $M	1–5 years $M	More than 5 years $M
30 June 2015					
Non derivative financial liabilities					
Fixed rate loans	3,824.2	4,901.5	447.2	2,573.8	1,880.6
Floating rate loans	203.1	203.5	203.5	–	–
Inflation indexed loans	770.5	1,146.1	22.1	69.6	1,054.4
Trade and other payables (excluding statutory payables)	275.6	275.6	275.6	–	–
	5,073.4	**6,526.7**	**948.4**	**2,643.4**	**2,935.0**
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**

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 & 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 2015					
Forward interest rate contracts – liabilities	–	–	–	–	–
30 June 2014					
Forward interest rate contracts – liabilities	4.2	4.2	0.5	2.3	1.4

18 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 2015.

	Notes	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
30 June 2015					
Recurring fair value measurements					
Non-financial assets					
Assets classified as held for sale	8	–	7.2	–	7.2
System assets	10	–	–	7,224.0	7,224.0
Land and buildings	10	–	–	203.7	203.7
Total non-financial assets		**–**	**7.2**	**7,427.7**	**7,434.9**
30 June 2014					
Recurring fair value measurements					
Non–financial assets					
System assets	10	–	–	6,932.2	6,932.2
Land and buildings	10	–	–	210.0	210.0
Investment properties	9	–	4.5	–	4.5
Total non–financial assets		**–**	**4.5**	**7,142.2**	**7,146.7**
Financial liabilities					
Derivative financial instruments	14	–	4.2	–	4.2
Total Financial liabilities		**–**	**4.2**	**–**	**4.2**

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.

Notes to the Financial Statements

For the year ended 30 June 2015

18 Fair value measurements (continued)

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 2015 plus an adequate constant credit spread to discount financial instruments. The interest rates used are in the following ranges:

	2015	2014
Loans and borrowings	2.0% – 3.7%	2.5% – 4.5%

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.

(b) 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:

- Assets classified as held for sale
- System assets
- Land and buildings
- Investment properties.

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.

Investment properties and assets classified as held for sale

The investment property has been marketed for sale and accordingly has been classified as held for sale. The fair value was determined taking into account expected sale proceeds, based on recent offers received which are subject to negotiation, less costs to sell.

System assets and land and buildings

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

(c) 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 2015 and 2014 for recurring fair value measurements:

18 Fair value measurements (continued)

Assets	System assets $M	Land and buildings $M	Total $M
Opening balance 1 July 2013	6,614.2	–	6,614.2
Adoption of AASB 13	–	195.8	195.8
Acquisitions	582.5	21.6	604.1
Disposals and transfers	–	(1.9)	(1.9)
Depreciation and impairment	(264.5)	(5.5)	(270.0)
Closing balance 30 June 2014	**6,932.2**	**210.0**	**7,142.2**
Acquisitions	574.0	4.6	578.6
Disposals and transfers	(1.9)	(5.4)	(7.3)
Depreciation and impairment	(280.3)	(5.5)	(285.8)
Gains recognised in other comprehensive income	–	–	–
Gain recognised in other income	–	–	–
Closing balance 30 June 2015	**7,224.0**	**203.7**	**7,427.7**

(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.

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 2015 $M	Unobservable inputs	Range of inputs (probability weighted average)	Relationship of unobservable inputs to fair value
System assets and land and buildings	7,427.7	Discount rate	+/–50 basis points	The higher the discount rate, the lower the fair value. A 50 basis point increase/decrease in the discount rate results in a $202.8 million change in the fair value.
		5 year forecast operating expenditure	+/– 10%	The higher the operating expenditure the lower the fair value. A 10% movement in the operating expenditure results in a $144.6 million change in the fair value.
		5 year forecast capital expenditure	+/–10%	The higher the capital expenditure the lower the fair value. A 10% movement in the capital expenditure results in a $4.7 million change in the fair value.
		Forecast terminal RAB multiple	+/–5%	The higher the terminal RAB multiple, the higher the fair value. A 5% increase/decrease in terminal RAB multiple results in a $332.5 million increase/decrease in fair value.

Notes to the Financial Statements

For the year ended 30 June 2015

18 Fair value measurements (continued)

(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 Chief Financial Officer. Discussions of valuation processes and results are held between the Chief Financial Officer 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 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(m)(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 represented capital expenditure expected to be spent between 1 July 2014 and 30 June 2019 and was based on latest management estimates.

(d) Fair values versus carrying amount

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

	Note	Carrying Amount 2015 $M	Fair Value 2015 $M	Carrying Amount 2014 $M	Fair Value 2014 $M
Financial instruments					
Financial assets carried at amortised cost					
Cash and cash equivalents	6	0.4	0.4	3.3	3.3
Trade and other receivables (excluding prepayments)	7	358.0	358.0	413.1	413.1
		358.4	**358.4**	**416.4**	**416.4**
Financial liabilities carried at amortised cost					
Borrowings	13	4,797.8	5,425.8	4,696.5	5,243.1
Trade and other payables (excluding statutory payables)	12	275.6	275.6	304.3	304.3
		5,073.4	**5,701.4**	**5,000.8**	**5,547.4**
Financial liabilities carried at fair value					
Forward rate interest contracts	14	–	–	4.2	4.2
		–	**–**	**4.2**	**4.2**
		5,073.4	**5,701.4**	**5,005.0**	**5,551.6**

19 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

Ms Laura Reed

Mr Phil Garling

Dr Patrick Strange

Ms Diana Eilert

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(t) and 1(u)). 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:

	2015 $M	2014 $M
Short-term employee benefits	3.5	3.6
Long-term benefits	0.3	0.3
Post-employment benefits	0.2	0.2
Termination benefits	0.7	–
Total	**4.7**	**4.1**

Notes to the Financial Statements

For the year ended 30 June 2015

20 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 cooperatively.

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.

On 4 June 2015, the *Electricity Network Assets (Authorised Transactions) Act 2015* and the *Electricity Retained Interest Corporations Act 2015* were enacted to allow the New South Wales Government to proceed with the long term lease of 49% of the State's electricity network (the Transaction) which is to include 50.4% of Ausgrid and Endeavour Energy (each being an electricity network SOC). These lease arrangements exclude Essential Energy.

The *Electricity Retained Interest Corporations Act 2015* comes into effect upon proclamation (on a date yet to be announced).

Under the *Electricity Network Assets (Authorised Transactions) Act 2015* the joint board arrangements for Ausgrid, Endeavour Energy and Essential Energy (provided for by section 9A of the *Energy Services Corporations Act 1995*) will cease on a day notified by the Treasurer (this date has not yet been notified by the Treasurer). Whilst Essential Energy is excluded from the lease arrangement the Corporation will be impacted by the ceasing of the joint board.

(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 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. The following transactions occurred with Ausgrid and Endeavour Energy.

	2015 $M	2014 $M
Network use of system income*	0.4	0.4
Management fee recharge income	5.0	2.5
Other income	4.6	–
Total related party income	**10.0**	**2.9**
Network use of system expense*	5.7	4.9
Management fee recharge expense	6.6	4.6
Other expense	2.0	0.7
Total related party expense	**14.3**	**10.2**

*representing inter distributor charges.

20 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:

	2015 $M	2014 $M
Current receivables		
– amounts receivable	2.6	0.8
Current payables		
– amounts payable	2.7	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.

21 Remuneration of auditor

	2015 $M	2014 $M
Audit Office of New South Wales		
– Audit of financial statements	0.4	0.4
– Other assurance services	–	–
	0.4	**0.4**

22 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.

	2015 $M	2014 $M
Contingent liabilities		
Guarantees provided to regulatory and statutory authorities	67.2	68.2

Notes to the Financial Statements

For the year ended 30 June 2015

23 Capital commitments

	2015 $M	2014 $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)	23.0	99.1
GST credits	2.1	9.0

24 Operating leases

	2015 $M	2014 $M
Leases as lessee		
Non-cancellable operating leases are payable as follows:		
Within twelve months	6.5	7.8
Twelve months or longer and not longer than five years	6.2	11.1
Longer than five years (#)	0.2	0.3
Total (including GST)	**12.9**	**19.2**
GST credits	1.2	1.7

- There are 396 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.

	2015 $M	2014 $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	2.1	1.8
Twelve months or longer and not longer than five years	4.0	4.1
Longer than five years (#)	0.2	0.2
Total (including GST)	**6.3**	**6.1**
GST debits	0.6	0.5

During the year ended 30 June 2015 $2.1 million (2014: $1.7 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.

25 Reconciliation of cashflows from operating activities

	Note	2015 $M	2014 $M
Profit for the year		266.3	295.4
Add/(less) non cash items:			
Depreciation, amortisation, write off and impairment of non-financial assets		385.9	348.8
Non cash additions including capital contributions		(161.2)	(67.2)
Net loss (gain) on fair value of investment property		1.1	1.8
Prepaid superannuation		(0.2)	1.5
Net loss on disposal of property, plant and equipment		1.1	1.2
Amortisation of deferred interest (income)/expense		(2.9)	(0.5)
Capitalisation of indexed bonds indexation		9.5	12.7
Changes in assets and liabilities:			
Decrease in unread meters		0.4	19.5
(Increase)/decrease in other receivables		63.3	(11.5)
Decrease in inventories		5.0	4.1
Decrease in restricted cash		–	13.1
Decrease in other assets		–	0.7
Decrease in accrued operating expenditure		(38.2)	(2.5)
Increase/(decrease) in current tax balances		19.6	(91.2)
Decrease in deferred taxes liabilities		(29.3)	(73.0)
Decrease in other provisions		(10.8)	(10.1)
Increase in deferred revenue		7.0	6.5
Net cash from operating activities		**516.6**	**449.3**

Notes to the Financial Statements

For the year ended 30 June 2015

26 Superannuation – Defined benefits plan

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 no longer has any current employees in the Electricity Supply Industry Superannuation Fund (Qld) (ESISF) at 30 June 2015 (nil at 30 June 2014). 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. The next actuarial valuation is due as at 30 June 2015 and the report is expected to be released by the end of December 2015.

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. The next actuarial investigation is due as at 30 June 2015 and the report is expected to be released by the end of 2015.

26 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.

Notes to the Financial Statements

For the year ended 30 June 2015

26 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 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 paid	48.3	(48.3)	2.3	(2.3)	50.6	(50.6)	–
Taxes, premiums and expenses paid	3.5	(3.5)	(0.2)	0.2	3.3	(3.3)	–
At 30 June 2014	**(589.8)**	**427.5**	**(11.0)**	**11.6**	**(600.8)**	**439.1**	**(161.7)**

26 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 2014	**(589.8)**	**427.5**	**(11.0)**	**11.6**	**(600.8)**	**439.1**	**(161.7)**
Current service cost	(14.0)	–	(0.2)	–	(14.2)	–	(14.2)
Interest (expense)/income	(19.8)	15.1	(0.4)	0.4	(20.2)	15.5	(4.7)
(Expense)/income recognised in profit or loss	**(33.8)**	**15.1**	**(0.6)**	**0.4**	**(34.4)**	**15.5**	**(18.9)**
Contributions by Fund participants							
Employers	–	18.0	–	0.1	–	18.1	18.1
Plan participants	(3.8)	3.8	(0.1)	0.1	(3.9)	3.9	–
	(3.8)	**21.8**	**(0.1)**	**0.2**	**(3.9)**	**22.0**	**18.1**
Remeasurements							
Return on plan assets, excluding amounts included in interest (expense)/income	–	13.8	–	0.9	–	14.7	14.7
Gain/(loss) from change in demographic assumptions	–	–	–	–	–	–	–
Gain/(loss) from change in financial assumptions	23.9	–	0.3	–	24.2	–	24.2
Gain/(loss) from change in liability experience	43.2	–	0.6	–	43.8	–	43.8
	67.1	13.8	0.9	0.9	68.0	14.7	82.7
Adjustment for effect of asset ceiling*	–	–	–	(1.4)	–	(1.4)	(1.4)
(Expense)/income recognised in other comprehensive income	**67.1**	**13.8**	**0.9**	**(0.5)**	**68.0**	**13.3**	**81.3**
Benefits paid	74.5	(74.5)	0.9	(0.9)	75.5	(75.5)	–
Taxes, premiums and expenses paid	4.1	(4.1)	(0.2)	0.2	3.9	(3.9)	–
At 30 June 2015	**(481.7)**	**399.6**	**(10.1)**	**11.0**	**(491.7)**	**410.5**	**(81.2)**

The total net defined benefit liability of $81.2 million (2014: $161.7 million) comprises a liability of $82.8 million (2014: $163.2 million) disclosed within non–current provisions and an asset of $1.6 million (2014: $1.5 million) disclosed within non-current receivables.

*The adjustment for the effect of asset ceiling has been determined based on the maximum economic benefit available to the Corporation in the form of reductions in future employer contributions.

Notes to the Financial Statements

For the year ended 30 June 2015

26 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 2015 Asset category	Total $M	Quoted prices in active markets for identical assets Level 1 $M	Significant observable inputs Level 2 $M	Unobservable inputs Level 3 $M
Energy Investment Fund	2,351.2	–	2,351.2	–
Total	**2,351.2**	**–**	**2,351.2**	**–**
As at 30 June 2014				
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 2015 Asset category	Total $M	Quoted prices in active markets for identical assets Level 1 $M	Significant observable inputs Level 2 $M	Unobservable inputs Level 3 $M
Australian equities	10,406.9	9,898.5	504.0	4.4
International equities	13,111.5	9,963.3	2,585.2	563.0
Property	3,452.6	948.4	718.4	1,785.8
Alternatives	7,170.2	622.1	3,020.2	3,527.9
Fixed income	3,660.4	0.8	3,642.7	16.9
Cash and short term securities	2,641.5	95.6	2,545.9	–
Total*	**40,443.1**	**21,528.7**	**13,016.4**	**5,898.0**
As at 30 June 2014				
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 2015 STC Pooled Fund has provisions for receivables/(payables) estimated to be around $1.7 billion (2014: $2.2 billion), giving estimated assets totalling approximately $42.2 billion (2014: $40.2 billion).

26 Superannuation – Defined benefits plan (continued)

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 2015**	**30 June 2014**	**30 June 2015**	**30 June 2014**
Australian listed equities	12.0%	17.0%	25.7%	30.9%
Overseas listed equities	36.0%	23.0%	32.4%	28.8%
Emerging market equities	–	4.0%	–	–
Property	4.0%	7.0%	8.6%	8.6%
Private equity	2.0%	1.0%	–	–
Infrastructure	7.0%	10.0%	–	–
Alternatives	32.0%	25.0%	17.7%	16.7%
Fixed income	–	12.0%	9.1%	8.5%
Cash and short term securities	7.0%	1.0%	6.5%	6.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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 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.

The Pooled Fund

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.

(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

	2015	**2014**
Expected salary increase rate (excluding promotional increases)	0% pa until 30/06/2017; 2.5% pa thereafter	2.7% pa until 30/06/2015; 3.5% pa thereafter
Rate of CPI increase	2.5% pa	2.5% pa
Discount rate	3.0% pa	3.6% pa
Pensioner mortality	based on Mercer 2005–09 Standard Pensioner Mortality Table	

Notes to the Financial Statements

For the year ended 30 June 2015

26 Superannuation – Defined benefits plan (continued)

(j) Sensitivity Analysis

The Corporation's total defined benefit obligation as at 30 June 2015 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	3.0% pa	2.0% pa	4.0% pa
Rate of CPI increase	2.5% pa	2.5% pa	2.5% pa
Salary inflation rate	0% pa until 30/06/2017; 2.5% pa thereafter	0% pa until 30/06/2017; 2.5% pa thereafter	0% pa until 30/06/2017; 2.5% pa thereafter
Defined benefit obligation ($M)	491.7	551.0	443.9

	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D –0.5% rate of CPI increase
Discount rate	3.0% pa	3.0% pa	3.0% pa
Rate of CPI increase	2.5% pa	3.0% pa	2.0% pa
Salary inflation rate	0% pa until 30/06/2017; 2.5% pa thereafter	0% pa until 30/06/2017; 2.5% pa thereafter	0% pa until 30/06/2017; 2.5% pa thereafter
Defined benefit obligation ($M)	491.7	502.8	481.6

	Base Case	Scenario E +0.5% salary increase rate	Scenario F –0.5% salary increase rate
Discount rate	3.0% pa	3.0% pa	3.0% pa
Rate of CPI increase	2.5% pa	2.5% pa	2.5% pa
Salary inflation rate	0% pa until 30/06/2017; 2.5% pa thereafter	0% pa until 30/06/2017; 3.0% pa thereafter	0% pa until 30/06/2017; 2.0% pa thereafter
Defined benefit obligation ($M)	491.7	509.6	478.6

	Base Case	Scenario G +0.5% pensioner mortality rate	Scenario H –0.5% pensioner mortality rate
Defined benefit obligation ($M)	491.7	489.9	493.6

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

26 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. No explicit asset-liability matching strategy is used by the Trustee.

(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.

The next triennial review is due as at 30 June 2015, the report is expected to be released by the end of December 2015.

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 2015 financial position of the Fund calculated in accordance with AAS 25 "Financial Reporting by Superannuation Plans":

	EISS		Other		Total	
	2015 $M	2014 $M	2015 $M	2014 $M	2015 $M	2014 $M
Accrued benefits	358.9	429.6	7.3	7.8	366.2	437.4
Net market value of Fund assets	(399.6)	(427.6)	(12.1)	(11.3)	(411.7)	(438.9)
Net (surplus)/deficit	(40.7)	2.0	(4.8)	(3.5)	(45.5)	(1.5)

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 AAS 25 financial position calculations are:

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	0% pa until 30/06/2017 and 2.5% pa thereafter*	2.7% pa until 30/06/2018; 4.0% pa thereafter
Expected rate of CPI increase	2.5% pa	2.5% pa

*The above economic assumption were as adopted for the 30 June 2012 triennial actuarial investigation other than applying the Corporation's current salary assumptions for EISS.

Notes to the Financial Statements

For the year ended 30 June 2015

26 Superannuation – Defined benefits plan (continued)

Expected contributions		Financial Year to 30 June 2016 $M
Expected employer contributions	– EISS	15.9
	– Other	Nil

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13.5 years (2014: 13.4 years) for the EISS, while it is 13.4 years (2014: 12.8 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.

27 Events subsequent to balance date

The financial statements of the Corporation for the year ended 30 June 2015 were authorised for issue in accordance with a resolution of the Directors on 10 September 2015.

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

APPENDICES

Contents

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 National Electricity Market.

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 and Insurance Activities	Schedule 1 ARSBR
Disclosure of Controlled Entities	Schedule 1 ARSBR
Investment Management Performance	cl. 12 ARSBR
Liability Management Performance	cl. 13 ARSBR

*Essential Energy also participated in two Networks NSW consultancies: a safety culture assessment with Leading Edge Safety Systems and a sustainability review project with PWC Strategy & (Australia) Pty Ltd. The total costs are disclosed in the Appendices section of Ausgrid's 2014-15 Annual Report as they were the commissioning agency. Essential Energy paid Ausgrid $1.5 million for its share of these consultancies through a management fee.

Reference: *ARSBA – Annual Reports (Statutory Bodies) Act 1984. ARSBR – Annual Reports (Statutory Bodies) Regulation 2010.*

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.

Digital information security policy attestation

Essential Energy has adopted the NSW Government recommendation to comply with the standard for information security management, ISO/IEC 27001 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 27001:2013 and is committed to remaining compliant and measuring that compliance through internal and external audit processes.

Essential Energy is currently establishing an Information Security Management Program to address open audit actions and increase capability to respond to changes in threats and risks, and technology whilst remaining compliant. There is no agency or division of Essential Energy that is required to certify against ISO/IEC 27001.

Equal opportunity statistics

Parliamentary Annual Report Tables

Trends in the representation of workforce diversity groups				
Workforce diversity group	Benchmark/Target	2013	2014	2015
Women	50%	19.0%	17.0%	16.7%
Aboriginal people and Torres Strait Islanders	2.6%	3.4%	3.3%	3.2%
People whose first language spoken as a child was not english	19%	1.0%	1.0%	0.9%
People with a disability	N/A	1.8%	1.8%	1.7%
People with a disability requiring work-related adjustment	1.5%	0.5%	0.5%	0.5%

Trends in the distribution of workforce diversity groups				
Workforce diversity group	Benchmark/Target	2013	2014	2015
Women	100	97	101	99
Aboriginal people and Torres Strait Islanders	100	85	85	88
People whose first language was not English	100	115	115	113
People with a disability	100	105	105	103
People with a disability requiring work-related adjustment	100	108	108	107

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.

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 continued to operate as separate legal entities managed by a Joint Board of Directors and a common Chief Executive Officer.

At the end of the reporting period, Essential Energy employed 153 officers who received a total remuneration package equal to, or exceeding, the NSW Senior Executive Service Level 1 (SES1). This represents an increase of 15 compared to the previous financial year.

The increase was due to a number of enterprise agreement employees in supervisory or managerial roles electing to move to a performance based employment contract. Essential Energy believes this will help foster a culture committed to improving productivity, accountability and efficiency.

The number of female employees receiving a total remuneration package of SES1 or above was 27. Further detail is provided in the table titled 'Senior Managers'.

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 in line with Essential Energy's values and Code of Conduct.

Components of remuneration

Essential Energy Executive Officers are employed under performance-based 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 July 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 performance assessments and NSW State 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 the performance assessments and approves all annual performance payments for the CEO and the COO. The remaining executives are reviewed by the CEO.

Two year wage freeze

All Essential Energy managers employed under contract have their fixed remuneration reviewed in July each year. The NSW Government Wages Policy constrains the average increase to 2.5%. Following a 2.5% average increase in July 2014, contract managers' remuneration was not increased in July 2015 and is not intended to be increased in July 2016. This two year wages freeze also affects the funding pool available for "at risk" payments for contract managers.

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.

Group Executive employed by Essential Energy					
Name	**Position at 30 June 2015**	**Remuneration (excl at risk) at 30 June 15[a]**	**At Risk Paid FY 14/15[b]**	**Notes**	**Performance criteria**
Vince Graham	CEO Ausgrid, Endeavour Energy, Essential Energy	Paid by Endeavour Energy	Paid by Endeavour Energy	Vince Graham is remunerated by Endeavour Energy and the costs shared by the three businesses.	See Endeavour Energy's Annual Report.
Justin De Lorenzo	Group Chief Operating Officer	$483,287	Not applicable	Resigned 10 April 2015	
Essential Energy Executive Remuneration FY15					
Gary Humphreys	Chief Operating Officer	$472,781	$71,950		Delivered improvements in safety during a time of significant change. Delivered significant cost saving initiatives and other reforms that improved efficiency and provided a platform for the future sustainability of the business. Oversaw delivery of regulatory proposals to the AER. Exceeded key financial targets for the year. Also oversaw the development of the Customer Commitment Statement and maintained customer satisfaction at a high level.
Col Ussher	GM Network Development	$350,408	N/A	Exit 30 June 2015	Developed and implemented review of vegetation management standards and strategy, and overhead line inspection standards, including introduction of new aerial patrol technology. Oversaw delivery of network capital and maintenance plans and Network Capability Improvement Program (NCIP).
Ken Stonestreet	Chief Engineer	$ 434,934	Not applicable	Resigned 31 December 2014	Resigned, 31 December 2015
Brian Green	Chief Engineer	$310,000	$19,492	Appointed 28 January 2015	Oversaw implementation of best practice asset management, updated current asset management policies and prepared a position paper on future of the network. Delivered asset management plans aligned with strategic plans.
Caroline Hungerford	GM ICT	$274,444	$38,712		Delivered major upgrades to a number of IT systems, including Windows 7, PeacePlus 9 CIS and PeopleSoft. Led the application rationalisation program and established governance for technology investment. Delivered a number of other improvements in the ICT area, including enterprise mobility, improved decision support systems, customer self- service and cost analysis for a number of ICT services.
Luke Jenner	GM People & Services	$298,480	$45,396		Oversaw implementation of the operating models across the business, and drove significant improvements in fleet, property, procurement and logistics activities. Delivered leadership competency framework and other improvements in human resources management. Delivered a major upgrade to the Customer Information System. Led review of internal communications and implementation of the Customer Care Essentials program.
Peter Bereicua	GM Network Operations	$331,075	$39,841		Defined and implemented a number of productivity and business efficiency programs. Oversaw implementation of safety leadership competency framework and Network Fatal Risk program in Network Operations. Oversaw delivery of internal element of network capital and maintenance plans.
Andrew Sinclair	GM Finance & Compliance	$295,713	$42,909		Led delivery of regulatory proposals to the AER, and critique of the AER determination. Led implementation of the network reform and sustainability programs, delivering significant ongoing operational savings. Established reporting for Alternate Control Services and embedding improvements to a number of other areas including risk management, ethics, legal governance, corporate planning, Treasury and business continuity. Led the successful implementation of the PeopleSoft Enterprise Resource Planning (ERP) upgrade.
David Nardi	Acting GM HSE	$271,625	$45,610		Led development and implementation of a positive safety culture, fair and just culture and safety leadership competency framework. Developed HSE leadership capabilities and implemented contractor safety performance reporting and Network Fatal Risk management controls. Oversaw significant improvement in safety performance.

a. excludes "at risk" payment.

b. "at risk" payments are based on 2014-15 performance against key criteria, approved by the Board in September 2015.

Senior Managers

Band	2013/2014		2014/2015	
	Female	Male	Female	Male
Above Band 4*		2		1
Band 4		1		
Band 3		5	1	6
Band 2	2	11	1	11
Band 1	24	90	25	106
Below Band 1**		3		2
Totals	**26**	**112**	**27**	**126**
	138		153	

Band	Band	Average Remuneration	
		2013/2014 $	2014/2015 $
Above Band 4*	$497,300 +	536,331	543,698
Band 4	$430,451 – 497,300	443,371	
Band 3	$305,401 – 430,450	338,093	339,760
Band 2	$242,801 – 305,400	269,477	270,952
Band 1	$170,250 – 242,800	198,051	198,845
Below Band 1**	< $170,250	158,650	158,950

Bands are as defined in the 2014 NSW Public Service Senior Executives Determination (dated 11 July 2014) under the *Government Sector Employment Act 2013*. Reporting is limited to contract managers employed on individual performance-based employment contracts.
*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.
**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.

Agreements with Multicultural NSW

Essential Energy has not entered into any agreements with Multicultural NSW under the Multicultural NSW Act 2000.

Land disposal

Essential Energy did not dispose of any land worth more than $5 million during 2014-15.

Overseas travel

Purpose of travel	Employee name	Organisation visited	Cities	Country	Date of departure from Australia	Date of arrival into Australia
Factory audit for NNSW cables tender	G Barnewall	Midal Cables	Manama	Bahrain	1 September 2014	5 September 2014
Attend Senior Executive Program in Shanghai	G Humphreys	No organisations were visited. The course was run by the Melbourne Business School	Shanghai	China	31 January 2014	7 February 2014

Government Information (Public Access) Act 2009

The *Government Information (Public Access) Act 2009 (NSW)* (GIPA Act) replaced the *Freedom of Information Act 1989 (NSW)* on 1 July 2010. The GIPA Act has established a comprehensive system for public access to government information. Essential Energy is subject to the GIPA Act and is committed to complying with the Act in a fair and objective manner when dealing with external requests for access to company information. We support the proactive release of information where it is in the public interest to do so.

Review of program for release of information

During 2014-15, Essential Energy's review of its program for release of information, undertaken as per section 7(3) of the GIPA Act, included the review of the adequacy/currency of its policies, procedures, forms and templates regarding processing requests for access to government Information; the training of staff in GIPA Act compliance; publication of contractual information on the Essential Energy web site; monitoring and review of its website; and publication of relevant information regarding corporate governance and the network business.

Total number of access applications received during the year

In 2014-15 Essential Energy received 10 formal access applications for information pursuant to the GIPA Act. As at 30 June 2015, 1 formal access application was ongoing. The formal applications received were from members of the public, parliamentary members, media, private sector businesses, lawyers and investigators.

In response to the formal access applications that were finalised in 2014-15, full access was provided on 3 occasions. With respect to the remaining access applications, 2 were granted in part, and 2 were withdrawn by the applicant following assistance provided by Essential Energy regarding the information requested. A variety of public interest considerations were taken into account in dealing with these applications. These are set out in Table E, below. In the course of determining access applications during the financial year, Essential Energy did rely on conclusive presumptions of overriding public interest against disclosure (as set out in schedule 1 of the GIPA Act) twice.

Statistical information about access applications (table to be completed)

As required by section 7 and schedule 2 of the *Government Information (Public Access) Regulation 2009 (NSW)*, the following tables provide a summary of the responses to requests made pursuant to the GIPA Act in 2013-14.

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 information is held	Application withdrawn
Media	0	0	0	0	0	0	0	0
Members of Parliament	2	0	0	0	0	0	0	0
Private sector business	0	1	1	0	0	0	0	0
Not-for-profit organisations or community groups	0	0	0	0	0	0	0	1
Members of the public (application by legal representative)	1	0	0	1	0	0	0	1
Members of the public (other)	0	1	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 deal with application	Application withdrawn
Personal information applications*	0	1	0	0	0	0	0	0
Access applications (other than personal information applications)	3	1	1	1	0	0	0	2
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

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

Table C: Invalid applications

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

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act	
	Number of times consideration used
Overriding secrecy laws	2
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

Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of the Act	
	Number of occasions when application not successful
Responsible and effective government	2
Law enforcement and security	0
Individual rights, judicial processes and natural justice	0
Business interests of agencies and other persons	0
Environment, culture, economy and general matters	0
Secrecy provisions	0
Exempt documents under interstate Freedom of Information legislation	0

*Part of requested information only – balance provided in full.

Table F: Timeliness	
	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	7
Decided after 35 days (by agreement with applicant)	0
Not decided within time (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	0	0	0
Review by Information Commissioner*	1	0	1
Internal review following recommendation under section 93 of Act*	0	1	1
Review by ADT	0	0	0
Total	1	1	2

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

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

Public Interest Disclosures Act

In compliance with the *Public Interest Disclosures Act 1994 (PID Act)*, Essential Energy has a policy for receiving, assessing and investigating public interest disclosures. Employees have been informed of the contents of the policy and the protection available under the Act through the publication and distribution of the Code of Conduct.

During the period 1 July 2014 to 30 June 2015, Essential Energy dealt with 41 public interest disclosures alleging corrupt conduct. 41 of the disclosures were received from public officials performing their day to day function, none were received from a statutory authority. There was one public interest disclosure received in relation to maladministration, serious and substantial waste or government information contravention. 39 public interest disclosures were finalised during the financial year.

Summary of legislative changes and judicial decisions for 1 July 2014 to 30 June 2015

Material changes to Commonwealth legislation

Clean Energy Legislation (Carbon Tax Repeal) Act 2014 (Cth)

This Act, which came into effect in stages between 1 and 18 July 2014, repealed legislation establishing the previous Commonwealth Government's carbon pricing mechanism, including the *Clean Energy Act 2011* (Cth). Following the repeal, the 2013-14 financial year was the last financial year in which Essential Energy may have been required to pay a price for carbon emissions under the *Clean Energy Act 2011* (Cth).

Consequential amendments were made to the *National Greenhouse and Energy Reporting Act 2007* (Cth) (**NGER Act**) relating to reporting emissions and registering for carbon units under the carbon pricing mechanism. As a result, from the 2014-15 financial year onwards, Essential Energy is not required to report its emissions number to the Clean Energy Regulator, or to register for emissions units for each tonne of carbon dioxide gas or equivalent it emits. However, any other reporting obligations under the NGER Act continue to apply.

Related amendments were also made to the *Competition and Consumer Act 2010* (Cth) to grant the ACCC powers to monitor prices to assess the general effect of the carbon tax repeal on prices charged for certain goods (during a transitional period) and to prosecute businesses that make false and misleading representations about the effect of the carbon repeal on prices.

Environment Protection and Biodiversity Conservation Amendment (Cost Recovery) Act 2014 (Cth)

The *Environment Protection and Biodiversity Conservation Amendment (Cost Recovery) Act 2014* (Cth) introduced a cost recovery regime empowering the Commonwealth Department of Environment to recover the cost of environmental impact assessments from 1 July 2014.

Carbon Farming Initiative Amendment Act 2014 (Cth)

The *Carbon Farming Initiative Amendment Act 2014* (Cth) (**CFI Amendment Act**) amended the *Carbon Credits* (Carbon Farming Initiative) *Act 2011* (Cth) to establish the Emissions Reduction Fund. The CFI Amendment Act granted the Clean Energy Regulator authority to purchase emissions reductions on behalf of the Commonwealth through auctions or other purchasing processes.

Any projects which existed under the previous Carbon Farming Initiative automatically became projects under the Emissions Reduction Fund and were listed on the Emissions Reduction Fund Register from 13 December 2014.

Further changes include:

- all existing emissions avoidance projects (other than savannah burning) were automatically given a second crediting period of seven years from 13 December 2014
- audits are not required for reporting under the Emissions Reduction Fund, however the Clean Energy Regulator will conduct audits using a risk-based approach.

Material changes to New South Wales legislation

Electricity Network Assets (Authorised Transactions) Act 2015 (NSW)

This Act amended various Acts regulating Essential Energy's operations to authorise and facilitate the lease of up to a 49% interest in the State's electricity network assets to the private sector for an initial term of up to 99 years. The Act prevents transfer of any assets, rights or liabilities of Essential Energy.

Electricity Retained Interest Corporations 2015 (NSW)

This Act creates corporations to manage the electricity network assets retained by the State of NSW following the long term lease of electricity network assets to private operators as facilitated by the proposed *Electricity Network Assets (Authorised Transactions) Act 2015* (NSW) above. The Act places obligations on these corporations to properly manage the retained assets.

Electricity Supply Act 1995 (NSW)

This Act was amended by the *Electricity Supply Amendment (Bush Fire Hazard Reduction) Act 2014* (NSW), which came into effect on 11 November 2014. The amendments give network operators power to direct owners of private land in bushfire prone areas to conduct work to mitigate bushfire risks. Network operators have the power to enter the land and perform the works themselves if the owner does not comply. The *Electricity Supply (Safety and Network Management) Amendment (Directions for Bush Fire Risk Mitigation Work) Regulation 2014* (NSW) makes further provision for the contents of a notice issued under the new provisions.

Electricity Supply (Safety and Network Management) Regulation 2014 (NSW)

This regulation came into effect on 1 September 2014, replacing the *Electricity Supply (Safety and Network Management) Regulation 2008* (NSW). Like the 2008 Regulation, this regulation creates an obligation on network operators to put in place by 1 March 2015, comply with, and measure their performance against, a 'Safety Management System' (SMS). The 2014 Regulation is less prescriptive than its predecessor and includes an overarching obligation 'to take all reasonable steps to ensure' the safety of the network and includes references to standards and codes.

Electricity Supply (General) Regulation 2014 (NSW)

This Regulation commenced on 1 September 2014 and remakes, with certain omissions, the *Electricity Supply (General) Regulation 2001* (NSW). The Regulation contains provisions relating to consumer consultative groups, the energy ombudsman scheme, distributor service standards, the solar bonus and energy savings schemes and other matters.

Electricity Supply (Consumer Safety) Regulation 2006 (NSW)

The repeal of this legislation was postponed from 1 September 2014 to 1 September 2015.

Home Building Act 1989 (NSW)

This Act was amended by the *Home Building Amendment Act 2014* (NSW), which came into effect in stages by 1 March 2015. The amendments were outlined in the 2013-14 annual report. *The Home Building Regulation 2004* (NSW) remakes the Home Building Regulation 2014 (NSW), and makes additions to support the amendments referenced above.

Work Health and Safety Amendment (Miscellaneous) Regulations 2015 (NSW)

This Regulation, which commenced on 13 February 2015, amends the *Work Health and Safety Regulation 2011* (NSW) to, among other things, exempt work carried out by or on behalf of an 'electricity supply authority' (which includes Essential Energy) on electrical equipment owned by the authority to generate, transform, transmit or supply electricity, and to exempt contestable services authorised by an electricity supply authority, from the application of Division 4 of Part 4.7 of the *Work Health and Safety Regulation 2011* (NSW)

Environmental Planning and Assessment Amendment Act 2014 (NSW)

The *Environmental Planning and Assessment Amendment Act 2014* (NSW) introduced a new tiered penalty framework for offences against the *Environmental Planning and Assessment Act 1979* (NSW), which is to commence on an as yet unannounced date fixed by proclamation. The maximum penalty for Tier 1 offences will be $5million, increased from $1.1million. Other changes will include enhanced enforcement powers, and a new offence of providing false or misleading information in connection with planning matters.

Protection of the Environment Legislation Amendment Act 2014 (NSW)

The *Protection of the Environment Legislation Amendment Act 2014* (NSW) came into force on 1 January 2015, amending the *Contaminated Land Management Act 1997* (NSW) to increase penalties for certain offences, including penalties of up to $1million, increased from maximums of $165,000, such as a failure to adhere to management orders, failing to report contamination, or providing false or misleading information.

National Electricity Rules

The National Electricity Rules apply in NSW under the *National Electricity (New South Wales) Act 1997* (NSW). The AEMC has made the following rule changes in the last financial year:

(a) *Connecting embedded generators under Chapter 5*A – effective 1 March 2015, the key components of this rule change are:

  (i) proponents of non-registered embedded generators for whom a basic or standard connection offer is not available may elect to use the Chapter 5 embedded generator connection framework instead of the Chapter 5A arrangements; and

  (ii) distributors must publish information to assist customers and maintain a register of Chapter 5 and Chapter 5A embedded generator projects on their websites.

(b) *Customer access to information about their energy consumption* – effective 1 December 2014 (1 March 2016 for some provisions), this rule allows customers, or parties authorised by customers, to request access to their electricity consumption data from their distributor. This information must be provided free of charge and subject to prescribed formats and timeframes. A corresponding change was made to the *National Energy Retail Rules.*

(c) *Distribution Network Pricing Arrangements* – effective 1 December 2014, this rule sets out a new pricing objective, new pricing principles and a new process for setting network prices, with the first tariffs based on the new principles to apply from 1 July 2017. Under transitional arrangements, NSW distributors are required to submit 'Tariff Structure Statements' (TSSs) for approval by the AER by 27 November 2015. The AER will make a decision in relation to these TSSs by 31 October 2016, with tariffs based on the new principles to apply from 1 July 2017.

(d) *Improving demand side participation information provided to AEMO by registered participants* – effective 26 March 2015, this rule allows AEMO to set guidelines requiring distributors to provide it with Demand Side Participation Information (DSP Information), which the AEMO will use in making its short and long term load forecasts. AEMO must have regard to registered participants' costs of compliance when making guidelines and must publish details annually on the extent to which DSP Information it has obtained has informed the development or use of its electricity load forecasts.

Material changes to Queensland electricity legislation

National Energy Consumer Framework

The National Energy Consumer Framework (NECF) came into effect in Queensland on 1 July 2015.

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 and
- rules to ensure customers are fully informed of the terms of their contract.

NECF was implemented in Queensland by the adoption of the *National Energy Retail Law*, the *National Energy Retail Rules* and the *National Energy Retail Regulations* as Queensland law. The *National Energy Retail Law (Queensland) Act 2014* (Qld) came into effect on 1 July 2015, together with the *National Energy Retail Law (Queensland) Regulation 2014* (Qld). The Regulation supports the application of the NERL in Queensland and also modifies the *National Energy Retail Rules* to ensure that regional electricity customers can continue to access supply on a fair and reasonable basis and to provide additional protection to small customers.

Neither the Act nor Regulation exempt Essential Energy from complying with the NECF as implemented in Queensland with respect to customers located in the cross-border areas of its network. Some NSW-specific exemptions and modifications are not replicated under the Queensland regime. For example, while Queensland has similar provisions to enable distributors to agree a shorter notice period for planned interruptions, Queensland distributors will not be able to limit liability as permitted under cl. 8 of the *National Energy Retail Law (Adoption) Regulation 2013* (NSW).

Further, specific variations to the NECF have been adopted in Queensland, including that outside of South East Queensland will remain regulated.

Essential Energy must comply with NECF as applied in Queensland in relation to its cross-border customers.

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

Distributor Licence Conditions

The Minister for Energy reviewed and varied conditions relating to reliability and performance in distributor licenses pursuant to the *Electricity Supply Act 1995* (NSW), effective from 1 July 2014. The new conditions, among other things, specify minimum reliability performance for individual feeders and minimum average reliability performance for distributors across their network, by feeder type. Distributors must compensate customers that receive poor supply reliability from the distributor. Distributors must also make quarterly reports to the Minister relating to individual feeder standards, network overall reliability standards and customer service standards.

The Federal Court handed down its decision in *SPI Electricity Pty Ltd v Australian Energy Regulator* [2014] FCA 1012 on 17 September 2014. SPI Electricity Pty Ltd (SPI), a distributor in Victoria, applied for judicial review of a decision by the AER in respect of SPI's budget for the 2012-2015 period for the installation of advanced meters in residential premises and small business premises in Victoria. SPI alleged that the AER had failed to take into account costs that would be incurred by a reasonable business in the SPI's circumstances to switch from the current technology employed to the advanced meters.

The Court found that the AER's Amended Budget Determination was not affected by reviewable error. The AER had conceived and taken into account hypothetical steps that might or could have been undertaken by a hypothetical reasonable business to fund relevant hypothetical expenditure. The Court noted that the exercise which AER was required to perform was essentially hypothetical. Accordingly, the Court found that the AER's amended budget determination was not affected by reviewable error and dismissed the application.

Index

Contacts

Telephone

Network general enquiries: **13 23 91**
Supply interruptions: **13 20 80**
Interpreter service: **13 14 50**

Available 24 hours a day, seven days a week.

Websites

essentialenergy.com.au
essentialwater.com.au

Email

info@essentialenergy.com.au

Mail

PO Box 5730
Port Macquarie NSW 2444

Right to Information Officer (FOI): 13 23 91

For copies of the report:

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or call **13 23 91**

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