empowering communities

Essential Energy Annual Report 2017-18

Contents

About this Report

Essential Energy's Annual Report details financial, operational, and safety performance for the 2017-18 financial year and has been approved by our Board of Directors.

The contents of this report comply 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 New South Wales. The Independent Auditor's certified report is on page 62.

Cost for report production

The external cost to produce this report was $19,900 excluding GST.

Chief Human Resources Officer
Essential Energy PO Box 5730
Port Macquarie NSW 2444

Email: info@essentialenergy.com.au
ABN: 37 428 185 226

31 October 2018

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
Member for Ryde
GPO Box 5341
SYDNEY NSW 2001

Dear Ministers

SUBMISSION OF ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

We are pleased to submit Essential Energy's annual report outlining financial, operational, and safety performance for the year ended 30 June 2018.

This report has been prepared in accordance with the *Annual Reports (Statutory Bodies) Act 1984* and is submitted for tabling in the New South Wales 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

As a key enabler of economic activity throughout regional, rural and remote New South Wales (NSW) and parts of southern Queensland, Essential Energy's focus remains on reducing our component of customers' energy costs while maintaining a safe and reliable electricity distribution network. In an energy environment that continues to adapt and evolve, our vision is to 'empower communities to share and use energy for a better tomorrow' and we must undertake a significant business transformation to achieve this.

Recognising the critical support we provide to the communities we serve, our business objectives are to continuously improve safety culture and performance, implement best practice systems and technology, and deliver real reductions in network charges, while making a satisfactory Return on Capital Employed.

Affordability for our customers improved in FY2017-18. At the end of the financial year our customers were paying 35 per cent lower network charges than at the start of the current regulatory period in 2014.

Network reliability was the best so far in the current regulatory period, with the average total duration for a customer being without supply decreasing to 212 minutes, an improvement of 11 per cent on the previous year.

Similarly, customer satisfaction in FY2017-18 was above target at 84.6 and the business implemented a pioneering approach to customer engagement to better understand customer needs and expectations. In February 2018, our service to communities was particularly highlighted when two Essential Energy crews voluntarily assisted the Department of Foreign Affairs and Trade in restoring energy supply to cyclone-ravaged communities in Tonga.

FY2017-18 wasn't without its challenges. A large number of weather related incidents presented significant challenges for our workforce to re-establish supply for impacted customers, particularly over the holiday season when severe storms hit the North Coast in January 2018.

Also, our safety performance in FY2017-18 was unsatisfactory, both in terms of the number of employees and contractors injured while working to maintain our network and the number of incidents with the potential for injury. There is clearly much more safety work to be done and programs are already in place to continuously improve safety performance and deliver positive safety outcomes for the public, contractors and employees.

In FY2017-18, we recorded an after-tax loss of $11.6M. This result was negatively impacted by a one-off adjustment of approximately $19M relating to streetlighting revenue in preceding years. Investment in our business transformation program to achieve longer term efficiencies was also a contributing factor to the FY2017-18 result, as we remain focused on ensuring the business is sustainable in the long term and continues to have access to capital to operate, maintain and expand critical network infrastructure. The transformation program has been designed to ensure we deliver services to customers at the highest possible level of efficiency and lowest possible cost and is an enduring element of our proposal to the Australian Energy Regulator (AER) on expenditure and charges for the 2019-24 regulatory period.

Based on extensive customer consultation across regional and rural NSW, our 2019-24 regulatory proposal builds on previous cost reductions and balances the lowest operating expenditure in 20 years and the lowest capital expenditure in 19 years with a focus on modernising systems and processes and improving our people capabilities to ensure available technologies and skills are embedded in our core operations.

We have already invested in innovations such as digital pole inspection trials and drone technologies to improve maintenance and efficiency. Trials are also underway on new embedded energy sources to optimise network assets and improve outcomes for customers in remote locations.

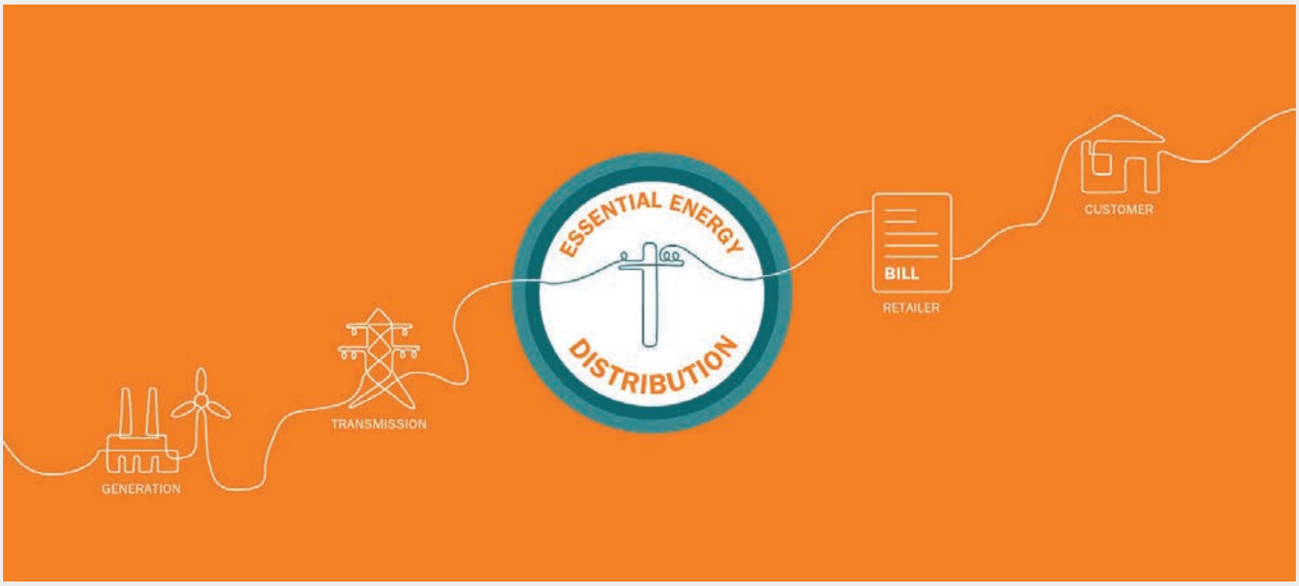
In January 2018, the business onboarded 40 new apprentices, up from 25 in the previous year. Our apprentice program represents a significant investment in regional employment opportunities and is critical to ensuring our workforce can meet the challenges of operating one of the world's largest and most geographically distributed electricity networks. Throughout FY2017-18, we also continued to drive for greater diversity and inclusion to ensure our workforce is genuinely representative of the communities in which we operate. We are proud, for example, of our Indigenous Pre-employment Program and the opportunities it provides young Indigenous Australians seeking to pursue a career in the energy sector.

I want to thank all our connected customers and communities and our committed employees, contractors and suppliers for their continued support and consideration throughout the year and into the years ahead.

John Cleland
Chief Executive Officer

Overview

Empowering communities to share and use energy for a better tomorrow



Essential Energy builds, operates and maintains the electricity network across 95 per cent of regional, rural and remote New South Wales (NSW) and parts of southern Queensland.

The business maintains and develops the infrastructure – the poles and wires – that delivers power to more than 840,000 homes and businesses, 170 hospitals, and 1,250 schools.

With approximately 3,000 employees based in around 100 local depots and regional offices, Essential Energy is an economic enabler for regional, rural and remote NSW and parts of southern Queensland.

Essential Energy aims to continuously improve safety performance for employees, contractors and the community, and the reliability, security and cost efficiency of the network, while striving to maintain downward pressure on the network component of customers' electricity bills.

Essential Energy's business objectives are:

- continuous improvements in safety culture and performance
- operate at industry best practice for efficiency, delivering best value for customers
- deliver real reductions in customers' distribution network charges
- deliver a satisfactory Return on Capital Employed.

These will be achieved through 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 are divided into three regions for management purposes – North Coast, Northern and Southern Regions – encompassing a wide range of geographical, climatic and environmental conditions.

In the far west of the State, an operating division, Essential Water, services a population of approximately 18,000 people in the communities of Broken Hill, Sunset Strip, Menindee and Silverton. It delivers safe drinking water supply services to around 10,500 customers and reliable sewerage services to around 9,700 customers in Broken Hill through a network of dams, water treatment plants, sewage treatment plants, reservoirs, water and sewage pumping stations, mains and other related infrastructure.

1,495
powerlines, with 10 that are longer than 1,000km

>840,000
customers

737,000
square kilometres of regional, rural and remote NSW and parts of southern Queensland

95%
of NSW & parts of southern Queensland

377
zone substations and 140,000 distribution substations

183,612km
of overhead powerlines – equivalent to driving around Australia 13 times

1,905km
length of our longest powerline – services 335 customers

4.6 customers
per km of powerline – the lowest customer density in the National Electricity Market

36 years
average age of network assets

163,417kms
of powerlines in designated bushfire zones

3,000
employees

64
apprentices – 40 appointed in 2017-18

40M kms
travelled by employees in Essential Energy fleet vehicles each year

1.38M
Power poles – equating to 1.6 power poles per customer

Safety focus

Safety is central to the business culture, with every person at Essential Energy empowered to make safety their own. There is still much work to do in improving safety performance and the business' safety journey continues, researching and introducing new programs to improve safety outcomes that ensure all employees and contractors go home safely. Public safety within the communities we serve is also an ongoing priority for Essential Energy.

Essential Energy's safety principles are:

- We acknowledge our important role in our communities' safety. We will listen to and respect our customers, sharing knowledge and experience to keep them safe around our network.
- We look to our employees, contractors and communities as a valued source of insight, innovation and expertise. Working together we will deliver safe and reliable services.
- We care about our people's health and safety at home, at work and at play. Employee programs focus on building a proactive health and safety culture and a positive approach to mental health.

Serving communities and customers

Listening and responding to customers sits at the heart of everything Essential Energy does as the business delivers on its promise of empowering communities to share and use energy for a better tomorrow.

An ongoing program of stakeholder and customer engagement is guiding positive, long-term customer outcomes and business efficiencies.

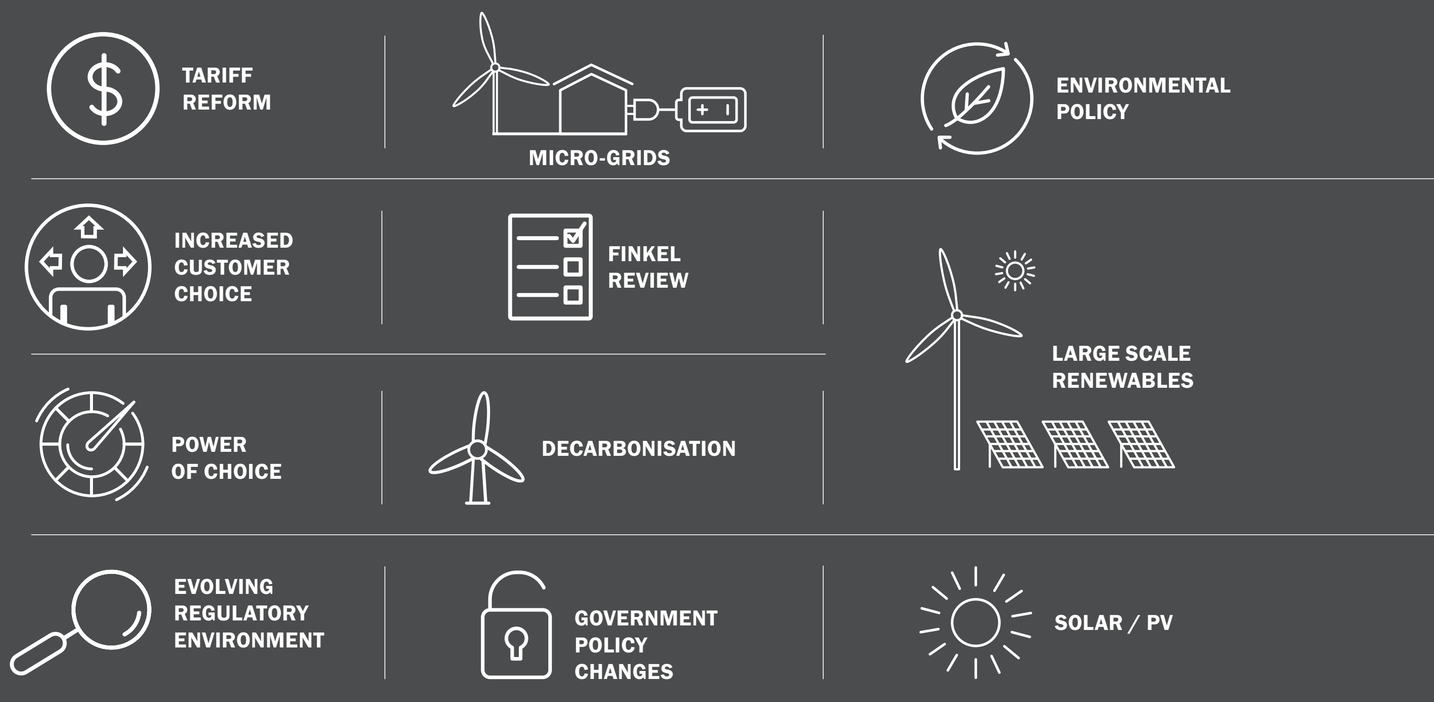
Essential Energy's collaboration with customers is defined as 'Outside-In', listening to customers before decisions are made, and 'Always on', ensuring the business is open to feedback and consistent in its approach.

The evolving network

The Australian energy market continues its rapid transformation, presenting customers with more choice in how they obtain and consume electricity. Essential Energy is embracing this transformation to ensure it continues to deliver high value services to customers.

A key initiative in transforming the network is trialling new technologies and facilitating renewable energy connections to the existing network. More than 140,000 residential and small business customers have small scale renewable energy generation systems, mainly solar, connected to Essential Energy's network. There are also 12 hydro, six wind, six bio, 12 solar and three gas medium to large scale generators, with a total output of approximately 800 megawatts (MW).

A SNAPSHOT OF THE EVOLVING ENERGY INDUSTRY



BATTERIES / STORAGE

RING FENCING

BIG DATA

STAND-ALONE POWER SYSTEMS

INCREASED COMMUNITY INTEREST

INTERNET OF THINGS

ELECTRIC VEHICLES

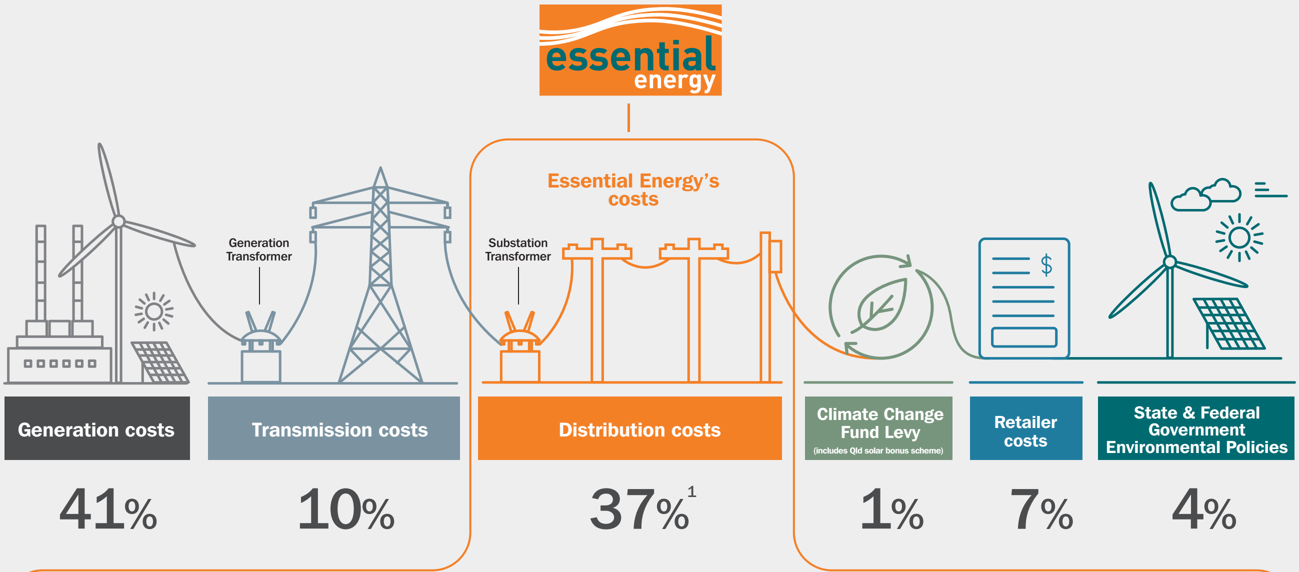
PEER TO PEER TRADING

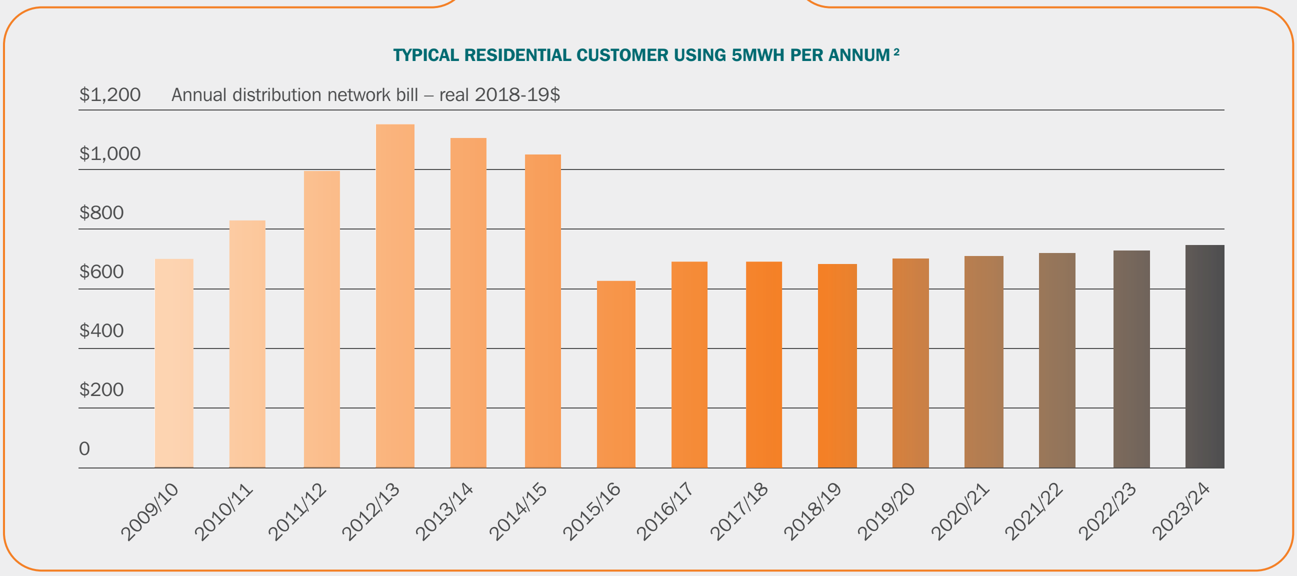
ACCC REVIEW OF RETAIL ENERGY PRICING

SMART METERS

Electricity Distribution Costs

Most electricity in Australia is delivered from large-scale generators through transmission and distribution networks to residential and business customers. Essential Energy operates one of the largest distribution networks, distributing electricity through assets such as substations, transformers and powerlines. These costs are recovered through network charges, which account for approximately 37 per cent of a typical customer's electricity bill.





1. Based on the 2017-18 forecast, Australian Energy Market Commission, 2017 Residential Electricity Price Trends, 18 December 2017 p.100
2. 5MWh represents a typical household with three to four occupants

Regulatory environment

As a regulated electricity distribution business, Essential Energy is subject to economic regulation by the Australian Energy Regulator (AER) under the National Electricity Rules (NER). This means most distribution services are subject to revenue and/or price controls set by the regulator to ensure recovery of efficient costs over a determined regulatory period (usually five years).

The Independent Pricing and Regulatory Tribunal (IPART) is the safety and technical regulator for the electricity business. Essential Energy is currently working with IPART to demonstrate compliance with 'ISSC3 Guideline for Managing Vegetation Near Power Lines' for vegetation management encroachments on our network.

Essential Energy owns and operates Essential Water, which supplies water and wastewater services to around 10,000 consumers in Broken Hill and is subject to regulation by IPART. IPART sets and regulates Essential Water's prices for a determined regulatory period (usually four years) to ensure they are fair for customers while allowing the business to recover costs and generate an adequate return on assets.

Year in Review

Enabling energy solutions that improve life

FY18

empowering

Our Strategy, Our Plans and You

Business Objectives

- Continuous improvements in safety culture and performance
- Operate at industry best practice for efficiency, delivering best value for customers
- Deliver real reductions in customers' distribution network charges
- Deliver a satisfactory Return on Capital Employed

Strategic Plan – Key Initiatives

Best Practice Systems, Technology & 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
- Assessment of revenue generation and capital deployment opportunities

Enhanced Risk-Based Asset Management

- Improved capability and culture
- Whole-of-life asset management strategies
- Smarter network
- Effective risk-based investment prioritisation

Other FY18 Priorities

- Safety Differently
- 2019-24 AER Regulatory Proposal
- Power of Choice
- Ring-fencing guidelines
- Enterprise risk framework

This financial year we will

- Roll out mobile devices and reduce paper-based processes
- Complete Commercially Capable People Phase 1
- Launch eWorks (works management system) pilot
- Establish and embed customer engagement research
- Launch the Safety Differently program
- Submit the 2019-24 AER Regulatory Proposal
- Implement ring-fencing guidelines
- Actively engage in commercial opportunities and business innovation
- Successfully implement Power of Choice
- Implement Asset Investment Prioritisation System
- Launch the EDO (Enterprise Delivery Office)
- Activate e-Grid (stand-alone power system) trials

Our Vision

Empowering communities to share and use energy for a better tomorrow

Our Purpose

To enable energy solutions that improve life

Our Values

- Make safety your own
- Be easy to do business with
- Make every dollar count
- Be courageous, shape the future
- Be inclusive, supportive and honest

Our Customer Commitment

- Listen
- Respect
- Deliver

essential energy

Safety performance

Essential Energy did not meet its safety goals in FY2017-18, with all safety metrics unfavourable to target. In FY2017-18 there was:

- an increase in the Lost Time Injury Frequency Rate (LTIFR) – Employees, from 1.64 in FY2016-17, to 3.97
- an increase in the Total Recordable Injury Frequency Rate (TRIFR) – Employees, from 17.4 in FY2016-17, to 23.5
- 23 Lost Time Injuries (LTIs) reported, compared to ten LTIs in the previous year.

In addition to introducing new programs to minimise injuries, Essential Energy continues to adopt a holistic approach to return-to-work programs. This focusses on assisting an injured worker return to their pre-injury duties as soon as practicable. The Health team works closely with treating practitioners and the worker to explore strategies to assist workers with the swiftest recovery.

The High Potential Incident Frequency Rate (HPIFR) of 3.8 was unfavourable to target. In FY2017-18, Essential Energy expanded the HPIFR definition to include near misses in the definition. In FY2017-18, there were 866 near misses reported, 16 per cent higher than the target of 746. The reporting of near misses is a key leading indicator and allows insight into emerging safety issues.

A new safety performance metric, Serious Claims Frequency Rate (SCFR), will be used in FY2018-19 to report the number of worker's compensation claims resulting in one week or more lost time per million hours worked.

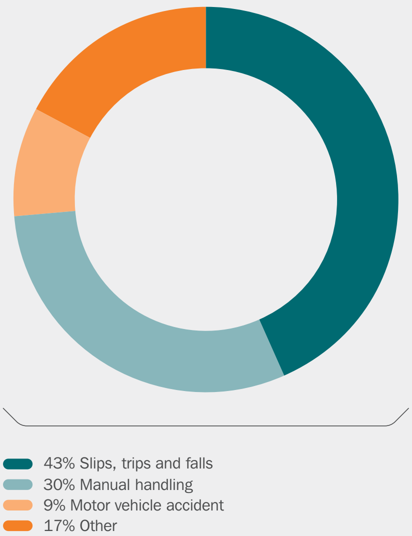
Essential Energy had three notifiable injuries under the Work, Health and Safety Act 2011 for the FY2017-18. These were:

1. a powerline worker sustained burns to his right hand middle and second fingers when a circuit breaker exploded whilst testing with a voltage meter (11 May 2018)
2. an electrical technician sustained an injury to his neck and shoulder when he was struck by an elevated work platform as it was being lowered (25 March 2018)
3. an asset inspector sustained soft tissue injuries to their left arm following an all-terrain vehicle rollover whilst driving through a paddock (25 July 2017).

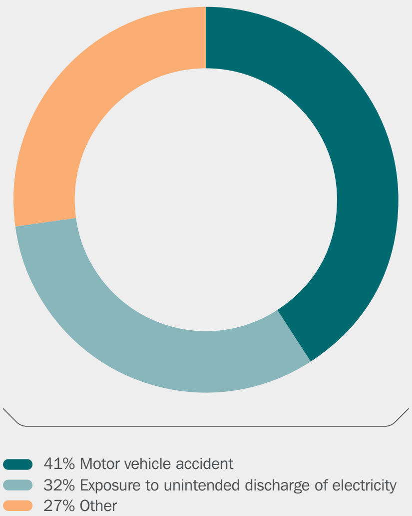
Essential Energy received no prosecutions under the Work, Health and Safety Act 2011 for the FY2017-18.

Measure	FY17-18 Target	FY17-18 Actual	FY18-19 Target
Lost Time Injury Frequency Rate (LTIFR)	0.91	3.97	3.23
Total Recordable Injury Frequency Rate (TRIFR)	13.3	23.5	17.4
High Potential Incident Rate (HPIFR)	2.21	3.80	2.85
Serious Claim Frequency Rate (SCFR)	–	–	4.1

LTI Causal Factors FY2017–18



HPI Causal Factors FY2017–18



Affordability

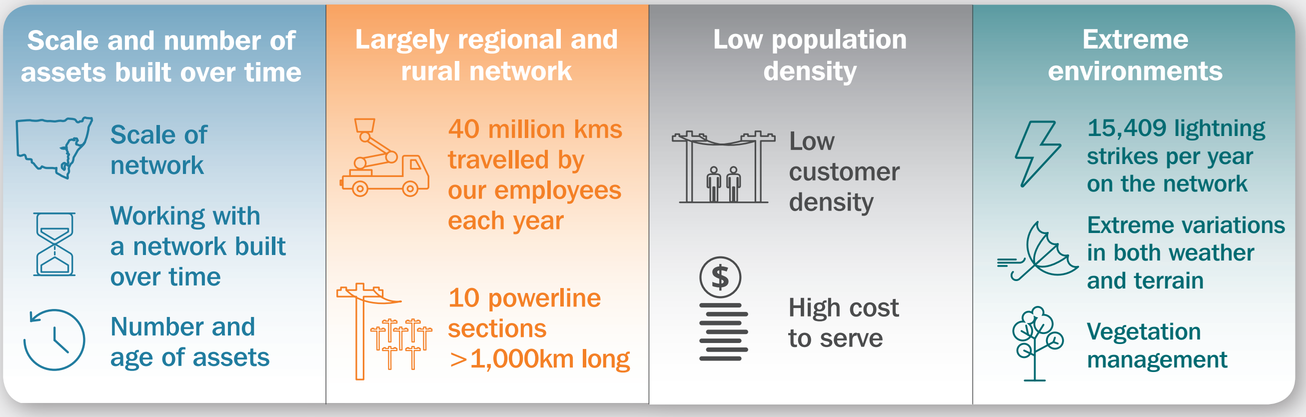
Along with safety, customers continue to rank affordability and reliability as their top priorities. Essential Energy remains focussed on minimising network charges without compromising safety, reliability or service.

Essential Energy's recent customer consultation process, which focussed on the 2019-24 Regulatory Proposal, highlighted that many customers do not understand the company's role in the electricity supply chain.

During the consultation, customer understanding of Essential Energy's role improved and there was a significant uplift in the perception of distribution charges being good value for money.

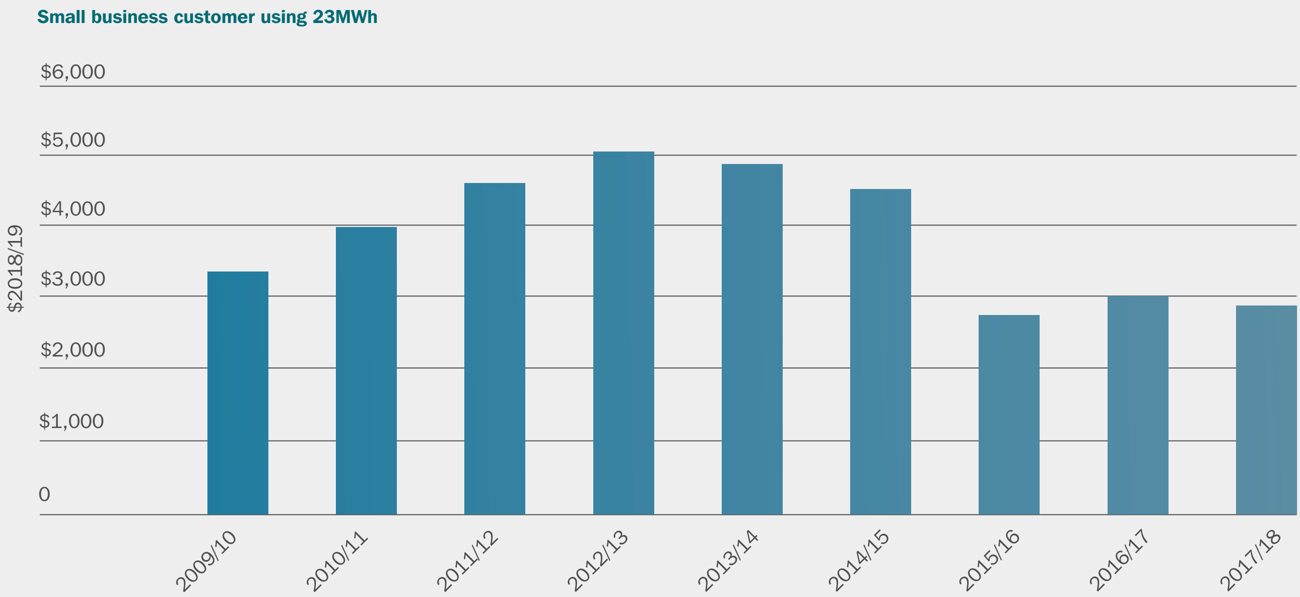
In FY2017-18, the annual Distribution Use of System (DUOS) cost for a typical residential customer using 5 MWh was $674, and $2,869 for a business customer using 23 MWh – both more than 40 per cent lower in real terms than the equivalent charges in FY2012-13, and below the charges applied in FY2009-10.

Network charge considerations



Typical annual distribution use of system cost (duos) for residential customers using 5MWh per annum

Typical annual distribution use of system cost (DUOS) for small business customers using 23MWh per annum



Reliability

The performance and reliability of Essential Energy's electricity network is measured by the number and duration of supply interruptions. The System Average Interruption Duration Index (SAIDI) measures how long outages last using the average total minutes a customer is without power in a year. The System Average Interruption Frequency Index (SAIFI) measures how many outages occur using the average number of interruptions per customer for the year.

Essential Energy's SAIDI performance for FY2017-18 was 212 minutes and the SAIFI was 1.78 interruptions per customer.

While these results show small improvements on the previous year, they are marginally unfavourable to the Service Target Performance Incentive Scheme (STPIS) targets based on historic average figures.

Essential Energy experienced three Major Event Days over the last financial year. This is below the average experienced over the last five years of five Major Event Days per annum.

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

AER 2014-19 revenue determination and impact on customer pricing

Following appeal to the Australian Competition Tribunal and subsequent referral to the Full Court of the Federal Court of Australia, the AER's determination for the current regulatory control period (2014-19), released in April 2015, was set-aside and remitted back to the AER. Essential Energy worked closely with the regulator and stakeholder and customer groups, to achieve a timely and mutually agreeable Proposal that was presented to the AER in April 2018.

On 31 May 2018, the AER published its final decision on Essential Energy's 2014-19 Proposal which capped the revenue accrued through differences in forecast and actual consumption to a maximum of $100M (or two per cent of the original AER allowance).

To ensure pricing stability for customers while the AER remade its final determination, Essential Energy agreed a statutory undertaking to apply only Consumer Price Index (CPI) increases to 2017-18 and 2018-19 network charges.

Essential Energy's 2019-24 revenue determination

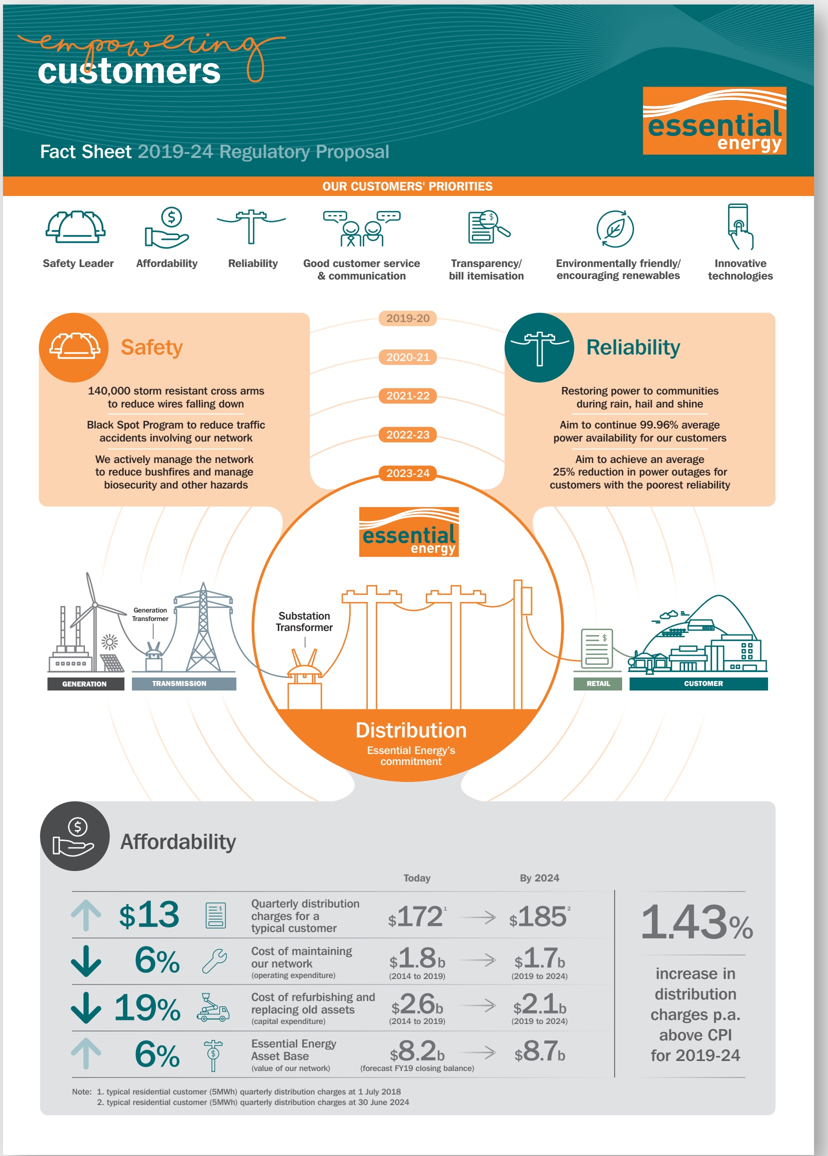
Essential Energy's expenditure proposal for the next five-year regulatory period (2019-24) was submitted to the AER on 30 April 2018. This reflects the company's vision, purpose and values and was heavily guided by feedback from customers and stakeholders over the past year. Customers told Essential Energy that:

- safety is imperative
- customers are satisfied with Essential Energy's current levels of power supply reliability
- Essential Energy's services must remain affordable.

Essential Energy aims to reduce its contribution to customer bills by prudently investing in innovative and enabling technologies to deliver ongoing business efficiencies and meet current and future customer needs. It will invest appropriately to enable network innovations such as microgrid trials to take place in the future for regional, rural and remote communities across the business' footprint.

Essential Energy's proposal includes operating expenditure that is six per cent below 2014-19 allowances (the lowest in 20 years) and a 21 per cent reduction in real capital expenditure (the lowest in 19 years). Alongside investment in new and enabling technologies, this will continue to maintain downward pressure on annual network charges.

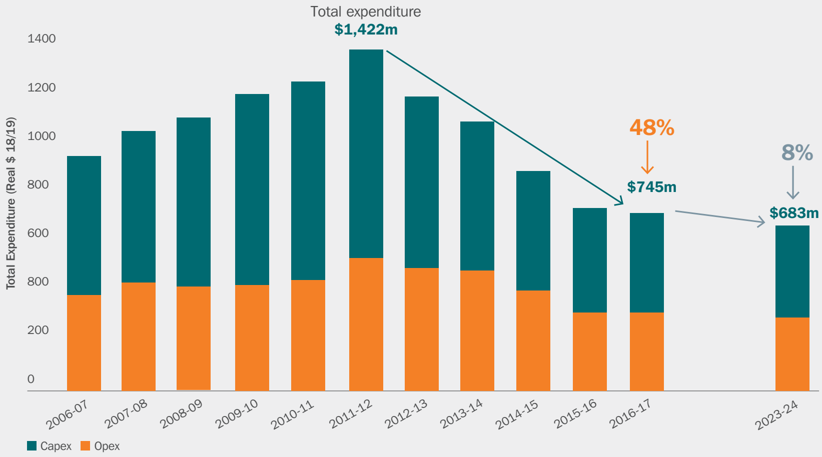
The AER is currently reviewing Essential Energy's proposal and will present its draft determination in late 2018. Customers and stakeholders are welcome to provide feedback on the proposal via the AER's website aer.gov.au or to Essential Energy directly.



The process of transforming our business to reduce total expenditure commenced in 2011-12.

Our 2019-24 Regulatory Proposal contains further forecast efficiencies:

- > Investing in new information technology
- > Streamlining our operations and processes
- > Improving how we manage our assets



Correct at 30 April 2018

Financial performance

Essential Energy's earnings before interest, tax, depreciation and amortisation (EBITDA) for FY2017-18 of $693.6M was $68.5M (nine per cent) below the prior year. This resulted in Essential Energy returning a net loss after tax of $11.6M for FY2017-18 compared to a $50.0M profit after tax for FY2016-17.

Essential Energy continues to be focused on transforming operations to increase efficiency and effectiveness. In FY2016-17, this resulted in cost reductions, while in FY2017-18 Essential Energy commenced implementing several transformational changes which required an investment of additional expenditure during the year to achieve longer term efficiencies.

Customer focus

Ongoing sustainable reductions to operating expenditure and capital expenditure will lock in efficiency gains for the long-term benefit of customers, with the longer-term objective to deliver real reductions to network charges for customers in the 2024-29 regulatory period.

The extensive Customer and Stakeholder Engagement program continued throughout FY2017-18. This commitment to meaningful and transparent customer and stakeholder dialogue has led to the adoption of a whole of business approach to embed the Stakeholder Engagement Framework into strategic planning. The framework sets out a clear methodology for each element of the business strategy, ensuring customer and stakeholder research and analysis informs the business' future values, projects and activities.

Employee relations

On 1 June 2018, the Fair Work Commission (FWC) approved the *Essential Energy Enterprise Agreement 2018* and the *Essential Energy Far West (Electricity) Enterprise Agreement 2018*. Over 75 per cent of employees participated in a ballot for the agreement with 96 per cent of these employees supporting the enterprise agreement. This was agreed with the unions and employees almost six months ahead of the previous Workplace Determination's expiry. Both enterprise agreements now have a nominal expiry date of 30 June 2021.

The enterprise agreements provide for wage increases over their nominal term in line with movements in the CPI, subject to being no less than two per cent or more than two and one-half per cent on an annualised basis. The initiatives contained in the enterprise agreements assist in achieving improvements in productivity, efficiency, and workplace flexibility.

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

Improving delivery of technology services

Essential Energy recognises the need to continually evolve to keep pace with rapidly changing technologies across the energy sector while improving the efficiency across both field and corporate areas.

Critical to the transition and renewal of Essential Energy's core systems is ensuring the end-to-end visibility of enterprise data, including replacement of the legacy Enterprise Asset Management System (EAM) Wasp. Preparation for this has commenced with the development of an enterprise integration capability and the Application Programming Interfaces (API) catalogue which will be expanded over the coming years. This will enable significant reductions in long term integration costs and better sharing of information with customers, suppliers, partners and contractors.

Essential Energy recognises the ongoing opportunity to utilise technology and data to enable further business efficiencies and benefits to customers and partners. The use of mobile devices continues to drive efficiencies through the ongoing digitisation of paper-based processes and access to real-time data and insights. Key focus areas in Essential Energy's technology transformation journey also include:

- reducing repetitive low value tasks where enterprise wide efficiencies and cost savings are achievable
- the maturing of Essential Energy's information security capability to ensure protection of company and customer information.

Essential Water pricing and 2019-23 revenue 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 prices to ensure they are fair for customers while allowing the company to cover costs and generate an adequate return on assets.

Prior to the expiration of Essential Water's current *2014-18 Price Determination for Water and Sewerage Services* the NSW Government announced construction of a new 270km underground pipeline from Wentworth to Broken Hill to secure a long-term water supply for the region. The pipeline construction falls outside Essential Water's responsibilities, other than facilitating connection points for customers.

Given the uncertainty around the costs, timeline and contractual terms of the pipeline project, Essential Water chose to defer the lodgement of its next four-year regulatory determination proposal by a year. This means FY2018-19 prices will remain flat at the FY2017-18 IPART approved level.

Essential Water's proposal for the next four-year regulatory period, from 1 July 2019 through to 30 June 2023, was lodged with IPART in July 2018. This proposal was shaped following a tailored stakeholder engagement program that highlighted reliability of water supply and affordability as the two most important factors for residential customers.

During September 2018, IPART released its Issues Paper on Essential Water's proposal, and invited stakeholders to make submissions. The publication of the draft determination is due in April 2019. The Final Determination will be published in May 2019 with the new prices coming into effect from 1 July 2019.

Essential Energy 2017-18 company scorecard

Essential Energy's continuing journey to adapt and deliver improvements to its network planning and service delivery processes will ensure it remains an active participant in Australia's rapidly changing electricity supply chain.

Key Result Areas	Measures	Target	Actual
Safety			
	Lost Time Injury Frequency Rate (LTIFR) – rolling 12 month	≤0.91	3.97
	Total Recordable Injury Frequency Rate (TRIFR) – rolling 12 month	≤13.3	23.5
	Total Recordable Injury Severity Rate (TRISR) – Rolling 12 month	≤287	509
	High Potential Incident Frequency Rate (HPIFR) – rolling 12 month	≤2.21	3.80
	Contractor Lost Time Injuries (CLTI) – Incidents	Monitor Only	4
Customer experience			
	Reportable Environmental Incidents	≤2	0
	Customer Satisfaction Index (Quarterly)	≥84.0	84.6
	System Average Interruption Duration Index (SAIDI) normalised – minutes	≤213	212
	Reportable Incidents – NECF Type 1 Breaches	≤4	4
Financial			
	STPIS Revenue / (Penalty) Impact – $M	≥0	-0.1
	Network Consumption – GWh	≥12,254	12,532
	Net Operating Income – $M	≥1,147	1,134
	Operating Expenditure (OPEX) – $M	≤425	441
	Capital Expenditure (CAPEX) excluding gifted assets – $M	≤516	399
	Earnings Before Interest and Tax (EBIT) – $M	≥348	323
	Return on Capital Employed – per cent	≥4.5	4.2
Network plan delivery			
	Planned Network Capital Delivery – percentage of agreed milestones completed	≥100	93
	Planned Network Maintenance Delivery – percentage of agreed milestones completed	≥100	93
	Defect Backlog – percentage of Defect Tasks Overdue	<5.0	8.3
People			
	Full Time Equivalent (FTE) employees	Monitor only	2,925
	Employee Culture Index (Quarterly)	≥75.0	61.0

Next year – plans and priorities

Essential Energy's focus for FY2018-19 will be its continued transformation to a business that truly empowers communities to use and share energy for a better tomorrow, while delivering a sustainable network for the future. This will be informed by customers and will continue the growth in technological and commercial capabilities through the implementation and continuous evolution of the Strategic Plan.

The strategy is focused on ensuring that Essential Energy delivers on its values of:

- making safety every employee's highest priority
- being easy to do business with
- making every dollar count
- being courageous in shaping the future
- being inclusive, supportive and honest.

Essential Energy will:

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

Essential Energy will explore near-term opportunities to further utilise core network assets, supporting the commitment, where possible, to reduce network charges and provide a satisfactory return to shareholders.

Empowering Safety

Safety is central at Essential Energy and our safety performance in FY2017-18 fell short of our own expectations. We are researching and introducing new initiatives to build a safety culture that ensures employees go home without injury each day

In FY2017-18, Essential Energy undertook a strategic safety review to explore new ways of approaching safety to meet the business' current challenges. The objective was to critically review Essential Energy's current Safety Management System and identify areas of improvement that would bring about sustainable improvements to safety performance and culture. The review established a roadmap of initiatives to be rolled out as part of the Safety Transformation program which will comprise three key focus areas; safety leadership, health and wellbeing, and simplifying the Safety Management System.

Health and wellbeing framework

Essential Energy continues to have a strong focus on supporting employee health, wellbeing and fitness for work.

In FY2017-18, Essential Energy established a Health and Wellbeing Framework to bring a targeted focus to mental health and wellbeing, and to ensure a best practice approach to providing a physically and mentally healthy workplace. This is a key enabler to Essential *Energy's Safety Transformation* program.

Through three key focus areas: health and wellness; fitness for work; and injury management, the Framework aims to achieve:

- proactive health and safety culture – assist in maintaining a proactive approach to worker performance and wellness, injury prevention, and best practice manual handling and workplace safety
- a positive approach to mental health – build capacity to understand and recognise the signs, break down the stigma, encourage vulnerability and understand the impact of compromised mental health on performance, and adopt positive strategies for managing mental health
- a growth mindset – increase preparedness to be accountable for actions and behaviours, shift attitudes from complacent to capable, take pride in role/task performance and be willing to change
- recognition as an employer of choice – clearly demonstrate to employees that Essential Energy cares about their long-term health, wellbeing and safety
- assessment of, and improvement in worker health – gather de-identified health data and increase the collective desire to improve health, measure success of the Framework and sustainability
- improved and maintained productivity – explore keys to performance and fatigue management – work/life balance, nutrition, fitness, function, flexibility and sleep.

Ongoing key health and wellbeing programs include:

- **Work Capacity Assessments:** providing periodic assessment of a worker's capacity to perform the physical functions of their role. This initiative provides a medical review for workers in roles where the risk of developing disabling symptoms, sudden collapse, loss of consciousness or significant lack of concentration could potentially result in an unacceptable risk of a serious incident.
- **Leadership Resilience program:** designed specifically towards employees in senior leadership roles that are typically exposed to pressures such as long hours, travel, high stress, decision making, and an absence of regular routine. A goal of the program is to help identify and manage health risks amongst key employees before they become critical and to improve resilience, adaptability and productivity.
- **Glovebox Guide to Mental Health:** a promotional guide developed by the Rural Adversity Mental Health Program which focusses on mental health education and providing awareness of assistance and services available in regional NSW. Copies of the guide have been delivered to common areas, such as lunchrooms, at every Essential Energy site.
- **Fitness Passport program:** developed from employee feedback, the program has attracted more than 400 employees and offers an affordable option to use a range of gyms and pools without having to be a member at each location.

– **Employee Assistance Program (EAP):** this program continues to provide employees and their families with a free confidential counselling service for work and personal concerns.

Safety is defence program

To continue to evolve Essential Energy's safety culture and drive the right behaviours, the company worked in collaboration with Energy Queensland to adopt the Safety is Defence program.

The program originated at Energy Queensland as an internally developed 'hearts and minds' local leadership program that uses sporting analogies to promote mindset shift, engagement, and ownership of work crews for safety outcomes in high risk environments.

The principles of the program instil the value of crews spending quality time at the start of the day focussing on safety; preparing a 'game plan' for the job; identifying 'gaps' in defence; managing mental health to ensure the crew has 'their heads in the game'; and, by working effectively as a team and getting their 'defence' strategy right, they will undertake work effectively and safely.

In FY2017-18, regional facilitator-led *Safety is Defence* sessions at depots empowered employees to take ownership of safety at an operational level and 'make safety their own'. The facilitators empower leaders to apply their own and their teams' experiences to improve safety outcomes while maintaining the strengths of local level ownership.

Success of the program will see our people leading safety by choice, with teams creating their own goals and commitments, using effective coaching conversations to simplify and influence the right safety outcomes.

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 six '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 farm activities
– **Aviation:** recreational and agricultural applications
– **Building:** construction and demolition activities, including roadworks
– **Emergency services and public authorities:** Police, Fire Brigade, Rural Fire Service, Ambulance, Councils and life support
– **General public:** renovations, DIY, vandalism and vehicle use
– **Transport**: commercial and public transport.

Targeted programs and campaigns were delivered for each group, with the key objective being to increase public awareness of the risks associated with the network and reduce the occurrence of public safety incidents.

An integral factor to the success of these activities is Essential Energy's engagement and partnership with community representatives and industry stakeholders, which has provided the opportunity to raise awareness, implement additional safety measures and deliver targeted education and awareness programs.

Essential Energy's Customer Advocacy Group (CAG) also played an essential role in developing this year's plan by providing objective feedback on safety planning.

Key community and stakeholder programs of the 2017-18 PESAP included:

- **Community engagement:** The launch of a new online platform, *Essential Engagement*, enabled over 1,200 customers to provide feedback in a real-time environment and engage in two-way discussion around important issues such as vegetation management, the 2019-24 Regulatory Proposal, Private Asset classification and public lighting. It also facilitated direct contact with Essential Energy's CAG.
- **Partnering with SafeWork NSW:** Awareness programs in relation to work, health and safety compliance for public workers were held throughout the year.
- **Roads and Maritime Services:** To investigate 'Black Spot' poles identified through incident analysis.
- **Agribusinesses:** When it comes to the potential dangers for members of the agribusiness industry working around powerlines and other network infrastructure, Essential Energy advocates four key LAND safety messages:
  - **Look up and live:** identify overhead powerlines and mark them at ground level. Essential Energy can provide electrical network maps showing the location of overhead powerlines on your property
  - **Always be aware:** before accessing paddocks and work areas, check the location and condition of poles and wires. Conditions can change without notice and heat can affect powerline height
  - **Need to know:** know the height of farm machinery in both the raised and lowered positions so you can maintain the required safety clearance distances. Powerlines can be as low as 5.5 metres so always lower machinery fully before moving off and check and observe clearances when working under or around powerlines
  - **Don't disembark:** if your machinery contacts overhead powerlines, stay in the vehicle (if it is safe to do so) and call Essential Energy immediately on 13 20 80.
- **Transport:** Essential Energy continues to promote campaigns that remind drivers of high machinery to be aware of overhead powerlines. Media releases were distributed to regional publications and social media posts supported the safety messages. The *Look Up and Live* campaign was a focus and double-sided cabin stickers were created for operators of high machinery to act as a reminder.
- **Aviation and powerline markers:** Essential Energy continues to work closely with the Aerial Application Association of Australia (AAAA) by becoming a foundation safety partner. After receiving the *Leland Snow Innovation Award* from the AAAA in 2017, Essential Energy focused on exploring ways to improve the marker.
- **Seasonal safety messages:** Essential Energy promotes seasonal safety messages each year. These include storm and bushfire safety, as well as cotton, grain, sowing, sugar-cane harvest and stubble burn-off safety. Two new campaigns were added this year: the Sowing campaign communicated the importance of looking out for power poles, stays and overhead powerlines; and the Stubble Burn-off campaign targeted the importance of protecting electrical assets.
- **Electricity Safety Week (ESW):** A keystone activity for engaging and teaching the next generation, this annual State-wide program is designed to teach primary school students how to be safe around electricity and to increase awareness of the associated dangers. The program 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. Achieving the highest participation rate to date, the 2017 program reached more than 90,000 students across 895 primary schools, accounting for 97 per cent of schools within Essential Energy's footprint.

Working with stakeholders to implement biosecurity controls, a joint workshop with Department of Primary Industries and Essential Energy discussed the implication of legislation changes.

- **Life Support:** A new SMS and text-to-voice service was implemented to assist communication with life support customers, ensuring they receive priority notifications of power supply outages.
- **Emergency Services:** Essential Energy continues to offer safety sessions for all emergency service departments and a specific *Electrical Hazard Awareness for Emergency Services* DVD is provided free of charge.
- **Henty Machinery Field Days:** The Henty Machinery Field Days provided an opportunity to speak directly with farmers about topical information such as agribusiness operations under powerlines, electrical safety and vegetation management. School groups also attended Essential Energy's display to learn about the *Look up and Live* message.
- **AgQuip Field Days:** Essential Energy also engaged with customers and promoted electrical safety at *AgQuip*. Located near Gunnedah, *AgQuip* is Australia's largest and premier primary industry field days, attracting more than 100,000 visitors over a three-day period.

Targeted public safety electrical messages were delivered to at-risk groups.

Biosecurity

Since the *Biosecurity Act 2015* came into effect on 1 July 2017, Essential Energy has worked closely with the regulator, NSW Department of Primary Industries (DPI), and the CAG to develop a strategy for managing biosecurity risk.

In FY2018-19, Essential Energy will roll out several initiatives in support of the biosecurity strategy to ensure compliance with legislative and regulatory requirements with a focus on empowering employees to manage risk by providing them with the tools and information to do so, and making every dollar count, consistent with Essential Energy's corporate values.

Additional environmental initiatives

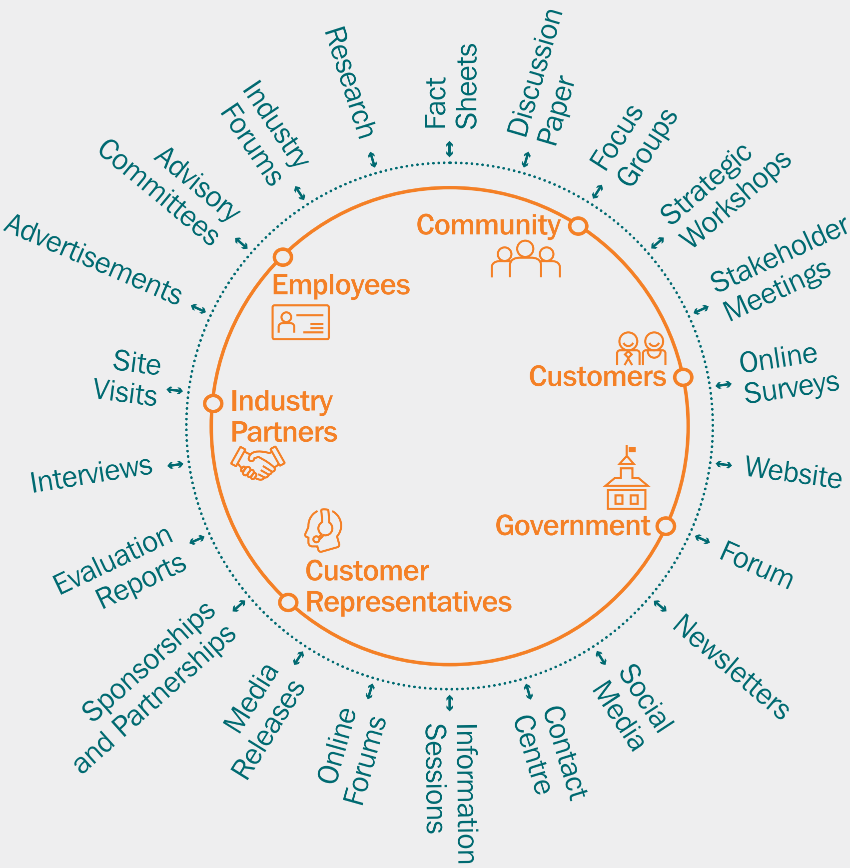
In FY2017-18, Essential Energy's *Environmental Management System (EMS)* was refreshed to ensure alignment with the new ISO 14001 standard and to drive continual improvement in environmental performance.

In FY2017-18, Essential Energy had no reportable environmental incidents.

Essential Energy's *Contaminated Land Management* (CLM) program also undertook numerous site investigations and remediation works.

Empowering Customers

Listening and responding to customers sits at the heart of everything Essential Energy does to deliver on its commitment to empower communities to use and share energy for a better tomorrow



Customer engagement

Essential Energy's commitment to ensure that customer and stakeholder research and analysis informs future plans and activities continued in FY2017-18, providing insights for the 2019-2024 Regulatory Proposal and Essential Energy's evolution in the changing energy industry.

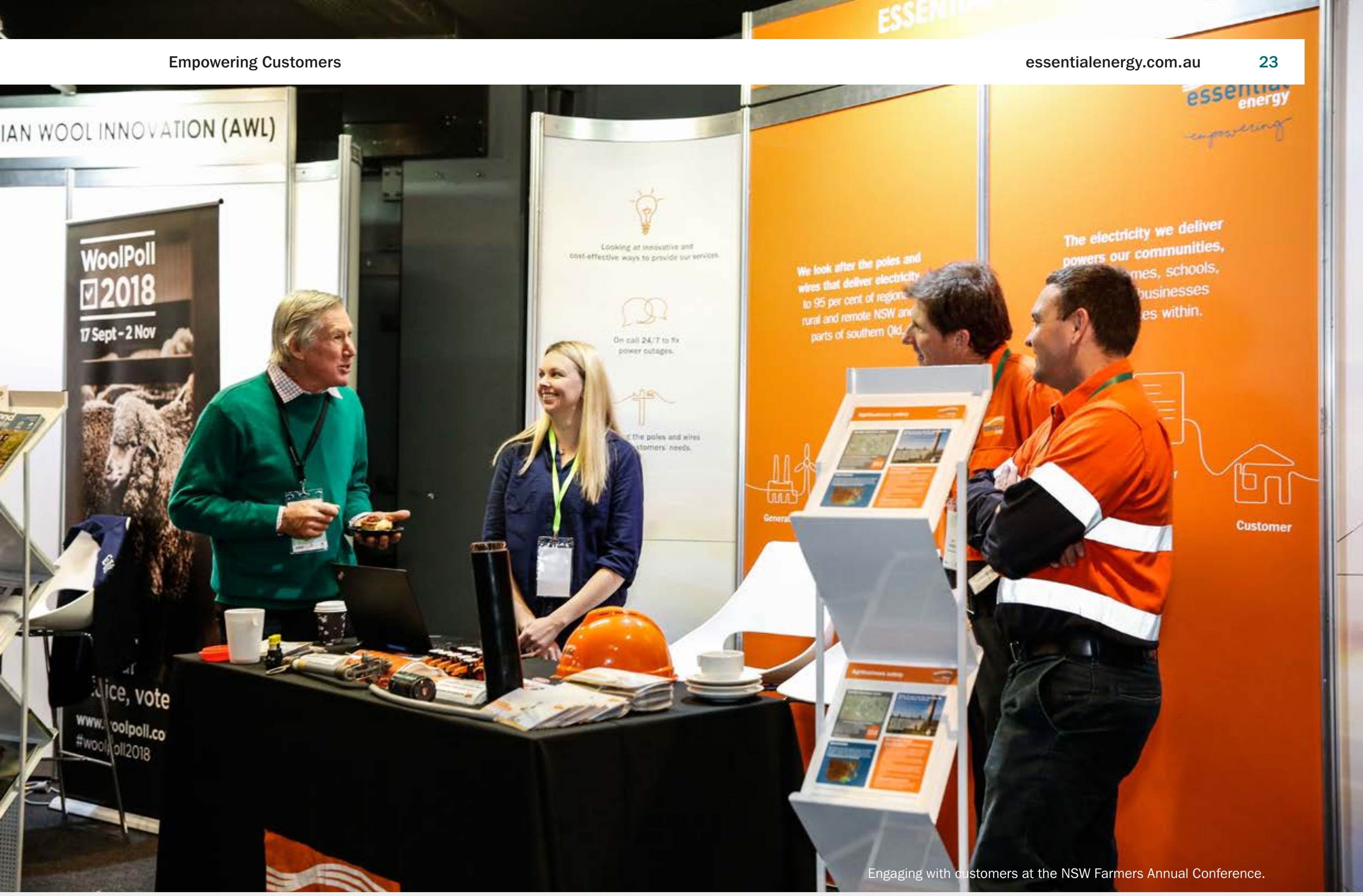
This commitment has led to a whole of business approach to embed the Stakeholder Engagement Framework into strategic planning, setting out a clear methodology to ensure customers and stakeholders remain at the centre of everything we do.

Essential Energy's Customer Engagement program confirmed customers' priorities and explored how customers want to use the network, embrace new technologies and change their behaviours around how electricity is consumed. It recognises the diversity of customers across Essential Energy's vast regional, rural and remote network and the critical role customers play in decision-making to shape business plans. Identified stakeholders were engaged through various face-to-face, online and other forums.

Through the engagement program, customers told Essential Energy that their top priorities were safety, affordability and reliability.

Essential Energy actively engages with customers through many channels, including phone calls, emails, mail correspondence, social media and text messaging. The effectiveness of this approach is measured through the quarterly Customer Satisfaction Survey. This year, Essential Energy delivered a customer satisfaction score of 84.6, marginally above the target of 84.

In addition, Essential Energy manages several consultative committees with key stakeholders on specific topics, such as vegetation and streetlighting with local councils. Broader consultation is also undertaken with the CAG and the Energy and Water Ombudsman NSW (EWON) on customer advocacy dealings. FY2017-18 saw expansion of the relationships with organisations such as Energy Users Association of Australia (EUAA) and NSW Farmers, broadening the customer engagement spectrum.



Engaging with customers at the NSW Farmers Annual Conference.

Customer Advocacy Group

Providing input to the business for over 20 years, Essential Energy's Customer Advocacy Group (CAG) is a proactive forum for consultation, engagement and insight across Essential Energy's customer base on any matters relating to the supply of electricity and associated services.

Recognising the contribution of long standing members, several new appointments to the CAG were made in FY2017-18.

The group's membership represents a diversity of regional, rural and remote NSW communities and ensures the interests of domestic, industrial, commercial, primary production, rural and remote, and low-income customers are heard. Eight meetings were held in FY2017-18 via teleconference or face-to-face. Members also attended other customer engagement activities hosted by Essential Energy.

Customer contact services

In FY2017-18, Essential Energy's Contact Centre recorded 405,412 customer contacts, compared to 456,246 in FY2016-17, and 516,772 in FY2015-16.

The decline in calls to the Contact Centre reflects a digital shift towards proactive communications with customers about unplanned outages via social media, a refreshed website and SMS messaging.

Essential Energy's contact with customers included:

- 21,540 outbound calls for planned and unplanned outage updates
- 383,872 inbound calls.

Essential Energy received 226,234 calls from customers about power outages and achieved a service level for answering calls within 30 seconds of 69.02 per cent – favourable against the AER's STPIS result target of 68.53 per cent.

Inbound calls also included 92,505 calls about general network enquiries such as network connections, Essential Water and solar installations.

Heavy storms in the mid north coast and far north coast in January 2018, delivered the busiest month for the Contact Centre, with a total of 30,370 outage-related calls answered – an average of 980 outage-related calls per day.

The busiest day of the year fell on 6 November 2017, when Essential Energy answered 2,636 outage-related calls due to storms in the Northern Rivers area. This day was declared a Major Event Day.

Electronic enquiries (via social media, email and Essential Energy's website) increased to 25,687 in FY2017-18, compared to 25,520 in FY2016-17.

Over the year, Essential Energy received 2,383 customer complaints ranging from vegetation management to meter reading to streetlight maintenance. These complaints resulted in 1,223 power quality investigations.

The Customer Resolutions team resolved 91 per cent of complaints within four business days.

Essential Energy matters accounted for 21 per cent of all distribution matters closed with the EWON, a reduction from 23 per cent in the previous year.

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 four valid Network Reliability Duration claims and paid $240 compensation to customers.

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

A total of $825 was paid for 55 claims in compensation to customers where Essential Energy failed to repair a streetlight within the expected 10 business days of it being reported.

National Energy Customer Framework

The *National Energy Customer Framework* (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 FY2017-18, Essential Energy recorded four Quarterly Reportable breaches (previously known as Type 1 breaches) that were reported to the AER. These incidents involved the incorrect de-energisation of a customer's premises. There were no breaches of Life Support protections recorded for the year.

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

Supporting diversity

In recognition that English is not a first language for some customers, Essential Energy provides interpreting and translation services to assist. During FY2017-18 customers speaking Mandarin, Vietnamese, Somali, Hindi, Arabic and Korean utilised the interpreter service.

Making the digital shift

Essential Energy's website, *essentialenergy.com.au*, undertook a major redesign at the start of 2018. The new website is now user friendly on all devices (smartphones, tablets and personal computers) and improvements have been made to increase usability, accessibility and to remove barriers for all who need to deal with Essential Energy in an online capacity.

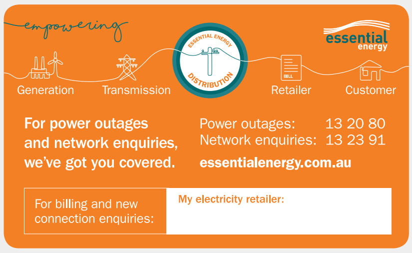
Traffic to essentialenergy.com.au for the year exceeded two million with 650,000 unique visits.

Essential Energy's social media community on Facebook, Twitter, LinkedIn, YouTube and more recently Instagram, increased by 35 per cent. Social engagement, where people connected with our posts, generated over 45,000 interactions (likes, clicks, etc) and 8.9 million total impressions over all social channels (an increase of 18.9 Per cent on the previous year).

Building brand clarity for customers

In May 2018, Essential Energy launched an educational campaign to clarify for customers Essential Energy's role as a distribution network service provider, in response to customers not clearly understanding Essential Energy's role and a noted increase in Contact Centre calls that needed to be redirected to electricity retailers.

The three-month campaign aimed to educate customers about 'who we are and what we do' and included a multi-channel approach covering direct mail, print, digital, broadcast and social media to ensure coverage across Essential Energy's network area.



A key element of the education campaign was a letter to customers, including a magnet clearly identifying Essential Energy's role in the supply chain.

Customer insights

Essential Energy also undertook projects including Customer Segmentation research, and development of a Customer Insights Portal. These will assist Essential Energy to better understand who our customers are, what drives their energy choices, the services they value, and their preferred method of communication.

Customer insights gained through the research include the following:

17% changed their place of residence in the 12 months leading up to the last census

14% have completed a Bachelors degree or higher education

15% don't have access to an internet connection at home

16% speak a language other than english at home: Chinese & Italian are the most common

$78-104K was the median total household income, slightly above the national average($65-77K)

The Energy Charter

In December 2017, Essential Energy joined 14 other energy businesses to develop *The Energy Charter*. This is a concerted initiative spanning the gas and electricity supply chains from generation and transmission to distribution and retail that, together, aims to 'deliver energy for a better Australia'.

The Energy Charter is the first whole-of-sector initiative designed to progress the culture and solutions required to deliver energy in line with community expectations. The Charter will highlight good conduct in the energy industry based on key principles which have been developed in consultation with consumer advocates and business representatives. It aims to effectively embed a consumer-minded culture and conduct in energy businesses to create tangible improvements in price and service delivery.

In FY2018-19, the *Energy Charter* will be published for extensive consumer and stakeholder consultation, with the goal of delivering a final Charter for every business across the energy industry to consider in early 2019.

The Energy Charter

Empowering Our People

Essential Energy's targeted development programs enhance employee capability and empower people to collaborate and improve commercial efficiencies and accountability throughout the business

Employee feedback

In FY2017-18, Essential Energy refreshed the Employee Feedback strategy to empower a culture of feedback and enable actions that would shape and guide the business' people strategy and provide better understanding of the employment brand, employee engagement and organisational opportunities.

Formally, Essential Energy measures and gathers the organisation's feedback results by using a Cultural Index. The Cultural Index was added to the Company Scorecard for FY2017-18 to measure organisational health and engagement on a quarterly basis. The cultural index was 61 per cent for the last quarter and participation increased to 82 per cent, 20 per cent higher than the previous quarter.

Late in FY2017-18, Essential Energy engaged with a new provider, Gallup, to facilitate an annual engagement survey. This survey provides more in-depth feedback directly linked to performance indicators. Employees completed the survey in June 2018, with resulting insights influencing planning during FY2018-19.

Talent succession and management

Identifying the right people, developing their potential, building capability and supporting them through periods of change are all critical components to Essential Energy's organisational success. These elements are fostered through an integrated approach to people planning activities.

An organisational talent review process was conducted in November 2017 and May 2018 focused on three core inputs: Result; Behaviour; and Skill and Potential. Talent reviews have been conducted with almost 2,000 employees with outputs informing employee development plans.

Apprentice program

Essential Energy's Apprentice Program represents just one of the talent pipeline initiatives that supports future workforce planning.

In 2018, Essential Energy onboarded 40 successful applicants into the Apprentice Program. Of these, three were existing employees, five had previously completed a pre-apprentice traineeship, and 32 were external new recruits. The business is committed to a consistent, responsible investment in the Apprentice Program, aiming to recruit 25 apprentices to commence in February 2019 across a range of locations.

These intakes complement existing apprentice resources, with an additional 24 powerline apprentices in their second year and one in their final year.

The *Apprentice Program* is supported by Essential Energy's *Indigenous Pre-Employment program*, reference page 29.

Sourcing strategy

Essential Energy's people are critical to ensuring the business achieves its organisational goals. Attracting and selecting talent is at the centre of that success.

Integrated with the Strategic Plan, Essential Energy's recruitment practices support performance, talent management, productivity and cultural objectives including diversity and inclusion, to meet current and projected workforce needs. The candidate experience is designed to align with Essential Energy's values, brand and reputation – aiming to be an employer of choice and ensuring 'we are easy to do business with' from attraction to onboarding.

Leadership development

Anchored by Essential Energy's *Organisational Behavioural Framework* including the Values and Leadership Skills, Essential Energy is tailoring leadership solutions to ensure appropriate development outcomes for each level of leadership. Key to this success is creating a shared vision and goals through group learning, networking, collaboration, skills development and promotion of peer interaction.

In FY2017-18, a frontline leadership program was developed and implemented. Fifty-five per cent of frontline leaders participated in a two-day *Leading Effective Teams* workshop and they are now building and reinforcing their skills through online modules and peer coaching activities.

The program supports divisional capability uplift activities and will be integrated with Induction and New Leader programs to support leadership performance and effectiveness as a key focus area.

A *Strategic Leadership* program was also delivered. Participant feedback provided following the three-day workshop highlighted the importance to revise and reinforce the learning outcomes.

Commercial capability

Building on the success of the *Commercial Capability* program in FY2016-17, Essential Energy continued to build employee commercial skills, demonstrating how day-to-day actions and decisions impact the bottom line and drive better value for customers and the business.

Phase 2 of the *Commercial Capability* engagement commenced in FY2017-18. This focused on assisting 1,900 employees in the value chain understand what being 'commercially tuned-in' looks like and the impact they can have on all steps in the chain. It also reinforced how the business can work as one team to set field and customer facing teams up for success.

Formal education

Driven by organisational capability needs, Essential Energy invests in formal educational arrangements to empower the growth and development of employees. The program provides pathways that build capability and addresses potential future skills shortfalls within the organisation.

In FY2017-18, the formal education program provided financial support to 203 employees for courses ranging from Certificate III to Master's level and assisted 26 employees complete their qualifications in a range of areas including business, project management, warehouse, logistics, electrical, leadership and management, HR, IT, and insurance.

Professional engineering

Essential Energy has implemented a number of initiatives to develop and maintain technical and professional skills within the Asset Management and Engineering division.

A key component of this is the Professional Engineering Development (PED) program which offers employees the opportunity to undertake study towards a Bachelor of Electrical Engineering (Honours) or an Associate Degree in Electrical Engineering.

Currently, there are 12 employees studying towards the Bachelor of Electrical Engineering (Honours) and 10 employees studying towards the Associate Degree in Electrical Engineering.

Essential Energy also entered into a corporate partnership with Engineers Australia (EA) offering its professional engineers sponsorship to undertake accreditation to Chartered Professional Engineer (CPEng) status. This accreditation is supplemented through Essential Energy's structured *Continuing Professional Development* (CPD) program for all engineering employees.

The EA partnership also allows Essential Energy's engineering employees membership access to a number of technical societies, the Asset Management Council (AMC) and Electricity Energy Society of Australia (EESA), which offer ongoing research and best practice activities for the ongoing development of employees.

Another initiative is Essential Energy's vocational employment program, which is currently offered to seven university engineering students to undertake vocational work experience. This allows the engineers of the future to apply their knowledge to real workplace situations with the potential for future employment through Essential Energy's graduate program.

Graduate programs

Essential Energy recognises the importance of supporting critical professional pipelines across the business to ensure an optimum level of commercially capable employees in all areas of the organisation.

As such, Essential Energy supports two Graduate programs; the *Engineering Graduate* program and the *Commercial Graduate* program. Both programs are three years in duration and involve rotations across the business, allowing Graduates to receive the broadest range of experience possible, whilst undertaking specialisation opportunities in their third year.

In its inaugural year, the *Commercial Graduate* program currently has one participant; the *Engineering Graduate* program has two participants.

Online training

Essential Energy's online learning management system, *EKAS*, offers in-house training and development opportunities to employees and targeted external groups, and in the last year, recorded 22,000 enrolments.

Technical training

As a Registered Training Organisation (RTO), Essential Energy delivers people-empowering training to employees and external contractors who work on or near the network, enhancing their technical and behavioural competencies, currency and consistency for workers in safety critical roles.

During the reporting period, Essential Energy delivered 330 regulatory assessment days to around 2,250 employees and 950 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.*

Diversity and inclusion

Essential Energy recognises the importance of an inclusive and diverse workforce. Diversity across all spectrums, including gender, heritage and ability, promotes diversity of thought, which in turn encourages an innovative and agile workforce. This approach to an inclusive workplace ensures all voices are heard and the potential of every employee is realised.

As an organisation with strong foundations in regional, rural and remote NSW, Essential Energy appreciates the importance of building a workforce representative of the customers and communities it serves. It also strives to ensure that all Indigenous employees are given every opportunity to succeed in their chosen field.

Essential Energy's Diversity and Inclusion policy covers all employees including directors, managers and supervisors and highlights the importance of providing an environment where employees from all backgrounds can work together to reach their fullest potential.

Essential Energy's *Inclusion and Diversity Strategy (2017-19)* identifies six diversity streams, all of which recognise and promote workplace inclusion and diversity: Indigenous (Aboriginal and Torres Strait Islanders); Gender; DisAbility; Cross Generational; Multicultural; and LGBTI (Lesbian, Gay, Bisexual, Transgender and Intersex). Progress towards achieving targets is reported on and reviewed at the Diversity Council meeting each quarter.

Representative group	EE Proposed Target by 2020*	EE Proposed Target by 2025*	Progress as at 30 June 2018
Women in the organisation	22%	35%	15.9%
Women in leadership	35%	50%	28.7%
Aboriginal and Torres Strait Islanders in organisation	3.9%	6%	3.7%
Aboriginal and Torres Strait Islanders in leadership roles	8%	15%	0.5%
Multicultural	1.1%	3%	1.9%
Disability	2.5%	3%	1.7%
LGBTI	NA	6%	NA#

*Percentage of Essential Energy employees.

#Essential Energy has recently commenced collating new hire data from an LGBTI perspective and aims to report on this data in FY2018-19.

Diversity and inclusion streams

1 Aboriginal and Torres Strait Islanders

Through a range of targeted and coordinated programs, Essential Energy is investing in building the capability of young Indigenous men and women across NSW, returning real benefits to the individuals themselves and also their communities.

Essential Energy actively participated in *NAIDOC* celebrations, encouraging business-wide activities and engaging with *NAIDOC* events in the Griffith, Tamworth, Pott Macquarie and Murwillumbah communities. These events provide an opportunity to engage directly with Indigenous communities and promote career opportunities available through the Apprentice and Pre-Employment programs.

Indigenous pre-employment program

This program provides support and development to male and female Indigenous participants in the areas of literacy and numeracy, while also providing exposure to workplace skills and knowledge.

In 2017, six participants successfully completed the pre-employment program, obtaining a Certificate II Business qualification, while also successfully transitioning onto the *Apprentice Program* in 2018.

In 2018, five participants are currently working towards their Certificate II Electrotechnology qualification, the intent being that they may also transition onto the *Apprentice Program* in 2019.

Indigenous scholarship program

This program provides financial support to Indigenous students studying at regional universities across NSW. In 2018, two female students were the successful inaugural recipients. They will receive $10,000 per year towards their study and living costs for the duration of their study. In addition, the students will be invited to undertake work placements with the business to provide exposure to a commercial environment.

Indigenous partnerships

Essential Energy has partnered with several Indigenous-focused organisations in 2018, with the intent of investing in long term community-based networks.

One partner is *Career Trackers*, a national no-profit organisation that creates internship opportunities for Indigenous university students. Next year, Essential Energy will provide internships for two Indigenous university students.

Other partners include *The Clontarf Foundation* which looks to improve the education and employment prospects of young Indigenous men and similarly, The Girls Academy which looks to help Indigenous girls overcome some of the common barriers which keep them from attending school and finding employment opportunities.

Additional partners in this space are the *Aboriginal Employment Strategy* and *Maxima*. Both organisations have extensive networks in Indigenous communities, which have acted as conduits to channel recruits into Essential Energy's *Apprentice* and *Indigenous Pre-Employment programs.*

2018 pre-employment group attending induction at the Goulburn Training Centre

NAIDOC Week 2017 celebrations in Griffith

2 Gender

Essential Energy is committed to developing equal opportunities for females within the organisation, with a specific focus on improving female representation in non-traditional and leadership roles.

International women's day

This year, the business celebrated *International Women's Day* with numerous events across our footprint, including morning teas, BBQ lunches and internal social media uploads of employees endorsing and supporting the 2018 theme, *#pressforprogress.*

Partnerships

In October 2017, Essential Energy launched its partnership with the *National Association of Women in Operations (NAWO).*

Employees are being encouraged to undertake professional development opportunities provided by NAWO.

The NAWO partnership launch encouraged female work participation in operational areas of the business.

3 Disability

Essential Energy is committed to engaging, encouraging, and supporting employees of all abilities.

The DisAbility Working Group has celebrated several events, including the *International Day of People with a Disability* and engaged in a game of wheelchair basketball between Wheelchair Sports NSW and Essential Energy employees.

Disability services

Aiming to improve employment opportunities for people with a disability, Essential Energy partnered 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.

This year, Essential Energy partnered with the Australian Government's *Job Access* initiative to assist Essential Energy in building disability confidence and helping drive disability initiatives. In the next year, *Job Access* will undertake a review of Essential Energy's recruitment practices to ensure people with a disability are not disadvantaged, with a particular focus on people with a disability from culturally diverse backgrounds. Another focus will include providing practical guidance and advice in future office renovation plans.

4 Cross generational

Essential Energy is committed to creating an environment where the perspectives and talents of all generations are valued, respected, and listened to.

With four generations currently in the workplace: Baby Boomers (1942-1960); Gen X (1961-1980); Gen Y/ Millennials (1981-1995); and, Gen Z (after 1996), the Cross Generational Working group is working to address the challenges presented when multi generations work together.

Events throughout the year in support of this have included a launch video and social events such as the *Cross Generational Scavenger Hunt,* encouraging collaboration between employees of different generational groups, and various internal social media posts celebrating value across generations.

Future efforts in this space will include a *Conversation Day* to bring generations together in sharing learnings and experiences.

5 Multicultural

Essential Energy's objective for its Multicultural stream is to build a culturally aware and supportive organisation, one that is inclusive of employees from all backgrounds and preferences.

This year, internal social media has been used to celebrate multicultural events such as Ramadan, Lunar New Year and Refugee Week. One-on-one interviews with employees from a multicultural background have proved popular with employees, contributing to awareness and support.

Employee fundraising events on Harmony Day in March raised $1,200 which was donated to the North Coast Settlement Services, which provides support services to people from multicultural backgrounds, particularly refugees, such as English conversational classes and a job readiness club.

Next year Essential Energy will continue to build community partnerships within the multicultural area.

Externally, 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 – 131450 – available 24 hours a day through the Commonwealth Department of Home Affairs.

Translator services

- The languages which required a translator and/or interpreter services were Mandarin, Vietnamese, Somali, Hindi, Arabic, and Korean
- The total expenditure for interpreting and translating services was $261.78.
- There are no employees who use their language skills in their daily roles.
- Interpreting services were provided a total of eight times, the top languages being Mandarin, Vietnamese, Somali, Hindi, Arabic, and Korean.
- No language/translator requests were unable to be met.
- No staff are in receipt of the NSW CLAS allowance.

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

6 LGBTI

Essential Energy is committed to creating a strong Lesbian, Gay, Bi-sexual, Transsexual and Intersex community within its workplace, where employees feel safe enough to bring their 'whole selves' to work. The business has partnered with *Pride in Diversity*, a national not-for-profit employer support program for LGBTI workplace inclusion.

The partnership has provided training to Essential Energy's Diversity Committee members and members of the LGBTI diversity stream, along with a review of recruitment practices to capture LGBTI statistics for new recruits.

Future plans include a focus on further employee training, policy and recruitment practice reviews, and stakeholder engagement.

Essential Energy has also created an *ALLY* network which asked employees to join to show their support for LGBTI social movements. The launch, activated across an internal social media platform, included a giveaway of *ALLY* merchandise to employees who showed their support by uploading comments.

Essential Energy employees showed their support for LGBTI social movements through the ALLY campaign and network, through activities such as displaying posters and wearing rainbow shoelaces.

Trends in the representation of workforce diversity groups

Workforce Diversity Group	Benchmark	2016	2017	2018
Women	50%	16.4%	15.1%	15.9%
Aboriginal and / or Torres Strait Islander people	3.3%	3.0%	2.8%	3.7%
People whose First Language Spoken as a Child was not English	23.2%	0.9%	1.0%	1.9%
People with a Disability	5.6%	1.6%	1.6%	1.7%
People with a Disability Requiring Work-Related Adjustment	NA	0.5%	0.5%	0.5%

Note 1: The benchmark of 50% for representation of women across the sector is intended to reflect the gender c omposition of the NSW community.

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

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% is the percentage of the NSW general population born in a country where English is not the predominant language.

Note 4: In December 2017 the NSW Government announced the target of doubling the representation of people with disability in the NSW public sector from an estimated 2.7% to 5.6% by 2027. More information can be found at: Jobs for People with Disability: A plan for the NSW public sector. The benchmark for 'People with Disability Requiring Work-Related Adjustment' was not updated.

Trends in the distribution index for workforce diversity groups

Workforce Diversity Group	Benchmark	2016	2017	2018
Women	100	99	100	98
Aboriginal and / or Torres Strait Islander people	100	88	88	82
People whose First Language Spoken as a Child was not English	100	114	114	113
People with a Disability	100	100	100	98
People with a Disability Requiring Work-Related Adjustment	100	N/A	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.

Empowering network services and asset management

Essential Energy pursues strategic initiatives that focus on best practice systems, technology and processes.

Essential Energy's network is impacted by motor vehicles accidents, such as the damage caused to this padmount substation in Dubbo.

Fault and emergency response

In FY2017-18, Essential Energy's network was impacted by various factors that challenged employees and systems to respond safely and quickly to restore power to impacted communities.

Conditions including severe storms, hail and bushfire events, malicious attacks and traffic accidents, often saw employees at the centre of emergency response efforts in extreme situations.

Six recorded Natural Disaster Declarations impacted Essential Energy customers across the company's footprint.

Significant events

Following is a snapshot of various significant events effecting Essential Energy's network in FY2017-18.

Date	Impacted Customers	Locations	Event
22 October 2017	3,164	Dubbo	A car crashed into and destroyed a padmount substation and caused damage to underground power cables.
27 October 2017	12,400	Canowindra, Cowra, Grenfell and surrounding rural areas	Lightning strike to a power pole. Supply was restored to 3,347 customers in the Bendick Murrell, Grenfell and Monteagle areas in just over an hour, and to a further 7,108 customers in the Cowra area in under 90 minutes, with the remainder of customers' supply progressively restored within six and a half hours.
5-6 November 2017	35,904	Ballina, Tweed, Byron, Clarence Valley, Lismore, Kyogle, Port Macquarie-Hastings, Bellingen, Liverpool Plains, Goondiwindi, Armidale Dumaresq, Tamworth, Tenterfield and surrounding districts	Hail, strong storms and wind, affected supply, with most of the impacted areas declared Natural Disasters. Essential Energy crews worked through the night of 5 November and into the evening of 6 November in extreme conditions to repair extensive damage to infrastructure.

Date	Impacted Customers	Locations	Event
17 November 2017	96	Parkes and Forbes Shire Council areas	Lightning and storms caused major damage to substations, transformers and fuses. Both Shires were declared Natural Disasters and crews worked through the night to restore power to customers, with supply restored to the last premise just before midnight.
18 November 2017	115	Cobar	A storm damaged a distribution transformer when it was hit by lightning. Declared a Natural Disaster, Essential Energy crews made repairs and restored power to all customers within seven hours.
28 November 2017	2,200	Inverell	An example of malicious damage, a person threw items, including fencing wire, onto the electricity network at night. Crews were called out to respond to the outage, locate and repair the damage, and restored the majority of customers' supply in under an hour.
1-3 December 2017  Network damage in the aftermath of a severe storm at Junee Reef.	Incorporated multiple areas with the largest outage affecting 4,463	Rankins Springs, Goolgowi, Willbriggie, Hanwood, Widgelli, Corbie Hill, Cookardinia, Culcairn, Holbrook, Jingellic, Junee Reefs, Lockhart, Yerong Creek, West Wyalong, Tallimba, Buronga, Gol Gol, Scotia,. Cootamundra, Bethungra, Stockinbingal, Wallendbeen and surrounds	Wild storms in the Southern Region had Essential Energy crews working in challenging conditions to restore supply. Damage to the electricity network was sustained from lightning strikes and strong winds, as well as vegetation coming into contact with powerlines. Many communities received more than double their average December rainfall in the 48 hours to 3 December. Crews from Broken Hill and Wilcannia were deployed to assist their Murrumbidgee colleagues. Supply to the largest outage (affecting 4,463 customers) was restored in a little over two hours. Restoration of supply to other areas was achieved as access and ground conditions improved.
9 December 2017	6,655	Clarence Valley Council area	Declared a Natural Disaster, storms and high winds impacted supply. Trees were brought down and blown into conductors and lightning strikes blew out high voltage fuses, damaging a transformer and crossarms in Grafton, Yamba and Maclean. Essential Energy crews from Grafton and Maclean were able to repair all damage and restore power to all customers within nine hours.

Date	Impacted Customers	Locations	Event
24 December 2017 –4 January 2018	28,000	North Coast Region	Spanning a 12-day recovery period, the North Coast Region experienced an unprecedented number of severe summer storms over the Christmas to New Year period. The storms hit areas from Port Macquarie up to the Queensland border, with winds bringing down trees and blowing debris onto power lines, and lightning strike damage to a number of transformers. Restoration efforts were hampered by boggy conditions, difficult or limited access, and swollen rivers and creeks. More than 120 employees assisted with the storm response over the 12 days, including field crews from the North Coast and Northern Regions, and teams in Network Operations, the Contact Centre and other support teams. On Christmas Day, 7,200 customers were without power between Port Macquarie and Murwillumbah, with crews working to restore supply to 70 per cent of customers overnight and repairs continuing into Boxing Day. Damage to the network in the Northern Rivers area was severe with wires down in Mt Nardi, Nimbin and Bullfrog Creek areas, presenting crews with challenging access issues to many locations. Late on New Year's Day, storms and strong winds lashed the Northern Rivers and coastal areas and interrupted supply to more than 6,000 customers. Essential Energy deployed crews throughout Ballina, Ewingsdale, McKees Hill, Rappville and Nimbin and replaced 2.6 kilometres of conductor near Rappville. Many of the field crews deployed to restore supply to these communities gave up their Christmas and New Year's celebrations with family and friends, and some employees cancelled their holiday leave to assist with the work.

Network damage was sustained following storms in Coffs Harbour on Christmas Day.

Date	Impacted Customers	Locations	Event
2 January 2018  Extensive network damage was experienced following a severe storm in Maclean – the iconic tartan-painted power poles were wrapped in debris.	6,700	Clarence Valley	In Maclean and the surrounding townships, a tornado-like storm took only 10 minutes to wreak havoc and cause extensive damage to buildings and infrastructure. A Natural Disaster was declared, and the town was left looking like a disaster zone with uprooted trees, powerlines down and roofs ripped off. Line patrols identified the need for widespread repairs including power pole replacements, wires down, damage to electrical equipment, trees over power lines and debris such as roofs and other material blown into the powerlines. Essential Energy mobilised field crews from the Northern Region and across the coastal and inland areas, and restored supply to most customers within 48 hours of the event occurring.
9-10 January 2018	16,750	Armidale, Uralla, Walcha, Hillgrove and the surrounding areas	An unplanned outage following storms. Essential Energy crews restored supply to Armidale and Hillgrove in approximately one and a half hours, and to Uralla and Walcha within four hours.
23 January 2018	17,844	Jerrabomberra, Oaks Estate, Queanbeyan, Gundaroo, Sutton, Bywong, Bungendore, Adelong, Batlow, Tumbarumba, Yanco, Narrandera, Grong Grong and surrounds	Essential Energy crews responded to multiple power outages following severe storm activity. Lightning strikes damaged powerlines and network equipment. Supply was progressively restored to all customers in the early hours of the next morning.

Date	Impacted Customers	Locations	Event
6 February 2018  A deliberately lit fire in a padmount substation in Bathurst caused an interruption to customers' supply.	1,738	Bathurst	Malicious damage was sustained to a padmount substation after it was deliberately set on fire by members of the public. Supply was interrupted, and progressively restored by field crews over the next three hours.
18 March 2018  Essential Energy crews repaired network assets destroyed by fire in Tathra.	2,100	Tathra and Bega areas	During a catastrophic weather event with extreme heat and high winds, a bushfire caused extensive damage and destroyed houses and businesses in the small community of Tathra on the far south coast of NSW. Damage to the Essential Energy network included poles, pole mounted substation sites, the underground network and over four kilometres of overhead high voltage conductor. Working in extremely difficult conditions, Essential Energy crews from the local Bega depot, some of whom lived in the Tathra community, were first on the scene and were quickly joined by crews from Bombala, Cooma, Jindabyne, Moruya and Braidwood depots. Teams worked in conjunction with the Rural Fire Service (RFS) and Bega Valley Shire Council and supply was restored to all affected customers over four days, with crews repairing and replacing 33 poles (including five pole mounted transformer sites), over four kilometres of high voltage conductor and seven underground low voltage pillar sites.

International efforts

12 February 2018 – Cyclone Gita, Tonga

Essential Energy responded to an official request for assistance to restore electricity services to communities in the Polynesian islands of Tonga after Cyclone Gita, a destructive Category 4 storm, tore through the region on 12 February 2018.

From over 100 volunteers from across the business who expressed interest, two teams of field resources were selected to assist with the restoration efforts - four assigned to the first deployment, and seven to the second.

In all, the teams restored power to a total of 1,243 outlying village households (approximately 6,200 people), seven schools and three health clinics through the repair of the HV network and the connection of remote generation.

Australian power workers arriving in Tonga.


Australian power workers worked in teams alongside Tonga Power Limited workers.


Essential Energy field employees working to restore power in Tonga.

Major projects

Major projects completed during FY2017-18

The below list is a sample of projects completed during the 2017-18 financial year.

Description	Before FY17-18 Inc overheads (direct project $)	2017-18 Inc overheads (direct project $)	Total Cost Inc overheads (direct project $)	Completion date	Comments
Cooma – zone substation	$3,604,905	$1,218,064	$4,822,970	Jun-18	66/11kV zone substation construction
Marulan South – zone substation	$2,957,579	$204,555	$3,162,134	Nov-17	Zone substation reconstruction
Narrabri – zone substation	$1,085,731	$1,938,028	$3,023,759	Jun-18	Replacement of 22kV bulk oil circuit breakers with a switchboard
Nevertire – zone substation	$2,644,421	$404,378	$3,048,799	Oct-17	Zone substation refurbishment – replacement and refurbishment of HV equipment
Taree-Forster-Tuncurry pole top refurbishment	$1,500,406	$1,536,476	$3,036,882	Nov-17	Pole top refurbishment 66kV feeders 86C, 872, 867, 868.
Wagga-Junee 132kV transmission line	$3,828,061	$1,915,617	$5,743,678	Jun-18	New 132kV transmission line

Major projects in progress during FY2017-18

The below list is a sample of projects in progress during the 2017-18 financial year.

Description	Before FY17-18 Inc overheads (direct project $)	2017-18 Inc overheads (direct project $)	Total cost to date Inc overheads (direct project $)	Estimated total direct cost (direct project $)	Estimated completion date	Comments
Bathurst 66_11kV zone sub switchboard refurbishment/ replacement	$47,433	$575,488	$622,921	$3,400,000	Jun-19	66/11kV zone substation switchboard refurbishment and replacement
Bulahdelah zone substation – 33_11kV rebuild	$525,436	$1,951,276	$2,476,711	$3,900,000	Jan-19	33/11kV zone substation rebuild
Nambucca – zone substation 11kV switchboard	$444,184	$1,829,049	$2,273,233	$3,530,000	Sep-18	Replacement of 11kV switchboard and building
Orange North – zone substation Stage 2	$1,500,089	$1,390,203	$2,890,292	$3,700,000	Sep-18	Rebuild the existing TransGrid 66kV busbar – Stage 2
Tumut – zone substation	$634,191	$1,270,873	$1,905,065	$5,540,000	Dec-18	Zone substation replacement and refurbishment
Wagga – Morrow St	$17,178	$48,953	$66,131	$5,100,000	Feb-20	66kV GIS circuit breakers

Essential Energy undertaking work for the Cooma zone substation augmentation – installing the 20MVA 66/11kV transformer.

Moree Solar Farm

Power of choice

The *Australian Energy Market Commission's (AEMC) Competition in Metering* reforms took effect on 1 December 2017.

This new business-to-business framework was designed to provide common communication standards for smart metering services to improve interoperability, reduce barriers to entry for new participants, and reduce the costs of providing existing and new services related to small customer meters.

Essential Energy's Power of Choice program successfully implemented the system and process changes required to ensure the business was market compliant with the new regulations from 1 December 2017.

Partnering with communities

In FY2017-18, Essential Energy continued its joint project with the Australian Renewable Energy Agency (ARENA), University of Technology Sydney, and industry partners that commenced in FY2016-17.

The project involves a partially subsidised two-year trial testing the potential for customer-owned battery storage systems and advanced solar inverters in Collombatti and Bellingen. Trial sites 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.

Thirty customers have received subsidised installations of battery storage systems in Collombatti and nine customers in Bellingen have advanced solar inverters installed. Network support payments have commenced in Collombatti, based on the level of network support customer systems provide.

In FY2018-19, optimisation of the control methodology will continue with recent systems commissioned under stage two of the trial in Collombatti, and analysis will commence on smart inverter control in Bellingen.

Streetlighting

In FY2017-18, Essential Energy commenced an efficiency and cost-saving initiative with the delivery of LED lighting solutions to several council regions in conjunction with the scheduled four-yearly cyclic *Bulk Lamp Replacement (BLR)* program. Combining both programs of work has provided cost savings as well as the positive environmental outcomes of replacing traditional-style lamps with more energy-efficient LED lighting solutions.

This year, just over 10,000 LED luminaires have been installed at Leeton, Eurobodalla, Tamworth and Port Macquarie-Hastings council areas. Many councils scheduled for BLR programs in the FY2019-20 have also expressed interest in participating in an LED upgrade program which, if fully implemented, would see the number of LEDs increase to almost 30 per cent of the Essential Energy streetlighting inventory.

Essential Energy has developed a new streetlighting tariff structure proposal for the 2019-24 regulatory period. The proposal would see a reduction in the number of individual streetlighting tariffs from approximately 900, to less than 100, and will provide more transparency in costs associated with operating and maintaining streetlighting assets. Subject to AER approval of the methodology, the new tariffs would commence from 1 July 2019.

Collombatti Community Forum

Essential Energy recognises that the streetlighting agenda is changing rapidly given the availability of smart streetlight control systems and high efficiency LED streetlights, and will continue to work with streetlighting customers and stakeholders to develop appropriate solutions that meet their changing demands.

Asset inspections

In FY2017-18, Essential Energy inspected more than 256,000 poles.

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.

Bushfire risk

Essential Energy has in place a range of measures to minimise the risk of bushfires across the network. These include 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 across the industry associated with improving bushfire risk management.

Vegetation management

Vegetation management is key to the safety of our network, and as such makes up a significant portion of our operational expenditure each year. In FY2017-18, the direct operating expenditure for vegetation management was $101M.

In FY2017-18, Essential Energy's programs to manage vegetation around infrastructure produced improving results, with approximately ninety per cent of the footprint now operating under contract to specialist vegetation management service providers. These contracts operate to maintain vegetation clearances around Essential Energy's assets, with over 200,000 spans of network having vegetation treated. The management of vegetation over the remaining areas comprises internal management of vegetation in the far west of the State (six depot areas), and an area in the northern part of the State (three depots) for which contracts are expected to be awarded in late 2018.

This year, following a successful three-month pilot, Essential Energy has implemented live line vegetation cutting. The benefits of this will include reducing the number of planned outages for customers and enabling internal resources to focus on prioritised electrical infrastructure works.

Fleet

In FY2017-18, the fleet size was comparable to that of the previous year and Essential Energy continues to actively manage the fleet age profile and condition to ensure teams have safe, efficient and effective equipment. There were however a number of unexpected challenges with the fleet throughout the year, from maximum load limits to safely securing equipment and various issues with trailers.

This year has seen the introduction of a small concept fleet. Working collaboratively with suppliers, six vehicles were developed to test and trial the latest technology and designs available, before including the proven approaches in new vehicles. The concept fleet promotes stakeholder engagement, a better understanding of vehicle needs and continuous improvement in fleet design, delivering on the business objective of best practice systems, technology and processes.

Looking forward, the Fleet team is heavily focused on risk control and the application of professional, risk-based asset management principals to the fleet portfolio, enabling the delivery of safe and reliable power for customers.

Essential Energy's use of drone technology is delivering business improvements and efficiencies that are contributing to safer field operations and will ultimately contribute to lower network charges for customers.

Technology

Drone technology

Since securing a Civil Aviation Safety Authority (CASA) licence in 2016 and first trialling the suitability of drones to provide safe and efficient work solutions, Essential Energy has invested in a fleet of 45 drones and trained over 80 employees in the safe use of drones.

Drone technology has proven beneficial and adaptable to the diverse environmental and often remote geographical conditions experienced across the company's footprint and is a cost-effective, efficient and safe alternative to the regular ground-based and aerial inspections required by Essential Energy's extensive maintenance program.

Drones allow assessment of the condition of network assets in a safe manner that greatly reduces the time needed to complete inspections, allowing Essential Energy to deliver a safe and reliable network more efficiently, ultimately benefiting customers by contributing to lower network charges.

eWorks

A strategic priority for Essential Energy, *eWorks* is the *Efficient Works Management* project which aims to implement a fit for purpose mobile works management solution to drive business productivity and offer an improved customer experience.

The *eWorks* project was initially piloted in October 2017, and then later in March 2018. The pilot has highlighted benefits associated with using a mobile works management solution including greater visibility of work tasks and a reduction in manual paper handling.

Essential Water

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 2,722 megalitres, up 17 per cent from 2,322 megalitres in FY2016-17.

Raw water customers consumed 474 megalitres, an increase of 145 megalitres (44 per cent) from FY2016-17.

Highlights of Essential Water's FY2017-18 works program included:

- replacement of 925 metres of water reticulation pipeline
- repair of 320 customer water services
- replacement of 508 metres of sewer main
- repair of 436 sewer connection blockages
- cleaning and rodding 23.9km of sewer main.

Drought preparedness

Far west NSW is currently in a severe drought, the fourth in the last 17 years, and flow into the Menindee Lakes catchment is the worst on record.

In the last 12 months, other than emergency storages transferred from the Menindee Lakes, Essential Water's three local reservoirs were empty.

At the end of FY2017-18, storage levels were:

- Imperial Lake – 120 megalitres (2 per cent)
- Stephen's Creek Reservoir – 80 megalitres (<1 per cent)
- Umberumberka Reservoir – 0 megalitres (0 per cent)
- Menindee Lakes – 135 gigalitres available (11.8 per cent).

WaterNSW has a program to transfer water into Lake Copi Hollow for supply to Broken Hill, prior to supply from the NSW Government's Wentworth to Broken Hill pipeline project.

Essential Water – pricing determination

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

In FY2014-15, in a changing operating environment driven largely by forecast drought conditions, Essential Water conducted a review of operating and capital programs and activities and identified further savings to be achieved through increased efficiencies, particularly around service levels. These efficiencies and other reform initiatives continued throughout FY2015-16 to FY2017-18.

Due to the Murray River to Broken Hill pipeline project and uncertainty of the full operating costs, IPART subsequently agreed to an extension of one year to the four-year regulatory period, with the next regulatory period now July 2019 until June 2023.

Essential Water has submitted a regulatory proposal to IPART for the regulatory period commencing 1 July 2019.

Long-term water security

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

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. The pipeline supply is programmed to provide the first beneficial water to Broken Hill in December 2018 and to be fully commissioned in April 2019.

While Essential Water is not responsible for the construction of the pipeline, the business will be responsible for operating and maintaining the final pumping station located 20 kilometres from Broken Hill, as well as providing supply to existing customers.

Essential Water performance

Essential Water's earnings before interest and tax (EBIT) was $2.6M against a target loss of $7.0M. This was due to higher revenue of $2.3M due to higher water consumption and lower impairment of assets of $9.1M, due to lower than expected capital expenditure.

Essential Energy invested $3.8M on water network capital programs in FY2017-18, which was significantly lower than the target of $13.0M mainly due to deferral of works pending the potential impacts of consequential works due to the construction of a new water pipeline (Wentworth to Broken Hill). An additional $10.7M was spent on water network maintenance programs.

Empowering innovation

A culture of continuous improvement and a fresh approach to customer service, risk, investment and efficiency will ensure Essential Energy evolves in response to the innovative and rapid transformation of the energy industry

Innovation

Essential Energy's Innovation group is working to translate great ideas into actionable change to enable the business to reach its potential as a responsive and reliable electricity distributor. Research, development and implementation of innovative solutions and technical efficiencies will help our business address future challenges around the integration of alternative energy solutions while continuing to provide safe, reliable, cost-efficient electricity distribution services to customers.

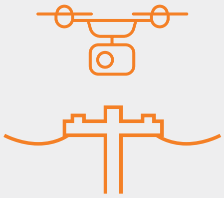
TRIAL NEW TECHNOLOGIES

Essential Energy will trial new technologies, including microgrids and small-scale renewables.

RESEARCH & DEVELOPMENT

Supporting and investing in new technologies.

USING NEW TECHNOLOGIES TO MANAGE OUR NETWORK



Essential Energy will leverage new technologies (such as drones) to help inspect and maintain the network.

Driving a connected and collaborative workforce

Essential Energy's commitment to enabling a more efficient and connected workforce across a regionally diverse landscape has driven investment in innovative technology and services to improve everyday business activities.

Key initiatives in this space include:

- In July 2017, Essential Energy introduced Workplace to encourage collaboration and engagement. This is an internal Facebook tool that enables employees to communicate via various groups, connect with colleagues and build both formal and informal social networks
- Allowing staff to participate in meetings via video conferencing or phone regardless of their location or device
- As agility and connectivity become more central to Essential Energy's ability to respond to the changing energy landscape and utilisation of high-data and as-a-service offerings increases, delivery has commenced on a renewal and uplift of the business's data network.

Current innovation projects

Energy management systems

Essential Energy has commenced trials of end-to-end energy management systems (EMS) comprised of solar panels, battery storage, inverter and customer energy management portal at four Essential Energy depots: Bulahdelah; Ewingsdale; Quirindi; and Gunnedah.

The trials aim to gain the insights and skills needed to support customers' adoption of this technology – from installation, operation and maintenance, through to demand management and energy trading, i.e. dispatching power generated back into the grid.

Micro drilling and sensor technology

A trial was completed utilising micro drilling and sensor technology to achieve 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 trial was judged to be successful both in an efficiency gain and in providing Essential Energy with better digital insights of internal pole inspections. A project to deploy this technology is currently being planned for FY2018-19.

Augmented reality

Essential Energy has conducted field trials of the use of augmented reality in assisting with live line work. The goal of these trials was to understand if the technology could assist with making the process safer and more efficient.

While the potential this technology offers is evident, initial trials indicate that the technology still requires some further development before it is field ready. Essential Energy will undertake further reviews of this technology in the future.

Empowering communities

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.

Essential giving program – double the benefit for communities

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

In FY2017-18, employees donated just over $74,000, for a dollar matched total of $148,000, which was donated to the seven charity partners: *Garvan Institute; Varie ty Children's Charity; Lifeline; Can Assist; Westpac Rescue Helicopter Service; and ozED (Australian Ectodermal Dysplasia Support Group)* and the *Children's Tumour Foundation* (added to the program in 2017). This saw total donations surpass $500,000 since the program began.

Organisation/Charity/Program	Employee contributions	Essential Energy contributions	Total donation
Essential Giving Program			
Westpac Rescue Helicopter Service	$43,427	$43,427	$86,854
CTF (Children's Tumour Foundation)	$6,221.50	$6,221.50	$12,443
ozED (Australian Ectodermal Dysplasia Support Group Inc)	$5,625.50	$5,625.50	$11,251
Garvan	$5,500	$5,500	$11,000
Lifeline	$5,046.50	$5,046.50	$10,093
CanAssist	$4,665	$4,665	$9,330
Variety	$3,558.50	$3,558.50	$7,117
Community Support Program			
$200 donations to 329 community halls		$65,800	$65,800
Individual Sponsorships			
Energy Users Association of Australia		$30,000	$30,000
The Clontarf Foundation		$20,000	$20,000
The Girls Academy		$20,000	$20,000
Individual Donations			
Leaders Leap for Life (Westpac Rescue Helicopter Service)		$5,375	$5,375
Royal Far West Bike Ride		$5,000	$5,000
Australia's Biggest Morning Tea		$1,085	$1,085
Red Cross International Migrants Day		$609	$609
DubVegas Duo Mystery Box Rally sponsorship		$500	$500
TOTAL	**$74,044**	**$222,413**	**$296,457**

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 2017, 329 halls were supported through the *Community Support Program*, each receiving a $200 donation. This represented an increase from 248 halls in the previous year.

Supporting diversity

To support Essential Energy's focus on diversity and inclusion in the workplace, the business has partnered with *The Clontarf Foundation* and The *Girls Academy* to promote employment pathways for Indigenous students into apprenticeships and traineeships across regional NSW. For more information refer to page 29.

Energy Users Association of Australia (EUAA)

The EUAA aims to ensure better outcomes for customers and reduced costs for energy users. Essential Energy is partnering with the EUAA to increase joint understanding between energy industry participants and customers and in turn, achieve a greater level of collaboration.

Community activities

Padmount substation painting

Across the Mid North Coast, Essential Energy continues to partner with disability services organisation *House With No Steps* to repaint padmounts targeted with graffiti, with the project expanding to Coffs Harbour, Lismore and Ballina in the near future.

The partnership is a win-win for both organisations – *House With No Steps* provides an opportunity for people in the community with a disability to take ownership of a project, while graffiti is removed from Essential Energy assets.

The project has been a huge success with painted assets not being retagged, and the artwork improving the padmount aesthetics.

Essential Energy's partnership with House With No Steps helps reduce the incidence of graffiti on Essential Energy assets.

Electrical pillars become street art

In a partnership project between Goulburn Mulwaree Council and Essential Energy, five low voltage electrical pillar boxes in Goulburn's CBD have been brightened up with the application of an anti-graffiti laminate vinyl wrap.

Local artists engaged by Goulburn Regional Art Gallery through an expression of interest process, designed the wraps, inspired by the local area and community. Essential Energy's Goulburn employees carried out safety testing and provided guidance and supervision for the project which is hoped to reduce the incidence of graffiti and improve the visual aesthetics around the assets.

Goulburn convoy for kids

Field employees from Essential Energy's Goulburn Depot, along with their families, recently participated in the *2017 Convoy for Kids Goulburn*, aiming to raise funds to help local children and families in need.

An Essential Energy crane borer and two elevated work platforms (EWPs) were part of the 184-vehicle convoy that participated in this year's event.

A community partnership in Goulburn aims to inspire local artists and reduce graffiti on Essential Energy assets.

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 Committee

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 Committee

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 Committee.

Safety, Human Resources and Environment Committee

The Safety, Human Resources and Environment Committee meets at least four times per year. The Committee assists the Board in fulfilling its responsibilities with regard to work health and safety and environmental practices, and to discharge the 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 Committee

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.

Organisation Structure as at 30 June 2018

Board of Directors

Chief Executive Officer

John Cleland

- General Manager Strategy, Regulation and Transformation — **Chantelle Bramley**
  - Corporate Strategy
  - Commercial Development
  - Regulatory Affairs
  - Transformation
- General Manager Safety, Human Resources and Environment — **David Nardi**
  - Health, Safety and Environment
  - Human Resources and Organisation Development
  - Employee Relations Strategy
  - Technical Training Delivery
  - Electrical Safety and Authorisations
- General Manger Network Services — **Luke Jenner**
  - Regional Operations
  - External Delivery Projects
  - Service Performance and Insight
  - Works Delivery and Enablement
  - Transmission Services
  - Water Operations
- Chief Financial Officer — **Justin Hillier**
  - Financial Controller
  - Finance Transactions and Services
  - Commercial Strategy
  - Financial Planning and Analysis
  - Strategic Sourcing
  - Fleet
- Executive Manager Engineering — **David Salisbury**
  - Network Strategy and Risk
  - Network Optimisation
  - Network Design
  - Asset Engineering
  - System Control
  - Network Intelligence
  - Commercial Services and Accredited Service Provider Relationships
  - Investment Delivery
  - Strategic Asset Integration and Improvement
- Chief Information Officer (Interim) — **Rob Bridge**
  - Enterprise Management
  - Field Assets eTech
  - Planning and Security
  - Automation and Human Experience
  - IT Vendor and Service Management
  - Telecommunications
- General Counsel and Company Secretary — **Michael Bowan**
  - Legal
  - Internal Audit
  - Risk
  - Compliance
  - Governance
  - Property Services
- General Manager Customer and Stakeholder Engagement — **Roger Marshall**
  - Customer Services
  - Corporate Affairs
  - Stakeholder Engagement

Director's Remuneration

Under the *State Owned Corporations Act 1989,* the voting shareholders determine the remuneration of State Owned Corporation Chairs and directors. At the Premier's request, the Statutory and Other Offices Remuneration Tribunal ("SOORT") recommends such remuneration. Following the dissolution of the *Networks NSW* joint Board in December 2015, NSW Treasury considered it appropriate for Essential Energy to revert to the fee structure as set out in the table below which applied to the individual energy distribution business prior to the formation of Networks NSW and is based on the SOORT 2007 determination. The fee amounts have been unchanged since 1 July 2016.

Chair/member subcommittee remuneration	Annual fee
Board Chair [1]	$106,900
Director [1]	$60,600
Chair, Audit and Risk Committee [2]	$7,460
Members, Audit and Risk Committee [2]	$5,330
Chairs, Other Committees [2]	$5,330
Members, Other Committees [2]	$3,000

1) Base fee

2) Additional fee

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

Member, Safety, Human Resources and Environment Committee

Other Directorships

- APA Group, director
- Healthdirect Australia, Chair

Robyn Clubb

BEc CA FFin MAICD

Non-Executive Director

Commenced: 15 March 2018
Current Term: 15 March 2018 – 14 March 2021

Member, Audit and Risk Committee

Other Directorships

- Australian Wool Exchange Ltd, Chair
- Craig Mostyn Group Ltd, director
- Elders Limited, director
- NSW Primary Industries Ministerial Advisory Council, Chair
- Rice Marketing Board for the State of NSW, director

Jennifer Douglas

BSc LLB LLM MBA GAICD

Non-Executive Director

Commenced: 15 March 2018
Current Term: 15 March 2018 – 14 March 2021

Member, Board Regulatory Committee

Member, Safety, Human Resources and Environment Committee

Other Directorships

- Hansen Technologies Limited, director
- Opticomm Pty Ltd, director
- Peter MacCullum Cancer Foundation, director

John Fletcher

BSc MBA

Non-Executive Director

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

Chair, Audit and Risk Committee

Member, Board Regulatory Committee

Other Directorships

- APA Group, director (retired 21 February 2018)

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 Funds Management Limited, director
- Charter Hall Limited, director
- Energy Queensland Limited, Chair
- Downer EDI Limited, director
- Newcastle Coal Infrastructure Group, Chair
- Tellus Holdings Limited, Chair

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
- Mercury Energy (formerly Mighty River Power), director
- NZX Limited, director

Diana Eilert

BSc MComm GAICD

Non-Executive Director

Commenced: 23 June 2014
Current Term: 23 June 2017 – 22 June 2020
Resigned: 29 March 2018

Member, Audit and Risk Committee

John Cleland

BEc DipFinMan CA FFin GAICD

Chief Executive Officer and Executive Director

Commenced: 18 July 2016

Member, Board Regulatory Committee

Attendee, Audit and Risk Committee

Attendee, Safety, Human Resources and Environment Committee

Board and Board Committee Meetings Held in FY2017-18

1 July 2017 – 30 June 2018 Directors' Attendance Schedule

	Essential Energy board of directors' meetings		Audit and risk committee [1]		Board regulatory committee [2]		Safety human resources and environment committee [3]		Nominations committee [4]	
Director [3]	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
P McKenzie	11	11	6	6	6	6	4	4	—	—
J Cleland	11	11	6	6	6	6	4	4	—	—
R Clubb [4]	4	4	1	1		—	—	2		
J Douglas [5]	4	4	—	—	1	1	1	1		
D Eilert [6]	8	7	3	3	—	—	—		—	—
J Fletcher	11	11	6	6	6	6	—	2	—	—
P Garling	11	11	—	—	—	—	4	4	—	—
P Strange	11	9	—	—	—	—	4	3	—	—

NOTES:
A) Indicates number of meetings held during the period the director was entitled to attend.
B) Indicates the number of meetings attended by the director during the period.

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 15 March 2018, Ms Robyn Clubb and Ms Jennifer Douglas were appointed as directors of Essential Energy.

NSW Treasury provided Essential Energy with an Approval to Grant of Indemnity for Ms Clubb and Ms Douglas, which was signed by Essential Energy's shareholders on 22 March 2018.

The Approval to Grant of Indemnity permits Essential Energy to grant an indemnity to Ms Clubb and Ms Douglas in their capacity as directors of Essential Energy. On 1 May 2018 Essential Energy and Ms Clubb and Ms Douglas signed their Deeds of Indemnity.

Each other director is indemnified by Essential Energy to the extent permitted.

Essential Energy's Executive Leadership Team At 30 June 2018

The management of Essential Energy is led by an Executive Leadership team (ELT) which includes the CEO, 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.

1) The CEO attends the Audit and Risk Committee ("ARC") and Safety, Human Resources and Environment ("SHRE") Committee
2) Meets as and when required in accordance with its Charter
3) All directors have the right to attend all Committee meetings, as per the Committee Charters, except when the Committee Chair determines a conflict of interest in relation to matters to be discussed by the Committee.
4) Robyn Clubb was appointed as a director of Essential Energy, effective 15 March 2018 and a member of the Audit and Risk Committee, effective 27 April 2018
5) Jennifer Douglas was appointed as a director of Essential Energy, effective 15 March 2018 and a member of the Board Regulatory Committee and Audit and Risk Committee, effective 27 April 2018
6) Diana Eilert resigned as a director of Essential Energy, effective 29 March 2018

The Composition of the ELT at 30 June 2018

John Cleland

BEc DipFinMan CA FFin GAICD

Chief Executive Officer

Michael Bowan

BA LIB (Hons)

General Counsel and Company Secretary

Chantelle Bramley

BEc (Hons) MSc LLM

General Manager Strategy, Regulation and Transformation

Rob Bridge

BSc aeg

Interim Chief Information Officer

Justin Hillier

BBus CA GDipAppFinInv FINSIA

Chief Financial Officer

Luke Jenner

BE (Hons) EMBA MAICD

General Manager Network Services

Roger Marshall

BSc (Hons) Agricultural & Food Marketing FPRIA

General Manager Customer and Stakeholder Engagement

David Nardi

MBus MAICD

General Manager Safety, Human Resources and Environment

David Salisbury

BEng (Hons) CPEng EngExec FIEAust

Executive Manager Engineering

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 2018, 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 2.4 per cent average increase was implemented from 1 October 2017. The Chief Executive Officer increase applied from 1 July 2017.

Senior managers accounted for 11.0 per cent of Essential Energy's employee related expenditure in FY2017-18, compared with 8.4 per cent in FY2016-17.

Executive Remuneration FY2017-18 [1]

Name	Position at 30 June 2018	Annual remuneration (excl. Short-term Incentive) at 30 June 18	Short-term incentive FY2017–18 [2]	Annual remuneration (excl. Short-term Incentive) at 30 June 17	Short-term incentive FY2016-17
John Cleland	Chief Executive Officer	$764,200	$102,021	$742,000	$140,076
Michael Bowan	General Counsel & Company Secretary	$358,750	$55,264	$350,000	$23,466
Chantelle Bramley	GM Strategy, Regulation and Transformation	$350,000	$24,740	—	—
Justin Hillier	Chief Finance Officer	$369,000	$52,718	$360,000	$36,679
Luke Jenner	GM Network Services	$377,400	$51,354	$370,000	$47,340
Roger Marshall	GM Customer and Stakeholder Engagement	$307,500	$40,493	$300,000	$38,477
David Nardi	GM Safety, HR & Environment	$341,700	$43,776	$335,000	$39,053
David Salisbury	Executive Manager Engineering	$400,000	$42,115	—	—

1) Excludes the Chief Information Officer, a vacant position at 30 June 2018 filled by an external contractor whilst recruitment was in progress.

2) "Short-term incentive" payments are based on FY2017-18 performance against key criteria, approved by the Board in August 2018 and paid in FY2018-19.

1. Senior Managers [1]

Band [2]	2016-17 [3] Female	2016-17 [3] Male	2017-18 [4] Female	2017-18 [4] Male
Above Band 4 [5]		2		1
Band 4				
Band 3		8	1	8
Band 2	2	4	3	8
Band 1	20	102	25	106
Totals	**22**	**116**	**29**	**123**

Band	Band	Average remuneration 2016–17 $	Average remuneration 2017–18 $
Above Band 4	$535,565+	$716,425	$901,756
Band 4	$463,551 – $535,565		
Band 3	$328,901 – $463,550	$393,311	$407,873
Band 2	$261,451 – $328,900	$277,541	$279,157
Band 1	$183,300 – $261,450	$205,832	$208,788

Changes to Essential Energy's Executive Officers and Executive Remuneration

At the end of the reporting period, Essential Energy employed 152 officers who received a total remuneration package equal to, or exceeding, the NSW Senior Executive Service Level 1 (SES1). This represents an increase of 14 officers compared to the previous financial year. The increase was mainly due to the recruitment of new senior leader positions following significant organisational change.

The number of female employees receiving a total remuneration package of SES1 or above, was 29.

Code of Conduct

Essential Energy's Code of Conduct sets out 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 online at 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.

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 persons' 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 2017–2018 NSW Public Service Senior Executive Remuneration Framework (dated July 2017) under the Government Sector Employment Act 2013. Reporting is limited to managers employed on individual employment contracts.

3) Average remuneration amounts for FY2016-17 have been re-calculated to accommodate the revised PSC bands for FY2017-18 reporting.

4) Average remuneration is based on Full Time Equivalent (FTE) Fixed Annual Remuneration (FAR) as at 30 June 2018, 60 per cent 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.

Compliance

Essential Energy's *Compliance Management Plan (CMP) 2018-2020* is a key control for the business risk category 'Compliance' in the company's Corporate Risk Management Plan and documents the strategic and operational approach to compliance management and the minimisation of the risk of non-compliance within Essential Energy.

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 19600:2015 *Compliance Management Systems – Guidelines* as well as the *Audit Office of NSW Governance Lighthouse – Strategic Early Warning System.*

Summary Of 'If Not, Why Not' Reporting

The *NSW Treasury Commercial Policy Framework: Guidelines for Governing Boards of Government Businesses TPP17-10* includes recommendations for corporate governance, and a requirement for 'if not, why not' reporting where these recommendations have not been adopted.

Essential Energy reviews its practices to ensure that these recommendations are adopted, or appropriate alternative governance arrangements are in place to support the principles in these guidelines. A summary 'if not, why not' report outlining areas where alternative governance arrangements are in place is provided below.

Recommendation	Alternative Governance Arrangement
Principle 2: Structure the Board to Add Value	
Have a Board Nomination committee with at least three members, a majority of whom are independent directors, an independent Chair and a Committee Charter.	The Board Charter has provision for a Nomination Committee to meet as required, however, director appointments and reappointments are discussed by all directors at Board meetings as required.
Principle 5: Make Timely Disclosure	
Have a written policy for timely disclosure of all material information related to the commercial performance of the government business and on matters that would raise community concerns	A policy for timely disclosure is not mandatory for this reporting period. A policy will be released in the first quarter of FY2018-19.

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

The Essential Energy *Fraud and Corruption Control Plan (FCCP) 2018-2020* sets out the key initiatives for fraud control activities where there is a high risk of significant impact on the company if those activities are not appropriately maintained. The FCCP is part of the company's integrated Governance, Risk and Compliance (GRC) approach and applies to all employees and any other person undertaking work in the company.

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 2018-2020 was approved by the Audit and Risk Committee in 2018 and is aimed at maintaining and supporting a strong governance framework.

Managing Business Risk

Essential Energy's Risk *Management Framework* is designed to meet stakeholder expectations for a safe, affordable and reliable electricity supply.

Essential Energy's risk management principles are designed to:

- provide a healthy and safe environment for employees and for the public
- promote a culture which empowers employees to effectively manage safety risks
- provide affordable and reliable electricity to customers through continuous improvement in operations, prioritising allocation of resources to activities that deliver the greatest value
- manage reliability risks through planning
- empower employees to achieve organisational objectives and to attract, retain and develop qualified and commercially capable people
- manage operations and partner with stakeholders to protect and enhance the environment
- develop objectives and plans in response to opportunities and risks in the environment
- embed appropriate governance and monitoring to support the delivery of benefits from initiatives and change programs
- comply with obligations and ensure timely and appropriate action plans are in place to support known regulatory changes or in response to actual or potential compliance and regulatory issues
- proactively engage with stakeholders including customers, the community, suppliers, government and regulators to ensure the business' priorities appropriately balance stakeholder expectations and concerns
- maintain appropriate controls and reporting to support sound financial management and stewardship of resources and satisfactory returns for shareholders.

Essential Energy's 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.*

During FY2017-18, the *Corporate Risk Management policy* was revised to include sections on strategic objectives, risk culture and risk appetite. The redevelopment of the policy has been supported by deep dive reviews of key risks by the Executive and the Audit and Risk Committee, and the creation of a Community of Practice to improve the effectiveness of the *Risk Management Framework* across divisions.

The *Risk Management Framework* is being progressively linked to the *Asset Management System.* By way of example, Essential Energy has matured the Asset Risk Management and Value Frameworks, improved the ability to quantify risks, introduced a risk-informed investment decision optimisation tool and implemented a pilot to increase the granularity of risk information used to prioritise rectification of asset defects.

Incident Management and Business Continuity

Essential Energy is committed to maintaining continuity of supply and business functions during network-related 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.

In FY2017-18, Essential Energy has focussed on improving its resilience to electricity supply emergencies such as load shedding and black start. Initiatives have included an Executive crisis management test, training of field teams in black start response, cross-agency exercises and improvement of telecommunications resilience.

Business Risk Categories

Safety	Fatality/serious injury of employee or member of public
Network	Significant customer impact related to network reliability
Customer	Significant customer impact related to other customer service targets
Finance	Significant unbudgeted financial loss
Compliance	Liability associated with a dispute or material breach of legislation or licence
Reputation	Sustained public criticism of Essential Energy
Environment	Significant environmental incident
People	Failure to deliver performance through people
Strategy	Strategic objectives are not delivered, and business opportunities are lost
ICT	Significant ICT system failure

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 FY2017-18, Essential Energy received nine complaints in relation to corrupt conduct and assessed these as PIDs under the PID Act. No PIDs were made under a statutory or other legal obligation. There were three PIDs received in relation to maladministration, and none in relation to serious and substantial waste of public money or government information contravention. Essential Energy finalised seven PIDs during the financial year.

Internal Audit

The Board and ELT are committed to ensuring the independence and effectiveness of the internal audit function.

Internal audits increase management's understanding of, and confidence in, Essential Energy's ability to achieve its objectives by adopting a risk-based approach to evaluating controls and improving processes.

During the year, Essential Energy completed 34 internal audits across the organisation, with suitable actions implemented to address key issues identified.

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

External Audit

The NSW Auditor-General provides independent external audit services through the NSW Audit Office.

The Auditor-General does not provide other services to Essential Energy.

The Audit and Risk Committee reviews the NSW Audit Office Client Service Plan, issues raised in the Client Service Report and Annual Management Letter and the results of the annual audit of financial statements.

Finance Report

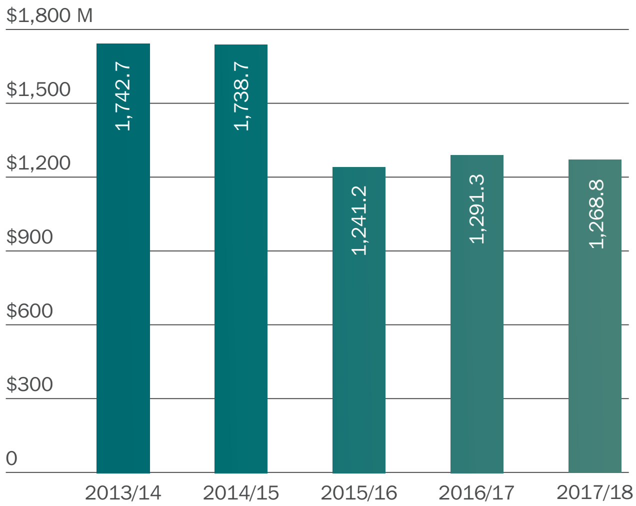
Financial results	2016-17 result	2017-18 result	2017-18 SCI [1]	Variation to prior year	Variation to SCI [1]
Network revenue ($M) [2]	1,291.3	1,268.8	1,245.9	(22.5)	22.9
Operating Costs ($M)	422.5	440.5	424.8	17.9	15.7
Earnings before interest, tax, depreciation & amortisation (EBITDA) ($M)	762.1	693.6	721.8	(68.5)	(28.2)
Earnings before interest and tax (EBIT) ($M)	408.8	323.1	348.3	(85.7)	(25.2)
Operating profit (loss) before tax ($M)	71.5	(16.5)	2.0	(88.0)	(18.5)
Operating profit (loss) after tax ($M)	50.0	(11.6)	1.3	(61.6)	(12.9)
Dividend ($M)	27.9	—	—	(27.9)	—
Total Distribution (Dividend + current income tax expense + government guarantee fee) ($M)	150.0	128.1	147.3	(21.9)	(19.2)
Return on capital employed (per cent) [3]	5.5%	4.2%	4.5%	(1.3%)	(0.3%)
Return on assets (per cent) [3]	4.9%	3.8%	4.1%	(1.1%)	(0.3%)
Return on equity (per cent) [3]	2.2%	(0.5%)	0.1%	(2.6%)	(0.5%)
Capital Expenditure ($M) [4]	419.1	399.8	516.3	(19.3)	(116.5)
Gearing (%) [5]	68.9%	69.4%	70.1%	0.5%	(0.7%)

Performance Against Prior Year

A $22.5M (1.7 per cent) decrease in network revenue from the prior year was mainly due to lower distribution tariffs, partly offset by an increase in volumes.

The $68.5M decease in EBITDA against the prior year mainly reflects a decrease in network revenue as discussed above, as well as lower alternative control services revenue, and higher operating costs. Higher operating costs ($17.9M) included higher professional services due to transformation activity, higher vegetation management costs, and higher fleet inspection and repair costs. This resulted in a $11.6M loss after tax being returned for FY2017-18.

Network Revenue ($M)



1) SCI – Statement of Corporate Intent

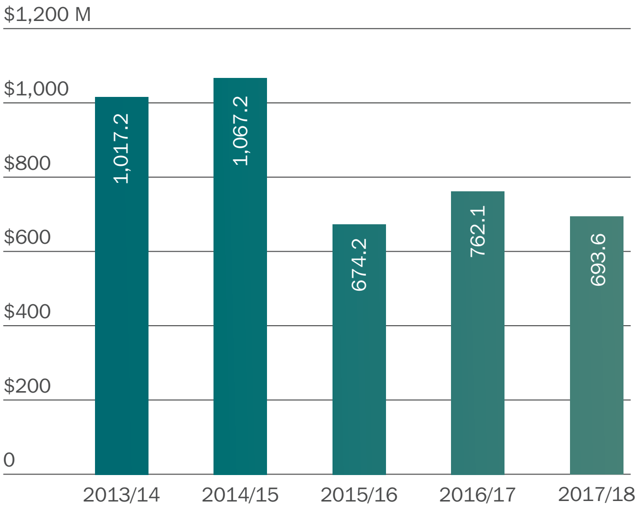
2) Network Revenue comprises electricity distribution revenue and water are waste water treatment revenue.

3) Ratios include customer contributions (including gifted assets).

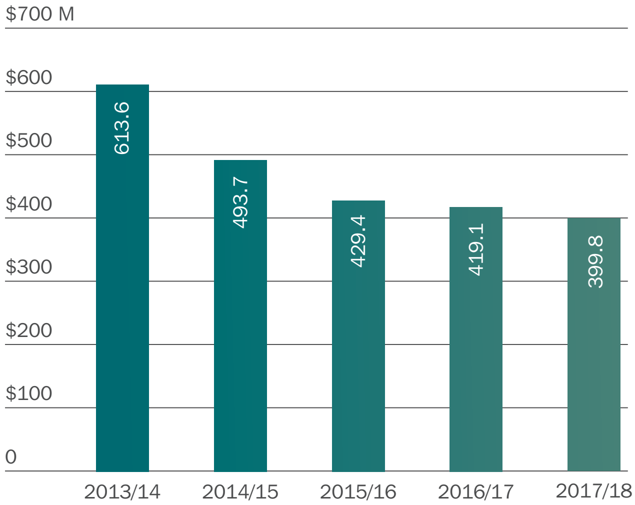
4) Capital Expenditure excludes gifted assets.

5) Gearing is the percentage of net debt to total capital.

EBITDA ($M)



CAPEX ($M)



A $19.3M reduction in capital expenditure against the prior year was mainly due to a reduction in the network capital program.

Debt

Total debt increased by $154.6M over the year mainly to fund the capital expenditure program. The gearing ratio, calculated as debt divided by debt plus equity, increased marginally from 68.9 per cent to 69.4 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 decreased over FY2016-17 returns due to the lower revenue and higher operating costs discussed above. Returns remain below long-term targets as Essential Energy realigns its costs.

Essential Energy's distributions to the NSW Government for 2018 were $128.1M compared to $150.0M in FY2016-17, consisting of current income tax expense of $30.4M and government guarantee fee on debt of $97.6M. No dividend was paid or provided for FY2017-18.

Performance Against SCI

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 its shareholders, outlining its objectives and defining its obligations to shareholders. Essential Energy's primary financial objectives are to operate efficiently and maximise the net worth of the company. This included focus on achieving best practice levels of efficiency to deliver real reductions in network charges and to work towards achieving a satisfactory return on capital employed.

Essential Energy has continued to focus on providing value for money to customers, through controlling costs and increasing productivity.

Profit Results

Essential Energy's operating loss before tax was $16.5M against a budgeted profit of $2.0M.

The lower than budget profit result reflects:

- lower gifted assets and customer capital contributions revenue of $25.6M and lower alternative control revenue of $17.7M, mainly due to deferring public lighting revenue intended for assets replacements, partly offset by higher network revenue of $22.9M
- higher operating expenditure of $15.7M, mainly due to lower allocation of costs to capital projects (due to lower capital expenditure), as well as higher than budget redundancy costs, contractor expenses, plant costs and professional service partly offset by a reduction in long service leave costs as a result in a change in the discount rate used to value the obligation
- lower than expected net interest expenditure of $6.7M primarily due to lower than budgeted debt and lower than budgeted interest rates.

Capital Works Program

Essential Energy manages Australia's largest electricity network, and therefore there is a need to invest in the network to renew ageing assets, continue to meet safety requirements and maintain reliability in future years.

The capital expenditure for 2018, excluding gifted assets and customer contributions, was $116.5M below budget. This included lower overheads allocated to capital projects, lower defect rectification and deferral of works within the Water business pending the potential impacts of a new pipeline.

Financial Statements

For the year ended 30 June 2018

Independent Auditor's Report

For the year ended 30 June 2018

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 Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2018, 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 'Basis of preparation'.

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 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 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 2018

Director's Responsibilities 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 are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Corporation or to cease operations or have no realistic alternative but to do so.

Auditor's Responsibilities 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

18 September 2018
SYDNEY

Statement by Directors

For the year ended 30 June 2018

Statement by Directors

For the Year Ended 30 June 2018

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 2018 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	P. McKenzie Patricia McKenzie
Chief Executive Officer	**Chair**
Dated: 13 September 2018	**13 September 2018**

Statement of Comprehensive Income

For the year ended 30 June 2018

	Notes	2018 $M	2017 $M
Profit or loss			
Network revenue	2	**1,268.8**	1,291.3
Other revenue	2	**168.7**	242.3
Total revenue		**1,437.5**	1,533.6
Operating expenses	3(a)	**(743.9)**	(771.5)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)		**693.6**	762.1
Depreciation, amortisation and impairment	3(b)	**(370.5)**	(353.3)
Earnings before interest and taxation (EBIT)		**323.1**	408.8
Finance costs	3(c)	**(339.6)**	(337.3)
(Loss)/profit before income tax		**(16.5)**	71.5
Income tax benefit/(expense)	4(a)	**4.9**	(21.5)
(Loss)/profit for the year		**(11.6)**	50.0
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on remeasurement of superannuation defined benefits	21(f)	**45.0**	68.8
Tax effect	4(b)	**(13.5)**	(20.6)
		31.5	48.2
Items that will be reclassified subsequently to profit or loss			
Gains on cash flow hedges		**0.5**	0.6
Tax effect	4(b)	**(0.2)**	(0.2)
		0.3	0.4
Total other comprehensive income for the year		**31.8**	48.6
Total comprehensive income for the year		**20.2**	98.6

The accompanying notes form part of these financial statements

Statement of Financial Position

As at 30 June 2018

	Notes	2018 $M	2017 $M
Assets			
Current assets			
Cash at bank		**0.4**	0.5
Trade and other receivables	5	**249.2**	265.4
Inventories		**25.6**	20.3
Total current assets		**275.2**	286.2
Non-current assets			
Trade and other receivables		**0.8**	1.5
Property, plant and equipment	6	**8,008.1**	7,949.2
Intangible assets	7	**185.8**	162.0
Other non-current assets		**0.4**	0.4
Total non-current assets		**8,195.1**	8,113.1
Total assets		**8,470.3**	8,399.3
Liabilities			
Current liabilities			
Trade and other payables	8	**253.7**	254.1
Interest bearing liabilities	9	**326.1**	397.2
Current tax liabilities		**9.1**	9.5
Provisions	10	**169.8**	215.0
Deferred revenue	11	**15.7**	4.9
Total current liabilities		**774.4**	880.7
Non-current liabilities			
Interest bearing liabilities	9	**5,057.3**	4,831.6
Deferred tax liabilities	4(c)	**200.8**	222.4
Provisions	10	**50.9**	105.8
Deferred revenue	11	**7.9**	—
Total non-current liabilities		**5,316.9**	5,159.8
Total liabilities		**6,091.3**	6,040.5
Net assets		**2,379.0**	2,358.8
Equity			
Contributed equity		**130.5**	130.5
Reserves		**1,156.0**	1,155.7
Retained earnings		**1,092.5**	1,072.6
Total equity		**2,379.0**	2,358.8

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2018

	Contributed Equity $M	Asset Revaluation Reserve $M	Hedge Revaluation Reserve $M	Retained Earnings $M	Total Equity $M
Balance at 1 July 2017	**130.5**	**1,157.3**	**(1.6)**	**1,072.6**	**2,358.8**
Loss for the year	**—**	**—**	**—**	**(11.6)**	**(11.6)**
Other comprehensive income					
Actuarial gains on remeasurement of superannuation defined benefits net of tax	**—**	**—**	**—**	**31.5**	**31.5**
Net increase in reserves	**—**	**—**	**0.3**	**—**	**0.3**
Total comprehensive income	**—**	**—**	**0.3**	**19.9**	**20.2**
Balance at 30 June 2018	**130.5**	**1,157.3**	**(1.3)**	**1,092.5**	**2,379.0**
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					
Actuarial gains on remeasurement of superannuation defined benefits net of tax	—	—	—	48.2	48.2
Net increase in reserves	—	—	0.4	—	0.4
Total comprehensive income	—	—	0.4	98.2	98.6
Dividend provided for	—	—	—	(27.9)	(27.9)
Balance at 30 June 2017	130.5	1,157.3	(1.6)	1,072.6	2,358.8

The accompanying notes form part of these financial statements

Statement of Cash Flows

For the year ended 30 June 2018

	Notes	2018 $M	2017 $M
Cash flows from operating activities			
Receipts from customers		**1,542.6**	1,610.0
Payments to suppliers and employees		**(912.2)**	(1,001.9)
Interest paid		**(315.3)**	(340.0)
Income tax paid		**(30.8)**	(23.7)
Net cash inflow from operating activities	20	**284.3**	244.4
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		**(391.0)**	(407.0)
Proceeds from sale of property, plant and equipment		**3.7**	5.2
Net cash outflow from investing activities		**(387.3)**	(401.8)
Cash flows from financing activities			
Proceeds from borrowings		**130.8**	201.8
Repayment of borrowings		**—**	(16.4)
Dividends paid		**(27.9)**	(28.1)
Net cash inflow from financing activities		**102.9**	157.3
Net decrease in cash at bank		**(0.1)**	(0.1)
Cash at bank at the beginning of the year		**0.5**	0.6
Cash at bank at the end of the year		**0.4**	0.5

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Reporting entity, basis of preparation, accounting policies and significant changes

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's ultimate parent is the NSW Government. Accordingly, the Corporation's financial statements form part of the consolidated NSW Total State Sector Accounts.

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.

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.

Items of property, plant and equipment are stated at their fair value. Other financial statement items are prepared in accordance with the historical cost basis except where specified otherwise.

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

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

The Corporation is exempt from Part 2 paragraph 5 of the *Public Finance and Audit Regulation 2015*.

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 in the respective notes.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item.

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.

1 Reporting entity, basis of preparation, accounting policies and significant changes continued

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.

Other accounting polices

Significant and other accounting policies that summarise the recognition and measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

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 2017 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 2018 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. The initial application of AASB 15 is not expected to materially affect the recognition of revenue in the Corporation's financial statements or materially change the presentation and disclosure of information relating to revenue.
- AASB 9 *Financial Instruments*, published in December 2014, replaces AASB 9 *Financial Instruments* (December 2009), AASB 9 *Financial Instruments* (December 2010), the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement* 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. 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, 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. The application of the new standard will result in the majority of leases currently recorded as lease commitments and reported as expenses being recorded on the Statement of Financial Position as right of use assets and lease liabilities, recognising the lease expense as depreciation on the asset on a straight line basis and interest on the obligation which will be front-loaded as the obligation is greater early in the lease term.

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 material impact on the Corporation and will not materially affect the Corporation's financial statements.

2 Revenue

	2018 $M	2017 $M
Network Use Of System revenue	**1,245.3**	1,270.7
Water and waste water treatment revenue	**23.5**	20.6
Network revenue	**1,268.8**	1,291.3
Alternate Control Services revenue [1]	**62.6**	83.4
Capital contributions	**81.3**	87.8
Solar Bonus Rebate Scheme recovery [2]	—	44.9
Other business revenue [3]	**24.8**	26.2
Other revenue	**168.7**	242.3
Total revenue	**1,437.5**	1,533.6

1) Alternate Control Services revenue includes regulated metering services, public lighting services and ancillary services revenue

2) 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 when conditions of the scheme were met.

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

Recognition and measurement

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 and water and waste water treatment revenue

The Corporation recognises revenue involving the rendering of electricity and water supply services in profit or loss on an accrual basis based on the consumption of electricity and water supply services.

Unbilled NUOS and water revenue (unread meters) is estimated based on the historical consumption of customers. Key assumptions included in the model in calculating the unread meters revenue accrual include the Distribution Loss Factors (DLF).

The determination of inputs used is based on historical trends and revenue accrued is materially sensitive to minor movements in DLF. An increase in half of one percentage point in DLF will result in a change in accrued revenue of $6.1M (2017: $6.2M).

The Corporation is subject to revenue caps and recovery of certain pass-through costs. No liability or asset is recognised for any adjustment that may be made to future prices to reflect any excess or shortfall in revenue as such an adjustment relates to the provision of future services. The following three components of NUOS are subject to a revenue cap or pass-through restrictions which may result in adjustment to future prices:

- Distribution use of system (DUOS) revenue – the Corporation operates under a revenue cap pricing framework being the Maximum Allowed Revenue (MAR) as determined by the Australian Energy Regulator (AER) for each year of a determination period.
- Transmission revenue – revenue relates to transmission costs, which operates as a pass-through cost to customers of actual transmission costs paid to transmission network service providers and embedded generators.
- Climate Change Fund revenue – revenue relates to the receipt of contributions to the Climate Change Fund, which operates as a pass-through cost to customers based on the actual contributions paid to the NSW Government Office of Environment & Heritage.

ii) Capital contributions

The Corporation receives cash and non-cash contributions from customers and developers, mainly towards the capital cost of network 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 as property, plant and equipment at cost.

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 as property, plant and equipment at the date at which control is gained and the assets are ready for use.

iii) Other Business Revenue

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 or 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 or loss in the same period in which the expenses are incurred.

Lease revenue

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 or loss.

Other revenue

The Corporation recognises 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.

3 Expenses

	Notes	2018 $M	2017 $M
a) Operating expenses			
Distribution of energy and other services		**417.0**	394.1
Employee benefits expense [1]		**270.9**	277.2
Solar Bonus Scheme expense		**0.2**	45.0
Bad debts and impairment of trade receivables		**0.3**	1.1
Loss on disposal of property, plant and equipment		**6.1**	3.8
Write off of non-financial assets [2]		**1.5**	0.3
Operating leases rental		**6.5**	7.3
Superannuation expense (defined benefit plan)	21(f)	**5.0**	4.7
Superannuation expense (defined contribution plan)		**36.4**	38.0

	Notes	2018 $M	2017 $M
b) Depreciation, amortisation and impairment			
Depreciation of property, plant and equipment	6	**337.7**	341.9
Plant and equipment depreciation capitalised [3]		**(9.3)**	(9.8)
Depreciation expense		**328.4**	332.1
Amortisation of intangible assets	7	**15.2**	15.5
Impairment losses [4]	6	**26.9**	5.7
Total depreciation, amortisation and impairment		**370.5**	353.3

1) Employee benefits expense excludes $80.5M (2017: $95.1M) capitalised during the year as part of property, plant and equipment or intangible assets.

2) The expense reflects the write off of property, plant and equipment and intangible assets.

3) 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.

4) The expense reflects the impairment of water and public lighting assets.

Recognition and measurement

i) Operating leases rental

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or 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.

ii) Superannuation expense – defined contribution plans

Most employees are party to a defined contribution scheme under which an entity pays fixed contributions into separate entities 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.

iii) Superannuation expense – defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Past service costs and net interest expense or income are recognised in profit or loss. 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.

	2018 $M	2017 $M
c) Finance Costs		
Interest and finance charges paid or payable	**339.5**	337.1
Unwinding of discount on provisions	**0.1**	0.2
Total finance costs	**339.6**	337.3

Recognition and measurement

Finance costs are recognised as expenses in profit or loss in the period in which they are incurred and include:

Interest and finance costs paid and payable:

- 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;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- a government loan guarantee fee assessed by NSW Treasury; and
- discount expense applied to provisions and amortised assets.

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 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 $nil (2017: $1.9M).

	2018 $M	2017 $M
d) Maintenance expenses (included in (a) above)		
Employee benefits expense	**56.9**	58.2
Contracted labour and other (non-employee related) expenses	**303.3**	292.1
	360.2	350.3

4 Income tax

	2018 $M	2017 $M
a) Income tax recognised in profit or loss		
Current tax expense		
Current year	**30.2**	27.3
Adjustments for prior years	**0.2**	3.0
	30.4	30.3
Deferred tax credit		
Origination and reversal of temporary differences	**(35.1)**	(5.7)
Over-provided in prior years	**(0.2)**	(3.1)
	(35.3)	(8.8)
Total income tax (benefit)/expense in profit or loss	**(4.9)**	21.5
Numerical reconciliation between tax expense and pre-tax net profit		
(Loss)/profit before tax	**(16.5)**	71.5
Income tax at the statutory tax rate of 30 per cent (2017: 30 per cent)	**(4.9)**	21.5
Increase/(decrease) in income tax expense due to:		
Over-provided in previous years	**—**	(0.1)
Non-deductible expenses	**—**	0.1
Income tax (benefit)/expense on pre-tax net profit	**(4.9)**	21.5

	2018 $M	2017 $M
b) Income tax recognised in other comprehensive income		
Items not to be reclassified subsequently to profit or loss:		
– Actuarial gains or losses on remeasurement of defined benefits superannuation	**13.5**	20.6
Items to be reclassified subsequently to profit or loss:		
– Revaluation of hedge derivatives	**0.2**	0.2
Income tax charged (credited) directly to other comprehensive income	**13.7**	20.8
c) Recognised deferred tax assets and liabilities		
Deferred tax (assets) and liabilities are attributable to the following:		
Property, plant and equipment	**274.1**	311.2
Defined benefit superannuation benefits	**(7.8)**	(21.7)
Other liabilities and provisions	**(64.8)**	(66.4)
Other items	**(0.7)**	(0.7)
Net tax liabilities	**200.8**	222.4

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

Movement in temporary tax differences

	1 July 2017 $M	Recognised in profit or loss $M	Recognised in other comprehensive income $M	30 June 2018 $M
Property, plant and equipment	311.2	(37.1)	—	274.1
Defined benefit superannuation liabilities	(21.7)	0.4	13.5	(7.8)
Other liabilities and provisions	(66.4)	1.6	—	(64.8)
Other items	(0.7)	(0.2)	0.2	(0.7)
	222.4	**(35.3)**	**13.7**	**200.8**

Recognised in profit or loss Recognised in other comprehen-sive income

	1 July 2016 $M	Recognised in profit or 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**

Recognition and measurement

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 or 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 reporting 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 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 reporting 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.

5 Trade and other receivables – current

	2018 $M	2017 $M
Trade receivables	**61.4**	71.9
Less: impairment of trade receivables	**(1.2)**	(1.2)
	60.2	70.7
Accrued revenue from unread meters	**167.6**	173.0
	227.8	243.7
Prepayments	**11.5**	8.2
Other receivables	**10.5**	14.1
Less: impairment of other receivables	**(0.6)**	(0.6)
	249.2	265.4
The movement in the impairment of receivables is detailed below:		
Opening balance at 1 July	**1.8**	1.1
Additional impairment	**0.3**	1.2
Amounts used	**(0.3)**	(0.5)
Closing balance at 30 June	**1.8**	1.8
The ageing of receivables past due but not impaired is detailed below:		
Less than three months overdue	**3.1**	5.6
Three months to six months overdue	**0.3**	0.6
Later than six months overdue	**1.3**	1.4
	4.7	7.6

The Corporation’s exposure to credit risks related to trade and other receivables are disclosed in note 12

Recognition and measurement

Trade and other receivables are initially recognised at fair value, and are subsequently measured at amortised cost less any impairment losses. Trade receivable include an estimate of the value of unbilled NUOS revenue (refer note 2).

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised on an individual receivable basis 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 in payments.

Impairment losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

6 Property, plant and equipment

	Notes	Land and buildings $M	System assets $M	Plant and equipment $M	Total $M
Year ended 30 June 2018					
Gross carrying amount		212.8	8,238.9	453.6	8,905.3
Accumulated depreciation and impairment		(16.7)	(614.5)	(266.0)	(897.2)
Net carrying amount		**196.1**	**7,624.4**	**187.6**	**8,008.1**
Net carrying amount at start of year		194.1	7,559.8	195.3	7,949.2
Additions		7.1	394.0	32.8	433.9
Disposals and write offs		(0.3)	(8.6)	(1.5)	(10.4)
Depreciation expense	3(b)	(4.8)	(293.9)	(39.0)	(337.7)
Impairment	3(b)	—	(26.9)	—	(26.9)
Net carrying amount at end of year		**196.1**	**7,624.4**	**187.6**	**8,008.1**
Year ended 30 June 2017					
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
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(b)	(4.8)	(295.7)	(41.4)	(341.9)
Impairment	3(b)	—	(5.7)	—	(5.7)
Net carrying amount at end of year		194.1	7,559.8	195.3	7,949.2

	2018 $M	2017 $M
Assets under construction		
Expenditure on construction in progress at the end of the year	**442.8**	442.9
Historic cost of revalued assets		
The carrying amount of assets had they been carried under the cost model is:		
Land and buildings	**165.0**	162.7
System assets	**6,949.1**	6,800.1
Plant and equipment	**187.6**	195.3

Recognition and measurement

i) Initial recognition

Items of property, plant and equipment purchased or constructed are initially recognised at cost. Non-system assets purchased below $600 are expensed as acquired. 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, and 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 where appropriate.

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.

ii) Measurement after initial recognition

After initial recognition as an asset, items of property, plant and equipment are measured at fair value.

System assets and land and buildings

System assets comprise physical assets used directly for the distribution of electricity, provision of public lighting, and water and waste water services.

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 an income approach.

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; 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 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. 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. A comprehensive valuation was last completed at 30 June 2017.

The distribution network, comprising system assets and land and buildings, as a whole is considered to be a "single asset" for the purposes of valuation. This is because all components within the network must work together 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.

Plant and equipment

Plant and equipment assets comprise non-specialised assets with short useful lives. These assets are deemed to be stated at fair value which is equivalent to their depreciated historical costs.

iii) Revaluations

Revaluation increments are recognised in other comprehensive income and credited directly to the asset revaluation reserve, except where an increment reverses a revaluation decrement in respect of that asset class which was previously recognised as an expense in net profit or loss, the increment is recognised immediately in net profit or loss. Revaluation decrements are recognised in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset, they are debited directly to the asset revaluation reserve. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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

iv) Impairment of property, plant and equipment and intangible assets

The Corporation assesses the carrying amounts of non-financial assets at the end of each reporting period by evaluating conditions that may indicate potential impairment of assets. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units or CGUs).

The recoverable amount of the Water CGUs was estimated to be $nil as at 30 June 2018 (2017: $nil). Accordingly, no value is carried in the books of the Corporation in respect of the Water CGU assets. All assets acquired or constructed are fully impaired immediately after initial recognition. The recoverable amount of the Public Lighting CGU's system assets was estimated at $10.5M as at 30 June 2018 (30 June 2017: $21.6M) with an impairment of assets being recognised as an expense during the current period.

v) Depreciation

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation is charged to profit or 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	Lesser of term of lease or useful life
System assets	7 – 50 years
Plant and equipment	3 – 20 years

7 Intangible assets

	Notes	Easements $M	Computer software $M	Other $M	Total $M
Year ended 30 June 2018					
At cost		81.6	123.2	43.1	247.9
Accumulated amortisation		—	(55.8)	(6.3)	(62.1)
Net carrying amount		**81.6**	**67.4**	**36.8**	**185.8**
Net carrying amount at start of year		81.2	50.8	30.0	162.0
Acquisitions		0.4	29.1	10.3	39.8
Amortisation	3(b)	—	(11.7)	(3.5)	(15.2)
Write offs		—	(0.8)	—	(0.8)
Net carrying amount at end of year		**81.6**	**67.4**	**36.8**	**185.8**
Year ended 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
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(b)	—	(13.7)	(1.8)	(15.5)
Net carrying amount at end of year		81.2	50.8	30.0	162.0

	2018 $M	2017 $M
Intangible assets under construction		
Expenditure on development or purchase of intangible assets in progress at the end of the year:	**61.8**	26.7

Recognition and measurement

Intangible assets that are acquired externally or internally generated by the Corporation are stated at cost less accumulated amortisation and impairment losses.

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 or 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 tested for impairment at each reporting date. Amortisation 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:

Easements	Indefinite
Computer software	4 years
Other intangibles	10 years

8 Trade and other payables

	2018 $M	2017 $M
Trade payables	**14.9**	15.1
Interest payable	**148.9**	149.0
Accruals	**67.4**	66.8
Payroll related payables	**13.2**	12.8
Other payables	**9.3**	10.4
	253.7	254.1

Details regarding liquidity risk including a maturity analysis of the above payables are disclosed in note 12.

Recognition and measurement

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.

After 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.

9 Interest bearing liabilities

	2018 $M	2017 $M
Current liabilities		
Current portion of borrowings	**326.1**	397.2
Non-current liabilities		
Non-current portion of borrowings	**5,057.3**	4,831.6

	2018 $M	2017 $M
Changes in liabilities arising from financing activities		
Total interest bearing liabilities at beginning of year	**5,228.8**	5,044.5
Net cash flows from proceeds from and repayments of borrowings	**130.8**	185.4
Capitalisation of indexed bonds indexation	**10.5**	8.6
Movement and settlement of deferred interest	**13.9**	(9.0)
Movement in forward rate contracts	**(0.6)**	(0.7)
Total interest bearing liabilities at end of year	**5,383.4**	5,228.8

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 12.

Recognition and measurement

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

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

Borrowings shown as a current liability are 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.

10 Provisions

	Dividends $M	Employee benefits $M	Environmental and asset remediation $M	Workers' compensation $M	Other $M	Total $M
At 1 July 2017	27.9	267.8	15.6	8.2	1.3	320.8
Additional provisions	—	37.9	0.6	0.5	2.4	41.4
Amounts used	(27.9)	(38.5)	(3.0)	(1.8)	(1.3)	(72.5)
Amounts reversed	—	(63.2)	(1.1)	(4.2)	(0.6)	(69.1)
Unwinding of discount	—	—	—	0.1	—	0.1
At 30 June 2018	—	204.0	12.1	2.8	1.8	220.7
Current	—	159.6	5.9	2.5	1.8	169.8
Non-Current	—	44.4	6.2	0.3	—	50.9
At 30 June 2018	—	204.0	12.1	2.8	1.8	220.7
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

Recognition and measurement

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. The following reflects specific policies and other information regarding the key provisions:

i) Dividends

Provision is made for 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 year end. The dividend has regard to the annual performance agreement (Statement of Corporate Intent) with NSW Treasury.

ii) Employee benefits

All liabilities for employee benefits that are expected to be paid for services provided up to the reporting date by employees 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 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 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 high quality corporate bonds (HQCBs) as at reporting date with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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 using HQCB yields 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. Amounts provided for in relation to defined benefit superannuation obligations are based on an actuarial assessment. 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.

During the period the Corporation changed the discount rate used to calculate employee liabilities from market yields on national government bonds to market yields on HQCBs. This change was the result of views that the HQCB market in Australia is sufficiently deep. The carrying amount of long service leave and defined benefit superannuation liabilities was reduced by $19.1M and $50.0M respectively in the current year as a result of this change. $14.7M was recognised through profit and loss, $4.4M recognised as a reduction in capital expenditure, and $50.0M being recognised to retained earnings through other comprehensive income.

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 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 $159.6M (2017: $173.1M) is presented as current, since the Corporation does not have an unconditional right to defer settlement for any of these obligations. However, based on 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.

	2018 $M	2017 $M
Current leave obligations expected to be settled after 12 months	**128.0**	141.4

The non-current provision for employee benefits includes $27.6M (2017: $73.8M) relating to the defined benefit superannuation liability.

iii) Environmental and asset rectification

Provisions for environmental rectification work are expected to be settled between 2019 and 2022. In respect of obligations to be settled by 2019 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 (2017: 2.2 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 on termination of existing leases.

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 2018 financial year cover period. A discount rate of 3.0 per cent (2017: 2.1 per cent) has been applied.

v) 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.

11 Deferred revenue

	2018 $M	2017 $M
Current		
Deferred government grants	**3.1**	3.3
Prepaid capital contributions	**12.6**	1.6
	15.7	4.9
Non-current		
Prepaid capital contributions	**7.9**	—

Deferred government grants

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. This long term water supply solution is expected to be finalised in December 2018 when construction of the Murray Pipeline is due for completion. The project components are practically complete and finalisation of the funding deed is expected during the 2019 financial year.

Prepaid capital contributions

Prepaid capital contributions mainly include contributions by public lighting customers intended to fund the replacement of assets at the end of their life.

12 Financial risk management

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.

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 to the Corporation.

The exposure to 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 manages the credit risk of trade receivables through 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 credit risk related to distribution network customers is the risk of a retailer defaulting on their obligations. The Corporation operates in accordance with the National Energy Rules under the National Energy Law which provides credit support guidelines. Under these guidelines the Corporation has the ability to obtain credit support from a retailer in certain circumstances where the retailer defaults. In the event of significant retailer failure, an application to recoup such losses under general pass through provisions available through the AER would be considered. As at 30 June 2018 the Corporation had trade receivables of $57.4M (2017: $71M) from retailers. Three retailers represented 73 per cent of these trade receivables (2017: Three retailers represented 73 per cent of total distribution network customer 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 committed foreign exchange exposures that exceed A$1,000,000 in value (2017: A$500,000). At reporting date, for both current and prior year, there is no material exposure to any foreign currency.

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

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:

	2018 $M	2017 $M
Carrying amount		
Fixed rate		
Financial liabilities	**(4,543.5)**	(4,431.9)
Floating rate		
Financial assets	**0.4**	0.5
Financial liabilities	**(38.3)**	(7.1)
	(37.9)	(6.6)
Inflation Indexed		
Financial liabilities	**(801.6)**	(789.8)

The Corporation does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. 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.

In addition, 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 is estimated to impact the profit before tax by $0.4M (2017: $0.1M). Changes in inflation also affect the Corporation's finance costs due to its holdings of indexed financial liabilities. A change in inflation rates of half of one percent at reporting date is estimated to impact the profit before tax by $4.0M (2017: $3.9M).

e) Capital risk management

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 as shown below.

	2018 $M	2017 $M
Total borrowings	**5,383.4**	5,228.8
Less: cash at bank	**(0.4)**	(0.5)
Net debt	**5,383.0**	5,228.3
Total equity	**2,379.0**	2,358.8
Total capital	**7,762.0**	7,587.1
Gearing ratio	**69.4%**	68.9%

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 by our treasury function considering cashflow forecasts against the availability of readily accessible standby facilities and other funding arrangements.

As at 30 June 2018 the Corporation had an approved core debt borrowing limit of $6,109.6M (2017: $6,109.6M) of which $766.3M was unused as at 30 June 2018 (2017: $890.3M). The Corporation also has an approved New South Wales Treasury Corporation (TCorp) Come and Go Facility limit of $250.0M (2017: $250.0M) and approval to obtain a commercial bank overdraft facility limit of up to $15.0M (2017: $15.0M) to fund working capital (at 30 June 2018 a facility of $2.0M (2017: $2.0M) was in place). Planned future capital expenditure will be funded through TCorp borrowings. Future committed expenditure is disclosed in Note 18.

While current liabilities are greater than current assets as at 30 June 2018 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 $211.7M (2017: $242.9M) unused and the commercial bank overdraft facility limit had $2.0M unused (2017: $2.0M). On 13 June 2018 NSW Treasury confirmed that the core debt borrowing limit of $6,109.6M remained unchanged and has no expiry date.

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 using 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.

	Carrying amount $M	Contractual cash flows Total $M	1 year or less $M	1 – 5 years $M	More than 5 years $M
30 June 2018					
Non derivative financial liabilities					
Fixed rate borrowings	**4,543.5**	**5,519.0**	**480.6**	**2,348.1**	**2,690.3**
Floating rate borrowings	**38.3**	**38.3**	**38.3**	**—**	**—**
Inflation indexed borrowings	**801.6**	**1,012.6**	**22.2**	**376.8**	**613.6**
Trade and other payables (excluding statutory payables)	**238.9**	**238.9**	**238.9**	**—**	**—**
	5,622.3	**6,808.8**	**780.0**	**2,725.0**	**3,303.9**

	Carrying amount $M	Contractual cash flows Total $M	1 year or less $M	1 – 5 years $M	More than 5 years $M
30 June 2017					
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

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.

g) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

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

Fair value hedges

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

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

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 or 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.

h) 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.

13 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.

The Corporation measures items of property, plant and equipment at fair value at reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed.

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

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

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

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

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

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

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

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

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

a) Recognised fair value measurements

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

- System assets
- Land and buildings

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 are valued using techniques described in note 6. All resulting fair value estimates for system assets and land and buildings are included in level 3.

b) 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 6.

ii) 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. 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 last 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. 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 2018 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. 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.

Future revenues are dependent on the finalisation of the AER's 2019-24 determination. 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 below.

iii) 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 $7,820.5M.

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 $221.5M change in the fair value.
Five year forecast revenue	+/-10 per cent	The higher the revenue the higher the fair value. A 10 per cent movement in the revenue results in a $433.2M change in the fair value.
Five year forecast operating expenditure	+/-10 per cent	The higher the operating expenditure the lower the fair value. A 10 per cent movement in the operating expenditure results in a $163.1M change in the fair value.
Five year forecast capital expenditure	+/-10 per cent	The higher the capital expenditure the lower the fair value. A 10 per cent movement in the capital expenditure results in an $26.9M 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 $340.6M change in fair value.

c) Disclosed Fair Values

The Corporation also has financial assets and liabilities which are not measured at fair value, but for which fair values are disclosed.

The carrying amounts and fair values of financial assets and liabilities are materially the same other than interest bearing liabilities which are shown below:

		2018		2017	
	Note	Carrying Amount $M	Fair Value $M	Carrying Amount $M	Fair Value $M
Financial liabilities carried at amortised cost					
Interest bearing liabilities	9	**5,383.4**	**5,766.5**	5,228.8	5,690.0

Fair value of borrowings 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).

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

Interest rates used for determining fair value

The Corporation uses the NSW Treasury Corporation (TCorp) yield curve as at 30 June 2018 to discount financial instruments. The interest rates used are in the following ranges:

	2018	2017
Borrowings	**1.9% – 3.5%**	1.3% – 3.3%

Other 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 6 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.

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 or 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 applied to the carrying amount of the system assets and land and buildings and indefinite life intangible assets of 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.

14 Key management personnel disclosure

Key management personnel comprise members of the Board and the Corporation's leadership management team. The shareholding ministers, the New South Wales Treasurer and the Portfolio Minister (Minister for Energy and Utilities) are also considered to be key management personal.

Key management personnel remunerations

In addition to their salaries, the Corporation also provides post-employment benefits to directors and executive officers. Post-employment benefits for directors relates to compulsory superannuation contributions.

The shareholding ministers (including the NSW Treasurer) and the 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 (Note 3(a)) are as follows:

	2018 $M	2017 $M
Short-term employee benefits	**4.6**	4.0
Long-term benefits	**0.3**	0.3
Post-employment benefits	**0.1**	0.2
Termination benefits	**0.8**	0.1
	5.8	4.6

15 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) 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.

iii) 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.

iv) 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 $97.6M (2017: $91.8M).

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 17). Details of borrowings are disclosed in note 9, interest costs on these borrowings were $241.9M (2017: $247.2M) of which $51.2M (2017: $57.1M) was owing at year end. Borrowing facilities provided by TCorp are disclosed in note 12.

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. An expense of $60.4M was recognised for the current year (2017: $60.6M) for the Climate Change Fund levy with $nil owing at 30 June 2018 (2017: $nil). Up to 31 December 2016 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. No amounts were charged or were receivable for solar bonus scheme recoveries in the financial year.

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 reporting date in respect of some 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.

16 Remuneration of auditor

	2018 $M	2017 $M
Audit Office of New South Wales		
Audit of financial statements	**0.4**	0.4

17 Contingent liabilities

Contingent liabilities

Land Remediation

The Corporation has engaged experts to assess the risk of the existence of contamination on sites. The expert has identified several 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.

Tathra Bushfire

A bushfire on 18 March 2018 in the southern region of NSW, within the Corporation's power distribution footprint, resulted in significant property damage. The State Coroner has initiated an enquiry into the cause and origin of the fire. A financial exposure could arise if civil proceedings were initiated against the Corporation. The relevant deductible (excess) applicable under the Corporation's liability insurance policy is $10.0M.

Guarantees	2018 $M	2017 $M
Guarantees provided to regulatory and statutory authorities	**23.8**	27.0

18 Capital commitments

	2018 $M	2017 $M
Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities (including GST)	**46.9**	19.2
GST credits	**4.3**	1.7

19 Operating lease commitments

a) Leases as lessee

The Corporation leases various land and premises under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On or prior to renewal, the terms of the leases are renegotiated. The future minimum lease payments under non-cancellable leases are as follows:

	2018 $M	2017 $M
Within Twelve months	**5.2**	5.6
Twelve months or longer and not longer than five years	**8.9**	9.9
Longer than five years [1]	**1.7**	0.3
Total (including GST)	**15.8**	15.8
GST credits	**1.4**	1.4

- There are 269 non-cancellable property leases.
- Many 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.

1) 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.

b) 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:

	2018 $M	2017 $M
Within twelve months	**0.8**	1.0
Twelve months or longer and not longer than five years	**0.4**	0.7
Longer than five years [1]	**0.1**	0.1
Total (including GST)	**1.3**	1.8
GST debits	**0.1**	0.2

During the year ended 30 June 2018 $1.0M (2017: $1.1M) was recognised as rental income in profit or loss.

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

20 Reconciliation of cash flows from operating activities

	2018 $M	2017 $M
(Loss)/profit for the year	**(11.6)**	50.0
Add/(less) non-cash items:		
Depreciation, amortisation, impairment and write off of non-financial assets	**372.0**	353.6
Gifted assets	**(72.9)**	(82.2)
Non-cash superannuation expenses	**(0.5)**	(1.8)
Net (gain)/loss on disposal of property, plant and equipment	**6.1**	3.8
Amortisation of deferred interest expense/(income)	**13.9**	(9.1)
Capitalisation of indexed bonds indexation	**10.5**	8.6
Changes in assets and liabilities:		
(Increase)/decrease in accrued revenue from unread meters	**5.4**	(6.5)
(Increase)/decrease in other receivables	**11.6**	19.9
(Increase)/decrease in inventories	**(5.9)**	(1.4)
(Increase)/decrease in other assets	**—**	0.1
Increase/(decrease) in accrued operating expenditure	**(0.4)**	(30.3)
Increase/(decrease) in current tax balances	**(0.4)**	6.7
Increase/(decrease) in deferred taxes liabilities	**(35.3)**	(8.8)
Increase/(decrease) in other provisions	**(26.8)**	(59.5)
Increase/(decrease) in deferred revenue	**18.7**	1.3
Net cash from operating activities	**284.3**	244.4

21 Superannuation – Defined benefit plans

The Corporation has defined benefit superannuation plans covering a significant number of current and past employees, which requires contributions to be made to separately administered funds.

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

The discount rate is the market yields on HQCBs 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.

During the period the Corporation changed the discount rate used to calculate employee liabilities from market yields on national government bonds to market yields on HQCBs (refer note 10).

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.

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

a) Nature of the benefits provided by the funds

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

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

The 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 separate disclosure of movements in plan assets and obligations and details of plan assets of the defined benefit schemes of SASS, SANCS, and SSS (11 members) will not materially influence the users of the financial statements.

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, to provide 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 actuary will shortly be commencing work on the 30 June 2018 valuation and the results of the valuation are expected to be available by November/December 2018.

SASS, SSS and SANCS

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

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

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

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

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2015. The next actuarial valuation is due as at 30 June 2018.

c) Risk Exposure

There are several 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.
- 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 assets when required in accordance with the Scheme rules;
- Management and investment of the Scheme 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. Refer to note 21(f) for the impact of these.

f) Net Defined Benefit (Liability)/Asset and reconciliation of movements in balances

The following tables summarise the net asset/(liability) recognised in the Statement of Financial Position within non-current trade and other receivables and non-current provisions.

	30 June 2018			30 June 2017		
	Present Value of Obligation $M	Fair Value of Plan Asset[1] $M	Scheme Surplus/ (deficit) $M	Present Value of Obligation $M	Fair Value of Plan Asset[1] $M	Scheme Surplus/ (deficit) $M
EISS	**(313.6)**	**286.6**	**(27.0)**	(378.3)	305.6	(72.7)
SASS	**(8.4)**	**9.2**[1]	**0.8**	(8.2)	9.7[1]	1.5
SANCS	**(0.8)**	**0.2**	**(0.6)**	(0.8)	0.2	(0.6)
SSS	**(1.7)**	**1.7**	**—**	(2.1)	1.6	(0.5)
Total	**(324.5)**	**297.7**	**(26.8)**	(389.4)	317.1	(72.3)

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.

	30 June 2018			30 June 2017		
	Total Present Value of Obligation $M	Total Fair Value of Plan Asset $M	Total $M	Total Present Value of Obligation $M	Total Fair Value of Plan Asset $M	Total $M
At 1 July	**(389.4)**	**317.1**	**(72.3)**	(488.4)	328.8	(159.6)
(Expense)/income recognised in profit or loss						
Current service cost	**(5.9)**	**—**	**(5.9)**	(9.2)	—	(9.2)
Gains/(losses) arising from curtailments and settlements	**19.5**	**(16.8)**	**2.7**	38.7	(31.3)	7.4
Interest (expense)/income	**(9.6)**	**7.8**	**(1.8)**	(9.1)	6.2	(2.9)
	4.0	**(9.0)**	**(5.0)**	20.4	(25.1)	(4.7)
Income/(expense) recognised in other comprehensive income						
Remeasurements						
Return on plan assets, excluding amounts included in interest (expense)/income	**—**	**9.7**	**9.7**	—	25.5	25.5
Gain/(loss) from change in demographic assumptions	**(0.3)**	**—**	**(0.3)**	—	—	—
Gain/(loss) from change in financial assumptions	**50.4**	**—**	**50.4**	35.7	—	35.7
Gain/(loss) from change in liability experience	**(13.4)**	**—**	**(13.4)**	8.9	—	8.9
	36.7	**9.7**	**46.4**	44.6	25.5	70.1
Adjustment for effect of asset ceiling[1]	**—**	**(1.4)**	**(1.4)**	—	(1.3)	(1.3)
	36.7	**8.3**	**45.0**	44.6	24.2	68.8

Note: table continues page 96.

1) 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.

	30 June 2018			30 June 2017		
	Total Present Value of Obligation $M	Total Fair Value of Plan Asset $M	Total $M	Total Present Value of Obligation $M	Total Fair Value of Plan Asset $M	Total $M
Contributions by Fund participants						
Employers	—	5.5	5.5	—	23.2	23.2
Plan participants	(2.5)	2.5	—	(3.0)	3.0	—
	(2.5)	8.0	5.5	(3.0)	26.2	23.2
Benefits paid	25.0	(25.0)	—	32.6	(32.6)	—
Taxes, premiums and expenses paid	1.7	(1.7)	—	4.4	(4.4)	—
At 30 June	**(324.5)**	**297.7**	**(26.8)**	(389.4)	317.1	(72.3)

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. The investment in the Energy Investment Fund is valued using significant observable inputs (Level 2) and amounted to $1,950.5M (2017: $1,977.6M) at reporting date. Some EISS Pool B assets are invested in accordance with member investment choices. Pool B assets invested in the Energy Investment Fund but not subject to member investment choice are included in the table below. The percentage invested in each asset class at the reporting date is:

As at	30 June 2018	30 June 2017
Australian listed equities	**17.6%**	16.0%
Overseas listed equities	**28.1%**	26.0%
Property	**7.8%**	4.0%
Private equity	**1.0%**	1.0%
Infrastructure	**6.7%**	11.0%
Alternatives	**5.4%**	10.0%
Fixed income	**28.0%**	27.0%
Cash and short-term securities	**5.4%**	5.0%
Total	**100.0%**	100.0%

The trustees invest all scheme assets at arm’s length through independent fund managers.

For 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.

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

	2018	2017
Expected salary increase rate (excluding promotional increases)	**1 per cent until 30 June 2019, and 2.5 per cent pa thereafter**	Nil until 30 June 2018, and 2.5 per cent pa thereafter
Rate of CPI increase	**2.5 per cent pa**	2.2 per cent pa
Discount rate	**4.1 per cent pa**	2.6 per cent 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 2018 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 per cent discount rate	Scenario B +1.0 per cent discount rate
Discount rate	4.1%	3.1%	5.1%
Rate of CPI increase	2.5%	2.5%	2.5%
Salary inflation rate	1.0% pa for 2018/19 and 2.5% pa thereafter	1.0% pa for 2018/19 and 2.5% pa thereafter	1.0% pa for 2018/19 and 2.5% pa thereafter
Defined benefit obligation ($M)	313.6	346.7	285.8

	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	4.1%	4.1%	4.1%
Rate of CPI increase	2.5%	3.0%	2.0%
Salary inflation rate	1.0% pa for 2018/19 and 2.5% pa thereafter	1.0% pa for 2018/19 and 2.5% pa thereafter	1.0% pa for 2018/19 and 2.5% pa thereafter
Defined benefit obligation ($M)	313.6	320.7	307.1

	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	4.1%	4.1%	4.1%
Rate of CPI increase	2.5%	2.5%	2.5%
Salary inflation rate	1.0% pa for 2018/19 and 2.5% pa thereafter	1.5% pa for 2018/19 and 3.0% pa thereafter	0.5% pa for 2018/19 and 2.0% pa thereafter
Defined benefit obligation ($M)	313.6	322.1	305.5

	Base Case	Scenario G +5% pensioner mortality rates	Scenario H -5% pensioner mortality rates
Defined benefit obligation ($M)	313.6	316.4	312.2

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

k) Asset-Liability matching strategies

For EISS the assets of the Scheme are managed using a Liability Driven Investment approach.

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 2018 financial position of the Fund calculated in accordance with AASB 1056 "Superannuation Entities":

	EISS		Other		Total	
	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M
Accrued benefits	283.9	278.6	8.6	7.7	292.5	286.3
Net market value of Fund assets	(286.6)	(305.6)	(13.8)	(12.9)	(300.4)	(318.5)
Net surplus	(2.7)	(27.0)	(5.2)	(5.2)	(7.9)	(32.2)

Contribution recommendations

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

Division B	Division C	Division D	Additional Lump Sum
multiple of member contributions	per cent member salary	multiple of member contributions	$M per annum
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	5.5% pa	7.4% pa
Expected rate of return on Fund assets backing other liabilities	5.5% pa	6.4% pa
Expected salary increase rate	2.3% pa for 2018/19, 2.6% pa for 2019/20, 2.8% for 2020/21, 3.3% thereafter	2.7% for 2018/19; 3.2% pa thereafter
Expected rate of CPI increase	2.3% pa	2.2% pa

The above economic assumptions are to be adopted for the 30 June 2018 actuarial investigation.

Expected contributions	Financial Year to 30 June 2019 $M
Expected employer contributions	
– EISS	5.1
– Other	—

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 11.8 years (2017:13 years) for the EISS, while it is 12.3 years (2017: 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.

22 Events subsequent to reporting date

The financial statements of the Corporation for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Board on 13 September 2018.

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

END OF AUDITED FINANCIAL STATEMENTS

Appendices

DIGITAL INFORMATION SECURITY ATTESTATION

Essential Energy operates an Information Security Management System (ISMS) based on the standard for information security, ISO/IEC 27001. Essential Energy has developed internal policies and procedures related to digital information security and are committed to continuously increasing maturity through internal audit and review processes.

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

CREDIT CARD CERTIFICATION

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

DISCLOSURE OF APPROVED EXEMPTIONS

Exemptions have been granted by the Treasurer under Section 41BA of the *Public Finance and Audit Act 1983* (PFandAA) so that the financial reporting requirements which apply are broadly consistent with the *Corporations Act* reporting requirements given that the entity is competing in the 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 ch. 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 [1] 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 ch. 10 ARSBR
- Liability Management Performance ch. 11 ARSBR.

1) Consultancy costs of $8.6M were incurred. The major consultancy costs included expenditure reviews (for example cost optimisation study, regulatory proposal reviews and compliance program reviews), business process design (for example AER ring-fencing guidelines and implementation and Network Economics) and governance strategy advice in various areas such as vegetation management.

SUMMARY OF OVERSEAS TRAVEL FOR FY2017-18

Purpose of Travel	Names of Employees	Organisation Visited	Cities	Country	Date of Departure from Australia	Date of Arrival into Australia
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 June 2017	8 July 2017
Grid Edge 2017 Forum, various utility site visits, and insurers	Gary Humphreys	GTM event, Pacific Gas and Electric company, various other utilities, insurers	San Francisco, San Jose, London	USA and England	25 June 2017	14 July 2017
Visit to Orion Electricity Distributor and Connetics Contracting Services in Christchurch to understand non-centralised Field Services from an IT Perspective	John Ansley & Clint Collins	Orion Electricity and Connetics	Christchurch	New Zealand	5 September 2017	8 September 2017
Visit electricity distributor to review safety and culture programs and initiatives	David Nardi, Martin Minogue, & Christine Withycombe	Connetics	Christchurch	New Zealand	13 February 2018	15 February 2018
Attend Institute for Strategic Leadership Conference	Roger Marshall	Institute for Strategic Leadership	Queenstown	New Zealand	11 May 2018	20 May 2018
IPS User Conference & IPS HQ visit	Cassandra Pelley & Nicole Wright	IPS Head Office, IPS User Conference, Renewable Energy Exhibition Deutch Museum	Munich	Germany	12 May 2018	26 May 2018
Transformation / Asset Management Systems / Integrated Technologies	Luke Jenner, David Salisbury, & Chantelle Bramley	Scottish Water/ KPMG/ Ernst & Young / Open Utilities/ Cap Gemini / UK Power Network / Bristol Water/ Western Power Distribution / Fugro Roames / Stedin Electricity/ BGC Digital Ventures	Edinburgh / London / Bristol / Amsterdam / The Hague / Rotterdam / Berlin	Scotland / United Kingdom / Netherlands / Germany	13 May 2018	28 May 2018
Study Tour for Australian Electricity Sector Leaders - European Digital in Energy Trek	John Cleland	Boston Consulting Group in Madrid, Rome, Dusseldorf and Digital Ventures BCG Berlin / GasNatural Fenosa / Enel / Innogy	Madrid / Rome / Berlin / Dusseldorf	Spain / Italy / Germany	9 February 2018	17 February 2018

Purpose of Travel	Names of Employees	Organisation Visited	Cities	Country	Date of Departure from Australia	Date of Arrival into Australia
Aid in reconstruction efforts after cyclone Gita as part of Australian aid response – Team 1	Darren Basterfield, Matt Tozer, Matt Leoflath, Ian Armstrong	Tonga Power Limited	Tongatapu Island	Tonga	20 February 2018	06 March 2018
Aid in reconstruction efforts after cyclone Gita as part of Australian aid response – Team 2	Robbie Wilson, Matt Bowen, Damien Jackson, Gary Roughley, Callum Madden, Craig Sharpe, Shawn Eade	Tonga Power Limited	Tongatapu Island	Tonga	03 March 2018	20 March 2018

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 FY2017-18, 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; rebuild of its website with a focus on dynamic content management and greater usability and accessibility for mobile-first; and, publication of relevant information regarding corporate governance and the network business.

TOTAL NUMBER OF ACCESS APPLICATIONS RECEIVED DURING THE YEAR

In FY2017-18, Essential Energy received 21 formal access applications for information pursuant to the GIPA Act.

The formal applications received were from members of parliament, the public, private sector businesses, lawyers, and investigators.

In response to the formal access applications that were finalised in FY2017-18, full access was provided on 11 occasions. With respect to the remaining access applications, four were granted in part and in one instance the information requested was not held by Essential Energy, three applications were withdrawn with two still ongoing at 30 June 2018.

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 did not rely on conclusive presumptions of overriding public interest against disclosure (as set out in schedule 1 of the GIPA Act) on any 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 2017-18.

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	4	1	0	0	0	0	0	1
Private sector business	3	0	0	0	0	0	0	1
Not for profit organisations or community groups	0	0	0	0	0	0	0	0
Members of the public (application by legal representative)	3	2	0	0	0	0	0	1
Members of the public (other)	1	1	0	1	0	0	0	0

More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to Table B.

TABLE B: NUMBER OF APPLICATIONS BY TYPE OF APPLICATION AND OUTCOME

	Access Granted in Full	Access Granted in Part	Access Refused in Full	Information Not Held	Information Already Available	Refuse to Deal With Application	Refuse to Confirm/Deny Whether Information is Held	Application Withdrawn
Personal information applications [1]	0	0	0	1	0	0	0	0
Access applications (other than personal information applications)	11	4	0	0	0	0	0	3
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

1) 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 [1]	0
Invalid applications that subsequently became valid applications	0

1) An application is not a valid access application if it is an application for excluded information of the agency or does not comply with the formal requirements for access applications.

TABLE D: CONCLUSIVE PRESUMPTION OF OVERRIDING PUBLIC INTEREST AGAINST DISCLOSURE: MATTERS LISTED IN SCHEDULE 1 OF THE ACT

	Number of Times Consideration Used [1]
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

1) More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

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

	Number of Occasions when Application Not Successful
Responsible and effective government	0
Law enforcement and security	1
Individual rights, judicial processes and natural justice	3
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

TABLE F: TIMELINES

	Number of Applications
Decided within the statutory timeframe (20 days plus any extensions)	14
Decided after 35 days (by agreement with applicant)	5
Not decided within time (deemed refusal)	0
Total	**19**

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	1	0	1
Review by Information Commissioner [1]	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0
Review by ADT	0	0	0
Total	**1**	**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 case indicates that a recommendation to vary or uphold the original decision has been made.

TABLE H: APPLICATIONS FOR REVIEW UNDER PART 5 OF THE ACT (BY TYPE OF APPLICANT)

	Number of Applications for Review
Applications by access applicants	1
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

SUMMARY OF LEGISLATIVE CHANGES AND JUDICIAL DECISIONS FOR 1 JULY 2017 TO 30 JUNE 2018

MATERIAL CHANGES TO COMMONWEALTH LEGISLATION

Security of Critical Infrastructure Act 2018 (Cth)

This Act is due to commence on 11 July 2018. The Act is intended to safeguard Australia's key infrastructure assets from national security risks of sabotage, espionage and coercion.

The Act establishes a *Register of Critical Infrastructure* Assets to ensure the transparency of critical infrastructure ownership and control in high-risk sectors (including the electricity sector).

Direct interest holders and responsible entities for critical infrastructure assets are required to report interest and control information and operational information within six months from 11 July 2018. There are also ongoing reporting requirements for any changes to operational information. The Act also gives the Secretary of the Department of Home Affairs the power to obtain more detailed information from owners and operators of critical infrastructure assets.

Under the Act, the Minister for Home Affairs also has the power to give directions to an owner or operator of critical infrastructure in order to mitigate against a national security risk. The Ministerial directions powers can only be used if certain requirements are met – for instance, that there are no existing regulatory mechanisms that can be used to mitigate risk.

MATERIAL CHANGES TO NEW SOUTH WALES LEGISLATION

Electricity Supply Amendment (Emergency Management) Act 2017 (NSW)

This Act came into force on 23 November 2017 and introduces a new Part 7A into the *Electricity Supply Act 1995* (NSW). The Act came about in response to energy shortage issues during the February 2017 heatwave.

Under the new Part 7A, the Premier has the power to declare an 'electricity supply emergency'.

Where a declaration is in force, the Minister administering the Act may give directions that are reasonably necessary to respond to the emergency.

The Minister may also require any person to provide information in order to determine if supply has been disrupted, or to prepare and plan for future emergencies.

Electricity Supply Amendment (Transition to Metering Competition) Regulation 2017 (NSW)

This Regulation came into effect on 1 December 2017 and modifies the savings and transitional arrangements about the transition to digital or smart meters under the *Electricity Supply Act 1995*.

Under the Regulation, basic meter installations requested before 1 December 2017 will be subject to the historical requirements for customer connection services under Division 4 of Part 3 of the Act.

The Regulation also extends the obligation on metering providers to have a safety management system in place before installing a meter for a further 18 month period after 1 December 2017.

The Regulation also prohibits remote de-energisation and re-energisation of digital meters on a small customer's premises for an 18-month period from 1 December 2017.

MATERIAL CHANGES TO QUEENSLAND LEGISLATION

Electricity Legislation (Competition in Metering) Amendment Regulation 2018 (Qld)

This Regulation commenced on 26 January 2018 and amends the *Electricity Regulation 2006* (Qld) and the *National Energy Retail Law (Queensland) Regulation 2014* (Qld). The Regulation was drafted to align the Queensland regime with changes to the *National Electricity Rules and National Energy Retail Rules* which enhance competition in metering services.

The amendments adjust the Queensland regime to:

- update key terminology, such as definitions for specific terms related to metering
- align Queensland regulation with the new roles and responsibilities for metering.

Electricity (Voltage Limits) Amendment Regulation 2017 (Qld)

This Regulation amends the Electricity Regulation 2006 (Qld) and is intended to manage network voltage rise caused by the high penetration of rooftop solar PV systems in the network. The uptake in solar PV in Queensland creates challenges in keeping voltage levels within statutory limits.

The amendment regulation sets the standard voltage and voltage margin to reflect *AS 60038*, with a one-year transitional period.

From 1 July 2020, voltage margins will transition to those set out in *AS61000.3.100*. The effect of these changes is to lower the standard voltage level, increase the allowable voltage range and encourage the supply of electricity at voltages closer to the standard level (230 volts). This is designed to manage voltage rise by adjusting settings rather than relying on network augmentation.

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 several key rule changes in the last year:

a) ***Competition in metering and related services – effective 1 December 2017.***

In November 2015, the AEMC made a rule change to foster competition in metering and facilitate smart meter rollout.

Components of the reforms commenced from 2015 to allow for preparation for the key arrangements that came into effect in December 2017.

Following from the AEMC's *Power of Choice* review, the rule facilitates an open market approach to the deployment of smart meters to promote innovation and investment in metering services. Under the rule, any party is able to compete to provide metering services to retailers, subject to registration requirements.

The rule facilitates the commercial provision of services enabled by digital meters by creating a new registered participant, the Metering Coordinator. It imposes a range of obligations on the Metering Coordinator, including in relation to security of, and access to, smart meters.

It also makes other changes including, for example, the ability in certain instances to arrange remote disconnections and reconnections for customers.

b) Contestability of energy services – effective 19 December 2017.

The rule is designed to facilitate competition in the emerging energy services market – for example, battery storage technology. The rule introduces restrictions on DNSPs earning a regulated return on assets that are located ‘behind the meter’.

The rule also makes changes to the way in which the AER classifies distribution services, including requiring the AER to publish a service classification guideline.

c) Implementation of Demand Management Incentive Scheme (Scheme) – effective 10 April 2018.

In December 2017, the AER published its *Demand Management Incentive Scheme* which is designed to provide an incentive to DNSPs to undertake efficient expenditure on non-network options concerning demand management.

The rule change allows DNSPs to apply to the AER for application of the Scheme during their current regulatory control period.

d) Strengthening protections for customers requiring life support equipment – transitional arrangements from 1 February 2018, with full effect from 1 February 2019.

The rule amends the life support provisions in the *National Energy Retail Rules*. The rule change provides that customers will be entitled to life support protections from the time they first inform either their retailer or distributor that they need life support equipment.

The rule change also modifies the minimum requirements for retailers and distributors to register and deregister customers for life support protections. It also clarifies the roles of retailers and distributors in the registration, medical confirmation and deregistration processes.

e) NSW DNSPs Revenue Smoothing – effective 15 August 2017.

The rule is designed to minimise price volatility as a result of the AER remaking its 2015 NSW and ACT determinations for Essential Energy, Endeavour Energy and Ausgrid. The AER was required to remake its determinations after a decision of the Full Court of the Federal Court in 2017.

The rule will allow Essential Energy, Ausgrid and Endeavour Energy to recover changes in revenue entitlements in the 2014-19 regulatory control period over two regulatory control periods (the current period and the subsequent period).

Essential Energy’s 2015 distribution determination was remade by the AER on 14 March 2018. It allows Essential Energy to recover total revenues of $5.1 billion over the 2014-19 regulatory period.

f) Replacement expenditure planning arrangements – effective 18 July 2017.

The rule provides further clarity about information requirements regarding decisions to retire, de-rate and replace network assets.

In particular, the rule:

specifies that information on planned asset retirements and de-ratings in distribution networks is to be included in annual planning reports

extends the distribution regulatory investment tests to network replacement expenditure decisions

clarifies that annual planning reports must include information on investments in IT and communications systems related to managing network assets.

AER RING-FENCING GUIDELINE

On 17 October 2017, the AER published an updated version of the *Ring-fencing Guideline* (Guideline), made under the *National Electricity Rules*.

In general, ring-fencing is designed to separate legal, accounting and functional aspects of distribution services from other services that are provided by DNSPs.

Amendments to the Guideline were made to improve the clarity of certain terms and definitions and to address unintended consequences stemming from the previous drafting of the Guideline.

The amendments address issues including branding, emergency response, information disclosure, staff sharing registers, information sharing and obligations on contractors to DNSPs.

ACCC INQUIRY INTO RETAIL ELECTRICITY PRICES

On 16 October 2017, the Australian Competition and Consumer Commission (ACCC) released its preliminary report into retail electricity pricing. The ACCC’s inquiry concerns the supply of retail electricity and pricing competitiveness.

Although the inquiry is directed at retail markets, the ACCC’s preliminary report considers levels of the supply chain and analyses key elements of electricity bills.

The preliminary report indicates that on average across the NEM, network costs are the largest component of average household electricity bills, accounting for 48 per cent of the amount billed to residential customers in FY2015-16.

The ACCC published its final report in July 2018. The final report makes substantive recommendations to address affordability issues and barriers to consumers engaging with the market.

NSW ACCREDITED SERVICE PROVIDER SCHEME

In New South Wales, the *Accredited Service Provider (ASP) Scheme* regulates contestable works to facilitate connections to the network. The *Electricity Supply Act 1995* (NSW) requires contestable service providers to be accredited.

In December 2017, updated ASP Scheme Rules were released to align the scheme with digital meter requirements under the NER.

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

SOUTH WEST HELICOPTERS PTY LTD V STEPHENSON

In 2006, Parkes Shire Council (the Council) engaged South West Helicopters Pty Ltd (South West) to provide a helicopter and pilot to conduct a weed survey. During the survey, the helicopter struck a power line owned by Essential Energy and crashed. The pilot of the helicopter and the Council employees on board died in the accident.

Lengthy Court proceedings culminated this financial year, whereby in August 2017, the NSW Court of Appeal set aside liability attributed to Essential Energy by the court of first instance.

South West applied for special leave to appeal the Court of Appeal's decision to the High Court of Australia. This High Court application was refused in April 2018 in respect of the issues and liabilities relevant to Essential Energy.

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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

Contacts

TELEPHONE

Network general enquiries 13 23 91

Supply interruptions 13 20 80

Interpreter service 13 14 50 Available 24 hours a day, seven days a week.

Right to Information Officer (FOI) 13 23 91

WEBSITES

essentialenergy.com.au

essentialwater.com.au

ESSENTIAL ENGAGEMENT

engage.essentialenergy.com.au

EMAIL

info@essentialenergy.com.au

MAIL

PO Box 5730 Port Macquarie NSW 2444

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