essential energy

Resilient

power, people and communities

Annual Report **2019-20**

Contents

About this report

Essential Energy's Annual Report details financial, operational and safety performance for the 2019-20 financial year and has been approved by our Board of Directors.

The contents of this report comply with:

- *State Owned Corporations Act 1989*
- *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 39.

Cost for report production

The external cost to produce this report was $19,534 excluding GST.

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30 November 2020

The Hon. Dominic Perrottet MP
Treasurer
Member for Epping
GPO Box 5341
SYDNEY NSW 2001

The Hon. Damien Tudehope MLC
Minister for Finance and Small Business
GPO Box 5341
SYDNEY NSW 2001

Dear Ministers

SUBMISSION OF ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

We are pleased to submit Essential Energy's Annual Report, outlining financial, operational and safety performance for the year ended 30 June 2020.

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 Energy and Environment, the Minister for Water, Property and Housing, and other significant stakeholders.

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

Yours sincerely,

Doug Halley
Chair

John Cleland
Chief Executive Officer

From the Interim Chair

Robyn Clubb
Interim/Acting Chair
to 24 August 2020

Essential Energy is building a workforce that is adaptable to the changing industry, provides careers for people in regional, rural and remote communities and reflects diversity within these communities.

Over the past 12 months, extreme and widespread drought, the extended bushfire season and the COVID-19 pandemic have tested our resilience as a business, as well as the resilience of the communities we serve across regional, rural and remote New South Wales (NSW) and parts of southern Queensland. Essential Energy people worked together, and with partners, to maintain essential power and water services throughout – showing great commitment to the communities in which they live and work.

The devastating bushfires from September 2019 to February 2020, from the North Coast and Northern Tablelands to the South Coast and Snowy Mountains, caused significant damage to Essential Energy's network, resulting in power outages for more than 104,000 customers. In response, hundreds of employees worked in challenging conditions, over many months, to repair and rebuild the network, focusing on a safe, steady and sustainable response.

Immediately following the fires, COVID-19 brought new challenges as it dramatically changed how we live and work. Essential Energy responded well, prioritising the health and safety of employees, customers, communities and business partners and putting comprehensive COVID-19 protocols in place. Office-based employees shifted to working from home and the majority of field-based employees deployed from home.

These external events have had a significant impact on Essential Energy's financial performance, resulting in a net loss after tax of $55 million to the business.

Many regional communities were also suffering due to drought. Late-summer rain brought relief to some areas, however, much of the network area continues to be affected. In particular, Far West NSW remains in intense drought. Essential Water provides safe and reliable water supply to some of these Far West communities, with Broken Hill customers being serviced by the recently commissioned pipeline from the Murray River. Rainfall in the upper catchment of the Darling River meant Menindee's water could be sourced from the river from May 2020, following five months of bore water supply.

The energy industry continues to evolve rapidly, with advancing technologies and increasing investment in and supply from renewable energy sources. Customer expectations are also changing, with an increasing desire for easy and timely access to information and ongoing demands for affordability. In this context, Essential Energy is transforming into an energy company for the future.

The whole-of-business Transformation Program is central to delivering Essential Energy's Corporate Strategy, with good progress made during 2019-20 despite the operational challenges from bushfires and COVID-19. Improvements will range from using risk and value to prioritise network maintenance for more efficient field operations, to modernising asset and data management systems to enable better decision making, as well as improving cybersecurity capabilities to protect Essential Energy's critical infrastructure.

The implementation of Enterprise Resource Planning and Enterprise Asset Management systems will position Essential Energy for the future and help the business to achieve its strategy to deliver our vision of empowering communities to share and use energy for a better tomorrow.

Essential Energy is also building a workforce that is adaptable to the changing industry, provides careers for people in regional, rural and remote communities and reflects diversity within these communities. Winning the 2019 Australian Apprenticeships – Employer Award at the Australian Training Awards was tremendous industry recognition for the Apprenticeship Program. Our current cohort of 124 Apprentices live and work in more than 50 communities across NSW.

As part of building a workforce for the future and continuing to deliver real reductions in network charges, workforce reshaping activities commenced in July 2019. These were put on hold from August 2019 by a NSW Government Direction pursuant to the State Owned Corporations Act. Essential Energy continues to work with the Government to ensure it can continue to deliver real reductions in network charges.

The past year demonstrates that Essential Energy is well placed to keep delivering as an organisation and helping regional, rural and remote communities to thrive. Thank you to all employees for their continued dedication.

I would also like to welcome to Essential Energy's Board, our new Chair, Doug Halley and two new directors, The Hon. Duncan Gay and Vanessa Sullivan, who joined us on 25 August 2020.

Robyn Clubb
Interim/Acting Chair
to 24 August 2020

Commitment to **communities**

From the CEO

John Cleland
Chief Executive Officer

> "Reflecting on an extraordinary year, I would like to express my huge gratitude to Essential Energy employees, customers, suppliers and stakeholders."

The 2019-20 bushfires wreaked havoc for six months, necessitating a massive, organisation-wide response. Repeated logistical feats were required to restore power to customers safely and quickly, with employees from all parts of the business working hard to sustain the effort. At the height of the response, more than 540 employees were directly involved, including more than 470 on the ground. Importantly, none of our team members were injured during the response, which is a testament to everyone's diligence and focus on the task at hand. I am extremely proud of the men and women of Essential Energy who worked hard to safely restore power to bushfire affected customers and communities.

Immediately following the bushfires, the COVID-19 pandemic rapidly changed our ways of working. Once again, I am immensely proud of Essential Energy's employees for their ability to adapt quickly and positively, to ensure we continued to meet the requirements of our customers for safe, reliable and affordable power and water supplies. Our initial response required a rapid stop to all planned network maintenance, while we developed comprehensive COVID-19 safety protocols and risk assessment tools. With these in place, we scaled up network maintenance, returning to full capacity in May and June 2020. Fault and emergency work continued throughout, with COVID-19 safety restrictions and mitigations in place. Our office-based employees shifted to working from home and the majority of field employees deployed from home. This transition was smooth, due to the wonderful efforts of employees and the investment in recent years to improve the strength and reliability of our information and communications infrastructure.

Safety is always our number one priority and our employees are empowered to 'make safety their own'. Improved safety performance during 2019-20 reflects a stronger safety culture and the sustained efforts of all employees. Lost Time Injury Frequency Rate and Total Recordable Injury Frequency Rate both performed better than target. However, a serious safety incident in Port Macquarie on 9 December 2019, with an explosion injuring two employees, highlighted that we all need to stay focused on safety each and every day. The injured employees recovered well and returned to work in January 2020.

Alongside physical safety, our employees' mental health and wellbeing is also a priority. During 2019-20, we engaged the Centre for Rural and Remote Mental Health to review our workplace mental health initiatives and inform the development of a new Mental Health Strategy.

We commend our **people**

'Ignite', our health and wellbeing program for all employees, focused on mental health first response and stress management, and online 'Health at Home' sessions were introduced to help employees whilst working from home. Mental health and wellbeing are a particular and ongoing area of focus throughout the COVID-19 period.

As an economic enabler for regional NSW, Essential Energy plays a key role in the State's economy. Our employees are local people, who work and live in 100 communities right across NSW. We are working hard to continue to drive network charges down, while maintaining safety and reliability. In real terms, our network charges for a typical residential customer have decreased by 40 per cent since the peak of network charges in 2012-13, and by 43 per cent for a typical business customer. By 2023-24, our charges are forecast to fall by a further four per cent for residential customers and six per cent for business customers. These reductions are estimated to deliver a cumulative benefit of more than $7 billion to regional NSW over the period from 2012-13 to 2023-24.

Unforeseen events significantly impacted the financial performance with a net loss after tax of $55 million, against a budgeted loss of $25 million. These events included the NSW Government Direction, bushfires, COVID-19 and a provision for rectification of master-subtractive meters. This resulted in an unfavorable impact to operating expenditure of $37M. Additional unfavorable impacts to financial performance included lower Network Revenue of $25 million and capital project write downs of $23 million. This was offset by a favorable reduction in the interest expense of $14 million due to lower interest rates.

The Return on Capital Employed is 3.1 per cent which is 0.7 per cent below budget. The estimated underlying result was a net loss after tax of $34 million.

The regulatory framework permits cost recovery for specific categories of events and we are preparing to apply to the Australian Energy Regulator for a cost pass through to enable recovery of funds through future network charges.

Our Corporate Strategy was updated during 2019-20. It continues to provide strong direction to the business, however changes were made to address our changing operational context. Specifically, we added a new sustainability business objective and greatly expanded our focus on the resilience of our network. Over the coming year we will focus on what resilience means for our network planning and design, our field operations and our customers. Related to this, we also committed to accelerating our capabilities in Stand-Alone Power Systems deployment and Microgrids, as well as building our Distributed System Operator capability. We also put more focus on improved customer outcomes via our Customer Experience Strategy, which we will be implementing over the coming 12 months.

Our business-wide transformation program is fundamental to achieving real reductions in charges and improved operational performance for the benefit of our customers. Improvements delivered in 2019-20 included: automated real-time power outage information for customers when they call our Contact Centre; selection of an Enterprise Resource Planning system, for more efficient 'back office' operations and customer-centric processes; as well as improved cybersecurity threat detection to better protect our critical infrastructure. Many more improvement projects commenced in 2019-20 and will deliver benefits in 2020-21 and beyond.

The past 12 months also saw our first Energy Charter Disclosure Statement, highlighting ways in which we are putting customers at the centre of our business, along with areas for improvement. With the Energy Charter entering its second year, it is pleasing see the many ways in which the signatory businesses from across the energy supply chain are working together to deliver improvements in the energy system for all Australians.

There is no doubt that 2020-21 will bring new challenges, including the ongoing COVID-19 crisis. Essential Energy is well positioned to respond with strength and resilience, as we continue to transform into an energy company for the future and stay focused on providing customers and communities with safe, reliable and affordable power and water supplies.

John Cleland
Chief Executive Officer

About us

Empowering communities to share and use energy for a **better tomorrow.**

Our core business is operating and maintaining one of Australia's largest electricity networks, across 95 per cent of NSW and parts of southern Queensland, including 183,612km of powerlines traversing 737,000 square kilometres of landmass. Serving more than 865,000 customers – homes, hospitals, schools, businesses and community services – Essential Energy is an economic enabler for regional, rural and remote communities. We aim to continuously improve safety performance for employees, contractors and the community, along with the reliability, security and cost efficiency of the network, while striving to maintain downward pressure on customers' network charges and deliver an acceptable return on capital employed.

Our vision is to be 'empowering communities to share and use energy for a better tomorrow' and we do this by 'enabling energy solutions that improve life'. We maintain a safe and reliable network today and are implementing a whole of business transformation program to ensure we continue to meet customers' and communities' needs into the future.

Our values set the parameters for how we behave, with our customers and with each other. They inform our decisions and how we do our work. All employees are enabled and encouraged to: make safety their own; be easy to do business with; make every dollar count; be courageous, shape the future; and be inclusive, supportive and honest.

Our business objectives drive our decisions every day. In 2019-20, we added a new objective, focused on environmental sustainability. To achieve this objective we will improve our understanding of Essential Energy's environmental footprint and make decisions to improve the sustainability of our operations.

Our Vision

- Empowering communities to share and use energy for a better tomorrow

Our Purpose

- Enabling energy solutions that improve life

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
- Reduce the environmental impact of Essential Energy where it is efficient to do so

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

>865,000
electricity customers

10,500
water customers

9,700
sewerage customers

95%
of NSW and parts of southern Qld – covering 737,000 km^2

5.1
customers per km of powerline – the lowest customer density in the National Electricity Market

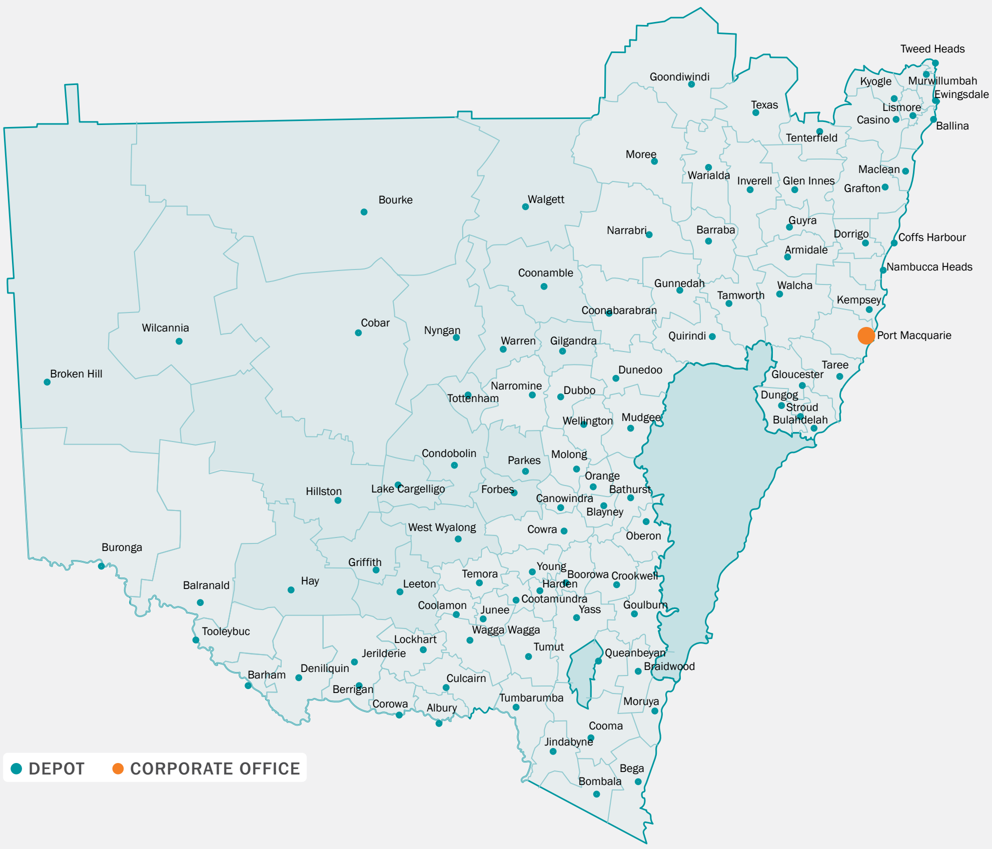
183,612km
of overhead powerlines – equivalent to driving around Australia 13 times

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

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

36 years
average age of network assets

163,417km
of powerlines in designated bushfire zones



377
zone substations and 140,000 distribution substations

3,000
employees

124
apprentices with 31 appointed in 2019-20

The geographic spread of our network, and absence of large urban areas, sets Essential Energy apart from other electricity distributors. We have about one-third the number of customers per kilometre of powerline compared to the average customer density across the National Electricity Market. This means we require more poles and wires to reach customers than other networks, which significantly impacts the cost to serve our customers. Relatively sparsely populated networks also provide significant logistical and economic challenges for achieving reliability and service quality targets.

Despite these geographic challenges, we are working hard to drive down network charges, while maintaining safety and reliability.

In real terms, our network charges for a typical residential customer have decreased by 40 per cent since the peak of network charges in 2012-13, and by 43 per cent for a typical business customer.

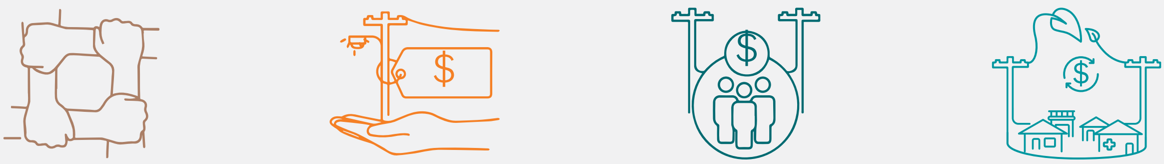
By 2023-24, our charges are forecast to fall by a further four per cent for residential customers and six per cent for business customers. These reductions are estimated to deliver a cumulative benefit of more than $7 billion to regional NSW over the period from 2012-13 to 2023-24. At the same time, the reliability of supply of Essential Energy's network has remained relatively stable over the past decade and is approximately 20 per cent improved compared to 15 years ago.

In the Far West of NSW, our operating division Essential Water services a population of approximately 18,000 people.

A secure water supply is delivered to around 10,500 customers in Broken Hill, Menindee, Silverton and Sunset Strip, as well as rural customers. Reliable sewerage services are provided to around 9,700 customers in Broken Hill. Essential Water operates a network of dams, water treatment plants, sewage treatment plants, reservoirs, water and sewage pumping stations, mains and related infrastructure. A new pipeline to supply water to Broken Hill from the Murray River at Wentworth was commissioned by WaterNSW during the year. Consultation is underway with rural customers for the design and construction of a new smaller pipeline between Menindee and Broken Hill pipeline, to ensure reliable long-term supply for rural customers.

Corporate Strategy

Our Corporate Strategy provides clear direction on what we need to achieve over the next five to ten years. It has four pillars, with a focus on strengthening the core business:



PILLAR 1 | Strengthen the core business	PILLAR 2 | Realise the full value of our network resources	PILLAR 3 | Maximise the value of being connected to the grid	PILLAR 4 | Deliver energy to customers in new ways
a. Improve safety b. Accelerate operational transformation: improve customer service delivery, simplify processes and therefore reduce costs c. Modernise technology platforms and build advanced data analytics and asset management capabilities d. Develop the capability of our people e. Improve information capture to enable risk-based asset management and more efficient network response f. Plan, design and manage the network to integrate new distributed generation and storage technologies, and improve the resilience of the network	a. Commercialise selected network assets – poles, streetlights, controlled load and optical fibre b. When transformation is well advanced, consider 1-2 new competitive lines of business where it supports the core c. Achieve full value potential from the existing regulatory framework	a. Maintain grid reliability b. Improve value proposition to renewable generators c. Partner with energy players to push whole-of-system optimisation and influence customer behaviour d. Develop ability to price and transact DER services in markets e. Package and price our services to be attractive and to signal the right incentives	a. Improve network economics in high cost areas via Stand-Alone Power Systems, Microgrids and community solar b. Grow internal capabilities and partnerships on flexibility solutions to maintain grid stability (e.g. network batteries) c. Monitor trends and proactively adapt

Fundamental to our strategy delivery is our enterprise wide transformation program that will update our core information technology systems and implement a range of customer-focused operational improvements. Future Resilience (page 26) provides further details.

Strategy progress

During 2019-20 we made significant progress against the four pillars of the strategy.

We have begun to more effectively commercialise our network assets through a number of strategies. This has included the establishment of dual-use arrangements, such as hosting telecommunications assets.

We are disposing of non-core legacy assets, with the sale process for the Broken Hill Gas Turbines underway. We have also developed a Service Target Performance Incentive Scheme (STPIS) Strategy, to maximise our performance for network reliability and Customer Contact Centre operations.

To better support our ability to manage Distributed Energy Resources (DER) assets on our network, we have developed a prototype Low Voltage Network Visibility platform, including data from smart meters, network sensors and National Broadband Network (NBN) nodes. This is an important first step in preparing for the network of the future, managing high penetration of customer DER and developing Distribution System Operator (DSO) capabilities. Elements of this are also discussed in Future Resilience (page 32).

To build network resilience against bushfire and storm risks and improve our ability to respond quickly when these events occur, following the devastating South Coast bushfires we deployed six emergency Stand-Alone Power Systems (SAPS) for residential customers and three SAPS to power communications towers used by ten commercial customers. The SAPS were loaned from Base Power Ltd (a subsidiary of Powerco Ltd in New Zealand) and from the partnership of Tesla, 5B and the Resilient Energy Collective. Lessons from these emergency installations will inform our future SAPS planning, with more trials planned for 2020-21.

Strategy refresh

To ensure our Corporate Strategy remains fit for purpose, it was updated in February 2020, by reviewing external influences and assessing impact on Essential Energy – including the environmental landscape, consumer and stakeholder expectations, the regulatory environment, competitors, and technological advancements. Changes within our business were also considered, to ensure we can safely and effectively deliver improvements.

Important updates to the strategy included:

- Addition of the fifth business objective – ‘reduce the environmental impact of Essential Energy where it is efficient to do so’ – to explicitly include our commitment to sustainability. We will work to better understand our current environmental footprint and make investment decisions to reduce our emissions and other environmental impacts where it is cost effective to do so
- New focus on network resilience, including planning, designing and managing our network to integrate new distributed generation and storage technologies, and including resilience in our planning for natural disasters
- Accelerated work on our capabilities for Stand-Alone Power Systems and Microgrids, especially as a deployment option during major events
- Greater focus on building our Distributed System Operator capability, to support emerging markets for energy services, including pricing and tariff structures. This will enable us to better support the energy transition by improving our ability to provide a platform for distribution level markets, including improving network visibility and our understanding of constraints
- Development and implementation of our Customer Experience Strategy, to improve customer outcomes, through clear expectations for what it means to put customers at the centre of our business (see page 23 for more about this strategy).

Factors influencing our strategy refresh

Environmental and political

- Worsening natural disasters
- Disadvantaged rural customers
- NSW Government Direction
- Network resilience

Customers and stakeholders

- Changing customer expectations
- Industry collaboration
- Sustainability imperative

Regulatory

- Government-backed transmission investment
- New compliance obligations
- Increased interest in the role of the DSO

Competitors

- Solar PV and batteries penetration
- Blurring of energy system roles
- Generator/ Retailer diversification
- Availability of non-regulated revenues

Technology

- Electric vehicle uncertainty
- Commercial/ Industrial customer load defection
- Affordable storage technologies
- Digitisation and digitalisation

Our year of resilience

Maintaining a safe and reliable network during COVID-19

As an essential service provider to communities across 95 per cent of NSW and parts of southern Queensland, with employees living and working in these communities, it was vital that Essential Energy responded quickly and safely to the COVID-19 crisis. From the outset, our response focused on three key objectives:

- protecting the health and wellbeing of our employees, contractors, suppliers and their families
- minimising the risk of our workplace being a potential source of infection into the broader community
- maintaining the safety and reliability of our electricity and water networks.

110
employees tested for COVID-19 from March to June

0 employees
tested positive from March to June

900+
peak field-based employees starting or working from home

3,650+
customers and retailers supported financially from March to June

1,318
planned outages completed in June

1,084
fault and emergency jobs completed in June

A pandemic response group was created in March 2020, with Senior Leaders from all areas of the business meeting regularly to ensure a coordinated whole-of-business approach to the crisis.

Protocols were developed and implemented to minimise physical interactions between employees, including working from home wherever possible. Field teams deployed from home, with daily ‘toolbox talks’ via videoconference rather than in-person at depots. Remote access technologies also enabled our vital System Control team to work from home as needed and our entire 24/7 Customer Contact team to operate from home.

Our initial operational response had three phases:

- **React** – postpone work to keep our workforce and communities safe
- **Respond** – develop COVID-19 protocols to enable essential work to proceed safely
- **Reprioritise** – prioritise work tasks to ensure the most critical work was completed first, followed by a focus on maintaining safe and reliable supply to critical infrastructure including hospitals.

As an immediate response to the rapid escalation of the crisis, in the week commencing 16 March 2020, 700 planned outages were postponed. Crews continued to respond to fault and emergency work. COVID-19 Pandemic Operating Protocols were developed for field-based employees, along with risk controls and a response matrix. A quantitative risk tool was also developed, to support the process of assessing network activities, to decide whether they should continue, be deferred or modified. These measures and tools enabled our teams to assess risks and plan and safely execute work. With the application of controls, planned outages resumed with a focus on minimising impact on our customers, using initiatives such as single point isolation during outages to reduce the number of customers affected.

A careful and staged approach meant that by May and June the number of planned outages per week returned to a level consistent with that achieved prior to COVID-19 and bushfire scenarios.

With the ongoing pandemic, we are continuing to risk assess all works and operate according to our COVID-19 protocols. These are regularly updated to reflect current government and health agency recommendations. We continue to prioritise activities to ensure the supply of safe and reliable power and water to our customers. Where necessary, non-critical projects are being postponed.

We also took action early to mitigate risks to our operations from disruptions to our supply chain. Identifying approximately 40 critical suppliers that represented strategic risk in terms of ongoing business continuity, we engaged with these businesses to understand ongoing supply capacity. We also communicated with our entire supply base of 3,400 businesses to identify supply chains impacted by COVID-19. We committed to standing by our suppliers during the crisis, with our approach guided by two principles:

- continue to support our existing supply base where continuity of supply can be assured
- use contract extensions and renewals as the preferred approach to ensure supply continuity rather than retendering, subject to appropriate diligence.

These actions positioned Essential Energy well, with early and meaningful feedback from suppliers leading to practical and measured responses to mitigate supply risk. The processes remain in place and have been supplemented by business continuity plans from critical suppliers.

Further information about our COVID-19 response is provided in Resilient People (page 18) and Enabling Resilient Communities (page 22).

2019-20 bushfire crisis

The unprecedented bushfire crisis of 2019-20 had a major impact on the communities we serve as fires devastated homes, businesses and large parts of the electricity network. From September 2019 to February 2020 fires in northern and southern NSW caused power outages for more than 104,000 customers, burnt 3.4 million hectares within our network area and destroyed more than 3,200 power poles and 4,500 cross arms.

Restoring supply to customers and repairing the damage to our infrastructure was a mammoth effort, with employees from across our business working hard over the six-month period to restore power to customers safely and quickly. At the height of our response, more than one third of our field workforce and heavy fleet were deployed to the South Coast of NSW to rebuild the damaged network. This large operational effort required new ways of working to ensure our frontline teams were supplied with food, accommodation, materials, fuel and the necessary information to safely carry out their tasks. Most importantly, none of our team were injured throughout the response, demonstrating an excellent focus on safety in challenging environments.

3.4M ha
affected by fire

3,200+
power poles damaged

4,500
cross arms damaged

22,500+
hazardous trees made safe

104,000+
customers affected by power outages

0 injuries
throughout response

470+
peak crew on the ground

540+
peak employees involved in the response

90+
peak Elevating Work Platform (EWP) fleet

425+
peak light fleet

150+
peak heavy fleet

Throughout the effort we worked closely with the NSW Rural Fire Service (RFS) to gain safe access to fire-affected areas to assess damage and clear damaged network assets from major roads, to ensure they could safely reopen for public use. Our priority was safe and steady power restoration, particularly for critical community services including hospitals, water pumping stations, nursing homes and petrol stations. We also worked with the RFS and other authorities to provide alternative power generation to emergency centres and critical infrastructure. Some of our employees were deployed to local Emergency Operation Centres and the State Operations Centre, enabling direct interaction with incident controllers and the sharing of intelligence with response personnel.

We also collaborated with other utilities, and deeply appreciate their support. Prior to the commencement of the bushfire season, we were well prepared with significant stocks of power poles. With more than 3,200 poles destroyed by fires, this proved to be invaluable. We were also able to provide poles to other utilities, including Endeavour Energy, who also faced unprecedented bushfire damage. In turn, Endeavour Energy provided crane borers to supplement our South Coast network rebuild. Ausgrid provided High-Voltage generators that we deployed to support critical infrastructure.

The bushfire crisis provided an opportunity to rethink network resilience, particularly for power supply in remote and regional areas. Trial Stand-Alone Power Systems were deployed to a number of bushfire-affected customers as part of the response, avoiding the need to reconstruct vulnerable and expensive overhead poles and wires. Network resilience will be further enhanced by our ongoing investment in composite poles in fire prone areas.

Stand-Alone Power Systems bushfire response

Our response to the South Coast bushfires included deploying six emergency Stand-Alone Power Systems (SAPS) for residential customers and three SAPS to power communications towers used by ten commercial customers, including the Rural Fire Service, Police, National Parks and Wildlife Service, Roads and Maritime Services and telecommunications companies. The SAPS included solar arrays, batteries and backup diesel generators. They were loaned from Base Power Ltd (a subsidiary of Powerco Ltd in New Zealand) and from the partnership of Tesla, 5B and the Resilient Energy Collective. The systems were installed in remote areas where our network was severely damaged by the fires, providing customers with safe and reliable power while we undertook planning to determine the best way to service these customers into the future. Network service challenges for the selected sites included: heavy vegetation with high bushfire risk; long network spurs servicing only one or two customers; difficult site access, particularly following storms or floods; with associated reliability issues. Lessons learned from these emergency SAPS will inform planning for the possible use of SAPS in other remote areas of our network, in emergency and non-emergency situations, for safer and more reliable and cost-effective power supply.

The total financial impact of the fires on Essential Energy is estimated to be in range of $54 million to $88 million. The actual costs incurred were $54 million with future projected costs of up to $34 million. Costs were incurred to complete rectification works on our network assets and for removal of vegetation hazards. The Service Target Performance Incentive Scheme (STPIS) for 2019-20 was negative $16 million. STPIS was significantly impacted by the bushfires.

To contribute to learnings from the crisis we provided submissions to the 2019-20 NSW Independent Bushfire Inquiry and the Federal Government Royal Commission into National Natural Disaster Arrangements.

Further information about our bushfires response is provided in Enabling Resilient Communities (page 22).

Network maintenance

Building, operating and maintaining one of Australia's largest electricity distribution networks requires a significant operational program, to monitor the health of network assets, undertake preventative maintenance and respond to faults and emergencies. The bushfires and COVID-19 crisis greatly impacted our program in 2019-20, resulting in rescheduling of planned works. During the bushfires, resources were focused on repairing damaged assets. During the COVID-19 crisis, all works were risk-assessed to consider the health and safety of our employees and customers as well as the priority of the work, with strict COVID-19 protocols employed during all works. Despite these major interruptions, most planned maintenance works were completed during 2019-20, demonstrating our teams' dedication and commitment to maintaining a safe and reliable power supply.

Asset inspection:

309,220 power pole inspections (98 per cent of the target 314,000 inspections)

7,869km of powerlines inspected via aerial inspections

13,852 drone active flights

79,159 inspection photos taken

Vegetation management:

12,010 hazard trees remediated

650 powerline spans treated for vegetation for bushfire inspection

275,642 powerline spans with vegetation removed (compared to 263,709 last year)

Maintenance and fault and emergency:

11,696 planned outages (down from 12,684 last year)

24,950 unplanned outages (down from 29,406 last year)

20,756 cross arm replacements (up 6% on last year)

8,322 zone substation maintenance work tasks (target 9,348)

4,088 service mains tasks (target 4,036)

422 construction milestones (target 507)

1,342 distribution substation preventative maintenance work tasks (target 1,401)

Meter reading:

97% of meter reads to schedule (target of 100%)

Fleet:

284,216 pre-operational fleet inspections

Capital Works Program

Delivery of the 2019-20 Capital Works Program was heavily impacted by the bushfires and COVID-19. As a result, impact assessments and subsequent readjustment of works delivery plans were put in place to ensure the highest priority capital works were delivered, in terms of value and reduction of risk. Approximately $19.7 million of capital work was directly impacted by the loss of resources to the bushfire response. Displaced works will be executed during 2021-24. Following the reviews and adjustment to the works program, a new target of 70,389 work tasks was set for 2019-20, a net reduction of 3,756 work tasks. A total of 69,515 work tasks were delivered against this target, yielding a final delivery position of 98.7 per cent.

Helping Ausgrid restore power to storm-affected Sydney customers

The cyclone-like storm that lashed Sydney in late November 2019 caused extensive damage to the Ausgrid network and left 52,000 homes without power. To help Ausgrid restore power to their customers as quickly as safety allowed, approximately 60 Essential Energy employees travelled to Sydney to lend a hand in the week following the storm. Crews and leaders travelled from as far away as Goondiwindi in the north and Berrigan in the south, and many places in between. They took with them 16 Elevating Work Platform (EWP) vehicles, 13 line trucks, six utes and one borer/jinker. It was a great demonstration of how we serve and support communities right across NSW and parts of southern Queensland – in this case our friends in the city. A safe, steady and sustainable approach led to an incident and injury free response effort.

Major Projects

Description	Before 2019-20 (inc. overheads) (direct project $)	2019-20 (inc. overheads) (direct project $)	Total Cost (inc. overheads) (direct project $)	Completion date
Tumut Zone Substation replace/refurbishment	$4,293,642	$225,494	$4,519,136	June 2020 [1]
Nyngan 132kV Transmission Station refurbishment	$4,844,001	($865) [2]	$4,843,137	March 2020

1. Investment close out finalised in July 2020 although all works practically complete in 2019-20.
2. Finalisation of accounts occurred in 2019-20 resulting in reduction in investment expenditure.

Two Major Projects were completed during 2019-20, delivering increased capacity and reliability for more than 10,000 customers. Major Projects are internally funded electricity system investments with total direct costs exceeding $1M.

The refurbishment of the Tumut Zone Substation was required as disconnectors, circuit breakers and power transformers had reached their end of life, creating reliability issues for 4,372 connected customers. The Zone Substation was originally constructed by Electricity Commission of NSW in the mid-1950s, refurbished in 1969 and augmented by Tumut River County Council in 1992.

The Nyngan 132kV Transmission Station supplies 66kV to four zone substations for the towns of Nyngan, Byrock, Bourke and Cobar. It was originally constructed in 1968 by Electricity Commission of NSW. It also supplies 132kV to three mining customers on the outskirts of Cobar and the AGL owned 105MW Nyngan Solar Farm.

The project replaced nine 66kV and five 132kV oil filled circuit breakers with SF6/CO2 circuit breakers, reducing potential safety issues at site for workers and increasing reliability for customers. The project also replaced the power and instrument transformers, increasing capacity and reliability for the 6,499 customers supplied through the transmission station.

The 2018-19 Annual Report stated the project to refurbish 15km of 33,000-volt powerline between Casino and Mallanganee was planned to be completed by the end of 2019. This project was impacted by resource constraints due to the bushfires response and COVID-19. Stage 1 of the project is now scheduled to be completed in November 2020.

Renewable connections continue to grow strongly across the Essential Energy service area. During 2019-20, four solar farms connected to our network, at Dareton (Dareton Solar Park 2.8MW), Goondiwindi (Chillamurra Solar Farm 3.6MW), Wenna (Kanowna Solar Farm 4.99MW) and Nevertire (Nevertire Solar Farm 105MW).

Vegetation management

The planned Vegetation Management Program saw more than $113.7M spent on inspecting more than 73,000 km of network and trimming approximately 690,000 trees to mitigate network and public safety risks related to vegetation impacting the network. This is in addition to the vegetation management work done in response to the 2019-20 bushfires.

A new Vegetation Management Strategy is being developed and is focussed on delivering significant efficiencies and lower vegetation management expenditure, while maintaining network reliability and safety. It will: introduce a risk-based approach, to ensure more effective prioritisation and value for money in how we treat vegetation; develop longer term collaborative relationships with vegetation management suppliers; involve working closely with local councils to remove incompatible trees in urban areas; and adapt our vegetation treatment cycles to better align with known bio-regions and vegetation growth.

Bushfire preparation

The 2020 pre-summer Bushfire Inspection Program began in February 2020 and was completed by the end of June 2020. It involved the inspection of more than 130,000 power poles across more than 14,000 km of network – mostly aerial, supported by a ground patrol in higher density areas. This work forms an important part of our yearly Bushfire Preparation Strategy, to ensure the network in Priority 1 bushfire zones is in sound condition prior to the bushfire period start date of 1 October each year. This preparation complies with IPART requirements. In 2019-20, 84,808 poles were inspected across more than 15,000 km of network. All 1,211 vegetation defects and 223 asset defects were completed ahead of the 1 October 2019 deadline. This year's compliance program is on track to meet the 1 October 2020 deadline.

During 2019 Essential Energy was directed by IPART to conduct an external audit of its safety management system in relation to management of bushfire risk from the network. The auditor found that the implementation of controls to manage the risk of ignition due to network assets was robust and well managed, and that the implementation of the vegetation initial cut to ISSC3 is ahead of plan (ISSC3 being the Industry Safety Steering Committee Guideline for Management of Vegetation in the Vicinity of Electricity Assets). The auditor identified a non-material non-conformance relating to the review of high voltage customers installation safety management plans. Essential Energy has developed and implemented remedial actions to address this non-conformance.

To provide long-term direction for bushfire risk management, the Essential Energy Bushfire Prevention Strategy was recently endorsed. It defines objectives and considers network technical interventions and non-network interventions such as people, process, data and system improvements. Implementation of the strategy will take place over the coming five years.

Field operations improvements

A number of improvements to the management of field operations were delivered during 2019-20.

Crews started using digital task sign off and data capture, via our Field Portal iPad and iPhone app, reducing manual and paper-based processes and providing greater real-time visibility of tasks completed. In the first month of deployment, 92 per cent of all tasks available to be actioned in the Field Portal were completed using the device, rather than paper. The app enables automatic completion in the asset management system for tasks not needing data capture (more than half of all tasks), as well as real-time task reporting, with fewer data errors and unprocessed tasks.

We are streamlining our inventory supply chain by refitting all 23 regional stores that hold the full range of inventory for planned and unplanned outages, and implementing a mobile technology solution. All fault and emergency stock and work pack stock are being brought together under one roof, providing field teams with a one-stop-shop for stock. The mobile inventory solution enables teams to scan inventory in and out using iPads and iPhones, for real-time and transparent inventory holdings. By September 2019, the regional stores at Taree, Dubbo, Coffs Harbour, Grafton, Ballina and Tweed Heads were fully refitted and the mobile inventory solution implemented. The work was then put on hold due to the bushfires and COVID-19, recommencing in July 2020 for the remaining 17 regional stores.

A high-level works prioritisation tool was developed to ensure efficient prioritisation of tasks, for individual depots through to the whole business. Scenarios for significant events can be modelled, and differing resource types, such as overhead and underground work, can be identified, along with 'non-outage' work packs. The tool assisted with managing the backlog of tasks in the Planned Works Program due to the impact of the bushfires and COVID-19.

Following successful use of drones by Asset Inspectors over recent years, a drone training program for all Asset Inspectors is underway, with 70 inspectors trained and issued with drones to date and the entire team to be trained and equipped by the end of 2020. Asset photographs from drones allow the compilation of complete asset datasets. Future developments may include machine learning, allowing automated flight and automatic identification of asset defects.

A Network Asset Health Catalogue was developed during 2019-20, bringing greater consistency to asset inspection information and significant savings for defect rectification planning.

Streetlights

Public lighting plays an important role in providing safe, secure and attractive public areas for both pedestrians and vehicles. Essential Energy is responsible for the maintenance and billing of around 160,000 streetlights for 86 local government councils across NSW and parts of southern Queensland.

We are working closely with councils on a Bulk Replacement Program (BRP) to upgrade lights to more energy efficient and cost-effective LED lights. During 2019-20, LED lamps were installed on more than 38,000 streetlights. By the end of June 2020, 41 per cent of Public Lights in our network had been upgraded to LED, with the aim of achieving 100 per cent LED across our footprint by the end of 2023-24. LED lights typically reduce running costs for councils by 40 to 50 per cent.

NSW Department of Planning, Industry and Environment supported our BRP by funding high residual costs associated with upgrading lights to LEDs that were yet to reach the end of their asset life, reducing the financial barrier to councils opting to participate in the program. Councils are also receiving Energy Saving Credits (ESC) when lights are upgraded to LED. At minimum ESC levels, the savings to date for councils are nearing $2.5M for just under 50,000 lights. To further improve our service, billing was streamlined during 2019-20, with councils billed monthly for the BRP, rather than upon completion.

Live Line work review

From 15 June 2020 the temporary suspension of High Voltage (HV) Live Line and restrictions on Low Voltage (LV) Live Line work were both lifted. These had been in place since April and May 2019, following serious safety incidents on the Ausgrid and Essential Energy networks. The decision to resume Live Line work was made following extensive reviews of HV and LV Live Line work practices. Before returning to Live Line work employees must receive a licence for HV or LV Live Line work, by completing a verification of competency assessment, attending leader-led sessions on work practice changes, and completing online training. Live Line work recommenced from 15 June 2020 and is expected to be fully implemented by the end of 2020. Safe Live Line work enables important network maintenance to be undertaken without interrupting customers' power supply.

Essential Water

Our Essential Water customers have endured four years of drought. Since April 2019, Broken Hill customers have been well serviced by the water supply via the pipeline from the Murray River, with only Level 1 water restrictions in place as of 30 June 2020. Menindee customers were supplied with bore water for approximately five months from December 2019, with Level 3 restrictions, due to historically low water supplies in the Darling River. Rainfall in upper catchment areas resulted in Menindee's water source returning to the Darling River in May 2020, with restrictions moving to Level 1. Essential Water is currently consulting with rural customers for the design and construction of a new smaller pipeline along the route of the existing Menindee to Broken Hill pipeline, to ensure reliable long-term supply for rural customers.

Local rainfall has been well below average for many years which has led to minimal inflow into the water storage reservoirs which are currently all below one per cent capacity. Given Broken Hill and Menindee now have two separate sources, and the water supply to Broken Hill is very secure, future drought preparation will be constructed in two separate strategies – one for Broken Hill and one for Menindee.

As at 30 June 2020, water availability in both the Darling River and Murray River was both very reliable and of consistent quality.

IPART sets and regulates Essential Water's prices to ensure fairness for customers while allowing the business to recover costs and generate a return that is sustainable for the community. The 2019-22 revenue determination commenced on 1 July 2019 and is based on the NSW Government's commitment that prices would not rise above inflation over the period as the result of the Murray River to Broken Hill pipeline project.

The determination removed capital and operational funding which will delay the replacement of the 1939 Wills Street sewerage treatment plant, as well as several smaller capital works projects, and requires Essential Water to make $1.3 million in operational savings. Some of the operational savings will be realised from estimated reduced pumping and chemical treatment costs due to the Murray River water supply.

Total consumption of potable and raw water for 2019-20 was 6,470 ML – an increase of 211 ML (3.4 per cent) compared to 2018-19. This total contained 4,946 ML of potable water and 1,524 ML of raw water, with the consumption of potable water declining by 4.5 per cent compared to 2018-19.

Essential Water's 2019-20 works program included:

- renewal of 731 m of water mains
- cleaning and rodding 21,417 m of sewer mains
- sewer blockages up by 25 per cent, from customers putting unsuitable materials into toilets due to COVID-19 related toilet paper shortages
- callouts up by 25 per cent, due to sewer blockages and a significant increase in burst main pipes (the causes for which are being investigated).

Water licences used in 2019-20

Licence	Source	Description	Volume	Comment
WAL8584	Lower Darling Regulated River Water Source	Local Water Utility [Domestic and Commercial]	9,975 ML	For customers on the Menindee network
WAL13452	Lower Darling Regulated River Water Source	Raw Water – Menindee	25 ML	Used by the local Menindee school and sports oval
WAL37707	Western Murray Porous Rock Groundwater Source – Menindee Common Bore	Local Water Utility [Domestic and Commercial]	370 ML	For customers on the Menindee network. Used between December 2019 and May 2020, due to levels in the lower Darling River being too low to pump, from drought
WAL42180	NSW Murray Regulated River Water Source	Local Water Utility [Domestic and Commercial]	4,720 ML	For customers on the Broken Hill network
WAL43071	NSW Murray Regulated River Water Source	Local Water Utility [Domestic and Commercial]	3,974 ML	For customers on the Broken Hill network

Essential Water financial performance in 2019-20

Essential Water's loss before interest and tax was $0.8M against a target loss of $19.8M. This result was driven by:

- lower impairment of assets of $16.5M, due to below budget delivery on capital program
- government funding of $0.8M received for exempt customers
- legal settlement of $0.5M received in relation to concrete degradation at Mica Street
- lower operating expenditure in electricity and chemicals due to improved water quality as a result of the Murray River pipeline and a delay in commencement of the Brine Pond Decommissioning Project due to COVID-19 (project on track to be completed by December 2020).

These benefits were partly offset by:

- lower income from the sale of water ($1.2M), due to water consumption following the commissioning of the new Murray River pipeline being lower than IPART's prediction
- expected government funding of $4.3M for Brine Pond Decommissioning not forthcoming.

Essential Water invested $7.7M on internally funded capital programs in 2019-20, lower than the target of $21.2M. The delay in programs impacted the re-configuration of the water network due to the Murray River pipeline. These projects, which contributed $7.9M, were originally budgeted to commence in the first quarter of 2019-20, with the majority now being delivered in 2020-21. The other key project, major works at Menindee water treatment plant, which contributed $0.8M, is now well into construction and scheduled to be completed in 2020-21.

Environment

We are committed to operating our business in an environmentally responsible manner. This was confirmed during 2019-20 by the addition of a sustainability business objective, to 'reduce the environmental impact of Essential Energy where it is efficient to do so'. Responsibly managing environmental risks is a socially desirable outcome for our valued regional, rural and remote communities, so our commitment extends beyond our legal compliance requirements. Our Stand-Alone Power System (SAPS) trials illustrate our commitment. In 2019-20 these trials included emergency SAPS for bushfire-affected customers in remote areas of the South Coast. Our ongoing investment in more resilient composite poles and cross arms in fire-prone areas is another example.

We continually challenge ourselves to improve our ISO14001 certified environmental management system (EMS), to effectively reduce our environmental footprint in a sustainable manner. Achievements in 2019-20 included:

- delivering the 2019-20 Contaminated Land Management Program
- supporting the bushfire recovery effort
- presenting at conferences and forums on Essential Energy's implementation of biosecurity reforms.

For 2020-21, we will seek endorsement of a revised environmental strategy focused on improving systems and sustainability outcomes.

Nymboida Hydro Power Station erosion remediation

In March 2020, the NSW Environment Protection Authority (EPA) acknowledged Essential Energy's long-term commitment to sustainable practices following successful remediation of erosion and sedimentation at the Nymboida Hydro Power Station. An extreme rainfall event in February 2013 caused a pipeline at the site to fail, resulting in significant erosion and sedimentation. Over the past seven years, we have successfully completed a comprehensive remediation program, measured against objective performance criteria determined by the EPA and key stakeholders. The EPA noted that "it was also heartening to see that the project site was largely unaffected by the Nymboida fire in November 2019 and is now providing an important refuge for many native species".

Company Scorecard

The Company Scorecard includes performance against targets in the Essential Energy 2019-20 Statement of Corporate Intent, along with performance for other key metrics.

Area	Measure	Target	Outcome
Safety	Lost Time Injury Frequency Rate (LTIFR)	≤2.8	2.7
	Total Recordable Injury Frequency Rate (TRIFR)	≤15	11.6
	Serious Claim Frequency Rate (SCFR)	≤2	2.4
	High Potential Injury Frequency Rate (HPIFR)	≤5	6.9
	Overdue Corrective Actions	0	0
People	Full Time Equivalent (FTE) employees	2,827	3,018
	Employee Culture Index [1]	3.91	3.79
Network Plan delivery	Planned Network Capital Delivery	100%	72%
	Planned Network Maintenance Delivery	100%	82%
Energy Charter	All Energy Charter metrics reported against	0%	0%
	No negative findings in the Energy Charter Accountability Panel reporting	0%	0%
Financial	Service Target Performance Incentive Scheme (STPIS)	≥$0M	($16M)
	Net Operating Income	≥$1,203M	$1,169M
	Operating Expenditure	≤$497M	$495M
	Capital Expenditure	≤$483M	$496M
	Earnings Before Interest and Tax	≥$305M	$249M
	Return on Capital Employed	3.8%	3.1%
Customer experience	Reportable Environmental Incidents	≤2	0
	Customer Satisfaction Index1	84%	85%
	System Average Incident Duration Index (SAIDI)	≤212 min	250 min
	System Average Interruption Frequency Index (SAIFI)	≤1.8	1.8
	NECF Immediately Reportable Incidents	0	4

1. Based on latest results, from employee engagement survey conducted in July 2020.

Financial impacts of unforeseen events

Unforeseen events included the NSW Government Workforce Direction, bushfires, COVID-19 and the rectification provision for master-subtractive metering. The financial impact (excluding overheads) of these events in 2019-20 was $66 million, $37 million of which related to operational expenditure and $29 million to capital expenditure. The regulatory framework permits cost recovery for specific categories of events. We are currently preparing an application to the Australian Energy Regulator for a cost pass through to enable recovery of funds through future network charges.

NSW Government Direction

Since the peak of network charges in 2012-13, reforms implemented by Essential Energy have delivered network charge reductions of 40 per cent for residential customers and 43 per cent for small business customers. With further planned reductions over the 2019-24 regulatory period, the estimated cumulative benefit to regional NSW is more than $7 billion over the period from 2012-13 to 2023-24. To ensure we continue to deliver these economic benefits to regional, rural and remote communities, and as part of building a workforce for the future, workforce reshaping activities commenced in July 2019. The changes were targeted to reflect areas where overall work volumes were lower and would not impact the delivery of safe and reliable electricity supply. In August 2019 the workforce reshaping was put on hold by a NSW Government Direction pursuant to the *State Owned Corporations Act*. The Direction stated that Essential Energy employees located in regional NSW could not have their employment terminated on the grounds of redundancy for a 12-month period from 20 August 2019. In April 2020, all employees were advised that no redundancies would occur during 2020, extending the period of no redundancies beyond 20 August 2020. Essential Energy is continuing to work with the Government to ensure the continued supply of safe and reliable power to regional, rural and remote NSW whilst also continuing to deliver real reductions in network charges.

Resilient people

Health and safety

COVID-19 response

From the beginning of the COVID-19 crisis, health and safety has been central to our response, with a focus on:

- protecting the health and wellbeing of our employees, the community, our contractors and suppliers and their families
- minimising the risk of our workplace being a potential source of infection intothe broader community
- maintaining the safety and reliability of our electricity and water networks.

At the outset of the crisis we engaged a Chief Medical Officer (CMO), to provide guidance for our prevention, response and operating protocols. Field-based teams were provided with operating and travel protocols, providing guidance on how to maintain social distancing while working, required hygiene and personal protective equipment (PPE) measures, and requirements when entering customers' premises. The CMO and SafeWork NSW provided advice for the protocols.

Wherever possible, all employees were required to work from home, with extensive guidance for safe home office setup and for physical and mental health and wellbeing. This included health webinars, Employee Assistance Program (EAP) support, daily information updates, flu vaccinations, and ergonomic guidance for home office setup. The health and wellbeing of our employees remains our absolute priority and we continue to investigate innovative ways to support remote working teams.

Further information about our COVID-19 response is provided in Our Year of Resilience (page 10) and Enabling Resilient Communities (page 22).

Health and Safety Strategy

Our 2020-24 Health and Safety Strategy, approved during 2019-20, will continue to drive our health and safety performance. Developed in consultation with operational areas, the strategy aims to prevent serious harm to our employees and communities, focussing on five key pillars:

- Leadership and Culture – building on 'make safety your own'
- Systems and Governance – simplifying our integrated Health Safety Environment (HSE) management system
- Critical Risks - developing a critical control framework
- Health and Wellbeing – developing an evidence-based mental health framework
- Public Safety – reducing risks to the public.

Safety performance

Safety is a core value and our employees are empowered to 'make safety their own' – protecting their safety and looking out for their colleagues and the communities we serve. Our goal is to continuously improve our safety practices and performance by having conscientious safety leaders and employees.

Safety performance improved during 2019-20, with the number of recordable injuries and lost time injuries reducing by more than 30 per cent (compared to 2018-19). There was also an increase in reporting of high potential near miss incidents. This may reflect an improving safety culture where employees trust the incident review process to identify improvements and prevent serious incidents in the future. Safety performance measures are included in the Company Scorecard.

Four incidents were reported to SafeWork NSW during 2019-20 – two notifiable incidents and two dangerous incidents involving Essential Energy employees. Three of the incidents were classified as Network Fatal Risk (NFR) 1 (exposure to unintended discharge of electricity) and one as NFR 6 (struck by falling or moving object). Employees that required medical treatment were cleared and all workers involved in the four incidents have returned to work.

There were no prosecutions under the *Work Health and Safety Act* during 2019-20.

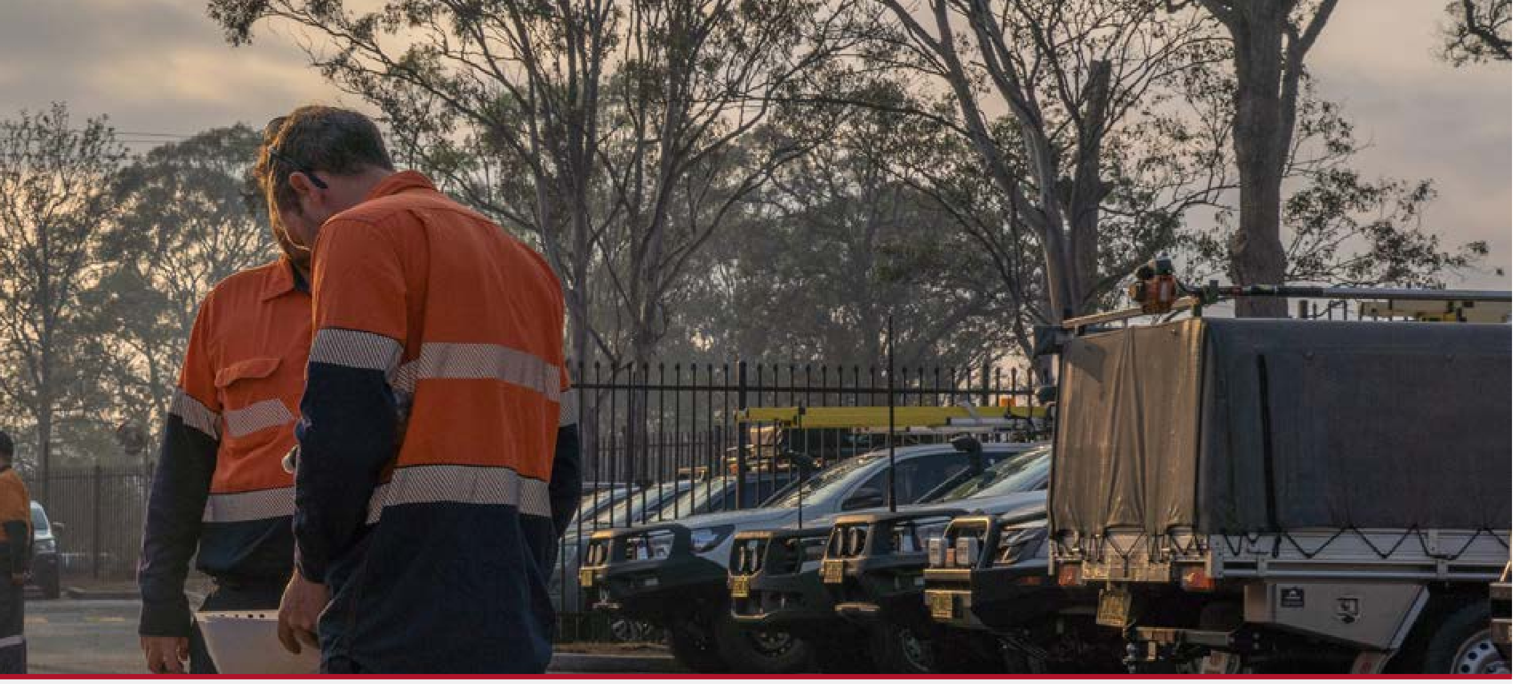
Mental and physical health and wellbeing

We recognise that mental illness is the leading cause of long-term sickness among Australian workers, with one in five people living with a mental health condition. During 2019-20, we engaged the Centre for Rural and Remote Mental Health to review our current and planned workplace mental health initiatives and provide key recommendations. The review will inform the development of the Essential Energy Mental Health Strategy, which is due to be completed in the first half of 2020-21, for subsequent implementation.

Ignite – our Health and Wellbeing Program for all employees, focused on mental health first response and stress management during 2019-20. With COVID-19 restrictions, 'Health at Home' online wellness bootcamps were introduced, focusing on emotional wellness, connection, parenting, exercise and physical wellness, nutrition and sleep. Ignite will continue to provide all employees with health and wellbeing advice during 2020-21.

Updated Alcohol and Other Drugs Procedure

An effective Alcohol and Other Drugs Procedure (AODP) plays a necessary role in ensuring fitness for work and a safe working environment. On 4 May 2020, our updated AODP came into effect, with the Procedure applying to all employees, agency workers and contractors.



Supporting workers to work safely every day is at the core of the updated AODP. Education and awareness for the updated AODP included:

- our testing partners held information and coaching sessions at all of our depots and offices
- self-testing sites for alcohol and drugs have been established at all locations with access to self-testing equipment and education and support material
- workers who regularly start work from home or away from their depot or office received personal breathalyser units
- all employees were enrolled in an online AODP training module.

Prior to finalising the updates, extensive consultation was conducted with workers, combined unions and other stakeholders, over two phases of consultation in 2018-19 and 2019-20. 200 workshops were held, with more than 3,500 attendees, and more than 700 individual questions or items of feedback were received and provided with responses.

Safety Operational Days

During 2019-20, 85 per cent (or 1,300 employees) of frontline field employees participated in face-to-face Safety Operational Days. Due to the COVID-19 restrictions, the final 15 sessions were delivered via online video conference.

The Safety Days enabled discussions about and commitments to linking our value of 'make safety your own' to who and what we stay safe for – family, health and friends – as well as clarity and simplification of safety leadership and individual responsibilities at all levels. They were also a great opportunity for team members to share feedback and improvement ideas for our safety approach. The days contributed to a 30 per cent reduction in injury rate, an injury free bushfire response, improved reporting of high potential incidents, and enabled the implementation of standardised toolbox talks at every depot each day.

Standardised toolbox talks and IMSAFE

An improved process to engage leaders and teams in daily toolbox talks by using a common template was introduced at the Safety Days, providing a consistent and focussed start to each day.
The template also includes the IMSAFE (Injury, Medication, Stress, Alcohol, Fatigue, Emotions) self-check tool, to encourage team members to share their overall physical and mental wellbeing at the start of every day – increasing awareness of team members' needs when planning the day's tasks.

Whilst deploying from home in response to COVID-19, teams have been able to maintain consistent toolbox talks by using the standard template during Zoom videoconferences. The consistent approach also helped employees work together and stay focused on safety when travelling to different parts of the network during the bushfires response.

Regional Health Safety Environment Committees

Across our vast network area, we have six Regional Health Safety and Environment Committees (RHSECs), with peer-elected employees as Regional Health and Safety Representatives (HSRs) and safety managers. HSRs gather information about health, safety and environmental issues within their area and work out ways to resolve issues in consultation with managers, Safety Business Partners, other HSRs and the HSE team. HSRs are committee members for three years, with the past three-year period ending on 30 June 2020 and new members elected for the three years from 1 July 2020. There was a strong response to the election process, demonstrating employees' commitment to providing a safe and healthy work environment.

Contractor awareness sessions

To improve HSE coordination, cooperation and communication with contractors, we developed an app-based contractor tool during 2019-20. Accessible on mobile phones or tablets when in the field, the app allows employees to easily and efficiently conduct HSE inductions, inspections and post-work reviews. The rollout of the tool included face-to-face and hands-on training for employees, via 93 awareness sessions across 50 depots. Implementation of the tool has resulted in an increase in communication between employees and contractors on HSE matters before, during and after works.

Stand down processes review

During 2019-20 we reviewed our stand down (suspension) practices in relation to network related safety incidents. This followed constructive feedback from employees about possible negative impacts on employees' health and wellbeing from the long standing practice of standing down employees while incident investigations were carried out. The review included extensive stakeholder consultation with our operations teams, employees who have experienced prolonged suspension, union representatives and other electricity companies. As a result of the review, we changed our practices so that no employee will be stood down for a network related safety incident, other than in exceptional circumstances. Where Safe Alternate Work duties are practical and the employee is fit to perform those duties, the employee is considered to remain at work. Full suspension may still be implemented for matters other than serious network related safety incidents.

Building an **inclusive** workforce

1.

Inclusion and diversity

Inclusion and Diversity Strategy

Our updated Inclusion and Diversity Strategy for 2019-22, released in November 2019, aims to 'build an inclusive and diverse workforce, reflective of the communities we serve, where people can bring their whole selves to work every day'. As one of the largest employers in regional, rural and remote NSW, we recognise the need for a unique and diverse workforce to truly understand our customers and empower communities and improve lives. The strategy particularly focuses on improving representation of females in technical, trade and leadership roles, and increasing representation and quality of outcomes for Aboriginal and Torres Strait Islander peoples in our workforce. Other diversity streams will also continue to be recognised and celebrated through employee-led working groups, including LGBTI, Multicultural, DisAbility, and Cross Generational streams.

Reconciliation Action Plan

During 2019-20 we developed our first Reconciliation Action Plan (RAP). For many years our organisation has actively worked to promote reconciliation, however this is our first formal RAP and as such is a significant milestone for our journey. As a business, we are making a difference for reconciliation, by connecting with partner organisations, implementing recruitment and development programs for Aboriginal and Torres Strait Islander peoples, and building connections with regional, rural and remote Aboriginal and Torres Strait Islander communities. The idea to develop a RAP came from our Customer Advocacy Group. Development of content and facilitation of consultation with employees and partner organisations was driven by the Aboriginal and Torres Strait Islander working group. The RAP provides a framework to progress reconciliation within our organisation and the communities in which we operate. It is due to be released in the first half of 2020-21, following approval by Reconciliation Australia.

Inclusion and diversity achievements

During 2019-20, we continued to develop our inclusion partner network, including collaborating with organisations such as the Clontarf Foundation and the Girls Academy to provide employment opportunities for Aboriginal and Torres Strait Islander peoples. This included providing education and support around our Apprenticeship and Traineeship programs, which provide early career pathways for students wanting to join the energy industry. For example, Essential Energy employees, including Apprentices and Clontarf Foundation alumni, attended a Clontarf Foundation careers forum in Tamworth. Approximately 30 students from Tamworth and surrounds took the opportunity to speak with employers, including Essential Energy, about careers and employment opportunities.

We were honoured to be invited to co-host a JobAccess employer seminar for 'Driving Disability Employment – the benefits of an inclusive and diverse workforce' in Kingscliff in March 2020. Approximately 50 people attended the seminar. Luke Jenner (General Manager Customer and Network Services and Executive Sponsor for our DisAbility Working Group) was a keynote speaker and two other employees spoke on an employee panel.

Other celebrations to encourage inclusion and diversity within our organisation included: Wear it Purple Day (August 2019); Diwali (October 2019); International Day of People with Disabilities (December 2019); International Women's Day 2020 (March 2020); and IDAHOBIT Day (May 2020).

COVID-19 restrictions on holding face-to-face events impacted our ability to celebrate other inclusion and diversity events, including Harmony Day, National Reconciliation Week and NAIDOC Week. As restrictions continue, we are planning to use virtual and online approaches to celebrate and encourage inclusion and diversity in our workplace.

1. The photo on this page was replaced on 10 March 2021 with this version published on Essential Energy's website on 10 March 2021 at 11:00 am, which was subsequent to the tabling of Essential Energy's 2019-20 Annual Report in Parliament. No other changes have been made to the Report.

Multiculturalism

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

During 2019-20, there were no females from culturally and linguistically diverse (CALD) backgrounds in leadership positions in Essential Energy.

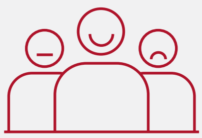
Employee engagement

In August 2019, 64 per cent of employees completed the annual employee engagement survey, sharing their opinions, comments and suggestions on ways to make Essential Energy a better place to work. Compared to 2018, the overall engagement score increased by 0.01 to 3.45 (out of 5), engaged employees increased to 22 per cent (up from 15 per cent in 2018), disengaged employees decreased to 53 per cent (from 63 per cent), and actively disengaged employees increased to 25 per cent (from 22 per cent).

Leveraging insights from the survey, key improvement areas included:

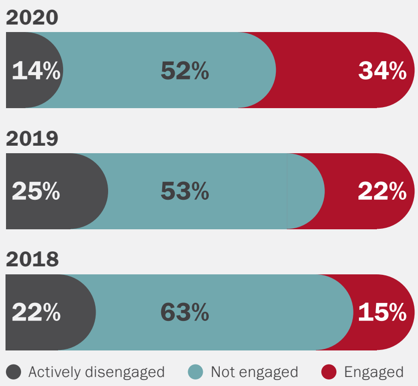
- providing clear accountabilities on what is expected with designated responsibilities, to increase engagement and improve organisational efficiency
- empowering leaders with the implementation of several leadership programs
- commencing work to translate our existing organisational values to enable sustained behavioural change, where employees role model positive behaviours and contribute to a high performance culture.

The 2020 survey was conducted in July 2020, with results showing a significant uplift in engagement. Participation increased to 76 per cent, engaged employees increased to 34 per cent, actively disengaged decreased to 14 per cent and the overall score increased to 3.79. This improvement reflects positive employee engagement flowing from the ways in which our organisation and people have responded to the unprecedented challenges over the past year.



75.9%

2,303 employees participated



Learning and development

Training response to COVID-19

In response to COVID-19 restrictions, training was suspended from 16 March 2020 while stakeholder consultation and risk assessments were conducted, to determine an agreed approach to maintain Network Essential Authorisations during the crisis. Online training re-commenced from 31 March and was fully implemented by 30 April, with no impact on Authorisations expiries. All face-to-face training and assessments were paused until deemed safe to recommence. Employees' access to a wide range of online training opportunities was boosted, with a focus on developing remote working and computer skills, including use of videoconference technologies.

Apprenticeship, Traineeship and Engineering Graduate programs

In January, we welcomed 31 new Apprentices, 10 new Trainees and three Engineering Graduates, showing our ongoing commitment to building a workforce capable of responding to the changing energy market and reflective of the communities we serve.

The new Apprentices included 27 Powerline Workers and four Zone Substation Electrical Technicians. They are undertaking a four-year program, with formal training and on-the-job experience covering all aspects of operating a modern electricity network. We currently have 124 Apprentices, with 106 Apprentice Powerline Workers and 18 Apprentice Electrical Technicians (as of 30 June 2020).

The new Trainees included seven Asset Inspection (AI) Trainees. This one-year program was run for the first time in 2019, with four Trainees successfully moving into permanent AI roles in 2020. We also welcomed three Field Operations Trainees, in our one-year Indigenous Pre-Employment Program, which has been running for four years, with all Trainees from the first three years successfully transitioning to Apprenticeships.

The three new Engineering Graduates have a range of skills – Civil, Mechanical and Data Engineering – reflecting the diversity of our future engineering needs. During the three-year program they will perform a variety of Asset Management and Engineering roles and undertake development supported by Engineering Education Australia.

Network training and assessment

Network Essential training to authorise employees to work on or near the electricity distribution network continued during 2019-20, with approximately 1,950 employees completing Regulatory Refresher Assessments and 1,700 Switching Authorisations, along with continuing post-trade training of 37 Cable Jointers (CJs) to enhance business capability.

We also provided cross-jurisdictional support to other Distribution Network Service Providers for storm and bushfire emergency restoration work. A competency dashboard was developed to provide real-time information to assist Operations Managers in the selection of personnel for this support.

Australian Training Award for Apprentice Program

In November 2019, our industry-leading success in creating career opportunities for people from regional, rural and remote communities across NSW was recognised when we won the 2019 Australian Apprenticeships – Employer Award at the Australian Training Awards. Since 2003, we have trained 1280 apprentices, with 93 per cent completing their qualification. Also, 92 per cent have stayed with us on completion of the program, and around a quarter have been promoted into higher level technical and supervisory roles. Our Apprentice Program is key to our ongoing efforts to maintain a highly skilled workforce that reflects the diverse communities we serve. Currently, our Apprentices are located in more than 50 towns across NSW and 19 per cent are Aboriginal and Torres Strait Islander peoples and more than 13 per cent are female. The program plays a major role in helping to ensure a strong succession plan for maintaining safe and reliable power supply for regional, rural and remote communities.

Employee relations

The Essential Energy Enterprise Agreement 2018 and the Essential Energy Far West (Electricity) Enterprise Agreement 2018 continue to apply to employees in Essential Energy. Both enterprise agreements 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 Consumer Price Index, 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 2019 was approved by the Fair Work Commission on 10 January 2020 and has a nominal expiry date of 28 October 2022.

Enabling resilient communities

Supporting customers and communities during COVID-19

In response to the significant disruptions from the COVID-19 crisis we put in place measures to support our customers and partners.

For residential and business customers we collaborated with other electricity businesses across Australia to provide a financial support package for customers experiencing financial hardship during the crisis. Our support mechanisms, which aligned with the Australian Energy Regulator's (AER), included:

- offering a payment plan or hardship arrangement to residential and small business customers who indicated they may be in financial stress
- ensuring residential, small and large business customers who indicated they may be in financial hardship were not disconnected without their agreement (until at least 31 October 2020)
- waiving disconnection, reconnection and/or contract break fees for small businesses that ceased operation, along with daily supply charges to retailers, during any period of disconnection (until at least 31 October 2020)
- prioritising the safety of customers who require life support equipment and continuing to meet responsibilities to new life support customers
- minimising the frequency and duration of planned outages
- providing regular communications to customers about the availability of payment plans, energy efficiency advice and fault repair.

For Level 1 and 3 Accredited Service Providers (ASPs) who experienced financial difficulties due to the crisis we established payment options for network fees and materials, including:

- extending the due date on any new invoices by 60 days
- stopping the credit cycle, and sending of reminder and final letters (up until 31 October 2020)
- offering payment plans, where required.

For Essential Water customers, following issuing of March 2020 quarterly invoices, support included:

- stopping water restrictions due to non-payment of accounts, until further notice
- offering a payment plan if customers advised they were struggling to pay their invoice
- stopping payment reminder notices
- monitoring the list of customers who had not paid invoices and had not opted for a payment plan to determine potential future write offs
- stopping all debt collection and default listings (until at least 31 October 2020)
- continuing to offer support via existing hardship and customer support policies.

Given the pandemic is ongoing, we are continuing to monitor COVID-19 impacts on our customers and communities through direct customer contact and regular surveys, consultation with our Customer Advocacy Group and other key stakeholders, and evaluation of Customer Support applications. We are also continuing to enhance our operating protocols and support mechanisms in response to the changing needs of the communities we serve.

Further information about our COVID-19 response is provided in Our Year of Resilience (page 10) and Resilient People (page 18).

Support for customers and communities during the bushfires

During the 2019-20 bushfire crisis, we supported customers experiencing vulnerability through the bushfires by:

- proactively identifying homes that were destroyed during the bushfires so we could cease billing and notify customers' electricity retailers
- offering the loan of small portable generators and fuel to bushfire-impacted customers experiencing extended delays in network power supply restoration in the South Coast, Snowy Valley and Riverina areas; or an EFTPOS card to assist with fuel costs to customers who already had a generator in place
- working with ASPs to help bushfire-affected customers and providing a waiver of reconnection fees together with a reimbursement for power supply connection, allowing a two-year period to claim reimbursement
- repairing bushfire-damaged privately-owned network assets at our cost
- providing assistance to private asset owners via our Customer Support Policy for high-risk defect rectification and additional time for low-risk defect rectification, and providing alternative solutions for high-risk defects
- suspending disconnections due to non-payment during the NSW Emergency Declaration period.

Further information about our bushfires response is provided in Our Year of Resilience (page 11).

The Energy Charter

The Energy Charter is an industry-led, whole-of-sector initiative of businesses from across the energy supply chain focused on working together to deliver more a more affordable, reliable and sustainable energy system for all Australians in line with community expectations. Essential Energy was one of 18 inaugural signatories in January 2019.

All signatories report on progress against the five principles of the Energy Charter and planned areas for improvement, by submitting annual disclosure statements to the Charter's Independent Accountability Panel (IAP). The statements are publicly available, as is the IAP's report on the statements. The inaugural statements, for the period 1 January to 30 June 2019, were released by the IAP in October 2019. Highlights from Essential Energy's statement (available from www.theenergycharterpanel.com.au/industry-disclosures) included:

- implementing a new Customer Interaction Management System in February 2019, which resulted in open claims and complaints reducing by more than 50 per cent within six months
- developing an Investment Value Framework, which implements consistent measures for our network investments, with customer feedback, reliability, safety and bushfire risk considered in business decisions, ensuring better value for our customers
- operational safety improvements such as behavioural safety coaching for employees and implementing an In-Vehicle Management System, and continuing our Public Safety Program
- introducing a customer experience survey.

Our progress against the Charter's five principles during 2019-20, achieving better outcomes for customers, included:

- developing our Customer Experience Strategy – with actions for all parts of our business to contribute to improving customer outcomes (see this page for more information)
- improving our processes for notifying registered life support customers about upcoming planned power interruptions
- continuing strong stakeholder engagement on future tariff structures and emerging pricing issues
- moving our Public Electrical Safety Awareness Plan from a static annual document to more regularly updated online content (see pesap.essentialenergy.com.au)
- implementing the first stage for automating network connections processes, for more efficient interactions with Accredited Service Providers (ASPs)
- successfully completing a trial of personally delivering notices to customers at risk of disconnection for non-payment, with 80 per cent of disconnections not going ahead for customers within the trial.

Our 2019-20 disclosure statement was submitted to the IAP on 30 September 2020 and is available from www.theenergycharterpanel.com.au/industry-disclosures.

Customer Experience Strategy

Our Customer Experience Strategy, developed during 2019-20, brings a whole-of-business approach to improving customer outcomes over the next three to five years. Our customer experience vision is 'Everyday excellence. Every customer. Every interaction'. To achieve this vision, we will implement a range of initiatives to help all parts of the business be more customer focused. We want to provide customers with consistent and seamless service, no matter how they contact us – via their chosen communication channels, which are simple and easy to use.

The strategy has four objectives:

- support the efficient delivery of safe, reliable and sustainable energy solutions
- be quick and easy to deal with
- build our understanding of customers' diverse needs now and in the future
- proactively seek opportunities to collaborate with our industry partners.

The strategy was informed by our consistent efforts to better understand our customers, through in-depth research and analysis and extensive consultation. This will be ongoing, to ensure our operations remain aligned to emerging customer needs and to inform our whole-of-business transformation program, delivering long-term efficiencies and helping to contain network price increases.

Importantly, the strategy's objectives and principles align with the customer-focused principles of the Energy Charter.

Customer Advocacy Group

Essential Energy's Customer Advocacy Group (CAG) is a proactive forum for consultation, engagement and insight from Essential Energy's customer base on a wide range of business topics. The CAG has been in place for more than 20 years, demonstrating our long-standing commitment to listening to our customers. Members of the CAG represent customers and communities within our distribution area, covering the following segments:

- residential, rural and remote customers
- primary producers, small business, industrial and commercial customers
- low-income households, vulnerable customers and senior citizens
- Aboriginal and Torres Strait Islander peoples
- environmental, advancing technologies and renewables groups
- local government.

During 2019-20, five CAG meetings were held – in August and November 2019 and March, May and June 2020. Discussions included:

- Essential Energy's 2020 Corporate Strategy update and Customer Experience Strategy – with members highlighting the rise of local energy networks and the importance of collaborating with partners across the industry
- the devastating 2019-20 bushfires – members visited the NSW South Coast, where they met with local emergency management and local government representatives and observed a trial Stand-Alone Power System being used as part of the bushfire recovery
- Essential Energy's and the industry's support for customers during the COVID-19 crisis – with feedback focused on supporting vulnerable customers
- Essential Energy's draft Vegetation Management Strategy – with support for the strategy's risk management approach
- Essential Energy's draft Reconciliation Action Plan (RAP) – with members encouraging employee and stakeholder consultation on the draft RAP
- challenges with complex and non-compliant master-subtractive metering systems, and the need for a plan to remediate all such systems and prepare for the installation of smart meters – with feedback informing the rectification plan that Essential Energy will provide to the Australian Energy Regulator.

Public Safety

Public Electrical Safety Awareness Plan

Our Public Electrical Safety Awareness Plan (PESAP) aims to raise public awareness about safety hazards associated with the electricity network, focusing on the following at-risk groups:

- general public – vehicle use, property maintenance, and vegetation management
- agribusiness – farming related activities such as cotton harvest
- aviation – recreational and agricultural applications
- building – construction and demolition activities, including roadworks
- transport – commercial and public transport
- emergency services – Police, Fire and Rescue, Ambulance, Rural Fire Service and local government councils.

During 2019-20, we revamped the PESAP, moving from a static annual document to more flexible online content – see pesap.essentialenergy.com.au

Summer safety campaign

Over the summer of 2019-20, seasonal public safety messaging for bushfires and storms were integrated into a single summer safety campaign to increase efficiency, drive better awareness and help educate the community on how to remain safe around our network during bushfires and storms. The campaign focused on digital advertising and social media. Print advertising was also used in communities with lower digital participation. Post campaign analysis showed positive results, exceeding NSW Government benchmarks and targets for costs per ad, recall and frequency – resulting in more informed, and therefore safer community members.

Electricity Safety Week

Electricity Safety Week (ESW), run annually in September and a key PESAP activity, raises awareness among primary school students of electricity hazards and teaches students how to be safe around electricity. Schools are provided with curriculum-aligned teaching resources, developed in collaboration with the Department of Education. Students are also encouraged to participate in our 'Be a Safety Star' competition, which gives them the chance to win $1,000 for their Parents and Citizens Associations. In 2019, 891 schools (96 per cent of primary schools) from Essential Energy's network area registered, representing 85,000 students, with 1,277 students participating in the 'Be a Safety Star' poster competition.

Engaging with regional, rural and remote communities

A key strategy in our PESAP is engagement with regional, rural and remote communities at major agricultural field days to promote electrical safety. We attended AgQuip in Gunnedah in August 2019 – Australia's largest primary industry field day and one of the largest agricultural events in the world, with approximately 100,000 attendees. We also attended the Henty Machinery Field Days in September 2019 – which had more than 55,000 attendees. Primex in Casino was scheduled for May 2020 but was postponed due to COVID-19.

National Energy Customer Framework

Essential Energy maintains a strong ongoing commitment to improving customer service and safety, as defined by the National Energy Customer Framework (NECF) obligations. In 2019-20, four Immediately Reportable breaches were recorded and reported to the Australian Energy Regulator (AER), down from five in 2018-19. Three Immediately Reportable breaches related to life support customers not being notified of a planned outage, with one breach relating to Essential Energy's life support registration process. Two Quarterly Reportable breaches were reported to the AER, the same number as in 2018-19. Both of the Quarterly Reportable breaches related to the incorrect disconnection of a customer's premises.

Customer service performance

Our customer contact centre received 303,803 calls during 2019-20, with all calls answered within one minute on average. 2019-20 was the first full year that customers were able to self-serve automated real-time outage information via the phone, with 63 per cent of customers self-serving and so not having to speak with a team member. Due to COVID-19, contact centre employees worked from home from March to June, maintaining productivity and customer satisfaction.

Translation services

During 2019-20, interpreting services were provided to customers a total of five times for Mandarin, Hazaragi, Tamil and Arabic. The total spend for interpreting and translation services was $169.84. There are no employees who use their language skills in their daily roles, and no employees receive the NSW Community Language Allowance Scheme (CLAS) allowance.

Westpac Life Saver Rescue Helicopter

Essential Energy employees have been supporting the Lismore-based Northern NSW region Westpac Life Saver Rescue Helicopter for many years through the Essential Giving Program. In 2019 this generosity was recognised when Essential Energy and its employees were made honorary sponsors of the rescue helicopter, with the company logo now displayed on the aircraft.

Works Supervisor, Warwick McPherson, sums up the strong connection employees have with the rescue helicopter, saying, "I am happy to donate to the Westpac Rescue Helicopter. They have been part of my local community for a long time, I have friends that have been rescued by the local helicopter and just recently my mum was urgently transferred by the helicopter from Lismore Base Hospital to Brisbane for open heart surgery, you can't put a price on that."

Electrical Technician, Ken Armstrong, said "I support the rescue helicopter because I work in a high-risk industry that takes me to remote parts of our region and it is peace of mind to know that this service exists."

Essential Communities Sponsorship Program

Our Essential Communities Sponsorship Program empowers local community groups across Essential Energy's network area through a range of funding opportunities. In 2019-20, a total of $366,762 was provided to 392 community groups and charity organisations. The three key elements of Essential Communities are Community Choices, Community Halls and Essential Giving Program.

Community Choices provides charities, not-for-profit groups and community groups from across Essential Energy's network area with up to $2,500 to boost their activities. Groups are nominated by the community and selected via online voting that is open to all members of the public. This year, 129 community groups from across our service territory shared in $172,500. The 2020 program saw a 24 per cent increase in the number of groups nominated, 38 per cent increase in public voting (with more than 120,000 votes) and 134 per cent increase in web traffic to the campaign landing page, when compared to the 2019 program.

Community Halls supports local halls that make up the social fabric of our regional, rural and remote communities and are valued venues for local services. Eligible halls receive $200 to support maintenance costs. In 2019-20, more than $58,000 was shared by 227 community halls across Essential Energy's network area. Additional funding was provided to 16 halls that were impacted by the 2019-20 bushfires, taking the total donation to $1,000 each.

Community Support provides grants to community groups that make a difference in their local communities. This year $62,250 was provided to 28 groups across our network area, including $10,000 to the Royal Far West – Ride for Country Kids.

Community Choices	
Donations to 129 community groups	$172,500
Community Halls	
Donations to 227 community halls	$58,400
Community Support	
Donations to 28 community groups, including sponsorship of Royal Far West – Ride for Country Kids	$62,250
Essential Giving Program	
Dollar matching employee donations to charity partners and employee fundraising	$72,804.53
Individual donations	
Ilkara-Flinders Ranges Challenge 2019	$807.64
Stakeholder engagement	
The Clontarf Foundation	$20,000
The Girls Academy	$20,000
Energy Users Association of Australia	$25,000

Essential Giving Program (EGP) is our workplace giving program, supporting seven charity partner organisations: Garvan Institute, Variety Children's Charity, Lifeline, Can Assist, Westpac Rescue Helicopter Service, ozED (Australian Ectodermal Dysplasia Support Group), and the Children's Tumour Foundation. Employee donations through regular pre-tax payroll deductions are matched by Essential Energy. In 2019-20, $68,374.53 was donated by employees, for a total of $136,749.06 with dollar matching. The EGP also provides dollar matching for employee-initiated fundraising, with applications reviewed by an employee and management representative committee. In 2019-20, $4,430 of employee-initiated fundraising was matched, for a total of $8,860.

$366,762

financial support to 392 local community groups and charities

Future resilience

Transformation program

To respond to the rapidly evolving energy industry, changing customer expectations and advancing technologies we are transforming our business to deliver the efficiencies needed to maintain downward pressure on electricity prices for customers while maintaining a safe and reliable network. The program is being delivered via eight integrated workstreams:

- Empower Our Frontline – driving safe, sustainable change for enhanced field efficiency and productivity, anchored by the principle of 'by the field, for the field'
- Identify the Right Work and the Enable the Network of the Future – changing how we identify and value work, by upgrading our core asset management system and using sophisticated modelling techniques – to enable field teams to schedule work more efficiently by maximising notice and visibility
- Empowering Customers – listening to our customers and empowering our teams to deliver improved customer experiences, tailored and responsive to immediate and changing needs – putting customers at the core of everything we do
- Safety and Performance Through People – building high performance in our teams through safety, productivity, and innovation activities – ensuring we can meet the needs of Essential Energy in the future
- Better Service Delivery – delivering better service by the 'back office', including finance, human resources, fleet management, procurement and risk and compliance, to support our field and asset management teams to make informed decisions and operate effectively, efficiently and safely
- Enterprise Data Enablement – building a data platform and supporting data services to successfully design and migrate to data-driven systems and process, to meet our data needs now and into the future
- At the Right Price – reducing external spend every year through improved category strategies, contracting and contract management capabilities
- Essential Technology – uplifting our technology capabilities while rationalising and simplifying our technology landscape to drive efficiencies.

Transformation improvements delivered during 2019-20 include:

- Improved automated messaging when customers call our Contact Centre, with real-time information for power outages tailored specifically to the customer's address. This has delivered better customer experiences, reduced call waiting times and improved Service Target Performance Incentive Scheme (STPIS) outcomes
- New online portal for submission of designs by Accredited Service Providers (ASPs), improving the transparency of the process, ensuring all required information is available and providing faster response for enquiries
- Advancements to our internally developed 'Field Portal' iPad and iPhone app, improving the quality of information collected in the field and reducing paperwork after jobs are completed, with approximately half of all tasks being automatically closed out. The in-house development meant that a rapid update could be created during the bushfires to track the location of temporary generators provided to customers
- Automated data exchange for bulk streetlight replacements, for approximately 40,000 streetlights per year. This replaced manual processes that took two to three days per week with only one to two hours per week for data monitoring.
- Improved cybersecurity for early threat detection. Our distribution network and data are classified as critical infrastructure for NSW, so we need to be actively monitoring and countering cybersecurity attacks. New cybersecurity software, installed on all Essential Energy computers during 2019-20, is delivering improved monitoring for malware, system compromise and unauthorised activities.

See Field Operations Improvements (page 14) for more improvements delivered during 2019-20.

Innovation

The National Electricity Market continues to see significant increases in renewable generation capacity. The network is experiencing more dynamic and complex power flows as customers become increasingly active participants in the system. As a result, network operators such as Essential Energy are coming under increasing pressure to distribute more energy, in different directions with the same levels of reliability, whilst reducing spend on infrastructure. In this context, we see opportunities to build a system that engages customers to use our network in innovative ways. We are partnering with like-minded organisations on network innovation projects.

Evolve

Evolve is an ARENA/NSW Government funded project to build Distribution System Operator (DSO) capability, with participants including Ausgrid, Endeavour Energy and Energy Queensland as well as Essential Energy. The platform will identify congestion at specific locations of the network in real-time and develop systems to forecast future challenges. The systems and integrations being developed will keep an inventory of Distributed Energy Resources (DER), forecast the impact of these resources on the network, identify opportunities for long-term and short-term network support, continuously calculate

and publish operating envelopes for DER assets and coordinate DER services. By integrating this information with retailers, aggregators or individual customers, network support activities can be undertaken to avoid congestion on the network and optimise network use – to deliver a safe, efficient and reliable energy system.

Network Visibility initiative

With the energy network becoming increasingly complex to manage, improved access to and use of energy data is required to enable improved decision making, for continued supply of safe, reliable and affordable power for customers. The Network Visibility initiative is identifying new use cases for energy data and building our network data capabilities, including trialling a proof of concept data platform for the ingestion, transformation and analysis of energy data from any source using a mix of monitoring and modelling. It will significantly enhance visibility for targeted areas of the network – for greater insight as to how our network is operating at any point in time. The current focus is improved visibility of the Low Voltage level of our network, with many opportunities to improve access to data for this part of the network. The initiative will enable Essential Energy to deliver enhanced customer outcomes as we transition the network to support a greater proportion of renewable generation.

Stand-Alone Power Systems

During 2019-20 we continued to trial Stand-Alone Power Systems (SAPS) as a safe, reliable and cost-effective power supply solution for customers in remote areas of the network, with a particular focus on using emergency SAPS as part of our bushfire response (see the SAPS case study in Our Year of Resilience (page 12)). Lessons learned from these emergency SAPS will inform planning for the possible future use of SAPS in emergency and non-emergency situations.

Fleet Improvement Program

Over the past year, fleet management has been brought in-house, with workshops built in Tamworth, Orange and Coffs Harbour. The workshops are supported by field service units that provide in-field maintenance and breakdown support right across our network. The program has resulted in faster issue response, fewer breakdowns and improved vehicle and mobile plant safety.

This enhanced in-house capability greatly assisted our response following the devastating bushfires in both northern and southern NSW. Fleet teams relocated to bushfire response hubs to provide fleet servicing, inspection and repairs where needed. Field teams dropped off vehicles at the end of every day for fleet teams to check for defects, fix any issues and service (fuel and clean down), ensuring vehicles were ready to safely return to the field the next day. At the peak of our bushfire response, we were using more than 90 elevated work platform (EWP) vehicles, 150 heavy fleet and 425 light fleet.

The program is also installing an In-Vehicle Monitoring System (IVMS) in every one of our vehicles, to identify vehicle location, speed and to monitor for safety. Our vehicles travelled more than 36 million kilometres during 2019-20, on all road types and in all weather conditions, so motor vehicle accidents is one of our most significant risk areas. The system enables immediate location of a vehicle in duress, reduces incident response times and supports improved driver behaviour. Installations commenced during November 2019, but were put on-hold due to COVID-19. Work recommenced in May 2020, with strict COVID-19 fleet protocols in place. By the end of June 2020, IVMS units were installed in more than 700 vehicles (36 per cent of our fleet).

We are also refreshing our fleet, ensuring the right fleet at the right place at the right time. 317 new vehicles were delivered during 2019-20.

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) to provide services critical to the economy and infrastructure for NSW.

It is governed, principally, by those two statutes and its Constitution, and 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 its shareholders, as well as 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 company's 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 and Statement of Business Ethics.

All directors on the Board of Essential Energy, with the exception of the CEO, are appointed by the voting shareholders, who are the NSW Treasurer and Minister for Finance and Small Business. 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. Jennifer Douglas has declared potential conflicts of interest in relation to her directorships with GUD Holdings, Opticomm Co Pty Limited and Hansen Technologies. The Board deems that appropriate mitigation measures are in place to manage each of the potential conflicts, administered by the Company Secretary, and considers Ms Douglas as an independent director.

The Company Secretary maintains the Register of Interests and Standing Conflicts of Interest, which is reviewed at each Board meeting.

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 three committees as shown below. Each Committee acts in accordance with a charter approved by the Board setting out matters relevant to the composition, responsibilities, authority and reporting of the Committee.

Audit and Risk Committee

The Audit and Risk Committee meets at least four times per year. The Committee assists the Board in fulfilling its responsibilities regarding matters relating to the financial affairs of, and business risks to, Essential Energy, as well as the oversight of internal and external audits, risk management, compliance, governance practices, litigation, and probity, ethics and corruption prevention. In addition, the Committee examines any other matters referred to it by the Board.

Board Regulatory Committee

The Board Regulatory Committee meets at least four times per year. The Committee assists the Board in fulfilling its responsibilities in seeking strong and sustainable customer and shareholder outcomes in regulatory-related matters, managing regulatory risk, and its oversight of regulatory strategy, compliance and stakeholder engagement activities, and regulatory proposals and submissions. In addition, the Committee examines any other matters referred to it by the Board.

Rosemary Sinclair, CEO of Energy Consumers Australia was an independent advisor, with particular insight into the perspective of Essential Energy's customers, to the Committee until 26 February 2020. The Committee is seeking to appoint a new independent adviser during the latter half of 2020.

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 regarding work health, safety and environmental practices, and oversight and corporate governance in relation to people, safety, and environmental matters. In addition, the Committee examines any other matters referred to it by the Board.

Trevor Brown is an independent adviser to the Committee, with a particular expertise in safety matters.

Organisation structure as at 30 June 2020

Board of Directors

Chief Executive Officer
John Cleland

- **Strategy, Regulation and Corporate Affairs** — Chantelle Bramley
  - Commercial Development
  - Communications
  - Corporate Strategy
  - Regulatory Affairs
- **People and Safety** — Craig Thomson
  - Employee Relations
  - Learning and Development
  - Health, Safety and Environment
  - Human Resources Partnering
  - Human Resources Services
  - Workforce Alignment and Reward
- **Customer and Network Services** — Luke Jenner
  - Customer Experience
  - Network Delivery
  - Regional Operations
  - Operational Excellence
  - Water Operations
  - Transformation: Networks
- **Finance** — Justin Hillier
  - Financial Management
  - Financial Operations
  - Fleet
  - Procurement
  - Transformation Corporate Functions
- **Asset Management and Engineering** — David Salisbury
  - Asset Management
  - Asset Performance
  - Commercial Services
  - Engineering
  - Enterprise Data Services
  - Network Design
  - Network Intelligence
  - Strategic Council Partnerships
  - System Control
  - Transformation: Asset Management and Engineering
- **eTech** — Sarah McCullough
  - Commercial Vendor and IT Services
  - Cyber Security
  - eTech Business Partner
  - eTech Operations
  - eTech Operational Optimisation
  - Telecommunications
  - eTech Strategy
  - Transformation: eTech Delivery
  - Transformation: eTech Solutions
- **Governance and Corporate Services** — Michael Bowan
  - Internal Audit
  - Legal
  - Governance
  - Property Services
  - Risk and Compliance
- **Transformation** — Kieran Duck
  - Transformation

Directors' 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 as set out in the table below, which is based on the SOORT 2007 determination. The fee amounts have been unchanged since 1 July 2016, and are the same as the amounts specified for Essential Energy's predecessor company, Country Energy, in 2007 by the SOORT at that time.

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 from 1 July 2019 to 30 June 2020

Robyn Clubb

BEc CA FFin MAICD
Acting Chair

(Appointed 20 June 2019 for a period of 12 months as Interim Chair, reverted to Acting Chair on 20 June 2020)

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

- Member – Audit and Risk Committee
- Member – Board Regulatory Committee
- Member – Safety, Human Resources and Environment Committee

Other Directorships

- Australian Wool Exchange Ltd – Chair
- Craig Mostyn Group Ltd – director
- Elders Limited – director
- Pro Ten Limited – director
- 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

- Chair – Board Regulatory Committee
- Member – Audit and Risk Committee
- Member – Safety, Human Resources and Environment Committee

Other Directorships

- GUD Holdings Limited – director
- Hansen Technologies Limited – director
- Opticomm Pty Ltd – director
- Peter MacCallum Cancer Foundation – director
- St Kilda Football Club – director

John Fletcher

BSc, MBA
Non-Executive Director

Commenced: 13 October 2016
Current Term: 13 October 2016 – 12 October 2022

- Chair – Audit and Risk Committee
- Member – Board Regulatory Committee
- Acting Chair – Safety, Human Resources and Environment Committee

Other Directorships

Nil

John Cleland

BEc DipFinMan CA FFin, GAICD
Non-Executive Director

Commenced: 18 July 2016

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

Other Directorships

- CEO Council of the Energy Charter – Chair until 28 February 2020
- Energy Networks Australia – director

Philip Garling

B.Build, FAIB, FAICD, FIE (Aust)
Non-Executive Director

Term: 1 January 2013 to 31 December 2019

- Chair – Safety, Human Resources and Environment Committee until 31 December 2019

Other Directorships

- Australian Literacy and Numeracy Foundation – director
- Charter Hall Limited – director
- Charter Hall Funds Management Limited – director
- Downer EDI Limited – director
- Energy Queensland – Chair
- Newcastle Coal Infrastructure Group – Chair
- Tellus Holdings Ltd – Chair

Patrick Strange

PhD BE (Hons)
Non-Executive Director

Term: 25 November 2013 to 24 November 2019

- Member – Safety, Human Resources and Environment Committee until 24 November 2019

Other Directorships

- Auckland International Airport – Chair
- Chorus Limited – Chair
- Mercury Energy – director

Board and Board Committee meetings held in 2019-20

Table: 1 July 2019 to 30 June 2020 Directors' Attendance Schedule

	Essential Energy Board of directors' meetings		Audit and Risk Committee [1]		Board Regulatory Committee [2]		Safety, Human Resources and Environment Committee	
Director [3]	A	B	A	B	A	B	A	B
R Clubb [4]	10	9	6	6	3	3	2	3
J Douglas	10	10	6	6	4	4	4	4
J Fletcher [5]	10	10	6	6	4	4	2	3
J Cleland	10	10	6	6	4	4	4	4
P Garling [6]	5	4	–	–	–	–	2	2
P Strange [7]	3	3	–	–	–	1	1	1

A. Indicates number of meetings held during the period the director was entitled to attend.
B. Indicates the number of meetings attended by the director during the period.
1. The CEO attends the Audit and Risk Committee (ARC) and Safety, Human Resources and Environment (SHRE) Committee.
2. The CEO is a member of the Board Regulatory Committee.
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 by the Shareholders as Interim Chair, effective 20 June 2019 for 12 months. From 17 December, Robyn has been a member of the ARC and SHRE Committees. For the 24 June Board meeting, the Board selected Robyn as Acting Chair.
5. John Fletcher was appointed Acting Chair of the SHRE Committee from 1 January 2020, following the end of Philip Garling's term.
6. Philip Garling's term concluded on 31 December 2019.
7. Patrick Strange's term concluded on 24 November 2019.

Indemnity and insurance

Under the NSW Treasury Commercial Policy Framework, section 7 of TPP18-04 Directors and Officers Indemnity Policy for State Owned Corporations provides that State Owned Corporations must disclose indemnity and insurance details for directors and officers in their Annual Reports.

During the financial year, no new indemnities were granted to directors of Essential Energy. Each director remained indemnified by Essential Energy to the extent permitted under their existing indemnities, all of which were approved by NSW Treasury at the time they were granted.

Essential Energy maintains Directors' and Officers' insurance cover in relation to legal liabilities that may be incurred by its directors and senior officers.

Essential Energy's Executive Leadership Team at 30 June 2020

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 Corporate Affairs

Justin Hillier

BBus, CA, GDipAppFinInv, FINSIA

Chief Financial Officer

Luke Jenner

BE (Hons), EMBA,MAICD

General Manager Customer and Network Services

Sarah McCullough

Grad Cert Mgt (InfoTech), MBA(Comp)

Chief Information Officer

David Salisbury

BEng (Hons), CPEng EngExec FIEAust

Executive Manager Engineering

Craig Thomson

BBus (HRM)

Chief Human Resources Officer

The management of Essential Energy is led by the Chief Executive Officer (CEO) and Executive Leadership Team (ELT).

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.

Senior Managers

At the end of the reporting period, Essential Energy employed 154 officers who received a total remuneration package in accordance with NSW Senior Executive Service bands, including the CEO and ELT. This represents an decrease of two officers compared to the previous financial year. The number of female employees receiving a total remuneration package of SES1 or above, was 35.

General principles for remuneration of Senior Managers

Essential Energy's remuneration strategies are designed to attract and retain Senior Managers who drive business performance and who consistently demonstrate high standards of behaviour in line with Essential Energy's values and Code of Conduct.

Components of remuneration

Essential Energy's Senior Managers are employed on individual, performance-based employment contracts. Total remuneration for Senior Managers on performance-based employment contracts consists of fixed remuneration (annual salary paid inclusive of superannuation contributions and all salary sacrificed benefits) and an annual Short Term Incentive that represents the variable component of total remuneration for each Senior Manager.

Fixed remuneration

As a condition of employment, fixed remuneration of Senior Managers is reviewed in line with market trends annually in July and is based on rigorous performance assessments of each Senior Manager. Variations are also occasionally made at other times of the year in response to market and job scope adjustments. In approving increases to the fixed remuneration of Senior Managers, 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 Senior Managers on the basis of performance assessed against agreed measures and targets aligned to Essential Energy's Corporate Plan and Statement of Corporate Intent (SCI). Payment is contingent on achieving minimum quantitative threshold organisational Key Result Areas, assessment of individual leadership performance and the delivery of Priority Actions. The Board reviews the performance assessments and approves all annual performance payments for the CEO and Executive Leadership Team. The remaining Senior Managers are reviewed by either the CEO or relevant Executive.

Remuneration percentages

For Senior Managers' fixed remuneration, a 1.94 [1] per cent average increase was implemented from 1 July 2019. Total remuneration for Senior managers, including Short Term Incentive payments, accounted for 8.2 per cent of Essential Energy's employee related expenditure in 2019-20, compared with 8.7 per cent in 2018-19. [2]

1. All employees on individual employment contract as at 1 July 2019.
2. 2018-19 Senior Manager expenditure has been re-stated to include additional associated oncosts, such as annual leave and long service leave.

Executive remuneration 2019-20

Name	Position at 30 June 2020	Annual remuneration (excl. Short-term Incentive) at 30 June 2020 [1]	Short-Term Incentive 2019-20 [2]	Annual remuneration (excl. Short-term Incentive) at 30 June 2019	Short-Term Incentive 2018-19
J. Cleland	Chief Executive Officer	$802,888	$139,703	$783,305	$144,520
M. Bowan	General Counsel and Company Secretary	$376,537	$47,778	$369,154	$58,372
C. Bramley	General Manager Strategy, Regulation and Corporate Affairs	$379,839	$50,329	$366,994	$54,820
J. Hillier	Chief Financial Officer	$389,572	$54,443	$380,070	$63,424
L. Jenner	General Manager Customer and Network Services	$418,655	$58,716	$398,719	$69,776
D. Salisbury	Executive Manager Engineering	$419,220	$54,499	$411,000	$61,136
C. Thomson	Chief Human Resources Officer [3]	$385,000 [4]	$44,809	–	–
S. McCullough	Chief Information Officer [5]	$344,000 [6]	$35,714	$270,000	$15,314

1. Annual remuneration is based on Full Time Equivalent (FTE) Fixed Annual Remuneration (FAR) at 30 June 2020 and rental allowance, where applicable.
2. Short Term Incentive payments are based on 2019-20 performance against key criteria, approved by the Board in August 2020 and paid in 2020-21.
3. Hired 20 August 2019.
4. Annual remuneration does not include accommodation expenses of $18,764.
5. Acting Chief Information Officer from 15 April 2019. Appointed Chief Information Officer on 10 February 2020.
6. Annual remuneration does not include accommodation expenses of $4,550.

Senior Managers by band (gender and average remuneration)

Band [1]	Gender 30 June 2020 F	Gender 30 June 2020 M	Gender 30 June 2019 [2] F	Gender 30 June 2019 [2] M	Range $	Average remuneration 30 June 2020 [3] $	Average remuneration 30 June 2019 [4] $
Above Band 4 [5]		1		1	$562,650+	$942,591	$927,825
Band 4				1	$487,051-$562,650		$492,203
Band 3	2	6	1	7	$345,551-$487,050	$432,179	$418,571
Band 2	5	10	6	10	$274,701-$345,550	$292,956	$294,608
Band 1	28	102	27	103	$192,600-$274,700	$218,018	$216,529
Totals	**35**	**119**	**34**	**122**			

1. Bands are as defined in the Public Service Senior Executive Annual Determination dated 27 August 2019 under the Government Sector Employment Act 2013. Reporting is limited to managers employed on individual employment contracts.
2. The number of Senior Managers at 30 June 2019 are presented against the 2018-19 remuneration bands as reported in the 2018-19 Annual Report.
3. Average remuneration is based on Full Time Equivalent (FTE) Fixed Annual Remuneration (FAR) at 30 June 2020, 2019-20 Short Term Incentive payment based on 2019-20 performance against key criteria, paid in 2020-21 for eligible employees, car allowance and rental allowance, where applicable.
4. Average remuneration is based on FTE FAR at 30 June 2019, 2018-19 Short Term Incentive Payment based on 2018-19 performance against key criteria, paid in 2019-20 for eligible employees and car allowance, where applicable; 2018-19 remuneration has been re-stated against the 2019-20 bands.
5. Includes managers on individual contracts receiving remuneration at levels above Band 4.

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.

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 1: Lay solid foundations for management and oversight **Board Evaluation**	
Undertake an external and independent evaluation at least every three years	The externally facilitated Board performance evaluation has been deferred a further year to 2021 given the Board has been below the optimal complement for an extended period. The internal evaluation is conducted annually and is informed by director and executive questionnaire responses, followed by a Board (peer) discussion.
Disclose to shareholders a summary of the evaluation report, together with any actions taken or planned as a result of the findings	See above, an external independent evaluation has not been undertaken given the Board has been below the optimal complement for an extended period.
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	Given the Board is currently under optimal complement, the Board as a whole carries out the duties that would otherwise be performed by a Nomination Committee, including making recommendations relating to director appointments and reappointments, and developing and maintaining Board succession plans.

Risk management

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
- 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.

The Risk Management Framework is being progressively linked to the Asset Management System to improve risk quantification, the granularity of risk information used to prioritise rectification of asset defects, and risk-informed investment decision optimisation.

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

Incident management and business continuity

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

In line with better practice, Essential Energy has adopted an all-hazards approach to business continuity, where 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.

This approach has been successfully utilised for major incidents during the reporting period including the 2019-20 bushfires, and Essential Energy's response to Coronavirus (COVID-19).

Essential Energy's Business Continuity Management Framework (BCMF) is aligned to ISO 22313 – Societal security – Business continuity management systems and is a key control for business risk categories including Safety, Network, Customer, Reputation and ICT. The BCMF Plan sets out activities that must take place on a periodic basis to govern, improve and maintain the business's incident management capability.

Insurance

Essential Energy reviews the adequacy of insurance policy coverage and limits annually, as a key control for the 'Finance' business risk category. All participating insurers must meet acceptable financial security requirements. Management processes are in place to ensure effective governance of claims.

Compliance

Essential Energy's Compliance Management Plan (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 and is a key control for the business risk category 'Compliance'. The CMP documents Essential Energy's approach to compliance management and the minimisation of the risk of non-compliance.

Fraud and corruption management

The Essential Energy Fraud and Corruption Control Plan (FCCP) is a key control for business risk categories including Finance, Compliance and Reputation and sets out the key initiatives for fraud control activities at Essential Energy.

These activities are linked to areas of high risk of significant impact as identified in Essential Energy's Fraud Risk Register. The FCCP applies to all employees and any other person undertaking work in the company.

Public Interest Disclosures

Essential Energy treats as highly important the principles of corporate integrity and consequently protections to whistle-blowers. 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 are 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 2019-20, Essential Energy received four complaints in relation to corrupt conduct and one complaint in relation to serious and substantial waste of public money and assessed these as PIDs under the PID Act. No PIDs were made under a statutory or other legal obligation. There were no PIDs received in relation to government information contravention or maladministration. 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 43 internal audits across the organisation, with suitable actions implemented to address key issues identified. An external quality assurance review confirmed Essential Energy's Internal Audit function generally conforms to the requirements of the International Professional Practices Framework and the accompanying Standards.

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 Annual Engagement Plan, issues raised in the Engagement Closing Report and Management Letter, and the results of the annual audit of financial statements.

Finance report

Key financial measures	2018-19 result	2019-20 result	2019-20 SCI [1]	Variation to prior year	Variation to SCI
Network revenue ($M) [2]	1,287.7	1,265.7	1,290.5	(22.0)	(24.8)
Operating Costs ($M) [3]	506.6	495.5	497.2	(11.1)	(1.7)
Earnings before interest, tax, depreciation and amortisation (EBITDA) ($M)	777.0	650.9	705.9	(126.1)	(55.0)
Earnings before interest and tax (EBIT) ($M)	338.7	249.1	305.0	(89.6)	(55.9)
Operating (loss) profit before tax ($M)	4.1	(77.9)	(36.0)	(82.0)	(41.9)
Operating (loss) profit after tax ($M)	2.8	(54.5)	(25.3)	(57.3)	(29.2)
Total Distribution (Dividend + current income tax expense + government guarantee fee) ($M)	166.2	129.9	136.4	(36.3)	(6.5)
Return on capital employed (per cent) [4]	4.3%	3.1%	3.8%	(1.2%)	(0.7%)
Return on assets (per cent) [4]	4.0%	2.9%	3.5%	(1.1%)	(0.6%)
Return on equity (per cent) [4]	0.1%	(2.3%)	(1.1%)	(2.4%)	(1.2%)
Capital Expenditure ($M) [5]	482.8	495.6	482.9	12.8	12.7
Gearing (%) [6]	70.1%	71.4%	71.3%	70.1%	71.4%

1. SCI – Statement of Corporate Intent
2. Network Revenue comprises electricity distribution revenue and water revenue.
3. Operating Costs, for consistency with the SCI measure, exclude transmission use of service expense ($217.6M), Climate Change Levy expense ($56.0M), bulk water supply costs (24.9M), other cost of sale items ($4.6M) and asset write-offs ($23.0M) which are included in operating expenses in the financial statements.
4. Ratios include customer contributions (including gifted assets).
5. Capital Expenditure excludes gifted assets and assets granted to the water business related to the pipeline in 2019.
6. Gearing is the percentage of debt (net of cash) to total capital.

Performance against prior year

A number of major external events occurred during the year that had material adverse impacts on the financial performance, including a NSW Government Workforce Direction, NSW bushfires and COVID-19. In addition, a further provision was made for asset rectification works required on approximately 13,400 master-subtractive meters across the network. The incremental impact of these events on operating and capital expenditure for 2019-20 is provided below.

$M's	Operating Expenditure	Capital Expenditure	Total Expenditure
Bushfires (excluding overheads) [1]	11	17	28
Workforce Direction [2]	11	9	20
Master-Subtractive Metering	10	–	10
COVID-19	5	3	8
Total	**37**	**29**	**66**

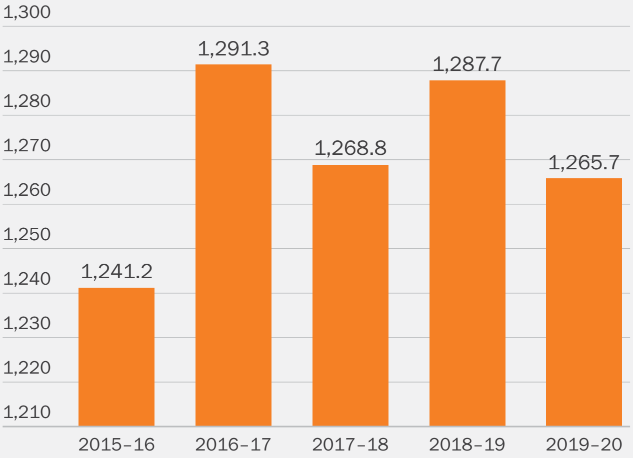
1. Represents the estimated incremental cost to the planned work program. Total costs incurred were $54M.
2. Does not include the estimated restructuring savings of $8.0M from lower redundancies

The operating loss after tax of $54.5M compared to a $2.8M profit in 2018-19 was a result of:

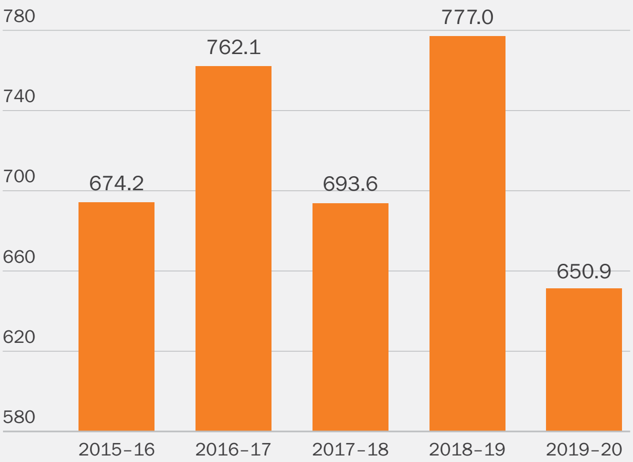
- decrease in network revenue of $22.0M (1.7 per cent) mainly due to lower electricity consumption in the commercial sector
- a decrease in other revenue of $84.7M comprised of:
  - $61.5M was recognised in 2018-19 for water pipeline assets granted to Essential Energy, with no assets being granted in 2019-20
  - decrease in gifted assets and capital contributions revenue of $15.7M
  - decrease in ancillary services revenue of $12.1M
  - decrease in public lighting revenue of $6.6M
- write-offs totalling $23.0M for costs incurred on discontinued network projects over preceding years and for a software development that was discontinued
- increase in provisions related to the master-subtractive metering rectification program of $11.0M and projected rebates under the Energy Network Australia COVID-19 Relief Package of $3.0M
- increase in operating costs for vegetation hazard reduction activities as a result of the NSW bushfires of $11.0M
- decrease in operating costs due to lower employee related costs and lower professional services.
- a decrease in depreciation, amortisation, and impairments of $36.5M mainly due to:
  - decrease from one-off impairment of $61.5M water pipeline assets granted to Essential Energy in the prior year
  - increase in leased property capitalised in FY2019-20 in accordance with AASB 16 Leases, which contributed to $5.0M of additional depreciation
  - increase in impairment of public lighting and Essential Water assets of $12.4M.

Decrease in EBITDA of $126.1M from the prior year was a result of the above listed items other than depreciation, amortisation and impairments.

Network Revenue ($M)

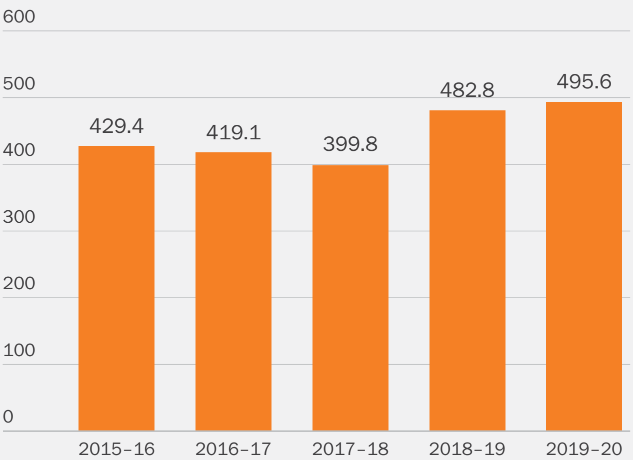


EBITDA ($M)



The $12.8M increase in capital expenditure against the prior year was mainly due to an increase in network capital works due to rectification works from the NSW bushfires, increase in replacement of fleet assets and software implementation costs as part of transformation.

Capital Expenditure ($M)



Borrowings

Total borrowings increased by $353.1M over the year, including lease liabilities recognised on the introduction of AASB 16 contributing an increase of $49.5M and increases in debt, mainly to fund the planned capital expenditure program including transformation. The gearing ratio, calculated as net debt divided by debt plus equity, increased from 70.1 per cent to 71.4 per cent. The debt strategy is to achieve a 10-year trailing average portfolio aligned to the Australian Energy Regulator's allowances. This results in over 90% of debt being non-current.

Shareholder return

Return on capital employed, return on assets, and return on equity all decreased compared to the 2018-19 returns due to lower profitability for the year.

Essential Energy's distributions to the NSW Government for 2019-20 were $129.9M compared to $166.2M in 2018-19. The reduction was mainly due to a reduction in current income tax of $38,2M. Distributions consisted of current income tax expense of $28.7M and government guarantee fee on debt of $101.2M. No dividend was paid or provided for 2019-20.

Performance against Statement of Corporate Intent

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

A key focus for Essential Energy is on achieving best practice levels of efficiency to deliver real and sustainable reductions in network charges and achieving a satisfactory return on capital employed.

A net operating loss after tax of $25.3M was budgeted. The actual loss of $54.5M was driven by lower revenue, including lower network revenue ($24.8M) and other revenue ($20.0M), and a $23.0M loss on write-offs. This was partly offset by lower operating costs despite the impact of significant events. Lower than expected finance costs of $13.9M were primarily due to lower than budgeted interest rates, which assisted in partly offsetting the negative revenue impacts.

Financial Statements

For the year ended 30 June 2020

Contents

Independent Auditor's Report

For the year ended 30 June 2020

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 2020, the Statement of Financial Position as at 30 June 2020, 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 2020, 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.

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 (including Independence Standards)' (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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements for the year ended 30 June 2020. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, I do not provide a separate opinion on these matters.

Key Audit Matter	How my audit addressed the matter
Fair value of system assets	
At 30 June 2020, the Corporation's Statement of Financial Position reported $7.9 billion in system assets and $211 million in land and buildings (collectively 'system assets') measured at fair value. System assets are highly specialised and account for 97 per cent of the total property, plant and equipment balance. I considered this to be a key audit matter because: • system assets are financially significant to the Statement of Financial Position • discounted cash flow (DCF) model used to value the system assets is complex and involves significant judgements and assumptions • changes in assumptions, such as the discount rate, inflation rate, the terminal Regulated Asset Base multiple and forecast cash flows, can significantly affect the fair value. Further information on the valuation techniques, inputs and sensitivity of the reported balance for system assets is disclosed in Note 15.	Key audit procedures included the following: • obtained an understanding of the Corporation's approach to estimating the fair value of system assets • reviewed whether the DCF model incorporated all key assumptions and inputs relevant to valuing system assets of an electricity distribution entity and met the requirements of Australian Accounting Standards • reviewed the reasonableness of all the key assumptions and sensitivity of the conclusions to changes in the assumptions • reviewed the model's mathematical accuracy • assessed the adequacy of the financial statement disclosures against the requirements of applicable Australian Accounting Standards.
Accrued revenue from unread meters	
At 30 June 2020, the Corporation's Statement of Financial Position recorded accrued revenue from unread meters of $166 million. At year end, many customers had electricity usage which had not been subject to a meter read. I consider this to be a key audit matter because there is significant judgement and uncertainty involved in calculating this accrual, such as the: • amount of electricity loss in transit between the distribution network and the end customer • different rates and types of revenue charges (for example network access, solar feed-in and demand charges) for residential and commercial customers • complexity in estimating electricity usage across a large customer base, which can be influenced by many factors including weather and individual circumstances. Further information on recognition and measurement of accrued revenue from unread meters is disclosed in Note 2.	Key audit procedures included the following: • obtained an understanding of the processes and key controls the Corporation has in place to determine the estimated unbilled electricity usage charges • reviewed reasonableness of the key assumptions for electricity loss factors, energy consumption and charges used to determine the unbilled network usage charges • assessed the historical accuracy of the estimate against subsequent actual billings.

Key Audit Matter	How my audit addressed the matter
Valuing defined benefit superannuation liabilities	
At 30 June 2020, the Corporation reported net defined benefit superannuation liabilities totalling $51.2 million. This liability balance is provided to the Corporation by the Administrator of the superannuation schemes based on independent actuarial assessments. I considered this to be a key audit matter because: • the defined benefit superannuation liability is financially significant to the Statement of Financial Position • the underlying liability valuation model (the model) is complex due to the significant degree of judgement required to determine key assumptions used to value the liability • the total value of the liability is sensitive to minor changes in assumptions. Further information on the significant actuarial assumptions and sensitivity analysis is included in Note 23.	Key audit procedures included the following: • obtained an understanding of the processes and key controls in place supporting the defined benefit superannuation liability calculation • assessed the completeness and accuracy of the membership data used in the model • with the assistance of actuarial experts, reviewed the methodology and key assumptions for reasonableness • assessed qualifications, competence and objectivity of actuarial experts • evaluated the adequacy of financial statement disclosures against the requirements of applicable Australian Accounting Standards and Treasury Directions.

Other Information

The Corporation's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The directors of the Corporation are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement given by Directors.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

I have nothing to report in this regard.

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.

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: https://www.auasb.gov.au/auditors_responsibilities/ar6.pdf. The description forms part of my auditor’s report.

The scope of my audit does not include, nor 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

Delegate of the Auditor-General for New South Wales

15 September 2020
SYDNEY

Statement by Directors

For the year ended 30 June 2020

Statement by Directors

For the Year Ended 30 June 2020

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 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 and give a true and fair view of the financial position of the Corporation as at 30 June 2020 and its financial performance for the year ended on that date;

b. At the date of this statement, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable; and

c. We are not aware of any circumstances at the date of this statement that would render any particulars included in the financial statements to be misleading or inaccurate.

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

John Cleland
Chief Executive Officer

John Fletcher
Director

Dated: 14 September 2020

14 September 2020

Statement of Comprehensive Income

For the year ended 30 June 2020

	Notes	2020 $M	2019 $M
Profit or loss			
Network revenue from contracts with customers	2(a)	**1,265.7**	1,287.7
Other revenue from contracts with customers	2(b)	**183.8**	222.6
Total revenue from contracts with customers		**1,449.5**	1,510.3
Other revenue	2(c)	**23.0**	68.9
Total revenue		**1,472.5**	1,579.2
Operating expenses	3(a)	**(821.6)**	(802.2)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)		**650.9**	777.0
Depreciation, amortisation and impairment	3(b)	**(401.8)**	(438.3)
Earnings before interest and taxation (EBIT)		**249.1**	338.7
Finance costs	3(c)	**(327.0)**	(334.6)
(Loss)/ profit before income tax		**(77.9)**	4.1
Income tax benefit/ (expense)	4(a)	**23.4**	(1.3)
(Loss)/ profit for the year		**(54.5)**	2.8
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/ gains on remeasurement of superannuation defined benefits	23(f)	**(4.0)**	(19.3)
Tax benefit/ (expense)	4(b)	**1.2**	5.8
		(2.8)	(13.5)
Items that will be reclassified subsequently to profit or loss			
Gains on cash flow hedges		**0.4**	0.5
Tax expense	4(b)	**(0.1)**	(0.2)
		0.3	0.3
Total other comprehensive loss for the year		**(2.5)**	(13.2)
Total comprehensive loss for the year		**(57.0)**	(10.4)

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2020

	Notes	2020 $M	2019 $M
Assets			
Current assets			
Cash and cash equivalents	5	**37.6**	0.3
Trade and other receivables	6	**240.8**	248.5
Inventories		**36.1**	31.6
Current tax receivable		**12.4**	–
Total current assets		**326.9**	280.4
Non-current assets			
Trade and other receivables		**0.8**	1.1
Property, plant and equipment	7	**8,326.5**	8,188.8
Intangible assets	8	**193.2**	198.1
Right-of-use assets	21	**39.3**	–
Other non-current assets		**0.3**	0.4
Total non-current assets		**8,560.1**	8,388.4
Total assets		**8,887.0**	8,668.8
Liabilities			
Current liabilities			
Trade and other payables	9	**268.6**	275.1
Contract liabilities	10	**2.1**	7.3
Interest bearing liabilities	11	**412.9**	404.6
Current tax liabilities		**—**	37.8
Provisions	12	**208.1**	190.4
Deferred revenue	13	**5.5**	12.4
Total current liabilities		**897.2**	927.6
Non-current liabilities			
Contract liabilities	10	**9.9**	9.9
Interest bearing liabilities	11	**5,492.4**	5,147.6
Deferred tax liabilities	4(c)	**82.3**	129.6
Provisions	12	**93.6**	85.5
Total non-current liabilities		**5,678.2**	5,372.6
Total liabilities		**6,575.4**	6,300.2
Net assets		**2,311.6**	2,368.6
Equity			
Contributed equity		**130.5**	130.5
Reserves		**1,156.6**	1,156.3
Retained earnings		**1,024.5**	1,081.8
Total equity		**2,311.6**	2,368.6

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2020

	Contributed Equity $M	Asset Revaluation Reserve $M	Hedge Revaluation Reserve $M	Retained Earnings $M	Total Equity $M
Balance at 1 July 2019	**130.5**	**1,157.3**	**(1.0)**	**1,081.8**	**2,368.6**
Loss for the year	**—**	**—**	**—**	**(54.5)**	**(54.5)**
Other comprehensive income					
› Actuarial losses on remeasurement of superannuation defined benefits net of tax	**—**	**—**	**—**	**(2.8)**	**(2.8)**
› Net increase in reserves	**—**	**—**	**0.3**	**—**	**0.3**
Total comprehensive loss	**—**	**—**	**0.3**	**(57.3)**	**(57.0)**
Balance at 30 June 2020	**130.5**	**1,157.3**	**(0.7)**	**1,024.5**	**2,311.6**
Balance at 1 July 2018	130.5	1,157.3	(1.3)	1,092.5	2,379.0
Profit for the year	–	–	–	2.8	2.8
Other comprehensive income					
› Actuarial losses on remeasurement of superannuation defined benefits net of tax	–	–	–	(13.5)	(13.5)
› Net increase in reserves	–	–	0.3	–	0.3
Total comprehensive loss	–	–	0.3	(10.7)	(10.4)
Balance at 30 June 2019	130.5	1,157.3	(1.0)	1,081.8	2,368.6

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2020

	Notes	2020 $M	2019 $M
Cash flows from operating activities			
Receipts from customers		**1,536.1**	1,560.0
Payments to suppliers and employees		**(921.1)**	(890.1)
Interest paid		**(311.0)**	(325.4)
Income tax paid		**(73.1)**	(38.2)
Net cash inflow from operating activities	22	**230.9**	306.3
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		**(483.7)**	(473.3)
Proceeds from sale of property, plant and equipment		**3.4**	5.9
Net cash outflow from investing activities		**(480.3)**	(467.4)
Cash flows from financing activities			
Proceeds from borrowings		**293.8**	195.7
Repayment of borrowings		**(1.2)**	(34.7)
Payment of principal portion of lease liabilities		**(5.9)**	–
Net cash inflow from financing activities		**286.7**	161.0
Net increase /(decrease) in cash and cash equivalents		**37.3**	(0.1)
Cash and cash equivalents at the beginning of the year		**0.3**	0.4
Cash and cash equivalents at the end of the year		**37.6**	0.3

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2020

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 is controlled by the State of New South Wales, which is the ultimate parent. 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.

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. Monetary assets and liabilities denominated in foreign currencies are converted to Australian currency at the exchange rates at the end of the reporting date. Differences arising on settlement or translation of monetary items are recognised in net result. Non-monetary items measured at fair value in a foreign currency are translated to Australian currency using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or net results are also recognised in other comprehensive income or net results, respectively).

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.

Coronavirus (COVID-19) impact

COVID-19, which is a respiratory illness caused by a new virus, was declared a world-wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on global economies and equity, debt and commodity markets. The Corporation's Management have considered the impact of COVID-19 in preparing the financial statements.

The impact of COVID-19 has been considered when exercising judgement within identified impacted areas. Given the unusual, dynamic and evolving nature of COVID-19 changes to the estimates and outcomes that have been applied in the measurement of the Corporation's assets and liabilities may arise in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

The effects of COVID-19 on the ability to collect our revenue have been considered for the purposes of estimating the expected credit loss (ECL) explained further in Note 14 to the financial statements. Management have considered the latest available information and trends but there remains uncertainty regarding the outcomes as at the reporting date.

As a consequence of COVID-19, management evaluated whether there were any additional areas of judgement or estimation uncertainty beyond what has been disclosed in the notes to these financial statements. The main areas that COVID-19 impacts were considered were fair value of property, plant and equipment, impairment of Cash Generating Units, intangible assets and right-of-use assets, provision of expected credit losses, liquidity risk and going concern, supplier obligations and subsequent events. The notes to the financial statements include comment of the main judgement impact areas being Fair value measurements (Note 15), ECL, Revenue (Note 2), Superannuation (Note 23) and Events subsequent to reporting date (Note 24).

Inventories

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

Foreign currency translation

Transactions in foreign currencies are recorded using the spot rate at the date the transaction first qualifies for recognition.

Share capital

The Corporation is incorporated under the *State-Owned Corporations Act 1989* with issued capital of two fully paid $1 ordinary shares.

Current shareholders are the Treasurer and the Minister for Finance and Small Business 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.

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

The Corporation applied AASB 16 *Leases* for the first time from 1 July 2019. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. The Corporation has not early adopted any standards, interpretations and amendments.

AASB 16 supersedes AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease, Interpretation 115 Operating Leases – Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 did not have an impact for leases where the Corporation is the lessor.

AASB 16 requires the entity to account for all leases under a single on balance sheet model similar to the accounting for finance leases under AASB 117. As the lessee, the entity recognises a lease liability and right of-use asset at the inception of the lease. The lease liability is measured at the present value of the future lease payments, discounted using the interest rate implicit in the lease, or the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. The corresponding right-of-use asset is measured at the value of the lease liability adjusted for lease payments before inception, lease incentives, initial direct costs and estimates of costs for dismantling and removing the asset or restoring the site on which it is located.

The Corporation has adopted AASB 16 with the date of initial application of 1 July 2019. The Corporation is using a partial retrospective approach where only the current year will be adjusted as though AASB 16 had always applied, comparative financial information will not be restated. The Corporation has used hindsight in determining the lease term where the contract contained options to extend or terminate the lease. The Corporation has elected to use the practical expedient under AASB 16 for which the lease term ends within 12 months of the date of initial application and lease contracts for which the underlying asset is low value(underlying asset is estimated to be $10,000 or under when new). The entity has elected to present right-of-use assets separately in the Statement of Financial Position. The Corporation measured the lease liability at 1 July 2019 as the present value of any future lease payments discounted using the appropriate incremental borrowing rate. The right of use asset was measured as equal to the lease liability and adjusted for any prepayments or accruals already on the balance sheet. The Corporation excluded any initial direct costs from the measurement of the right of use assets at transition.

The impact of transition to AASB 16 on the Corporation's 1 July 2019 balance sheet is an increase in lease liabilities (interest bearing liabilities) net of deferred lease incentives of $44.3M and an increase in right of use assets (property, plant and equipment) of $44.3M. The incremental borrowing rate applied to the Corporation's lease liabilities recognised on balance sheet was 2.9 per cent for leases with a remaining term of less than ten years and 3.5 per cent for leases with a remaining term of ten years or more. This applies the practical expedient permitted by AASB 16 where a single discount rate can be applied to leases with reasonably similar characteristics.

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

The impacts of adopting AASB 16 on the 30 June 2020 Statement of Comprehensive Income, Statement of Financial Position and Statement of Cashflows were as follows:

	$'M Increase/ (decrease)	Line item impacted
Statement of Comprehensive Income		
Depreciation	5.0	Depreciation, amortisation and impairment
Finance costs	1.7	Finance costs
Statement of Financial Position		
Right of use assets	39.3	Right-of-use assets
Lease liabilities – current	6.0	Interest bearing liabilities – current
Lease liabilities – non-current	43.5	Interest bearing liabilities – non-current
Statement of Cash flows		
Payment of principal portion of lease liabilities	5.9	Cash flows from financing activities
Lease interest paid	1.7	Interest paid

The lease liabilities at 1 July 2019 can be reconciled to the operating lease commitments at 30 June 2019 as follows:

	$M
Operating lease commitments as at 30 June 2019 (GST included)	66.4
Less: GST included in operating lease commitments	6.0
Operating lease commitments as at 30 June 2019 (GST excluded)	60.4
Discounting applied	13.2
Discounted operating lease commitments as at 1 July 2019	47.2
Less: commitments relating to low value leases (GST excluded)	0.5
Less: commitments relating to short-term leases (GST excluded)	—
Add: lease payments relating to renewal periods or new leases not included in operating lease commitments as at 30 June 2019	7.0
Lease liabilities as at 1 July 2019	53.7

Several other accounting standards, amendments and interpretations apply for the first time in the 2020 financial year, but do not have an impact on the financial statements of the entity.

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 2020 reporting period. None of these are expected to have a material impact on the Corporation and will not materially affect the Corporation's financial statements.

2 Revenue

	2020 $M	2019 $M
Revenue from contracts with customers		
a. Network revenue from contracts with customers		
Network Use Of System charges	**1,243.6**	1,265.3
Water and sewerage treatment charges	**22.1**	22.4
	1,265.7	1,287.7
b. Other revenue from contracts with customers		
Ancillary Services revenue	**21.6**	33.7
Metering Services revenue	**29.5**	32.1
Public lighting services charges	**11.7**	18.3
Capital contributions		
› Gifted assets and customer contributions received	**98.4**	114.1
› Recognition/ (deferral) of prepaid capital contributions revenue [1]	**5.2**	2.1
Other revenue from contracts with customers	**17.4**	22.3
	183.8	222.6
Total revenue from contracts with customers	**1,449.5**	1,510.3
c. Other revenue		
Government grant revenue		
› Capital grants	**—**	61.5
› Revenue grants	**22.1**	6.2
Lease revenue	**0.9**	1.2
	23.0	68.9

1. Represents the deferral or recognition of prepaid contributions as performance obligations are established or satisfied (refer note 10).

Recognition and measurement

Revenue from contracts with customers is recognised when control of the goods and services are transferred to the customer at an amount that the Corporation expects to be entitled in exchange for those goods or services. The Corporation has concluded that it is the principal in its revenue arrangements. Revenue is measured with reference to the fair value of the consideration received or receivable. There are no material incremental costs of obtaining contracts in any of the arrangements. The Corporation does not adjust the consideration for the effects of a financing component as it receives payment at or shortly after the point of sale. Revenue is recognised for the major business activities as follows:

i. Network Use Of System (NUOS), Ancillary Services, Metering, Public Lighting and Water and Sewerage Treatment (Water) Revenue

The Corporation derives NUOS, Ancillary Services, Metering, Public Lighting and Water revenue from the provision of electricity distribution and provision of Public Lighting, Meter reading and servicing, Water and other network related services. Tariffs are set by regulators and generally include a fixed component and an amount based on the amount of electricity or water used by the customer. The performance obligation in these arrangements is satisfied over time because the customer simultaneously receives and consumes the benefits as the Corporation provides the service. We record revenue for the sales based on the regulatory approved tariff and volumes distributed.

Unbilled NUOS and water revenue (unread meters) is estimated based on the historical consumption of customers and prices per customer class. The key assumption applied in calculating the unread meters revenue accrual is 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 $6.2M (2019: $6.3M).

The Corporation is subject to regulatory 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 (TUOS) 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 Department of Planning, Industry and Environment.

The Corporation's revenue was not materially impacted by the COVID-19 pandemic or the NSW Bushfires. The Corporation, as a member of Energy Networks Australia, has agreed to a suite of measures to provide support to customers, including retailers, enduring hardship because of the COVID-19 pandemic. These measures include payment plans, waivers and deferral of charges, and restrictions on disconnections. A provision has been made for the expected claims from customers enduring hardship (refer to note 14 (b)).

2 **Revenue** continued

ii. Capital contributions

The Corporation receives cash and non-cash contributions from customers and developers, mainly towards the capital cost of network connections and public lighting.

The performance obligation in these arrangements is satisfied at a point in time, being at the time the customer is connected to the network or the Corporation takes control of the asset. 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 revenue from contracts with customers

The Corporation provides other services such as connection services and unregulated meter services. The revenue for one-off services is recognised at a point in time and the revenue for on-going services is recognised over time as the services are performed. The Corporation also sells inventory items and scrap and recovers the cost of certain works from customers. These are recognised at a point in time, once the items have been delivered or the construction work is complete.

iv. Other Revenue

Government Grant Revenue

Government grants represent assistance by NSW Government and NSW Government agencies in cash or non-cash resources in return for past or future compliance with certain conditions. Where government grants are received in advance, they are recognised in the Statement of Financial Position as deferred revenue when they are received and are subsequently recognised as revenue when 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 or revenue foregone 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 or revenue foregone.

Non-cash resources are recognised at their fair value.

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.

3 Expenses

	Notes	2020 $M	2019 $M
a. Operating expenses			
Transmission use of service expense		**217.6**	219.8
Climate change fund contributions		**56.0**	59.2
Employee benefits expense [1]		**251.1**	258.5
Other costs of distribution of energy and other services		**260.8**	253.8
Debt write offs and change in provision for expected credit losses		**3.6**	0.1
Loss on disposal of property, plant and equipment		**7.6**	3.9
Write-off of non-financial assets [2]		**23.0**	–
Operating leases rentals, low value leases and short-term leases		**1.9**	6.9
Total operating expenses		**821.6**	802.2
b. Depreciation, amortisation and impairment			
Depreciation of property, plant and equipment	7	**351.2**	343.1
Depreciation of right-of use assets		**5.0**	–
Plant and equipment depreciation capitalised [3]		**(11.5)**	(9.4)
Depreciation expense		**344.7**	333.7
Amortisation of intangible assets	8	**18.1**	18.1
Impairment losses [4]	7	**39.0**	86.5
Total depreciation, amortisation and impairment		**401.8**	438.3

1. Employee benefits expense excludes $209.2M (2019: $198.7M) capitalised during the year as part of property, plant and equipment and intangible assets. Defined contribution superannuation expenses of $41.4M (2019: $38.5M) and defined benefit superannuation expenses $4.3M (2019: $5.2M) (note 23(f)) (before capitalisation) were incurred.
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

Up to 30 June 2019 payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease and lease incentives received are recognised in profit or loss as an integral part of the total lease expense and spread over the lease term.

From 1 July 2019 the Corporation recognises lease payments associated with low value assets ($10,000 or under when new) and short-term leases (lease term at commencement of 12 months or less) as an expense on a straight-line basis.

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.

3 **Expenses** continued

iv. Depreciation, amortisation and impairment

Refer to Note 7 and 8 for recognition and measurement policies on depreciation, amortisation and impairment.

	2020 $M	2019 $M
c. Finance Costs		
Interest and finance charges paid or payable on loans	**325.2**	334.5
Interest expense from lease liabilities (Note 21)	**1.7**	–
Unwinding of discount on provisions	**0.1**	0.1
Total finance costs	**327.0**	334.6

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 on loans:

- Interest expenses calculated using the effective interest method as described in AASB 9, 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 *Borrowing Costs*. 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. No borrowing costs were capitalised during the year (2019: $nil).

	2020 $M	2019 $M
d. Maintenance expenses (included in (a) above)		
Employee benefits expense	**82.9**	82.7
Contracted labour and other (non-employee related) expenses	**348.0**	341.4
	430.9	424.1

4 Income tax

	2020 $M	2019 $M
a. Income tax recognised in profit or loss		
Current tax expense		
Current year	**22.8**	66.7
Adjustments for prior years	**5.9**	0.2
	28.7	66.9
Deferred tax credit		
Origination and reversal of temporary differences	**(46.2)**	(65.4)
Over-provided in prior years	**(5.9)**	(0.2)
	(52.1)	(65.6)
Total income tax (benefit)/ expense in profit or loss	**(23.4)**	1.3
Numerical reconciliation between tax expense and pre-tax net profit		
Profit/ (loss) before tax	**(77.9)**	4.1
Income tax at the statutory tax rate of 30 per cent (2019: 30 per cent)	**(23.4)**	1.2
Increase/ (decrease) in income tax expense due to:		
› Non-deductible expenses	**—**	0.1
Income tax (benefit)/ expense on pre-tax net profit	**(23.4)**	1.3
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	**(1.2)**	(5.8)
Items to be reclassified subsequently to profit or loss:		
› Revaluation of hedge derivatives	**0.1**	0.2
Income tax charged (credited) directly to other comprehensive income	**(1.1)**	(5.6)
c. Recognised deferred tax assets and liabilities		
Deferred tax (assets) and liabilities are attributable to the following:		
› Property, plant and equipment	**177.8**	218.9
› Defined benefit superannuation benefits	**(15.3)**	(13.6)
› Other liabilities and provisions	**(79.6)**	(75.0)
› Other items	**(0.6)**	(0.7)
Net tax liabilities	**82.3**	129.6

4 Income tax continued

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

Movement in temporary tax differences

	1 July 2019 $M	Recognised in profit or loss $M	Recognised in other comprehensive income $M	30 June 2020 $M
Property, plant and equipment	**218.9**	**(41.1)**	**—**	**177.8**
Defined benefit superannuation liabilities	**(13.6)**	**(0.4)**	**(1.3)**	**(15.3)**
Other liabilities and provisions	**(75.0)**	**(4.6)**	**—**	**(79.6)**
Other items	**(0.7)**	**—**	**0.1**	**(0.6)**
	129.6	**(46.1)**	**(1.2)**	**82.3**

	1 July 2018 $M	Recognised in profit or loss $M	Recognised in other comprehensive income $M	30 June 2019 $M
Property, plant and equipment	274.1	(55.2)	–	218.9
Defined benefit superannuation liabilities	(7.8)	–	(5.8)	(13.6)
Other provisions	(64.8)	(10.2)	–	(75.0)
Other items	(0.7)	(0.2)	0.2	(0.7)
	200.8	(65.6)	(5.6)	129.6

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, usingtax 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 Cash and cash equivalents

	2020 $M	2019 $M
Cash and bank balances	**4.5**	0.3
Money market securities and deposits	**33.1**	–
	37.6	0.3

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

6 Trade and other receivables – current

	2020 $M	2019 $M
Trade receivables	**53.1**	61.8
Less: allowance for expected credit losses	**(3.4)**	(1.1)
	49.7	60.7
Accrued revenue from unread meters	**165.8**	163.4
	215.5	224.1
Prepayments	**14.2**	11.0
Other receivables	**11.5**	13.8
Less: allowance for expected credit losses	**(0.4)**	(0.4)
	240.8	248.5
The movement in the allowance for expected credit losses is detailed below:		
Opening balance at 1 July	**1.5**	1.8
Provision for expected credit losses	**3.7**	0.2
Write-off of debts	**(1.4)**	(0.5)
Closing balance at 30 June	**3.8**	1.5

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

Recognition and measurement

Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost less any allowance for expected credit losses. Trade receivables include an estimate of the value of unbilled Network Use of System (NUOS) revenue (refer note 2).

A provision for expected credit losses is recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of the allowance for expected credit losses to decrease, the decrease in allowance for expected credit losses is reversed through profit or loss.

7 Property, plant and equipment

	Notes	Land and buildings $M	System assets $M	Plant and equipment $M	Total $M
Year ended 30 June 2020					
Gross carrying amount		**236.6**	**9,215.7**	**513.0**	**9,965.3**
Accumulated depreciation and impairment		**(25.5)**	**(1,324.6)**	**(288.7)**	**(1,638.8)**
Net carrying amount		**211.1**	**7,891.1**	**224.3**	**8,326.5**
Net carrying amount at start of year		**200.0**	**7,784.8**	**204.0**	**8,188.8**
Purchases of assets		**16.1**	**467.8**	**66.4**	**550.4**
Disposals and write offs		**(0.2)**	**(19.4)**	**(2.9)**	**(22.5)**
Depreciation expense	3(b)	**(4.8)**	**(303.1)**	**(43.2)**	**(351.2)**
Impairment	3(b)	**—**	**(39.0)**	**—**	**(39.0)**
Net carrying amount at end of year		**211.1**	**7,891.1**	**224.3**	**8,326.5**
Year ended 30 June 2019					
Gross carrying amount		220.8	8,776.1	481.0	9,477.9
Accumulated depreciation and impairment		(20.8)	(991.3)	(277.0)	(1,289.1)
Net carrying amount		200.0	7,784.8	204.0	8,188.8
Net carrying amount at start of year		196.1	7,624.4	187.6	8,008.1
Purchases of assets		10.1	550.6	59.4	620.1
Disposals and write offs		(1.8)	(5.6)	(2.4)	(9.8)
Depreciation expense	3(b)	(4.4)	(298.1)	(40.6)	(343.1)
Impairment	3(b)	—	(86.5)	—	(86.5)
Net carrying amount at end of year		200.0	7,784.8	204.0	8,188.8

7 Property, plant and equipment continued

	2020 $M	2019 $M
Assets under construction		
Expenditure on construction in progress at the end of the year	**507.1**	473.5
Historic cost of revalued assets		
The carrying amount of assets had they been carried under the cost model is:		
Land and buildings	**180.0**	168.6
System assets	**7,271.6**	7,189.6
Plant and equipment	**224.3**	204.0

Recognition and measurement

i. Initial recognition

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

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, developers or Government agencies 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 which make up infrastructure used directly for the distribution of electricity, provision of public lighting, and water and sewerage infrastructure.

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 for five years 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 materially from the carrying value. A comprehensive valuation was completed at 30 June 2020.

The distribution network, comprising system assets, land and buildings, and easements, 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, land and buildings and easements 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, including motor vehicles, tools, IT hardware, communications equipment and furniture and fittings. 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 2020 (2019: $nil) as the business is not forecast to generate positive cashflows within the foreseeable future. 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 impairment for the year was $7.5M (2019: $67.7M) which was recognised in profit and loss.

The recoverable amount of the Public Lighting CGU's system assets was estimated at $9.0M as at 30 June 2020 (30 June 2019: $8.1M) based on a value in use valuation and applying a discount rate of 5.5%. An impairment charge of $31.4M (2019: $18.8M) has been recognised in profit and loss during the current period. The valuation processes are described in note 15. The impairment charge was mainly due to the recognition of gifted and customer funded system assets the value of which are not recoverable through tariffs in future periods.

A significant number of system assets were destroyed or damaged by bushfires during the 2020 financial year. Where the assets have been replaced these have been derecognised. Inspections of potentially damaged assets are continuing, and these are likely to identify further assets that require replacement. No impairment provision has been raised against these assets as the current carrying value is expected to be immaterial. No property, plant and equipment assets were assessed as being impaired due to COVID-19 impacts.

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

8 Intangible assets

	Notes	Easements $M	Computer software $M	Other $M	Total $M
Year ended 30 June 2020					
At cost		**82.0**	**148.6**	**56.9**	**287.5**
Accumulated amortisation		**—**	**(78.7)**	**(15.6)**	**(94.3)**
Net carrying amount		**82.0**	**69.9**	**41.3**	**193.2**
Net carrying amount at start of year		**81.8**	**70.4**	**45.9**	**198.1**
Acquisitions		**0.2**	**24.6**	**0.1**	**24.9**
Amortisation	3(b)	**—**	**(13.4)**	**(4.7)**	**(18.1)**
Write-offs		**—**	**(11.7)**	**—**	**(11.7)**
Net carrying amount at end of year		**82.0**	**69.9**	**41.3**	**193.2**
Year ended 30 June 2019					
At cost		81.8	135.9	56.8	274.5
Accumulated amortisation		—	(65.5)	(10.9)	(76.4)
Net carrying amount		81.8	70.4	45.9	198.1
Net carrying amount at start of year		81.6	67.4	36.8	185.8
Acquisitions		0.2	16.9	13.3	30.4
Amortisation	3(b)	—	(13.9)	(4.2)	(18.1)
Net carrying amount at end of year		81.8	70.4	45.9	198.1

	2020 $M	2019 $M
Intangible assets under construction		
Expenditure on development or purchase of intangible assets in progress at the end of the year:	**52.2**	66.4

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. Easements are valued annually together with system assets and land and buildings as described in note 7(ii).

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

9 Trade and other payables

	2020 $M	2019 $M
Trade payables	**19.0**	18.9
Interest payable	**152.7**	149.8
Accruals	**73.0**	84.2
Payroll related payables	**15.6**	13.0
Other payables	**8.3**	9.2
	268.6	275.1

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

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.

10 Contract liabilities

	2020 $M	2019 $M
Contract liabilities		
Prepaid capital contributions		
› Current	**2.1**	7.3
› Non-current	**9.9**	9.9
	12.0	17.2

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Corporation has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Corporation transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Corporation performs under the contract.

Prepaid capital contributions

Prepaid capital contributions mainly include contributions by public lighting customers up to 30 June 2009 intended to fund the replacement of assets at the end of their life. For public lighting the revenue is recognised once the Corporation has replaced the asset. For other prepaid capital contributions the revenue is recognised as set out in note 2 (ii).

11 Interest bearing liabilities

	2020 $M	2019 $M
Current liabilities		
TCorp borrowings	**406.9**	404.6
Lease liability (Note 21)	**6.0**	–
	412.9	404.6
Non-current liabilities		
TCorp borrowings	**5,448.9**	5,147.6
Lease liability (Note 21)	**43.5**	–
Non-current portion of borrowings	**5,492.4**	5,147.6
Changes in liabilities arising from financing activities		
Total interest-bearing liabilities at beginning of year	**5,552.2**	5,383.4
Recognition of lease liabilities on initial adoption of AASB 16	**53.7**	–
Net cash flows from proceeds from and repayments of borrowings and lease liabilities	**286.7**	161.0
Capitalisation of indexed bonds indexation	**10.9**	9.8
Movement and settlement of deferred interest	**2.2**	(1.5)
Movement in forward rate contracts	**(0.4)**	(0.5)
Total interest-bearing liabilities at end of year	**5,905.3**	5,552.2

Borrowings are unsecured and repayable in full on various maturity dates. For more information about the Corporation's exposure to interest rate risk and liquidity risk see note 14.

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 accounting for 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.

12 Provisions

	Employee benefits $M	Environmental and asset remediation $M	Workers' compensation $M	Other $M	Total $M
At 1 July 2019	**243.8**	**23.8**	**6.4**	**1.9**	**275.9**
Additional provisions	**53.6**	**11.0**	**1.8**	**1.8**	**68.2**
Amounts used	**(32.8)**	**(1.3)**	**(1.9)**	**(0.8)**	**(36.8)**
Amounts reversed	**(3.0)**	**(1.0)**	**(1.6)**	**(0.1)**	**(5.7)**
Unwinding of discount	**–**	**0.1**	**–**	**–**	**0.1**
At 30 June 2020	**261.6**	**32.6**	**4.7**	**2.8**	**301.7**
Current	**194.9**	**6.8**	**3.6**	**2.8**	**208.1**
Non-Current	**66.7**	**25.8**	**1.1**	**–**	**93.6**
At 30 June 2020	**261.6**	**32.6**	**4.7**	**2.8**	**301.7**
Current	177.5	5.6	5.4	1.9	190.4
Non-Current	66.3	18.2	1.0	–	85.5
At 30 June 2019	243.8	23.8	6.4	1.9	275.9

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. No dividend was provided at 30 June 2020 (2019: $nil).

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 in May 2020 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.

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 $194.9M (2019: $177.5M) 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.

	2020 $M	**2019 $M**
Current leave obligations expected to be settled after 12 months	**158.7**	144.2

The non-current provision for employee benefits includes $52.0M (2019: $47.0M) relating to the defined benefit superannuation liability.

iii. Environmental and asset rectification

This provision category includes three main items:

- A provision to remediate assets which are no longer compliant with current regulations. The provision is based on one of several options which assumes a completion date of 2029 with a discount rate of 2.5 per cent applied.
- Provisions for environmental rectification works which are expected to be settled between 2020 and 2022. In respect of obligations to be settled by 2021 the effect of the time value of money has been deemed to be immaterial. Where settlement is expected by 2022 a discount rate of 0.2 per cent (2019: 0.9 per cent) has been applied.
- Provision for lease make good costs expected to be incurred on termination of existing leases. The majority of the make good costs are expected to be incurred in 2034 and a discount rate of 1.6 per cent (2019: 1.6 per cent) has been applied.

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 2022 for the 2020 financial year cover period. Discount rates of 0.6% and 0.8% per cent (2019: 1.6 per cent) have 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.

13 Deferred revenue

	2020 $M	2019 $M
Deferred government grants	**2.9**	2.9
Other deferred revenue	**2.6**	9.5
	5.5	12.4

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. 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 continued to keep this facility in a 'care and maintenance' mode until the long-term solution to secure Broken Hill's water supply was in place. This long-term water supply solution was finalised in April 2019 when construction of the Murray Pipeline was completed. As the pipeline is fully operational discussions will be held with NSW Treasury to finalise the project.

Other deferred revenue

Other deferred revenue consists of receipts for services not yet provided and in 2019 included lease incentives received which are amortised over the expected period of the lease.

14 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 under a financial instrument or customer contract.

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 provision for expected credit losses.

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. The credit risk related to distribution network customers (retailers) 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 could 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 2020 the Corporation had trade receivables of $51.9 M (2019: $53.7M) from retailers. Three retailers represented 76 per cent (2019: 74 per cent) of these trade 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.

Set out below is information about the credit risk exposure of the Corporation's trade receivables using a provision matrix:

	2020		2019	
Days past due	Carrying Amount $M	Expected Credit Loss $M	Carrying Amount $M	Expected Credit Loss $M
Current	**47.7**	**3.1**	56.6	–
<30 days	**1.4**	**0.3**	2.4	0.1
30-90 days	**3.1**	**–**	0.7	–
91-180 days	**0.4**	**–**	0.3	0.1
>180	**0.5**	**0.4**	1.8	1.3
Total	**53.1**	**3.8**	61.8	1.5

An impairment review is performed at each reporting date considering the days past due for the groupings of customer segments with similar loss patterns, eg retailers and sundry debtors. The review considers the probability of collection, reasonable and supportable information that is available at the reporting date. The majority of receivables relate to regulated retailers with payments required within 30 days of billing, with defaults being unpredictable at the time of billing, therefore expected credit losses for retailers are assessed based on observable default events. For non-retail receivables the aging of the debtors is the key indicator of credit risk and the Corporation's historical credit loss experience is used to determine the expected credit loss. Normal fluctuations in economic conditions are not viewed as a factor that has an observable impact on the expected losses, however abnormal changes in economic conditions, such as the economic implications arising from the current COVID-19 pandemic are considered. As such the Corporation's historical credit loss experience may not be representative of customer's actual default in the future. The Corporation, as a member of Energy Networks Australia, has agreed to a suite of measures to provide support to customers, including retailers, enduring hardship because of the COVID-19 pandemic. These measures include payment plans, waivers and deferral of charges, and restrictions on disconnections. It is expected that the risk of credit losses will be higher than normal and management is closely monitoring overdue debtors and having regular discussions with retailers and Authorised Service Providers (ASPs), with provisions for doubtful debts made where there is evidence of risk of default.

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 considers using forward exchange contracts to hedge its foreign currency risk for all committed foreign exchange exposures that exceed A$500,000 in value. At reporting date the Corporation had a US dollar denominated hedge in place with a value of A$1.5M (2019: nil) and A$0.2M within a US dollar denominated bank account to cover contractual obligations for purchases to be settled in US dollars.

There are no other 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:

Carrying amount	2020 $M	2019 $M
Fixed rate		
Financial liabilities	**(5,059.7)**	(4,735.8)
Floating rate		
Financial assets	**37.6**	0.8
Financial liabilities	**(2.4)**	(3.6)
	35.2	(2.8)
Inflation Indexed		
Financial liabilities	**(843.2)**	(812.8)

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 have negligible impact on profit before tax. 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 is estimated to impact the annual profit before tax by $4.2M (2019: $4.1M).

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.

	2020 $M	2019 $M
Total borrowings	**5,905.3**	5,552.2
Less: cash at bank	**37.6**	0.3
Net debt	**5,867.7**	5,551.9
Total equity	**2,311.6**	2,368.6
Total capital	**8,179.3**	7,920.5
Gearing ratio	**71.7%**	70.1%

14 Financial risk management continued

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 2020 the Corporation had an approved core debt borrowing limit of $7,110.0M (2019: $6,109.6M) of which $1,257.5M was unused as at 30 June 2020 (2019: $561.0M). The Corporation also has an approved New South Wales Treasury Corporation (TCorp) Come and Go Facility limit of $250.0M (2019: $250.0M) and approval to obtain a commercial bank overdraft facility limit of up to $15.0M (2019: $15.0M) to fund working capital (at 30 June 2020 a facility of $2.0M (2019: $2.0M) was in place). Planned future capital expenditure will be funded through TCorp borrowings. Future committed expenditure is disclosed in Note 20.

While current liabilities are greater than current assets as at 30 June 2020 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 $247.6M (2019: $246.4M) unused and the commercial bank overdraft facility limit had $2.0M unused (2019: $2.0M). On 2 June 2020 NSW Treasury approved an increase in the core debt borrowing limit to $7,110.0M which 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, including lease 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 2020					
Non derivative financial liabilities					
Fixed rate borrowings	**5,059.7**	**5,930.7**	**396.7**	**2,741.4**	**2,792.6**
Floating rate borrowings	**2.4**	**2.4**	**2.4**	**—**	**—**
Inflation indexed borrowings	**843.2**	**927.5**	**209.8**	**240.7**	**477.0**
Trade and other payables (excluding statutory payables)	**253.1**	**253.1**	**253.1**	**—**	**—**
	6,158.4	**7,113.7**	**862.0**	**2,982.1**	**3,269.6**

	Carrying amount $M	Contractual cash flows total $M	1 year or less $M	1 – 5 years $M	More than 5 years $M
30 June 2019					
Non derivative financial liabilities					
Fixed rate borrowings	4,735.8	5,675.1	588.3	2,395.8	2,691.0
Floating rate borrowings	3.6	3.6	3.6	—	—
Inflation indexed borrowings	812.8	968.1	22.4	368.9	576.8
Trade and other payables (excluding statutory payables)	261.1	261.1	261.1	—	—
	5,813.3	6,907.9	875.4	2,764.7	3,267.8

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.

15 Fair value measurements

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

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 7. 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 7.

ii. Valuation processes

The finance department of the Corporation performs the valuations of system assets and land and buildings required for financial reporting purposes. The Board Audit and Risk Committee is briefed on the valuation at least annually. A comprehensive valuation was performed as at 30 June 2020, in which the Corporation engaged external, independent and qualified valuers to perform a review of the valuation. A comprehensive valuation is performed and reviewed at least every three years. An interim formal revaluation is undertaken where there is an indication that the valuation may materially differ from carrying value.

The main level 3 inputs used by the Corporation for the 30 June 2020 valuation were derived and evaluated as follows:

- a discounted cash flow model, using five years of cashflows, 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. There is greater uncertainty in forecasting future cashflows used for the valuation. Forecasts applied included a scenario of reduced cashflows as a result of the COVID-19 pandemic, including reduced revenues, delayed receipt of billed amounts and higher operating expenses. The impact of the COVID-19 is difficult to predict and requires management's judgement. The severity of the economic and social impacts of COVID-19, as well as requirements of government and regulators on energy distributors will affect future cashflows.
- The cash flows are discounted using a discount rate of 5.5% 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. There is greater uncertainty on the discount rate to be applied due to the significant volatility in risk-free rates, market equity prices and debt risk premiums that have resulted from the COVID-19 pandemic.
- The terminal RAB multiple is determined with reference to market observable multiples.

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 $8,102.2M.

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 $222.4M 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 $424.0M 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 $158.1M 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 $29.6M 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 $363.5M 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:

		2020		2019	
	Note	Carrying amount $M	Fair value $M	Carrying amount $M	Fair value $M
Financial liabilities carried at amortised cost					
Interest bearing liabilities	11	**5,905.3**	**6,578.9**	5,552.2	6,186.8

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 2020 to discount financial instruments. The interest rates used are in the following ranges:

	2020	2019
Borrowings	**1.2% – 2.7%**	1.2% – 2.7%

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 7 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.

16 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 Minister for Finance and Small Business, and the Portfolio Minister are also considered to be key management personnel.

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:

	2020 $M	2019 $M
Short-term employee benefits	**4.5**	4.5
Long-term benefits	**0.3**	0.2
Post-employment benefits	**0.1**	0.1
Termination benefits	**0.1**	–
	5.0	4.8

17 Related party transactions

a. 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.

b. 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 Company 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.

c. 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.

d. 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 $101.2M (2019: $99.3M).

TCorp

TCorp is a wholly owned NSW State owned corporation and is the central financing agency for the NSW public sector. TCorp provides debt and investments and provides other financial services to the NSW public sector. TCorp has also provided guarantees relating to workers compensation insurance and prudential requirements for the Australian Energy Market Operator (refer note 19). Details of borrowings are disclosed in note 11, interest costs on these borrowings were $224.1M (2019: $235.2M) of which $51.5M (2019: $50.5M) was owing at year end. Borrowing facilities provided by TCorp are disclosed in note 14.

NSW Department of Planning, Industry and Environment

The NSW Department of Planning Industry and Environment administers the Climate Change Fund. The Corporation is required to contribute a gazetted annual amount to the Department of Planning Industry and Environment for the Climate Change Fund. An expense of $56.0M was recognised for the current year (2019: $59.2M) for the Climate Change Fund contribution, with $nil owing at 30 June 2020 (2019: $nil).

Crown Entity

The Crown Entity of the NSW Government administers the Restart NSW Fund which is funding several infrastructure projects within NSW. The Crown Entity has provided revenue grants to the Corporation during 2020. The Crown Entity provided the Corporation with funding of the amount of the bulk water supply charge being levied by Water NSW associated with a pipeline from Wentworth to Broken Hill which is not recovered through water tariffs. This revenue amounted to $22.1M (2019: $6.2M) with $1.8M owing by the Crown entity at 30 June 2020 (2019: $4.1M).

Water NSW

Water NSW, an NSW State Owned Corporation, operates the pipeline providing water from Wentworth to Broken Hill. From April 2019 Water NSW has charged the Corporation for bulk water provided to Broken Hill through the pipeline. A bulk water supply expense of $24.9M was recognised in 2020 (2019: $6.2M) of which $2M (2019: $6.2M) remained owing to Water NSW at 30 June 2020.

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.

18 Remuneration of auditor

	2020 $M	2019 $M
Audit Office of New South Wales		
Audit of financial statements	**0.4**	0.4

19 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 from the proceedings commenced in the Supreme Court of NSW against the Corporation. At the time of finalising these financial statements it is too early to estimate any likelihood of liability arising nor the quantum of that liability. A defense will be filed denying all liability. The relevant deductible (excess) applicable under the Corporation's liability insurance policy is $10.0M.

Guarantees	2020 $M	2019 $M
Guarantees provided to regulatory and statutory authorities	**20.9**	22.2

20 Capital commitments

	2020 $M	2019 $M
Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities (including GST)	**83.1**	52.9
GST credits	**7.6**	4.8

21 Leases

a. The Corporation as a Lessee

The Corporation leases various properties, including land, buildings and radio sites, and transmission lines. Lease contracts vary from one to 100 years and may have extension options, mainly between one and five years. Most leased sites are occupied by the Corporation for long periods of time. Extension options on higher value leases allow the Corporation flexibility managed the portfolio to align with business needs. Lease terms for the higher value contracts are negotiated on an individual basis. Extension and termination options are included in a number of property leases and are generally exercisable by the Corporation and not by the respective lessor. Extension options, generally between one and five years are included in the lease term unless the Corporation has a specific plan to not continue the lease. Many of the leases have contingent rentals either based on CPI or some other increment. The assessment of lease term reviewed at least annually. No changes were made to the lease term assumption during the year.

The Corporation has a many low value leases, mainly comprising licence arrangements for the non-exclusive right to erect radio equipment on a site. The Corporation has elected to recognise payments for short term leases and low value leases as expenses on a straight-line basis, instead of recognising a right-of-use asset and lease liability.

From 1 July 2019, AASB 16 Leases (AASB 16) requires a lessee to recognise a right-of-use asset for most leases. The right-of-use asset and corresponding liability are initially measured at the present value of the future lease payments. Therefore, at that date the statement of financial position includes amounts for right-of-use assets in respect of leases previously treated as operating leases under AASB 117. The right-of-use assets are subsequently measured at cost. Right-of use assets are generally depreciated over the lease term which is one to fifteen years. Right-of use assets are reviewed for impairment at least annually. The COVID-19 pandemic had no observable impact on the value of right-of-use assets and no rental holidays were received or provided.

Right-of-use assets under leases

The following table presents right-of use assets under leases.

	Land and buildings $M
Balance at 1 July 2019	44.3
Additions	–
Depreciation expense	(5.0)
Balance 30 June 2020	**39.3**

Lease liabilities

The following table presents liabilities under leases

	$M
Balance at 1 July 2019	53.7
Additions	–
Interest expense	1.7
Payments	(5.9)
Balance 30 June 2020	**49.5**

The following amounts were recognised in the Statement of Comprehensive Income for the year ended 30 June 2020 in respect of leases where the entity is the lessee:

	2020 $M
Depreciation expense of right-of-use assets	5.0
Interest expense on lease liabilities	1.7
Expense relating to short-term and low-value assets	1.8
Total amount recognised in the statement of comprehensive income	**8.5**

The Corporation has total cash outflows for leases of $7.7M for the year ended 30 June 2020.

The future minimum lease payments under non-cancellable leases are as follows:

	2020 $M	2019 $M
Within twelve months	**6.4**	6.5
Twelve months or longer and not longer than five years	**21.8**	22.2
Longer than five years [1]	**38.9**	37.7
Total (including GST)	**67.1**	66.4
GST credits	**6.1**	6.0

b. The Corporation 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:

	2020 $M	2019 $M
Within twelve months	**1.0**	1.1
Twelve months or longer and not longer than five years	**1.2**	1.6
Longer than five years [1]	**0.6**	0.1
Total (including GST)	**2.8**	2.8
GST debits	**0.3**	0.3

During the year ended 30 June 2020 $0.9M (2019: $1.2M) 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.

22 Reconciliation of cash flows from operating activities

	2020 $M	2019 $M
Profit/ (loss) for the year	**(54.5)**	2.8
Add/ (less) non-cash items:		
Depreciation, amortisation, impairment and write-off of owned non-financial assets	**401.8**	438.3
Gifted assets and capital grants	**(79.7)**	(165.3)
Non-cash superannuation expenses	**1.2**	(0.2)
Net loss on disposal and write-off of property, plant and equipment	**30.6**	3.9
Amortisation of deferred interest (income)/ expense	**2.2**	(1.5)
Capitalisation of indexed bonds indexation	**10.9**	9.8
Changes in assets and liabilities:		
(Increase)/ decrease in accrued revenue from unread meters	**(2.4)**	4.2
(Increase)/ decrease in other receivables	**10.5**	(3.8)
(Increase)/ decrease in inventories	**(4.5)**	(8.5)
Increase/ (decrease) in accrued operating expenditure	**(6.6)**	21.4
Increase/ (decrease) in current tax balances	**(50.2)**	28.7
Increase/ (decrease) in deferred taxes liabilities	**(46.2)**	(65.6)
Increase/ (decrease) in other provisions	**20.5**	36.1
Increase/ (decrease) in contract liabilities	**(5.2)**	(2.1)
Increase/ (decrease) in deferred revenue	**2.5**	8.1
Net cash from operating activities	**230.9**	306.3

23 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.

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.

23 Superannuation – defined benefit plans continued

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 2018. The next actuarial valuation is due as at 30 June 2021.

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 SIS legislation. 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 2018. The next actuarial valuation is due as at 30 June 2021.

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 23(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 assets and non-current provisions.

	30 June 2020			30 June 2019		
	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	(325.2)	273.9	(51.3)	(338.9)	292.9	(46.0)
SASS	(8.6)	9.4 [1]	0.8	(9.7)	10.8 [1]	1.1
SANCS	(0.6)	0.0	(0.6)	(0.8)	0.0	(0.8)
SSS	(1.9)	1.8	(0.1)	(2.0)	1.8	(0.2)
Total	(336.3)	285.1	(51.2)	(351.4)	305.5	(45.9)

1. See footnote at the bottom of the page.

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.

	2020			2019		
	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	(351.4)	305.5	(45.9)	(324.5)	297.7	(26.8)
(Expense)/ income recognised in profit or loss						
Current service cost	(3.7)	—	(3.7)	(4.1)	–	(4.1)
Gains/ (losses) arising from curtailments and settlements	7.1	(6.4)	0.7	11.0	(11.2)	(0.2)
Interest (expense)/ income	(9.9)	8.6	(1.3)	(12.7)	11.8	(0.9)
	(6.5)	2.2	(4.3)	(5.8)	0.6	(5.2)
Income/ (expense) recognised in other comprehensive income						
Remeasurements						
› Return on plan assets, excluding amounts included in interest (expense)/ income	—	(8.5)	(8.5)	–	17.2	17.2
› Gain/ (loss) from change in demographic assumptions	—	—	—	(0.6)	–	(0.6)
› Gain/ (loss) from change in financial assumptions	1.7	—	1.7	(36.3)	–	(36.3)
› Gain/ (loss) from change in liability experience	2.3	—	2.3	(0.9)	–	(0.9)
	4.0	(8.5)	(4.5)	(37.8)	17.2	(20.6)
Adjustment for effect of asset ceiling [1]	—	0.5	0.5	–	1.3	1.3
	4.0	(8.0)	(4.0)	(37.8)	18.5	(19.3)
Contributions by Fund participants						
› Employers	—	3.0	3.0	–	5.4	5.4
› Plan participants	(1.9)	1.9	—	(2.2)	2.2	–
	(1.9)	4.9	3.0	(2.2)	7.6	5.4
Benefits paid	18.0	(18.0)	—	17.3	(17.3)	–
Taxes, premiums and expenses paid	1.5	(1.5)	—	1.6	(1.6)	–
At 30 June	(336.3)	285.1	(51.2)	(351.4)	305.5	(45.9)

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.

23 Superannuation – defined benefit plans continued

g. Fair Value of Fund assets

All EISS Division B, C and D assets are held in Pool B of the Scheme, Pool B in turn holds units invested in the Energy Investment Fund, a pooled superannuation trust. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities, and the disclosures below relate to total assets of Pool B of the Scheme. The investment in the Energy Investment Fund is valued using significant observable inputs (Level 2) and amounted to $1,808.2M (2019: $2,005.6M) 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 2020	30 June 2019
Australian listed equities	**11.2%**	16.0%
Overseas listed equities	**30.0%**	24.0%
Property	**12.7%**	12.0%
Private equity	**2.0%**	2.0%
Infrastructure	**7.4%**	6.0%
Alternatives	**7.2%**	4.0%
Fixed income	**18.1%**	31.0%
Cash and short-term securities	**11.4%**	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

	2020	2019
Expected salary increase rate (excluding promotional increases)	2.5% per annum	2.5% per annum
Rate of CPI increase	0.25% for 2020/21, 1.50% for 2021/22, 1.25% for 2022/23, 1.75% for 2023/24, 2.00% p.a. for 2024/25 and 2025/26, 2.25% p.a. for 2026/27 to 2029/30; then 2.50% p.a. thereafter	1.75% p.a. to 30 June 2020, 2.0% p.a. to 30 June 2021, 2.2% p.a. to 30 June 2023, then 2.5% p.a. thereafter
Discount rate	2.75% p.a.	2.9% p.a.
Pensioner mortality	The pensioner mortality rates used are as per the triennial valuation of the scheme as at 30 June 2018	The pensioner mortality rates used are as per the triennial valuation of the scheme as at 30 June 2018

j. Sensitivity Analysis

The Corporation's total defined benefit obligation as at 30 June 2020 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	2.75%	1.75%	3.75%
Rate of CPI increase	0.25% for 2020/21, 1.50% for 2021/22, 1.25% for 2022/23, 1.75% for 2023/24, 2.00% p.a. for 2024/25 and 2025/26, 2.25% p.a. for 2026/27 to 2029/30; then 2.50% p.a. thereafter	0.25% for 2020/21, 1.50% for 2021/22, 1.25% for 2022/23, 1.75% for 2023/24, 2.00% p.a. for 2024/25 and 2025/26, 2.25% p.a. for 2026/27 to 2029/30; then 2.50% p.a. thereafter	0.25% for 2020/21, 1.50% for 2021/22, 1.25% for 2022/23, 1.75% for 2023/24, 2.00% p.a. for 2024/25 and 2025/26, 2.25% p.a. for 2026/27 to 2029/30; then 2.50% p.a. thereafter
Salary inflation rate	2.20% for 2020/21; then 2.50% p.a. thereafter	2.20% for 2020/21; then 2.50% p.a. thereafter	2.20% for 2020/21; then 2.50% p.a. thereafter
Defined benefit obligation ($M)	336.2	370.9	307.0

	Base Case	Scenario C +0.5% rate of CPI increase	Scenario D -0.5% rate of CPI increase
Discount rate	2.75%	2.75%	2.75%
Rate of CPI increase	0.25% for 2020/21, 1.50% for 2021/22, 1.25% for 2022/23, 1.75% for 2023/24, 2.00% p.a. for 2024/25 and 2025/26, 2.25% p.a. for 2026/27 to 2029/30; then 2.50% p.a. thereafter	0.75% for 2020/21, 2.00% for 2021/22, 1.75% for 2022/23, 2.25% for 2023/24, 2.50% p.a. for 2024/25 and 2025/26, 2.75% p.a. for 2026/27 to 2029/30; then 3.00% p.a. thereafter	-0.25% for 2020/21, 1.00% for 2021/22, 0.75% for 2022/23, 1.25% for 2023/24, 1.50% p.a. for 2024/25 and 2025/26, 1.75% p.a. for 2026/27 to 2029/30; then 2.00% p.a. thereafter
Salary inflation rate	2.20% for 2020/21; then 2.50% p.a. thereafter	2.20% for 2020/21; then 2.50% p.a. thereafter	2.20% for 2020/21; then 2.50% p.a. thereafter
Defined benefit obligation ($M)	336.2	344.5	328.5

	Base Case	Scenario E +0.5% salary increase rate	Scenario F -0.5% salary increase rate
Discount rate	2.75%	2.75%	2.75%
Rate of CPI increase	0.25% for 2020/21, 1.50% for 2021/22, 1.25% for 2022/23, 1.75% for 2023/24, 2.00% p.a. for 2024/25 and 2025/26, 2.25% p.a. for 2026/27 to 2029/30; then 2.50% p.a. thereafter	0.25% for 2020/21, 1.50% for 2021/22, 1.25% for 2022/23, 1.75% for 2023/24, 2.00% p.a. for 2024/25 and 2025/26, 2.25% p.a. for 2026/27 to 2029/30; then 2.50% p.a. thereafter	0.25% for 2020/21, 1.50% for 2021/22, 1.25% for 2022/23, 1.75% for 2023/24, 2.00% p.a. for 2024/25 and 2025/26, 2.25% p.a. for 2026/27 to 2029/30; then 2.50% p.a. thereafter
Salary inflation rate	2.20% for 2020/21; then 2.50% p.a. thereafter	2.70% for 2020/21; then 3.00% p.a. thereafter	1.70% for 2020/21; then 2.00% p.a. thereafter
Defined benefit obligation ($M)	336.2	345.5	327.4

	Base Case	Scenario G +5% pensioner mortality rates	Scenario H -5% pensioner mortality rates
Defined benefit obligation ($M)	336.2	339.3	334.5

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.

23 Superannuation – defined benefit plans continued

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 2018. 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 2020 financial position of the Fund calculated in accordance with AASB 1056 "Superannuation Entities":

	EISS		Other		Total	
	2020 $M	2019 $M	2020 $M	2019 $M	2020 $M	2019 $M
Accrued benefits	**267.2**	278.6	**8.1**	9.1	**275.3**	287.7
Net market value of Fund assets	**(273.9)**	(292.8)	**(12.3)**	(14.2)	**(286.2)**	(307.0)
Net surplus	**(6.7)**	(14.2)	**(4.2)**	(5.1)	**(10.9)**	(19.3)

Contribution recommendations

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

Division B multiple of member contributions	Division C per cent member salary	Division D multiple of member contributions	Additional Lump Sum $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 – AASB 1056

The economic assumptions adopted for the AASB 1056 financial position calculations are:

	EISS	Other
Weighted-Average Assumptions		
Expected rate of return on Fund assets backing current pension liabilities	5.0%	7.0% pa
Expected rate of return on Fund assets backing other liabilities	5.0%	6.0% pa
Expected salary increase rate	2.3% pa for 2020/21, 2.4% p.a. for 2021/22, 2.5% for 2022/23, 2.9% thereafter	3.2% pa
Expected rate of CPI increase	1.9% pa	2.0% pa

The above economic assumptions are to be adopted for the 30 June 2020 actuarial investigation.

n. Sensitivity analysis – AASB 1056

In light of the current environment due to COVID-19, there is increased volatility in terms of expected outcomes especially in the short to medium term which could affect the defined benefit obligation.

The assumptions for CPI, Salary and demographics are broadly the same under both AASB 119 and AASB 1056. While the underlying liability amounts for AASB 1056 are lower than for AASB 119, the sensitivity of results under AASB 119 gives an indication to the directional and proportional impact of the changes in these assumptions.

The one assumption that differs substantially under the two standards is the expected rate of return on the fund assets (discount rate). Due to this variation and the potential for material variation in the rate of return on EISS's assets in current financial conditions, sensitivities to this assumption for the 30 June 2020 AASB 1056 results are presented below.

	Base Case	Scenario A -0.5 per cent discount rate	Scenario B +0.5 per cent discount rate
Expected rate of return on Fund assets backing current pension liabilities and other liabilities (discount rate)	5.0%	4.5%	5.5%
Rate of CPI increase	1.9% p.a.	As base case	As base case
Salary inflation rate	2.3% for 2020/21, 2.4% for 2021/22, 2.5% for 2022/23, 2.9% thereafter	As base case	As base case
Defined benefit obligation ($M)	267.2	277.0	258.1

Expected contributions

	Financial Year to 30 June 2020 $M
Expected employer contributions	
› EISS	4.2
› Other	–

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 12 years (2019: 11 years) for the EISS, while it is 12.8 years (2019: 11.7 years) for the Pooled fund.

o. Nature of asset/liability

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of Fund assets and the defined benefit obligation.

24 Events subsequent to reporting date

The financial statements of the Corporation for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Board on 14 September 2020.

There have not been any significant adverse operational or financial impacts as a result of the COVID-19 pandemic to date and any known impacts to date have been reflected in the 2020 financial statements. There are no known other 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

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 $7.6M were incurred. The majority of consultancy costs were related to transformation, enterprise resource planning, and fleet improvement.

Summary of overseas travel 2019-20

Purpose of travel	Names of employees	Organisation visited	Cities	Country	Date of departure from Australia	Date of return into Australia
Attend Leadership Development Program	Sarah Roche	Institute of Strategic Leadership	Queenstown	New Zealand	27/07/2019	3/08/2019
Attend Leadership Development Program	Shannon Dawson	Institute for Strategic Leadership	Queenstown	New Zealand	2/11/2019	10/11/2019
Reyrolle Factory Acceptance Testing (FAT) for Wingham Switchboard	Majid Tavakoli	Reyrolle Pasific Switchgear (RPS)	Wellington	New Zealand	10/12/2019	14/12/2019
Site reference visits to IPS clients as part of selection process for Enterprise Asset Management System	John Cleland, David Salisbury, Lucie Mitchell, Bradley Thomas	ESB Networks (Ireland), IPS Energy (Germany), EMS and IPS Energy (Serbia) and GSE (Georgia)	Dublin, Munich, Belgrade, Tbilisi	Ireland, Germany, Serbia, Georgia	7/03/2020	15/03/2020

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.

Total number of access applications received during the year

In 2019-20 Essential Energy received 13 formal access applications for information pursuant to the GIPA Act.

The formal applications received were from members of the public, private sector businesses, and lawyers. In response to the formal access applications that were received in 2019-20, 12 applications were finalised in 2019-20, and one application was in progress at 30 June 2020. Of the 12 finalised applications, full access was provided on all occasions. Full access was also provided for two applications received in 2018-19 and finalised in 2019-20.

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 8 and Schedule 2 of the Government Information (Public Access) Regulation 2018 (NSW), the following tables provide a summary of the responses to requests made pursuant to the GIPA Act in 2019-20.

Table A: Number of applications by type of applicant and outcome

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/deny whether information is held	Application withdrawn
Media	0	0	0	0	0	0	0	0
Members of Parliament	0	0	0	0	0	0	0	0
Private sector business	1	0	0	0	0	0	0	0
Not for profit organisations or community groups	0	0	0	0	0	0	0	0
Members of the public (application by legal representative)	6	0	0	0	0	0	0	0
Members of the public (other)	7	0	0	0	0	0	0	0

1. 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]	1	0	0	0	0	0	0	0
Access applications (other than personal information applications)	13	0	0	0	0	0	0	0
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	0
Invalid applications that subsequently became valid applications	0

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act

	Number of times consideration used [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
Information about complaints to Judicial Commission	0
Information about authorised transactions under Electricity Network Assets (Authorised Transactions) Act 2015	0
Information about authorised transaction under Land and Property Information NSW (Authorised Transaction) Act 2016	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 [1]
Responsible and effective government	0
Law enforcement and security	0
Individual rights, judicial processes, and natural justice	0
Business interests of agencies and other persons	0
Environment, culture, economy, and general matters	0
Secrecy provisions	0
Exempt documents under interstate Freedom of Information legislation	0

1. Includes applications where access is granted in part, or refused in full.

Table F: Timelines

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	13
Decided after 35 days (by agreement with applicant)	1
Not decided within time (deemed refusal)	0
Total	**14**

Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)

	Decision varied	Decision upheld	Total
Internal review	0	0	0
Review by Information Commissioner [1]	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0
Review by NSW Civil and Administrative Tribunal (NCAT)	0	0	0
Total	**0**	**0**	**0**

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	0
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

Table I: Applications transferred to other agencies under Division 2 of Part 4 of the Act (by type of transfer)

	Number of applications transferred
Agency-initiated transfers	0
Applicant-initiated transfers	0

Workforce statistics

Number of officers and employees by category

Category	30 June 2020		30 June 2019		30 June 2018		30 June 2017	
Gender	M	F	M	F	M	F	M	F
Executive Leadership Team	6	2	7	2	7	1	11	0
Non-executives	2490	520	2500	516	2465	452	2486	426
Total	**2496**	**522**	**2507**	**518**	**2472**	**453**	**2497**	**426**

Workforce diversity targets and progress as at 30 June 2020

Representative Group	Essential Energy Proposed Target by 2025	Progress at 30 June 2020
Women in the organisation	35%	17.6%
Women in leadership	50%	29.7%
Aboriginal and Torres Strait Islander people in the organisation	6%	4.3%
Aboriginal and Torres Strait Islander people in leadership roles	15%	1.0%
Multicultural	3%	2.1%
DisAbility	3%	1.6%
LGBTI	6%	0.4%

Trends in the representation of workforce diversity groups (target percentages)

Workforce Diversity Group	Benchmark	2018	2019	2020
Women	50% [1]	15.9%	17.6%	17.6%
Aboriginal and/or Torres Strait Islander People	3.3% [2]	3.7%	4.0%	4.3%
People whose First Language Spoken as a Child was not English	23.2% [3]	1.9%	2.0%	2.1%
People with Disability	5.6% [4]	1.7%	1.6%	1.6%
People with Disability Requiring Work-Related Adjustment	N/A	0.5%	0.5%	0.4%

1. The benchmark of 50% for representation of women across the sector is intended to reflect the gender composition of the NSW community.
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%.
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.
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 of workforce diversity groups (distribution index scores)

Workforce Diversity Group	Benchmark	2018	2019	2020
Women	100 [1]	98	98	99
Aboriginal and/or Torres Strait Islander People	100	82	80	82
People whose First Language Spoken as a Child was not English	100	113	115	115
People with Disability	100	98	95	96
People with Disability Requiring Work-Related Adjustment	100	N/A [2]	N/A	N/A

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.
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.

Summary of the substantial legislative changes for 1 July 2019 to 30 June 2020

Material changes to Commonwealth legislation

Amendment to a bilateral agreement under the *Environment Protection and Biodiversity Conservation Act 1999 (Cth)*

On 24 March 2020, an amending agreement came into force which amended the bilateral agreement between the Commonwealth Government and the NSW Government under Section 45 of *Environment Protection and Biodiversity Conservation Act 1999 (Cth)* (EPBC Act).

The bilateral agreement excludes certain projects that have been already assessed under provisions of the *Environmental Planning and Assessment Act 1979 (NSW)* (EP&A Act) from assessment requirements under the EPBC Act. As a result of the amending agreement, projects assessed under Part 5, Division 5.1 of the EP&A Act (such as projects proposed by public authorities) are now excluded from the bilateral agreement. As such, projects assessed under this Division that trigger the EPBC Act assessment process will require separate assessment (as well as approval) under that Act. Notably, projects assessed under Part 5, Division 5.2 of the EP&A Act (State significant infrastructure) are still included in the bilateral agreement.

Material changes to New South Wales Legislation

Environmental Planning and Assessment Amendment *(Project EnergyConnect (SA to NSW Electricity Interconnector)) Order 2019 (NSW)*

The *Environmental Planning and Assessment Amendment (Project EnergyConnect (SA to NSW Electricity Interconnector)) Order 2019 (NSW)* commenced on 30 August 2019.

The order declared that an electricity interconnector between South Australia and New South Wales (Project EnergyConnect) as an item of Critical State Significant Infrastructure. The project is being developed to interconnect the State-based electricity markets of New South Wales, South Australia and Victoria.

Building and Construction Industry Security of Payment Amendment Act 2018 (NSW)

The *Building and Construction Industry Security of Payment Amendment Act 2018 (NSW)* and the *Building and Construction Industry Security of Payment Regulation 2019 (NSW)* commenced on 21 October 2019.

These instruments introduce significant changes to the process of claiming progress payments under the *Building and Construction Industry Security of Payment Act 1999 (NSW)*, impacting the commercial terms of construction contracts as well as the administration of construction contracts during the delivery phase. These changes include:

- the accrual of a 'reference date' is no longer a precondition to a valid payment claim
- a payment claim is able to be served monthly, on and from the last day of the named month in which the construction work was first carried out, and on the last day of each subsequent month
- a payment claim can be validly served after termination of a construction contract
- the due date for payment of a payment claim to a subcontractor has been reduced from 30 business days to 20 business days after a payment claim is made
- an increase of pecuniary penalties for breaches of the *Building and Construction Industry Security of Payment Act 1999 (NSW)*.

Design and Building Practitioners Act 2020 (NSW)

On 11 June 2020, the *Design and Building Practitioners Act 2020 (NSW)* received Royal Assent. The Act delivers on the NSW Government's commitment to better regulate the design and building sector and provide greater protections to consumers against defective building works. The Act introduces a number of reforms to achieve these ends, including:

- imposing a statutory duty of care on builders, consultants and manufacturers or suppliers of building products to exercise reasonable care to avoid economic loss caused by defective building work
- the introduction of registration and particular insurance requirements for designers, builders, and professional engineers (those who carry out specialist work also must be registered as a specialist practitioner)
- the introduction of a requirement for designers and buildings to issue compliance declarations which effectively state whether a regulated design or building work (as applicable complies with the requirements of the Building Code of Australia, and in the case of building work, whether the building work was built in accordance with the design.

Material changes to Queensland legislation

There were no pertinent changes to Queensland legislation during the financial year.

National Electricity Rules and National Energy Retail Rules

Distribution network providers in the National Electricity Market are regulated through the National Electricity Law (NEL). The NEL is applied and modified as a law of NSW by the *National Electricity (New South Wales) Act 1997 (NSW)*, and as a law of QLD by the *Electricity—National Scheme (Queensland) Act 1997 (QLD)*.

The National Electricity Rules (NER) are made under the National Electricity Law. The Australian Energy Market Commission (AEMC) is the rule-making body for the NER. During the financial year, the AEMC made several key rule changes to the NER and considered a number of key rule change proposals, including:

(1) ***Updating the regulatory frameworks for distributor-led stand-alone power systems*** – implementation later in 2020

On 28 May 2020, the AEMC published a final report that recommended a package of proposed rule changes to enable distribution network businesses to supply their customers using Stand-Alone Power Systems (SAPS) where it is cheaper than maintaining a connection to the grid.

Currently, SAPS are not captured under national regulatory framework or are subject to jurisdictional frameworks which vary in their coverage.

Implementation of the recommended regulatory framework will require changes to be made to both the national energy laws and rules, and also to some jurisdictional legislative instruments. It is expected that these changes will be agreed by the COAG Energy Council and put to the South Australian Minister for Energy later in 2020.

AER Determinations

The Australian Energy Regulator (AER) also made relevant decisions during the financial year:

(1) ***Profitability measures for electricity and gas network businesses*** – implementation later in 2020

On 16 December 2019, the AER published a final position on its review into measures of profitability for the electricity and gas Network Service Providers (NSPs) it regulates. The review sought to identify measures of profitability, and the data requirements underpinning them, that could be applied to the NSPs for reporting purposes.

The final position paper states that the AER will report on four profitability measures based on regulatory accounting information. These include, return on assets, EBIT per customer, return on regulated equity, and RAB multiples.

The AER has indicated that it intends to begin collecting data from NSPs in 2020 with the expectation that it would begin to report on the profitability measures later in 2020.

Summary of significant judicial decisions between 1 July 2019 to 30 June 2020

Rose V Essential Energy [2020] Fca 124; Essential Energy V Rose [2010] Fca 772

This case concerned an application by Mr Lawrence Rose and Mrs Susan Elizabeth Rose for preliminary discovery from Essential Energy pursuant to r 7.23 of the Federal Court Rules 2011.

Mr and Mrs Rose are prospective applicants in a contemplated representative proceeding against Essential Energy. In their application, Mr and Mrs Rose asserted that they reasonably believed that they may have a right to obtain relief in the form of damages suffered by them as a result of the Tathra bushfire in 2018 in negligence, nuisance and/or for breach of s 60 of the Australian Consumer Law, being Schedule 2 to the *Competition and Consumer Act 2010 (Cth)* (ACL).

On 14 February 2020, the Federal Court ordered that Essential Energy, as the prospective respondent, give discovery to the prospective applicants, Mr and Mrs Rose. Essential Energy's application for leave to appeal this decision was subsequently dismissed on 22 May 2020.

Index

Glossary

AER	Australian Energy Regulator
ASP	Accredited Service Provider
Capex	Capital expenditure
DER	Distributed Energy Resources
DSO	Distribution System Operator
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
IPART	Independent Pricing and Regulatory Tribunal
LTIFR	Lost Time Injury Frequency Rate – calculated as the number of lost time injuries per million hours worked
NECF	National Energy Customer Framework
HPIFR	High Potential Injury Frequency Rate – 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)
Opex	Operating expenditure
SAIDI	System Average Incident Duration Index – average total minutes a customer is without power in a year
SAIFI	System Average Interruption Frequency Index – average number of power interruptions per customer for the year
SAPS	Stand-Alone Power Systems
SCFR	Serious Claim Frequency Rate – number of accepted workers compensation claims, for an incapacity, that results in a total absence from work of one work week or more (i.e. 40 hrs) per million hours worked
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

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