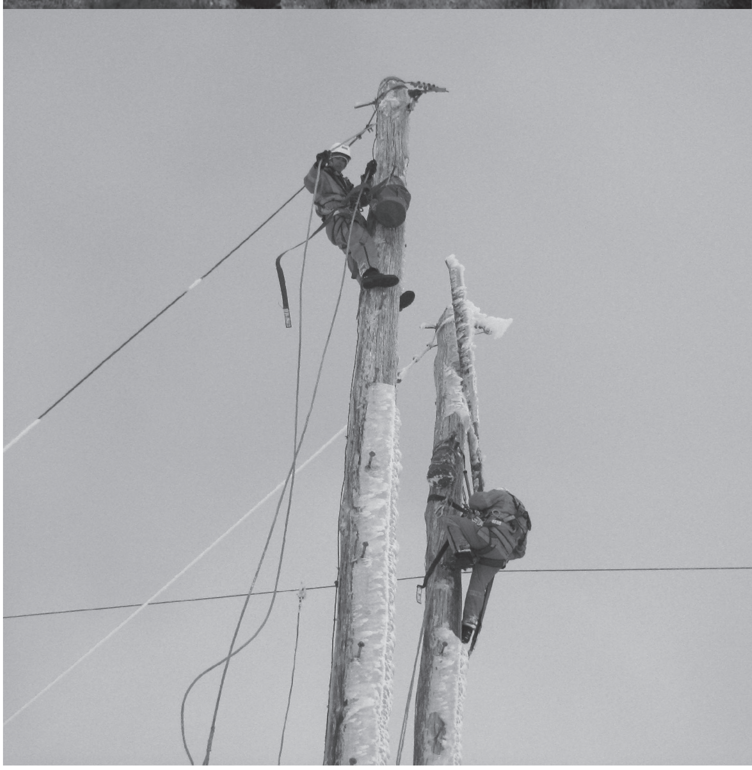
ESSENTIAL ENERGY

Annual Report 2015–16






essential energy

31 October 2016

The Hon. Gladys Berejiklian, MP
Treasurer, and Minister for Industrial Relations
Member for Willoughby
GPO Box 5341
SYDNEY NSW 2001

The Hon. Dominic Perrottet MP
Minister for Finance, Services and Property
Member for Hawkesbury
GPO Box 5341
SYDNEY NSW 2001

Dear Ministers

SUBMISSION OF ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

We are pleased to submit Essential Energy's annual report detailing performance, operations and financial results for the year ended 30 June 2016.

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

A copy will be sent to the Premier of New South Wales, the Auditor General, the Minister for Industry, Resources and Energy, and other significant stakeholders.

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

Yours sincerely

Patricia McKenzie
Chair

John Cleland
Chief Executive Officer

About this report

Essential Energy's Annual Report details our safety, financial and operational performance for the 2015-2016 financial year and has been approved by our Board of Directors.

The contents of this report are guided by:

> The *State Owned Corporations Act (1989)*;

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

Assurance

The financial statements contained within this document have been audited by the Audit Office of NSW – the Independent Auditor's certified report is on page 36.

Cost for report production

The external cost for the production of this report was $16,390 excluding GST.

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and Stakeholder Engagement
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Cover image:
1. Broken Hill
2. Ballina
3. Jindabyne
4. Luke Cox

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About us

With more than 200,000 kilometres of powerlines spanning 95 per cent of New South Wales and serving more than 830,000 customers, Essential Energy – a State Owned Corporation – is responsible for managing and operating Australia's most extensive electricity distribution network.

Essential Water, an operating division of Essential Energy, currently services approximately 9,500 water services customers in Broken Hill, Menindee, Sunset Strip and Silverton and 9,000 sewerage services customers in Broken Hill.

Essential Energy continues to support regional development and economies through its almost 3,200 locally based employees.

Regulatory environment

Essential Energy is bound by obligations imposed by the National Electricity Rules (the Rules), which are administered by the Australian Energy Regulator (AER). Every five years, under the Rules, the AER determines the maximum allowable annual revenue required by Essential Energy to recover the efficient costs of network investments and operations for the coming five-year period.

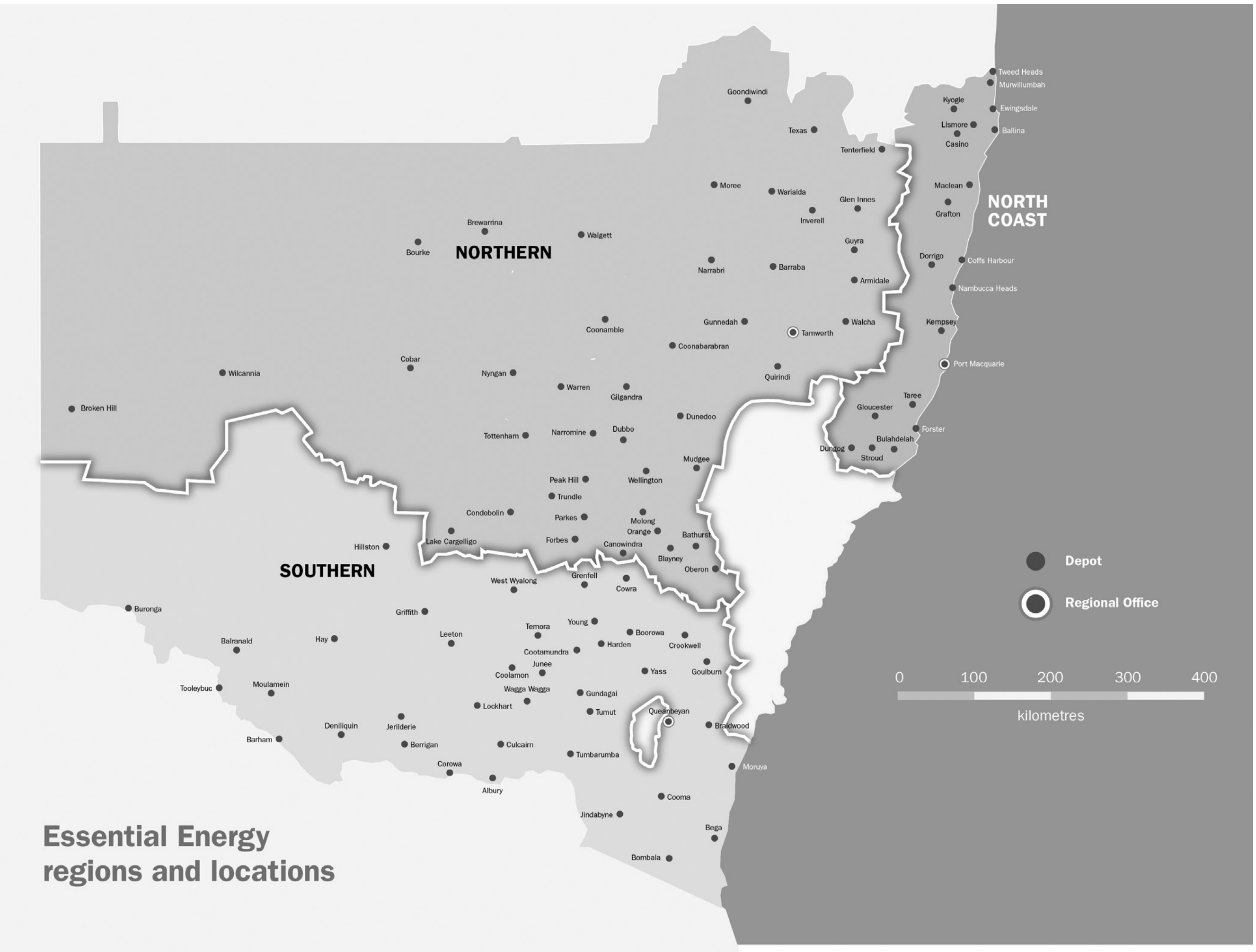
Essential Energy's last regulatory period ended on 30 June 2014 but, with impending substantial Rule changes on the horizon, the first year (2014-15 financial year) of the current 2014-19 regulatory period was managed through a transitional determination. At the time of compiling this report, a final 2014-19 AER determination continued to be the subject of further legal review.

Regional operating structure

Essential Energy's field operations are divided into three regions, reflecting the environmental and geographic diversity of our network footprint. This includes sub-tropical areas in mid to northern NSW, the alpine highlands of the Snowy Mountains, and dry arid conditions in the western centres of Broken Hill and Wentworth.

These three regions – North Coast, Northern and Southern – are detailed below.

North Coast, Northern and Southern regions



Year in review

In FY2015-16, Essential Energy achieved its best-ever recorded safety performance results. This is a testament to the company's focus on continuous safety improvement and the dedication and focus of our employees who maintained safety as their number one priority during a period of ongoing change.

One of the most significant challenges our business experienced was the continued uncertainty surrounding our regulated revenue for the 2014-19 period. The three NSW energy distributors contested elements of the Australian Energy Regulator's (AER) 2014-19 determination before the Australian Competition Tribunal (ACT) and the AER was directed to remake its determination. Subsequently, the AER appealed the ACT's decision and a judicial review before the Federal Court is currently pending. This uncertainty extends to our financial results for the year.

Ongoing advances in solar and battery technology, distributed generation and metering technology will fundamentally shift the role energy distributors play in coming years and it's vital we adapt our business to respond to customer driven demands, while maintaining sustainable and efficient operations.

The business has continued along its path of reform to ensure costs are minimised and efficiency is improved, while operating within the constraints of its workplace agreements.

Commitment to safety

Essential Energy delivered its best ever safety performance results, with our Lost Time Injury Frequency Rate (LTIFR) recording 0.74 for the financial year – 45 per cent ahead of the 1.35 target.

This achievement is a direct result of our employees taking personal responsibility for safety, coupled with organisational safety programs like the Network Fatal Risk Rules We Live By and our Safety Leadership Program, in which nearly 440 safety leaders participated.

A 22 per cent increase in Near Miss reporting gives us further assurance that employees are comfortable reporting close calls and that we are using lessons from these incidents to improve future safety systems.

Employees should be proud of these efforts. As an organisation, we will continue to reinvigorate our health and safety programs to create a workplace that strives to be free of incidents and injuries, where safety is integrated into everything we do and where no one knowingly participates in an unsafe act.

National Energy Customer Framework (NECF)

The NECF was 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.

During FY2015-16, Essential Energy recorded five Type 1 breaches. Of these, one incident involved a customer registered as requiring life support equipment who was not provided the required four business days' written notification of a planned power outage. The customer suffered no ill-effects as a result of the breach.

Essential Energy maintains a strong 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, during 2015-16 we focussed our primary NECF efforts on life support customers. By partnering with energy retailers, we reconciled life support customer information on a regular basis, ensuring these vulnerable customers continue to be notified in advance of planned interruptions and are prioritised to be contacted during major unplanned outages.

As part of this initiative, we communicated with our life support customers to remind them to keep their contact information up to date and have a back-up plan in place should an outage occur. Importantly, while NECF ensures that life support customers are given appropriate notice of planned outages, all customers are encouraged to have a back-up plan in place in the event of an unplanned outage due to factors beyond our control, such as weather and wildlife.

Changes to Networks NSW

As a result of NSW Government reforms to state-owned electricity networks, Ausgrid, Endeavour Energy and Essential Energy operated as separate legal entities, but were managed by a joint Board of Directors and a common Chief Executive Officer until 31 December 2015.

Following the dissolution of Networks NSW and effective from 1 January 2016, Essential Energy operated as a stand-alone business with its own Board, under the responsibility of an Acting Chief Executive Officer.

Australian Energy Regulator (AER) determination and impact on customer pricing

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 significant reductions in revenue and operating expenditure.

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 costs.

This left Essential Energy with 1,395 unfunded positions at 1 July 2015 and a period of union and employee consultation was initiated to facilitate an immediate workforce reduction program. This program, supported by existing Voluntary Redundancy and Mix and Match programs, continues today, accompanied by a series of additional reforms, including negotiation of a more flexible Essential Energy Enterprise Agreement, to help address the funding gap.

Essential Energy, as part of Networks NSW at that time, lodged appeals with the Australian Competition Tribunal (the Tribunal) and the Federal Court over elements of the AER determination. We did not appeal the capital expenditure component of the determination.

We were largely successful in our appeal to the Tribunal, which directed the AER to re-make its determination in certain respects. However, the AER has since filed applications in the Federal Court for a judicial review of the Tribunal's decision. This challenges each element of the decision on which Networks NSW succeeded in making grounds for review. The judicial review will be heard in October 2016, with a decision expected in late 2016 or early 2017.

In an effort to minimise any sharp increases (or decreases) to customer prices, Essential Energy, collectively with Ausgrid and Endeavour Energy put forward a participant derogation rule change submission to the Australian Energy Market Commission (AEMC) to allow for the impact of any AER re-determined revenues to be spread over two regulatory periods.

The rule change request was lodged with the AEMC in July 2016 and, based on strong stakeholder support received in our consultation process, we expect the rule change to be approved.

Network Asset Management planning

Essential Energy continued to implement its five year Network Asset Management Plan during 2015-16, which focuses on delivering the safe, reliable and cost efficient supply of electricity to Essential Energy's largely rural and regional customer base.

A key component of the plan is the replacement of ageing assets, with replacement volumes adequate to maintain current performance requirements. However, due to the age profile of Essential Energy's assets, it is expected that an increase in replacement volumes will be required in future years to enable current performance levels to be maintained.

The year has also seen an increase in applications for the connection of large scale renewable energy generators as a result of funding initiatives such as the Australian Renewable Energy Agency (ARENA). Essential Energy has successfully worked with a number of proponents to process these connection applications within required timeframes.

In managing Essential Energy's network, we focus on balancing risk, costs, reliability and customer service to continue delivering a safe, reliable and efficient network.

Reliability

Essential Energy recorded consistent reliability performance during the year when compared to previous years, with the average time customers were without electricity due to unplanned events being 214 minutes per customer, against the AER's Service Target Performance Incentive Scheme (STPIS) target of 212 minutes.

There were five 'major event' days recorded as a result of widespread storms on 29 November 2015, 29 January 2016, 4 June 2016, 5 June 2016 and 24 June 2016. The impact of these events on the full year reliability results was partly offset by mostly favourable weather conditions across our distribution area during the remainder of the year.

A comparison with reliability figures 10 years ago (2005-06 financial year) illustrates that customers today experience approximately 88 fewer minutes of supply interruption per year on average.

The average frequency of interruptions has also decreased by 30 per cent, to less than two outages per year.

Essential Energy will continue its efforts to maintain reliability.

Customer Services

A continued focus on placing customers at the centre of everything we do has again delivered favourable customer service performance, with an average result of 82.6 per cent against a target of 80 per cent in our quarterly Customer Satisfaction Index (CSI) surveys.

Efforts to build on our Customer Commitment Statement and improve our complaint / feedback resolution processes continue to be key priority areas and we continue to deliver on targets set in our Business Plan.

By continuing to embrace technological advancements, we've been able to widen our ability to communicate in 'real time' with customers about some planned and unplanned works via SMS text messaging – a testament to the success of this program is the fact that no customer has chosen to opt out of this service.

As we move into a new financial year, we will strive to maintain customer service excellence by embracing customer feedback and developing new tools and technologies to keep our customers front and centre in all operational efforts.

Financial performance

This year, Essential Energy reports earnings before interest, tax, depreciation and amortisation (EBITDA) of $674.2 million, $393.0 million (36.8 per cent) below the previous year. The net loss after tax of $1.2 million is significantly below the $266.3 million profit after tax for the 2015 financial year.

This reduction in performance was primarily attributable to the decline in revenues following the AER's final determination issued in April 2015 for the 2014-19 regulatory control period.

The final determination included a 25 per cent reduction in revenue over the regulatory period which resulted in a 26 per cent reduction in average tariffs in the 2016 financial year. The AER's final determination also reduced the allowed operating expenditure for the regulatory period by 30 per cent.

To address this material change to the financial outlook, Essential Energy focused on transforming operations as a means to increase efficiency and effectiveness to reduce the cost of running the business. This transformation continues.

Next year

Essential Energy will continue its transformation journey. We will renew and strengthen our focus on delivering excellence in workplace safety and further embed our customer commitment strategy across the business by placing customers at the centre of everything we do, while improving financial performance.

Understanding and responding to emerging technology as it applies to the energy industry will be a key focus, as will empowering our leaders to drive change and continue to deliver efficiency and productivity improvements.

Our plans and priorities

Essential Energy's business 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.

We promote the long-term interests of our customers, our employees and our shareholder by safely improving our productivity and efficiency.

Five key priority actions have helped us to achieve this and are measured through our performance 'Scorecard'.

Our results against key priority actions are detailed below.

Scorecard Results as at 30 June 2016

Measures	FY16 Target	FY16 Actual	FY 17 Target
Lost Time Injury Frequency Rate (LTIFR)	≤1.35	0.74	≤0.67
Total Recordable Injuries Frequency Rate – (TRIFR)	≤18.5	13.73	≤12.4
Significant Electricity Network Incidents (SENI) – Controllable	≤21	11	≤12
High Potential Incident Frequency Rate – (HPIFR)	Monitor Only	1.03	≤ 1.19
CUSTOMER AND COMMUNITY			
Customer Satisfaction Index (Q)	≥80	83 83 83 82	≥80
Reportable incidents – NECF Type 1 breaches	≤6	5	≤5
Reportable Environment Incidents – Controllable	≤3	2	≤2
System Average Interruption Duration Index (SAIDI) Normalised – Minutes	≤212	214	≤212
FINANCIAL			
Essential Energy – YTD STPIS Revenue / (Penalty) Impact $M	≥0	3.0	≥0
Operating Expenditure (OPEX) Budget – $M	≤446.9	423.9	≤552.3
Net Profit After Tax (NPAT) – $M	≥(77.3)	(1.2)	≥(100.7)
Additional Borrowing Requirements (operating cash flow less investing cashflows) – $M	≥(291.0)	(183.4)	≥(300.0)
BUSINESS PROCESS			
Capital Delivery – % Complete of Agreed Milestones	≥95%	93%	≥95%
Capital Delivery – % Budget Spent on Delivered Milestones	≤95%	91%	n/a
Maintenance Delivery – % Complete of Agreed Milestones	≥98%	81%	≥98%
Corrective Actions > 60 days outstanding – Safety, Audit & Risk (Q)	0	0 0 0 0	0
BUSINESS ENABLERS			
Absenteeism – Sick Days per Person	≤5.70	5.49	≤5.70
Gross to Base (GBR) Ratio ≥1.5	0	16	n/a
Gross to Base (GBR) Ratio ≥1.3	Monitor Only	234	Monitor Only

Performance

Key Priority Action 1 – Put our safety systems into action

Network Fatal Risk (NFR) Rules We Live By

Essential Energy launched the Network Fatal Risk (NFR) Rules We Live By program and began the cultural change required to embed the Rules across the organisation.

The NFR Rules We Live By, an integral component of the NFR Program, focuses on high risk activities in our business and comprises the basic mandatory rules that all Essential Energy workers should know, understand and apply to prevent serious injury or fatality.

Phase 2 of the Implementation Strategy focussed on activities and initiatives to educate employees and embed behavioural change. A NFR Rules We Live By booklet was distributed to all employees in October 2015 and in February 2016 all Essential Energy locations received NFR Rules We Live By posters.

The posters are displayed in prominent positions to help employees learn the NFR Rules We Live By and identify the critical hazards and controls that must be in place when planning and undertaking work.

A key initiative to embed the NFR Rules We Live By is the use of targeted 'Site Safety Interactions', carried out each month focusing on work practices relating to one of the NFR Rules We Live By.

Our frontline leaders used these interactions to engage with employees, provide constructive feedback and identify areas of improvement, while reinforcing positive safety behaviours and work practices.

Work Health and Safety (WHS) Compliance Program

In March 2015, Essential Energy reviewed works delivery processes and contractor management practices against the *Work Health and Safety Act 2011*, regulations and codes of practice. As a result, a program of work was established to improve business processes and contractor management practices.

The first stage of this program was completed between July 2015 and February 2016 and included the development of a suite of procedures and practical tools. Throughout May 2016 and June 2016, approximately 730 employees whose work practices were identified as immediately affected by the procedures, attended awareness sessions across Essential Energy's footprint.

Network Fatal Risk (NFR) Control Standards

Essential Energy continued to align our health safety management system with the requirements of the Network Fatal Risk (NFR) Control Standards during the financial year.

Highlights of the effort to integrate these control standards into our business processes and work practices included:

- updates to Working at Heights procedures to close compliance gaps identified by a cross-divisional working party;
- updates to Essential Energy's Excavation Manual and Project Safety and Environmental Plans to enhance management system controls and align with the Network Fatal Risk Control Standards;
- streamlining existing Hazard Identification, Risk Assessment and Control (HIRAC) processes. Current paper-based HIRACs will be updated to an electronic-based solution as part of a broader field force automation initiative;
- implementation of an annual computer-based driver's licence verification process to allow Essential Energy to proactively verify that drivers hold a valid driving licence for the correct class(es) for the vehicle(s) being driven; and
- implementation of arc-rated clothing, ensuring compliance with the 'ENA NENS 09' standard in the provision of clothing made of non-fusible material for relevant employees.

The 2015-16 Audit and Assurance Program focussed heavily on the NFR Control Standards and the overall effectiveness of the implementation of these standards. Audits have highlighted a high level of compliance across Essential Energy's workforce for high risk tasks that would be considered by our field employees as routine work activities.

Safety Culture Roadmap

In 2014-15, Essential Energy, in conjunction with Networks NSW, developed a two-year Safety Culture Improvement Roadmap, which focused on the implementation of five key actions:

- improving the reporting culture and identifying opportunities for safety improvement;
- revising the safety interaction observation process;
- establishing and measuring key performance indicators for Health, Safety and Environment (HSE) incident investigation and corrective action management;
- HSE data management and trending; and
- consequence management outcomes.

Stage one was completed during FY2014-15 and stage two was implemented by June 2016 – this included the roll-out of our NFR Rules We Live By.

Table 1: NFR Rules We Live By Implementation Strategy

PHASE 1	PHASE 2	PHASE 3
Awareness of the Rules We Live By and expected behaviour	Embed behavioural change using a series of interventions	We live by the Rules…it's how we do things around here
April 2015 – June 2015	**July 2015 – June 2016**	**July 2016 – October 2016**

A continuing focus on communications and targeted campaigns promoting the importance of Near Miss reporting has seen further sustained improvements in Essential Energy's safety reporting culture. A record 949 Near Misses were reported during the financial year. This result favourably exceeds our target for the year of 792 by 20 per cent.

Near Miss reporting is vital for preventing serious or potentially fatal incidents. Analysis of Near Miss trends allows insight into emerging safety risks and early implementation of controls to prevent incidents from occurring.

The increase in reporting provides a level of assurance that employees are comfortable to report close calls and that we are using the lessons from these incidents to improve our safety systems.

The implementation of Essential Energy's targeted Site Safety Interactions (SSI) program commenced in 2015-16. In addition to the NFR Rules We Live By, key focus areas included switching incidents and access permits.

Automating the system through our TotalSafe reporting tool, the SSI program helps us analyse and identify focus areas for future targeted interactions and initiatives for improved safety.

Fitness for work

Essential Energy has continued to develop and implement health and wellbeing initiatives to prevent injury and illness and promote healthy living for all our employees.

Key focus areas included:

> targeted programs about psychological wellness and resilience;

> fatigue management awareness training sessions for managers and supervisors;

> the establishment of a work capacity assessment framework, superseding the current live line medical assessments for employees who work on or near the network; and

> the implementation of a manual handling mentoring program for field workers to help frontline workers identify manual handling risks and implement solutions to reduce the occurrence of these injury types.

Management systems

Essential Energy maintained its certification to AS/NZS4801 and ISO14001. Work continued to improve data analysis and reporting processes, which inform decision making and improve safety performance.

There will be further enhancements in the next reporting period as we work towards an integrated analytical framework by improving the quality of data captured from Incident Causal Analysis Method (ICAM) investigations, site safety observations and other assurance activities.

HSE performance

This financial year, Essential Energy employees delivered their best ever safety performance results, recording five Lost Time Injuries (LTIs) compared to 12 in the previous financial year.

The LTIFR result for 2015-16 was 0.74, favourable to a target of 1.35. This represented a 51 per cent improvement on the 2014-15 result. Essential Energy's Total Recordable Injury Frequency Rate (TRIFR) was 13.7, favourable to a target of 18.5 and a 33 per cent improvement on last financial year.

Essential Energy maintains its focus on improving safety performance and positive health, safety and environmental outcomes.

Significant Electrical Network Incidents (SENI) – Reportable Safety Incidents

The *Electricity Supply Act 1995 (NSW)* requires that Essential Energy report safety and asset related incidents on the electricity network. In 2015-16 Essential Energy recorded no controllable SENIs relating to employees, eight involving contractors and three involving public workers or members of the general public contacting the network.

Safety outcomes

Measure	2015-16 target	2015-16 Actual
LTIFR	(less than or equal) 1.35	0.74
TRIFR	(less than or equal) 18.5	13.7
Reportable incidents – controllable SENIs	(less than or equal) 21	11
HPIFR	Monitor only	1.03

1 IPART plan to implement a new reporting methodology from 1 October 2016 whereby the SENI reporting framework will be replaced by the reporting of Serious Electricity Works Accidents (SEWAs). Essential Energy will transition to reporting SEWAs at this point in time.
2 The HPIFR target for 2016-17 has been amended to allow for a definition change to High Potential Incidents (HPI). In 2014-15 the definition of a HPI excludes 'Notify Only' injury incidents. In 2016-17 the definition of HPI will include 'Notify Only' injury incidents.

Safety Leadership Competency Framework

The Safety Leadership Competency Framework (SLCF) was established in 2014 to facilitate a consistent approach in developing our safety leadership culture and managing safety performance across the three NSW Government-owned energy network businesses.

The SLCF prescribes the expected knowledge, skills and behaviours of our frontline safety leaders for safety management tasks and focuses on activities to reinforce positive safety behaviours, as well as necessary management action when behaviours stray from expected norms.

The first stage of this strategic initiative, including the development and delivery of SLCF training, was completed by 439 safety leaders in June 2015. Stage two of SLCF training, which focussed on Site Safety Interactions, was delivered to approximately 60 senior leaders in April 2016.

The SLCF requires each participant to develop their own Personal Safety Leadership Action Plan to ensure the training results are applied and sustainable.

The action plan is an opportunity for leaders to self-assess their safety leadership skills and seek feedback from direct managers on their behaviours and performance.

Key performance indicators linked to the action plans have been incorporated into performance review processes for all safety leaders who attended the training sessions during 2014-15.

Public Safety

Essential Energy's focus on public safety continued with strong efforts made to ensure those living in the communities we serve and 'at risk' industry workers, remain safe.

Our public safety awareness campaigns and initiatives included:

> continuation of the successful 'Look Up and Live' campaign promoted through the grain and cotton harvest periods;

> an innovative electrostatic sticker to remind the industry to 'Look up and Live'. Stickers were distributed to workers involved in grain, cotton and sugar cane harvest and are designed to be placed in the cab of headers, trucks and tractors;

> liaison with Cotton Australia to deliver critical 'Look Up and Live' safety resources such as fact sheets, posters, brochures and videos;

> storm safety awareness information advising farmers to look out for indicators of potential electricity network damage after a storm;

> the launch of an education campaign informing customers about new clearance distance requirements for vegetation management to help reduce bushfire hazards;

> increased use of social media to remind customers to keep at least eight metres clear of fallen powerlines. Social media also plays a key role in providing updates on unplanned power outages during 'major event' days;

> participation in the Henty Machinery and AgQuip Field Days to promote public safety to rural and regional customers;

> the introduction of SMS and text-to-voice software to alert life support customers to extended unplanned outages and the need for a back-up plan. This campaign also included the production of a booklet and magnet for life support customers to outline their back-up plans should there be a power outage;

> the introduction of a campaign to promote the availability of free overhead electrical network maps that can be used to identify areas of risk on properties. Maps can be requested online via **essentialenergy.com.au/overhead**; and

> development of an underground construction safety film in partnership with Endeavour Energy and SafeWork NSW.

School Safety Program

As part of our commitment to provide safety information to the communities in our network, Essential Energy continued its School Safety Program that culminated in Electricity Safety Week, held 7-9 September 2015.

The School Safety Program is an annual state-wide program designed to educate students on how to be safe around electricity and make them more aware of the dangers that can be associated with it.

Program activities were developed with the Department of Education to meet the requirements of the NSW Board of Studies Science and Technology Syllabus for the Australian Curriculum. The program is jointly run with Ausgrid and Endeavour Energy.

In 2015, 96 per cent of the 916 primary schools in Essential Energy's footprint registered for the program and 73,000 students were engaged in electrical safety activities.

Environment Management System

Essential Energy must comply with various and sometimes complex environmental legislation that regulates our interactions with the environment.

Through our Health, Safety and Environment Management System, we aim to implement policies and initiatives to achieve best practice environmental management and comply with our statutory obligations.

We are committed to environmental due diligence and achieved no NSW Environment Protection Agency (EPA) fines or prosecutions during the reporting period. Two environmental incidents were reported to the regulator during FY2015-16; both were appropriately managed.

Green Rules

Essential Energy, in conjunction with Networks NSW, developed a number of 'Green Rules' as guides to reduce identified environmental risks to the business's operations. The Green Rules, listed in the table below, include foundation rules for identified environmentally hazardous events, along with supporting principles for each.

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' (DSIs), followed by remediation, if necessary. Such an approach is proactive and demonstrates diligence and corporate responsibility.

This year, the CLM Program has undertaken:

> DSIs at Coffs Harbour, Grafton, Coonamble, Gilgandra and Nyngan;

> supplementary investigations and remediation planning for depots at Hay, Junee, Albury, Coolamon, Cowra, Bulahdelah, Glen Innes, Inglewood and the former depot at Tenterfield;

> DSI planning for a further 12 sites across NSW; and

> remediation works at Tumut pole dump and the former Goondiwindi depot.

Environmental Control Standards

The Environmental Control Standards (ECS) were developed to establish minimum and consistent practices to manage significant hazardous environmental events. The requirements of the Standards 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 Standards, Essential Energy completed a gap analysis in late 2015 to assess the performance of current procedures against the key requirements contained in the ECS.

An implementation strategy was developed and stage one initiatives commenced in the latter part of FY2016. Work will continue to enable consistent and effective deployment of the Standards which, in turn, will improve environmental outcomes.

Environmental Hazardous	Green Rules	Supporting Information
The Foundations	Plan work to minimise environmental harm	• Identify and assess environmental risks • Communicate risks and controls • Implement environmental controls • Speak up • Seek advice if unsure
Polluting the environment	Immediately report and respond to environmental incidents	• Assess risks and make safe • Stop the source where possible • Contain oil spills with spill kit materials • Protect waterways and drains • Immediately report to supervisor
Unauthorised development or damage to flora, fauna or heritage	Work strictly in accordance with any environmental approvals	• Check the workpack for environmental impact assessment, permits and/or environmental management plan • Understand and apply environmental approvals • Apply HSE Procedures during all works
Inappropriate management of waste and/or contaminated materials	Manage all waste and contaminated materials appropriately	• Minimise waste • Classify waste prior to disposal • Store waste and recyclables separately • Dispose all waste to depot or licensed facility
Excessive and intrusive emissions	Minimise noise and emissions	• Respect neighbours • Restrict out of hours work to two consecutive nights per week unless justified • Notify affected residents of out of hours work • Minimise dust and fumes

Future direction

PRIORITY ACTION	WHY we're doing it	HOW we're doing it
Continue to improve HSE performance through an integrated HSE management system focussing on HSE leadership, culture and risk management.	Continue to improve safety and environmental performance	Deliver HSE programs that integrate and enhance our HSE management system to improve HSE leadership effectiveness, improve employee Health and Wellbeing and continue to mature our HSE and risk management culture.

Key Priority Action 2 – Improve customer service and engagement

Embedding a customer care culture

Building on its introduction during the 2014-15 financial year, Essential Energy further embedded the Customer Care Essentials campaign into our workplace culture.

Employees received online training in the fundamentals of the campaign and its accompanying Customer Commitment Statement through Essential Energy's Essential Knowledge and Skills (EKAS) knowledge management system.

The training promoted awareness and understanding of the values of 'Listen, Respect and Deliver' that underpin our Customer Commitment Statement, ensuring employees have the tools and knowledge necessary to place customers at the centre of everything we do.

Customer Commitment Workshops

Supporting our Customer Commitment training, in February 2016, Essential Energy conducted customer service focus groups with employee representatives from our various business units.

The workshops considered a number of complaint and compliment scenarios based on real life experiences and encouraged employees to respond appropriately using our customer commitment values and Fair and Just Culture Decision Support Tool.

Technology improves customer communication

Phase two of Essential Energy's enhanced customer communications program was rolled out during the financial year, building on the successful launch of the service in FY2014-2015.

Under the program, we used existing technology to communicate with customers via SMS text and text-to-voice notifications about planned and emergency supply interruptions at their premises.

This technology allows Essential Energy to effectively communicate in 'real time' with a targeted customer group at low cost.

Since August 2015, we have delivered approximately 46,500 notifications to customers advising them of cancellations to planned works that would have affected electricity supply to their premises.

A further 10,900 notifications were sent to customers to advise them of upcoming urgent network repairs and critical network repairs on the local electricity network that would affect supply to their premises. In some cases, targeted social media posts were also utilised to further enhance the spread of urgent customer information.

No customers have opted out of this service, demonstrating that it's meeting an important communication need.

Customer satisfaction measure

The introduction of the Customer Commitment Statement has seen improvements in Essential Energy's quarterly Customer Satisfaction Index (CSI) surveys, with a favourable average result for the financial year of 82.6 per cent. This is an increase of 0.8 per cent from last year's result, and above our target of 80 per cent.

Customer Advocacy Group

In June 2016, Essential Energy met with the newly appointed Customer Advocacy Group.

The Group is a diverse cross-section of regional community representatives responsible for providing Essential Energy with community insights and advice on electricity network issues.

The 11 member Group, representing consumer groups, low-income households, Indigenous and ethnic groups, people with disabilities, domestic customers, industrial and commercial customers, rural and remote customers and primary producers, held its first meeting on 22 June 2016.

The purpose of the Customer Advocacy Group is to provide a forum where matters relating to Essential Energy's NSW customers can be highlighted and discussed with members who represent the customer base and the diversity of the communities Essential Energy serves.

The Group will act as a forum for consultation between Essential Energy and our network customers.

Membership details are available on Essential Energy's website.

Listen, Respect and Deliver

In April 2016, Essential Energy enhanced our network Contact Management System (CMS) to align with, and track delivery of, our customer commitment values.

These values, contained within our Customer Commitment Statement, state that we will: Listen to and Respect our customers, and safely Deliver on our promises to place customers at the centre of everything we do.

Every complaint Essential Energy receives must be assessed against these core values and any breaches recorded.

Since the introduction of this initiative, 57 per cent of total complaints received breached one or more of these values – of which 16 per cent were failing to listen, 36 per cent were failing to respect our customers and 48 per cent were failing to deliver on our promises.

Essential Energy's Executive team receives monthly performance reports to help it respond to, and further shape, our overarching customer service strategy to ensure we deliver high quality customer services.

Enhancing complaint management

From April to June 2016, Essential Energy conducted customer surveys seeking feedback from those who had lodged complaints about the service they received from us and our service partners.

The purpose of the surveys was to determine how satisfied customers were with the way in which their complaint was handled.

Customer feedback helped inform Essential Energy and our service partners about service levels and enabled managers to review or act on recommendations about our complaint resolution processes as appropriate.

Of the surveyed customers who lodged complaints, 67 per cent said they were 'very satisfied' with the way in which their complaint was handled and 75 per cent said they were 'very satisfied' with the outcome of their complaint.

Customer feedback

Essential Energy experienced a 41 per cent increase in customer complaints for the year, with 3,893 complaints received, compared to 2,765 the previous financial year. The increase was due to the introduction of some revised operational practices, with complaint numbers stabilising as practices were embedded and matured.

Strong efforts by our Customer Service team saw 90 per cent of complaints resolved within four business days. The Energy and Water Ombudsman (EWON) advised that Essential Energy (excluding Essential Water) matters accounted for 26 per cent of all distribution matters raised with them.

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 no valid claims for frequency of supply interruptions and 27 valid claims for the duration of an interruption, representing a total cost of $2,160. The majority of these claims related to one major incident in May 2015 when customers experienced an extended outage, with claims processed up until October 2015.

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 214 minutes against the target of 212 minutes set by the AER.

We achieved 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 1.77 interruptions was recorded against a target of 1.82 interruptions.

As at 30 June 2016, there were 52 high voltage powerlines (feeders) that exceeded licence condition targets and in total, there were 117 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, causing 35.0 minutes of SADI impact. Major event days are excluded from Essential Energy's overall reliability results. The imposed threshold for the reporting period was 4.92 minutes.

The major event days were:

> 29 November 2015 – storm activity in the North Coast region, especially around the Murwillumbah, Lismore and Ewingsdale area. The SAIDI impact was 5.9 minutes – above the established threshold;

> 29 January 2016 – storm activity in the North Coast and Southern regions, especially around the Woodburn, Urbenville and Bungendore areas, caused a SAIDI impact of 5.4 minutes;

> 4 June 2016 – storm activity spread across the North Coast region triggering a SAIDI impact of 10 minutes;

> 5 June 2016 – storm activity spread across the North Coast region causing 7.7 minutes of SAIDI impact; and

> 24 June 2016 – storm activity in the North Coast region, especially around Murwillumbah and Mullumbimby areas, caused 6.0 minutes SAIDI impact.

Service Target Performance Incentive Scheme

The 2015-16 financial year saw the introduction of the Service Target Performance Incentive Scheme (STPIS) as set out by the AER. The STPIS establishes targets based on historical performance, provides financial rewards for distributors exceeding performance targets and financial penalties for distributors failing to meet these performance targets.

Performance targets are set for both SAIDI and SAIFI under the reliability of supply component of the STPIS and the Customer Service component is determined by a telephone answering parameter. The STPIS places ± 2.5 per cent of revenue at risk.

Essential Energy estimated the STPIS impact (required to be reported to the AER in late 2016) this financial year was $3.042 million favourable to target.

Customer contact services

Over the 12-month period to 30 June 2016, Essential Energy's Contact Centre recorded total customer contacts of almost 517,000.

Essential Energy received 257,166 calls from customers about power outages and achieved a service level of 71.4 per cent – favourable against the AER's STPIS result target of 68.53 per cent.

Our contacts with customers included:

> 413,289 inbound calls; and

> 103,483 outbound calls for planned and unplanned outage updates.

These included 87,849 calls about general network enquiries such as network connections, Essential Water and solar installations.

Heavy storm activity in January 2016 delivered the busiest month for the Contact Centre, averaging 950 outage-related calls per day. The days between 21 January and 31 January 2016 saw more than 15,321 outage-related calls received in just 10 days.

	Feeder category	Target	Performance	Result
SAIDI (minutes)	Urban	68	66	✓
	Short Rural	213	204	✓
	Long Rural	419	458	×
SAIFI (interruptions)	Urban	0.86	0.75	✓
	Short Rural	1.92	1.83	✓
	Long Rural	2.80	2.91	×

The two busiest days of the year fell on 4 and 5 June 2016 due to adverse weather conditions. These were declared 'major event' days, and we received more than 5,100 outage-related calls.

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 receive a $200 rebate towards general maintenance costs of the hall.

66 community halls were granted rebates through the scheme in the 2015-16 financial year.

Fiji Tropical Cyclone Winston Appeal

Essential Energy and a team of Australian energy networks partnered with the Australian Government's Department of Foreign Affairs and Trade to donate heavy machinery and vehicles to Fiji after it was devastated by Tropical Cyclone Winston in February 2016.

The vehicles were provided to help accelerate the safe restoration of Fiji's electricity network and Essential Energy donated an Isuzu FVR950 truck with 16.7m Versalift Elevating Work Platform.

Employees give generously

Employees donated nearly $69,000 through the Essential Giving Program in the 2015-16 financial year. This was matched by Essential Energy, resulting in a total donation of $137,914 to our five charity partners.

Contribution highlights included:

> Lifeline – more than $12,000 donated to Lifeline enabled 550 calls to be answered from Australians in crisis and help save lives;

> Garvan Institute of Medical Research – donations of more than $11,000 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. This has implications for Alzheimer's disease, a condition that affects around 245,000 Australians;

> Variety Australia – almost $10,000 in donations allowed Variety to provide grants to sick children in Essential Energy's footprint;

> Westpac Rescue Helicopter – support of around $92,000 helped ensure that no one who uses the service needed to pay, providing better outcomes for patients no matter where they live; and

> Can-Assist – more than $11,000 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.

Online engagement grows

Essential Energy's online presence and engagement continues to grow as internet and social media platforms become the first port of call for many customers seeking information on their electricity supply.

More than 470,000 unique users visited Essential Energy's website essentialenergy.com.au, spending a combined total of over 4.2 million minutes on the site. The site received 1,847,439 visits for the year.

While increased use of social media continues to extend our online community, this growth was accelerated with regular social media posts on topics relating to safety, project updates, weather warnings and community events. The most popular posts, unsurprisingly, relate to 'real time' information about power outages.

The highest engagement levels were recorded on Facebook, however our Twitter audience continues to steadily increase.

During FY2015-16, there were more than 20,000 interactions by almost 17,000 unique users across all social media channels and the intention is to keep growing Essential Energy's reach and engagement across these customer channels.

Regional support snapshot

Field Days

Essential Energy attended AgQuip in Gunnedah, which attracts more than 100,000 visitors each year, to educate attendees about the potential dangers of working around the electricity network and provide 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.

Essential Energy also attended the Henty Machinery Field Days to continue promoting important safety messages to rural and regional customers.

Community art projects

Community based art initiatives in Ballina and Orange 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'.

Essential Energy also partnered with disability services organisation, House with No Steps, to paint padmount substations across Port Macquarie, with the project expected to expand to Taree, Forster and Coffs Harbour in the next financial year.

Future direction

PRIORITY ACTION	WHY we're doing it	HOW we're doing it
Improve our engagement and interaction with customers	Improve our customers' experience	Improve our interaction with customers to ensure we gain a better understanding of the service elements they value.

Key Priority Action 3 – Implement our Transformation Program

As technological and economic factors continue to transform the energy industry, energy distribution businesses must continue to evolve to remain abreast of these changes. As such, Essential Energy introduced a Transformation Program to ensure our business operations remain appropriate and sustainable into the future.

Our transformation program is specifically driven by the following factors:

> customer demand for energy alternatives, greater control of energy usage/supply, and lower prices;

> the need to operate more efficiently to provide lower prices to our customers;

> the accelerating rate of industry change with emerging innovations and technologies; and

> demonstrated competition when benchmarked against other service providers.

Our Transformation Program includes a range of initiatives that will improve asset management, service delivery, productivity and efficiency while ensuring that safety remains our number one priority.

Some of our program achievements are detailed below.

Ongoing cash containment

A targeted approach to cash containment was introduced and saw significant gains through:

> streamlining management of existing property assets, which resulted in the consolidation of 10 depots and six office sites;

> labour force reductions, with a reduction in labour force costs of 17 per cent since 1 July 2015; and

> a freeze on wages, fleet acquisition and property purchases, which delivered savings of $66M.

Fleet rationalisation

Improved asset utilisation and cost control activities resulted in the removal of 393 vehicles from our fleet during FY2015-16.

The Fleet Reduction Program focused on three key areas:

> improved fleet planning and coordination in our regions, which saw the removal of 327 regionally based vehicles;

> improved allocation and management of pool vehicles, resulting in the removal of 26 pool vehicles; and

> vehicles that were not used on a daily basis in the field were disposed of at auction, or introduced into a shared vehicle pool, resulting in a net reduction of a further 40 vehicles.

The reduced fleet size and improved usage efficiency has helped to achieve financial results that were 12 per cent favourable to budget for operating expenditure and 75 per cent for capital expenditure.

As we move into the next financial year, further fleet reduction activities will focus on the review of heavy fleet maintenance contracts.

Field Force automation and technology trials

PowerOn Mobile

In May 2016, Essential Energy field teams and System Control commenced trials of new switching technology called PowerOn Mobile. The technology links to our PowerOn Fusion Distribution Management system which is used to monitor and control our electricity network and allows teams to perform switching around the network in a more controlled manner with up to date real time information.

If fully implemented, the new process could revolutionise the way our field employees interact with our distribution network system operators, saving time and improving safety and productivity.

The trial will extend to the new financial year and is due for completion in October 2016. It is expected that final proposals will move to production during 2017.

Field Portal

We also commenced trials in May 2016 of a new Field Portal App. The in-house developed application enables users to view maps, locate assets, get directions, complete e-forms and capture photos on site.

The initial trial saw 30 devices deployed across our three regions and was successfully completed in July 2016, prompting a second phase development of the Portal. This second phase, which extends into the new financial year, will deliver safety alerts, e-forms, asset issue logging, system integration and other enhancements.

Technological advancements deliver savings

While not specifically part of Essential Energy's Transformation Program, our Information, Communications and Technology division has delivered strong technological improvements that enhance productivity and generate significant cost savings. These include:

System migration

A migration from Lotus Notes to Microsoft Office 365 in the Cloud achieved significant cost savings, with over $5M in avoided CAPEX spend and more than $500,000 savings per year in operational costs.

The migration has also modernised the organisation's email capability and allowed staff to remotely access their email via a browser.

Reduction of underutilised and non-essential mobile services continued in 2016, with a further 830 services removed.

Our user community also became a lot more prudent with their usage, resulting in considerably lower usage costs per service and culminating in savings of more than $380,000 annually for our mobile fleet compared to the previous financial year.

Negotiations to secure better pricing resulted in contractual arrangements with Telstra being formalised. This new contract provides better pricing and shared voice and shared data plans that can be accessed by all corporate mobile users.

The contract also promotes our partnership with Telstra to grow into the future with mobility solutions, supported by Telstra's Technology Incentive Fund.

Remote Access Service

Essential Energy introduced a new Remote Access Service that connects offsite staff to the corporate network via a streamlined connection solution, which has registered more than 3,000 connections per month.

The most visible part of the upgrade is the replacement of more than 1,200 Authentication Tokens with One Time PIN text messages, resulting in approximately $72,000 of annual OPEX savings and improving the user sign-on experience.

The new Remote Access Service provides a secure streamlined interface and superior connection compression that delivers a 20 per cent reduction in client side bandwidth use.

Remote Access Controls

In June 2016, a new SCADA remote access solution was commissioned that leveraged off our F5 VPN system. This new solution allowed for the ageing Cisco VPN system to be decommissioned and its support to be finalised.

This move will save around $50,000 annually and deliver a host of operational benefits to users and the business.

Future Transformation direction

Other Transformation Program initiatives currently under development for future implementation are:

Improved asset management

- Introduce an improved framework to support more effective capital planning and risk assessment.
- Information gathering and data capture to better support strategic investment decisions.

Better service delivery

- Enhance contractor and project management skills, supported by an integrated, end-to-end contract management system.
- Review service delivery models for information technology that will deliver our current and future technology requirements – supporting more efficient and sustainable information and technology infrastructure.
- Introduce industry-leading practices across our regional services to achieve our safety, customer service and affordability commitments.

Improved productivity

- Improve workforce planning and work practices to reduce waste and enhance quality and efficiency.
- Improve procurement capability to deliver sustainable year-on-year savings.
- Streamline technology-enabled processes to better understand and engage with our customers.
- Explore broader blended delivery options to develop partnering opportunities with external contractors – helping to deliver improved services for the business and our customers.

Future direction

PRIORITY ACTION	WHY we're doing it	HOW we're doing it
Deliver the Transformation Program	Reduce our costs and improve our efficiency	Deliver targeted cost savings, new organisation design and technology improvements

Key Priority Action 4 – Develop our employee capability and commitment

Culture

Efforts to build and sustain a Fair and Just Culture (FJC) continued during the financial year with phase two of the program being rolled out. This embedded the FJC behavioural and cultural messages into complementary corporate programs such as the revision of our Code of Conduct, Network Fatal Risk Rules We Live By and Make the Right Choice ethics discussions.

The FJC Decision Support Tool was widely promoted and provides employees with a decision making framework that outlines appropriate responses to everyday behaviours. The matrix is used extensively throughout the business to determine incident and investigation outcomes and identify appropriate responses to customer feedback.

As we move into the new financial year, we will work to implement phase three of the FJC education strategy, which will focus on embedding cultural change and recognising the right behaviours through a new Excellence and Recognition program.

The implementation of a regular Employee Pulse Check survey has also commenced, providing baseline indices for values alignment, leadership and change effectiveness. Results were evaluated as part of a comprehensive cultural diagnostic and behavioural priorities for subsequent years were identified.

Engineering development

Essential Energy has adopted a number of strategies to build a sustainable level of professional and commercial capability within the Asset Management division. Our Study Assistance framework was leveraged to develop paraprofessional capability within the business and externally to promote engineering as a long term career choice through our Graduate Engineering program.

An expression of interest was distributed across the business for employees interested in joining the Professional Engineering Development (PED) program via study towards the Bachelor of Electrical Engineering (Honours). Employees studying the Associate Degree in Electrical Engineering were also transitioned onto the program.

By offering development opportunities to employees through different levels of study, we can ensure a continuous flow of quality employees in the Asset Management division.

Career transition

Essential Energy delivers a robust Career Transition Program in line with our redeployment policy. Over the year, 198 redeployees participated in various elements of the program through our external partner. At the same time, they engaged in meaningful work through work placements, secondments and online training.

The Career Transition Program supports redeployees and involves sessions on a range of topics including Taking Charge and Rebuilding Your Career; Resume and Application Preparation; Job Applications and Cover Letters; and Interview Success.

The success of the program has resulted in 52 redeployees securing permanent positions within Essential Energy through the year.

Leadership

Regular Executive Leadership Team meetings supported an organisational focus to pursue high performance culture activities. These helped to identify talent, development and succession planning opportunities (including building development plans for identified high potential leaders) and expanding the talent identification and succession process through the organisational structure.

This provided valuable inputs into developing future leaders, understanding critical professional areas and identifying key resources for Transformation Program initiatives.

The Strategic Leadership Program focused on building capability consistent with the established leadership architecture and key business priorities. Program focus areas included mental toughness, resilience, business acumen, innovation and strategic thinking.

Scoping and development of an Effective Leadership Program (ELP) began as we continued our focus on building leadership capability at all levels. The program will provide individual leaders with insights and tools to build personal, team and organisational effectiveness while developing skills to implement the organisation's strategic priorities, drive change and engage the workforce.

Opportunities to increase leadership performance and effectiveness will continue in FY2016-17 through ongoing leadership development initiatives and manager-centred development support activities.

Technical training

Essential Energy delivers training to employees and external contractors who work on or near our network – ensuring competency, currency and consistency for employees in safety critical roles.

During the reporting period, Essential Energy, as a Registered Training Organisation (RTO), delivered 330 regulatory assessment days to around 2,200 employees and 900 contractors.

These programs deliver crucial training in various rescues, resuscitation, Electrical Safety Rules and network access procedures to conform to the National Refresher Training Recognition Protocol for Portability of Electricity Supply Industry Workforce.

The training team also delivered Certificate III Distribution Powerline Worker training to around 185 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 or Grafton.

The training team continued to deliver new employee and contract service provider inductions, switching training and assessment and various safe work practices courses to meet both authorisation and network access purposes.

Online training

In FY2015-16, there were more than 22,000 interactions in Essential Energy's learning management system, EKAS. Online training included annual regulatory and compliance requirements (including the Declaration of Conflict of Interest/ Secondary Employment for all employees) and regulatory assessments for all employees who work on or near the electricity network.

Other courses rolled out included Customer Care Essentials, Safe Driving in an Essential Energy Vehicle, Entry into Electrical Substations, Fatigue Related Heavy Vehicle Training and ongoing corporate inductions for permanent and agency employees.

Future direction

PRIORITY ACTION	WHY we're doing it	HOW we're doing it
Build leadership capability and resilience among the workforce	Deliver effective change through people	Deliver leadership development programs to improve and transform leadership effectiveness, embed a high performance culture, and build employee resilience and engagement.

Our network

Essential Energy continued to deliver its five year Network Asset Management Plan which is focused on providing the safe, reliable and sustainable supply of electricity to Essential Energy's largely rural and regional customer base.

A key component of Essential Energy's plan is to replace ageing assets with current replacement volumes adequate to maintain current performance requirements. Due to the age profile of Essential Energy's assets, however, it is expected that an increase in replacement volumes will be required in future years to continue to maintain current performance.

Further to our capital program, our operational program ensures our network meets performance standards, reduces equipment failure and avoids associated emergency response costs. It is informed by a Failure Modes and Effect/Reliability Centred Maintenance approach to deliver a reasonable balance between both cost and risk for desired asset performance.

Annual capital works program

The FY2015-16 capital works program remained similar to the previous year, however we saw a continued downward trend in capacity-related expenditure, coupled with a slight increase in the level of replacement-related expenditure, reflecting the changing needs of the network.

Utilising technology

As at July 2016, Essential Energy had amassed more than 175,000 hours of energy storage installed time, with voltage support as the primary function.

Essential Energy used this installed storage to benefit the wider energy market by assisting manufacturers to develop innovative solutions such as four-quadrant inverters and new control algorithms which, in the long term, will benefit all customers. It also helps to develop our understanding of what the future of energy storage is likely to bring in terms of issues and benefits.

Essential Energy increased its involvement in energy storage projects this year by engaging with a number of external parties, supported by ARENA, with a view to install and control an aggregated 1MW of combined photovoltaic (PV) and energy storage capacity on its network.

We aim to develop the optimal network connection standards, metering and tariffs to guide the uptake of inverter resources and ensure maximum benefit for all customers.

We continued to implement various demand management methods, including improving conservation voltage reduction techniques and knowledge, off grid investigations and power factor correction to reduce peak demands.

Streetlighting

Essential Energy maintains and services more than 156,000 streetlights across nearly 100 Local Government Areas.

Over FY2015-16, more than 7,150 streetlight faults were reported by customers, representing 4.5 per cent of the lights maintained by Essential Energy. These lights were repaired in an average of 3.3 days, well ahead of our eight-day target.

Essential Energy paid guaranteed customer service payments of $570 for 38 claims related to streetlights not repaired within 12 days.

During the reporting period, Essential Energy replaced 4,819 traditional streetlight luminaires with energy efficient Light Emitting Diode (LED) luminaires for the Northern Inland Regional Councils group (which consists of Armidale Dumaresq, Glen Innes, Guyra, Gwydir, Inverell, Tenterfield and Walcha).

These councils secured Commonwealth funding through the Community Energy Efficiency Program for high efficiency luminaire upgrades in their municipalities.

Essential Energy continued to meet with council representatives quarterly via its Streetlighting Consultative Committee (SCC) - four meetings were held in FY2015-16 to discuss streetlighting-related matters. This included discussions on the introduction of LED streetlighting standards for all new Category P (minor/residential roads) streetlight installations, with a number of councils expressing interest in LED upgrade programs. Further LED trials will be conducted for Category V (major roads) over the 2016-17 financial year.

Customers can report streetlighting faults online via essentialenergy.com.au, or by downloading the 'NeatStreets' app to their smart phone.

Asset inspection

Essential Energy inspected more than 328,000 poles during the 2015-16 financial year, representing 96 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 and service partners.

Vegetation management

Essential Energy completed the transition of our Vegetation Management Service contracts in three of four tranches dispersed across our footprint.

The new contract models are designed to deliver a range of commercial benefits, more equitable risk scenarios and improved compliance with statutory requirements and agreed industry standards.

Major projects in progress during 2015-16

The below list is a sample of projects in progress during the financial year.

Description	Before FY16 Inc overheads (direct project $'s)	2015–2016 Inc overheads (direct project $'s)	Total Cost to Date inc overheads (direct project $'s)	Estimated completion date	Comments
Cobar – install 66kV regulator on Nyngan-Cobar 66kV feeder	$55,818.51	$307,083.31	$362,901.82	Apr-17	Install new 66kV regulator on Nyngan-Cobar 66kV feeder #811
Cobar – CSA zone substation	$4,103,120.47	$2,895,682.92	$6,998,803.39	Oct-16	Install new 11,000 volt switchboard and control room in new buildings
Cooma – 66/11kV zone substation	$98,758.16	$776,633.23	$875,391.39	Sep-17	Rebuild substation
Dorrigo – zone substation refurbishment	$88,485.17	$763,498.54	$851,983.71	Mar-17	Install new indoor 11,000 volt switchboard and new building
Dubbo – Nyngan pole top refurbish 132kV	$89,956.67	$2,383,950.42	$2,473,907.09	Aug-16	Pole top refurbish 132kV feeders #943 and #9GU
Kyogle – zone substation refurbishment	$307,770.10	$798,829.48	$1,106,599.58	May-17	Install new indoor 11,000 volt switchboard and new building, and replace 66,000 volt circuit breakers
Leeton – zone substation reconstruction	$5,875,272.01	$1,560,472.84	$7,435,744.85	Sep-16	Install new 11,000 volt and 33,000 volt switchboards and buildings
Marulan – South zone substation reconstruction	$31,814.44	$1,321,746.06	$1,353,560.50	May-17	Reconstruct 66/33/11kV zone substation
Nevertire – zone substation refurbishment	$1,168,365.96	$1,268,057.14	$2,436,423.10	Jun-17	Install new 22,000 volt switchboard with new building and upgrade protection systems
Nyngan – 132kV zone substation refurbishment	$4,244,469.57	$1,943,747.91	$6,188,217.48	Nov-16	Substation augmentation and construction
Nyngan – 132kV network reinforcement and install Dynamic Volt-Amp Reactive compensation units at the Cobar CSA zone substation	$0.00	$1,163,997.08	$1,163,997.08	Jan-17	Install two Dynamic Volt-Amp Reactive compensation units
Nyngan – 132kV network reinforcement and install Dynamic Volt-Amp Reactive compensation units	$108,057.39	$987,540.50	$1,095,597.89	May-17	Install one Dynamic Volt-Amp Reactive compensation unit
Nyngan-Cobar – CSA pole top refurbish 132kV	$1,571,094.66	$1,196,771.79	$2,767,866.45	May-16	Pole top refurbish 132kV feeders #946/1 and #946/2
Orange – South zone substation augmentation	$5,744,806.49	$86,622.65	$5,831,429.13	Jul-16	Substation augmentation and construction of a new 66kV busbar and two transformer bays
Rocks Ferry – refurbish zone substation 33kV outdoor infrastructure	$42,156.88	$1,544,626.39	$1,586,783.27	Oct-17	Rebuild 33kV yard and replace power transformer
Wagga-Junee – construct 132kV powerline	$2,491,830.92	$2,853,935.29	$5,345,766.21	Oct-16	Construct a dual circuit 132/66 kV (32 kilometres)
Wagga-Junee – Junee zone substation and associated works for new 132kV line	$6,716,113.35	$972,258.29	$7,688,371.64	Oct-16	Construct a new 132kV switchbay
	$32,737,890.74	**$22,825,453.84**	**$55,563,344.58**		

Major projects completed during 2015-16

The below list is a sample of projects completed during the financial year.

Description	Before FY16 Inc overheads (direct project $'s)	2015–2016 Inc Overheads (direct project $'s)	Total Cost to Date inc overheads (direct project $'s)	Completion date	Comments
Armidale – Madgwick Drive zone substation; replace 11kV switchboard	$567,675.30	$1,778,032.67	$2,345,707.97	Apr-16	Install new indoor 11kV switchboard
Bathurst – Russell Street zone substation	$11,618,663.43	$300,726.69	$11,919,390.12	Sep-15	Rebuild substation on land adjacent to existing site
Bega – 132kV zone substation to Bega River crossing; new dual circuit powerline	$4,431,786.70	$70,994.90	$4,502,781.59	Aug-15	Construct new dual 132/132kV and 132/66kV powerlines (including section to Boundary Street zone substation)
Beryl-Dunedoo – new 66kV powerline	$9,805,571.85	$1,814,740.06	$11,620,311.91	Apr-16	Construct a 66 kV line (45 kilometres)
Coolamon – zone substation	$4,662,029.00	$120,834.51	$4,782,863.51	Jul-15	Construct new 66 kV and 11kV substation
Cooma-Bega Stage 2 – Brown Mountain power station to Bega River	$31,322,518.69	$262,794.20	$31,585,312.89	Jul-15	Construct a dual circuit 132/66kV (42 kilometres) including Tees to Quira and Brown Mountain power station
Dubbo – Wheelers Lane to Dubbo West; construct 132kV transmission line	$4,915,975.86	$179,523.63	$5,095,499.49	Aug-15	Construct a new 132kV powerline
Googong Town – construct a new 132/11kV zone substation	$9,724,811.68	$1,078,918.88	$10,803,730.56	May-16	Construct a 30 MVA 132/11kV substation
Junee – zone substation; replacement 11kV Switchboard	$2,893,365.93	$911,539.88	$3,804,905.81	Jun-16	Replace switchboard
Moree – zone substation; install 22kV switchboard and building	$3,347,589.80	$1,004,824.53	$4,352,414.33	Feb-16	Install new 22kV switchboard with new building and upgrade protection systems
Murwillumbah – zone substation; new indoor switchboard, building and 66kV busbar replacement	$3,633,238.25	$1,299,996.63	$4,933,234.88	Jun-16	Install new indoor 11kV switchboard and new building, and replace 66kV circuit breakers
Wagga-Temora – construct 132kV powerline	$14,256,858.42	$6,372.67	$14,263,231.08	Sep-15	Construct a 66 kV subtransmission line (50 kilometres)
Woodlawn – zone substation; refurbish and augment substation	$2,671,939.59	$4,426,267.93	$7,098,207.52	May-16	Rebuild substation
	$103,852,024.49	**$13,255,567.18**	**$117,107,591.67**		

Regional highlights

Targeted capital and maintenance projects continue to improve supply reliability for our local communities. Some highlights are detailed below.

North Coast Region

Lismore upgrade

Essential Energy upgraded 10 kilometres of powerlines along Jiggi Road, replacing ageing copper wire with stronger, higher capacity aluminium cable. Ageing power poles and pole cross-arms were also replaced, boosting power reliability for local residents.

Laurieton project

Six power poles and pole cross-arms were replaced, local substations upgraded and general network maintenance carried out in Laurieton in April 2016.

Crews from Taree and Port Macquarie combined to complete the project in one day, avoiding the need for a multi-day supply interruption. Significant consultation and advertising was undertaken in the lead-up to inform impacted customers.

Pigment Emulsified Cross-arm (PEC) program

The North Coast Region embarked on a substantial maintenance program to replace approximately 25,000 identified PEC cross-arms during the current regulatory period, due to past failures of this type of cross-arm.

Around 2,500 high risk cross-arms were identified and removed from the network through our routine maintenance program.

The cross-arms were located from Tweed Heads in the north, to Kempsey in the south, with their replacement helping to strengthen the network and deliver improved supply reliability for customers.

Southern Region

Kamarah upgrade

Almost 80 employees from eight depots worked together to replace 30 kilometres of powerline and 110 power poles from Barellan to Kamarah.

The project saw the installation of remotely operated gas switches with fault indicators on the main 33,000 volt powerline, to improve network isolation capabilities and fault and emergency response times.

The large and complex project required careful planning to minimise the impact on local residents and businesses.

Electricity network boost for Murray Downs

Local crews completed a major upgrade north-west of Murray Downs to increase network reliability and capacity to cater for the future power needs of the local area.

Crews constructed five kilometres of new high voltage powerline along the Murray River, upgraded approximately one kilometre of existing high voltage powerline to a higher capacity cable and replaced or installed more than 50 power poles. ‘Live line’ techniques were used where possible, to minimise inconvenience to customers.

Network upgrade and maintenance in Boorowa

Crews converged on Boorowa in February 2016 to refurbish the high voltage powerline between Murrumburrah and Boorowa.

Crews worked across 147 sites to remove more than 300 pole cross-arms, install new insulators, and upgrade six power poles.

An additional 160 field staff were brought in from neighbouring areas to complete the work in the shortest possible time, minimising the impact on customers.

Northern Region

Gunnedah to Narrabri network overhaul

More than 100 ageing two-pole structures were replaced with single power poles along a 65-kilometre section of powerline between Narrabri and Gunnedah.

The size of the project required a collaborative effort involving crews from the Gunnedah, Narrabri, Dunedoo, Barraba, Armidale, Warialda, Warren and Narromine depots over a six-month period.

Dubbo to Nyngan network maintenance

A multi-staged project saw the replacement of more than 1,600 insulators and the upgrade of 550 timber pole cross-arms to longer lasting steel cross-arms.

The work took place at various locations along a 170-kilometre section of 132,000 volt powerline between Dubbo and Nyngan.

Power upgrade for Tamworth households

To improve supply reliability for Tamworth residents, crews replaced a two-pole substation with a single pole substation, along with nine power poles and 45 service lines. As part of the same project to upgrade ageing infrastructure along Wilburtree, Erwin and Holland Streets, they also replaced 540 metres of low voltage cable with aerial bundled cable.

Emergency response

While considerable effort goes into planning Essential Energy’s maintenance and construction activities, our crews are, at times, affected by elements beyond their control. Weather and wildlife can impact heavily on a largely overhead electricity network like ours that traverses vast and diverse countryside.

Our crews are on standby to respond to these conditions, which can be severe and may hit at any time of the day or night.

Following is a sample of the call-outs – caused by external factors – our employees responded to in the last six months of the financial year:

January 2016 – North Coast storms

Around 4,500 customers between Tweed Heads and Dungog lost power when storms swept through the area on the weekend of 23-24 January 2016.

Strong winds brought down powerlines at various locations, while trees blew into powerlines at Bowraville.

Customers across the Northern Rivers were without power as crews worked to repair high and low voltage powerlines. Pockets of Tweed Heads and Murwillumbah were also affected.

January 2016 – South Coast storm and flood

Crews from the Moruya Depot worked in challenging conditions to restore power to customers in Bumbo Creek following heavy rainfall in early January 2016.

Rising water levels hampered access to the fault location resulting in a handful of customers being without power for almost three days.

With the assistance of the SES, crews initially tried to access the fault via boat, however the significant amount of debris in the water delayed restoration efforts until conditions were safe.

Once the water subsided, crews discovered a tree branch had caused the powerline to sag into the running water.

April 2016 – Eurobodalla flying fox infestation

During April 2016, the Southern region’s Eurobodalla Tablelands housed a record number of grey-headed flying foxes between Batemans Bay and Narooma. Estimates indicated more than 100,000 of the threatened species had taken up residence in Batemans Bay alone.

The mass influx saw a significant increase in network activity with supply interruptions and trip and reclose activity heavily impacting some customers - one powerline experienced 10 interruptions in just 29 days.

Crews reconfigured the network to provide power supply from areas that were less susceptible to the flying fox movements.

Our regional management team worked with local authorities to better understand the behavioural patterns of the flying fox colony in an effort to reduce their impact on local residents.

Essential Water

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

Pricing determination

Our services are declared monopoly services under Section 4 of the *Independent Pricing and Regulatory Tribunal (IPART) Act 1992.*

The Tribunal sets and regulates our prices to ensure they are fair for customers while allowing us to cover costs and generate an adequate return on our assets.

We must set prices according to the IPART-determined methodology or maximum price. We cannot charge less than this price without the NSW Treasurer's approval.

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.

Combined with a changing operating environment driven largely by forecast drought conditions, in FY2014-15 Essential Water conducted a review of operating and capital programs and activities and identified further savings to be achieved through increased efficiencies, particularly around service levels. These efficiencies and other reform initiatives continued throughout FY2015-16.

Finance report

Essential Water's earnings before interest and tax (EBIT) was $2.0 million against a target of $3.2 million.

Essential Energy invested $14.4 million on water network capital programs in 2016, including $10.6 million on construction of a reverse osmosis plant and associated works funded by a NSW Government grant. An additional $16 million was spent on water network maintenance programs.

Drought preparedness

Lack of significant rainfall in the Darling River catchment and Far Western NSW, and subsequent reduced inflows into the Menindee Lakes system since 2013, led to water storage levels falling to record low levels – well below 12 months' water supply for Broken Hill and Menindee. Local reservoir storages also expired, other than an emergency terminal storage maintained with water from the Darling River.

As a result of the drought, Essential Water introduced Level 1 Water Restrictions in December 2014, Level 2 Water Restrictions in September 2015 and Level 3 Water Restrictions in January 2016.

In response to the looming water supply crisis, on 19 June 2015 the Minister for Industry, Resources and Energy provided 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 incorporated the construction of a reverse osmosis plant, associated pipeline and brine ponds, was commissioned in December 2015 and supplied Broken Hill with good quality water as the Darling River supply increased beyond 2,000ECs (Electrical Conductivity).

At Menindee, a bore water supply for the township was installed and commissioned in conjunction with Water NSW. This project included additional chemical dosing to treat the bore water prior to supplying the Menindee water treatment plant, where it received further treatment.

Performance highlights

Severe drought conditions prevailed with only 25mm of rain for Broken Hill during the three months of summer 2015-16, keeping reservoir storages well below capacity.

At the end of FY2015-16 storage levels were;

- Imperial Lake – 123 megalitres (18.5 per cent)
- Stephens Creek Reservoir – 80 megalitres (<1 per cent)
- Umberumberka Reservoir – 0 megalitres (0 per cent)
- Menindee Lakes – 47.7 gigalitres (2.76 per cent).

Broken Hill was supplied with water from Copi Hollow until January 2016, which contained lower EC water than the Darling River. When the desalination plant and bore supplies were commissioned, supply reverted to Weir 32 on the Darling River for the remainder of the year.

Total treated water consumption decreased by 233 megalitres (ML) from FY2014-15, resulting in 3,769 megalitres of water distributed through 200km of pipelines and mains to homes and businesses connected to the Essential Water network.

Around 91 per cent of our water customer base is residential. Consumption for this group totalled 2,235 megalitres, down 9.6 per cent from 2,471 megalitres in FY2014-15. Raw water customers consumed 793 megalitres, a decrease of 81 megalitres (9.3 per cent) from FY2014-15.

Essential Water continued a program of stringent sampling and independent testing to ensure compliance with the Australian Drinking Water Guidelines.

Due to public protest regarding the drawing down of Menindee Lakes, Essential Water came under close scrutiny for its treated water supplies. Formal reviews evidenced Essential Water had maintained adequate drinking water quality for the year and that drought projects resulted in supply of good quality water to Broken Hill.

Essential Water's waste water treatment plant in Wills Street treated an average 2.8 megalitres of sewage per day and the South Broken Hill waste water treatment plant treated an average 0.72 megalitres of sewage per day.

Highlights of Essential Water's works program included:

- replacement of 945 metres of water reticulation pipeline;
- repair of 310 customer water services;
- replacement of 609 metres of sewer main;
- relining 1.2km of sewer main;
- repair of 424 sewer connection blockages; and
- cleaning and rodding 24.3km of sewer main.

Long term water security

On 16 June 2016, as part of a $500 million investment strategy to secure Broken Hill's and the surrounding communities' long term water supplies, the NSW Government announced that it would build a new 270km pipeline from the Murray River.

The pipeline solution was selected following an extensive assessment by water, financial, engineering and infrastructure experts of 19 possible project options and will supply homes and businesses with reliable, clean and sustainable water.

The NSW Government is yet to announce which Agency or SOC will be responsible for the construction and ongoing maintenance of the pipeline.

Our people

Enterprise Agreements

Essential Energy has three enterprise agreements – the Essential Energy Enterprise Agreement 2013, the Essential Energy Far West Electricity Enterprise Agreement 2013 and the Essential Water Enterprise Agreement 2011.

The Essential Energy Enterprise Agreement covers approximately 2,950 employees. Negotiations for a replacement agreement that would enable Essential Energy to transform to a modern, efficient electricity distribution business, commenced in June 2015.

These negotiations did not result in agreement being reached and on 23 February 2016 the unions (CEPU, ASU and APESMA) filed applications with the FWC for Protected Action Ballot Orders.

The CEPU and APESMA were ultimately successful in having protected action ballots approved by the required majority of employees and protected industrial action commenced on 14 April 2016.

SDP Hamberger terminated the industrial action on 23 May 2016. As a result, a full bench of the FWC will decide the outstanding matters in a Workplace Determination which will be heard in late August and mid-September 2016.

Negotiations continue for a replacement Essential Energy Far West Electricity Enterprise Agreement. Following lengthy negotiations, Essential Water employees have endorsed a new enterprise agreement, which was submitted to the FWC for approval.

Industrial relations

Essential Energy's Industrial Relations team is responsible for managing the organisation's industrial relations activities. This includes 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 Essential Energy complies with employment-related legislation, effectively manages employee grievances and union disputes, manages peak consultative forums and disciplinary actions and responds to any litigation arising from these mechanisms.

Over the past 12 months, there has been an increase in industrial consultation and disputation, primarily as a result of enterprise agreement negotiations, head-count reductions and efficiency strategies.

Diversity

Essential Energy's Diversity Plan 2015-2018 and Diversity Strategy 2015-2018, outline the organisation's legislative obligations in setting the strategic framework for the development and implementation of relevant plans, programs and initiatives to meet our legislative requirements and to recognise and promote workforce diversity across Essential Energy.

The Diversity Council Charter, established in 2015, continued to provide a regular opportunity to review Essential Energy's diversity and inclusion portfolio. In support of diversity and inclusion initiatives, talent management activities were cascaded through the business, providing input into our understanding of our future pipeline and diversity focused needs.

Representation of females in management in 2015 was greater than the total overall organisational representation percentage and a women's leadership program was piloted. It was designed to promote the strengths and qualities of female leadership and enhance women's leadership contributions.

This supports one of the NSW Government's 'Premier's Priorities' released in 2015, which focused on increasing the proportion of women in senior leadership roles to 50 per cent in the government sector in the next 10 years.

Aboriginal and Torres Strait Islander (ATSI) representation remained above the SOC benchmark of 2.6 per cent, however with limited external inputs and the current business climate, a slight decline in representation was reported.

Essential Energy recognises that having an employment base that represents the diverse communities we serve promotes innovation, productivity and improves our ability to deliver high quality outcomes. Key initiatives including International Women's Day and NAIDOC Week were supported in 2016.

Efforts will continue in FY2016-17 to develop our diversity and inclusion approach, particularly in the areas of recruitment and retention in order to reach our goals.

Trends in the representation of workforce diversity groups

Workforce diversity group	Benchmark/ Target	2014	2015	2016*
Women	50%	17.0%	16.7%	16.4%
Aboriginal people and Torres Strait Islanders	2.6%	3.3%	3.2%	3%
People whose first language spoken as a child was not English	19%	1.0%	0.9%	0.6%
People with a disability	N/A	1.8%	1.7%	1.6%
People with a disability requiring work-related adjustment	1.5%	0.5%	0.5%	0.5%

*Data is based on headcount not FTE, consistent data presented to the Diversity Council.

Disability and 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 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 cultural 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.

Agreements with Multicultural NSW

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

Corporate governance

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. Essential Energy operates within the terms of the *Electricity Supply Act 1995 (NSW).*

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

Additionally, it helps to ensure the delivery of outcomes sought by our shareholders; supports our people and business operations; and helps ensure we adopt sound ethical, financial and risk management practices to benefit our customers, and effective compliance and auditing programs.

Our Code of Conduct (the Code) 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.

Organisational structure

The Networks NSW model was established in July 2012 to deliver efficiencies and cost savings across the three network businesses and ceased on 31 December 2015.

Within this model, Essential Energy operated under a shared group management structure with Ausgrid and Endeavour Energy. This continued until 1 July 2015 when the three network businesses progressively transitioned back to being stand-alone businesses in relation to strategy, policy and reform initiatives.

From 1 July 2015 to 31 December 2015, Essential Energy, Ausgrid and Endeavour Energy continued to operate as separate legal entities, but were managed by a Joint Board of Directors and common Chief Executive Officer.

The Joint Board of the network businesses was dissolved on 31 December 2015 by Ministerial Order pursuant to clause 7(1) of Schedule 7 to the *Electricity Network Assets (Authorised Transactions) Act 2015 (NSW)*. The Board of Essential Energy became a standalone Board, with the same previous directors, effective from 1 January 2016. In April 2016, a new Chair was appointed.

Board of Directors

The 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 its implementation. The Board's role is to govern the company rather than to manage it. The Chief Executive Officer (CEO) is responsible to the Board for the day-to-day management of the company and leads the Executive in delivering the approved strategy and achieving the performance targets set by the Board.

The Board operates at all times in accordance with its Charter which is designed to provide an overarching statement of authority and accountability for governance and management of Essential Energy, consistent with the Constitution, applicable legislation and Government policy, and the Code of Conduct.

All directors on the Board of Essential Energy, with the exception of the CEO, are appointed by the voting shareholders. 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.

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 Interests which is reviewed at each Board meeting, to ensure the information held is up to date.

Board Committees

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

Essential Energy's organisational structure as at 30 June 2016

Board of Directors

Internal Audit

Acting Chief Executive Officer
Gary Humphreys

Company Secretary /General Counsel
James Lonsdale
- Corporate Affairs
- Industrial Relations
- Governance Risk and Compliance
- Legal Branch

Program Director Transformation
Andrew Hillsdon
- Corporate Strategy
- Corporate Planning and Reporting
- Transformation Management Office
- Change Management

Safety, HR and Environment
David Nardi
- HSE Management Systems and Reporting
- Human Resources and Organisation Development
- HSE Operations and Improvements
- Technical Training Delivery

Network Services
Luke Jenner
- System Control
- Regional Operations
- Operational Performance and Reporting
- Projects
- Programs
- Water Operations

Chief Financial Officer
Patrick Harsas
- Network Regulation
- Finance Transactions and Services
- Commercial and Decision Support
- Budgeting and Forecasting
- Financial Accounting, Policies and Reporting

Acting Asset Management
Paul Brazier
- Asset Performance and Risk
- Electrical Safety and Authorisations
- Engineering and Planning
- Network Design
- Governance and Reporting
- Commercial Services

Customer and Corporate Services
Caroline Hungerford
- Corporate Services
- Program and Project Delivery
- ICT Operations
- Technology Transformation
- Customer Services

Audit and Risk

The Audit and Risk Committee meets at least four times per year. The Committee's responsibilities cover matters relating to the financial affairs and business risks of Essential Energy, internal and external audits, compliance and fraud prevention. In addition, the Committee examines any other matters referred to it by the 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 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 Board.

Nominations

The Nominations Committee meets as required and assists the Board in fulfilling its responsibilities with regard to director appointments and reappointments. The Nominations Committee consists of the Chairman of the 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 as at 30 June 2016

Patricia McKenzie
LLB, FAICD
Term: 14 April 2016 to 13 April 2019
Chair of the Board (appointed 14 April 2016)
Chair, Nominations Committee
Member, Audit and Risk Committee
Other Directorships:
- Healthdirect Australia, Chair,
- APA Group, Director.

Roger Massy-Greene
BSc BE (Hons), MBA, FAICD, FIEAust
Chair of the Board (resigned 14 April 2016)
Term: 1 July 2012 to 31 December 2018 (including re-appointments)
Chairman of the Board from 1 July 2012
Chairman, Nominations Committee
Member, Audit and Risk Committee
Other Directorships:
- Ausgrid, Chair
- Endeavour Energy, Chair
- Eureka Capital Partners Pty Ltd, Chairman
- OneVentures Pty Ltd, Director
- Salvation Army Sydney Advisory Board, Member
- Eureka Benevolent Foundation, Chairman
- Cranbrook School, President
- The Hunger Project Australia, Director
- The Hunger Project Global, Director
- Illawarra Coke Company Pty Limited, Director
- ICC Holdings Pty Limited, Director
- Dovose Pty Limited, Director and Secretary.

Peter Dodd
PhD, MSc MCom, BCom, Dip Ed
NON-EXECUTIVE DIRECTOR
Term: 1 July 2012 to 31 December 2016 (including re-appointments)
Chair, 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), Chair
- 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 (including re-appointments)
Other Directorships:
- Ausgrid, Director
- Endeavour Energy, Director
- AMP Life Ltd, Director
- Navitas, Director
- Queensland Urban Utilities, Director
- Sydney Festival, Director
- The National Mutual Life Association of Australia Ltd, Director
- Super Retail Group, Director
- A.T. Kearney Advisory Board.

Philip Garling
B.Build, FAIB, FAICD, FIE (Aust)
NON-EXECUTIVE DIRECTOR
Term: 1 January 2013 to 31 December 2018 (including re-appointments)
Chair, 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, Chair
- Water Polo Australia Limited, President
- Energy Queensland Limited, Chair.

Laura Reed
BBus, MBA, FCPA
NON-EXECUTIVE DIRECTOR
Term: 1 January 2013 to 31 December 2018 (including re-appointments)
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 (including re-appointments)
Member, Safety, Human Resources and Environment Committee
Other Directorships:
- Ausgrid, Director
- Endeavour Energy, Director
- Chorus Limited, Director
- Mighty River Power, Director
- NZX, Director
- New Zealand Clearing and Depository Corporation Limited
- Auckland International Airport Limited.

Vince Graham
BE (Civil), Grad Dip Mgmt, FAICD
CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR
(Note: retired as CEO effective 31 December 2015)
Ex-officio member Audit and Risk Committee and Safety, Human Resources and Environment Committee.
Other Directorships:
- Ausgrid, CEO & Executive Director
- Endeavour Energy, CEO & Executive Director
- Networks NSW Pty Limited, Chairman
- Catholic Care Social Services Council, Diocese of Parramatta, Member
- Energy Supply Association of Australia, Director.

Gary Humphreys
ACTING CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR
(Note: Acting CEO effective 1 January 2016)
Ex-officio member Audit and Risk Committee and Safety, Human Resources and Environment Committee.
Other Directorships:
- Networks NSW Pty Limited, Director.

Board and Board Committee meetings held in 2015-16

1 July 2015 to 30 June 2016 Directors' Attendance Schedule

	Joint Board of Directors meetings[1]		Essential Energy Board of Directors meetings		Audit and Risk Committee[1,2]		Safety Human Resources and Environment Committee[1,2]		Nominations Committee[3]	
Director	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
R Massy-Greene	10	10	2	2	5	5	3	3		
P McKenzie	1	1	3	3	1	1	–	–		
P Dodd	10	8	5	5	7	6			–	–
D Eilert	10	10	5	4		–	4	2		–
P Garling	10	9	5	5		–	4	4		–
L Reed	10	9	5	5	7	6			–	–
P Strange	10	9	5	5		–	4	4		–
V Graham[4]	7	6	–	–	4	3	2	1		
G Humphreys[5]	5	5	5		3	2	4	4		

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

1 Met as a Joint Board/Committee for the period 1 July 2015 to 31 December 2015
2 The CEO is an ex-officio member of the Audit & Risk and Safety, Human Resources and Environment Committees
3 Meets as and when required in accordance with its Charter
4 Retired as CEO effective 31 December 2015
5 Appointed Acting CEO from 1 January 2016

Indemnity Note

Section 3 of the NSW Treasury Commercial Policy Framework *State Owned Corporation Indemnity Policy TPP 03-6* provides that State Owned Corporations must disclose indemnities in their Annual Reports.

On 14 April 2016, Ms Patricia McKenzie was appointed Chair of Essential Energy. On 14 April 2016, NSW Treasury provided Essential Energy with an Approval to Grant of Indemnity signed by Essential Energy's shareholders. The Approval to Grant of Indemnity permits Essential Energy to grant an indemnity to Ms Patricia McKenzie in her capacity as Chair of Essential Energy. On 25 May 2016, Essential Energy's Board resolved to approve the grant of indemnity in the form of the Deed of Indemnity provided by NSW Treasury.

Essential Energy's Executive Leadership Team at 30 June 2016

The management of Essential Energy is led by an Executive Leadership Team which included the Acting Chief Executive Officer (from 1 January 2016), Chief Financial Officer, General Managers from key operational areas and the Company Secretary and General Counsel. The composition of the Executive Leadership Team at 30 June 2016 is shown below.

The Acting Chief Executive Officer had the authority and responsibility for managing Essential Energy in accordance with the strategy, plans, practices and policies approved by the Board to achieve agreed objectives. In doing so, the Acting Chief Executive Officer was accountable to the Board for the governance of the operations of the company, delivery of the agreed strategy and reform initiatives and leads the Executive Leadership Team. The Executive Leadership Team provided governance and oversight for matters of significance in relation to policy, strategy and governance frameworks for Essential Energy.

Acting Chief Executive Officer
Gary Humphreys, GAICD

General Manager Network Services
Luke Jenner, BE (Hons), EMBA

General Manager Customer and Corporate Services
Caroline Hungerford, BIT

General Manager Safety, HR and Environment
David Nardi, MBus

Chief Financial Officer
Patrick Harsas, member ICAANZ, GAICD

Acting General Manager Asset Management – from 24 January 2016 to current.
Paul Brazier, BEng (Elec), MBA

Company Secretary and General Counsel
James Lonsdale, LLM

Project Director, Transformation
Andrew Hillsdon, BBus, MAppFin

Changes to Essential Energy's Executive Officers and Executive remuneration

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 until 31 December 2015.

Essential Energy became a standalone business from 1 January 2016 following the de-coupling of Networks NSW, operating under an Acting Chief Executive Officer. At the end of the reporting period, Essential Energy employed 140 officers who received a total remuneration package equal to, or exceeding, the NSW Senior Executive Service Level 1 (SES1). This represents a decrease of 13 officers compared to the previous financial year. The decrease was mainly due to employee exits through voluntary redundancy.

The number of female employees receiving a total remuneration package of SES1 or above was 22. 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's Executive Officers at 30 June 2016 are employed on individual, performance-based employment contracts. Total remuneration for Executive Officers on performance-based employment contracts 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 NSW State Wages Policy and outcomes of performance assessments.

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. The remaining Executive Officers are reviewed by either the CEO or relevant General Manager.

One year wage freeze

All Executive Officers have their fixed remuneration reviewed in July each year. The NSW Government Wages Policy constrains the average increase to a maximum of 2.5 per cent.

Following a 2.5 per cent average increase in July 2014, Executive Officers' remuneration was not increased in July 2015. Essential Energy intends to provide a 2.5 per cent average increase in Executive Officers' remuneration in 2016.

Executive Remuneration

Name	Position at 30 June 2016	Annual Remuneration (excl. at risk) at 30 June 16[1]	At Risk Paid FY 15/16[2]	Notes
Gary Humphreys	Acting Chief Executive Officer	$650,000	$114,353	Deputy Chief Executive Officer to 31 December 2015 on $472,781 per annum and Acting Chief Executive Officer to 17 July 2016 on $650,000 per annum
Paul Brazier	Acting GM Asset Management	$310,000	$15,200	New Acting member of the Executive Leadership Team appointed 22 February 2016
Caroline Hungerford	GM Customer and Corporate Services	$300,000	$37,706	
Luke Jenner	GM Network Services	$320,000	$48,918	
Patrick Harsas	Chief Finance Officer	$320,000	$37,876	Appointed 6 October 2015
David Nardi	GM Safety, HR & Environment	$290,000	$41,250	
James Lonsdale	Company Secretary & General Counsel	$290,000	$46,288	
Andrew Hillsdon	Project Director Transformation	$260,000	$25,956	New Acting member of the Executive Leadership Team appointed 1 February 2016

1 Excludes "at risk" payment.
2 "At risk" payments are based on 2015-16 performance against key criteria, approved by the Board in August 2016.

Senior Managers[3]

Band[4]	2014/15[5] Female	2014/15[5] Male	2015/16[6] Female	2015/16[6] Male
Above Band 4[7]		1		1
Band 4				
Band 3		6	1	6
Band 2	2	10	1	9
Band 1	25	108	20	99
Below Band 1[8]		1		3
Totals	27	126	22	118
	153		140[9]	

Band	Band	Average Remuneration 2014/2015 $	Average Remuneration 2015/2016 $
Above Band 4	$509,750 +	$543,698	$767,000
Band 4	$441,201 – $509,750		
Band 3	$313,051 – $441,200	$349,637	$353,791
Band 2	$248,851 – $313,050	$276,250	$266,722
Band 1	$174,500 – $248,850	$200,355	$199,180
Below Band 1	< $174,500	$152,900	$159,518

3 Senior executives are defined by the Annual Reports (Statutory Bodies) regulation 2015 as a “person who is concerned in, or takes part in, the management of a statutory State Owned Corporation or any of its subsidiaries (regardless of the persons’ designation).” Essential Energy reports all contract managers who are paid according to the NSW Public Service SES Bands.
4 Bands are as defined in the 2015 NSW Public Service Senior Executives Determination (dated 31 July 2015) under the Government Sector Employment Act 2013. Reporting is limited to contract managers employed on individual employment contracts.
5 Average remuneration amounts for 2014-15 have been re-calculated to accommodate the revised PSC bands for 2015-16 reporting.
6 Average remuneration is based on FTE Fixed Annual Remuneration (FAR) as at 30 June 2016, 60 percent of the maximum At-Risk Reward for eligible employees calculated on FTE FAR and car allowance, if applicable.
7 Includes contract managers on individual contracts receiving remuneration at levels above Band 4.
8 Includes contract managers employed on individual contracts receiving remuneration at levels below Band 1.
9 The net decrease in senior managers is mainly due to employee exits by voluntary redundancy.

Managing business risk

During 2015-16, progress continued to 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 to identify and manage risks that could affect our customers, the community, the environment, our people and assets or financial resources.

Risk management 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.

Business Risk Categories

BR1 Safety	Fatality/serious injury of employee or member of 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 of Essential Energy
BR6 Environment	Significant environmental incident
BR7 People	Failure to deliver performance through people
BR8 Strategy	Strategic objectives are not delivered and business opportunities are lost
BR9 ICT	Significant ICT system failure

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 the achievement of our Corporate Plan were continually identified and assessed across nine categories.

Insurance

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

Claims management processes consistent with those in place in the other NSW network businesses have been adopted in order to achieve the required governance to support effective oversight of the claims function.

Incident management and business continuity

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

The Business Continuity Management Framework (BCMF) is a key control to minimise the impact of disruption related risks on essential service delivery. The BCMF comprises a series of maintained, tested and integrated incident plans to guide the organisation through major disruptive events.

In line with better practice, Essential Energy has adopted an all-hazards approach. Functional plans (such as business continuity plans, network incident plans and ICT incident plans) are designed to work together, adapt and scale to respond to an unwanted event.

Essential Energy conducts an annual risk review to assess current and emerging disruptive event risks. Treatment actions and key risk indicators to manage this risk are integrated into the company's risk management framework.

Essential Energy's BCMF Plan drives initiatives to govern, improve and maintain our incident management capability.

A key focus for FY2015-16 was the implementation of an automated mass notification system, to rapidly notify workers of disruptive events and required action.

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 via leader-led ethics sessions that support our ethical culture were delivered to make our corporate values meaningful to employees in their everyday work.

This, in turn, encouraged a culture of personal accountability for behaviour and provided a number of tools to apply in ethical dilemmas.

Fraud and corruption management

Key initiatives in our Fraud and Corruption Control Plan (FCCP) 2015-2017 drive continuous improvement and are built 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.

The FCCP 2015-2017 was approved by the Audit and Risk Committee in 2015 and is continuously monitored and is aimed at maintaining and supporting a strong governance framework.

Compliance

Our Compliance Management Plan (CMP) 2015-2017 is a key control for the business risk category 'BR4 Compliance' in the company's Corporate Risk Management Plan.

The CMP is structured around four pillars that align with the focus areas of Commitment, Implementation, Monitoring and Measurement, and Continuous Improvement. The Plan's status was regularly reported to the Audit and Risk Committee throughout the year.

The CMP builds on the company's progress in developing a culture of integrity and compliance, while learning lessons and enhancing the Compliance Management Framework through the implementation of risk-based actions. The CMP is aligned to the International Standard ISO 19600:2014 Compliance Management Systems – Guidelines and the Policy.

The Plan provides an efficient roadmap to maintain the Compliance Management Framework.

Internal audit

The Board and Executive Leadership Team are committed to operating 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, governance and efficiencies in processes.

During the year, we completed 30 internal audits across the organisation, with suitable actions put in place to address any issues identified.

The Audit and Risk Committee review the outcomes of internal audit activity.

Public Interest Disclosures

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

During FY2015-16, Essential Energy received 23 complaints in relation to corrupt conduct and assessed these as PIDs under the PID Act. No PIDs were made under a statutory or other legal obligation. There were no PIDs received in relation to maladministration, serious and substantial waste of public money or government information contravention. We finalised 19 PIDs during the financial year.

External audit

The NSW Auditor-General provides independent external audit services through the NSW Audit Office. 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 Client Service Report and Annual Management Letter and the results of the annual audit of financial statements.

Finance report

Financial results

Financial results	2014-15 result	2015-16 result	2015-16 SCI	Variation to Prior Year	Variation to SCI
Network revenue (total sales)*	1,738.7	1,285.7	1,264.8	(453.0)	20.9
Earnings before interest, tax, depreciation & amortisation (EBITDA) ($M)~	1,067.2	674.2	582.3	(393.0)	91.9
Earnings before interest and tax (EBIT) ($M)	709.9	325.4	232.6	(384.5)	92.8
Operating profit (loss) before tax ($M)	381.2	(8.0)	(109.4)	(389.2)	101.4
Operating profit (loss) after tax ($M)	266.3	(1.2)	(77.3)	(267.5)	76.1
Dividend ($M)	58.7	28.1	28.1	(30.6)	–
Total Distribution (Dividend + Current Income Tax Expense + Government Guarantee Fee) ($M)	284.2	128.8	124.5	(155.4)	4.3
Return on assets (%)^	8.7%	3.9%	2.8%	(4.8%)	1.1%
Return on equity (%)^	11.8%	(0.1%)	(3.5%)	(11.9%)	3.4%
Capital Expenditure ($M)#	493.7	431.1	517.1	(62.6)	(86.0)

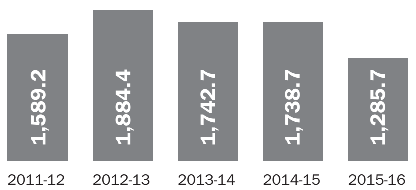
*Network Revenue excludes capital contributions, solar bonus rebate scheme recovery and other income included as part of Revenue in the statement of Comprehensive Income in the Financial Statements.
^Ratios include customer contributions (including gifted assets).
#Capital Expenditure excludes customer contributions (including gifted assets) – The comparative was amended to align with the methodology used in the current year.
~2015-16 EBITDA includes an adjustment for net fleet depreciation of $14.1 million and asset write offs of $11.9 million (2014-15 -$15.6 million and $0.1 million respectively). The comparative was amended to align with the methodology used in the current year.

Performance against previous year

Network Revenue

A $453.0 million, or 26 per cent, reduction in network revenue from the previous year (see table below) primarily reflects the price decrease resulting from the AER's final revenue determination, which included a retrospective reduction in revenues for the 2014-19 regulatory control period.

Network Revenue ($ million)

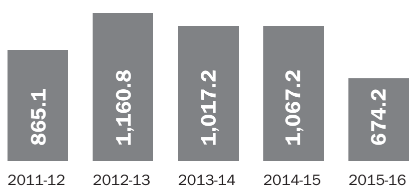


Earnings before interest, tax, depreciation and amortisation (EBITDA)

A $393.0 million reduction in EBITDA against the former year mainly reflects the reduction in network revenue as previously outlined. This was partly offset by lower operating costs as a result of cost containment activities, which included a reduction in the number of employees.

Essential Energy's operating loss after tax was $1.2 million, $267.5 million less than the 2015 result, mainly due to the reduction in EBITDA offset by reduced taxation.

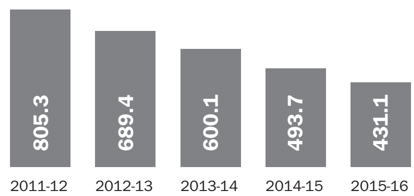
EBITDA ($ million)



Capital Expenditure

A $62.6 million reduction in capital expenditure (CAPEX) against the previous year was mainly due to a reassessment of the capital program, as well as the impact of cost and cash containment activities. This included the deferral of a number of projects in response to the AER's reduction in capital expenditure allowance for the 2014-19 regulatory control period.

CAPEX ($ million)



Debt

Our debt increased by $246.7 million over the financial year as lower operating cash flows meant that more debt was needed to fund our capital expenditure program. As a result, the gearing ratio, calculated as debt divided by debt plus equity, increased from 66.8 per cent to 68.8 per cent.

Performance against Statement of Corporate Intent

Essential Energy is required by legislation to submit a Statement of Corporate Intent (SCI) to our shareholders. The SCI encompasses the budget and represents the performance agreement between Essential Energy and our shareholders, outlining our objectives and strategies and defining our obligations to shareholders.

Essential Energy's primary financial objective, as set out in our SCI, is to protect financial value and deliver balanced outcomes for both customers and the shareholders. The SCI sets clear financial targets and also places limits on the types of activity Essential Energy is permitted to undertake.

The 2016 SCI budget took into account the AER's final revenue determination for the 2014-19 regulatory period and included a reduction in operating expenses. Essential Energy has continued its focus on providing value for money to our customers, controlling costs and increasing productivity.

Profit results

Essential Energy's operating loss before tax was $8.0 million against a budgeted loss of $109.4 million.

The better than budget profit result reflects:

- higher electricity distribution revenue driven by increased energy consumption in the residential and industrial sectors;
- higher capital contributions revenues of $49.4 million due to several large sub transmission gifted assets being recognised;
- reduced operating costs, particularly in the area of employee costs, contractor expenses and plant costs. The lower employee costs were a result of lower than budgeted employees during the year; and
- lower than expected net interest expenditure of $8.6 million, primarily due to lower than budgeted debt and better than budgeted rates for borrowings.

Shareholder return

Shareholder returns fell from the prior year and reflect the change in the performance of the business as set out above. Although returns in the 2016 financial year fell short of industry standards due to the change in regulated revenue, this change was expected and built into the 2016 budget returns.

Return on assets at 30 June 2016 calculated as EBIT divided by the average asset base ($8.3 billion) was 3.9 per cent, well below the 8.7 per cent of the prior year. This result however compared favourably to a budgeted return of 2.8 per cent, mainly attributable to the higher than budget EBIT outcome.

Essential Energy achieved a negative return on equity of 0.1 per cent for the year, calculated as loss after tax, divided by average equity. This result is a significant decline from the 11.8 per cent of the prior year, however compares favourably with the budgeted negative return of 3.5 per cent.

Essential Energy's distributions to the NSW Government were $128.8 million with dividends provided at 30 June 2016 of $28.1 million, current income tax expense of $13.5 million and government guarantee fee of $87.2 million. The final dividend comprises only the special dividend relating to Essential Energy's contribution to the NSW Government's energy rebate program.

Capital works program

Essential Energy manages Australia's most expansive electricity network, and the Australian Energy Regulator's (AER) regulatory determination recognises the need to invest in the network to renew ageing assets, continue to meet safety requirements, and maintain reliability in future years.

Our capital expenditure for 2016, excluding gifted assets and capitalised borrowing costs, was $431.1 million, $86.0 million below budget. Essential Energy's capital works program is underpinned by our Network Asset Management Plan, which sets priorities and determines the network investment required to meet the needs of our communities.

Capital expenditure was below budget mainly due to some program delays and operational efficiencies. Lower than budget fleet, property and information technology capital expenditure also contributed to the lower spend on capital expenditure due to cost and cash containment initiatives which led to a number of projects being deferred or reviewed.

FINANCIAL STATEMENTS

For the year ended 30 June 2016

Contents

INDEPENDENT AUDITOR'S REPORT

Essential Energy

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial report of Essential Energy (the Corporation), which comprise the statement of financial position as at 30 June 2016, 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 of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

In my opinion, the financial report:

- gives a true and fair view of the financial position of the Corporation and the consolidated entity as at 30 June 2016, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015
- complies 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.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the Corporation and the consolidated entity in accordance with the auditor independence requirements of:

- Australian Auditing Standards
- ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (the Code).

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles 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.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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**

Other Information

The directors are responsible for the other information, which comprises the information in the annual report for the Corporation and the consolidated entity for the year ended 30 June 2016, other than the financial statements and my Independent Auditor's Report thereon.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, I must read the other information and consider whether it is materially inconsistent with the financial statements, the knowledge I obtained during the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

Directors' Responsibility for the Financial Report

The directors are responsible for preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the PF&A Act and the *State Owned Corporations Act 1989* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors must assess the ability of the Corporation and the consolidated entity to continue as a going concern unless they intend to liquidate the Corporation or cease operations. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Report

My objectives are to:

- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial report.

A further description of my responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx.
The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Corporation or the consolidated entity carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.

Karen Taylor

Karen Taylor
Director, Financial Audit Services

15 September 2016
SYDNEY

Statement by Directors

Statement by Directors

For the Year Ended 30 June 2016

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 are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting interpretations adopted by the Australian Accounting Standards Board), *requirements of* 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 and give a true and fair view of the financial position of the Corporation as at 30 June 2016 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 statements to be misleading or inaccurate.

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

John Cleland

Chief Executive Officer

13 September 2016

Phil Garling

Director

13 September 2016

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	Notes	2016 $M	2015 $M
Profit and loss			
Revenue	2	1,552.1	2,053.5
Expenses excluding finance costs	3(a)	(1,226.7)	(1,343.6)
Finance costs	3(b)	(333.4)	(328.7)
(Loss)/ profit before income tax		**(8.0)**	**381.2**
Income tax benefit/ (expense)	4	6.8	(114.9)
(Loss)/ profit for the year		**(1.2)**	**266.3**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Superannuation defined benefits actuarial (losses)/ gains	24(f)	(92.9)	81.3
Asset revaluation reserve reversal on asset impairment		-	(0.8)
Income tax credit/ (expense) relating to items that will not be reclassified	4	27.9	(24.1)
		(65.0)	**56.4**
Items that will be reclassified subsequently to profit or loss			
Net gains on cash flow hedges		0.6	0.7
Income tax expense relating to items that will be reclassified	4	(0.2)	(0.2)
		0.4	**0.5**
Total other comprehensive (loss)/ income for the year net of tax		**(64.6)**	**56.9**
Total comprehensive (loss)/ income for the year, net of tax		**(65.8)**	**323.2**

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

Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	2016 $M	2015 $M
ASSETS			
Current assets			
Cash and cash equivalents	6	0.6	0.4
Trade and other receivables	7	278.8	363.4
Inventories		19.1	20.7
Assets classified as held for sale	8	-	7.2
Total current assets		**298.5**	**391.7**
Non-current assets			
Trade and other receivables	7	1.5	1.7
Property, plant and equipment	9	7,828.5	7,683.2
Intangible assets	10	153.9	150.5
Other non-current assets		0.5	0.7
Total non-current assets		**7,984.4**	**7,836.1**
Total assets		**8,282.9**	**8,227.8**
LIABILITIES			
Current liabilities			
Trade and other payables	11	282.5	298.1
Interest bearing loans and borrowings	12	431.0	439.1
Current tax liabilities		2.8	24.5
Provisions	13	242.2	308.5
Deferred revenue	14	3.5	14.0
Total current liabilities		**962.0**	**1,084.2**
Non-current liabilities			
Interest bearing loans and borrowings	12	4,613.5	4,358.7
Deferred tax liabilities	5	210.4	258.4
Provisions	13	208.9	144.5
Total non-current liabilities		**5,032.8**	**4,761.6**
Total liabilities		**5,994.8**	**5,845.8**
Net assets		**2,288.1**	**2,382.0**
EQUITY			
Contributed equity		130.5	130.5
Reserves		1,155.3	1,154.9
Retained earnings		1,002.3	1,096.6
Total equity		**2,288.1**	**2,382.0**

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Contributed Equity $M	Asset Revaluation Reserve $M	Hedge Revaluation Reserve $M	Retained Earnings $M	Total Equity $M
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**
Balance at 1 July 2015	**130.5**	**1,157.3**	**(2.4)**	**1,096.6**	**2,382.0**
Loss for the year	–	–	–	(1.2)	(1.2)
Other comprehensive income					
Net increase/(decrease) in reserves net of tax	–	–	0.4	–	0.4
Superannuation defined benefits actuarial (losses)/ gains net of tax	–	–	–	(65.0)	(65.0)
Total comprehensive (loss)/ income for the year	**–**	**–**	**0.4**	**(66.2)**	**(65.8)**
Transactions with owners recorded directly in equity					
Dividend provided for or paid	–	–	–	(28.1)	(28.1)
Total transactions with owners	**–**	**–**	**–**	**(28.1)**	**(28.1)**
Balance at 30 June 2016	**130.5**	**1,157.3**	**(2.0)**	**1,002.3**	**2,288.1**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Notes	2016 $M	2015 $M
Cash flows from operating activities			
Receipts from customers		1,671.0	2,146.0
Payments to suppliers and employees		(1,067.6)	(1,169.0)
Interest received		–	0.2
Interest paid		(333.0)	(336.0)
Income taxes paid		(35.1)	(124.6)
Net cash inflow from operating activities	**23**	**235.3**	**516.6**
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(439.1)	(490.1)
Proceeds from sale of property, plant and equipment		13.0	13.4
Proceeds from sale of investment property		7.3	–
Net cash outflow from investing activities		**(418.8)**	**(476.7)**
Cash flows from financing activities			
Proceeds from borrowings		453.7	346.0
Repayment of borrowings		(211.3)	(254.9)
Dividends paid		(58.7)	(133.9)
Net cash outflow from financing activities		**183.7**	**(42.8)**
Net decrease in cash and cash equivalents held		0.2	(2.9)
Cash and cash equivalents at the beginning of the year		0.4	3.3
Cash and cash equivalents at the end of the year	**6**	**0.6**	**0.4**

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 2016

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*.

The Corporation is classified as a for-profit entity for the purposes of the application of Australian Accounting Standards and after consideration of all factors contained in New South Wales Treasury Policy TPP05-4 *Distinguishing For-Profit from Not-For-Profit Entities*. The Corporation's principal activities involve the distribution of electricity, mainly in regional New South Wales and delivery of water services within far west New South Wales.

The Corporation had a one third ownership interest in Networks NSW Pty Limited, until it became a wholly owned subsidiary on 29 January 2016. Networks NSW Pty Limited had no transactions during the year, has immaterial assets and liabilities and was de-registered on 3 August 2016. For the year ended 30 June 2016, there were no significant differences between the parent entity and the consolidated entity financial information. As a result, the information presented and disclosed in the financial statements is for both the parent entity and the consolidated entity.

(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

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: provisions, items of property, plant and equipment, and assets classified as held for sale.

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.

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

The financial statements are presented in Australian dollars. 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 provisions, items of property, plant and equipment, and assets held for sale, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 16.

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 at fair value 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.

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 (l), 9 – Property, plant and equipment

Note 1 (g), 7 – Unread meters

Note 1 (m), 10 – Intangible assets

Note 1(v), 13 – Provisions

Note 16 – Fair value measurements

Note 24 – Superannuation – Defined benefits plan

Restructuring provision

Provisions are made for the expected costs relating to employees who no longer have a permanent role following organisational changes.

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 restructures
- *Total unavoidable costs*: the expected unavoidable costs for employees retained (stranded)
- *Natural attrition rate*: the rate at which the stranded employees are expected to exit the business. Historical information is referred to in determining this rate
- *Discount rate*: the rate at which future cash flows have been discounted.

(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.

Notes to the Financial Statements

For the year ended 30 June 2016

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.

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 $11.4 million (2015: $18.2 million) and $14.6 million (2015: $20.1 million) respectively.

Excess/shortfall in regulatory revenue

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

- Distribution use of system revenue – the Corporation operates 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 2016 the Corporation cumulative NUOS revenue exceeded the maximum amount permitted by regulatory agreement by $49.0 million (2015:$86.1 million) and future prices will be adjusted to reflect this excess.

(ii) 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 and is included in revenue in profit and loss due to its operating nature. Lease incentives granted are recognised as part of the total rental income.

(iii) 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 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.

1 Significant Accounting Policies (continued)

(iv) Government Grant Revenue

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.

(v) Solar Bonus Rebate Scheme Recovery and other revenue

The Corporation recognises solar bonus scheme recovery 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 at banks 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 overheads 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.

(l) 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. Such costs include the cost of replacing part of the plant and equipment. 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 the Corporation's 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 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.

Notes to the Financial Statements

For the year ended 30 June 2016

1 Significant Accounting Policies (continued)

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 comprehensively revalued at least every three years in accordance with TPP 14-01 and AASB13. In other years an interim management revaluation is performed 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. In accordance with TPP 14-01 an interim formal revaluation is undertaken where there is an indication that the valuation may differ from the carrying value by greater than 20%. Fair value 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, Contestable Metering and Generation CGUs was estimated to be zero as at 30 June 2016 (2015: $0.4 million), based on a value in use calculation. Accordingly, no value is carried in the books of the Corporation in respect of water, contestable metering and generation 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 are transferred to Retained Earnings upon disposal.

(iii) 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. Depreciation methods and useful lives are reviewed at each reporting date and adjusted prospectively, if appropriate.

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	3 – 20 years

1 Significant Accounting Policies (continued)

(m) Intangible assets

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

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Easements, which are an interest in land allowing access to network assets, are not amortised as they are granted for an unlimited time.

Amortisation is charged to profit and loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are 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	10 years

(n) Impairment

(i) Financial assets (including receivables)

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying amount reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

(ii) Non-financial assets

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

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2016

1 Significant Accounting Policies (continued)

(o) Other assets

Non-current other assets are assets whose economic benefit is expected to be realised in a period longer than 12 months. These include non-interest bearing repayable advances made to employees. These advances will be repaid when the employees leave the service of the Corporation. Consequently the repayment dates are not determinable and the asset has not been amortised.

(p) Trade and other payables

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

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

(q) Loans and borrowings

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

Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. The difference between the face value and the capital value of these debt securities is amortised over the life of the specific instrument. Interest associated with these instruments is 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 12 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 12 months.

(r) Financial instruments

(i) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement.

The Corporation may use 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:

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.

1 Significant Accounting Policies (continued)

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 occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(ii) 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.

(s) 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 12 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 12 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 12 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.

Notes to the Financial Statements

For the year ended 30 June 2016

1 Significant Accounting Policies (continued)

(t) Superannuation

(i) Defined contribution plan

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

(ii) Defined benefit plans

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

The discount rate is the 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) 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.

(u) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognises termination benefits at the earlier of the following dates: (a) when the Corporation can no longer withdraw the offer of those benefits; and (b) when the Corporation recognises costs for a restructuring that is within the scope of AASB 137 *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.

1 Significant Accounting Policies (continued)

(v) 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, it is probable that an outflow of economic benefits will be required to settle the obligation and the obligation can be reliably measured. 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. This is usually the risk free rate on Commonwealth Government bonds that closely match the expected future payments.

(w) 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.

(x) 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.

(y) 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.

(z) 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, 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 $7.8 million (2015: $13.3 million), and the capitalisation rate used to determine this amount was at a weighted average interest rate of 6.9% (2015: 7.1%).

(aa) 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.

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.

(bb) 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.

Notes to the Financial Statements

For the year ended 30 June 2016

1 Significant Accounting Policies (continued)

(cc) 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.

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

New and amended accounting standards applicable for the first time for the annual reporting period commencing 1 July 2015 did not have any impact on the current period or any prior period, and are not likely to affect future periods.

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 2016 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 2018, 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 16 *Leases* (IFRS 16) published in February 2016, which replaces AASB 117 *Leases* (December 2009). The new standard requires lessees to recognise nearly all leases on the balance sheet, reflecting the right to use an asset for a period of time and the associated liability for payments. AASB 16 is effective for the Corporation from annual reporting periods beginning 1 July 2019 with early adoption permitted if AASB 15 is also adopted. The application of the new standard will result in an increase in assets and liabilities and an acceleration of lease related expense relative to the pattern expenses for current operating leases.

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.

2 Revenue

	2016 $M	2015 $M
Network use of system revenue	1,255.1	1,708.6
Water and waste water treatment revenue	19.3	20.4
Public lighting system charge	11.3	9.6
Capital contributions	120.8	170.8
Rental income from investment property	0.3	1.0
Interest income	–	0.2
Other business revenue*	53.4	49.3
Solar Bonus Rebate Scheme recovery**	91.9	93.6
	1,552.1	**2,053.5**

*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.

Notes to the Financial Statements

For the year ended 30 June 2016

3 Expenses

	Notes	2016 $M	2015 $M
(a) Expenses excluding finance costs			
Expenses relating to operating activities:			
Distribution of energy and other services		400.1	464.0
Employee benefits expense		300.1	334.7
Solar Bonus Scheme expense		93.8	95.8
Bad debts and impairment of trade receivables		1.3	0.4
Loss on disposal of property, plant and equipment		4.5	–
Operating leases rental		8.5	8.2
Superannuation expense (defined benefit plan) recognised in profit for the year	24(f)	2.9	18.9
Superannuation expense (defined contribution plan)		40.7	45.9
Total expenses relating to operating activities		**851.9**	**967.9**
Depreciation of property, plant & equipment	9	339.3	333.6
Plant & equipment depreciation capitalised*		(10.4)	(11.3)
Depreciation expense		**328.9**	**322.3**
Amortisation of intangible assets	10	19.6	18.6
Impairment losses on and write off of non-financial assets			
Write off of non-financial assets**		11.9	27.4
Impairment losses on capitalised assets***	9	14.4	6.3
Impairment losses on investment property		–	1.1
Total write off and impairment losses on non-financial assets		**26.3**	**34.8**
Total expenses excluding finance costs		**1,226.7**	**1,343.6**
(b) Finance Costs			
Interest and finance charges paid or payable		332.7	327.9
Unwinding of discount on provisions		0.7	0.8
Total finance costs recognised in the Statement of Comprehensive Income		**333.4**	**328.7**
(c) Maintenance expenses			
Employee benefits expense		58.4	75.6
Contracted labour and other (non-employee related) expenses		292.6	308.6
		351.0	**384.2**

*Plant and equipment depreciation charge – The depreciation of heavy vehicles and the related plant and equipment used in the construction and maintenance of the 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 recoverable value.

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

4 Income tax expense

	2016 $M	2015 $M
Recognised in profit and loss		
Current tax (benefit)/ expense		
Current year	18.9	146.2
Adjustments for prior years	(5.4)	(2.0)
	13.5	**144.2**
Deferred tax (credit)/ expense		
Origination and reversal of temporary differences	(21.3)	(30.6)
Under provided in prior years	1.0	1.3
	(20.3)	**(29.3)**
Total income tax (benefit)/ expense in profit and loss	**(6.8)**	**114.9**
Numerical reconciliation between tax expense and pre-tax net profit		
(Loss)/ profit before tax	(8.0)	381.2
Income tax using domestic corporation tax rate of 30% (2015: 30%)	(2.4)	114.4
Increase/(decrease) in income tax expense due to:		
Over provided in previous years	(4.4)	(0.7)
Non-deductible expenses	–	1.2
Income tax expense on pre-tax net profit	**(6.8)**	**114.9**
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	(27.9)	24.4
Revaluation reserve utilisation - property, plant and equipment	-	(0.3)
	(27.9)	**24.1**
Items to be reclassified subsequently to profit or loss:		
Revaluation of hedge derivatives	0.2	0.2
Income tax (credited) charged directly to other comprehensive income	**(27.7)**	**24.3**

Notes to the Financial Statements

For the year ended 30 June 2016

5 Deferred tax assets/liabilities

	2016 $M	2015 $M
Recognised deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Property, plant and equipment	338.4	374.1
Employee benefits	(48.0)	(24.1)
Provisions	(79.0)	(94.2)
Other items	(1.0)	2.6
Net tax (assets)/ liabilities	**210.4**	**258.4**

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

	1 July 2015 $M	Recognised in profit and loss $M	Recognised in other comprehensive income $M	30 June 2016 $M
Movement in temporary differences				
Property, plant and equipment	374.1	(35.7)	–	338.4
Employee benefits	(24.1)	4.0	(27.9)	(48.0)
Provisions	(94.2)	15.2	–	(79.0)
Other items	2.6	(3.8)	0.2	(1.0)
	258.4	**(20.3)**	**(27.7)**	**210.4**

	1 July 2014 $M	Recognised in profit and loss $M	Recognised in other comprehensive income $M	30 June 2015 $M
Movement in temporary differences				
Property, plant and equipment	412.2	(37.8)	(0.3)	374.1
Employee benefits	(48.5)	–	24.4	(24.1)
Provisions	(97.7)	3.5	–	(94.2)
Other items	(2.6)	5.0	0.2	2.6
	263.4	**(29.3)**	**24.3**	**258.4**

6 Cash and cash equivalents

	2016 $M	2015 $M
Cash at banks	0.6	0.4
Cash and cash equivalents in the statement of cash flows	**0.6**	**0.4**

The Corporation's exposure to interest rate risk and a sensitivity analysis of financial assets and financial liabilities are disclosed in note 15.

7 Trade and other receivables

	2016 $M	2015 $M
Current		
Trade receivables	63.0	85.2
Less: impairment of trade receivables	(0.9)	(0.3)
	62.1	**84.9**
Accrued revenue from unread meters	166.5	221.5
	228.6	**306.4**
Prepayments	7.0	7.1
Other receivables	43.4	50.1
Less: impairment of other receivables	(0.2)	(0.2)
	278.8	**363.4**

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

Opening balance at 1 July	0.5	0.4
– additional impairment	1.6	0.3
– amounts used	(1.0)	(0.2)
Closing balance at 30 June	**1.1**	**0.5**

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

The Corporation's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 15.

8 Assets classified as held for sale

	2016 $M	2015 $M
Investment property	–	7.2

Notes to the Financial Statements

For the year ended 30 June 2016

9 Property, plant and equipment

	Notes	Land and buildings $M	System assets $M	Plant and equipment $M	Total $M
At 1 July 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**
At 30 June 2016 – fair value					
Gross carrying amount		206.5	7,994.8	729.9	8,931.2
Accumulated depreciation and impairment		(7.5)	(575.3)	(519.9)	(1,102.7)
Net carrying		**199.0**	**7,419.5**	**210.0**	**7,828.5**
Year ended 30 June 2016					
Net carrying amount at start of year		203.7	7,224.0	255.5	7,683.2
Additions		0.8	514.0	13.7	528.5
Disposals and write offs		(0.7)	(18.5)	(10.3)	(29.5)
Depreciation	3(a)	(4.8)	(285.6)	(48.9)	(339.3)
Impairment	3(a)	–	(14.4)	–	(14.4)
Net carrying amount at end of year		**199.0**	**7,419.5**	**210.0**	**7,828.5**
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	612.4
Disposals, write offs and transfers		(5.4)	(1.9)	(13.5)	(20.8)
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**

9 Property, plant and equipment (continued)

Assets under construction	2016 $M	2015 $M
At the statement of financial position date, the expenditure on construction in progress totalled:	453.4	571.6

Historic cost of revalued assets		
The carrying amount of assets had they been carried under the cost model is:		
Land and buildings	169.2	172.5
System assets	6,573.7	6,291.5
Plant and equipment	210.0	255.5

Notes to the Financial Statements

For the year ended 30 June 2016

10 Intangible assets

	Notes	Easements $M	Computer software $M	Other $M	Total $M
At 1 July 2015					
At cost		77.9	248.3	16.1	342.3
Accumulated amortisation		–	(191.8)	–	(191.8)
Net carrying amount		**77.9**	**56.5**	**16.1**	**150.5**
At 30 June 2016					
At cost		81.1	257.0	27.3	365.4
Accumulated amortisation		–	(210.5)	(1.0)	(211.5)
Net carrying amount		**81.1**	**46.5**	**26.3**	**153.9**
Year ended 30 June 2016					
Net carrying amount at start of year		77.9	56.5	16.1	150.5
Acquisitions		3.2	8.6	11.2	23.0
Amortisation	3(a)	–	(18.6)	(1.0)	(19.6)
Net carrying amount at end of year		**81.1**	**46.5**	**26.3**	**153.9**
At 1 July 2014					
At cost		67.4	243.1	4.8	315.3
Accumulated amortisation		–	(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		–	(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**

Intangible assets under construction	**2016 $M**	**2015 $M**
At the statement of financial position date, the construction in progress of intangible assets totalled:	37.3	56.9

11 Trade and other payables

	2016 $M	2015 $M
Trade payables	17.3	11.5
Interest payable	149.5	146.8
Accruals	93.1	98.5
Other payables	22.6	41.3
	282.5	**298.1**

Details regarding credit risk and liquidity risk including a maturity analysis of the above payables are disclosed in note 15.

12 Interest bearing loans and borrowings

	2016 $M	2015 $M
Current liabilities		
Current portion of loans	**431.0**	**439.1**
Non-current liabilities		
Non-current portion of loans	**4,613.5**	**4,358.7**

Loans are unsecured and repayable in full on various maturity dates. For more information about the Corporation's exposure to interest rate risk and liquidity risk see note 15.

Notes to the Financial Statements

For the year ended 30 June 2016

13 Provisions

	Dividends $M	Employee benefits $M	Environmental and asset remediation $M	Workers' compensation $M	Restructuring $M	Other $M	Total $M
At 1 July 2015	58.7	320.9	19.2	7.1	38.5	8.6	453.0
– additional provision	28.1	136.7	4.6	1.6	32.6	3.9	207.5
– amounts used	(58.7)	(79.0)	(1.6)	(0.5)	(38.7)	(2.6)	(181.1)
– amounts reversed	–	–	(2.6)	(1.9)	(20.8)	(3.9)	(29.2)
– unwinding of discount	–	–	0.3	0.1	0.5	–	0.9
At 30 June 2016	**28.1**	**378.6**	**19.9**	**6.4**	**12.1**	**6.0**	**451.1**
Current	28.1	188.4	8.8	5.0	6.3	5.6	242.2
Non-Current	–	190.2	11.1	1.4	5.8	0.4	208.9
At 30 June 2016	**28.1**	**378.6**	**19.9**	**6.4**	**12.1**	**6.0**	**451.1**
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
At 30 June 2015	**58.7**	**320.9**	**19.2**	**7.1**	**38.5**	**8.6**	**453.0**

(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* as well as additional dividends determined by the NSW Government. The dividend payable was approved by the shareholding ministers before 30 June 2016.

(ii) Employee benefits

The provision for employee benefits relates to amounts accruing to employees up to reporting date in respect of employee benefits including defined benefit superannuation obligations, annual leave, maturing allowance, preserved sick leave and long service leave. Amounts provided for in relation to maturing allowance, annual leave, long service leave, defined benefit superannuation obligations and preserved sick leave are based on an actuarial assessment and associated formulae provided for intervening periods between assessments as outlined in note 1(s). All other employee benefit amounts expected to be settled within 12 months have been measured at the amounts expected to be paid when the liabilities are settled.

The non-current provision for employee benefits also includes $161.1 million (2015: $82.8 million) relating to the Defined Benefits Superannuation liability as detailed in note 24.

(iii) Environmental and asset rectification

Provisions for environmental rectification work are expected to be settled between 2017 and 2022. In respect of obligations to be settled by 2017 the effect of the time value of money has been deemed to be immaterial. Where settlement is expected by 2022 a discount rate of 1.8% (2015: 2.6%) has been applied. A current provision is included for the asset remediation of the Corporation's heritage listed sites to comply with the relevant legislation. A provision was raised for lease make good costs expected to be incurred in the short term.

13 Provisions (continued)

(iv) Workers compensation

The Corporation is on 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 2020 for the 2015-16 financial year cover period (prior to FY14 the adjustment period was five years). A discount rate of 1.6% (2015: 2.1%) has been applied.

During 2015-16, a consulting actuary, David A. Zaman, undertook the annual investigation of the Corporation's estimated liability for workers' compensation as at 30 June 2016. The liability is measured as the present value of future payments at 30 June 2016 and was estimated to be $6.4 million over five years (2015: $7.1 million).

(v) Restructure

Several restructures have occurred between 2013 and 2016. Provisions relate to the unavoidable costs of $12.1 million (2015:$32.7 million) expected to be incurred as a result of the restructures. The settlement of all obligations is expected by 2018 and a discount rate of 1.6% (2015: 2.1%) has been applied. At 30 June 2016 there were no agreed redundancies expected to be paid (2015: $5.8 million).

(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 $188.1 million (2015: $205.8 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.

	2016 $M	2015 $M
Current leave obligations expected to be settled after 12 months	154.1	165.7

14 Deferred Revenue

	2016 $M	2015 $M
Deferred government grants	3.4	13.4
Prepaid capital contributions	0.1	0.6
	3.5	**14.0**

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. These project components, associated with drought related emergency water supply, include the recommissioning of desalination facilities and associated infrastructure in Broken Hill ($13.7 million) and preparatory administration and project management resourcing ($0.9 million). The project components are practically complete, with finalisation expected during the 2016-17 financial year.

Notes to the Financial Statements

For the year ended 30 June 2016

15 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 has a policy requiring customers to pay in accordance with agreed payment terms. The payment terms are generally 15-30 days. An impairment assessment is performed at each reporting date based on historical data and a provision is made against the receivables.

The ageing of trade receivables past due but not impaired at 30 June 2016 is detailed below:

	2016 $M	2015 $M
Less than 3 months overdue	3.1	1.4
3 months to 6 months overdue	0.5	0.2
Later than 6 months overdue	0.9	0.5
	4.5	**2.1**

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 (2015: $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 Australian dollars.

15 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	2016 $M	2015 $M
Fixed rate		
Financial liabilities	(4,241.0)	(3,824.2)
	(4,241.0)	**(3,824.2)**
Floating rate		
Financial assets	0.6	0.4
Financial liabilities	(23.5)	(203.1)
	(22.9)	**(202.7)**
Inflation Indexed		
Financial liabilities	(780.0)	(770.5)
	(780.0)	**(770.5)**

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. The Corporation has variable rate financial liabilities at year end and it is estimated that a change in interest rates by one percentage point at reporting date would have an impact on the Corporation's profit before tax of $0.2 million (2015: $2.0 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* [TPP 02-7] 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.

Notes to the Financial Statements

For the year ended 30 June 2016

15 Financial Instruments disclosure (continued)

	2016 $M	2015 $M
Total loans	5,044.5	4,797.8
Less: cash and cash equivalents	(0.6)	(0.4)
Net debt	**5,043.9**	**4,797.4**
Total equity	2,288.1	2,382.0
Total capital	**7,332.0**	**7,179.4**
Gearing ratio	68.8%	66.8%

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

(f) Liquidity risk

Liquidity risk is the risk of difficulty in ensuring the availability of sufficient funds to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Corporation's liquidity risks are managed with the availability of readily accessible standby facilities and other funding arrangements and by investing surplus funds in marketable securities and deposits (see Notes 6 and 12).

As at 30 June 2016 the Corporation had an approved core debt borrowing limit of $5,381.1 million (2015: $5,381.1 million) of which $363.1 million was unused as at 30 June 2016 (2015: $586.9 million). The Corporation also has an approved TCorp Come and Go Facility limit of $250.0 million (2015: $100.0 million) and approval to obtain a commercial bank overdraft facility limit of up to $15.0 million (2015: $15.0 million) to fund working capital (at 30 June 2016 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 21.

While current liabilities are greater than current assets as at 30 June 2016 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 $226.5 million (2015: $100.0 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 2016 (2015: $2.0 million). On 29 June 2016, NSW Treasury confirmed that they will not require repayment of existing debt during the year ending 30 June 2017 and subsequently on 18 July 2016 they approved an increase of the core debt borrowing limit to $6,109.6 million.

The Corporation has a policy to establish 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 borrowings can consist of short term borrowings and no more than 20% of its long term borrowings can mature in any rolling 12 month period. Furthermore, the combined maximum portion of total debt that has a maturity of less than 1 year cannot exceed 25%. At 30 June 2016, 8.5% of the Corporation's debt will mature in less than one year (9.1% in 2015). 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 manages debt via a portfolio approach. At 30 June 2016 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.

15 Financial Instruments disclosure (continued)

	Carrying amount $M	Contractual cash flows Total $M	1 year or less $M	1-5 years $M	More than 5 years $M
30 June 2016					
Non derivative financial liabilities					
Fixed rate loans	4,241.0	5,269.9	621.1	2,175.3	2,473.5
Floating rate loans	23.5	23.5	23.5	–	–
Inflation indexed loans	780.0	1,060.0	21.1	253.2	785.7
Trade and other payables (excluding statutory payables)	268.8	268.8	268.8	–	–
	5,313.3	**6,622.2**	**934.5**	**2,428.5**	**3,259.2**
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**

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.

Notes to the Financial Statements

For the year ended 30 June 2016

16 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 2016.

	Notes	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
30 June 2016					
Recurring fair value measurements					
Non-financial assets					
System assets	9	–	–	7,419.5	7,419.5
Land and buildings	9	–	–	199.0	199.0
Total non-financial assets		**–**	**–**	**7,618.5**	**7,618.5**
30 June 2015					
Recurring fair value measurements					
Non-financial assets					
Assets classified as held for sale	8	–	7.2	–	7.2
System assets	9	–	–	7,224.0	7,224.0
Land and buildings	9	–	–	203.7	203.7
Total non–financial assets		**–**	**7.2**	**7,427.7**	**7,434.9**

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

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 financial assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes.

16 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.

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 2016 plus an adequate constant credit spread to discount financial instruments. The interest rates used are in the following ranges:

	2016	2015
Borrowings	1.6% – 2.5%	2.0% – 3.7%

(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.

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.

Assets classified as held for sale

Assets which were held for sale as at 30 June 2015, were sold in 2016.

System assets and land and buildings

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

Notes to the Financial Statements

For the year ended 30 June 2016

16 Fair value measurements (continued)

(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 2016 and 2015 for recurring fair value measurements:

Assets	System assets $M	Land and buildings $M	Total $M
Opening balance 1 July 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)
Closing balance 30 June 2015	**7,224.0**	**203.7**	**7,427.7**
Acquisitions	514.0	0.8	514.8
Disposals	(18.5)	(0.7)	(19.2)
Depreciation and impairment	(300.0)	(4.8)	(304.8)
Closing balance 30 June 2016	**7,419.5**	**199.0**	**7,618.5**

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

There were no transfers between level 2 and 3 and no changes in valuation techniques during the current and prior 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 of system assets and land and buildings which had a fair value of $7,618.5 million.

Unobservable inputs	Range of inputs (probability weighted average)	Relationship of unobservable inputs to fair value
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 $212.4 million change in the fair value.
5 year forecast revenue	+/–10%	The higher the revenue the higher the fair value. A 10% movement in the revenue results in a $263.1 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 $190.4 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 an $18.1 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 $351.0 million increase/decrease in fair value.

16 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. In accordance with TPP 14–01 an interim formal revaluation is undertaken where there is an indication that the valuation may differ from carrying value by greater than 20%.

The main level 3 inputs used by the Corporation for the 30 June 2014 valuation were derived and evaluated as follows:

- a discounted cash flow model is used to perform a value in use calculation using inputs such as future cash flows and discount rates to determine fair value (refer to Note 1(l)(i)). The cash flows are discounted using a discount rate which is based upon several inputs, primarily the risk free rate and debt risk premium. 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:

	Notes	Carrying amount 2016 $M	Fair value 2016 $M	Carrying amount 2015 $M	Fair value 2015 $M
Financial instruments					
Financial assets carried at amortised cost					
Cash and cash equivalents	6	0.6	0.6	0.4	0.4
Trade and other receivables (excluding prepayments)		273.3	273.3	358.0	358.0
		273.9	**273.9**	**358.4**	**358.4**
Financial liabilities carried at amortised cost					
Borrowings	12	5,044.5	5,746.9	4,797.8	5,425.8
Trade and other payables (excluding statutory payables)		268.8	268.8	275.6	275.6
		5,313.3	**6,015.7**	**5,073.4**	**5,701.4**

Notes to the Financial Statements

For the year ended 30 June 2016

17 Key management personnel disclosure

Key management personnel comprise members of the Board of Directors, Networks New South Wales (NNSW) executive management team (until 31 December 2015) and the Corporation's leadership management team.

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.

Prior to the cessation of the NNSW structure (see note 18) the allocation of the NNSW executive management team remuneration to the Corporation was 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:

	2016 $M	2015 $M
Short-term employee benefits	3.1	3.5
Long-term benefits	0.2	0.3
Post-employment benefits	0.2	0.2
Termination benefits	0.2	0.7
Total	**3.7**	**4.7**

18 Related parties transactions

(i) Networks NSW structure

The NNSW structure included a joint Board of Directors acting as the board of Ausgrid, Endeavour Energy and Essential Energy (DNSPs). The joint Board of Directors was established to act in the DNSPs best interests as if they formed part of a combined operation. The structure also included an Umbrella Cooperation Agreement to facilitate cooperation between the DNSPs to enable the identification and delivery of reform and other efficiency measures by acting collectively and cooperatively.

On 31 December 2015 the Umbrella Cooperation Agreement was terminated and under the *Electricity Network* Assets *(Authorised Transactions) Act 2015* the joint board arrangements for Ausgrid, Endeavour Energy and Essential Energy also ceased, as directed by Ministerial Order from the Treasurer. From 1 January 2016 Essential Energy operated as a stand-alone entity.

(ii) Joint venture

Further to the Umbrella Cooperation Agreement, the DNSPs entered into a joint venture agreement for the purpose of realising cost savings through joint procurement and service provision activities. This joint venture agreement was terminated on 31 December 2015 by mutual agreement of the DNSPs. A legal entity Networks NSW Pty Limited was established as the vehicle for the joint venture. Networks NSW Pty Limited has not incurred any costs in its own right nor entered into any sourcing agreements. Essential Energy had a one third ownership interest in Networks NSW Pty Limited until it became a wholly owned subsidiary following the sale of the Ausgrid and Endeavour Energy's shares to Essential Energy on 29 January 2016.

(iii) Wholly owned group

The Essential Energy Group consists of Essential Energy and its wholly owned subsidiary Networks NSW Pty Limited. Networks NSW Pty Limited, incorporated in Australia, was de-registered on 3 August 2016. As the entity had no transactions during the year and has immaterial assets and liabilities consolidated financial statements are not produced.

(iv) Directors

Some Directors of Essential Energy are also directors of other companies or have an interest in other companies or entities that may have undertaken 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.

(v) Transactions with other related parties

Based on the changes to the NNSW structure discussed in (i) and (ii) above only those transactions between the DNSPs up to 31 December 2015 are considered related party transactions. The following related party transactions occurred with Ausgrid and Endeavour Energy up until 31 December 2015.

	2016 $M	2015 $M
Network use of system income*	–	0.4
Management fee recharge income	3.0	5.0
Other income	0.1	4.6
Total related party income	**3.1**	**10.0**
Network use of system expense*	2.2	5.7
Management fee recharge expense	0.7	6.6
Other expense	–	2.0
Total related party expense	**2.9**	**14.3**

*representing inter distributor charges.

Notes to the Financial Statements

For the year ended 30 June 2016

18 Related parties transactions (continued)

(vi) 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:

	2016 $M	2015 $M
Current receivables		
– amounts receivable	–	2.6
Current payables		
– amounts payable	–	2.7

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.

(vii) 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 DNSPs when the respective DNSPs are not in a position to obtain supply from a Bulk Supply Point (BSP).

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

19 Remuneration of auditor

	2016 $M	2015 $M
Audit Office of New South Wales		
– Audit of financial statements	0.4	0.4

20 Contingent liabilities and contingent assets

Contingent liabilities

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.

	2016 $M	2015 $M
Contingent liabilities		
Guarantees provided to regulatory and statutory authorities	52.6	67.2

21 Capital commitments

	2016 $M	2015 $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)	29.1	23.0
GST credits	2.6	2.1

22 Operating leases

	2016 $M	2015 $M
Leases as lessee		
Non-cancellable operating leases are payable as follows:		
Within 12 months	4.5	6.5
12 months or longer and not longer than five years	3.4	6.2
Longer than five years(#)	0.2	0.2
Total (including GST)	**8.1**	**12.9**
GST credits	0.7	1.2

- There are 407 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 five years are mainly leases and licence agreements with no fixed term contract and are expected to continue for an indefinite period.

	2016 $M	2015 $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 12 months	1.1	2.1
12 months or longer and not longer than five years	1.3	4.0
Longer than five years (#)	0.2	0.2
Total (including GST)	**2.6**	**6.3**
GST debits	0.2	0.6

During the year ended 30 June 2016 $1.4 million (2015: $2.1 million) was recognised as rental income in profit and loss.

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

Notes to the Financial Statements

For the year ended 30 June 2016

23 Reconciliation of cashflows from operating activities

	2016 $M	2015 $M
(Loss)/ profit for the year	(1.2)	266.3
Add/ (less) non-cash items:		
Depreciation, amortisation, write off and impairment of non-financial assets	385.2	385.9
Gifted assets	(104.4)	(161.2)
Net loss on fair value of investment property	–	1.1
Prepaid superannuation	0.2	(0.2)
Net (gain)/ loss on disposal of property, plant and equipment	4.6	1.1
Amortisation of deferred interest expense/ (income)	(3.5)	(2.9)
Capitalisation of indexed bonds indexation	8.4	9.5
Changes in assets and liabilities:		
Decrease in unread meters	55.0	0.4
Decrease in other receivables	29.6	63.3
Decrease in inventories	1.4	5.0
Decrease in other assets	0.2	–
Decrease in accrued operating expenditure	(23.4)	(38.2)
(Decrease)/ increase in current tax balances	(21.7)	19.6
Decrease in deferred taxes liabilities	(20.3)	(29.3)
Decrease in other provisions	(64.3)	(10.8)
(Decrease)/ increase in deferred revenue	(10.5)	7.0
Net cash from operating activities	**235.3**	**516.6**

24 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 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 2015. The next actuarial valuation is due as at 30 June 2018.

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 2015. The next actuarial valuation is due as at 30 June 2018.

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24 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 settlements of $8.1M (2015:$nil) during the year.

24 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 2015	(481.7)	399.6	(10.1)	11.0	(491.7)	410.5	(81.2)
Current service cost	(8.8)	–	(0.1)	–	(8.9)	–	(8.9)
Gains/ (losses) arising from settlement	67.2	(58.9)	–	(0.2)	67.2	(59.1)	8.1
Interest (expense)/ income	(12.8)	10.7	(0.3)	0.3	(13.1)	11.0	(2.1)
(Expense)/ income recognised in profit or loss	**45.6**	**(48.2)**	**(0.4)**	**0.1**	**45.2**	**(48.1)**	**(2.9)**
Contributions by Fund participants							
Employers	–	17.4	–	–	–	17.4	17.4
Plan participants	(3.4)	3.4	(0.1)	0.1	(3.5)	3.5	–
	(3.4)	**20.8**	**(0.1)**	**0.1**	**(3.5)**	**20.9**	**17.4**
Remeasurements							
Return on plan assets, excluding amounts included in interest (expense)/ income	–	0.1	–	–	–	0.1	0.1
Gain/ (loss) from change in demographic assumptions	(2.6)	–	(0.1)	–	(2.7)	–	(2.7)
Gain/ (loss) from change in financial assumptions	(54.7)	–	(1.2)	–	(55.9)	–	(55.9)
Gain/ (loss) from change in liability experience	(35.6)	–	(0.2)	–	(35.8)	–	(35.8)
	(92.9)	**0.1**	**(1.5)**	**–**	**(94.4)**	**0.1**	**(94.3)**
Adjustment for effect of asset ceiling*	–	–	–	1.4	–	1.4	1.4
(Expense)/ income recognised in other comprehensive income	**(92.9)**	**0.1**	**(1.5)**	**1.4**	**(94.4)**	**1.5**	**(92.9)**
Benefits paid	52.5	(52.5)	0.1	(0.1)	52.6	(52.6)	–
Taxes, premiums and expenses paid	3.4	(3.4)	0.1	(0.1)	3.5	(3.5)	–
At 30 June 2016	**(476.5)**	**316.4**	**(11.9)**	**12.4**	**(488.4)**	**328.8**	**(159.6)**

Notes to the Financial Statements

For the year ended 30 June 2016

24 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 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 $159.6 million (2015: $81.2 million) comprises a liability of $161.1 million (2015: $82.8 million) disclosed within non-current provisions and an asset of $1.5 million (2015: $1.6 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.

24 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 2016 **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	2,013.1	–	2,013.1	–
Total	**2,013.1**	**–**	**2,013.1**	**–**
As at 30 June 2015				
Energy Investment Fund	2,351.2	–	2,351.2	–
Total	**2,351.2**	**–**	**2,351.2**	**–**

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 2016 **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	9,720.8	9,171.7	549.1	–
International equities	12,093.7	9,026.2	2,078.8	988.7
Property	3,650.3	1,113.3	618.9	1,918.1
Alternatives	7,115.9	470.1	3,122.2	3,523.6
Fixed income	3,554.9	1.4	3,553.5	–
Cash and short term securities	2,050.5	2,044.5	6.0	–
Total*	**38,186.1**	**21,827.2**	**9,928.5**	**6,430.4**
As at 30 June 2015				
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**

*Additional to the assets disclosed above, at 30 June 2016 STC Pooled Fund has provisions for receivables/ (payables) estimated to be around $2.8 billion (2015:$1.7 billion), giving estimated assets totalling approximately $41.1 billion (2015: $42.2 billion).

Notes to the Financial Statements

For the year ended 30 June 2016

24 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 2016**	**30 June 2015**	**30 June 2016**	**30 June 2015**
Australian listed equities	16.9%	12.0%	25.5%	25.7%
Overseas listed equities	23.3%	36.0%	31.6%	32.4%
Emerging market equities	–	–	–	–
Property	9.6%	4.0%	9.6%	8.6%
Private equity	1.8%	2.0%	–	–
Infrastructure	8.4%	7.0%	–	–
Alternatives	27.6%	32.0%	18.6%	17.7%
Fixed income	–	–	9.3%	9.1%
Cash and short term securities	12.4%	7.0%	5.4%	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 fund 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

	2016	**2015**
Expected salary increase rate (excluding promotional increases)	2.5% until 30 June 2017, nil until 30 June 2018, and 2.5% pa thereafter	0% pa until 30 June 2017; and 2.5% pa thereafter
Rate of CPI increase	2.5% pa	2.5% pa
Discount rate	2.0% pa	3.0% pa
Pensioner mortality	The pensioner mortality rates used are as per the triennial valuation of the scheme as at 30 June 2015	Based on Mercer 2005-09 Standard Pensioner Mortality Table

24 Superannuation – Defined benefits plan (continued)

(j) Sensitivity Analysis

The Corporation's total defined benefit obligation as at 30 June 2016 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	2.0%	1.0%	3.0%
Rate of CPI increase	2.5%	2.5%	2.5%
Salary inflation rate	2.5% in 2016/17, nil during 2017/18, and 2.5% thereafter	2.5% in 2016/17, nil during 2017/18, and 2.5% thereafter	2.5% in 2016/17, nil during 2017/18, and 2.5% thereafter
Defined benefit obligation ($M)	488.4	554.5	434.6

	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D –0.5% rate of CPI increase
Discount rate	2.0%	2.0%	2.0%
Rate of CPI increase	2.5%	3.0%	2.0%
Salary inflation rate	2.5% in 2016/17, nil during 2017/18, and 2.5% thereafter	2.5% in 2016/17, nil during 2017/18, and 2.5% thereafter	2.5% in 2016/17, nil during 2017/18, and 2.5% thereafter
Defined benefit obligation ($M)	488.4	502.0	476.0

	Base Case	Scenario E +0.5% salary increase rate	Scenario F –0.5% salary increase rate
Discount rate	2.0%	2.0%	2.0%
Rate of CPI increase	2.5%	2.5%	2.5%
Salary inflation rate	2.5% in 2016/17, nil during 2017/18, and 2.5% thereafter	3.0% in 2016/17, nil during 2017/18, and 3.0% thereafter	2.0% in 2016/17, nil during 2017/18, and 2.0% thereafter
Defined benefit obligation ($M)	488.4	504.8	472.9

	Base Case	Scenario G +0.5% pensioner mortality rate	Scenario H –0.5% pensioner mortality rate
Defined benefit obligation ($M)	488.4	493.9	486.0

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

Notes to the Financial Statements

For the year ended 30 June 2016

24 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 2015. Contribution rates are set after discussions between the employer and the trustee. In the case of the STC Pooled Fund, NSW Treasury is consulted.

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

Surplus/ deficit

The following is a summary of the 30 June 2016 financial position of the Fund calculated in accordance with AAS 25 "Financial Reporting by Superannuation Plans":

	EISS		Other		Total	
	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M
Accrued benefits	307.4	358.9	7.9	7.3	315.3	366.2
Net market value of Fund assets	(316.3)	(399.6)	(12.4)	(12.1)	(328.7)	(411.7)
Net (surplus)/ deficit	(8.9)	(40.7)	(4.5)	(4.8)	(13.4)	(45.5)

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	16.7

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

(m) 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	6.3% pa	7.8% pa
Expected rate of return on Fund assets backing other liabilities	6.3% pa	6.8% pa
Expected salary increase rate	2.5% until 30 June 2017, nil until 30 June 2018, and 2.5% pa thereafter	3.0% pa until 30 June 2019; 3.5% pa thereafter
Expected rate of CPI increase	2.5% pa	2.5% pa

The above economic assumption were as adopted for the 30 June 2015 triennial actuarial investigation other than applying the Corporation's current salary assumptions for EISS.

24 Superannuation – Defined benefits plan (continued)

Expected contributions		**Financial Year to 30 June 2017 $M**
Expected employer contributions	– EISS	23.5
	– Other	–

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 14.2 years (2015: 13.5 years) for the EISS, while it is 10.4 years (2015: 13.4 years) for the Pooled fund.

(n) 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.

25 Events subsequent to balance date

The financial statements of the Corporation for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the Directors on 13 September 2016.

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

Notes to the Financial Statements
For the year ended 30 June 2016

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

*Consultancy costs (as defined by NSW Treasury's 2005 Guidelines for the Engagement and Use of Consultants) of $5 million were incurred. The major consultancy costs included business transformation, advice on tariff structures, network capability transformation review, and vegetation management supplier analysis.

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 Annual Attestation Statement for the 2015-2016 Financial Year for Essential Energy

I, *John Cleland*, am of the opinion that *Essential Energy* had an Information Security Management System in place during the 2015-2016 financial year that is consistent with the Core Requirements set out in the *NSW Government Digital Information Security Policy*.

The controls in place to mitigate identified risks to the digital information and digital information systems of *Essential Energy* have been assessed under the ISMS in accordance with *Essential Energy* risk management practices. *Essential Energy* has established an Information Security Management Program to address identified risks and plans to ensure controls operate to an adequate level by 30 June 2017.

There is no agency under the control of *Essential Energy* which is required to develop an independent ISMS in accordance with the *NSW Government Digital Information Security Policy.*

Overseas travel

There were no overseas travel arrangements to declare for the reporting period.

Funds granted to non-government community organisations

Essential Energy donated $390 to the 'Give Me 5 For Kids' campaign, matching the figure raised by employees through an employee driven initiative.

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 requirements of 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 FY2015-16, 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 FY2015-16 Essential Energy received 20 formal access applications for information pursuant to the GIPA Act. As at 30 June 2016, no formal access applications were ongoing. The formal applications received were from members of the public, private sector businesses, lawyers and investigators.

In response to the formal access applications that were finalised in FY2015-16, full access was provided on 13 occasions. With respect to the remaining access applications, five were granted in part and in two instances the information requested was not held by Essential Energy.

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 relied on conclusive presumptions of overriding public interest against disclosure (as set out in schedule 1 of the GIPA Act) three times.

Statistical information about access applications

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 2015-16.

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	0	0	0	0	0	0	0	0
Private sector business	2	3	0	0	0	0	0	0
Not for profit organisations or community groups	1	0	0	0	0	0	0	0
Members of the public (application by legal representative)	5	1	0	1	0	0	0	0
Members of the public (other)	5	1	0	1	0	0	0	0

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

	Access granted in full	Access granted in part	Access refused in full	Info not held	Info already available	Refuse to deal with Application	Refuse to confirm/deny whether information is held	Application withdrawn
Personal information applications*	4	1	0	0	0	0	0	0
Access applications (other than personal information applications)	9	4	0	2	0	0	0	0
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

Reason for invalidity	Number of applications
Application does not comply with formal requirements (section 41 of the Act)	0
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

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	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	3
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	0
Law enforcement and security	0
Individual rights, judicial processes and natural justice*	1
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)	20
Decided after 35 days (by agreement with applicant)	0
Not decided within time (deemed refusal)	0
Total	20

Note: In one instance the applicant claimed not to have received a determination (sent by mail) that was decided within the statutory period. Following discussion with the Privacy Commissioner the determination was resent by email and registered mail.

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*	0	1	1
Internal review following recommendation under section 93 of Act*	0	0	0
Review by ADT	0	0	0
Total	0	1	1

*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)	0

Summary of legislative changes and judicial decisions for 1 July 2015 to 30 June 2016

Material changes to Commonwealth legislation

Treasury Legislation Amendment (Small Business and Unfair Contract Terms) Bill 2015 (Cth)

This Act extends the unfair consumer contract terms regime under the Australian Consumer Law to contracts with small businesses. The amendments come into effect on 12 November 2016.

A term is unfair if it causes a significant imbalance in the parties' rights or obligations, is not reasonably necessary to protect the advantaged parties' legitimate interests, and would cause detriment if applied or relied on.

Terms in standard form contracts with a business that has less than 20 employees and where the contract has an upfront price of less than $300,000 (or $1,000,000 for contracts of more than one year's duration) will be void if the term is unfair.

Small business customer suppliers contracting with the network business will have the same rights as small customers with respect to unfair contractual terms under the Australian Consumer Law.

However, terms expressly permitted by law, such as distributor liability immunities consistent with section 316 of the *National Energy Retail Law (NSW)*, are exempt from the regime.

Material changes to New South Wales legislation

Electricity Supply Amendment (Advanced Meters) Act 2016 (NSW)

The Act came into effect 1 July 2016 and amends the *Electricity Supply Act 1995* (NSW) and the *Electricity (Consumer Safety) Act 2004* (NSW). This Act enables retailers and metering providers to install and maintain type 4 'advanced' meters.

Previously, meters could only be installed by an Accredited Service Provider in accordance with a distributor's requirements. The Act removes distributor's ability to impose requirements in relation to the installation of advanced meters.

During the interim period, which runs until 1 December 2017 when the 'Expanding Competition in Metering' amendment to the *National Electricity Rules* comes into effect:

> distributors can continue to require that customers engage an Accredited Service Provider to install a type 5 or 6 basic meter; and

> distributors remain responsible for the maintenance of all meters installed before 1 July 2016, and any basic meters installed in the interim period.

When the Expanding Competition in Metering Rule change commences, a distributor must be appointed as the Metering Coordinator for a basic meter for which it was previously responsible. It continues to be responsible for maintenance of that basic meter until an alternative metering coordinator is appointed.

The Act also transfers safety and compliance responsibilities with respect to meters to NSW Fair Trading.

A new Code for Safe Installation of Direct-Connected Electricity Metering in NSW has been made which sets out the minimum requirements for safety management systems of retailers or metering providers who provide, install or replace advanced meters.

Energy (Consumer Safety) Regulation 2015 (NSW)

This Regulation came into effect on 1 September 2015 and replaces the *Electricity (Consumer Safety) Regulation 2006* (NSW).

The Regulation introduced a new offence of failing to ensure that work carried out at or near a place where an electrical installation is located does not adversely affect the safety of the installation.

The Act also clarifies that the person who conducts an electrical installation safety and compliance test or the person for whom the work was carried out for, must give the property owner a copy of the results of this test, and requires the person who conducts an electrical installation safety compliance check to provide the results to the distribution network services provider in certain cases.

Electricity Supply (Safety and Network Management) Amendment (Codes and Standards) Regulation 2015 (NSW)

This Regulation came into effect on 18 December 2015 and amends the *Electricity Supply (Safety and Network Management) Regulation 2014* (NSW).

The Regulation provides that a network operator's safety management system must be in accordance with Standard AS 5577-2013 and a network operator must, in determining the content of a safety management system, take into account any code, standard or guideline specified by the Minister.

The safety management system must also specify where it departs from a specified code, standard or guideline, and the arrangements in place to ensure an equal or better outcome.

National Electricity Rules and National Energy Retail Rules

The National Electricity Rules apply in NSW under the *National Electricity (New South Wales) Act 1997 (NSW)*, and the National Energy Retail Rules apply under the *National Energy Retail Law (Adoption) Act 2012 (NSW)*. The Australian Energy Market Commission has made the following rule changes in the last financial year:

(a) *Expanding competition in metering* – effective 1 December 2017, this rule allows any person to facilitate competition in metering and related services, and requires that new and replacement meters include smart meter functionality. Metering services include ensuring a customer has a working meter and collecting and distributing metering data. Under the rule change, the Financially Responsible Market Participant (usually the retailer) must engage a Metering Coordinator (similar to the current 'Responsible Person'), who in turn engages Metering Providers and Metering Data Providers to provide metering services.

(b) *Embedded Networks* – effective 1 December 2015 (for schedule 1), 1 December 2017 (for schedule 2, 4 and 5) and 17 December 2015 (for Schedule 3 and 6). This rule created a new accredited provider, the embedded network manager (ENM). The ENM will assist embedded network customers to obtain offers from authorised retailers and obtain an Australian Energy Market Operator recognised meter.

The ENM will also perform a market interface function to link embedded network customers to National Electricity Market systems and help embedded network customers manage their relationships with embedded network operators.

(c) *Business to Business Framework* – effective on 30 June 2016 (1 December 2017 for some provisions), this rule amends the business to business electronic communications framework under the National Electricity Rules to accommodate the wider range of services that will be available through advanced meters, and the wider range of parties that will be interested in these services.

(d) *Customer access to information about their energy consumption* – Schedule 1 of this rule change became effective on 1 March 2016 (the other schedules commenced on 6 November 2014 and 1 September 2015). Schedule 1 requires a distribution network service provider to provide small customers with their past two years of billing data (without charge), and the distributor's charges and information about the customer's energy consumption for the past two years in accordance with the Metering Data Provision procedures.

Material changes to Queensland 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 electricity prices 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

Australian Competition Tribunal's review of AER's ruling on the Network's distribution revenue

On 26 February 2016, the Australian Competition Tribunal handed down its decision on the limited merits review of the Australia Energy Regulator's (AER) distribution determination with respect to the revenue that Essential Energy can recover from its customers.

The Tribunal set aside the AER's determination and referred it back to the AER to be remade to address a number of errors relating to weighted average cost of capital and the efficient level of operational expenditure.

The AER has applied to the Federal Court seeking judicial review of the Tribunal's decision which will be heard by the Full Federal Court in October 2016.

Revised version of the NSW Service and Installation Rules

The June 2015 version of the NSW Service and Installation Rules took effect from 1 July 2015 with a transition period to 1 January 2016. The major changes relate to the standardisation of the location of the connection point (previously the point of supply) and connection arrangement for alternative sources of supply.

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