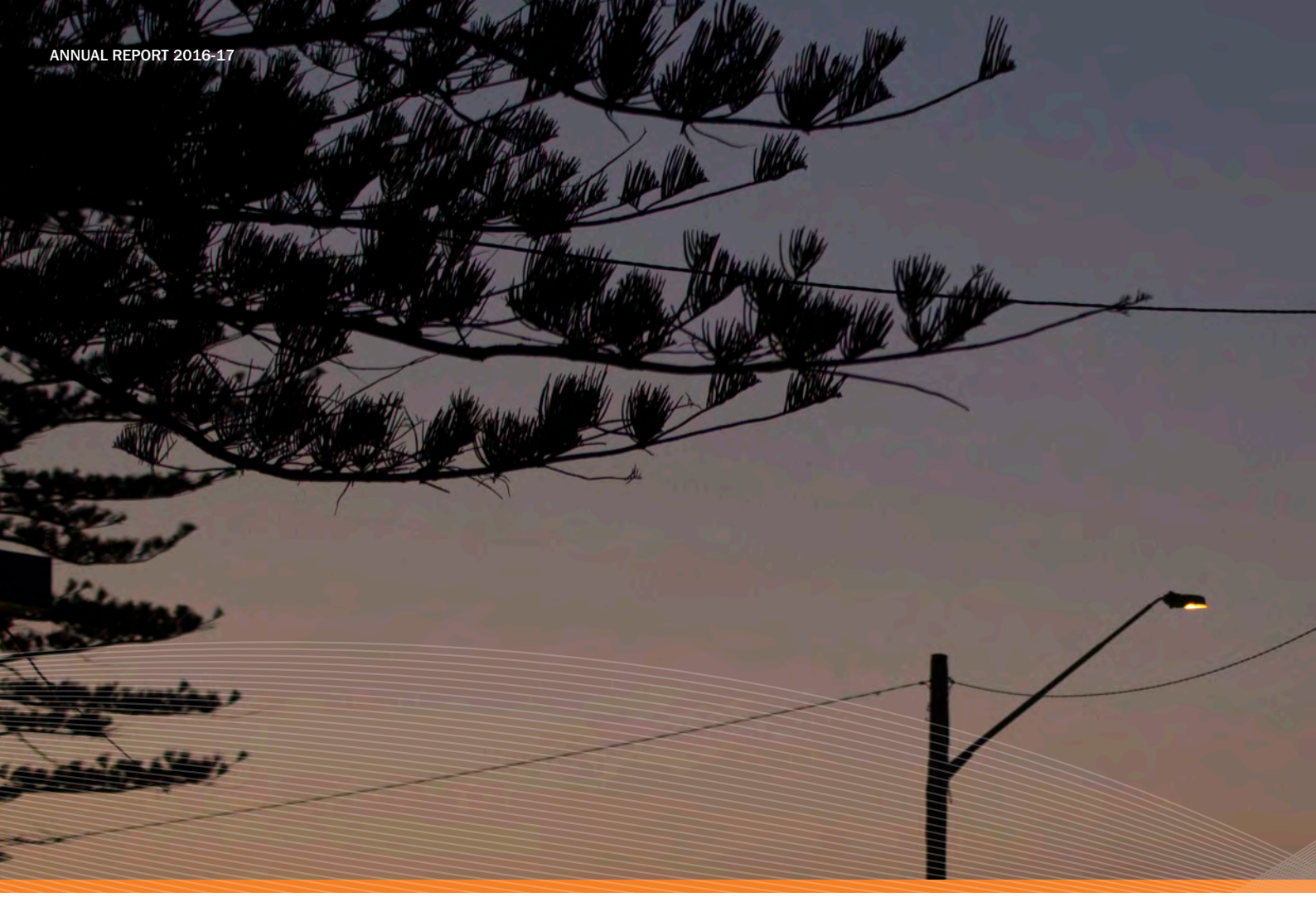
ENERGY EVERYWHERE

ESSENTIAL ENERGY ANNUAL REPORT 2016-17

essential energy



ABOUT THIS REPORT

Essential Energy's Annual Report details financial, operational, and safety performance for the 2016–2017 financial year and has been approved by our Board of directors.

The contents of this report are in compliance with:

The State Owned Corporations Act 1989; and

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 63.

Cost for report production

The external cost to produce this report was $19,000 excluding GST.

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CONTENTS

31 October 2017

The Hon Dominic Perrottet MP
Treasurer and Minister for Industrial Relations
Member for Hawkesbury
GPO Box 5341
SYDNEY NSW 2001

The Hon Victor Dominello MP
Minister for Finance, Services and Property
GPO Box 5341
SYDNEY NSW 2001

Dear Ministers

SUBMISSION OF ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

We are pleased to submit Essential Energy's annual report, outlining financial, operational, and safety performance for the year ended 30 June 2017.

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

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

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

Yours sincerely,

Patricia McKenzie
Chair

John Cleland
Chief Executive Officer

CHIEF EXECUTIVE OFFICER'S REVIEW

A year in transition toward a highly customer-focused, increasingly safe, efficient and innovative business, best describes FY2016-17 at Essential Energy, as the business continued to keep downward pressure on costs while embracing changing customer expectations and a rapidly evolving energy sector.

A refreshed leadership team and business culture is driving a renewed focus on our core objectives of continuous improvement in safety performance, operating at best practice to ensure best service to customers, delivering reductions in network charges in real terms, and delivering satisfactory returns to our shareholders.

The business is pursuing strategic initiatives focussed on best practice systems, technology and processes, commercial capability, customer and community connection and the emerging commercial services our customers demand and a rapidly evolving energy sector require. These initiatives are being balanced with growing opportunities around emerging technologies such as batteries, microgrids, large scale solar, and wind and hydro generation.

This has delivered ongoing improvements in network performance, is preparing our business to be the network service provider of the future, and reinforced Essential Energy's role as a critical enabler of economic activity and growth across regional, rural, and remote NSW.

We plan to continue on this path – but we don't profess to have all the answers or absolute certainty on the manner in which our industry will evolve. That's why ongoing customer engagement will continue to be a driving force for our business. The latter part of FY2016-17 saw customer workshops hosted across NSW which, coupled with an ongoing program of online surveys, meetings with advocacy groups and engagement with customer specialists, enabled us to actively listen to the needs, preferences and opinions of more than 1,500 customers and stakeholders.

This was more than customer engagement. This represented a shift in our thinking, our culture, and our customer connections to ensure Essential Energy is 'always on' for today's and tomorrow's customer needs and energy sector requirements.

Customers clearly told us that safety remains their top priority and, as we progress into FY2017-18 and beyond, safety for the community, contractors and our employees will continue to be at the forefront. While we have retained safety as the number one focus for all Essential Energy employees, we are not meeting our own high standards and there will be a renewed focus on safety as a critical element of our culture and operating model during 2017/18.

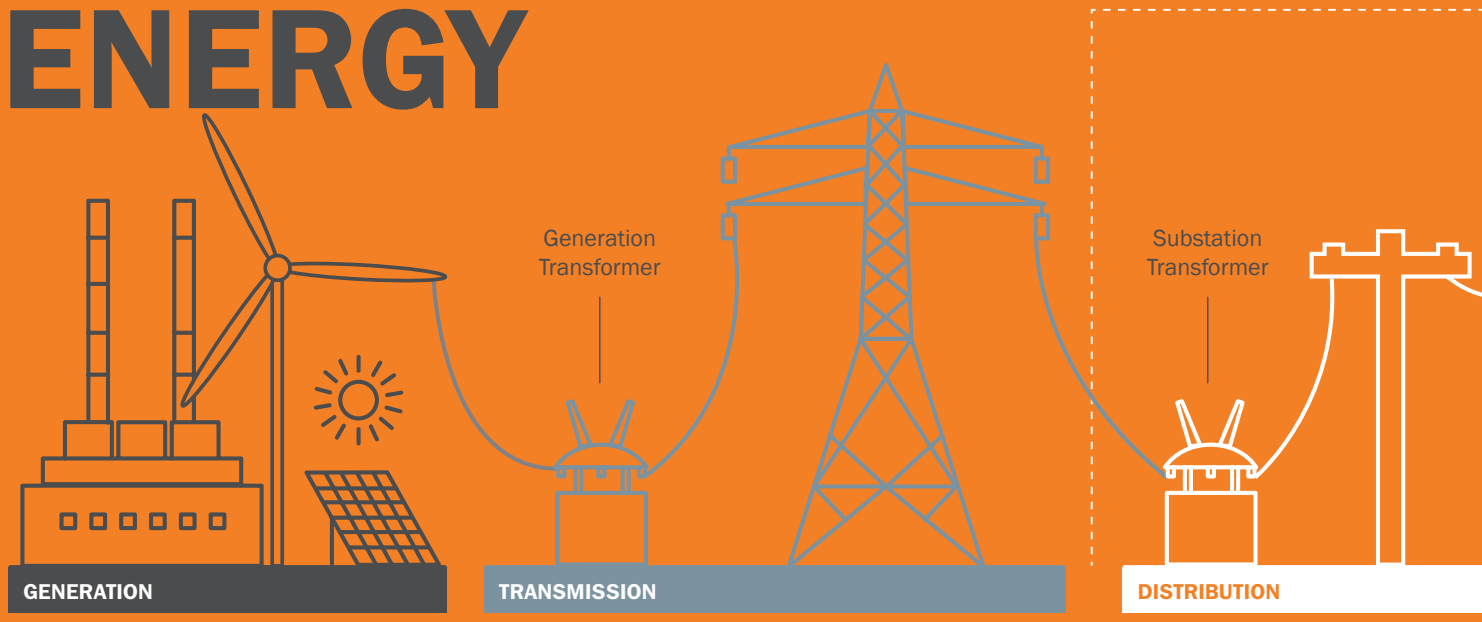
Affordability also continues to be a key customer challenge. Essential Energy recognises this and is focused on delivering network charge reductions for customers over time, alongside improved financial performance. This also remains front and centre as we continue to work with the Australian Energy Regulator (AER) to conclude our 2014-19 revenue determination.

A culture of continuous improvement and a fresh approach to risk, customer service, investment and efficiency will ensure Essential Energy remains responsive, enabling, enduring and local in the years ahead. I thank our employees for their commitment in FY2016-17 and their continued appetite for change, and I look forward to working together to address every opportunity and challenge that lies ahead.

John Cleland

ABOUT ESSENTIAL ENERGY

Building, operating and maintaining one of Australia's largest electricity networks to sustain downward pressure on network charges and look after the best interests of customers.



Generates electricity

Carries high voltage electricity long distances

Essential Energy responsibility

4.8
CUSTOMERS TO FUND EVERY 1KM OF OVERHEAD POWERLINES

95% OF NSW & PARTS OF SOUTHERN QUEENSLAND

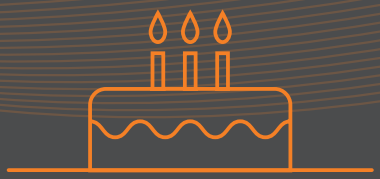
>800,000
CUSTOMERS

186,690KM
OF OVERHEAD POWERLINES – EQUIVALENT TO DRIVING AROUND AUSTRALIA 13 TIMES

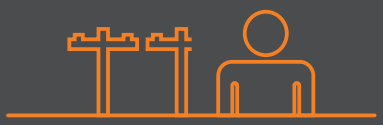
1,442
POWERLINES, WITH 10 THAT ARE LONGER THAN 1,000KM

361
ZONE SUBSTATIONS AND 139,000 DISTRIBUTION SUBSTATIONS

737,000
SQUARE KILOMETRES OF NETWORK



35 YEARS THE AVERAGE AGE OF NETWORK ASSETS



1.38M
POWERPOLES – WHICH EQUATES TO 1.6 POWERPOLES FOR EVERY CUSTOMER

Essential Energy has responsibility for delivering electricity network services to more than 800,000 homes and businesses across 95 per cent of NSW and parts of southern Queensland.

With approximately 2,900 employees located across the State in over 100 local depots and regional offices, Essential Energy is one of the largest employers in regional NSW.

Essential Energy's operations are focused on achieving enhanced customer engagement, investing in best practice systems, processes and technology, and improving commercial capabilities to enable the business to operate safely and efficiently.

ESSENTIAL ENERGY'S OPERATIONS
The business is divided into three regions – the North Coast, Northern and Southern Regions – with network operations covering a range of diverse environmental and geographic conditions from sub-tropical areas in mid to northern NSW, through the alpine highlands of the Snowy Mountains, and out to the arid conditions in the west of the State.

Essential Energy regions, areas and locations

In the far west of the State, Essential Water, an operating division of Essential Energy, delivers water supply services to around 10,530 customers in Broken Hill, Sunset Strip, Menindee and Silverton, and sewerage services to around 9,270 customers in Broken Hill.

THE EVOLVING NETWORK

Essential Energy's network is evolving to take advantage of new opportunities offered by the increasingly dynamic energy sector while recognising the regulatory environment in which the business operates.

Key drivers for change include:

- the increasing pace of energy innovation; and
- customers requiring choice, control and efficiency to meet their energy needs.

In meeting customers' needs, Essential Energy has maintained its focus on:

- continuing to improve safety performance and culture;
- operating an efficient network business while adapting to major industry change;
- introducing best practice systems and processes to generate efficiencies;
- being commercial in all operations and activities; and
- being externally informed and customer focused.

A SNAPSHOT OF ISSUES IMPACTING THE ENERGY INDUSTRY

essential energy

TARIFF REFORM

MICRO-GRIDS

CUSTOMER CHOICE

FINKEL REVIEW

ENVIRONMENTAL POLICY

POWER OF CHOICE

DECLINING NETWORK VOLUMES

LARGE SCALE RENEWABLES

INCREASED REGULATORY SCRUTINY

GRID DEFECTION

SOLAR / PV

ENABLING DISTRIBUTED ENERGY RESOURCES

Medium to large scale embedded generation is a significant area of focus and growth for the business. Currently connected to Essential Energy's network are 10 hydro, six wind, six bio, four solar and three gas generators (medium to large scale) with a total output of approximately 750 megawatts (MW).

10 HYDRO GENERATORS

6 WIND GENERATORS

6 BIO GENERATORS

4 SOLAR GENERATORS

3 GAS GENERATORS

Over 130,000 residential and small business customers have small scale – up to 10 kilowatts (kW) – renewable energy generation systems, mainly solar, connected to Essential Energy's network.

REGULATORY ENVIRONMENT

Essential Energy is bound by the National Electricity Rules which are administered by the Australian Energy Regulator (AER).

The electricity distribution network revenue is determined by the AER in accordance with the *National Electricity Law* and the National Electricity Rules economic regulatory framework.

When making a determination, the AER determines the allowable annual revenue required by Essential Energy to recover the efficient costs of network investments and operations for five-year periods.

The final AER determination for Essential Energy for the current regulatory control period (2014-19) was released in April 2015. Following an appeal to the Australian Competition Tribunal and the subsequent referral to the Full Court of the Federal Court of Australia, the determination was set aside and has been remitted back to the AER. Essential Energy is committed to the remade 2014-19 determination to ensuring that it provides network pricing stability, predictability and transparency for customers. To provide pricing certainty for customers in the shorter term, Essential Energy and the AER have agreed to an undertaking for the next two years (2017-18 and 2018-19) based on current revenue and CPI.

SAFETY FOCUS

The safety of employees, contractors and the public is Essential Energy's number one priority.

Safety is targeted through comprehensive workplace health and safety programs, providing employees with the skills and training to complete their work as safely as possible. Public Safety is addressed through the Public Electrical Safety Awareness Plan (PESAP).

BATTERIES / STORAGE

RING FENCING

BIG DATA

CHANGING IR ENVIRONMENT

POLITICAL & COMMUNITY INTERESTS

INTERNET OF THINGS

GOVERNMENT POLICY CHANGES

ELECTRIC VEHICLES

PEER TO PEER TRADING

ACCC REVIEW OF RETAIL ENERGY

SMART METRES

essential energy

YEAR IN REVIEW

ELECTRICITY DISTRIBUTION BUSINESSES ARE UNDERGOING A SIGNIFICANT PERIOD OF CHANGE AS THEY SHIFT FROM ASSET MAINTENANCE TO AN INCREASED FOCUS ON ASSET MANAGEMENT IN RESPONSE TO THE RAPIDLY EVOLVING AND INNOVATING ENERGY MARKET. ESSENTIAL ENERGY HAS BEEN EMBRACING THIS CHANGE AND PLANNING FOR A FUTURE WHERE THE NETWORK SITS AT THE HEART OF THE ENERGY ECOSYSTEM, ENABLING CUSTOMER CHOICES

Essential Energy appointed a new Chief Executive Officer (CEO), John Cleland, in July 2016, and continued its path of transformation, based on four core objectives:

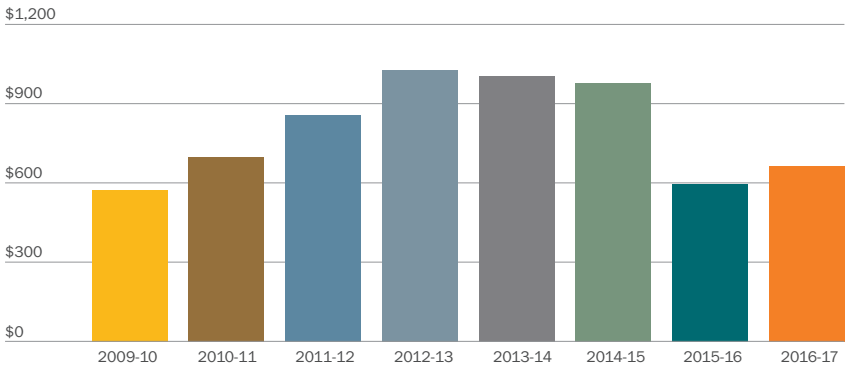
- continuous improvement in safety culture and performance;
- operate at industry best practice levels of efficiency, delivering best value for customers;
- deliver real reductions in customers' network charges; and
- deliver a satisfactory return on capital for shareholders.

AFFORDABILITY

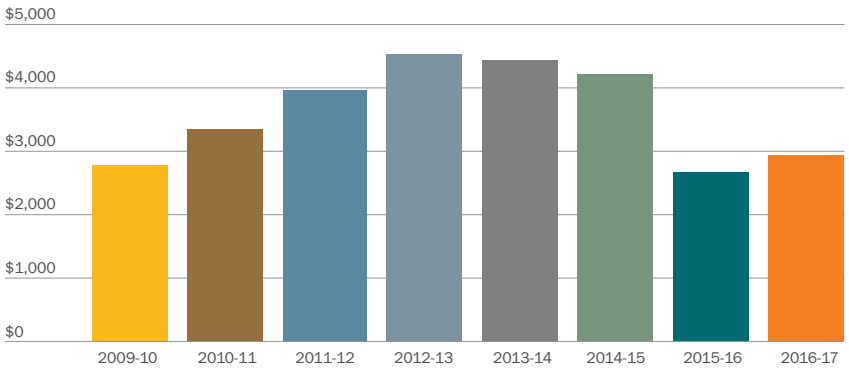
Customers clearly told Essential Energy that affordability and reliability continue to be key concerns – Essential Energy's focus remains on minimising charges and improving services.

In FY2016-17, the annual distribution use of system (DUOS) cost for a typical residential customer using 5 MWh was $665, and $2,964 for a business customer using 23 MWh – both approximately 35 per cent lower than FY2012-13 DUOS charges.

TYPICAL ANNUAL DISTRIBUTION USE OF SYSTEM COST (DUOS) FOR RESIDENTIAL CUSTOMERS USING 5 MWH PER ANNUM



TYPICAL ANNUAL DISTRIBUTION USE OF SYSTEM COST (DUOS) FOR BUSINESS CUSTOMERS USING 23 MWH PER ANNUM



AER REVENUE REDETERMINATION AND IMPACT ON CUSTOMER PRICING

The impact of the AER redetermination on pricing remains unclear. Essential Energy continues to work on minimising customers' distribution network charges via various initiatives, including effective and efficient workforce planning.

Essential Energy entered into a statutory pricing undertaking with the AER for FY2016-17 within the parameters set out in the set-aside 2014-19 revenue determination.

For FY2017-18 (and if required for FY2018-19), a further undertaking was agreed with the AER to contain annual increases in distribution revenue to CPI.

MANAGING THE NETWORK FOR THE LONG-TERM

The long-term management of Essential Energy's network, in line with customer expectations on the evolving energy mix and service outcomes, is central in the preparation for the next (2019-24) AER Regulatory Proposal.

The higher costs associated with operating a large and geographically dispersed network mean that Essential Energy has adopted a risk-based approach and program of targeted investment in assets.

To guide future investment decisions, Essential Energy has developed a framework to measure the costs, risks and benefits of capital investment decisions. Future investments are being assessed against this framework, considering both the likelihood and impacts of asset failures that may occur.

Further investment in technology will improve knowledge of current asset performance and future asset requirements. This includes investment in technologies designed to gather and process data on the condition of the network, the environment in which it operates, and its ability to meet customer demand. This will be used in conjunction with solutions that extend the useful life of assets, automate and improve repetitive processes, assist with physical tasks, reduce labour costs, and improve efficiency.

These improvements will assist Essential Energy to deliver greater value to customers through efficient network investment and operations to deliver a safe, affordable, and reliable electricity supply.

BUILDING THE FUTURE NETWORK

Released in early 2017, the *Finkel Review* and the *Electricity Network Transformation Roadmap* provided a strong framework for how Essential Energy needs to work in partnership with the industry and communities to bring about the network of the future. This includes delivering key benefits such as the utilisation of 'smart' grid services to manage peak demand and network constraints to reduce cumulative network expenditure and deliver a reduction in real network charges (i.e. adjusted to inflation) over the long-term.

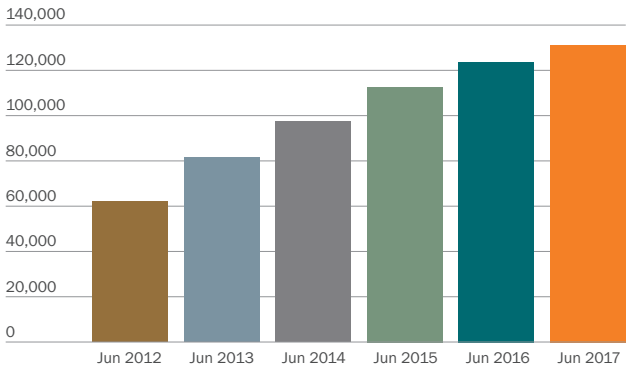
One opportunity currently being tested involves partnering with the NSW Mid North Coast community of Collombatti and industry leaders including ARENA and the University of Technology Sydney to actively trial opportunities in embedded generation, battery storage and peer to peer trading as an alternative to network augmentation. (*For more information on this trial see page 31.*)

Essential Energy is also investigating the use of microgrids and standalone power systems as an alternative to traditional grid connections. Several initiatives under development are aimed at providing individual customers with better power quality and reliability, and to allow the removal of under-utilised assets and achieve cost savings.

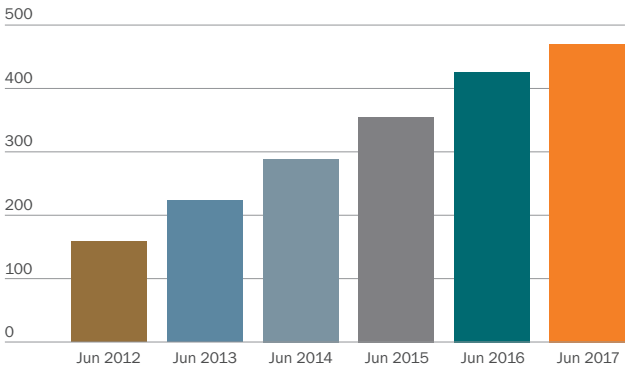
Implementation of these projects is expected to commence in the coming financial year.

The number of small embedded generation solar panel connections (<10 kW) to Essential Energy's network continues to increase, with 130,542 connections providing a potential 470.8 MWs to the network.

NUMBER OF SMALL GENERATION (<10 KW) SOLAR CONNECTIONS TO ESSENTIAL ENERGY'S NETWORK



CAPACITY OF SMALL GENERATION (<10 KW) SOLAR CONNECTIONS TO ESSENTIAL ENERGY'S NETWORK

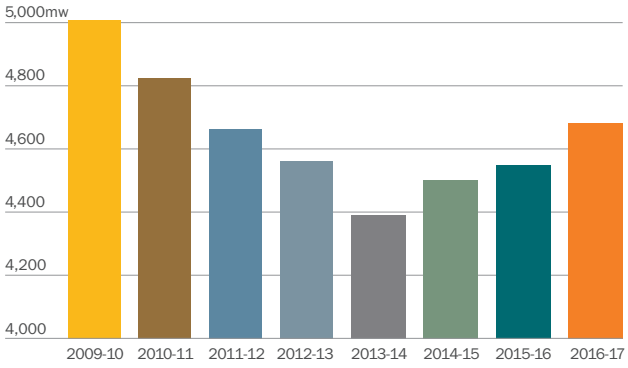


ENERGY CONSUMPTION

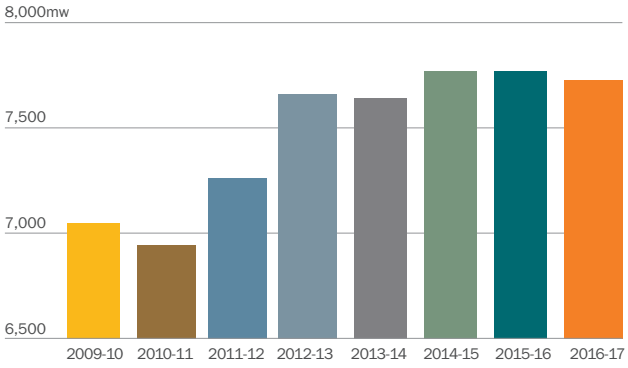
In FY2016-17, the total energy used by Essential Energy customers, including residential, industrial, and small and large businesses, was 12,474 MWs, an increase of less than one per cent on the previous year.

Peak demand levels rose to record highs of 2,396MWs in summer, and 2,327MWs in winter.

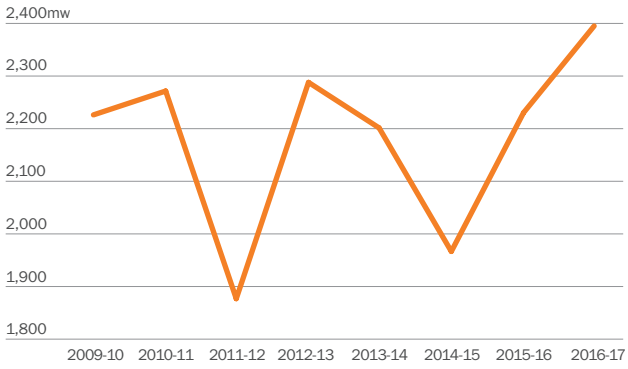
TOTAL RESIDENTIAL CUSTOMER CONSUMPTION



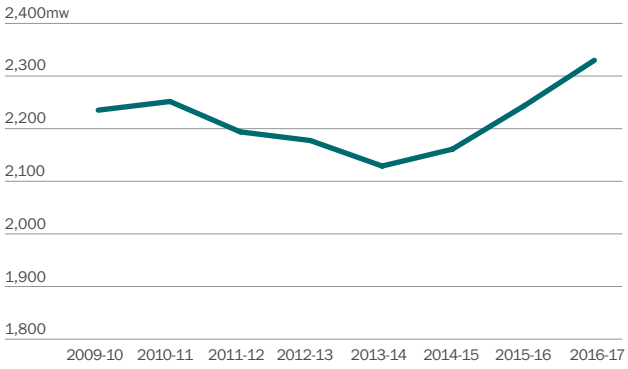
TOTAL BUSINESS CUSTOMER CONSUMPTION (SMALL AND LARGE BUSINESSES AND INDUSTRIAL)



PEAK SUMMER DEMAND (MW)



PEAK WINTER DEMAND (MW)



COMMITMENT TO SAFETY

Essential Energy experienced mixed safety performance results in the FY2016-17, recording 10 Lost Time Injuries (LTIs) against a target of five. The number of days lost improved by 31 per cent from the previous year, demonstrating a reduction in the overall severity of Lost Time Injuries reported.

The High Potential Incident Frequency Rate (HPIFR) was favourable to target and the Network Fatal Risk (NFR) Near Miss Frequency Rate (NMFR) also showed overall improvement (41 per cent) to the previous financial year results.

In FY2017-18, Essential Energy has expanded the definition of the HPIFR to include both NFR near misses and high potential incidents, resulting in an increased target. This combined measure will assist Essential Energy to continue its unrelenting focus on eliminating these high consequence, low frequency events, irrespective of the outcome of the incident.

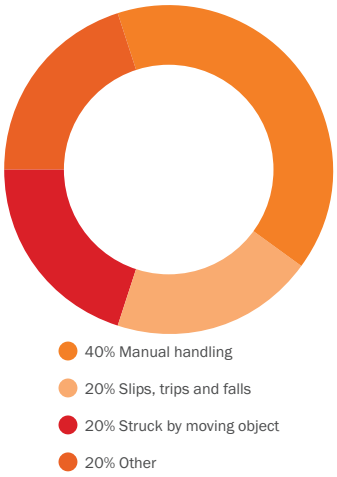
There were 678 Near Misses reported, 35 per cent below the targeted level of 1,044 for the financial year. Essential Energy will continue its focus on communications and other safety campaigns to keep reporting near misses as they provide valuable learning opportunities and insight into emerging safety risks.

FINANCIAL PERFORMANCE

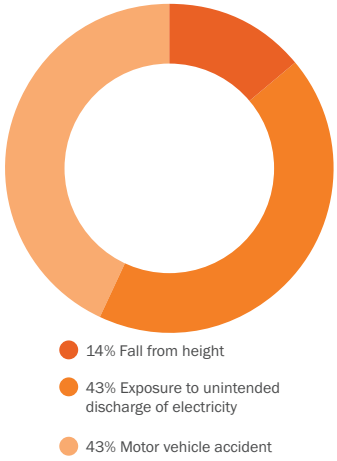
Essential Energy's earnings before interest, tax, depreciation and amortisation (EBITDA) for FY2016-17 of $750.0M was $75.8M (11.2 per cent) above the prior year. The net profit after tax of $50.0M is significantly above the $1.2M loss after tax for FY2015-16.

Following a significant reduction in allowable distribution revenue by the AER for the five-year 2014-2019 determination period (now set aside), Essential Energy focused on transforming operations to increase efficiency and effectiveness to reduce the cost of running the business. This continued into 2017 with further cost reductions achieved.

LTI CASUAL FACTORS FY16–17



HPI CASUAL FACTORS FY16–17



MEASURE	FY17 TARGET	FY17 ACTUAL	FY18 TARGET
Lost Time Injury Frequency Rate (LTIFR)	0.67	1.64	0.91
Total Recordable Injury Frequency Rate (TRIFR)	12.4	17.4	13.3
High Potential Incident Frequency Rate (HPIFR)	1.19	1.15	2.21
IPART Reportable Safety Incidents (Controllable)	12	17	15

RELIABILITY

The performance and reliability of Essential Energy's electricity network is tracked using two key indices – the System Average Interruption Duration Index (SAIDI) measures the average total minutes a customer is without power in a financial year, and the System Average Interruption Frequency Index (SAIFI) measures the average number of interruptions per customer for the year.

Essential Energy's SAIDI performance for FY2016-17 was 236 minutes and the SAIFI was 1.86 interruptions per customer.

SAIDI
236
MINUTES WITHOUT POWER

SAIFI
1.86
INTERRUPTIONS PER CUSTOMER

This was unfavourable to Service Target Performance Incentive Scheme (STPIS) targets based on historic average figures and resulted in a STPIS financial penalty.

This deviation was predominantly a result of higher than average weather activity. An indication of the above average weather activity was the fact that Essential Energy experienced a total of 10 Major Event Days, where typically it would expect to experience a total of four per year.

Management of network reliability was delivered through targeted network investment, regular vegetation management around powerlines, balancing community expectations, cultural and environmental considerations, and safety requirements.

Essential Energy also delivered Light-emitting Diode (LED) street lighting across many parts of the network, replacing inefficient streetlights with new energy efficient technologies. (*More information on page 31.*)

CUSTOMER SERVICE

This year, to expand and complement day-to-day engagement with customers and the community, and in preparation for the AER 2019-24 Regulatory Proposal, Essential Energy's Customer and Stakeholder Engagement team delivered a comprehensive and ongoing Customer and Stakeholder Engagement program.

The program is founded on an approved Stakeholder Engagement Framework (published on the Essential Energy website) and an 'Outside In' approach that implements the International Association of Public Participation (IAP2) methodology so that customers influence Essential Energy's future plans and all stages of network strategy and project delivery meets the needs of customers.

This approach has helped inform the business about what customers value, need and expect from Essential Energy now and into the future, and provided critical information for decision-making and business planning. (*More information on page 42.*

TECHNOLOGY

In recent years. Essential Energy's drive to contain costs and keep downward pressure on network charges to customers saw reduced investment in technology and a technology 'lag' in our core systems had emerged. In FY2016-17, the business commenced a program to address this trend and implemented a program of significant advances in technology for field employees. The introduction and adoption of mobile technology to provide immediate access to information for field crews has achieved work efficiencies and allowed employees to perform their jobs better and smarter.

A deliberate focus on delivering solutions, not just systems, is driving Essential Energy to embrace innovative technology opportunities that provide operational efficiencies and cost savings.

Innovations in new technologies have seen the business focus on the:

- delivery of mobile device solutions for field based crews;
- capability uplifts in adopting the latest technology for tools;
- deployment of human-centric technology; and
- integration and support of innovative operational tools, such as drones, eForms, and mobile applications (apps).

Future investment plans for technology are focused on lifting capability and improving efficiency across both field and corporate areas. This future investment strategy will deliver systems based improvements in the following areas:

- finance;
- asset maintenance;
- human resources;
- data analytics;
- customer engagement;
- billing and meter data management;
- warehousing and distribution; and
- procurement and supplier collaboration.

MOBILITY DEVICES

Essential Energy's highly mobile workforce has benefited from, and enthusiastically adopted, the use of mobile devices. The deployment of iPads and iPhones to 1,700 employees during this financial year has provided crews with immediate access to IT solutions from locations across the business's far-flung and diverse network footprint. This has in turn contributed to more efficient and cost-effective operations.

The deployment of apps and eForms, and the development of a Field Portal, has enhanced the device roll-out and returned productivity improvements, increasing the amount and accuracy of data collected from the field.

This immediate access to information and data provides improved efficiencies and economies, feeding into a clearer and more accurate understanding of completed versus planned work, what work remains outstanding, and the costs of completing assigned tasks and activities. (*More information on this roll-out on page 28.*)

INDUSTRIAL RELATIONS

On 1 December 2016, a Full Bench of the Fair Work Commission (FWC) handed down the *Essential Energy Workplace Determination 2016* covering the majority of Essential Energy employees.

Separate negotiations for the *Far West (Electricity) Enterprise Agreement 2016* and the *Essential Water Enterprise Agreement 2016* were both successfully concluded in 2016, with the terms of both agreements being approved by the FWC.

The *Essential Energy Workplace Determination 2016* and the *Essential Energy Far West (Electricity) Enterprise Agreement 2016*, both have a nominal expiry date of 30 June 2018 and provide for a single 2.5 per cent pay increase over three years (0.83 per cent per annum), in addition to significant changes to consultation, dispute resolution, outsourcing, and redundancy clauses. These changes have already delivered improvements in productivity, efficiency, and workplace flexibility in the FY2016-17.

The *Essential Energy Workplace Determination 2016* introduced a number of new provisions which allow Essential Energy to effectively manage the size and location of its workforce. This includes a streamlined process for consultation and the capacity to make positions involuntarily redundant where such roles are no longer required on operational grounds.

The *Essential Water Enterprise Agreement 2016* has a nominal expiry date of 27 October 2019.

ESSENTIAL ENERGY'S PLANS AND PRIORITIES

In FY2016-17, Essential Energy and the electricity distribution industry in general, embarked on a long-term program of significant change.

The industry is expected to experience more change over the next 10 years than over the last several decades combined, as networks transform from being largely one directional in delivering electricity to customers, to complex, interconnected, multi-dimensional energy eco-systems. The industry is becoming less reliant on centralised generation from the burning of fossil fuels and is moving towards more Distributed Energy Resources (DER) from renewable sources, such as solar and wind. The DER impact on network volumes will be monitored carefully in future years.

Customers increasingly have more choice in the way they source and use their electricity and Essential Energy will address this to ensure the business remains relevant in the future.

Following the appointment of CEO, John Cleland in July 2016, and development of Essential Energy's four core objectives, a suite of strategic initiatives was developed. Successful delivery of these initiatives will enable the business to realise the core objectives that were identified, and position Essential Energy favourably for the future.

The outcomes and activities associated with the four key initiatives are:

BEST PRACTICE PEOPLE, SYSTEMS AND TECHNOLOGY

OUTCOMES

- productivity gains and costs kept under control;
- a smarter business that knows its customers and engages with them;
- updated technology and more accurate data, leading to improved decision making; and
- technology that meets customer and stakeholder needs.

ACTIVITIES

- implement a Workforce Productivity program;
- implement a Mobile Workforce Management system, including Field Mobility Solution;
- implement an Enterprise Asset Management system;
- implement an Enterprise Resource Planning system; and
- implement best practice systems to improve the customer experience and drive service efficiencies.

DEVELOP COMMERCIAL SERVICES

OUTCOMES

- tap into emerging market opportunities; and
- support and promote renewable energy solutions, generating income for the business.

ACTIVITIES

- conduct an assessment of current and emerging market opportunities across Essential Energy's customer and geographic area;
- document sources of sustainable competitive advantage for both existing and new market opportunities;
- build the tools and capability to quickly screen opportunities and apply the analytical rigour to assess and prioritise; and
- design and develop the necessary organisational capability once market priorities are established.

ESSENTIAL ENERGY'S KEY INITIATIVES FOR THE NEXT THREE YEARS

SAFETY EXCELLENCE
- Enabling safety programs
- Health and well being framework

Best practice systems, technology and processes
- Core systems review
- Working Mobile
- Enterprise asset management
- Self-service customer data
- Data integrity and integration of network technology

Commercially capable people
- Commercially informed
- Enhanced employee capability, confidence and engagement
- Individual actions aligned to organisational outcomes
- Customer-centred culture

Customer connected
- Customer segmentation and data utilisation
- Brand development for new opportunities
- Enhanced customer strategy and engagement
- Enhanced stakeholder relationships

Develop commercial services
- Establish capability to scan the market and assess opportunities
- Position to pursue growth and manage risk as viable market opportunities emerge

MARKET AND REGULATORY REFORM
- Power of Choice
- AER Submission
- Ring Fencing Guidelines

IMPROVING ASSET AND RISK MANAGEMENT
- Asset investment prioritisation system
- Enterprise Risk Framework
- Better projects and programs

CUSTOMER CONNECTED

OUTCOMES
- gain a sharp insight into how customer needs are changing in an evolving energy ecosystem;
- recognition as an energy solutions provider of choice, able to take advantage of new opportunities;
- be a key player in the regulatory and policy environment, optimising stakeholder relationships; and
- leverage customer data to enhance services and commercial opportunities.

ACTIVITIES
- leverage communication channels to enhance the brand in existing markets and position Essential Energy in emerging energy markets;
- enhance customer and market segmentation to provide the data required to pursue targeted commercial opportunities;
- implement best practice customer strategy to create a customer focused culture; and
- improve relations with regulatory and policy stakeholders.

COMMERCIALLY CAPABLE PEOPLE

OUTCOMES
- employee capability, confidence and engagement;
- a commercial and customer focused culture – safe, effective, and efficient; and
- the right people in the right place making the right decisions.

ACTIVITIES
- enhance leadership capability, accountability, and business acumen at all levels;
- align the workforce with changing conditions and future business needs;
- align performance and succession management to future capabilities and strategic outcomes; and
- implement a change program to embed a commercial and customer focused culture.

ESSENTIAL ENERGY 2016/17 COMPANY SCORECARD

KEY RESULT AREAS	MEASURES	TARGET	ACTUAL
SAFETY			
Safety outcomes	Lost Time Injury Frequency Rate (LTIFR) – rolling 12 month	≤0.67	1.64
	Total Recordable Injury Frequency Rate (TRIFR) – rolling 12 month	≤12.4	17.4
	High Potential Incident Frequency Rate (HPIFR) – rolling 12 month	≤1.19	1.15
	IPART Reportable SEWA Incidents – Controllable	≤12	17
	Contractor Lost Time Injuries (CLTI)	Monitor only	7
CUSTOMER AND COMMUNITY			
Valued by our community	Customer Satisfaction Index (Q)	≥80	84.5
	Reportable Incidents – NECF Type 1 breaches	≤5	4
	Reportable Environmental Incidents – Controllable	≤2	4
Reliable and sustainable network	System Average Interruption Duration Index (SAIDI) normalised – minutes	≤213	236
FINANCIAL			
Financial outcomes	Essential Energy – YTD STPIS Revenue / (Penalty) Impact – $M	≥0	(11)
	Operating Expenditure (OPEX) – $M	≤552	423
	Net Profit After Tax (NPAT) – $M	≥(101)	50
	Additional Borrowing Requirements (operating cash flow less investing cashflows) – $M	≥(300)	157
BUSINESS PROCESS			
Network Plan delivery	Capital Delivery – percentage of agreed milestones completed	≥95%	97%
	Maintenance Delivery – percentage of agreed milestones completed	≥98%	102%
	Actual vs Target Network Capital Expenditure – %	≤95%	102%
	Defect Backlog – percentage of defect tasks overdue – %	≤5%	12.3%
Governance and risk	Corrective Actions > 30 days overdue – Safety, Audit and Risk (Q)	0	0
BUSINESS ENABLERS			
Safe, capable, motivated employees	Absenteeism – Sick days per person – 12 month rolling average	≤5.70	5.13
	Gross to Base (GBR) Ratio ≥ 1.3	Monitor only	534

NEXT YEAR – PLANS AND PRIORITIES

Essential Energy's focus for FY2017-18, is to deliver a sustainable network for the future that continues to grow in customer and commercial capabilities through the implementation and continuous evolution of the Strategic Plan.

Essential Energy will:

- continue to improve safety culture and performance, and technology, systems and processes in order to improve levels of efficiency, customer satisfaction and compliance;
- improve leadership skills and ensure employees are more commercially capable, so that they make better commercially informed decisions;
- improve engagement with, and understanding of, customers and stakeholders and look to identify, assess, and develop new commercial opportunities in the emerging energy eco-system; and
- continue to improve asset and risk management practices by ensuring effective risk management that delivers value for customers at an affordable cost.

The Strategic Plan has been developed to assist Essential Energy in meeting a number of key regulatory and market reform requirements in FY2017-18. Principal among these are the Power of Choice requirements due to commence on 1 December 2017, and the Ring Fencing requirements which commence on 1 January 2018.

The business must complete the intensive program of stakeholder engagement to inform the draft 2019-24 Regulatory Proposal, due to be submitted to the AER in late January 2018, with the final determination taking effect from 1 July 2019. Simultaneously, Essential Energy must also work closely with the AER to finalise the 2014-19 determination and provide customers with clarity and certainty.

These improvements will help Essential Energy achieve the best outcomes in safety, network performance, service delivery and business sustainability. They will also ensure that the business continues to add value to the network by remaining:

- **Responsive** – meeting customer expectations and responding to their needs 24/7;
- **Enabling** – facilitating the new energy mix, new technologies and new energy economics;
- **Local** – living and working in the communities Essential Energy serves and introducing NSW customers to new opportunities presented by the global energy evolution; and
- **Enduring** – managing the network efficiently today and preparing it for the future.

RESPONSIVE

DELIVERING INDUSTRY BEST PRACTICE LEVELS OF SERVICE AND EFFICIENCY TO MANAGE THE NETWORK TODAY AND PREPARE IT FOR THE FUTURE

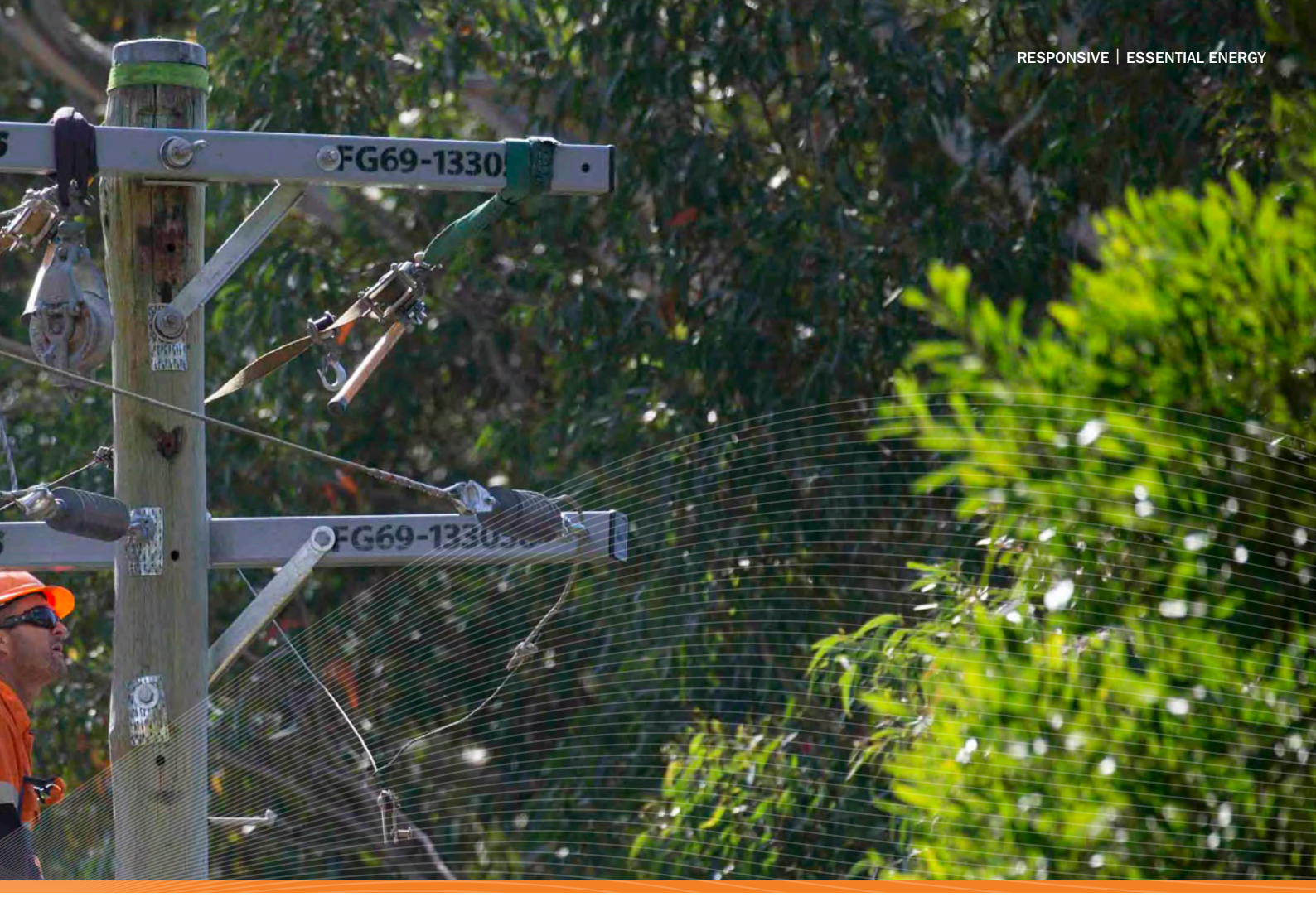
In FY2016-17, the impact of severe weather conditions was felt across Essential Energy's network, challenging employees and systems to respond safely and quickly to restore power to impacted communities.

Conditions included severe storm, heatwave, flooding and bushfire events, and often saw employees at the heart of emergency efforts in extreme situations.

Across Essential Energy's footprint, 14 Natural Disaster Declarations were recorded.

Significant events included:

- **22 July 2016** – storms and strong winds brought down powerlines in Orange, Bathurst, Oberon and Blayney with the loss of supply to 1,000 customers;
- **22-25 July 2016** – storms left more than 3,600 customers without power in more than 10 communities;
- **4 October 2016** – major storms, widespread flooding and intense winds affected 20 towns and 13,000 customers across the Southern Region;
- **13 January 2017** – ACTEWAGL Canberra: crews from three depots were dispatched to areas outside of Essential Energy's footprint to assist with restoration efforts following a severe storm and network damage;
- **18 January 2017** – a major storm affected the Mudgee community with crews from seven depots assisting to restore service for more than 8,000 customers;
- **20 January 2017** – SA Power: six crews were dispatched to locations outside Essential Energy's footprint to assist with restoration efforts following severe storm damage in SA;
- **30 January 2017** – storms and strong winds affected supply to 10,143 customers in Bourkelands, Kooringal, Tatton, Tolland, Lloyd, Lake Albert, Gregadoo and Turvey Park;
- **10-11 February 2017** – heatwave conditions across all regions led to the highest demand days for System Control;
- **11 February 2017** – severe storm and flooding led to 60,000 customers without power in the Riverina, Murrumbidgee and SW Slopes areas;
- **12 February 2017** – the Sir Ivan Bushfires impacted over 1,550 customers in the Warrumbungles community;
- **12 February 2017** – the Pappinbarra fires impacted 400 customers west of Wauchope at Pappinbarra, Bellangry and Byabarra;
- **28 March – 7 April 2017** – Cyclone Debbie, Queensland: more than 100 employees were dispatched to locations outside Essential Energy's footprint to assist with restoration efforts following flooding and cyclone damage; and
- **30-31 March 2017** – in the wake of Cyclone Debbie, Essential Energy's northern communities around the Tweed River catchment and Lismore experienced widespread flooding and network damage.



LOOKING CLOSER – ESSENTIAL ENERGY'S RESPONSE TO RESTORE SERVICE TO CUSTOMERS

OCTOBER 2016

On 4 October 2016, Essential Energy's Southern Region experienced a major storm event that brought widespread flooding and damage to many regional communities.

When the intense storm front hit, wind speeds of more than 100 km/hour were recorded, causing extensive damage to the electricity network. At the height of the storm activity, around 13,000 customers across the region were affected by power outages, including customers in up to 20 towns and surrounding areas.

Damage to the network included fallen trees over powerlines, broken wires and damaged network equipment including power poles. Compounding the event was the heavy rain which triggered localised flooding and impacted Essential Energy's ability to access network faults and damage. Responding to the challenging conditions, crews worked through the night to make repairs safely, with many employees cutting short their long weekend to help their community and workmates.

In October 2016, a major storm resulted in network damage in Cootamundra in Essential Energy's Southern Region.

In February 2017, Essential Energy field employees worked to restore power following the devastation of the Pappinbarra and Sir Ivan bushfires.

January – February 2017

The first six weeks of 2017 presented Essential Energy with an immense challenge as heatwaves, storms and flooding impacted areas across the network footprint. Employees focused on restoring power as safely and as quickly as possible in extreme conditions.

- In January, crews from the Southern Region were called on to travel outside the network area to assist with large storm clean-ups around Canberra, and later in South Australia. Efforts to assist both ActewAGL and SA Power with their restoration work received commendations from these organisations for the speed of response, the volumes of work completed in short periods of time, and Essential Energy crews' level of safety awareness on the ground.
- On 10-11 February, heatwaves across the State led to forecasts of what would have been the largest electricity demand day in NSW history. Essential Energy's System Control team managed the network demand issue and, along with other distributors, avoided the potential situation of demand exceeding generation capacity. The response team worked with the Australian Energy Market Operator (AEMO) and TransGrid as part of a State-wide coordinated response, as well as with major customers.
- On 11 February, the Southern Region responded to the impact of a severe storm front which passed through parts of the region. Over three days, communities in the Riverina, Murrumbidgee and South West Slopes area were heavily impacted, with crews restoring services to around 60,000 customers. Crews worked in challenging conditions to deal with a range of faults caused by trees coming into contact with powerlines, fallen powerlines and damaged network equipment, including a number of pole failures.
- On 12 February, exceptionally high temperatures continued across the State, with many sites recording daily temperature records over the preceding three days. Following the record-breaking 44 degrees centigrade NSW average set on the day previous, crews in the Northern Region faced the devastation caused by the Sir Ivan Bushfire in the Cassilis, Coolah, Leadville and surrounding areas.

  Causing significant damage to the electricity network, the bushfires impacted services to around 1,550 households and businesses.

  More than 150 Essential Energy employees from 24 depots across the Northern and Southern Regions, along with a fleet of around 45 elevated work platforms (EWPs) and 16 crane borers, earthmoving and transport companies, Ausgrid representatives, and many office-based Essential Energy employees working behind the scenes, worked to restore services as quickly and safely as possible. More than 280 power poles were replaced across the fire ground, with 80 replaced in four hours.

In March 2017, Essential Energy field crews assisted with restoration in Queensland, following the extensive damage caused by Cyclone Debbie.

March 2017

Making landfall on 28 March, Cyclone Debbie brought heavy network damage and flooding to North Queensland.

Essential Energy deployed more than 100 field staff into Queensland to assist with their restoration efforts.

Travelling south, the then ex-tropical Cyclone Debbie merged with a cold front moving up the north coast of NSW, triggering heavy rainfall in the Tweed Valley and Northern Rivers areas.

The effects were felt in many towns in Essential Energy's northern footprint, with significant flooding in Tweed Heads, Murwillumbah, Lismore and many locations in the Northern Rivers. Seventy field crew that had been mobilised from the North Coast Region to assist in Queensland, were blocked by floodwaters and redirected back to assist with the extensive supply restoration required on the network following the flood damage.

In both Queensland and NSW, Essential Energy teams demonstrated the strength of the business and the flexibility and dedication of the workforce. Their positive, collaborative, professional and community-minded approach was evident as crews worked in extremely difficult conditions to make sites safe and restore power.

MAJOR PROJECTS COMPLETED DURING FY2016-17

The below list is a sample of projects completed during the 2016-2017 financial year.

DESCRIPTION	PRE FY16-17 Inc overheads (direct project $)	2016-2017 Inc overheads (direct project $)	PROJECT COST	COMPLETION DATE	COMMENTS
Cobar - CSA zone substation	$4,837,102	$366,624	$5,206,393	Jun-17	New 11kV Switchboard
Dorrigo - zone substation	$588,834	$1,716,724	$2,405,356	Jun-17	Zone substation replacement and refurbishment
Dubbo - Nyngan pole top refurbish	$1,709,798	$54,709	$1,764,507	Mar-17	Pole top refurbish 132kV feeders 943 and 9GU
Junee - zone substation	$5,796,024	$409,245	$6,205,269	Dec-16	Associated zone substation works for new 132kV line Wagga Wagga to Junee
Kyogle - zone substation	$764,807	$1,965,987	$2,738,765	Jun-17	Zone substation refurbishment, including 66kV CB 5K1 and one set of CTs (ASEA type)
Leeton - zone substation	$5,139,086	$185,707	$5,361,751	Jun-17	Zone substation reconstruction
Orange South - zone substation	$4,033,291	$8,784	$4,042,150	Sep-16	Zone substation augmentation

MAJOR PROJECTS IN PROGRESS DURING FY2016-17

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

DESCRIPTION	PRE FY16-17 Inc overheads (direct project $)	2016-2017 Inc overheads (direct project $)	TOTAL COST TO DATE Inc overheads (direct project $)	ESTIMATED TOTAL DIRECT COST	ESTIMATED COMPLETION DATE	COMMENTS
Bathurst – zone substation	$26,875	$20,557	$47,432	$3,400,000	Jun-18	66/11kV zone substation switchboard refurbishment and replacement
Bulahdelah – zone substation	$258,887	$266,340	$525,227	$3,515,844	Jun-18	33/11kV zone substation rebuild
Bullocks Flat – zone substation upgrade	$184,735	$233,277	$418,012	$4,440,000	Nov-18	Upgrade protection, fences, earthing, bunding and install 33kV cap bank
Cooma – zone substation	$605,011	$2,976,981	$3,581,993	$6,400,000	Oct-17	66/11kV zone substation construction
Grafton North	$152,720	$1,435,591	$1,588,312	$3,300,000	Jan-18	Install new 11kV switchboard and building
Marulan South – zone substation	$935,489	$2,014,575	$2,950,065	$4,400,000	Sep-17	Zone substation reconstruction
Narrabri – zone substation	$128,491	$945,064	$1,073,555	$3,800,000	Oct-17	Replace 22kV bulk oil circuit breakers with a switchboard
Nevertire – zone substation	$1,683,892	$950,492	$2,634,385	$3,630,000	Sep-17	Zone substation refurbishment – replacement and refurbishment of HV equipment
Nyngan – 132 kV zone substation	$4,276,880	$434,543	$4,711,424	$4,810,000	Sep-17	Zone substation refurbishment and reconfiguration of zone substation
Nyngan – 132kV network reinforcement	$2,390,350	$3,608,328	$5,998,678	$8,400,000	Sep-17	Install DVARs on the Nyngan Network
Nyngan-Cobar CSA pole top refurbish	$1,912,963	$555	$1,913,518	$4,200,000	Oct-17	Pole top refurbish 132kV feeders 946_1 and 946_2
Orange North – zone substation	$766,438	$732,571	$1,499,009	$3,700,000	Nov-18	Rebuild of the existing TransGrid 66kV busbar – Stage 2
Tumut – zone substation	$54,105	$577,203	$631,309	$4,700,000	Nov-18	Zone substation replacement and refurbishment
Wagga – Morrow St		$16,364	$16,364	$5,100,000	2019	66kV GIS circuit breakers
West Gulgong – zone substation	$222,901	$222,608	$445,509	$4,400,000	2019	New zone substation 66/22kV 10/16MVA

NATIONAL ENERGY CUSTOMER FRAMEWORK (NECF)

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

In FY2016-17, Essential Energy recorded four, Type 1 breaches. Of these, three incidents involved customers registered as requiring life support equipment not being provided with the required four business days' written notification of a planned power outage. No customers suffered any ill-effects as a result of the breaches.

Essential Energy maintains a strong ongoing commitment to improving customer service levels and, more importantly, customer safety as defined by the NECF obligations.

During FY2016-17, in response to operational issues and ongoing work, Essential Energy focussed its primary NECF efforts on life support customers. By partnering with energy retailers, the business 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.

Essential Energy encouraged retailers to review their own procedures to assist life support customers, ensuring registrations remain current. As part of this initiative, the business communicated with 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 Essential Energy's control, such as weather and wildlife.

ESSENTIAL WATER

The three-year drought, that saw Menindee Lakes at record low levels and local reservoirs only holding emergency storages of water supplied from the Darling River, finally broke in July 2016. Significant flows along the Darling River restored water storages at Menindee, and rainfall events up until December resulted in intakes to Broken Hill's local reservoirs.

Water restrictions were reduced from Level 3 to Level 1 on 29 August 2016, and restrictions were removed on 9 December 2016.

Operation of the NSW Government-funded reverse osmosis plant in Broken Hill meant that while raw water salinity for Broken Hill reached 2,300EC (Electrical Conductivity) at the Stephen's Creek reservoir terminal storage, residential treated water salinity only reached a maximum of 1,025EC and averaged 610EC for the financial year. These figures are well within the Australian Drinking Water Guidelines.

Broken Hill was supplied with water from the Darling River until September 2016, when the source of supply reverted to the Stephen's Creek Reservoir until January 2017, and then after reverted to the Darling River until the end of the financial year.

Menindee, located on the Darling River and without a desalination plant, was supplied from a local bore of relatively low EC until August 2016, when fresh flows along the river permitted source of supply to revert to the river.

At the end of FY2016-17, storage levels were:

- Imperial Lake – 111 megalitres (2 per cent);
- Stephen's Creek Reservoir – 80 megalitres (<1 per cent);
- Umberumberka Reservoir – 223 megalitres (3 per cent); and
- Menindee Lakes – 769.1 gigalitres (44 per cent).

ESSENTIAL WATER FINANCIAL PERFORMANCE

Essential Water's earnings before interest and tax (EBIT) was $2.6M against a target loss of $5.8M.

Essential Energy invested $5.6M on water network capital programs in 2017 and an additional $15.2M was spent on water network maintenance programs.

Homes and businesses connected to the Essential Water network are supplied through approximately 200km of pipelines and mains, and around 91 per cent of the customer base is residential. Consumption for this group totalled 2,309 megalitres, up 3.3 per cent from 2,235 megalitres in FY2015-16.

Raw water customers consumed 826 megalitres, an increase of 33 megalitres (4.2 per cent) from FY2015-16.

Highlights of Essential Water's works program included:

- replacement of 946 metres of water reticulation pipeline;
- repair of 296 customer water services;
- replacement of 576 metres of sewer main;
- repair of 383 sewer connection blockages; and
- cleaning and rodding 23.5km 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 a project to 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.

On 21 November 2016, the NSW Minister for Lands and Water, announced that WaterNSW would be responsible for the construction and ongoing maintenance of the pipeline.

Umberumberka Reservoir in June 2016.

LIDAR imagery is used to identify areas of potential bushfire risk.

BUSHFIRE RISK MANAGEMENT

Essential Energy has in place a range of measures to minimise the risk of bushfires across the network, including managing operations in a safe and responsible manner to reduce the likelihood of bushfires, engaging with relevant agencies and fire authorities, and implementing technologies to mitigate this risk.

The business continues to investigate new initiatives and monitor existing programs associated with improving bushfire risk management, including:

- investigation of fire risk management technologies including:
  - devices attached to power poles which detect fires and alert agencies;
  - Powerline Fault Anticipation: electronic systems which measure the health of a powerline through wavelength signatures and detect potential faults before failure of the network; and
  - industry leading research and implementation of Light Detection and Ranging (LIDAR) technology to improve vegetation management.
- bushfire audits – IPART conducted bushfire audits of the NSW network operators and these findings, coupled with Essential Energy's own internal audit findings, have identified minor improvement opportunities which are currently being implemented; and
- NSW Rural Fire Services (RFS) relationship – the business maintains an ongoing relationship with the RFS to better manage and understand fire risks. Joint activities in 2016-17 included:
  - participation in RFS Bush Fire Management Committees across the State in 21 designated fire districts;
  - sharing information: the RFS has provided Essential Energy with access to its fire information system (ICON), sharing details on active fires and access to four-day fire weather outlooks and ratings;
  - targeted briefings: in October 2016, staff from the RFS headquarters provided briefings on the fire season outlook to Essential Energy's Bushfire Risk Assurance Panel members including senior managers;
- continued development and implementation of new fire risk modelling for powerlines using the Phoenix Rapid Fire system developed by University of Melbourne; and
- participation in industry related bushfire mitigation meetings such as the Utility Arborist Association of Australasia conference in Canberra.

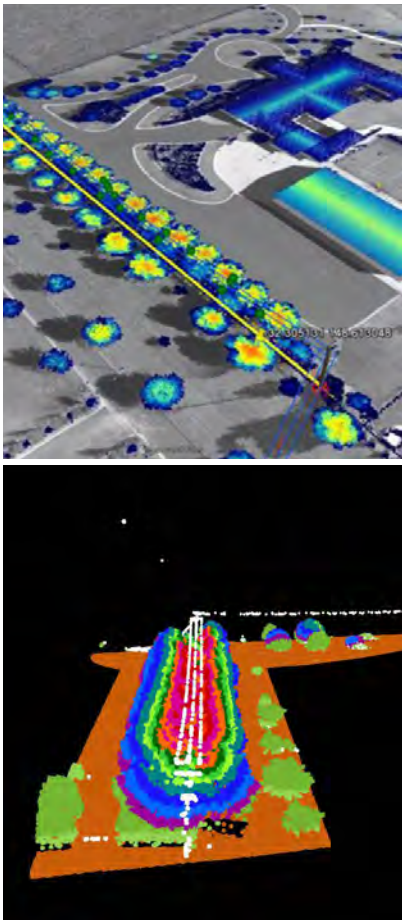
VEGETATION MANAGEMENT

In FY2016-17, Essential Energy's programs to manage vegetation around infrastructure produced improving results, with approximately two-thirds of the footprint now operating under contract to specialist vegetation management service providers. These contracts operated efficiently and safely to contribute to maintaining vegetation clearances around Essential Energy's assets.

The management of vegetation over the remaining areas comprises internal management of vegetation in the far west of the State, and an area in the southern and central part of the State for which a contract is expected to be awarded in late 2017.

Prioritising customer service expectations while supporting more efficient operations has led us to successfully trial 'Contract Live Line' vegetation cutting this year. Further implementation of this approach will be reviewed following a three-month pilot program and, if implemented more broadly, is expected to reduce the number of planned outages for customers and enable internal resources to focus on prioritised electrical infrastructure works.

Utilising innovation to assist with vegetation management has seen Essential Energy employ LiDAR across 46 depots. This has allowed the business to accurately determine the distance of vegetation from electrical assets and enabled resources to be allocated to priority vegetation clearing. Noting the efficiency and effectiveness of LiDAR, this program will be expanded to cover 96 depots in FY2017-18.



Two LIDAR images of the same location showing a Classified Point Cloud of a vegetation incursion: the first is overlayed onto Google Earth; the second is generated from the LiDAR program.

FLEET

In FY2016-17, the Fleet Service team focused on consolidating the gains achieved in the previous year's rationalisation program by targeting fleet utilisation. The aim was to increase average utilisation of fleet by at least three per cent; the actual increase achieved was 3.6 per cent.

The fleet replacement program was reactivated with the primary emphasis on implementing consistent replacement cycles. This is critical to optimising the fleet age profile and smoothing the capital program over the coming years and resulted in the replacement of 270 vehicles across the business. Following the identification of a number of significant fleet issues, the business has commenced a program of work to ensure fleet compliance and fitness for purpose for requirements.

The replacement program included embracing emerging technologies by introducing Plug-in Hybrid Electric Vehicles (PHEVs) to the general pool. In the coming financial year, Essential Energy aims to achieve a passenger fleet consisting of 10 per cent PHEV.

Over the year, continued efficiencies helped to achieve financial results that were $7M favourable to budget.

ASSET INSPECTIONS

Essential Energy inspected more than 275,000 poles during FY2016-17, representing 93 per cent of the inspection target.

Essential Energy's 1.38 million poles are inspected over a four, five and six-year cycle, across challenging and diverse terrain that presents many accessibility issues for employees and service partners.

POWER OF CHOICE

Substantial reforms to the National Energy Market are underway following recommendations to the State and Federal governments by the Australian Energy Market Commission's (AEMC) Power of Choice review. These reforms support the electricity market in meeting customer needs over the next 15 to 20 years, providing customers with more information, choice and control over their energy bills.

On 26 November 2015, the AEMC made a final rule determination that will open up competition in metering services and give consumers more opportunities to access a wider range of services.

This final determination sets out significant changes to the National Electricity Rules (NER) and National Energy Retail Rules (NERR) in relation to the provision of metering services and will facilitate:

- a market-led approach to the roll-out of smart meters;
- customer driven uptake of technology through their choice of products and services; and
- innovation and promotion of investment in smart meters.

This change has far-reaching consequences for Essential Energy and a dedicated internal project team is engaging with stakeholders and building the system and process changes required to ensure the business is market compliant when the new regulations are expected to commence on 1 December 2017.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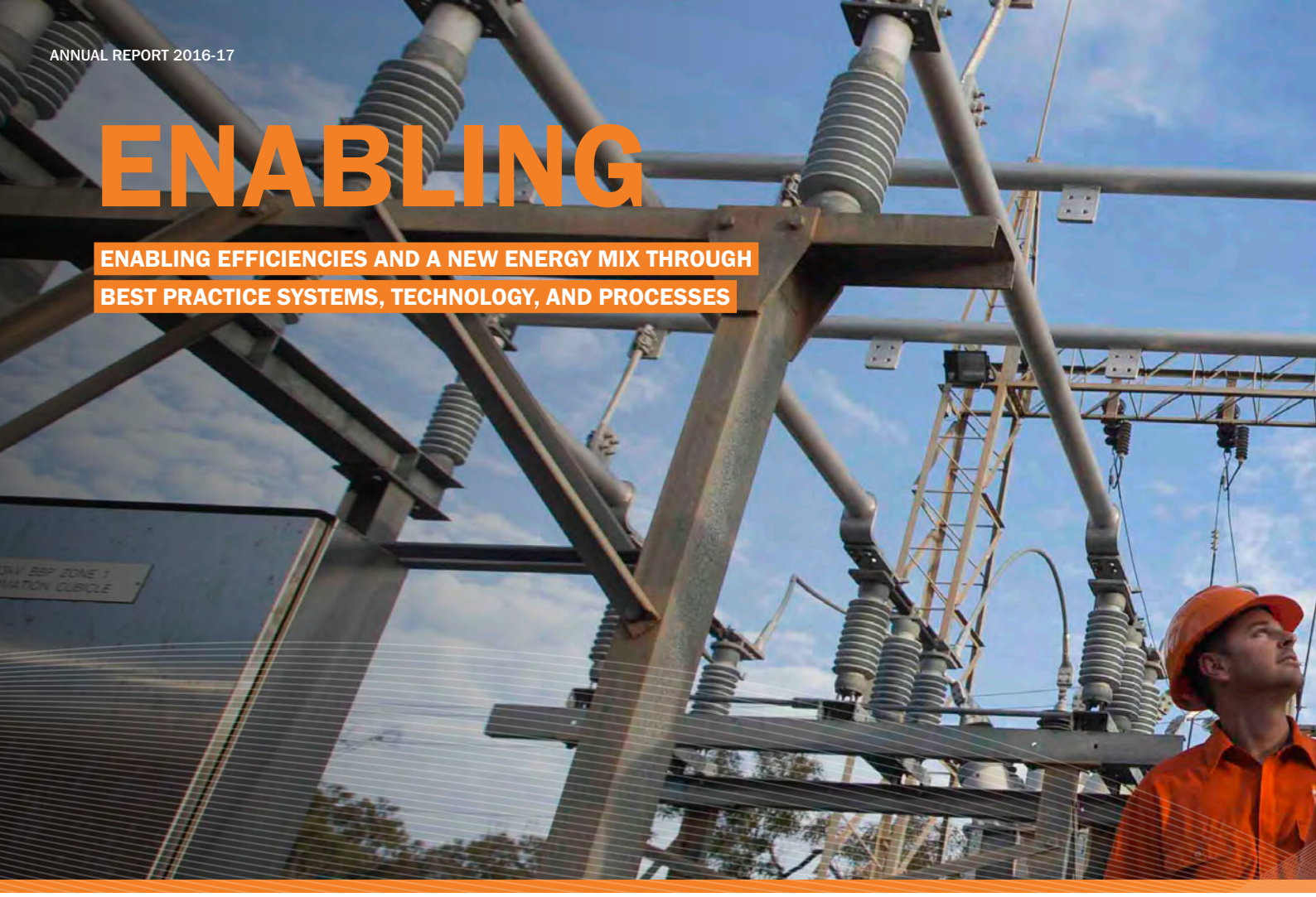
ENABLING

ENABLING EFFICIENCIES AND A NEW ENERGY MIX THROUGH BEST PRACTICE SYSTEMS, TECHNOLOGY, AND PROCESSES



NEW FIELD TECHNOLOGY

One of Essential Energy's key technology initiatives was the roll-out of iDevices to 1,700 field employees in February 2017.

Offering immediate access to information and work processes, field employees embraced the use of iPhones and iPads in their day to day activities and worked together to explore, learn, and share knowledge of new features and apps, and how to incorporate them into their work.

Coupled with the development of a Field Portal App, which provides access to a series of tools (apps) enabling field staff to view maps, locate assets and view details, get directions, complete eForms and capture photos, this resulted in a successful alignment of field crew activities with Essential Energy's strategy of adopting best practice systems, technology and processes.

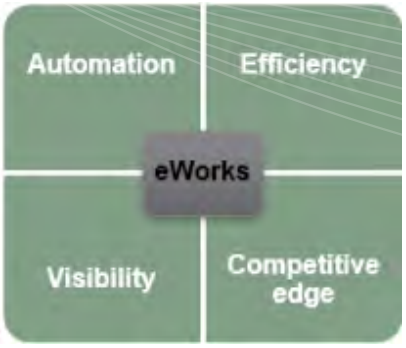
Benefits achieved through the Field Portal App include:

- immediate access to information – the availability of safety and business critical information on demand and tailored to the needs of field staff or business groups, such as: asset mapping; safety policies; Electrical Safety Rules; and business communications;
- streamlining of data input and collection and reduced time spent on administrative works – achieved through electronic data collection, processing, validation and sharing;
- improved accuracy and detail of data used for forecasting, strategy development and key business decisions, for example, around asset failures; and
- reduced office administrative work, phone and printing costs.

NEW eMWL AVAILABLE FOR IDEVICES

The Electronic Maintenance Work Log (eMWL) is an electronic form introduced for use on iDevices to make it quicker and easier to raise work tasks and record maintenance tasks completed by field personnel. It delivers improved data that feeds into Essential Energy's asset maintenance strategy and better enables informed decisions for managing the network.

The electronic form is a significant improvement to the paper-based one, with enhancements that were made after feedback from the field. It effectively consolidates four forms into one – the Maintenance Works Log (MWL); Electrical Network Incident (ENI); Pole Failure Report; and Track Asset Form. It is designed to only show fields relevant to the work performed, making it easier to complete. The use of drop-down lists and mandatory fields improves the quality and accuracy of information being recorded.



eWORKS

Development of the Efficient Works Management Project (eWorks) commenced this year and will form part of Essential Energy's focus to build Best Practice Systems, Technologies, and Processes across the business.

The program is a key priority for the business, aimed at providing a fit for purpose mobile works management solution for automating the allocation of field operations work and releasing and scheduling job notifications to field staff.

eWorks will provide Essential Energy with the opportunity to delivery business efficiencies and productivity through:

- automation – automated allocation of field operations work;
- efficiency – significantly reducing manual and paper processes;
- visibility – providing real time scheduling of daily operations; and
- competitive edge – delivering smarter and sustainable ways to deliver workforce management, offering a better customer experience and driving business productivity.

Stage one of the project will be implemented in late 2017 across four pilot depots – Tumbarumba, Tumut, Tamworth and Port Macquarie, with the aim being to validate the initial configuration before full roll-out in stage two.

ELECTRONIC RISK ASSESSMENT TRIAL (eHIRAC)

Fundamental to the systematic management of risk across Essential Energy's operations, the Hazard Identification Risk Assessment and Control (HIRAC) processes underwent a trial to move from paper-based, to an electronic process.

The trial was conducted in conjunction with the successful roll-out of field based mobile electronic devices (iPads and iPhones), and initial feedback has been positive.

Recorded benefits of the eHIRAC include:

- time and resource efficiencies;
- consolidation of 12 different HIRAC streams to one 'smart application';
- an ability to time and location stamp the risk assessment;
- a significant reduction of printed material (paper based books);
- additional benefits such as attaching site photographs to the risk assessment; and
- sequential formatting allowing Network Fatal Risks (risks and controls relevant to the work task selected) to be factored into HIRACs.

Essential Energy plans to further refine this initiative with full implementation expected in FY2017-18.

Innovation in action: drone technology is being trialled to deliver safety, efficiency, and service benefits across the network.

DRONE TECHNOLOGY

Having secured a Civil Aviation Safety Authority (CASA) licence in 2016, Essential Energy commenced a trial of remotely piloted aircraft for fault finding.

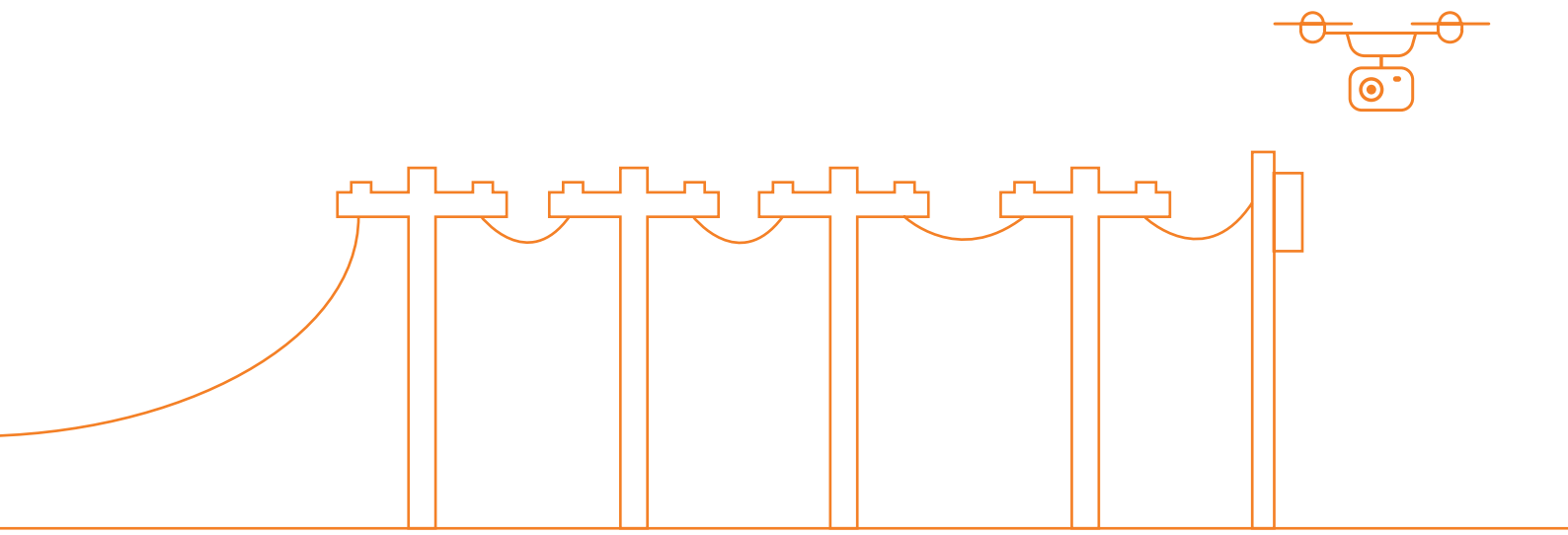
The opportunity for applying drone technology was first mooted while crews were scoping a job that involved inspecting insulators as part of an investigation into radio interference in the Walcha area. To undertake this work in the traditional manner would have required an EWP and three employees for a week, plus traffic control. The alternative was to use a drone with an attached video camera to eliminate the need for the EWP, traffic control and two of the employees – providing considerable cost savings to the operation.

A small fleet of five drones is now being trialled for:

- aerial photography in urban areas where fixed aircraft cannot be utilised;
- providing a quicker, safer and more cost-effective inspection method than traditional climbing methods to optimise radial 'live line' inspections;
- inspection of communication towers to assess the need for traditional climbing methods, improving safety and efficiency;
- providing photographs for review and optimisation of potential defect rectification work required;
- accessing and inspecting areas where an EWP cannot be utilised, such as river crossings;
- first response after bushfires before ground crews are granted access; and
- inspection of vegetation encroachment in hard to reach areas.

Safety and efficiency benefits are also expected from:

- a reduction in repetitive manual handling injuries, by minimising the number of poles required to be climbed;
- a reduction in the requirement for a second employee as a safety observer/rescuer;
- removal of the need to work on the network 'live' to undertake inspections; and
- better network access in difficult terrain.



STREETLIGHTING

Essential Energy's work to deliver efficiencies and cost savings for council streetlighting reached a significant milestone this year, with the finalisation of price negotiations with councils for the installation of LED luminaires.

The option of LED technology for new installations and bulk upgrades follows an extensive quality assurance and tender process that assessed performance in various climatic conditions and output degradation over time.

The LEDs offer councils savings for maintenance and associated costs such as traffic control. They have environmental benefits and a lifespan of approximately 15 years (compared to four years for conventional lamps). The luminaires can save up to 60 per cent of energy costs, reducing councils' power bills and greenhouse gas emissions.

To date, approximately 2,400 LED luminaires have been installed on minor roadways in the Eurobodalla Shire and work has commenced on a bulk roll-out of approximately 4,500 luminaires in both Leeton and Tamworth council areas.

In FY2017-18, Essential Energy expects to install around 12,000 LEDs and will continue a trial of LEDs on major roads in two local government areas.

PARTNERING WITH COMMUNITIES AND INDUSTRY LEADERS

Finding innovative and responsive solutions to manage network capacity demand is the focus of a trial underway in the rural towns of Collombatti, north-west of Kempsey, and Bellingen, south-west of Coffs Harbour.

In a joint project with the Australian Renewable Energy Agency (ARENA), University of Technology Sydney, and industry partners, Essential Energy is testing the potential for customer-owned battery storage systems and advanced solar inverters in a two-year partially subsidised trial.

A community trial underway in the rural towns of Collombatti and Bellingen is exploring innovative and responsive solutions to manage network capacity demand.

Collombatti and Bellingen offer the opportunity to test this technology in an area of high concentration of customer solar installations, with the added potential of addressing an emerging network constraint.

The trial aims to:

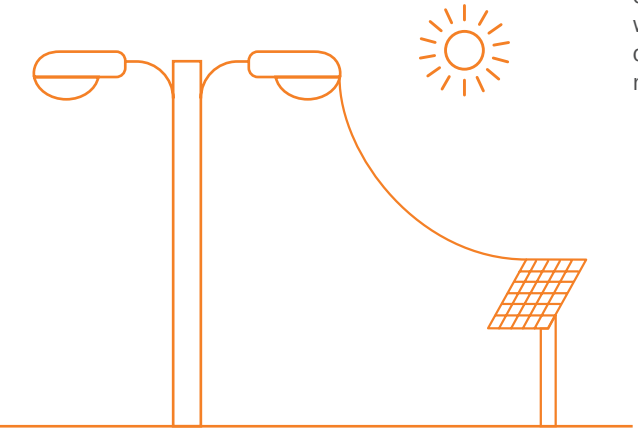
- develop guidelines for future uptake to ensure such technology is optimally integrated and does not result in costly network expenditure; and
- explore the potential value such technology can provide on a least-cost basis to address network constraints.

System installations are being delivered in two separate stages, with the quantity of these installations dependant on achieving the required network benefit.

During the initial pilot stage, up to 40 customers will receive subsidised installation of the battery storage systems or advanced solar inverters and will receive payments based on the level of network support their system provides. Participants will retain ownership of the equipment.

The trial has been designed around an open market approach, maximising customer choice, emerging market participants and the potential future energy market. Subsidies have been used to reduce system costs today comparable to that likely to be seen over the next few years.

This trial aims to position Essential Energy to meet the requirements of the evolving industry and to operate a best practice business offering value to customers, while maintaining downward pressure on network charges.



INNOVATION

Innovation will play a key role in transforming Essential Energy's network to a customer-responsive, efficient and sustainable energy platform for the future.

Research, development and implementation of innovative and technical efficiencies will help Essential Energy to meet the challenges of providing a reliable essential service to regional communities spread over a wide geographical area, in an evolving industry environment demanding reduced operational costs and customer pricing.

Essential Energy's innovation journey is gaining momentum as the business strives for a leadership role in this area.

Essential Energy's Innovation group encourages every employee to leverage innovation and translate their great ideas into actionable change that will enable the business to reach its potential as a responsive and reliable electricity distributor.

These employee ideas and insights are helping to address many of the future challenges the business will face around the integration of alternative energy solutions and identifying alternative revenue streams, while continuing to provide safe, reliable, cost-efficient electricity distribution services to customers.

CURRENT INNOVATION PROJECTS

- **Energy management systems**
  Employees at Essential Energy's Cobar residence and Gunnedah Depot will be trialling an end-to-end energy management system including solar panels, inverter system and storage options. The aim is to gain the insights and skills needed to support customers' interest in this technology – from installation, running and maintenance, through to reliability, demand management and costs. An added benefit of the project is optimising Essential Energy's own energy profile and demand management and ensuring these sites are using energy as efficiently as possible and keeping costs down.

  Pending successful trial results, Essential Energy will evaluate further roll-outs of these systems to other depots.

- **Micro drilling and sensor technology**
  A trial of new technology utilising micro drilling and sensor technology is focused on achieving efficiencies in pole inspection practices. Potential damage to wooden poles from age, fungus or termites, is often not visible from the outside and is often located below ground level.

  This technology has the potential to significantly reduce excavations and provides an electronic drilling profile that evaluates the health of the pole by measuring the mechanical resistance of the wood to the drill bit. If successful, it could significantly reduce the field time required for pole inspections, reduce the risk of injury to field staff, and allow for better data analytics to feed into the business's pole management strategy.

INNOVATION PROJECTS ON ESSENTIAL ENERGY'S RADAR

- **Nanotubes**
  Developments in the trial of new wire technology using nanotubes suggests potential improvements around conductivity and sagging. While still in its early stages, Essential Energy is keeping a keen eye on this technology as it develops, with the hope of playing an active role in reviewing potential applications for electricity distribution.

- **Data and real-time monitoring**
  Essential Energy has commenced a number of studies into the application of data science, concerning customer behaviour and asset health and management, with the objective of providing a more accurate understanding of key dimensions that influence the performance of the business.

  Goals in this field include gaining more proficiency in data collection and analytics and expanding Essential Energy's digitalisation footprint through the introduction of more sensors and Internet of Things (IoT) devices on key resources/assets throughout the business.

  Real-time monitoring offers many benefits to the business and Essential Energy looks forward to furthering developments in this area, pending successful research results.

CAPABILITY UPLIFTS

Essential Energy's eTech division has developed and acquired new skills and tools to capably embrace new ways of working and the opportunities provided through mobile solutions, cloud-based applications, data analytics and the IoT.

This means putting in place technologies, training employees, redesigning teams and acquiring new skills to meet the requirements of the new world, through:

- improved security for cloud solutions;
- uplift integration capacity and capability through improved tools, training and team resources;
- driving collaboration efforts across projects and between teams;
- lifting vendor management and licence management outcomes;
- building improved understanding of business processes and how solutions support these processes; and
- supporting the migration from legacy applications/hardware into the cloud.

SUPPORT FOR INNOVATION

Driving towards operational efficiencies and cost savings, eTech, in partnership with teams exploring and adopting new technologies, is providing the integration and integrity solutions for network, storage and support issues.

An example of this is Essential Energy's adoption of drones for use across the network to improve the accuracy and efficiency of asset inspections. The large amount of unstructured data (videos and photos) produced from the drones is required to be stored and analysed, a difficult task using the previous laptops/desktops and file storage solutions. To meet these new requirements, eTech has made improvements to the data network, deployed more powerful laptops and provided data sharing/storage tools. (*For more information on drone use, see page 30.*)

ENABLING PEOPLE THROUGH ENHANCED EMPLOYEE CAPABILITY, CONFIDENCE AND ENGAGEMENT

In addition to the recruitment of John Cleland as CEO, this year, Essential Energy appointed four new members of its nine member Executive Leadership Team (ELT). This resulted in the promotion of Roger Marshall to General Manager Customer and Stakeholder Engagement and the appointment of Justin Hillier as Chief Financial Officer; John Ansley as Chief Information Officer; and Michael Bowan as General Counsel and Company Secretary. Gary Humphreys (previously Deputy CEO) was appointed Executive General Manager Regulation and Innovation.

TALENT AND SUCCESSION MANAGEMENT

Essential Energy's Talent and Succession Management activities are critical to ensure Essential Energy has the right leaders and the capability to meet the strategic objectives and challenges of the changing organisation. Effective people planning enables the business to refresh its leaders and generate development opportunities for employees.

Aligned with the annual talent management cycle, a review and refresh of the divisional and functional succession plans was conducted in May. Individual Development Plans (IDPs) were established for high potential employees and provided valuable input into developing capabilities and the leadership strategy.

CAPABILITY

Essential Energy develops its employees and builds leadership effectiveness, commercial acumen, technical expertise and encourages career mobility through a range of capability development programs:

- Leadership;
- Commercial Graduates;
- Commercially Capable People;
- Professional Engineering;
- ESI Apprenticeships; and
- Formal Education.

LEADERSHIP DEVELOPMENT

This financial year, the *Strategic Leadership* program focused on measuring the impact and effectiveness of the two-year program completed in the previous year by 71 identified future leaders. Critical gaps and further development opportunities were identified.

The Life Styles Inventory (LSI) diagnostic, a key measure of the way Essential Energy's leaders think and behave, showed a significant improvement in leadership, with a shift towards an empowered, collaborative and solution oriented approach.

Results also highlighted that demonstrated interpersonal skills and awareness increased for employees seeking guidance and direction. The capability to inspire and motivate, and willingness to assist in building meaningful and reciprocal interpersonal relationships, continues to improve.

COMMERCIAL GRADUATE PROGRAM

In May 2017, recruitment commenced for commercial graduates to join Essential Energy's *Commercial Graduate* program in 2018.

The graduates will undertake rotational placements across the business, gaining a broad range of experience and undertaking specialisation opportunities in their third year. The program will support a critical professional pipeline, and through forecast resourcing need, will fill predicted skill gaps. Sourcing and attraction tactics for the program have been aligned with the *Diversity and Inclusion Strategy (2017-19).*

PROFESSIONAL ENGINEERING

Essential Energy has adopted a number of approaches to maintain a minimum required level of professional and commercial capability within the Asset Management division. The Study Assistance framework was leveraged to develop the current paraprofessional capability within the business and to promote engineering as a long-term career choice.

An expression of interest is distributed annually throughout the business for inclusion onto the Professional Engineering Development (PED) program. Successful applicants undertake study towards the Bachelor of Electrical Engineering (Honours) or the Associate Degree in Electrical Engineering.

Five successful applicants joined the PED in FY2016-17, bringing the total number of employees on the program to 20.

FORMAL EDUCATION

Essential Energy invests in education through a Study Assistance framework, supporting qualifications required for specific roles, or broader professional development goals. The program provided support to 191 employees throughout the year, for courses ranging from Certificate III through to Masters level.

Twenty-seven employees completed their qualifications in fields such as Electrical Engineering; Business; Insurance; Logistics; Leadership; Management; Project or Contract Management; and Work Health and Safety – contributing to Essential Energy's highly skilled and professional talent base.

DESIGN THINKING

Essential Energy's eTech division piloted a Design Thinking program to build creative problem-solving techniques. Around 20 participants worked with a facilitator to explore a unique community based business challenge, putting their newly acquired skills and tools into practice and contributing ideas and solutions, while at the same time benefiting the community.

ONLINE TRAINING

Essential Energy's learning management system (EKAS) offers in-house online training and development opportunities to employees, as well as to targeted external groups, such as contractors undertaking induction processes. Benefits included reduced internal training and travel costs, and streamlined business messaging.

Essential Energy continues to utilise e-learning across all facets of the business. Over the last 12 months, employees have undertaken more than 15,000 courses covering a range of topics including safety, regulatory compliance, and eTech compliance and processes.

Partnered with LinkedIn, Essential Energy provided Lynda.com subscriptions to employees for a range of business, creative and technical skills. Dedicated playlists have been assigned for new leaders, introducing key management concepts and supporting the transition from individual contributor to frontline leader. Other employees have used their subscription to develop commercial acumen, or specific software skills for both personal and professional development.

TECHNICAL TRAINING

Essential Energy delivers training to employees and external contractors who work on or near the 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 2,250 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 delivered Certificate III Distribution Powerline Worker training to around 83 apprentices in a blended delivery model, either at their place of work or at one of the organisation's three dedicated training centres in Goulburn, Parkes and Grafton.

The training team also 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.

CAREER TRANSITION

Under the *Essential Energy Enterprise Agreement 2013*, Essential Energy provided a Career Transition Program in line with the Redeployment Policy. Redeployees participated in various elements of the program through an external partner, while they engaged in meaningful work through work placements, secondments and online training.

The Career Transition Program involved sessions on a range of topics including: Taking Charge and Rebuilding Your Career; Résumé and Application Preparation; Job Applications and Cover Letters; and Interview Success. The program has resulted in 25 impacted employees (redeployees and excess employees) successfully securing permanent positions within Essential Energy over the year.

The *Essential Energy Workplace Determination 2016* came into effect on 1 December 2016, and required that where a role becomes redundant, the impacted employee will become an Excess Employee and the Involuntary Redundancy provisions apply. In these situations, Essential Energy provided career outplacement services through an external partner, providing career guidance and occupational advice and delivering information and support through transition to alternative suitable employment.


essential energy

LOCAL

SAFEGUARDING LOCAL COMMUNITIES THROUGH TARGETED SAFETY AWARENESS PROGRAMS AND PARTNERSHIPS

PUBLIC ELECTRICAL SAFETY AWARENESS

Essential Energy's *Public Electrical Safety Awareness Plan* (PESAP) aims to raise public awareness about safety hazards associated with the electricity network.

The PESAP has a targeted focus on four 'at-risk' groups identified from ongoing analysis of public safety incidents that result from interactions with Essential Energy's network. These at-risk groups are:

- Agribusiness: agricultural related and 'on farm' activities (including aviation);
- Community: individuals, transport and motor vehicles;
- Construction: building and demolition activities (including roadworks and council works); and
- Emergency Services and life support.

Targeted programs and campaigns to increase public awareness of the risks associated with the network and to reduce the occurrence of public safety incidents, have been developed and delivered for each at-risk group.

Key to the success of these activities is Essential Energy's engagement and partnership with community representatives and industry stakeholders to raise awareness, implement additional safety measures and deliver targeted education and awareness programs.

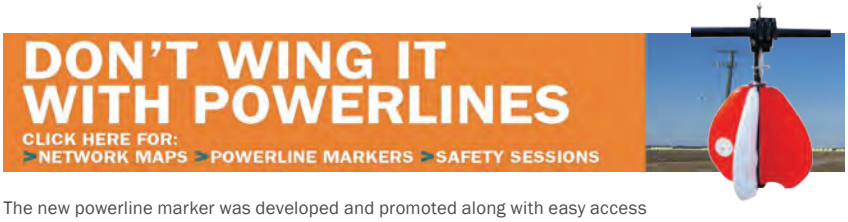
Key community and stakeholder programs in the 2016-2017 PESAP, included:

- **Partnering with SafeWork NSW** Essential Energy partnered with SafeWork NSW to deliver awareness sessions on Work Health and Safety (WHS) Compliance Programs. A critical component of the program was engaging with employees to increase the awareness of their personal responsibilities for the safety of themselves, their co-workers, and members of the public.

  SafeWork NSW attended 20 sessions and provided employees with the regulator's perspective on managing safety incidents. In FY2017-18, Essential Energy will continue to foster this relationship to develop and promote community safety initiatives, including investigating rebates for powerline markers.

- **New powerline marker** – focused on aviation safety around powerlines, Essential Energy worked to design and promote a new powerline marker that was affordable, easy to install and improves powerline visibility.

  Essential Energy was awarded the *Leland Snow Innovation Award* from the Aerial Application Association of Australia's (AAAA), in recognition of this work.



The new powerline marker was developed and promoted along with easy access to network maps, identifying electrical infrastructure and potential hazards. The new powerline marker is affordable, easy to instal, and improves powerline visibility.

"Make no mistake – Essential is leading the country in aviation safety measures and this latest effort is very, very significant." Phil Hurst, CEO AAAA

- **Seasonal safety messages** – each year, Essential Energy promotes seasonal safety messages such as storm, bushfire, and grain, cotton, and sugar cane harvest.

  Two new campaigns were added in FY2016-17: sowing; and, stubble burn-off. The sowing campaign communicated the importance of looking out for power poles, pole stays and overhead powerlines, and stubble burn-off targeted the importance of protecting electrical assets.

- **Electricity Safety Week (ESW)** – an annual State-wide program, ESW is designed to teach primary students how to be safe around electricity and to make them more aware of the associated dangers. The activities have been developed with the Department of Education to meet the requirements of the NSW Board of Studies Science and Technology Syllabus for the Australian Curriculum.

  In September 2016, 96 per cent of primary schools in Essential Energy's footprint registered for the program, engaging around 73,000 students in electricity safety activities. A free resource pack was made available to schools and as an extension to the 2016-17 program, a poster competition was introduced.

- **Emergency Services** – Essential Energy continued to offer safety sessions for all emergency service departments and a specific *Electrical Hazard Awareness for Emergency Services* DVD is provided free of charge.

- **2016 Henty Machinery Field Days** – the *Henty Machinery Field Days* provided an ideal opportunity to talk directly with local farmers and customers about a range of topics such as agribusiness operations under powerlines, electrical safety, and vegetation management. School groups also visited Essential Energy's display to learn about the 'Look up and Live' message, and 'Ernie Turnie' demonstrated what happens if machinery gets too close to overhead powerlines.

- **AgQuip Field Days** – Essential Energy also took the opportunity to talk to customers and promote electrical safety at *AgQuip*. Located near Gunnedah on a permanent site, *AgQuip* is Australia's largest and premier primary industry field days, attracting more than 100,000 visitors over a three-day period.

DEVELOPING COMMERCIAL BEST PRACTICE AND A CUSTOMER-CENTRED CULTURE THROUGH A WORKFORCE THAT REFLECTS THE COMMUNITIES ESSENTIAL ENERGY SERVES.

Essential Energy's Apprentice program supports the business's focus on developing a commercially capable workforce.

ESSENTIAL ENERGY'S APPRENTICE PROGRAM

A sustainable Apprentice program is an important element in developing a commercially capable workforce attuned to technology and innovation, and customers' needs.

In FY2016-17, Essential Energy employed 25 apprentices, including one female apprentice, and 52 existing apprentices graduated with qualifications as powerline workers. Thirty more apprentices are due to complete their training in FY2017-18.

Essential Energy's 2018 Apprentice program aims to recruit 31 apprentices (11 electrical technicians and 20 powerline workers) who will commence in January 2018. This need has been determined after assessment of Essential Energy's current workforce age profile, anticipated employee movements, the lack of external supply, and future workload trends.

The Apprentice program provides an opportunity to increase Essential Energy's workplace diversity and ensure there are sufficient qualified workers to meet future requirements.

PRE-EMPLOYMENT PROGRAM

Due to Essential Energy's regional footprint, the business is seeking to increase ATSI representation over the coming years and has introduced an Indigenous-focused pre-employment program to provide support and development to Indigenous applicants in the areas of literacy and numeracy, and to act as a feeder pathway into the Powerline Apprentice program. Essential Energy has partnered with regionally based, dedicated Indigenous organisations to assist in sourcing and recruitment to this program.

BEHAVIOURAL EXPECTATIONS

Essential Energy's *Corporate Values* and *Leadership Skills Framework* describe the common set of behaviours and skills expected of every employee. They have been reviewed in support of the business's strategic direction and will be further communicated and embedded through FY2017-18.

The revised corporate values emphasise the continued importance of safety, integrity, and customer focus to Essential Energy's success, and lays the foundation for more commercial and collaborative behaviours that will facilitate the adoption of new energy solutions.

The new *Leadership Skills Framework* reinforces these themes, and provides a more simplified, 'down to earth' representation of what good leadership looks like at Essential Energy. These skills form the basis for talent and leadership development activities and are included as the base expectations in every employee's performance review for FY2017-18.

In enabling performance through people and shaping the organisation for the future, Essential Energy focuses on two broad areas of development – culture and commercial capability.

CULTURE

Essential Energy aims to create a safe, inclusive, commercial, and customer-focused culture. This is reflected in all 'people' planning and development activities, and formally measured using a culture index based on employee feedback ratings.

Culture, or 'the way we do things', is formally influenced through a number of programs and strategies, and informally lived through day to day behaviours and decisions. The principle behind more formal activities is to focus on building strength, such as a strong commitment to safety and each other, while developing areas of opportunity.

In FY2016-17, Essential Energy focused on clarifying behavioural expectations, recognising exceptional behaviour or performance, and rebuilding the *Diversity and Inclusion Strategy.*

The culture index improved six per cent on last year's result to achieve a 66 per cent culture index score, with significant uplift in the areas of leadership and change effectiveness. This index will be added to the Company Scorecard for FY2017-18 as an ongoing measure of organisational health and engagement.

	FY17 RESULT %	CHANGE %
Culture Index	**66**	+6
Cultural alignment	65	+2
Leadership effectiveness	65	+6
Implementing change	67	+8

BUILDING COMMERCIAL CAPABILITY

Essential Energy's *Building Commercial Capability* program develops employee capability, business acumen and accountability at all levels. Targeted workshops clarify the connection between four strategic objectives, employees' day to day actions, and the customer and financial impact of individual decisions. It focuses on empowering the right people to improve workflow, collaboration and productivity through the business – particularly in the field.

Around 300 field based leaders, 300 depot employees and 150 key influencers from support functions have now attended the program, with exceptional feedback and a noticeable positive impact on employee confidence and engagement.

Opportunities raised during the workshops have already resulted in a number of business improvements, and will continue to be evaluated and followed through as the program continues.

DIVERSITY AND INCLUSION

Essential Energy aims to develop commercial best practice and a customer centred culture through a workforce that reflects the communities we serve. The revised *Diversity and Inclusion Strategy (2017-19)*, introduces six diversity streams which recognise and promote workplace diversity and inclusion. These include:

GENDER

Develop equal opportunities with a specific focus on improving the representation of women in non-traditional roles and women in Leadership.

INDIGENOUS

A workforce representative of our rural communities.

CROSS GENERATIONAL

Create an environment where the perspectives and talents of all generations are valued, respected and listened to.

LGBTI

Create a workplace where employees feel safe and valued regardless of sexual orientation.

DisAbility

Engage, encourage and support employees of all abilities.

MULTICULTURAL

Cultivate a culturally diverse aware and tolerant organisation.

The six diversity streams identified in Essential Energy's *Diversity and Inclusion Strategy.*

Essential Energy's Diversity Council has been expanded to include Stream Leads for each diversity group and each stream has an Executive sponsor. The business's cultural climate will continue to be measured through internal *Pulse Check* surveys and the annual NSW Public Service Commission *People Matter Survey.*

TRENDS IN THE REPRESENTATION OF WORKFORCE DIVERSITY GROUPS

Workforce Diversity Group	Public Service Commission Benchmark	2015	2016	2017
Women	50%	16.7%	16.4%	15.1%
Aboriginal and / or Torres Strait Islander people	3.3%	3.2%	3.0%	2.8%
People whose First Language Spoken as a Child was not English	23.2%	0.9%	0.9%	1.0%
People with a disability	NA	1.7%	1.6%	1.6%
People with a disability requiring work-related adjustment	NA	0.5%	0.5%	0.5%
Median age of employees				43.93 years

Note 1: The benchmark of 50 per cent for representation of women across the sector is intended to reflect the gender composition of the NSW community.

Note 2: The NSW Public Sector Aboriginal Employment Strategy 2014–17 introduced an aspirational target of 1.8 per cent by 2021 for each of the sector's salary bands. If the aspirational target of 1.8 per cent is achieved in salary bands not currently at or above 1.8 per cent, the cumulative representation of Aboriginal employees in the sector is expected to reach 3.3 per cent.

Note 3: A benchmark from the Australian Bureau of Statistics (ABS) Census of Population and Housing has been included for People whose First Language Spoken as a Child was not English. The ABS Census does not provide information about first language, but does provide information about country of birth. The benchmark of 23.2 per cent is the percentage of the NSW general population born in a country where English is not the predominant language.

Note 4: Work is underway to improve the reporting of disability information in the sector to enable comparisons with population data. For this reason, no benchmark has been provided for People with a Disability or for People with a Disability Requiring Work-Related Adjustment.

Many of the key diversity measures have trended down during the program of organisational transformation. In FY2017-18, the organisation will increase its focus on diversity and inclusion, with new business priorities being set with clearly articulated, measured, and reported outcomes.

Efforts will be focused around developing community based partnerships across the six focus areas and aligning talent acquisition processes with the Strategy.

DISTRIBUTION INDEX DATA FOR WORKFORCE DIVERSITY GROUPS

Workforce Diversity Group	Benchmark	2015	2016	2017
Women	100	99	99	100
Aboriginal and/or Torres Strait Islander People	100	88	88	88
People whose First Language Spoken as a Child was not English	100	113	114	114
People with a Disability	100	103	100	100
People with a Disability Requiring Work-Related Adjustment	100	107	N/A	N/A

Note 1: A Distribution Index score of 100 indicates that the distribution of members of the Workforce Diversity group across salary bands is equivalent to that of the rest of the workforce. A score less than 100 means that members of the Workforce Diversity group tend to be more concentrated at lower salary bands than is the case for other staff. The more pronounced this tendency is, the lower the score will be. In some cases, the index may be more than 100, indicating that members of the Workforce Diversity group tend to be more concentrated at higher salary bands than is the case for other staff.

Note 2: The Distribution Index is not calculated when the number of employees in the Workforce Diversity group is less than 20 or when the number of other employees is less than 20.

COMPASS PROGRAM FOR WOMEN

Essential Energy's representation of females in senior leadership roles has remained above organisational representation at 27.6 per cent.

Increasing the number of women in senior leadership roles to 50 per cent over the next 10 years is a NSW Premier's Priority. As such, based on inputs from the talent review process along with other considerations, the Executive Leadership Team (ELT) nominated six female employees to participate in a pilot program – the *Compass Program for Women.* The program developed the strengths and qualities of female leadership and aimed to enhance and advance women's leadership contribution to the business.

MULTICULTURAL POLICIES AND SERVICES

Essential Energy's strategic objective for the Multicultural stream is to 'cultivate a culturally aware and tolerant organisation', one that is inclusive of all employees from all backgrounds and preferences.

A Multicultural Working Group has been established, which, in conjunction with the Diversity Council, will have meaningful input into policies and business practices. Additionally, Essential Energy will partner with culturally diverse community and client groups to assist in achieving this strategic objective.

Essential Energy measures its customer engagement and service tools to ensure they remain accessible to a diverse customer base. To provide consistent service levels for all customers, Essential Energy offers a free telephone interpreter service – 13 14 50 – available 24 hours a day through the Commonwealth Department of Immigration and Citizenship.

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

DISABILITY PLANNING

Essential Energy is committed to improving employment opportunities for people with a disability. This includes partnering with specialist organisations to assist in attracting and recruiting people with a disability, and accommodating employees with a disability in terms of adjusted work stations and wheelchair accessible depots and offices.

As part of the refreshed *Diversity and Inclusion Strategy,* a disability focused working group has been established, the intent of which is to 'engage, encourage, and support employees of all abilities'.

A sponsor and Stream Lead have been appointed as part of the working group, both of whom sit on Essential Energy's Diversity Council. Reporting to the Diversity Council is undertaken each quarter, around the representation of employees with a disability within the organisation and those employees with a disability requiring a workplace adjustment. Over the next 12 months, the working group will create a charter and action plan for the Disability stream, including a calendar of events and strategic partnerships to increase diversity and inclusion in the disability space.

EXCELLENCE AND RECOGNITION

Supporting a more commercial principles-based culture, an *Excellence and Recognition Good Practice Guide* was released to the organisation to assist leaders in making sound commercial decisions regarding recognising excellence in performance and behaviour.

PART OF EACH COMMUNITY

The *Essential Giving Program* and *Community Support Program* are part of Essential Energy's ongoing commitment to partner with local communities. Support is targeted and prudent, balancing the need to deliver the best value to customers along with direct, local support to the communities Essential Energy serves across regional, rural, and remote NSW. Programs are designed so as many communities as possible can benefit.

ESSENTIAL GIVING PROGRAM (EGP) – TWICE THE BENEFIT FOR COMMUNITIES

The EGP was established as a partnership between the business and Essential Energy employees – every employee dollar donated to the program through regular pre-tax, payroll deductions, is matched by Essential Energy, thereby delivering twice the benefit.

The real drivers behind the success of the program are the Essential Energy employees who donate their dollars and personal time to ensure Essential Energy gives as generously as possible. Beneficiaries are nominated by employees who often have a personal family affiliation with the charity, as was the case with ozED, which was nominated after an employee's children were diagnosed with the related illnesses.

Lifeline Saving Lives
Crisis Support. Suicide Prevention.

variety
the children's charity

ozED
No Sweat
Australian Ectodermal Dysplasia Support Group Inc

Westpac
LIFE SAVER RESCUE
HELICOPTER

CanAssist
CANCER ASSISTANCE NETWORK

GARVAN
INSTITUTE

In FY2016-17, on average 12 per cent of Essential Energy employees participated in the program which, according to the Australian Charity Fund, is above the national average of five per cent, with employees involved in the program donating on average of nearly $15 per month.

Employees donated just over $67,000, for a dollar matched total of $134,000, which was donated to the six charity partners: Garvan Institute; Variety Children's Charity; Lifeline; Can Assist; Westpac Rescue Helicopter Service; and ozED (Australian Ectodermal Dysplasia Support Group).

COMMUNITY SUPPORT PROGRAM
The Community Support Program aims to give back to the local communities that make up the social fabric of regional, rural and remote NSW, specifically by supplying funds for the maintenance and upkeep of community halls. Community halls provide a valuable meeting place and venue for local groups and services, and are often the only engagement hub for many small regional and remote communities.

In 2016, 248 halls were supported through the Community Support Program, each receiving a $200 donation.

INTERNATIONAL WOMEN'S DAY
Essential Energy recognised International Women's Day on 8 March 2017, and the achievements women play in the workforce, their families and local communities. Sites across each region were invited to host a colour-themed event to celebrate the day.

Essential Energy employees recognising International Women's Day at the Port Macquarie office.

Community Support Program recipient, Eugowra CWA Hall, thanked Essential Energy for the donation to assist with the upkeep of their community hall.

"Being a very small community, we are very grateful for your support as fundraising and donations are raised by a small group of people. Thanking you again for your donation and I want you to know how greatly our community appreciate your helping hand." Eugowra CWA

RED25
Essential Energy employees were recognised in the Australian Red Cross Blood Service's NSW State Awards for the *Highest Number of Lives Saved in the Corporate Category.* Together, Essential Energy employees made 937 donations in NSW in 2016, and saved an estimated 2,739 lives.

Since the team first registered in 2010, employees have provided more than 4,000 donations.

RECYCLING TO MAKE A DIFFERENCE IN OTHERS' LIVES
Established in 1998 as a small-scale demonstration of renewable energy generation, Essential Energy's Queanbeyan solar farm had reached the end of its viable life. In 2016, it was donated to the Solar Energy Industry Association (SEIA) for use in its overseas volunteer aid work in Vanuatu.

The ageing solar farm, comprising 700 photo-voltaic (PV) modules with low system efficiency compared to current technology, was identified as surplus to business requirements and decommissioned. After disposal through a public tender proved unsuccessful, the system was donated to SEIA for installation on village school and hut roofs.

This positive recycling project will deliver many benefits, including allowing children in remote communities to study and complete their homework in the evenings.

VICTIMS OF DOMESTIC VIOLENCE FUNDRAISER
Essential Energy's Women@Work group hosted a series of barbecues in Port Macquarie to raise money for the McKillop Senior College Domestic Violence Fund. The fund was an initiative set up by the school's Year 12 Legal Studies students, with the aim to provide reduced cost legal appointments for victims of domestic violence.

Essential Energy dollar matched donations and a total of $3,450 was raised.

SCIENCE AND ENGINEERING CHALLENGE
Essential Energy continued to promote the exploration of science and engineering for students through participation in the *Science and Engineering Challenge,* which aims to inspire Year 10 students to consider a future career in science and engineering and experience aspects of science and engineering they would not usually see in their school environment.

ENDURING

PLANNING AHEAD TO MEET FUTURE EXPECTATIONS OF CUSTOMERS AND REGULATORS, 24/7

CUSTOMER ENGAGEMENT

The electricity industry is undergoing significant change as it responds to customer demand for lower prices, energy alternatives and greater control of their electricity supply.

As Essential Energy's business evolves and adapts to the opportunities this presents, the business needs to ensure its plans deliver what customers want and allow it to keep improving safety, efficiency, productivity and delivery cost. Essential Energy's understanding of what customers value, need and expect from the business, now and into the future, is critical information for decision-making and business planning.

To expand and complement the day-to-day engagement with customers and the community, and in preparation for the AER 2019-24 Proposal, Essential Energy embarked upon an extensive Customer and Stakeholder Engagement program. A leading research and engagement facilitator was engaged to ensure the program was best practice.

Many areas of the business were involved in the development of the program, and the method of engagement employed to conduct the research was aligned to each customer group's level of knowledge.

In May 2017, phase one of the project included seven deliberative customer forums in Wagga Wagga, Cootamundra, Goulburn, Broken Hill, Port Macquarie, Tamworth, and Dubbo, at which more than 500 customers attended four-hour forums. In addition, more than 1,000 online surveys were completed by residential and small to medium sized businesses. Fifteen one-on-one meetings were conducted with key stakeholders, large customers and local council representatives.

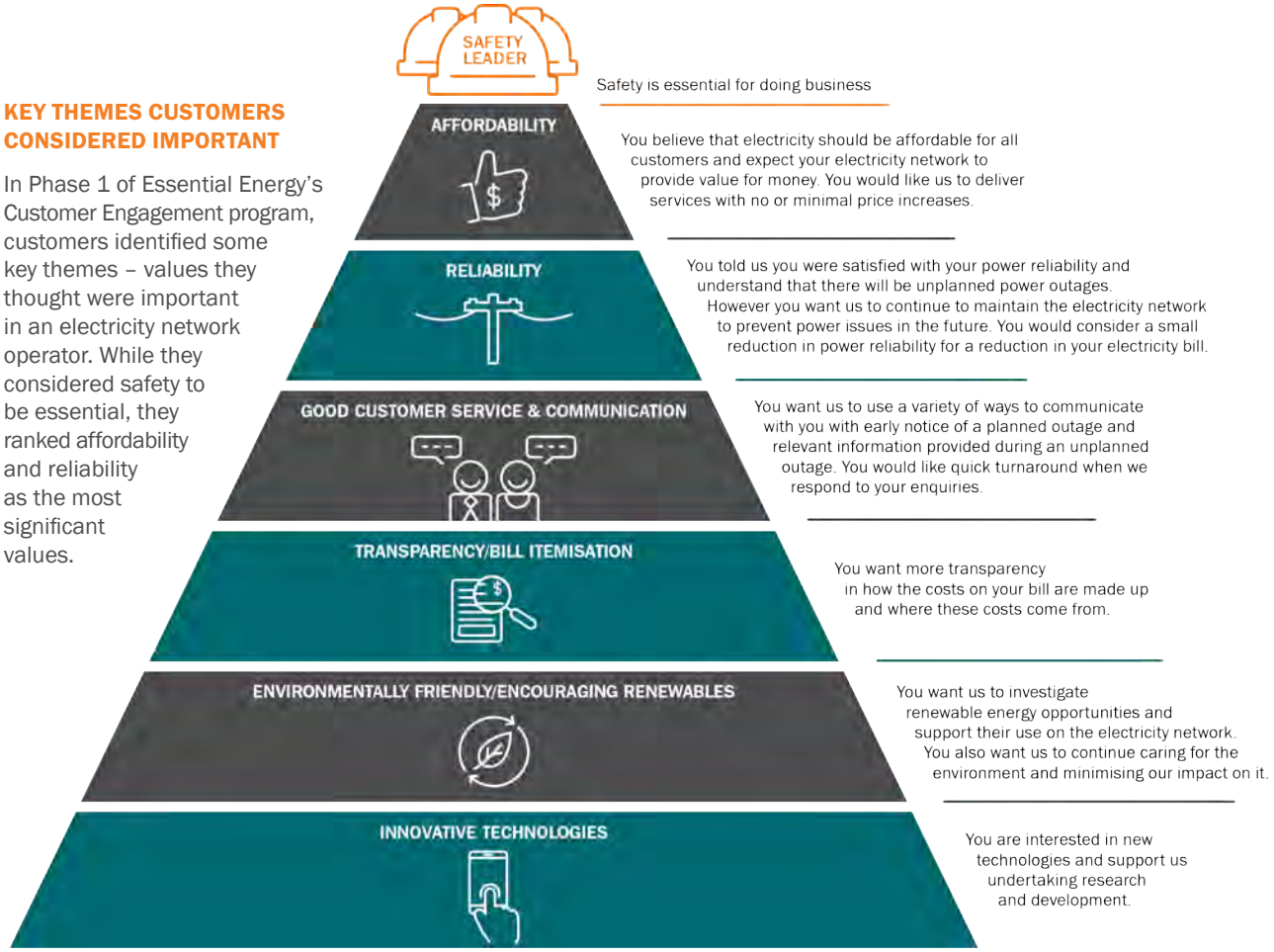
Feedback from phase one identified that customers believe safety is essential to operating Essential Energy's business, and customers placed particular value on affordability; reliability; the need to provide good customer service and communication; transparency/ bill itemisation; innovation; and environmentally friendly services.

LEVEL OF ENGAGEMENT AND KNOWLEDGE

	GROUP 1 NONE	GROUP 2 LIMITED	GROUP 3 MODERATE	GROUP 4 HIGH
Description	Stakeholders who are future customers or new customers.	Stakeholders with limited knowledge. Interactions mainly via their retailer.	Stakeholders who interact with EE and have some understanding of industry and/or usage.	Stakeholders who have worked closely with EE and industry and have extensive knowledge.
Methods of Engagement	• Online surveys • Forums • Summary discussion paper • Draft Regulatory Proposal.	• Online surveys • Forums • Summary discussion paper • Draft Regulatory Proposal.	• Forums • Interviews • 'Your Say' website • In-depth discussion paper • Draft Regulatory Proposal.	• Interviews • 'Your Say' website • In-depth discussion paper • Draft Regulatory Proposal.

KEY THEMES CUSTOMERS CONSIDERED IMPORTANT

In Phase 1 of Essential Energy's Customer Engagement program, customers identified some key themes – values they thought were important in an electricity network operator. While they considered safety to be essential, they ranked affordability and reliability as the most significant values.



Seven deliberative customer forums were held in Wagga Wagga, Cootamundra, Goulburn, Broken Hill, Port Macquarie, Tamworth and Dubbo, at which more than 500 customers attended four-hour forums.

This feedback was presented back to all employees to ensure these early insights are incorporated into how Essential Energy does business today. Additional benefits include providing information to customers to aid their understanding of the industry and the distinction between the roles of the various operators: generators; distributors; and retailers.

Feedback from the project will inform Essential Energy's AER Proposal and future customer and stakeholder engagement strategies. A draft Regulatory Proposal will be available for customer and stakeholder review and feedback prior to submission to the AER.

Phase two of the project is planned for August/September 2017, and phase three for September/October 2017.

COMMITTED TO LISTEN, RESPECT. AND DELIVER

Essential Energy has continued to reinforce its Customer Commitment Statement within the organisation, including measuring all complaints received against the pillars of Listen, Respect and Deliver. This allows the business to understand trends and opportunities for reinforcing these cultural commitments.

Through daily operations, Essential Energy actively engages with customers through a number of channels, including phone calls, emails, mail correspondence, social media and text messaging, and continues to measure the effectiveness of services through the quarterly *Customer Satisfaction Survey.*

This year, Essential Energy achieved a customer satisfaction score above 83 per cent, against a target of 80 per cent for the year.

In addition, Essential Energy continues to manage a number of consultative committees with key stakeholders on specific topics, such as vegetation and streetlighting with local councils, and engages directly with the Energy and Water Ombudsman NSW (EWON) on customer advocacy dealings through a number of channels, including: quarterly Consultative Council Committee meetings; Board Meetings; Members' Customer Service Forum; EWON's Antipoverty Forum; and online EWON Induction programs.

CUSTOMER ADVOCACY GROUP (CAG)

Essential Energy conducts quarterly forums with the Customer Advocacy Group (CAG) which, through its 11 members, provides a voice for different segments of the company's customer base: low-income groups; Indigenous and ethnic groups; people with disabilities; domestic customers; industrial and commercial customers; rural and remote customers; and primary producers.

The CAG provides direct community access to the representative groups and allows a channel for raising areas of interest or concern.

CUSTOMER FEEDBACK

Over the year, Essential Energy received 2,820 customer complaints and 960 power quality investigations.

An ongoing focus on response to complaints by the Customer Service team resulted in 89 per cent of these being resolved within four business days.

Essential Energy's matters accounted for 23 per cent of all distribution matters raised with the Ombudsman.

"Eileen has been effected by an extended outage since yesterday, due to storm damage in the area. She wanted to thank all the staff involved in getting the power back on. She said to pass on her thanks to the wonderful field staff that worked through the horrible conditions to get power back on as quickly as they could. Eileen says they always do a fantastic job, and work so hard despite the adverse conditions."

Customer feedback

NSW GOVERNMENT CUSTOMER SERVICE STANDARDS

The NSW Government Customer Service Standards establish the level of service that energy distributors must meet. It allows for payments to customers if they experience too many supply interruptions in one year or an interruption that lasts too long.

Over the year, Essential Energy received 29 valid Network Reliability Duration claims and paid $2,320 compensation to customers.

There were no valid claims for breaches of interruption frequency standards.

A total of $345 was paid in compensation to customers where Essential Energy failed to repair a streetlight within the expected 10 business days of it being reported.

89%
OF COMPLAINTS RESOLVED IN 4 DAYS

CUSTOMER CONTACT SERVICES

Essential Energy's Contact Centre has embraced a range of communication channels to ensure the effectiveness of communications with customers. Where in the past communications have focused predominantly on telephone contacts, FY2016-17 saw an increase in customers' use of technology, including social media and mobile devices.

In FY2016-17, the Contact Centre recorded total customer contacts of 456,246, compared to 516,772 in 2015-16, and 630,571 in 2014-15. This decline in calls to the Contact Centre reflects a general shift in customer preferences for more online, self-service information. This is being facilitated with a redesign of the Essential Energy website that commenced in 2016 and is scheduled for completion in December 2017.

CONTACT CENTRE CUSTOMER CONTACTS 2016-17

456,246

Essential Energy contacts with customers included:

- 28,442 outbound calls for planned and unplanned outage updates; and
- 427,804 inbound calls.

The level of outbound phone calls has reduced from 103,483 in 2015-16 to 28,442 in 2016-17, due to an increase in the use of SMS text messaging to inform customers about power outages.

Essential Energy received 273,746 calls from customers about power outages and achieved a service level for answering calls within 30 seconds of 68.71 per cent – favourable against the AER's Service Target Performance Incentive Scheme (STPIS) result target of 68.53 per cent.

Inbound calls also included 91,810 calls about general network enquiries such as network connections, Essential Water queries and solar installations.

Heavy storms and flooding in northern NSW in March 2017, delivered the busiest month for the Contact Centre, with a total of 29,748 outage-related calls answered – an average of 960 outage-related calls per day.

The busiest day of the year fell on 6 December 2016, when Essential Energy answered 2,968 outage-related calls due to adverse weather conditions. This day was declared a 'major event' day.

RECORD DAILY NUMBER OF CALLS ANSWERED DUE TO ADVERSE WEATHER EVENT

2,968

The busiest week of the year fell between 4-10 December 2016, when Essential Energy answered 10,382 outage-related calls due to adverse weather conditions.

Electronic enquiries (enquiries via social media, email, and Essential Energy's website) have increased to 25,520 in 2016-17, compared to 23,713 in 2015-16.

Additional communications with customers included:

- urgent network repairs – 21,244 SMS text notifications;
- cancellations of planned outages – 95,215 SMS text notifications;
- planned outage notifications – 264,994 SMS text notifications (from commencement in November 2016 to June 2017);
- aerial patrol notifications – 29,344 SMS text notifications; and
- unplanned outages – 14,469 SMS text notifications to group contact lists for over 80,000 customers.

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.

Essential Energy's website, *essentialenergy.com.au,* received 2,209,096 visits for the year.

While increased use of social media continues to extend Essential Energy's 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 relate to 'real time' information about power outages and users have also started to embrace videos, several of which have been provided by employees in the field.

The highest engagement levels were recorded on Facebook, however Essential Energy's Twitter audience continues to steadily increase.

In FY2016-17, there were more than 30,000 interactions across all social media channels, with Essential Energy's total follower base increasing by 46 per cent. The intention is to keep growing Essential Energy's reach and engagement across these customer channels.

RESPONDING TO SAFETY

STRATEGIC SAFETY REVIEW – SAFETY DIFFERENTLY

In FY2016-17, Essential Energy's Health, Safety, and Environment (HSE) team commenced a strategic safety review with the aim of refreshing the business's approach to safety and improving performance.

Historically, there has been a focus on the work environment and the safety management system: fixing hazards; providing better tools; equipment; training; and enforcing policies and procedures. Continuing with a compliance focus will achieve only marginal gains.

To improve Essential Energy's long-term safety performance, the business needed to explore a new way of thinking and to test new ways of working to meet current challenges. This includes an increased focus on leading safety indicators (hazards, severity, safety culture) rather than lagging indicators, and opportunities for improving processes and work practices to enable safe outcomes.

The HSE team engaged a consultant whose 'Safety Differently' program will review the current safety management systems and practices to understand current performance and identify opportunities for improvements.

The program will specifically look for opportunities for people to be the solution; for safety to be about creating successful outcomes; and for safety to be an opportunity to take responsibility to create a better workplace.

Phase one of the review commenced in July 2017 and comprises two stages. The first, the embedded discovery stage, includes site visits where normal/everyday work is being observed and explored. The aim is to identify the conditions that contribute to everyday challenges in the workplace and obtain an independent perspective to chart what actually happens, disconnected from ideas of what should happen (policy and process). Field visits were held in the Southern Region in late July, with further field visits underway in both the Northern and North Coast Regions in mid-August.

The second stage, the Strategic Insights stage, comprises a review of existing safety documentation and interviews with both frontline staff and senior stakeholders, to identify opportunities for Essential Energy to develop and redesign its management system to better align with Safety Differently principles.

Planning for phase two of the strategic review, the Design phase, will commence mid-September and will include the development of a framework for implementing changes to Essential Energy's Safety Management System to align with the Safety Differently approach.

LIFELINE NEEDS ANALYSIS

Regional, rural, and remote NSW reports a particularly high suicide rate. Recognising that these communities encompass Essential Energy's customers and employees, the business, in partnership with Lifeline, undertook an analysis of its health and wellbeing programs and initiatives. This was a proactive undertaking to better understand existing activities, the veracity of those activities, and the impact and genuine buy-in of the Essential Energy workforce.

More than 1,000 Essential Energy employees were engaged for their feedback on these initiatives, which, along with detailed discussions with senior management and executives, has shaped recommendations targeting areas for improvement, in addition to the continuation of some current programs which are working well.

The recommendations from the Lifeline Needs Analysis will form a key input into the continual improvement of the Health and Wellbeing framework as part of Essential Energy's *Three Year Plan.*

Orange coloured arc-rated PPE was introduced for Essential Energy field employees.

IMPROVEMENTS TO HEALTH SAFETY AND ENVIRONMENT (HSE) CONSULTATION COMMITTEES

In January 2017, Essential Energy welcomed newly elected Health and Safety Representatives (HSRs) to three Regional HSE consultation committees.

Feedback from the first two meetings in 2017 has been positive and Essential Energy will continue to work with the committees to improve their effectiveness in creating a safer workplace. In addition to capturing better overall business representation, the committees have introduced 'Safety Solve', a standard agenda item where each committee focuses on developing solutions to a topical safety concern, with the outcomes later shared across the three regional committees. Safety Solve outcomes have increased awareness and supported initiatives such as reducing the number of motor vehicle related incidents in depots.

INTRODUCTION OF ARC RATED CLOTHING

Over the year, Essential Energy introduced a significant upgrade of the Personal Protective Equipment (PPE) of employees working on or near the network. This upgrade to arc rated garments was in response to industry awareness of the effects of arc flash and the flammability of cotton clothing and was a direct recommendation of the Energy Networks Association (ENA).

Essential Energy clothing colours were changed to orange to facilitate identification that the correct PPE was being worn when working on or near the network, and additional items such as arc rated raincoats and arc flash face shields have also been made available.

Essential Energy also communicated with Accredited Service Providers (ASPs) to ensure they were aware of the need to wear arc rated PPE when working on or near the network.

Another layer of risk control was added with the introduction of several Job Safety Analysis processes to mitigate the risk of an arc flash incident.

ENVIRONMENTAL MANAGEMENT SYSTEM

The community has valid expectations that Essential Energy will act in an environmentally conscious manner, minimising and mitigating its impact on the environment. This includes complying with environmental legislation.

Essential Energy maintains accreditation to the *International Standard for Environmental Management Systems ISO 14001:2004*, and through the Health, Safety and Environment Management System, aims to implement policies and initiatives to achieve best practice environmental management and compliance with statutory obligations. Essential Energy is committed to environmental due diligence.

During FY2016-17, three reportable environmental incidents were notified to the Regulator, with all being appropriately managed. During the reporting period, there were no NSW Environment Protection Agency (EPA) fines issued, although there was one prosecution relating to unauthorised clearing of vegetation by a contractor within a National Park in 2013 (*see Summary of Legislative Changes and Judicial Decisions for more information*).

CONTAMINATED LAND MANAGEMENT

Essential Energy's Contaminated Land Management (CLM) program is managed through a risk minimisation process. It incorporates progressive and prioritised site investigations, followed by a prompt response through ongoing remediation, when necessary. This approach is proactive and demonstrates diligence and corporate responsibility.

This year the CLM program has undertaken:

- site investigation works at Narrandera, Young and Hay;
- remediation works at former depots located at Junee, Culcairn, Corowa, Griffith and Cowra;
- monitoring at sites located at Bulahdelah, Mudgee, Koolkhan and Brewarrina; and
- property contamination review and detailed site investigation planning for numerous sites across NSW.

HAZARDOUS SUBSTANCE MANAGEMENT

Essential Energy's Network Fatal Risk (NFR) program highlights the highest risk activities undertaken within Essential Energy's business. Exposure to hazardous materials is defined as Essential Energy's NFR2.

At Essential Energy the online chemical management system, ChemAlert, contains a stock register list of all approved chemicals that employees can use and provides access to Safety Data Sheets and other information relating to a chemical or hazardous substance.

This year, Essential Energy upgraded the ChemAlert system and developed iDevice access capability and additional training resources to ensure employees have ready access to this system at all locations and worksites.

A focus on improving Asbestos Management systems throughout FY2016-17, the result of internal audit findings, has also seen a review of Essential Energy's procedures and processes for managing asbestos.

Throughout this year, extensive asbestos-related information has been communicated to employees, and an update of training resources and the roll-out of an Asbestos Awareness course to more than 2,000 staff has seen an improved understanding of asbestos-related issues across the workforce.

Initiatives aimed to better implement controls for working near asbestos containing materials, identification/ remediating contaminated areas, storing/transporting of asbestos containing materials, asbestos management plans and upgrading asbestos registers, have all commenced.

KOOLKHAN POWER STATION

Following the demolition in 2015 of the old coal-fired Koolkhan Power Station (1954-1981), two years of remediation, validation and revegetation efforts were undertaken. All infrastructure from the site has been removed, with the site now resembling a grassy field supplemented by tree plantings.

To preserve the heritage and create a permanent record, Essential Energy facilitated a photographic archive of the old power station, the collection and management of moveable heritage items, and the retrieval and management of documents that were on site. An oral history through a compilation of memories of some who worked at Koolkhan has also been published to chronicle its history. This booklet, *Voices of the Khan: History of the Koolkhan Power Station and Its People,* has been distributed to local schools and libraries, as well as to Oral History Australia and the State Library of NSW.

CLEAN-UP ESSENTIAL ENERGY SITES

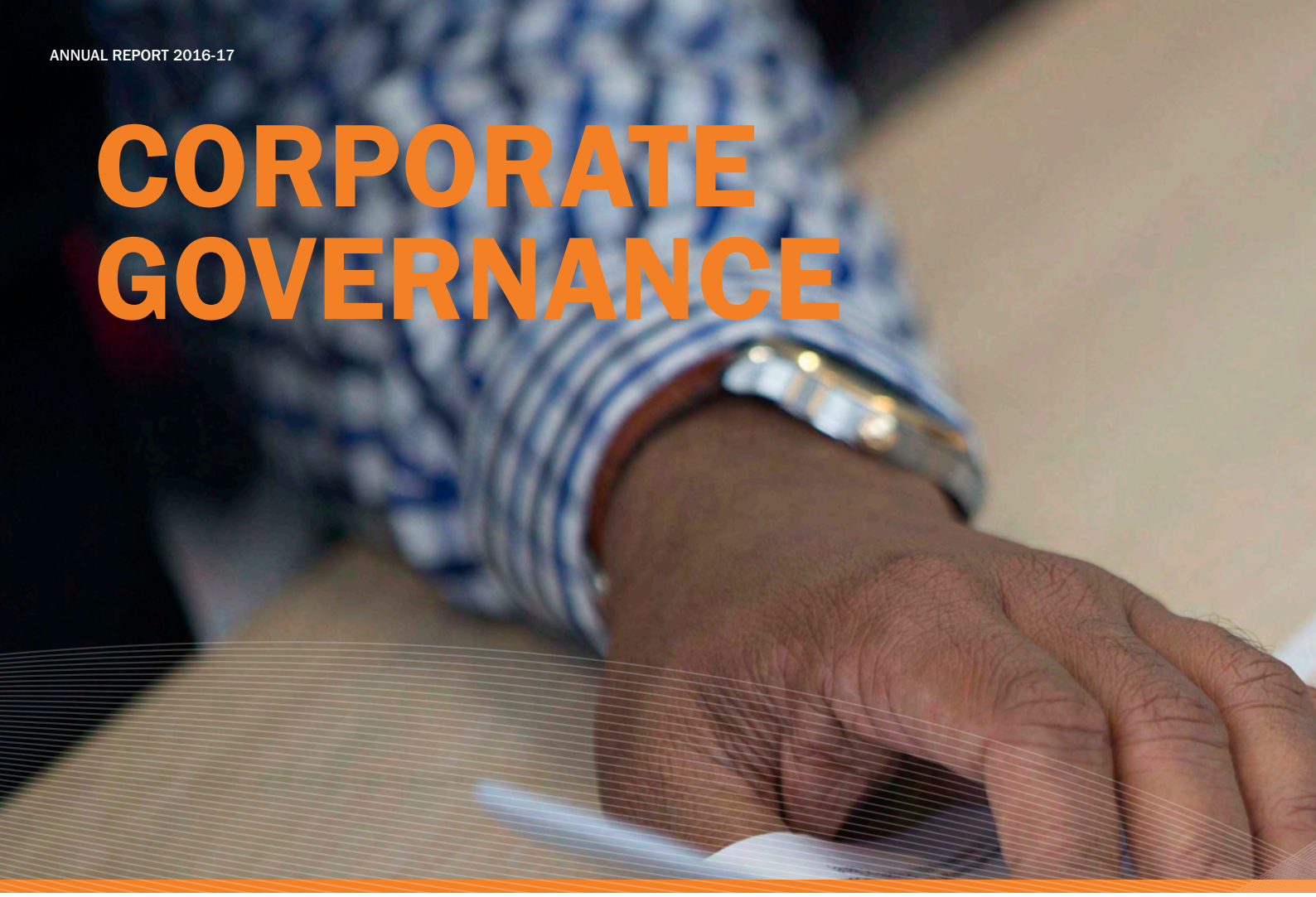
In March 2017, in association with National Clean Up Australia Day, Essential Energy held a clean-up event for all depots and office sites.

Activities occurred across a dedicated clean-up week and provided a platform to promote safety by allowing employees time out from their normal work routine to make practical and worthwhile contributions to tidy their worksites and dispose of unwanted resources in a responsible manner.

More than 100 sites participated, removing accumulated waste from Essential Energy depots and offices, with many locations taking the initiative to recycle or donate useable items to local schools and charities. These included the Men's Shed, Scouts, Willing and Able, and other local charity outlets. Others put items up for auction, saving on disposal costs and raising more than $11,000.

Koolkhan Power Station circa 1955.

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 commitment to high standards of business integrity, ethics, and professionalism across all activities.

Essential Energy's *Code of Conduct* sets out the expectations for employee behaviour that are fundamental to the business's success. The Code encourages a culture of responsibility and accountability that promotes ethical and responsible decision making.

Good governance helps to ensure the delivery of outcomes sought by shareholders; supports people and business operations; and helps ensure Essential Energy adopts sound ethical, financial and risk management practices to benefit customers, and effective compliance and auditing programs.

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 Chief Executive Officer (CEO) is responsible to the Board for the day-to-day management of the company and leads the Executive Leadership Team (ELT) in delivering the approved strategy and achieving the performance targets set by the Board.

The Board operates in accordance with its Charter, which provides an overarching statement of authority and accountability for governance and management of Essential Energy, consistent with the Constitution, applicable legislation, Government policy and Essential Energy's Code of Conduct.

All directors on the Board of Essential Energy (with the exception of the CEO) are appointed by the voting shareholders (the NSW Treasurer and Minister for Finance, Services and Property). 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. Directors 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 Board meetings, so that 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:

- **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, risk management, compliance, and fraud prevention. In addition, the Committee examines any other matters referred to it by the Board.
- **Board Regulatory**
  The Board Regulatory Committee meets as required and assists the Board in fulfilling its regulatory responsibilities, principally in relation to Essential Energy's AER 2019-24 Regulatory Proposal.

  Rosemary Sinclair, CEO of Energy Consumers Australia, and Euan Morton, Principal at Synergies Economic Consulting, are independent advisors to the Regulatory Committee.
- **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**
  There is provision within Essential Energy's current Board and Committee Charters to meet as required to assist the Board in fulfilling its responsibilities with regard to director appointments and reappointments. The provision provides for the membership of the Committee to consist of the Chair of the Board and two non-executive directors.

ORGANISATIONAL STRUCTURE AS AT 30 JUNE 2017

BOARD OF DIRECTORS

Chief Executive Officer
John Cleland

Transformation
Andrew Hillsdon

- Corporate Strategy
- Corporate Planning and Reporting
- Program Management Office
- People and Change Management

Safety, Human Resources and Environment
David Nardi

- Health, Safety and Environment
- Human Resources and Organisation Development
- Employee Relations
- Technical Training Delivery
- Property Servcies
- Fleet Services
- Electrical Safety and Authorisations

Network Services
Luke Jenner

- System Control
- Regional Operations
- Service Performance and Insight
- External Delivery Projects
- Works Delivery and Enablement
- Transmission Services
- Inventory and Logistics
- Water Operations

Chief Financial Officer
Justin Hillier

- Network Regulation
- Finance Transactions and Services
- Commercial and Decision Support
- Strategic Sourcing

Asset Management
Peter Bereicua (Acting)

- Commercial Services
- Engineering and Planning
- Asset Systems and Data Management
- Network Design
- Network Assets
- Delivery Strategy

ESSENTIAL ENERGY BOARD OF DIRECTORS

PATRICIA MCKENZIE
LLB, FAICD

NON-EXECUTIVE DIRECTOR

Commenced: 14 April 2016
Current term: 14 April 2016 – 13 April 2019

- Chair of the Board;
- Chair of the Board Regulatory Committee;
- Member, Audit and Risk Committee; and
- Member, Safety Human Resources and Environment Committee.

OTHER DIRECTORSHIPS
- Healthdirect Australia, Chair; and
- APA Group, director.

DIANA EILERT
BSc, MComm, GAICD

NON-EXECUTIVE DIRECTOR

Commenced: 23 June 2014
Current term: 23 June 2017 – 22 June 2020

- Member, Audit and Risk Committee (from 28 April 2017); and
- Member, Safety, Human Resources, and Environment (to 28 April 2017).

OTHER DIRECTORSHIPS
- A.T. Kearney Advisory Board, member;
- Navitas, director;
- Sydney Festival, director; and
- Super Retail Group, director.

JOHN FLETCHER
BSc, MBA

NON-EXECUTIVE DIRECTOR

Commenced: 13 October 2016
Current term: 13 October 2016 – 12 October 2019

- Chair of the Audit and Risk Committee; and
- Member, Board Regulatory Committee.

OTHER DIRECTORSHIPS
- APA Group, director.

PHILIP GARLING
B.Build, FAIB, FAICD, FIE (Aust)

NON-EXECUTIVE DIRECTOR

Commenced: 1 January 2013
Current term: 1 January 2016 – 31 December 2018

- Chair, Safety, Human Resources, and Environment Committee.

OTHER DIRECTORSHIPS
- Charter Hall Limited, director;
- Charter Hall Funds Management Limited, director;
- Downer EDI Limited, director;
- Energy Queensland Limited, Chairman;
- Ergon Energy Queensland Pty Ltd (the retail subsidiary of Energy Queensland), director;
- Spotless Group Holdings Limited, director;
- Tellus Holdings Limited, Chair;
- Water Polo Australia Limited, President.

Chief information Officer
John Ansley

eTech Transformation

Technology Transformation

Program and Project Delivery

eTech Operations

Telecommunications

General Counsel and Company Secretary
Michael Bowan

Legal

Internal Audit and Compliance

Risk

Governance

Regulation and Innovation
Gary Humphreys

Network Regulation

Innovation and Market Analytics

Power of Choice

Customer and Stakeholder Engagement
Roger Marshall

Customer Services

Government Relations

Corporate Marketing

Corporate Media

Internal Communications

PATRICK STRANGE
PhD BE (Hons)

NON-EXECUTIVE DIRECTOR

Commenced: 25 November 2013
Current term: 25 November 2016 – 24 November 2019

- Member, Safety, Human Resources and Environment Committee.

OTHER DIRECTORSHIPS

- Auckland International Airport Limited, director;
- Chorus Limited, Chair;
- Mighty River Power, director; and
- NZX, director.

JOHN CLELAND
BEc DipFinMan CA FFin, GAICD

CEO AND EXECUTIVE DIRECTOR

Commenced: 18 July 2016

- Member, Board Regulatory Committee;
- Attendee, Audit and Risk Committee; and
- Attendee, Safety, Human Resources and Environment Committee.

PETER DODD
PhD, MSc MCom, BCom, Dip Ed

NON-EXECUTIVE DIRECTOR

Commenced: 1 July 2012
Current term: 1 July 2012 – 31 December 2016
Resigned: 26 October 2016

- Chair, Audit and Risk Committee; and
- Member, Nominations Committee.

LAURA REED
BBus, MBA, FCPA

NON-EXECUTIVE DIRECTOR

Commenced: 1 January 2013
Current term: 1 January 2016 – 31 December 2018
Resigned: 30 November 2016

- Member, Audit and Risk Committee; and
- Member, Nominations Committee.

BOARD AND BOARD COMMITTEE MEETINGS HELD IN FY2016-17

1 July 2016 – 30 June 2017 Directors' Attendance Schedule

	ESSENTIAL ENERGY BOARD OF DIRECTORS' MEETINGS		AUDIT AND RISK COMMITTEE[1]		BOARD REGULATORY COMMITTEE[2,3]		SAFETY HUMAN RESOURCES AND ENVIRONMENT COMMITTEE[1]		NOMINATIONS COMMITTEE[2]	
DIRECTOR	A	B	A	B	A	B	A	B	A	B
P McKenzie[4]	10	8	5	5	4	4	1	2	–	–
P Dodd[5]	4	4	1	1	–	–	–	-	–	–
D Eilert[6]	10	8	1	0	–	–	3	2	–	–
J Fletcher[7]	6	6	4	4	4	4	–	-	–	–
P Garling	10	9	–	–	–	–	4	4	–	–
L Reed[8]	6	5	1	1	–	–	–	-	–	–
P Strange	10	9	–	1	–	–	4	2	–	–
J Cleland	10	10	5	5	4	4	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 The CEO attends the Audit and Risk Committee ("ARC") and Safety, Human Resources and Environment ("SHRE") Committees

2 Meets as and when required in accordance with its Charter

3 The Board Regulatory Committee was established on 15 March 2017

4 Patricia McKenzie became a member of the SHRE Committee, effective 31 May 2017

5 Peter Dodd resigned as a director of Essential Energy, effective 26 October 2016

6 Diana Eilert ceased being a member of the SHRE Committee and commenced as a member of the ARC, effective 28 April 2017

7 John Fletcher was appointed as a director of Essential Energy, effective 13 October 2016 and Chair of the ARC, effective 27 October 2016

8 Laura Reed resigned as a director of Essential Energy, effective 30 November 2016

INDEMNITY NOTE

Section 3 of the *NSW Treasury Commercial Policy Framework State Owned Corporation Indemnity Policy TPP03-6 provides* that State-owned Corporations must disclose indemnities in their Annual Reports.

On 13 October 2016, Mr John Fletcher was appointed as a director of Essential Energy.

On 11 November 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 Mr John Fletcher in his capacity as a director of Essential Energy. Each other director, as well as Mr Gary Humphreys, is indemnified by Essential Energy to the extent permitted.

ESSENTIAL ENERGY'S EXECUTIVE LEADERSHIP TEAM AT 30 JUNE 2017

The management of Essential Energy is led by an Executive Leadership Team (ELT) which includes the CEO (appointed 18 July 2016), Chief Financial Officer, General Managers from key operational areas and the General Counsel and Company Secretary.

The CEO has 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 CEO is accountable to the Board for the governance of the operations of the company, delivery of the agreed strategy and reform initiatives, and leads the ELT.

The ELT provides governance and oversight for matters of significance in relation to policy, strategy, and governance frameworks for Essential Energy.

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

At 30 June 2017, Essential Energy's Executive Officers were 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 'short-term incentive' payment that represents the variable component of total remuneration for each Executive Officer.

FIXED REMUNERATION

As a condition of employment, fixed remuneration of Executive Officers is reviewed in line with market trends annually in July, 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 SHORT-TERM INCENTIVE PAYMENT

Annual Short-term Incentive payments are made to eligible Executive Officers 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.

EXECUTIVE REMUNERATION

All Executive Officers have their fixed remuneration reviewed in July each year. A 2.5 per cent average increase was implemented from 1 October 2016.

Senior managers accounted for 8.4 per cent of Essential Energy's employee related expenditure in FY2016-17, compared with 7.3 per cent in FY2015-16.

The composition of the ELT at 30 June 2017 is shown below:

JOHN CLELAND

BEc, DipFinMan, CA FFin, GAICD

CHIEF EXECUTIVE OFFICER

JOHN ANSLEY

MBA

CHIEF INFORMATION OFFICER

PETER BEREICUA

MBA

ACTING GENERAL MANAGER ASSET MANAGEMENT

MICHAEL BOWAN

BA LIB (Hons)

GENERAL COUNSEL AND COMPANY SECRETARY

JUSTIN HILLIER

BBus, CA, GDipAppFinInv, FINSIA

CHIEF FINANCIAL OFFICER

ANDREW HILLSDON

BBus, MAppFin

PROGRAM DIRECTOR TRANSFORMATION

GARY HUMPHREYS

GAICD

EXECUTIVE GENERAL MANAGER REGULATION AND INNOVATION

DAVID NARDI

MBus, MAICD

GENERAL MANAGER SAFETY, HUMAN RESOURCES AND ENVIRONMENT

LUKE JENNER

BE (Hons), EMBA, MAICD

GENERAL MANAGER NETWORK SERVICES

ROGER MARSHALL

BSc (Hons), Agricultural & Food Marketing, FPRIA

GENERAL MANAGER CUSTOMER AND STAKEHOLDER ENGAGEMENT

EXECUTIVE REMUNERATION FY2016-17

NAME	POSITION AT 30 JUNE 2017	ANNUAL REMUNERATION PA (Excl. Short Term Incentive) AT 30 JUNE 2017[1]	SHORT TERM INCENTIVE FY 16/17[2]
John Cleland	Chief Executive Officer (CEO)	$742,000	$140,076
John Ansley	Chief Information Officer	$380,000	$31,598
Peter Bereicua	Acting General Manager Asset Management	$331,075	$46,764
Michael Bowan	General Counsel & Company Secretary	$350,000	$23,466
Paul Brazier	Acting General Manager Asset Management	$310,000	$38,750
Justin Hillier	Chief Finance Officer	$360,000	$36,679
Andrew Hillsdon	Project Director Transformation	$260,000	$28,548
Gary Humphreys	Executive General Manager Regulation and Innovation	$484,600	$74,389
Luke Jenner	General Manager Network Services	$370,000	$47,340
Roger Marshall	General Manager Customer and Stakeholder Engagement	$300,000	$38,477
David Nardi	General Manager Safety, Human Resources & Environment	$335,000	$39,053

[1] Excludes “short term incentive” payment

[2] “Short term incentive” payments are based on 2016-17 performance against key criteria, approved by the Board in August 2017 and paid in FY17-18.

SENIOR MANAGERS[1]

	2015/16[3]		2016/17[4]	
BAND[2]	FEMALE	MALE	FEMALE	MALE
Above Band 4[5]		1		2
Band 4				
Band 3	1	6		8
Band 2	1	6	2	8
Band 1	20	95	20	103
Totals	22	108	22	121

		AVERAGE REMUNERATION	
BAND	BAND	2015/16 $	2016/17 $
Above Band 4	$522,500 +	$767,000	$716,425
Band 4	$452,251 – $522,500		
Band 3	$320,901 – $452,250	$353,791	$393,311
Band 2	$255,051 – $320,900	$272,214	$269,645
Band 1	$178,850 – $255,050	$201,892	$203,179

1 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 person's designation)." Essential Energy reports all contract managers who are paid according to the NSW Public Service SES Bands.

2 Bands are as defined in the 2016 NSW Public Service Executive Remuneration Framework (dated 31 July 2016) under the Government Sector Employment Act 2013. Reporting is limited to managers employed on individual employment contracts.

3 Average remuneration amounts for 2015-16 have been re-calculated to accommodate the revised PSC bands for 2016-17 reporting.

4 Average remuneration is based on Full Time Equivalent (FTE) Fixed Annual Remuneration (FAR) as at 30 June 2017, 60 percent of the maximum short-term incentive payment for eligible employees calculated on FTE FAR and car allowance, if applicable.

5 Includes managers on individual contracts receiving remuneration at levels above Band 4.

CHANGES TO ESSENTIAL ENERGY'S EXECUTIVE OFFICERS AND EXECUTIVE REMUNERATION

At the end of the reporting period, Essential Energy employed 143 officers who received a total remuneration package equal to, or exceeding, the NSW Senior Executive Service Level 1 (SES1). This represents an increase of 13 officers compared to the previous financial year. The increase was mainly due to the recruitment of new senior leader positions, including the CEO, following significant organisational change.

The number of female employees receiving a total remuneration package of SES1 or above, was 22.

CODE OF CONDUCT

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

Continued communications via internal publications provide employees with an understanding of ethical behaviour, their obligations and rights in reporting behaviour that is not in keeping with Essential Energy's *Code of Conduct,* and of the protections available to them if their report is assessed to be a Public Interest Disclosure pursuant to the *Public Interest Disclosures Act 1994.*

This encourages a positive reporting culture and a workforce that is well educated on behavioural and ethical expectations.

COMPLIANCE

Essential Energy's 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 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.*

INSURANCE

Essential Energy reviews the adequacy of insurance policy coverage and limits annually. All participating insurers must meet acceptable financial security requirements. Management processes are in place to ensure effective governance of claims.

FRAUD AND CORRUPTION MANAGEMENT

Key initiatives in Essential Energy's 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 aimed at maintaining and supporting a strong governance framework.

MANAGING BUSINESS RISK

During FY2016-17, progress continued to align and embed a consistent risk management 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 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.*

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

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 is aligned to *ISO 22313 – Societal security – Business continuity management systems*, and sets out activities that must take place on a periodic basis to govern, improve and maintain the business's incident management capability.

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

INTERNAL AUDIT

The Board and ELT are committed to operating an objective and independent internal audit function.

Internal audits assist management to achieve Essential Energy's statutory and business objectives by adopting a disciplined approach to evaluating and improving risk management, controls, governance, and efficiencies in processes.

During the year, Essential Energy completed 29 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 regular publication of information about Essential Energy's reporting processes.

During FY2016-17, Essential Energy received 17 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 was one PID received in relation to maladministration, and none in relation to serious and substantial waste of public money or government information contravention. Essential Energy finalised 13 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

FINANCE REPORT

FINANCIAL RESULTS	2015-16 RESULT	2016-17 RESULT	2016-17 SCI	VARIATION TO PRIOR YEAR	VARIATION TO SCI
Network revenue ($M)*	1,241.2	1,291.3	1,245.3	50.1	46.0
Earnings before interest, tax, depreciation and amortisation (EBITDA) ($M) ~	674.2	750.0	562.6	75.8	187.4
Earnings before interest and tax (EBIT) ($M)	325.4	408.8	213.8	83.4	195.0
Operating profit (loss) before tax ($M)	(8.0)	71.5	(143.8)	79.5	215.3
Operating profit (loss) after tax ($M)	(1.2)	50.0	(100.7)	51.2	150.7
Dividend ($M)	28.1	27.9	27.9	(0.2)	(0.0)
Total Distribution (Dividend + Current Income Tax Expense + Government Guarantee Fee) ($M)	128.8	150.0	126.4	21.2	23.6
Return on capital employed (%)	4.5%	5.5%	2.9%	1.0%	2.6%
Return on assets (%) ^	3.9%	4.9%	2.6%	1.0%	2.3%
Return on equity (%) ^	(0.1%)	2.2%	(4.4%)	2.2%	6.6%
Capital Expenditure ($M) #	429.4	414.1	450.0	(15.4)	(36.0)

* Network Revenue excludes alternative control revenue, capital contributions and 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 the customer contributions (including gifted assets) which are included in property, plant and equipment, and intangible asset additions for the period.

~ The SCI budgeted EBITDA classifies the fleet depreciation expense as operating expenditure while the statutory results classify the fleet depreciation expense as depreciation. To enable comparison with the SCI the current and prior year EBITDA results include an adjustment for net fleet depreciation of $12.1M (2016: $14.1M).

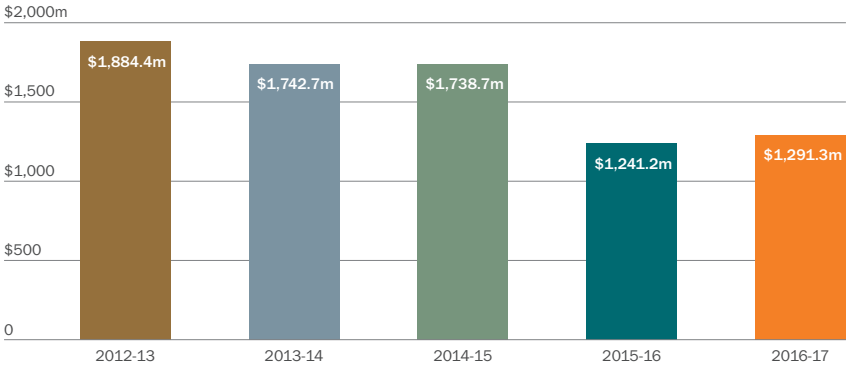
The $50.1M (4.0 per cent) increase in network revenue from the prior year was mainly due to the average tariff increase of 3.6 per cent for the year.

The $75.8M increase in EBITDA against the prior year mainly reflects the increase in network revenue as discussed above. Lower operating costs were achieved in some areas through cost containment activities, which included an eight per cent reduction in the number of employees over the financial year. This was partly offset by increased vegetation management costs and a decrease in the allocation of support costs to capital.

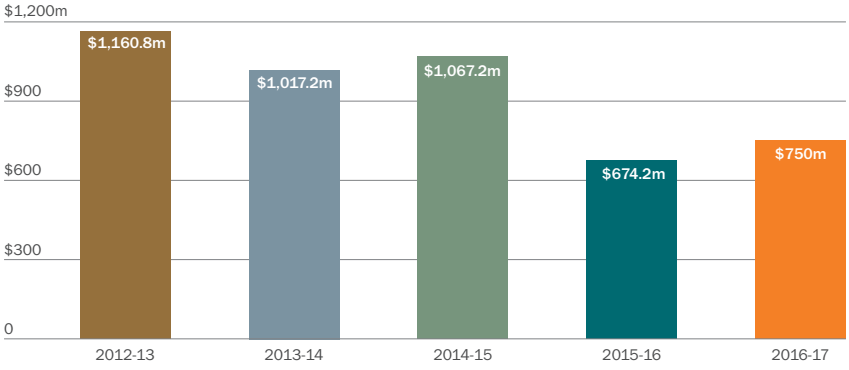
Essential Energy's operating profit after tax was $50.0M, compared to the 2016 $1.2M loss, mainly due to the increase in EBITDA offset by increased taxation. Finance costs increased by $3.9M compared to 2016.

PERFORMANCE AGAINST PRIOR YEAR ($M)

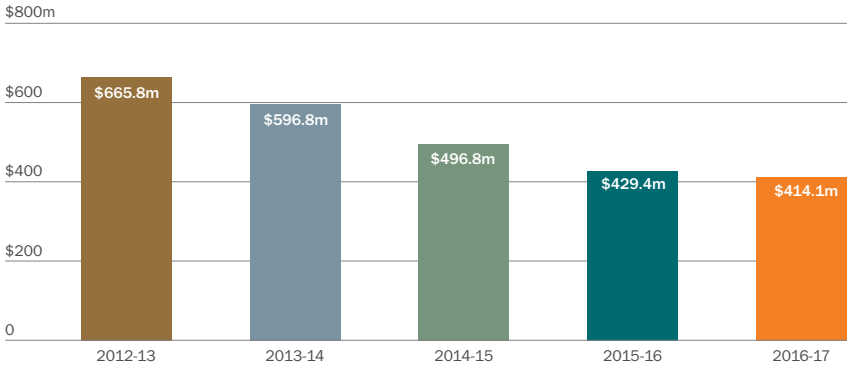
NETWORK REVENUE ($M)



EBITDA ($M)



CAPEX ($M)



The $15.4M reduction in capital expenditure against the prior year was mainly due to a reduction in the network capital program as well as the impact of cost containment activities, in response to the AER's reduction in revenue allowance for the 2014-19 regulatory control period.

DEBT

Total debt increased by $184.3M over the year as debt was needed to fund the capital expenditure program. The gearing ratio, calculated as debt divided by debt plus equity, increased marginally from 68.8 per cent to 68.9 per cent. There was a reduction in current debt as refinancing aims at achieving a 10-year trailing average portfolio in the medium term.

SHAREHOLDER RETURN

Return on capital employed, return on assets, and return on equity all increased significantly over 2016 returns as the business returned to profitability. Returns remain below long-term targets as Essential Energy realigns its costs to address the significant reduction in regulated revenue from 2016 (resulting from the 2014-19 AER determination).

Essential Energy's distributions to the NSW Government were $150.0M with dividends provided at 30 June 2017 of $27.9M, current income tax expense of $30.3M and government guarantee fee on debt of $91.8M. No ordinary dividend was declared. The final dividend comprises only the special dividend relating to Essential Energy's contribution to the NSW Government's Energy Rebate Program.

PERFORMANCE AGAINST STATEMENT OF CORPORATE INTENT

Essential Energy is required by legislation to submit a Statement of Corporate Intent (SCI) to the shareholders. The SCI encompasses the budget and represents the performance agreement between Essential Energy and shareholders, outlining the business's objectives and strategies, and defining its obligations to shareholders. Essential Energy's primary financial objective, as set out in its SCI, is to drive the financial health of the business to deliver a balanced outcome for customers, stakeholders, and shareholders.

The 2017 SCI considered the need to continue reducing costs over the medium term. Essential Energy has continued to focus on providing value for money to customers through increased productivity.

PROFIT RESULTS

Essential Energy's operating profit before tax was $71.5M, against a budgeted loss of $143.8M.

The better than budget profit result reflects:

- higher electricity distribution revenue driven by higher than anticipated energy consumption;
- reduced operating costs, particularly employee costs, contractor expenses, plant costs and professional services. The lower employee costs were a result of lower than budgeted employees during the year and lower than budget defined benefit superannuation expenses, long service leave and redundancy costs; and
- lower than expected net interest expenditure of $20.2M is due primarily to lower than budgeted debt and lower than budgeted interest rates.

CAPITAL WORKS PROGRAM

Essential Energy manages Australia's largest electricity network and the 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.

Essential Energy's capital expenditure for 2017, excluding gifted assets and customer contributions, was $414.1M, $36.0M below budget. Essential Energy's capital works program is underpinned by the Network Asset Management Plan, which sets priorities and determines the network investment required to meet the needs of communities.


essential
energy

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

CONTENTS

INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 30 JUNE 2017

INDEPENDENT AUDITOR'S REPORT

Essential Energy

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Essential Energy (the Corporation), which comprise the statement of financial position as at 30 June 2017, 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 statements:

- give a true and fair view of the financial position of the Corporation and the consolidated entity as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015
- comply with 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 the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

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

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

I have fulfilled my other ethical responsibilities in accordance with the APES 110.

Parliament 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
- precluding the Auditor-General from providing non-audit services.

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

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2017

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, 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 and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors must assess the ability of the Corporation and the consolidated entity to continue as a going concern except where they intend to liquidate the Corporation or cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- 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 statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Corporation 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
- about any other information which may have been hyperlinked to/from the financial statements.

Caroline Karakatsanis
Director, Financial Audit Services

13 September 2017
SYDNEY

STATEMENT BY DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2017

Statement by Directors
For the Year Ended 30 June 2017

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 2017 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.

John Cleland
Chief Executive Officer

Patricia McKenzie
Chair

Dated: 11 September 2017

11 September 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $M	2016 $M
Profit and loss			
Revenue	2	1,533.6	1,552.1
Expenses excluding finance costs	3(a)	(1,124.8)	(1,226.7)
Finance costs	3(b)	(337.3)	(333.4)
Profit/(loss) before income tax		71.5	(8.0)
Income tax (expense)/benefit	4	(21.5)	6.8
Profit/(loss) for the year		50.0	(1.2)
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss			
Superannuation defined benefits actuarial gains/(losses)	23(f)	68.8	(92.9)
Income tax (expense)/credit relating to items that will not be reclassified	4	(20.6)	27.9
		48.2	(65.0)
Items that will be reclassified subsequently to profit and loss			
Net gains on cash flow hedges		0.6	0.6
Income tax expense relating to items that will be reclassified	4	(0.2)	(0.2)
		0.4	0.4
Total other comprehensive income/(loss) for the year net of tax		48.6	(64.6)
Total comprehensive income/(loss) for the year net of tax		98.6	(65.8)

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	2017 $M	2016 $M
ASSETS			
Current assets			
Cash and cash equivalents	6	0.5	0.6
Trade and other receivables	7	265.4	278.8
Inventories		20.3	19.1
Total current assets		286.2	298.5
Non-current assets			
Trade and other receivables	7	1.5	1.5
Property, plant and equipment	8	7,949.2	7,828.5
Intangible assets	9	162.0	153.9
Other non-current assets		0.4	0.5
Total non-current assets		8,113.1	7,984.4
Total assets		8,399.3	8,282.9
LIABILITIES			
Current liabilities			
Trade and other payables	10	254.1	282.5
Interest bearing liabilities	11	397.2	431.0
Current tax liabilities		9.5	2.8
Provisions	12	215.0	242.2
Deferred revenue	13	4.9	3.5
Total current liabilities		880.7	962.0
Non-current liabilities			
Interest bearing liabilities	11	4,831.6	4,613.5
Deferred tax liabilities	5	222.4	210.4
Provisions	12	105.8	208.9
Total non-current liabilities		5,159.8	5,032.8
Total liabilities		6,040.5	5,994.8
Net assets		2,358.8	2,288.1
EQUITY			
Contributed equity		130.5	130.5
Reserves		1,155.7	1,155.3
Retained earnings		1,072.6	1,002.3
Total equity		2,358.8	2,288.1

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Contributed equity $M	Asset revaluation reserve $M	Hedge revaluation reserve $M	Retained earnings $M	Total equity $M
Balance at 1 July 2016	130.5	1,157.3	(2.0)	1,002.3	2,288.1
Profit for the year	–	–	–	50.0	50.0
Other comprehensive income					
Net increase in reserves net of tax	–	–	0.4	–	0.4
Superannuation defined benefits actuarial gains net of tax	–	–	–	48.2	48.2
Total comprehensive income for the year	–	–	0.4	98.2	98.6
Transactions with owners recorded directly in equity					
Dividend provided for	–	–	–	(27.9)	(27.9)
Total transactions with owners	–	–	–	(27.9)	(27.9)
Balance at 30 June 2017	130.5	1,157.3	(1.6)	1,072.6	2,358.8

	Contributed equity $M	Asset revaluation reserve $M	Hedge revaluation reserve $M	Retained earnings $M	Total equity $M
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 in reserves net of tax	–	–	0.4	–	0.4
Superannuation defined benefits actuarial losses 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	–	–	–	(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.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $M	2016 $M
Cash flows from operating activities			
Receipts from customers		1,610.0	1,671.0
Payments to suppliers and employees		(992.1)	(1,067.6)
Interest paid		(340.0)	(333.0)
Income taxes paid		(23.7)	(35.1)
Net cash inflow from operating activities	22	254.2	235.3
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(416.8)	(439.1)
Proceeds from sale of property, plant and equipment		5.2	13.0
Proceeds from sale of investment property		–	7.3
Net cash outflow from investing activities		(411.6)	(418.8)
Cash flows from financing activities			
Proceeds from borrowings		201.8	453.7
Repayment of borrowings		(16.4)	(211.3)
Dividends paid		(28.1)	(58.7)
Net cash inflow from financing activities		157.3	183.7
Net decrease in cash and cash equivalents held		(0.1)	0.2
Cash and cash equivalents at the beginning of the year		0.6	0.4
Cash and cash equivalents at the end of the year	6	0.5	0.6

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 2017

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting entity

Essential Energy (the Corporation) is a New South Wales (NSW) statutory State Owned Corporation 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 current and prior year, had immaterial assets and liabilities and was de-registered on 3 August 2016. There were no significant differences between the parent entity and the consolidated entity financial information. The information presented and disclosed in the financial statements is for both the parent entity and the consolidated entity.

(b) Basis of preparation

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.

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

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*.

(c) Fair value measurement

The Corporation measures provisions and items of property, plant and equipment at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 15.

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; and

> 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.

(d) Use of estimates and judgements

The preparation of financial statements require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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(j), 8 – Property, plant and equipment

Note 1(f), 7 – Unread meters

Note 1(k), 9 – Intangible assets

Note 1(s), 12 – Provisions

Note 15 – Fair value measurements

Note 23 – Superannuation – Defined benefit plans

(e) 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.

(f) 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 per cent change in average tariff rates will result in a change in accrued revenue of $12.3M (2016: $11.4M) and $15.2M (2016: $14.6M) respectively.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Excess/shortfall in regulatory revenue

Network Use Of System revenue comprises of the following three components:

- Distribution Use Of System (DUOS) 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.

The AER's 2014-19 determination was set aside by the Australian Competition Tribunal (ACT) on 20 May 2015. The AER applied for a Judicial Review of the ACT's decision with the Federal Court which was heard in October 2016. On 24 May 2017, the Federal Court dismissed the majority of the AER's application for judicial review of the decision by the ACT. The Federal Court decision will likely result in the AER re-making elements of its 2014-19 determination. Until the 2014-19 determination is finalised the final revenue for the 2014-19 period and the amount of any adjustment of future prices will not be known.

(ii) 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.

(iii) 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.

(iv) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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 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 at the date of revaluation less any subsequent accumulated depreciation and impairment losses. The fair value of system assets and land and buildings is determined using the income approach in accordance with AASB 13.

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

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

- Use of an estimate of likely future cash flows to be derived based on financial forecasts;
- 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 valued at least every three years in accordance with TPP 14-01 and AASB 13. In other years an interim management valuation 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 valuation is undertaken where there is an indication that the valuation may differ from the carrying value by greater than 20 per cent. Fair value is calculated on a 'cash generating unit' (CGU) basis using the discounted cash flow model. A comprehensive valuation was completed at 30 June 2017.

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 valuation. This is because all components within the network must work together in order to reliably supply electricity. Further, due to the specialised nature of the Corporation's network, system assets and land and buildings cannot be readily sold to third parties for different uses.

The recoverable amount of the Water CGU was estimated to be $nil as at 30 June 2017 (2016: $nil), based on an income approach discounted cashflow model calculation. Accordingly, no value is carried in the books of the Corporation in respect of the Water CGU 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 TPP 14-01 as any difference is unlikely to be material).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Revaluations

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss. Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset, they are debited directly to the asset revaluation reserve. 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 TPP 14-01.

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

(k) 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(l) (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

(l) 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. Refer to note 1(j) for the method of calculation of the recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

(l) Impairment (continued)

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.

(m) 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. For short term payables with no stated interest rate this measurement is equivalent to the original invoice amount.

(n) Interest bearing liabilities

Interest bearing liabilities 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.

Borrowings shown as a current liability is nominally due for repayment within twelve months. However due to the availability of roll-over facilities supported by the NSW Treasury approved core debt limit and the liquidity of the underlying debt instruments, the Corporation may not necessarily need to repay these borrowings within twelve months.

(o) 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; or

> 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

(p) Employee benefits

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

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

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

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

The amounts recognised for preserved sick leave and long service leave are calculated in accordance with Australian Accounting Standard AASB 119: *Employee Benefits*. Actuarial assessment of preserved sick leave, annual leave and long service leave was calculated as at 19 April 2017 by Cumpston Sarjeant Pty Ltd. This was used as a basis for calculating the current year's provision by applying a methodology supplied by the actuary. Long service leave and the component of annual leave not expected to be wholly settled within twelve months have been discounted in accordance with AASB 119 using market yields on national government bonds as at reporting date. Employee benefits are recorded in the Statement of Financial Position as current liabilities where the Corporation has no unconditional right to defer settlement.

(q) 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.

(q) Superannuation (continued)

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.

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

(r) 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. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(s) 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.

(t) 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.

(u) 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 $10M or greater.

The amount of borrowing costs capitalised during the year was $1.9M (2016: $7.8M), and the capitalisation rate used to determine this amount was at a weighted average interest rate of 6.6 per cent (2016: 6.9 per cent).

(v) 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(w) 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.

(x) 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.

(y) 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 2016 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 2017 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 are assessed as follows:

- 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

	2017 $M	2016 $M
Network Use Of System revenue	1,270.7	1,221.9
Alternate Control Services revenue*	83.4	73.7
Water and waste water treatment revenue	20.6	19.3
Capital contributions	87.8	120.8
Other business revenue**	26.2	24.5
Solar Bonus Rebate Scheme recovery***	44.9	91.9
	1,533.6	1,552.1

* Alternate Control Services revenue includes regulated metering services and ancillary services revenue

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

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

3. EXPENSES

	Notes	2017 $M	2016 $M
(a) Expenses excluding finance costs			
Expenses relating to operating activities:			
Distribution of energy and other services		394.1	400.1
Employee benefits expense		277.2	300.1
Solar Bonus Scheme expense		45.0	93.8
Bad debts and impairment of trade receivables		1.1	1.3
Loss on disposal of property, plant and equipment		3.8	4.5
Operating leases rental		7.3	8.5
Superannuation expense (defined benefit plan) recognised in profit for the year	23(f)	4.7	2.9
Superannuation expense (defined contribution plan)		38.0	40.7
Total expenses relating to operating activities		771.2	851.9
Depreciation of property, plant and equipment	8	341.9	339.3
Plant and equipment depreciation capitalised*		(9.8)	(10.4)
Depreciation expense		332.1	328.9
Amortisation of intangible assets	9	15.5	19.6
Impairment losses on and write off of non financial assets:			
Write off of non-financial assets**		0.3	11.9
Impairment losses on capitalised assets***	8	5.7	14.4
Total write off and impairment losses on non-financial assets		6.0	26.3
Total expenses excluding finance costs		1,124.8	1,226.7

* 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 property, plant and equipment.

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

3. EXPENSES (CONTINUED)

	2017 $M	2016 $M
(b) Finance costs		
Interest and finance charges paid or payable	337.1	332.7
Unwinding of discount on provisions	0.2	0.7
Total finance costs	337.3	333.4
(c) Maintenance expenses (included in (a) above)		
Employee benefits expense	58.2	58.4
Contracted labour and other (non-employee related) expenses	292.1	292.6
	350.3	351.0

4. INCOME TAX EXPENSE/(BENEFIT)

	2017 $M	2016 $M
Recognised in profit and loss		
Current tax expense/(benefit)		
Current year	27.3	18.9
Adjustments for prior years	3.0	(5.4)
	30.3	13.5
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	(5.7)	(21.3)
Under provided in prior years	(3.1)	1.0
	(8.8)	(20.3)
Total income tax expense/(benefit) in profit and loss	21.5	(6.8)
Numerical reconciliation between tax expense and pre-tax net profit		
Profit/(loss) before tax	71.5	(8.0)
Income tax using domestic corporation tax rate of 30% (2016: 30%)	21.5	(2.4)
Increase/(decrease) in income tax expense due to:		
Over provided in previous years	(0.1)	(4.4)
Non-deductible expenses	0.1	–
Income tax expense/(benefit) on pre tax net profit	21.5	(6.8)
Income tax recognised in other comprehensive income		
Items not to be reclassified subsequently to profit and loss:		
– Actuarial gains or losses on defined benefits superannuation	20.6	(27.9)
Items to be reclassified subsequently to profit and loss:		
– Revaluation of hedge derivatives	0.2	0.2
Income tax (credited)/charged directly to other comprehensive income	20.8	(27.7)

5. DEFERRED TAX ASSETS AND LIABILITIES

	2017 $M	2016 $M
Recognised deferred tax assets and liabilities		
Deferred tax assets and liabilities are attributable to the following:		
Property, plant and equipment	311.2	338.4
Employee benefits	(21.7)	(48.0)
Provisions	(66.4)	(79.0)
Other items	(0.7)	(1.0)
Net tax (assets)/liabilities	222.4	210.4

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

Movement in temporary differences

	1 July 2016 $M	Recognised in profit and loss $M	Recognised in other comprehensive income $M	30 June 2017 $M
Property, plant and equipment	338.3	(27.1)	–	311.2
Defined benefit superannuation liabilities	(47.9)	5.6	20.6	(21.7)
Other provisions	(79.0)	12.6	–	(66.4)
Other items	(1.0)	0.1	0.2	(0.7)
	210.4	(8.8)	20.8	222.4

	1 July 2015 $M	Recognised in profit and loss $M	Recognised in other comprehensive income $M	30 June 2016 $M
Property, plant and equipment	374.1	(35.7)	–	338.4
Defined benefit superannuation liabilities	(24.1)	4.0	(27.9)	(48.0)
Other 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

6. CASH AND CASH EQUIVALENTS

	2017 $M	2016 $M
Cash at banks	0.5	0.6
Cash and cash equivalents in the statement of cash flows	0.5	0.6

The Corporation's exposure to interest rate risk and a sensitivity analysis of financial assets and financial liabilities are disclosed in note 14.

7. TRADE AND OTHER RECEIVABLES

	2017 $M	2016 $M
Current		
Trade receivables	71.9	63.0
Less: impairment of trade receivables	(1.2)	(0.9)
	70.7	62.1
Accrued revenue from unread meters	173.0	166.5
	243.7	228.6
Prepayments	8.2	7.0
Other receivables	14.1	43.4
Less: impairment of other receivables	(0.6)	(0.2)
	265.4	278.8
The movement in the impairment of receivables is detailed below:		
Opening balance at 1 July	1.1	0.5
– Additional impairment	1.2	1.6
– Amounts used	(0.5)	(1.0)
Closing balance at 30 June	1.8	1.1
Non-current		
Receivables	1.5	1.5
	1.5	1.5
The ageing of receivables past due but not impaired at 30 June 2017 is detailed below:		
Less than 3 months overdue	5.6	3.1
3 months to 6 months overdue	0.6	0.5
Later than 6 months overdue	1.4	0.9
	7.6	4.5

The Corporation's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in note 14.

8. PROPERTY, PLANT AND EQUIPMENT

	Note	Land and buildings $M	System assets $M	Plant and equipment $M	Total $M
At 1 July 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 amount		199.0	7,419.5	210.0	7,828.5
Year ended 30 June 2017					
Net carrying amount at start of year		199.0	7,419.5	210.0	7,828.5
Additions		2.0	445.8	29.9	477.7
Disposals and write offs		(2.1)	(4.1)	(3.2)	(9.4)
Depreciation expense	3(a)	(4.8)	(295.7)	(41.4)	(341.9)
Impairment	3(a)	–	(5.7)	–	(5.7)
Net carrying amount at end of year		194.1	7,559.8	195.3	7,949.2
At 30 June 2017 – fair value					
Gross carrying amount		205.8	7,977.8	460.6	8,644.2
Accumulated depreciation and impairment		(11.7)	(418.0)	(265.3)	(695.0)
Net carrying amount		194.1	7,559.8	195.3	7,949.2

	Note	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 amount		203.7	7,224.0	255.5	7,683.2
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, write offs and transfers		(0.7)	(18.5)	(10.3)	(29.5)
Depreciation expense	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 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 amount		199.0	7,419.5	210.0	7,828.5

	2017 $M	2016 $M
Assets under construction		
At the statement of financial position date, expenditure on construction in progress totalled:	442.9	453.4
Historic cost of revalued assets		
The carrying amount of assets had they been carried under the cost model is:		
Land and buildings	162.7	169.2
System assets	6,800.1	6,573.7
Plant and equipment	195.3	210.0

9. INTANGIBLE ASSETS

	Note	Easements $M	Computer software $M	Other $M	Total $M
At 1 July 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 2017					
Net carrying amount at start of year		81.1	46.5	26.3	153.9
Acquisitions		0.1	18.0	5.5	23.6
Amortisation	3(a)	–	(13.7)	(1.8)	(15.5)
Net carrying amount at end of year		81.2	50.8	30.0	162.0
At 30 June 2017					
At cost		81.2	94.9	32.8	208.9
Accumulated amortisation		–	(44.1)	(2.8)	(46.9)
Net carrying amount		81.2	50.8	30.0	162.0

	Note	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
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 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

	2017 $M	2016 $M
Intangible assets under construction		
At the statement of financial position date, the construction in progress of intangible assets totalled:	26.7	37.3

10. TRADE AND OTHER PAYABLES

	2017 $M	2016 $M
Trade payables	15.1	17.3
Interest payable	149.0	149.5
Accruals	66.8	93.1
Payroll related payables	12.8	10.8
Other payables	10.4	11.8
	254.1	282.5

Details regarding credit risk and liquidity risk including a maturity analysis of the above payables are disclosed in note 14.

11. INTEREST BEARING LIABILITIES

	2017 $M	2016 $M
Current liabilities		
Current portion of borrowings	397.2	431.0
Non-current liabilities		
Non-current portion of borrowings	4,831.6	4,613.5

Borrowings 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 14.

12. PROVISIONS

	Dividends $M	Employee benefits $M	Environmental and asset remediation $M	Workers' compensation $M	Restructuring $M	Other $M	Total $M
At 1 July 2016	28.1	378.6	19.9	6.4	12.1	6.0	451.1
Additional provisions	27.9	24.9	1.3	4.2	0.6	0.9	59.8
Amounts used	(28.1)	(65.0)	(3.2)	(0.9)	(6.7)	(3.0)	(106.9)
Amounts reversed	–	(70.7)	(2.5)	(1.5)	(6.0)	(2.6)	(83.3)
Unwinding of discount	–	–	0.1	–	–	–	0.1
At 30 June 2017	27.9	267.8	15.6	8.2	–	1.3	320.8
Current	27.9	173.4	5.2	7.2	–	1.3	215.0
Non-current	–	94.4	10.4	1.0	–	–	105.8
At 30 June 2017	27.9	267.8	15.6	8.2	–	1.3	320.8
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

12. PROVISIONS (CONTINUED)

(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 date. The dividend has regard to the annual performance agreement (Statement of Corporate Intent) with NSW Treasury. The dividend payable was approved by the shareholding ministers before 30 June 2017.

(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(p) and 1(q). 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 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 $173.1M (2016: $188.1M) 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, included in the current provision for employee benefits, reflect leave that is not expected to be taken or paid within the next 12 months.

	2017 $M	2016 $M
Current leave obligations expected to be settled after 12 months	141.4	154.1

The non-current provision for employee benefits includes $73.8M (2016: $161.1M) relating to the defined benefit superannuation liability as detailed in note 23.

(iii) Environmental and asset rectification

Provisions for environmental rectification work are expected to be settled between 2018 and 2022. In respect of obligations to be settled by 2018 the effect of the time value of money has been deemed to be immaterial. Where settlement is expected by 2022 a discount rate of 2.2 per cent (2016: 1.8 per cent) 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. Provision is made for lease make good costs expected to be incurred in the short term.

(iv) Workers' compensation

The Corporation is on a Loss Prevention and Recovery Scheme for its workers' compensation insurance. The scheme structure involves a premium calculation which is finalised over a four-year period finishing in 2021 for the 2016-17 financial year cover period. A discount rate of 2.1 per cent (2016: 1.6 per cent) has been applied.

During 2016-17, a consulting actuary, David A. Zaman, undertook the annual investigation of the Corporation's estimated liability for workers' compensation as at 30 June 2017. The liability is measured as the present value of future payments at 30 June 2017 and was estimated to be $8.2M over five years (2016: $6.4M).

(v) Restructure

Several restructures have occurred between 2013 and 2017. There were no provisions required for restructuring costs at 30 June 2017. In the prior year the provision related to the unavoidable costs ($12.1M) expected to be incurred as a result of the restructures. Most of the provision was utilised with the balance being reversed during the current year.

(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.

13. DEFERRED REVENUE

	2017 $M	2016 $M
Deferred government grants	3.3	3.4
Prepaid capital contributions	1.6	0.1
	4.9	3.5

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 construction and operation of desalination facilities and associated infrastructure and water treatment at Menindee. Following significant inflows of water into the Menindee Lakes and Broken Hill catchment in late 2016, the operating component of the project has concluded. The funding deed will remain in place to keep this facility in a 'care and maintenance' mode until the long term solution to secure Broken Hill's water supply is in place. The project components are practically complete, with finalisation expected during the 2017-18 financial year.

14. FINANCIAL INSTRUMENTS DISCLOSURE

(a) Financial risk management objectives and policies

Financial instruments comprise cash, trade debtors, trade creditors, short term deposits, borrowings 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 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 Corporation's credit risk on other assets is minimised as it transacts predominantly with other government owned entities. 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 (2016: $A500,000). Effective from 1 August 2017 the company's policy was revised, increasing the value from A$500,000 to $A1.0M. 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.

14. 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 Board approved risk management framework. 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

	2017 $M	2016 $M
Fixed rate		
Financial liabilities	(4,431.9)	(4,241.0)
	(4,431.9)	(4,241.0)
Floating rate		
Financial assets	0.5	0.6
Financial liabilities	(7.1)	(23.5)
	(6.6)	(22.9)
Inflation Indexed		
Financial liabilities	(789.8)	(780.0)
	(789.8)	(780.0)

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. The Corporation has variable rate financial liabilities at year end and it is estimated that a change in interest rates by one percentage point at reporting date would have an impact on the Corporation's profit before tax of $0.1M (2016: $0.2M). 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 16-03], the Corporation's objectives are to establish and maintain an efficient capital structure based on a target credit rating (BBB). The target capital structure to achieve the target credit rating over the medium term will be negotiated between Shareholders and the Corporation as part of the Statement of Corporate Intent process.

An efficient capital structure includes an acceptable range of gearing levels. The Corporation monitors debt levels using the gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus net debt.

	2017 $M	2016 $M
Total borrowings	5,228.8	5,044.5
Less: cash and cash equivalents	(0.5)	(0.6)
Net debt	5,228.3	5,043.9
Total equity	2,358.8	2,288.1
Total capital	7,587.1	7,332.0
Gearing ratio	68.9%	68.8%

(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.

As at 30 June 2017 the Corporation had an approved core debt borrowing limit of $6,109.6M (2016: $5,381.1M) of which $890.3M was unused as at 30 June 2017 (2016: $363.1M). The Corporation also has an approved New South Wales Treasury Corporation (TCorp) Come and Go Facility limit of $250.0M (2016: $250.0M) and approval to obtain a commercial bank overdraft facility limit of up to $15.0M (2016: $15.0M) to fund working capital (at 30 June 2017 a facility of $2.0M (2016: $2.0M) was in place). Planned future capital expenditure will be funded through TCorp borrowings. Future committed expenditure is disclosed in note 20.

While current liabilities are greater than current assets as at 30 June 2017 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 $242.9M (2016: $226.5M) unused and the commercial bank overdraft facility limit had $2.0M unused (2016: $2.0M). NSW Treasury has approved a core debt borrowing limit of $6,109.6M. On 22 June 2017, NSW Treasury confirmed that they will not require repayment of existing debt during the year ending 30 June 2018.

The Corporation's funding requirement and strategy is reviewed annually and monitored on an ongoing basis. There were no defaults or breaches on any borrowings 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 using a portfolio approach.

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

30 June 2017	Carrying amount $M	Contractual cash flows Total $M	1 year or less $M	1 - 5 years $M	More than 5 years $M
Non derivative financial liabilities					
Fixed rate borrowings	4,431.9	5,423.7	591.4	2,245.5	2,586.8
Floating rate borrowings	7.1	7.1	7.1	–	–
Inflation indexed borrowings	789.8	1,063.3	21.0	332.3	710.0
Trade and other payables (excluding statutory payables)	237.2	237.2	237.2	–	–
	5,466.0	6,731.3	856.7	2,577.8	3,296.8

30 June 2016	Carrying amount $M	Contractual cash flows Total $M	1 year or less $M	1 - 5 years $M	More than 5 years $M
Non derivative financial liabilities					
Fixed rate borrowings	4,241.0	5,269.9	621.1	2,175.3	2,473.5
Floating rate borrowings	23.5	23.5	23.5	–	–
Inflation indexed borrowings	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

Note: The amounts disclosed above for borrowings 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 borrowings and inflation indexed borrowings due to changes in market rates and CPI inflation rates.

15. 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) Recognised fair value measurements

The following table presents the hierarchy of the Corporation's assets and liabilities measured and recognised at fair value.

At 30 June 2017	Notes	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Recurring fair value measurements					
Non-financial assets					
System assets	8	–	–	7,559.8	7,559.8
Land and buildings	8	–	–	194.1	194.1
Total non-financial assets		–	–	7,753.9	7,753.9

At 30 June 2016	Notes	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Recurring fair value measurements					
Non-financial assets					
System assets	8	–	–	7,419.5	7,419.5
Land and buildings	8	–	–	199.0	199.0
Total non-financial assets		–	–	7,618.5	7,618.5

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.

(b) Valuation techniques used to derive level 2 and level 3 fair values (refer to note 1(c) for definition)

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

> 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.

System assets and land and buildings

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

(c) Fair value measurements using significant unobservable inputs (level 3)

(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. The movements and balances for level 3 items, being land and buildings and system assets, are disclosed in note 8.

(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 $7,753.9 M.

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 movement in the discount rate results in a $218.0M change in the fair value.
5 year forecast revenue	+/-10%	The higher the revenue the higher the fair value. A 10 per cent movement in the revenue results in a $406.3M change in the fair value.
5 year forecast operating expenditure	+/-10%	The higher the operating expenditure the lower the fair value. A 10 per cent movement in the operating expenditure results in a $141.3M change in the fair value.
5 year forecast capital expenditure	+/-10%	The higher the capital expenditure the lower the fair value. A 10 per cent movement in the capital expenditure results in an $3.8M change in the fair value.
Forecast terminal RAB multiple	+/-0.05	The higher the terminal RAB multiple, the higher the fair value. A 0.05 movement in terminal RAB multiple results in a $355.7M change in fair value.

(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 2017, in which the Corporation engaged external, independent and qualified valuers to perform a review of the valuation. A comprehensive valuation is to be performed and reviewed at least 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 per cent.

The main level 3 inputs used by the Corporation for the 30 June 2017 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, including revenue, operating expenditure and capital expenditure, and discount rates to determine fair value (refer to note 1(j)(i)). The cash flows are discounted using a discount rate which is based upon several inputs, primarily the risk free rate, market risk premium and debt risk premium. The risk free rate is observable data based on government bond rates, the market risk premium is determined from analysis of comparable listed corporations 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 terminal RAB multiple is determined with reference to market observable multiples (refer to note 1(j)(i)).

Future revenues are dependent on the finalisation of the AER's 2014-19 determination as well as the 2019-24 determination (refer note 1(f)(i)). The estimated revenue used to determine the future cashflows used in the model represents management's best estimate of the likely outcome. There is uncertainty about the amount of revenue that may be earned within the five year forecast period used within the valuation model. The sensitivity of the valuation to changes in revenue over the next five years is shown in the table in (ii) above.

15. FAIR VALUE MEASUREMENTS (CONTINUED)

(d) 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.

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

		2017		2016	
Financial instruments	**Notes**	**Carrying amount $M**	**Fair value $M**	**Carrying amount $M**	**Fair value $M**
Financial assets carried at amortised cost					
Cash and cash equivalents	6	0.5	0.5	0.6	0.6
Trade and other receivables (excluding prepayments)		258.7	258.7	273.3	273.3
		259.2	259.2	273.9	273.9
Financial liabilities carried at amortised cost					
Interest bearing liabilities	11	5,228.8	5,690.0	5,044.5	5,746.9
Trade and other payables (excluding statutory payables)		237.2	237.2	268.8	268.8
		5,466.0	5,927.2	5,313.3	6,015.7

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 NSW government yield curve as at 30 June 2017 to discount financial instruments. The interest rates used are in the following ranges:

	2017	2016
Borrowings	1.3% – 3.3%	1.6% – 2.5%

16. KEY MANAGEMENT PERSONNEL DISCLOSURE

Key management personnel comprise members of the Board and the Corporation's leadership management team. The shareholding ministers, New South Wales Treasurer and Portfolio Minister (Minister for Energy and Utilities) are also considered to be key management personal. Networks New South Wales (NNSW) executive management team were also considered to be key management personnel in the 2016 financial year up to 31 December 2015 (refer to note 17).

Key management personnel remunerations

In addition to their salaries, the Corporation also provides post-employment benefits to directors and executive officers (see notes 1(q) and 1(r)). For directors post-employment benefit relates to compulsory superannuation contributions.

The shareholding ministers (including the NSW Treasurer) and Portfolio Minister receive no remuneration from, or on behalf of, the Corporation for their services to the Corporation.

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

	2017 $M	2016 $M
Short-term employee benefits	4.0	3.1
Long-term benefits	0.3	0.2
Post-employment benefits	0.2	0.2
Termination benefits	0.1	0.2
	4.6	3.7

17. RELATED PARTIES TRANSACTIONS

(i) State owned parties

The Corporation is a NSW Government owned corporation, with shares held by the shareholding ministers on behalf of the State of NSW. All State of NSW controlled entities and entities in which the State of NSW has significant influence over are considered to be related parties of the Corporation.

(ii) Networks NSW structure

The Networks NSW structure included a joint Board of directors acting as the board of Ausgrid, Endeavour Energy and Essential Energy (DNSPs). 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. From 1 January 2016 Essential Energy operated as a stand-alone entity. The State of NSW has significant influence over Ausgrid and control over Endeavour Energy so the DNSPs remain related parties of Essential Energy.

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.

(iii) Wholly owned group

A legal entity Networks NSW Pty Limited was established as a vehicle for cooperation between Ausgrid and Endeavour Energy and the Corporation, and was equally owned by each of the three entities 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. Networks NSW Pty Limited has not incurred any costs in its own right nor entered into any sourcing agreements. Networks NSW Pty Limited was de-registered on 3 August 2016. As the entity had no transactions during the current and prior year and had immaterial assets and liabilities consolidated financial statements are not produced.

17. RELATED PARTIES TRANSACTIONS (CONTINUED)

(iv) Directors and the Corporation's leadership management team

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. The members of the leadership management team are also required to declare any interests including related party transactions. All transactions with directors and the leadership management team and their related parties that occurred during the current year were insignificant and were under normal commercial terms.

(v) NSW Premier and NSW Cabinet Ministers

The NSW Premier and the NSW Cabinet Ministers, as well as any companies that they have control or significant influence over, and their close family members are considered to be related parties of the Corporation. Any identified material transactions between the Corporation and these related parties are disclosed. Enquiries are made of the Premier and Cabinet Ministers by NSW Treasury for this purpose.

(vi) Transactions with related parties

The following related party transactions occurred with state-owned entities or entities over which the State had significant influence.

NSW Treasury

NSW Treasury provides a NSW Government guarantee on the borrowings of the Corporation allowing the Corporation to borrow at lower interest rates. NSW Treasury levies a competitive neutrality fee at a fixed rate on the borrowings for which it has provided the guarantee. This is paid annually in September. The fee relating to the current year was $91.8M (2016: $87.2M).

TCorp

TCorp is a wholly owned NSW State Owned Corporation and is the central financing agency for the NSW public sector. TCorp provides debt and investments, and provides other financial services to the NSW public sector. TCorp has also provided guarantees relating to workers compensation insurance and prudential requirements for the Australian Energy Market Operator (refer note 19). Details of borrowings from TCorp are disclosed in note 11, interest costs on these borrowings were $247.2M (2016:$254.2) of which $57.1M (2016: $62.3M) was owing at year end. Borrowing facilities provided by TCorp are disclosed in note 14.

Office of Environment and Heritage

The NSW Office of Environment and Heritage is an office of the NSW State Government and administers the Climate Change Fund. The Corporation is required to include a Climate Change Fund levy in its electricity distribution charges to customers and the levy is passed to the NSW Office of Environment and Heritage. In addition the Corporation was required to pay eligible customers a solar bonus based on their solar electricity generation which was reimbursed by the NSW Office of Environment and Heritage. The Solar Bonus Scheme ceased on 31 December 2016. An expense of $60.6M was recognised for the current year (2016:$65.9M) for the Climate Change Fund levy with $nil owing at 30 June 2017 (2016:$nil). $44.9M (2016:$91.9M) was charged for Solar Bonus Scheme recoveries of which $nil was receivable at 30 June 2017 (2016:$30.1M).

Other wholly owned NSW State Owned Corporations

The Corporation has transactions and balances with other NSW State Owned Corporations, as both a supplier and purchaser. These include supply of power and water services, audit services, state taxes, licence fees, levies, rates, grants for capital and other works, and lease rental income and expenses. Other than grants, these transactions and their settlement are on terms and conditions consistent with normal commercial terms and conditions.

Receivables and payables exist at balance date in respect of a number of the above related party transactions. 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. Amounts receivable and amounts payable are unsecured and made on normal commercial terms and conditions.

18. REMUNERATION OF AUDITOR

	2017 $M	2016 $M
Audit Office of New South Wales		
– Audit of financial statements	0.4	0.4

19. 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.

Guarantees

	2017 $M	2016 $M
Guarantees provided to regulatory and statutory authorities	27.0	52.6

20. CAPITAL COMMITMENTS

	2017 $M	2016 $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)	19.2	29.1
– GST credits	1.7	2.6

21. OPERATING LEASES

	2017 $M	2016 $M
Leases as lessee		
Non-cancellable operating leases are payable as follows:		
Within twelve months	5.6	4.5
Twelve months or longer and not longer than five years	9.9	3.4
Longer than five years#	0.3	0.2
Total (including GST)	15.8	8.1
GST credits	1.4	0.7

> There are 268 non-cancellable property leases.

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

> Minimum lease payments upon renewal will be based on the market value applying at the time

> There are no non-cancellable equipment or computer leases.

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

21. OPERATING LEASES (CONTINUED)

	2017 $M	2016 $M
Leases as lessor		
The Corporation leases out its properties, including premises, land and communications towers, under operating lease agreements at market rentals, predominantly on a fixed term basis. The future minimum lease payments under non-cancellable leases are as follows:		
Within twelve months	1.0	1.1
Twelve months or longer and not longer than five years	0.7	1.3
Longer than five years#	0.1	0.2
Total (including GST)	1.8	2.6
GST debits	0.2	0.2

During the year ended 30 June 2017 $1.1M (2016: $1.4M) was recognised as rental income in profit and loss.

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

22. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2017 $M	2016 $M
Profit /(loss) for the year	50.0	(1.2)
Add/(less) non cash items:		
Depreciation, amortisation, write off and impairment of non-financial assets	363.4	385.2
Gifted assets	(82.2)	(104.4)
Prepaid superannuation	(1.8)	0.2
Net (gain)/loss on disposal of property, plant and equipment	3.8	4.6
Amortisation of deferred interest expense/(income)	(9.1)	(3.5)
Capitalisation of indexed bonds indexation	8.6	8.4
Changes in assets and liabilities:		
(Increase)/decrease in accrued revenue from unread meters	(6.5)	55.0
(Increase)/decrease in other receivables	19.9	29.6
(Increase)/decrease in inventories	(1.4)	1.4
(Increase)/decrease in other assets	0.1	0.2
Increase/(decrease) in accrued operating expenditure	(30.3)	(23.4)
Increase/(decrease) in current tax balances	6.7	(21.7)
Increase/(decrease) in deferred taxes liabilities	(8.8)	(20.3)
Increase/(decrease) in other provisions	(59.5)	(64.3)
Increase/(decrease) in deferred revenue	1.3	(10.5)
Net cash from operating activities	254.2	235.3

23. SUPERANNUATION – DEFINED BENEFIT PLANS

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

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; and

> SSS – Division D.

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 some employees remaining in defined benefit superannuation plans through SASS, SSS, and 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.

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.

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.

23. SUPERANNUATION – DEFINED BENEFIT PLANS (CONTINUED)

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.

(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, resulting in pensions being paid for a longer period and thereby requiring additional employer contributions;
- Pension indexation risk – the risk that pensions will increase at a rate greater than assumed, increasing future pensions and thereby requiring additional employer contributions;
- 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; and
- 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 curtailments and settlements during the year due to member exits.

(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 2016	(476.5)	316.4	(11.9)	12.4	(488.4)	328.8	(159.6)
(Expense)/income recognised in profit or loss							
Current service cost	(8.2)	–	(1.0)	–	(9.2)	–	(9.2)
Gains/(losses) arising from curtailments and settlements	38.7	(31.3)	–	–	38.7	(31.3)	7.4
Interest (expense)/income	(8.8)	5.9	(0.3)	0.3	(9.1)	6.2	(2.9)
	21.7	(25.4)	(1.3)	0.3	20.4	(25.1)	(4.7)
(Expense)/income recognised in other comprehensive income							
Remeasurements							
Return on plan assets, excluding amounts included in interest (expense)/income	–	24.7	–	0.8	–	25.5	25.5
Gain/(loss) from change in financial assumptions	34.8	–	0.9	–	35.7	–	35.7
Gain/(loss) from change in liability experience	8.5	–	0.4	–	8.9	–	8.9
	43.3	24.7	1.3	0.8	44.6	25.5	70.1
Adjustment for effect of asset ceiling*	–	–	–	(1.3)	–	(1.3)	(1.3)
	43.3	24.7	1.3	(0.5)	44.6	24.2	68.8
Contributions by fund participants							
Employers	–	23.1	–	0.1	–	23.2	23.2
Plan participants	(2.9)	2.9	(0.1)	0.1	(3.0)	3.0	–
	(2.9)	26.0	(0.1)	0.2	(3.0)	26.2	23.2
Benefits paid	31.7	(31.7)	0.9	(0.9)	32.6	(32.6)	–
Taxes, premiums and expenses paid	4.4	(4.4)	–	–	4.4	(4.4)	–
At 30 June 2017	(378.3)	305.6	(11.1)	11.5	(389.4)	317.1	(72.3)

23. SUPERANNUATION – DEFINED BENEFIT PLANS (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 2015	(481.7)	399.6	(10.1)	11.0	(491.7)	410.5	(81.2)
(Expense)/income recognised in profit or loss							
Current service cost	(8.8)	–	(0.1)	–	(8.9)	–	(8.9)
Gains/(losses) arising from curtailments and settlements	67.2	(58.9)	–	(0.2)	–	(59.1)	8.1
Interest (expense)/income	(12.8)	10.7	(0.3)	0.3	(13.1)	11.0	(2.1)
	45.6	(48.2)	(0.4)	0.1	45.2	(48.1)	(2.9)
(Expense)/income recognised in other comprehensive income							
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
	(92.9)	0.1	(1.5)	1.4	94.4	1.5	(92.9)
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
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)

The total net defined benefit liability of $72.3M (2016: $159.6M) comprises a liability of $73.8M (2016: $161.1M) disclosed within non-current provisions and an asset of $1.5M (2016: $1.5M) disclosed within non-current receivables.

* The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan or other plans. The adjustment for the effect of asset ceiling has been determined based on the change in the maximum economic benefit available to the Corporation in the form of reductions in future employer contributions.

(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 2017

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	1,977.6	–	1,977.6	–
Total	**1,977.6**	**–**	**1,977.6**	**–**

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**	**–**

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 2017

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	9,446.0	8,947.4	498.6	–
International equities	12,053.5	9,033.5	1,869.1	1,150.9
Property	3,453.1	926.1	533.2	1,993.8
Alternatives	9,066.1	390.9	5,068.1	3,607.1
Fixed income	2,981.8	1.0	2,980.8	–
Cash and short term securities	3,087.3	3,077.4	9.9	–
Total	**40,087.8**	**22,376.3**	**10,959.7**	**6,751.8**

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**

23. SUPERANNUATION – DEFINED BENEFIT PLANS (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 2017	30 June 2016	30 June 2017	30 June 2016
Australian listed equities	16.0%	16.9%	23.6%	25.5%
Overseas listed equities	26.0%	23.3%	30.1%	31.6%
Emerging market equities	–	–	–	–
Property	4.0%	9.6%	8.6%	9.6%
Private equity	1.0%	1.8%	–	–
Infrastructure	11.0%	8.4%	–	–
Alternatives	10.0%	27.6%	22.6%	18.6%
Fixed income	27.0%	–	7.4%	9.3%
Cash and short term securities	5.0%	12.4%	7.7%	5.4%
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

	2017	2016
Expected salary increase rate (excluding promotional increases)	Nil until 30 June 2018, and 2.5% pa thereafter	2.5% until 30 June 2017, nil until 30 June 2018, and 2.5% pa thereafter
Rate of CPI increase	2.2% pa	2.5% pa
Discount rate	2.6% pa	2.0% pa
Pensioner mortality	The pensioner mortality rates used are as per the triennial valuation of the scheme as at 30 June 2015	The pensioner mortality rates used are as per the triennial valuation of the scheme as at 30 June 2015

(j) Sensitivity analysis

The Corporation's total defined benefit obligation as at 30 June 2017 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	2.6%	1.6%	3.6%
Rate of CPI increase	2.2%	2.2%	2.2%
Salary inflation rate	0.0% pa for 2017/18; 2.5% pa thereafter	0.0% pa for 2017/18; 2.5% pa thereafter	0.0% pa for 2017/18; 2.5% pa thereafter
Defined benefit obligation ($M)	389.4	437.2	350.2

	Base case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	2.6%	2.6%	2.6%
Rate of CPI increase	2.2%	2.7%	1.7%
Salary inflation rate	0.0% pa for 2017/18; 2.5% pa thereafter	0.0% pa for 2017/18; 2.5% pa thereafter	0.0% pa for 2017/18; 2.5% pa thereafter
Defined benefit obligation ($M)	389.4	399.2	380.5

	Base case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	2.6%	2.6%	2.6%
Rate of CPI increase	2.2%	2.2%	2.2%
Salary inflation rate	0.0% pa for 2017/18; 2.5% pa thereafter	0.5% pa for 2017/18; 3.0% pa thereafter	0.0% pa for 2017/18; 2.0% pa thereafter
Defined benefit obligation ($M)	389.4	402.9	376.7

	Base case	Scenario G +5% pensioner mortality rates	Scenario H -5% pensioner mortality rates
Defined benefit obligation ($M)	389.4	393.6	387.5

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

23. SUPERANNUATION – DEFINED BENEFIT PLANS (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 2017 financial position of the Fund calculated in accordance with AASB 1056 "Superannuation Entities":

	EISS		Other		Total	
	2017 $M	2016 $M	2017 $M	2016 $M	2017 $M	2016 $M
Accrued benefits	278.6	307.4	7.7	7.9	286.3	315.3
Net market value of Fund assets	(305.6)	(316.3)	(12.9)	(12.4)	(318.5)	(328.7)
Net (surplus)/deficit	(27.0)	(8.9)	(5.2)	(4.5)	(32.2)	(13.4)

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	nil

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 AASB 1056 financial position calculations are:

Weighted-average assumptions	EISS	Other
Expected rate of return on fund assets backing current pension liabilities	5.9% pa	7.4% pa
Expected rate of return on fund assets backing other liabilities	5.9% pa	6.4% pa
Expected salary increase rate	Nil until 30 June 2018, and 2.5% pa thereafter	3.0% pa until 30/06/2019; 3.5% pa thereafter
Expected rate of CPI increase	2.2% pa	2.2% pa

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

Expected contributions	Financial year to 30 June 2018 $M
Expected employer contributions	
– EISS	5.9
– Other	–

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 13 years (2016:14.2 years) for the EISS, while it is 14 years (2016: 14 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.

24. EVENTS SUBSEQUENT TO BALANCE DATE

The financial statements of the Corporation for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the Board on 11 September 2017.

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.

CONTENTS TO THE APPENDIX

IPART SAFETY INCIDENT REPORTING CHANGES

NSW Electricity Network Operators have obligations to report *serious electricity works accidents* under the *Electricity Supply Act 1995.*

Safety incident regulatory reporting requirements were established under the Significant Electricity Network Incident (SENI) reporting framework developed by the Industry Safety Steering Committee (ISSC) in 2002, to enable Distribution Network Service Providers (DNSPs) to report *serious electricity network incidents* to the previous network regulator, Department of Trade and Investment, Resources, and Energy. SENI reporting obligations transferred to IPART in January 2016.

On June 2016, IPART published the *Electricity Networks Reporting Manual* (Reporting Manual) that each of the NSW electricity networks must comply with under clause 7 of the Ministerially imposed licensing conditions for DNSPs. The IPART Reporting Manual requirements came into effect from 1 October 2016.

This prompted changes to Essential Energy's safety incident classification rating processes and systems and resulted in increased and improved reporting of safety incidents in 2016-17. The increased scope has resulted in nearly doubling the number of safety incidents reported to IPART. A key change is the requirement to report Near Misses such as contact by public workers or the general public with overhead network assets. For example, members of the public driving vehicles and coming into contact with an overhead pole.

The HSE team is using the improved data to inform safety risk assessments by understanding factors such as the location, environmental conditions, assets types involved and the immediate recovery steps taken following an incident. The risk analysis allows Essential Energy to test both the preventative and mitigative controls, and prioritise where it needs to focus efforts to mitigate risk. The objective is to eliminate risk and where it cannot be eliminated, to reduce the residual risk of any hazardous events to 'So Far As Reasonably Practicable' (SFARP).

ESSENTIAL WATER – PRICING DETERMINATION

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

The Tribunal sets and regulates Essential Water's prices to ensure they are fair for customers while allowing the business to cover costs and generate an adequate return on assets.

Essential Water must set prices according to the IPART-determined methodology or maximum price. It 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 the 2015-16 and 2016-17 financial years.

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 of $2.2 million were incurred. The major consultancy costs included expenditure reviews, business design and governance strategy advice, and AER merits review costs.

OVERSEAS TRAVEL

PURPOSE OF TRAVEL	NAMES OF EMPLOYEE(S)	ORGANISATION VISITED	CITIES	COUNTRY	DATE OF DEPARTURE FROM AUSTRALIA	DATE OF ARRIVAL INTO AUSTRALIA
GLIS Market Presentations	Adam Causley, Gary Humphreys	Various Insurers	Singapore, London, Hamilton	Singapore, United Kingdom, Bermuda	31/08/2016	16/09/2016
Meeting with Metrix & Vector	Luke Jenner, Gary Humphreys	Metrix & Vector	Auckland	New Zealand	12/12/2016	14/12/2016
Meeting with Orion and Connetics	John Ansley, John Cleland	Orion and Connetics	Christchurch	New Zealand	15/05/2017	16/05/2017
Grid Edge 2017 Forum, and various utility site visits	Joshua Harvey	GTM event, Pacific Gas and Electric company, and various other utilities	San Francisco, San Jose, London, Munich, Stuttgart, Frankfurt, and Hong Kong	USA, England, Germany, and Hong Kong.	25/06/2017	8/07/2017
Grid Edge 2017 Forum, various utility site visits, and insurers meeting	Gary Humphreys	GTM event, Pacific Gas and Electric company, various other utilities, insurers	San Francisco, San Jose, London	USA and England	25/06/2017	14/07/2017

CREDIT CARD CERTIFICATION

Use of corporate credit cards is in line with Essential Energy's Procedural Guideline: Credit Cards, NSW Treasurer's directions and Premier's memoranda.

DIGITAL INFORMATION SECURITY POLICY ATTESTATION

I, *John Cleland,* am of the opinion that Essential Energy has adopted the NSW Government recommendation to comply with the standard for information security management, ISO/IEC 27001, and has developed internal policies and procedures related to digital information security in alignment to that standard.

Essential Energy operates an Information Security Management System that complies with the requirements of ISO/IEC 27001:2013 and is committed to remaining compliant and measuring that compliance through internal audit processes.

There is no agency or division of Essential Energy that is required to certify against the ISO/IEC 27001 standards.

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. The business supports the proactive release of information where it is in the public interest to do so.

REVIEW OF PROGRAM FOR RELEASE OF INFORMATION

During FY2016-17, 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 website; monitoring and review of its website; and publication of relevant information regarding corporate governance and the network business.

FUNDS GRANTED TO NON-GOVERNMENT COMMUNITY ORGANISATIONS

ORGANISATION/CHARITY/PROGRAM	SPONSORSHIP TYPE	AMOUNT $
Individual sponsorships or donations		
Give me 5 for Kids	Employee initiative	$390.00
Solar panels donated to Vanuatu	Asset redeployment	$12,500.00
MacKillop Legal Studies Fund for victims of domestic violence	Diversity and Inclusion	$3,450.00
Halliday's Point School Poster Comp Winner	Safety education	$1,000.00
Port Macquarie Red Shield Appeal Business Breakfast	Community involvement	$500.00
Essential Giving Program – dollar matched component	**Workplace giving program**	
CanAssist		$5,365.18
Garvan		$5,703.22
Lifeline		$5,836.19
Variety		$3,922.19
ozED (Australian Ectodermal Dysplasia Support Group Inc)		$1,437.67
Westpac Rescue Helicopter Service		$44,491.62
Community Support Program	**Community involvement**	
$200 donations to 248 community halls		$49,600.00
	Total	**$134,196.07**

TOTAL NUMBER OF ACCESS APPLICATIONS RECEIVED DURING THE YEAR

In FY2016-17 Essential Energy received 11 formal access applications for information pursuant to the GIPA Act. As at 30 June 2017, 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 FY2016-17, full access was provided on eight occasions. With respect to the remaining access applications, one was granted in part and in one instance 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.

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) on one occasion.

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 2016-17.

TABLE A: NUMBER OF APPLICATIONS BY TYPE OF APPLICANT AND OUTCOME

	ACCESS GRANTED IN FULL	ACCESS GRANTED IN PART	ACCESS REFUSED IN FULL	INFORMATION NOT HELD	INFORMATION ALREADY AVAILABLE	REFUSE TO DEAL WITH APPLICATION	REFUSE TO CONFIRM / DENY WHETHER INFORMATION IS HELD	APPLICATION WITHDRAWN
Media	0	0	0	0	0	0	0	0
Members of Parliament	0	0	0	0	0	0	0	0
Private sector business	0	0	1	0	0	0	0	0
Not for profit organisations or community groups	0	0	0	0	0	0	0	0
Members of the public (application by legal representative)	4	1	0	0	0	0	0	0
Members of the public (other)	4	0	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	INFORMATION NOT HELD	INFORMATION ALREADY AVAILABLE	REFUSE TO DEAL WITH APPLICATION	REFUSE TO CONFIRM / DENY WHETHER INFORMATION IS HELD	APPLICATION WITHDRAWN
Personal information applications*	3	0	0	0	0	0	0	0
Access applications (other than personal information applications)	5	1	1	1	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	0
Excluded information	0
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial *code of conduct*	0
Aboriginal and environmental heritage	0

TABLE E: OTHER PUBLIC INTEREST CONSIDERATIONS AGAINST DISCLOSURE: MATTERS LISTED IN TABLE TO SECTION 14 OF THE ACT

	NUMBER OF OCCASIONS WHEN APPLICATION NOT SUCCESSFUL
Responsible and effective government	0
Law enforcement and security	0
Individual rights, judicial processes and natural justice*	2
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

* One instance in full and one instance part of requested information only (with balance provided in full)

TABLE F: TIMELINESS

	NUMBER OF APPLICATIONS
Decided within the statutory timeframe (20 days plus any extensions)	11
Decided after 35 days (by agreement with applicant)	0
Not decided within time (deemed refusal)	0
Total	**11**

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 2016 TO 30 JUNE 2017

MATERIAL CHANGES TO NEW SOUTH WALES LEGISLATION

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

This Act came into effect on 1 July 2016 and amends the *Electricity Supply Act 1995 (NSW)* and the *Electricity (Consumer Safety) Act 2004 (NSW)*. The Act enables retailers and metering providers to install and maintain type 4 'advanced' meters that were previously the responsibility of distributors. Under the Act, distributors no longer impose requirements for the installation of advanced meters, and safety and compliance obligations are transferred to NSW Fair Trading.

Distributors are responsible for type 5 and 6 meters as the deemed metering coordinator, until that appointment comes to an end under the National Electricity Rules.

The *Electricity Supply Amendment (Advanced Meters) Regulation 2016 (NSW)* commenced simultaneously with the Act.

The Regulation extends the obligations of metering providers and requires that they establish a safety management system that meets certain standards, including compliance with the Code for Safer Meter Installation. The Regulation also clarifies the bush fire risks that a network operator's safety management system must address under the *Electricity Supply (Safety and Network Management) Regulation 2014.*

Accredited Service Providers Scheme Rules

The Scheme Rules are made under the *Electricity Supply (Safety and Network Management) Regulation 2014 (NSW)* and revoke the previous rules for accreditation of contestable network service providers, effective 9 September 2016.

The Scheme Rules align the accreditation process to the changes under the *Electricity Supply (Advanced Meters) Act 2016,* by removing smart metering installation work from the accreditation scheme. The Scheme Rules also streamline the accreditation process by removing duplication that existed under the previous rules for Accredited Service Providers (ASPs) who had to apply for multiple levels of accreditation.

The Scheme Rules increase flexibility for ASPs, by replacing prescriptive requirements for qualifications, training, insurance and management systems with more general requirements.

Gas and Electricity (Consumer Safety) Act 2017 (NSW)

This Act was assented to on 9 May 201,7 but is yet to commence. It repeals existing electricity and gas consumer safety legislation and regulations, including the *Electricity (Consumer Safety) Act 2004*, and replaces them with one instrument.

While the Act largely aligns consumer safety standards for gas with the existing standards for electricity, it also extends the regulation-making powers and investigatory powers that existed under what is currently the *Electricity (Consumer Safety) Act 2004.* For example, there are additional search and investigation powers allowing for electrical articles or installations to be disconnected for 'unsafe use'.

MINOR AMENDMENTS TO THE *ENERGY SERVICES CORPORATIONS ACT 1995 (NSW)*

An amendment to the *Energy Services Corporations Act 1995 (NSW)* consolidates historical changes to Essential Energy's business names, including to ensure it can continue to operate as 'Great Southern Energy' and 'Advance Energy' where required.

The change has little practical effect on Essential Energy's operations.

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 (AEMC) made the following key rule changes in the last financial year:

a) *Emergency frequency control schemes* – effective 6 April 2017.

   The rule requires AEMO to undertake a periodic review of the power system frequency risks associated with non-credible contingency events. The rule provides for certain credible contingency events to be declared as 'protected events', based on a cost benefit analysis.

   Network Service Providers (NSPs) are required to comply with 'protected event' standards when designing, implementing and monitoring relevant load shedding schemes. This rule change was introduced by the AEMC as part of its wider review of system security market frameworks, to facilitate the shift towards new generation technologies across the National Electricity Market (NEM).

b) *Retailer-distributor credit support requirements* – effective 9 February 2017.

   The rule provides greater support to NSPs to recover revenue from retailers. It extends cost pass-through mechanisms to enhance the ability of NSPs to recover costs in circumstances of retailer insolvency, and amends the requirements for retailers to provide credit support to NSPs.

c) *Demand Response Mechanism and Ancillary Services Unbundling* – effective 1 July 2017.

   The rule has the effect of 'unbundling' the provision of ancillary services from the provision of energy. It does so by creating a new type of market participant, a Market Ancillary Service Provider. Retailers and third-party providers (i.e. distributors) can register as Market Ancillary Service Providers in order to provider ancillary services.

SUMMARY OF SIGNIFICANT JUDICIAL DECISIONS, INQUIRIES, NEW CODES OF PRACTICE AND COMPLIANCE EXEMPTIONS

Federal Court decision on the Australian Competition Tribunal's ruling on the distribution revenue of Network Service Providers

On 24 May 2017, the Full Court of the Federal Court largely upheld the decision of the Australian Competition Tribunal, requiring the Australian Energy Regulator (AER) to reconsider its NSW and ACT distribution determinations for the 2014-2019 period. The distribution determinations regulate the revenue that Essential Energy, Ausgrid, Endeavour Energy, ActewAGL and Jemena Gas Networks are entitled to recover from their customers.

The AER had determined that the networks had overestimated their required operating expenditure, and as a result, cut the maximum revenue that the networks could charge their customers until 2019 (June 2020 for Jemena). The Tribunal held that the AER should have used broader modelling and benchmarking models. The Tribunal set aside the distribution determinations and directed the AER to remake the decisions.

The AER sought judicial review of the Tribunal's decision. The Federal Court rejected the AER's appeal, agreeing with the Tribunal's approach in relation to the networks' operating expenditure and the cost of debt. The Court did uphold the AER's appeal in relation to one ground regarding the estimated cost of corporate income tax. The AER has indicated that it will carefully consider the judgment and the implications for the network revenue determinations, but is yet to publish a revised distribution determination.

In April 2017, the AEMC published a draft 'revenue smoothing' rule change, in response to a change request by NSW and ACT networks. The rule is designed to minimise price volatility that might occur as an outcome of the Federal Court's decision, by allowing the networks to recover revenue over an extended period. The AEMC's consultation of the draft rule ended on 20 June 2017, and a final determination has not been made.

The COAG Energy Council is currently undertaking a review of the limited merits review regime.

REGULATORY ENFORCEMENT PROCEEDINGS

Several enforcement proceedings were commenced against Essential Energy and resolved in FY2016-17.

Essential Energy pleaded guilty to a breach of its duties under the *Work Health and Safety Act 2011 (NSW).* The claim concerned an incident that resulted in the death of an employee performing maintenance work in 2013. On 2 September 2016, the District Court imposed a fine of $300,000, which took into account Essential Energy's early plea.

Essential Energy also pleaded guilty to causing damage to vegetation on reserved land under the *National Parks and Wildlife Act 1974 (NSW).* The damage occurred in 2013 when Essential Energy's subcontractor cleared vegetation in the Yuraygir National Park without consent.

The Land and Environment Court found that the seriousness of the offence was in the 'low range'. No monetary penalty was imposed. An order was made requiring Essential Energy to undertake certain works within the Park.

AER RING-FENCING GUIDELINE

The AER's Ring-fencing Guideline (Guideline) is made under the National Electricity Rules. The Guideline seeks to promote competition in the delivery of contestable services. It requires distribution network service providers (DNSPs) to ring-fence certain parts of their business to promote a level playing field in areas where DNSPs would otherwise have an advantage. The Guideline commenced on 1 December 2016, and DNSPs must fully comply with the Guideline by no later than 1 January 2018.

Relevantly, the effect of the Guideline is to separate the way that distribution and non-distribution services are delivered by DNSPs. To achieve this, the Guideline requires DNSPs to make several key changes.

First, DNSPs must provide non-distribution services through a separate entity (or entities). The Guideline requires separate accounting arrangements to prevent cross-subsidisation.

Second, the Guideline imposes obligations that are designed to prevent DNSPs from discriminating between the separate entity and its competitors. This includes requirements that limit co-location and staff sharing between the DNSP and its related entity. There are also restrictions on branding and cross-promotion, as well as limits on information sharing.

DNSPs can apply to the AER for a waiver of certain legal and functional separation requirements under the Guideline. DNSPs are required to report annually on their compliance with the Guideline.

REVISED VERSION OF THE NSW SERVICE AND INSTALLATION RULES

The NSW Service and Installation Rules outline the requirements for connecting electrical installations to the distribution network. The Rules were substantially updated in August 2016, with further minor amendments in November 2016.

The changes to the Rules are primarily designed to facilitate the market-led roll out of smart meters in NSW, reflecting changes made under the *Electricity Supply Amendment (Advanced Meters) Act 2016.* In particular, the Rules separate the role of Metering Provider from the Distributor. The Rules required all metering work to comply by 30 September 2016, and other work by 30 November 2016.

ACCC INQUIRY INTO RETAIL ELECTRICITY PRICES ACROSS THE NEM

On 27 March 2017, the Federal Government directed the Australian Competition & Consumer Commission (ACCC) to commence an inquiry into the supply of retail electricity and the competitiveness of retail pricing. This direction gives the ACCC power to investigate, demand information and report on retail electricity supply and prices.

Although the inquiry is targeted at retail electricity markets, it may involve the ACCC reviewing key retail pricing components, including inputs such as network costs. Submissions on the ACCC's issues paper closed on 30 June 2017.

SYSTEM SECURITY MARKET FRAMEWORKS REVIEW

On 14 July 2016, the AEMC launched a wide-scale review of system security in the NEM, to consider if changes to regulatory frameworks are required to facilitate transition to new generation technologies in a way that maintains system security. The final report was published on 27 June 2017.

The final report makes a series of recommendations that seek to produce four outcomes defined by the AEMC: a stronger system; a system better equipped to resist frequency changes; better frequency control; and action to further facilitate the transformation of the NEM. The AEMC plans to implement the recommendations via a series of rule changes. It has received five rule change requests on issues addressed in the review, two of which were implemented under the *Emergency frequency control schemes* (noted above).

INDEX

GLOSSARY

AER	Australian Energy Regulator
ASP	Accredited Service Provider
CAIDI	Customer Average Interruption Duration Index - average duration of each interruption
CPI	Consumer Price Index - used as a measure of inflation
EA	Enterprise Agreement
GBR	Gross to Base Ratio - calculated as base plus extra pay, divided by base Pay; the ratio excludes lump sum payouts such as backpay, termination payments, and leave payouts
IPART	Independent Pricing and Regulatory Tribunal
Lag indicator (safety)	A measurable safety factor that changes after a serious safety event has occurred
Lead indicator (safety)	A measurable factor that changes before safety performance starts to follow a particular pattern or trend; leading indicators are used to predict changes in safety performance
LTIFR	Lost Time Injury Frequency Rate – calculated as the number of lost time injuries per million hours worked
NECF	National Energy Customer Framework
High Potential Injury Frequency Rate (HPIFR)	The frequency of all safety incidents that had the potential to be a fatality or permanently disabling injury within the Network Fatal Risk classifications (excludes near misses)
NPAT	Net Profit After Tax
Opex	Operating expenditure
SAIDI	System Average Incident Duration Index - average customer minutes without supply measured over a set period
SENI	Significant Electrical Network Incident
STPIS	Service Target Performance Incentive Scheme - designed by the AER to incentivise distributors to invest in reliability and customer service
TRIFR	Total Recordable Injury Frequency Rate - calculated as the number of recordable injuries per million hours worked
Type 1 breach (NECF)	Loss of supply (planned) critically impacting customers as defined in the NECF. Includes customers on life support

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