

Delivering Today, Preparing for Tomorrow





About this report

Power and people you can rely on, now and in the future.

About this report

Essential Energy's Annual Report details financial, operational, and safety performance for the 2020-21 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 45.

Cost for report production

The external cost to produce this report was \$21,775 excluding GST.

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31 October 2021

The Hon. Matt Kean 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 2021

We are pleased to submit Essential Energy's Annual Report outlining financial, operational and safety performance for the year ended 30 June 2021.

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 Chair



Over the past year Essential Energy’s employees have continued to demonstrate great strength and commitment in their service of customers and communities. The ongoing COVID-19 pandemic and devastating floods challenged Essential Energy’s strength and resolve as a business, as well as the resilience of the regional, rural and remote communities we serve. Essential Energy’s people worked hard in these challenging and changing conditions to maintain essential services every day, while also progressing the important work of preparing the business for the future.

The pace of change in the energy industry is continuing to increase. The past 12 months saw unprecedented adoption of renewable energy, rising uptake of electric vehicles and enactment of the New South Wales (NSW) Government’s *Electricity Infrastructure Investment Act* – one of the most fundamental changes to the NSW electricity sector since the development of the National Electricity Market. Customer expectations are also changing – seeking services that are not only safe, reliable and affordable, but also flexible, allowing customers to participate in electricity markets through energy export into the grid. Preparing for the future also requires increased focus on opportunities and challenges with regard to sustainability. Essential Energy’s Corporate Strategy and whole-of-business Transformation Program are enabling the organisation to respond to and prepare for these rapid changes.

Significant progress for transformation during 2020-21 included the implementation of a new Enterprise Resource Planning (ERP) system, streamlining ‘back office’ functions and enabling all parts of the business to work more efficiently and effectively. In conjunction with the ERP, work is underway on a new Enterprise Asset Management (EAM) system. Together these new systems will help Essential Energy set up for the future. Other significant improvements included cyber security and physical security advancements, to protect Essential Energy’s critical infrastructure from increasingly sophisticated threats.

Building a workforce that is adaptable to the changing industry is another important area of focus, to provide careers for people in regional, rural and remote communities and reflect diversity within these communities.

The important work to recruit local people into apprenticeships and traineeships continued, with the current cohort of 115 apprentices living and working in more than 60 communities across NSW. The release of Essential Energy’s first Reconciliation Action Plan was also an important step – guiding efforts to grow mutually beneficial relationships and create opportunities for Aboriginal and Torres Strait Islander peoples.

During the year, Essential Energy continued to support local communities through the Essential Communities Sponsorship Program. Significantly, total employee giving and dollar matching by the business to charity partners surpassed \$1 million, since commencing in 2014. It was great to see the addition of Royal Far West as a new charity partner. Essential Energy’s ongoing commitment to the Energy Charter

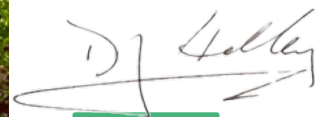
Building a workforce that is adaptable to the changing industry is another important area of focus, to provide careers for people in regional, rural and remote communities and reflect diversity within these communities.

Doug Halley Chair

– working with other energy companies to deliver more affordable, reliable and sustainable energy for all Australians – is another example of the business' focus on improving outcomes for customers and communities.

Despite the challenges of 2020-21, Essential Energy's financial performance improved significantly from the previous year, resulting in a net profit after tax of \$3 million. This is an excellent result during a period where significant investment is being made into the Transformation Program and taking into account additional costs from the COVID-19 pandemic and floods.

I would like to sincerely thank all employees for their hard work and dedication throughout 2020-21, delivering for customers through challenging and uncertain times, while also investing strongly in becoming an energy company for the future.



Doug Halley

Chair



From the CEO



After another extraordinary year, I want to once again express my gratitude to Essential Energy employees, customers, suppliers and stakeholders.

With the COVID-19 pandemic continuing to impact many aspects of our lives, including our work, I am proud of Essential Energy's employees for their resilience and ability to keep adapting to the changing situation – ensuring continued safe, reliable and affordable power and water supplies for our customers. Our COVID-19 safety protocols and risk assessment tools, developed as part of our early response to the pandemic, guided our response throughout 2020-21. As a result, we completed a full program of network maintenance and responded to all faults and emergencies, with COVID-19 safety restrictions and mitigations always in place. Our field-based employees continued to deploy from home as needed, and our office-based employees continued to mostly work from home – delivering organisational outcomes despite changing ways of working.

I am also proud of the ways in which our employees responded to the floods that impacted the network area in March 2021. At the height of the response, 12,000 homes and businesses were without power, primarily on the Mid North Coast of New South Wales (NSW). Across the 12-day response, power was restored to more than 57,000 flood-affected customers. It was an intense and challenging time, with a strong focus on safety in tough conditions as well as looking after the

community. Where access to damaged network infrastructure was delayed due to significant road and bridge damage, our response included providing more than 130 generators to communities, along with more than 5,000L of fuel for generators – providing safe and reliable power while we repaired the network.

Our response to COVID-19 and the floods demonstrates our ability to deliver for customers today. We also worked hard throughout 2020-21 to continue to prepare for tomorrow. With the energy industry continuing its rapid transition toward more distributed and renewable generation, and technological and social changes driving customers' expectations for increasingly excellent service, we must continue to transform our whole business.

For customer interactions, our challenge is to bring the customer focus shown in our COVID-19 and floods responses to all our work – to put customers at the centre of everything we do, to achieve our customer experience vision of 'everyday excellence, every customer, every interaction'. Our Customer Experience Strategy, released in October 2020, will continue to drive our progress.

A very significant industry development during the past year was the NSW Government's release of its plan for Renewable Energy Zones (REZs). With three of the REZs within our network area, we are working closely with the NSW Department of Planning, Industry and Environment to optimise integration with our network of new energy infrastructure in and around the REZs, and to ensure the REZs contribute to safe, reliable and affordable energy for our customers.

Throughout 2020-21, we also continued to progress work to optimise the integration of distributed renewable energy generation into our network. We progressed the development of standard options for Stand-Alone Power Systems (SAPS), commenced trials of hydrogen SAPS, and continued to collaborate with industry, government and research partners on optimising network performance for Distributed Energy Resources (DER).

At a whole-of-business level, our Transformation Program is fundamental to achieving real reductions in charges and improved operational performance for the benefit of our customers. Improvements delivered in 2020-21 included: implementing a new Enterprise Resource Planning system, for more efficient business-critical 'back-office' functions; installation of In-Vehicle Monitoring Systems (IVMS) in all 1,885 of our operational fleet, for improved driver and passenger safety; the rollout of a digital Hazard Identification Risk Assessment Control (HIRAC) tool, which re-imagines safety for the frontline and replaces 12 HIRAC paper books with a single mobile app; and a new online platform to simplify and speed up processes for connecting to Essential Energy's network. Many other improvement projects progressed during 2020-21 and will deliver benefits next year and beyond.

In November 2020 we achieved a major milestone in our journey to contribute to reconciliation, both in our organisation and the communities we serve, with the release of our first Reconciliation Action Plan (RAP). Building on positive steps over many years, the plan inspires our efforts to grow relationships and create opportunities for Aboriginal and Torres Strait Islander

At a whole-of-business level, our Transformation Program is fundamental to achieving real reductions in charges and improved operational performance for the benefit of our customers.

John Cleland Chief Executive Officer



peoples. Since the release of the RAP, it has been pleasing to see greater recognition of the 29 First Nations upon whose land we live and work, as well as continued opportunities for Indigenous men and women to join our business, including 11 Aboriginal and Torres Strait Islander people joining as apprentices or trainees in 2021. Thank you to the members of our employee-led Aboriginal and Torres Strait Islander working group for their commitment to developing the RAP and passion to see it implemented. The idea for the RAP was initiated by our Customer Advocacy Group (CAG), with the CAG also reviewing the RAP before release and continuing to help with monitoring progress.

Safety is a core priority, and all employees are empowered to 'make safety their own'. Safety performance continued to improve during 2020-21 with no Class One (Major Lost Time Injuries) and a reduction in High Potential Incidents (HPIs). There was also a 26 per cent increase in near misses reported in 2020-21, reflecting

a strong safety culture where employees are empowered to call out and learn from near misses.

The tragic loss of two employees of long-time partner Oberon Aviation Services in an aircraft accident while conducting pre-summer bushfire inspections on Essential Energy's behalf, in April 2021, was a sobering reminder of the risks our employees and contractors face every day when working on or near the network. Our thoughts continue to be with the family and colleagues of the two deceased.

Our financial performance for 2020-21 was above target. Return on Capital Employed was 3.6 per cent, which was 0.5 per cent above budget. The net profit after tax of \$3 million, compared to a \$44 million loss in 2019-20. Primary reasons for this result included: increased revenue, including reimbursement for the impacts of a ministerial direction issued by the NSW Government in 2019-20; significant unplanned costs from the bushfires in 2019-20; and a decrease in finance costs

due to reduced average interest rates and inflation rates on indexed debt being lower than the prior year. These factors were offset by increased contractor expenses, mainly due to the Transformation Program, and increased tax expense due to the profit improvement.

There is no doubt we will continue to see significant change in the year ahead, with the evolving COVID-19 situation and ongoing energy industry transition. In this climate of change, I am confident Essential Energy's employees will continue meeting customers' needs today, while at the same time working to transform our whole business to ensure we can meet customers' future needs.

John Cleland

Chief Executive Officer

Acknowledgement of Country

The lands on which we work and live is country for 29 First Nations – from Wiljakali country on the plains of Far Western New South Wales (NSW), to Ngarigo country in the high Snowy Mountains and Bundjalung country on the sub-tropical North Coast, and more First Nations across the diverse landscape that is regional, rural and remote NSW and parts of southern Queensland.

We acknowledge the Traditional Custodians of the lands on which our company is located and where we conduct our business, and we acknowledge all Aboriginal and Torres Strait Islander peoples across Australia. We pay our respects to ancestors and Elders, past, present and emerging. We are committed to honouring Aboriginal and Torres Strait Islander peoples’ unique cultural and spiritual relationships to the land, waters and seas and their rich contribution to society.

95% of NSW, 100 locations, 29 First Nations



As Aboriginal Country borders fluctuate and more knowledge is being found every day, this map is subject to change. Spellings of Aboriginal countries and locations of depots and offices within Aboriginal countries have been made from desktop research conducted on each site (town and city) and correlation with the AIATSIS map of Indigenous Australia by David R Horton (creator), © Aboriginal Studies Press, AIATSIS, and Auslig/Sinclair, Knight, Merz, 1996. This is an estimate only based on desktop research and the AIATSIS map.

Reconciliation

Our reconciliation vision is that Aboriginal and Torres Strait Islander peoples across our network area have opportunities equal to all Australians for education, employment and social participation. We envision a united Australia where First Nations cultures are understood and valued, diversity is celebrated, and everyone can be themselves.



'New Life', Michael Lambeth

Reconciliation Action Plan

In November 2020, we released our first [Reconciliation Action Plan](#) (RAP), demonstrating our ongoing commitment to reconciliation and building on the positive steps we have taken over many years to grow relationships and create opportunities for Aboriginal and Torres Strait Islander peoples.

The RAP inspires our efforts to grow mutually beneficial relationships with peoples, communities and like-minded partners. It unites our initiatives to create employment and other opportunities for Aboriginal and Torres Strait Islander men and women. It enables us to build respect for Aboriginal and Torres Strait Islander cultures, histories, knowledge and rights. It also brings transparency to our reconciliation efforts and will enable us to celebrate successes and learn from our challenges. The plan includes an ambitious but sustainable program of activities that seeks to empower social, economic and cultural wellbeing, with many opportunities for employees to get involved.

Reconciliation progress

Highlights from our progress toward reconciliation since the RAP was released include:

- > Eleven Aboriginal and Torres Strait Islander people joining our business as apprentices or trainees in January 2021, bringing the total number of Indigenous apprentices and trainees to 23 and the total number of Aboriginal and Torres Strait Islander people in our business to 129 (at 30 June 2021).
- > Development of a RAP Community of Practice, made up of employees who share a passion for helping to embed reconciliation within their parts of the business and local communities.
- > Cultural competency training for leaders and some business areas, to grow knowledge of Australia's First Nations and understanding of the experiences of Aboriginal and Torres Strait Islander peoples since European colonisation. Participants also developed skills for engaging with Indigenous people and communities in respectful ways. Plans are in place for more leaders and employees to participate in this training.
- > Acknowledgement of Country becoming increasingly common in meetings, particularly for significant meetings involving all areas of the business. All employees have access to resources and guidance, to enable Acknowledgement of Country in any meeting. In some cases Indigenous employees have used their First Nations language for the acknowledgement.
- > The artwork of Michael Lambeth, Bundjalung man and powerline worker from Casino, featuring on our newly developed heavy vehicle 'Flex Fleet'. Michael's artwork, along with his connection to country and family, was also highlighted during NAIDOC Week in 2020 and 2021.
- > An Indigenous Youth Art competition for school students from across our network area. The winning entry, 'The Ngankan' by a 15-year-old student, was featured on the 'Best and Fairest' cycling jersey for the Royal Far West Ride for Country Kids. See page 29 for more information.

'Where the sky meets the earth beauty is within', Michael Lambeth



Sustainability highlights

With society as a whole becoming increasingly interested in sustainability, we are taking a more strategic and holistic approach to the sustainability of our operations. Sustainability highlights from the past year show that many aspects of our operations contribute to environmental, social and economic sustainability. Moving forward, our strategic planning is bringing a holistic approach to sustainability across our business, including aligning reporting to recognised standards.



Climate action and emissions

With the energy industry's transition to distributed renewables, and the New South Wales (NSW) Government's plan to reach Net Zero Emissions by 2050, the number of renewable connections across our network is increasing rapidly. Renewable connections include 38 large-scale facilities and more than 215,000 small-scale systems (including rooftop solar). During 2020-21, renewables delivered almost 25 per cent of the total network load.

To support this transition we are collaborating with partners and trialling new technologies and processes. We are working with the NSW Government to optimise integration of energy infrastructure in and around Renewable Energy Zones (REZs). We are also joining partners to trial microgrids, Stand-Alone Power Systems (SAPS), electric vehicle charging accessibility, and integration of Distributed Energy Resources (DER) into the network. See 'Engaging with the changing energy industry' (page 32) for more information.

Across our network we maintain approximately 160,000 streetlights for 86 local government councils. During the reporting period, we converted 47,900 of these to more energy-efficient and cost-effective LED lamps. 72 per cent of streetlights are now LED, with the aim of achieving 100 per cent by the end of 2023-24. See 'Streetlights LED rollout' (page 19).

Our operations to deliver safe, reliable and affordable power and water consumed 2,803,949 GJ in 2021-21 (1.4 per cent higher than in 2019-20). We also produced 266 GJ in 2020-21 (down from 1,526 GJ in 2019-20). Our fleet travelled 34.6 million km 2020-21 – down 4.6 per cent from 2019-20, which was mostly due to COVID-19 travel restrictions. Greenhouse emissions from our operations in 2020-21 were 597,966 tCO₂-e, which was approximately two per cent higher than in 2019-20 – driven by an increase in electricity consumption across our network and an increase in distribution loss factors.

Environment

Our Environment and Sustainability Strategy, released in August 2020, focusses on improving environmental systems, sustainable resource use, and management of contaminated land. Environmental risks are managed through our ISO14001 certified Environmental Management System.

Highlights from 2020-21 included partnering with the NSW National Parks and Wildlife Service to regenerate the largest remaining stand of Lowland Rainforest on Floodplain, and release of a new Heritage Asset Management Strategy, for our 12 heritage properties and one state heritage item. See 'Environment' (page 19).

Reducing bushfire risk for our network infrastructure is a key environmental management activity. Our 2021 Bushfire Inspection Program included inspection of more than 100,000 power poles across 14,500 km of network. 507 vegetation defects and 223 asset defects were identified. These will be rectified in preparation for the 2021-22 bushfire season. See 'Bushfire preparation' (page 17).

Management of vegetation is another important focus for our environmental management. Our Vegetation Management Strategy, released in September 2020, factors environmental management into a risk-based approach. The 2021 Vegetation Management Program included inspection of more than 73,000 km of network and trimming of 600,000 trees, to manage safety risks from vegetation impacting the network. See 'Vegetation management' (page 17) and 'End-to-End Vegetation Management' (page 31).

During 2020-21 3,030 t of waste materials from our operations were repurposed or recycled; which was 41 per cent of our total waste volume. 1,333 t of power poles were provided to not-for-profit community groups, including men's sheds and pony clubs, or sold for re-use in buildings, for flooring, decking and cladding. 871 t of scrap metal was recycled, as well as 614 t of liquids (oily water, oil and effluent).

Other recycled materials included batteries, lamps, paper and cardboard. 4,398 t of non-recyclable materials were disposed of safely, including asbestos, contaminated soil, poles and general waste.

Critical infrastructure resilience

Ensuring our network is resilient in the face of natural disasters and the changing climate is critical to maintaining safe, reliable and affordable power and water supplies.

To enhance infrastructure resilience, we continue to advance our SAPS capabilities and have progressed the installation of composite poles in high-risk areas of our network. For more information see 'Engaging with the changing energy industry' (page 32).

Protecting our network from cyber and physical attacks is also key to critical infrastructure resilience. In March 2021 we finalised our new Cyber Security Strategy, to promote a risk-based and measurable approach to cyber safety and to drive security maturity. We also commenced a Property Security Uplift Program, to protect critical infrastructure and ensure all staff have the right access to the right sites to do their job. See 'Cyber and physical security uplift' (page 31).

Resilient communities

Our support for regional, rural and remote communities goes beyond providing safe, reliable and affordable power and water. During 2020-21, our Essential Communities Sponsorship Program provided more than \$541,000 to 510 community groups and charity organisations. In June 2021, our Employee Giving Program passed \$1 million total giving since commencing in 2014, with this support going to charity partner organisations. See 'Essential Communities Sponsorship Program' (page 28).

In response to the ongoing COVID-19 situation, our support for customers and communities included stopping disconnections for non-payment, in agreement with retailers, and phoning all affected life support customers to check on their welfare.

Large-scale renewables



38

connections (5 more than in 2019-20)



2,171 GWh

delivered (0.9% increase since 2019-20)



1.015 GW

total capacity (13.4% increase since 2019-20)



17.5%

energy delivered of total network load (0.2% higher than 2019-20)

Small-scale renewables



215,816

connections (14.7% increase since 2019-20)



24.7%

of total customers (3.0% higher than 2019-20)



1.172 GW

total capacity (28.6% increase since 2019-20)



868 GWh

delivered (24.3% increase since 2019-20)



7.0%

energy delivered of total network load (1.4% higher than 2019-20)

We also joined Energy Charter partners to undertake quarterly COVID-19 customer vulnerability surveys. See 'Safe and reliable power and water during COVID-19' (page 13).

For our response to the March 2021 floods, our customer and community support included loaning more than 130 small portable generators to flood-affected communities and delivering more than 5,000 L of fuel for generators. We also waived reconnection fees for 593 customer premises disconnected for safety reasons, and reimbursed customers up to \$350 for Accredited Service Provider (ASP) costs for reconnecting premises disconnected for safety reasons. See 'Restoring safe and reliable power following major floods' (page 14).

Over the past year we have also taken steps to participate in the global movement to eradicate all forms of modern slavery, which could be occurring in our supply chains. More than 1,300 employees have completed an awareness campaign, and we continued a supplier assurance program, with surveys conducted across 35 per cent of our supply base to ascertain compliance levels. We submitted our first Modern Slavery Statement to the Australian Government in December 2020. See 'Modern slavery' (page 28).

Community health and safety

In October 2020 we implemented a new Public Safety Strategy. Outcomes in 2020-21 included: releasing the Look Up and Live powerline safety online mapping tool; significantly increasing the number of aerial markers fitted to powerlines – for improved high machinery safety; and developing the ability to deliver SMS safety notifications to third parties. As part of the strategy, we also developed a range of communications campaigns to support our Public Electrical Safety Awareness Plan, which aims to raise awareness about safety hazards associated with the electricity network, focusing on at-risk groups.

The number of public safety incidents increased by 10 per cent during 2020-21 (compared to 2019-20) – mostly due to vehicles contacting the network. See 'Public safety' (page 27).

Energy affordability

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 half a per cent for residential customers and two per cent for business customers. These forecasts are lower than the four per cent (residential) and six per cent (business) forecasts reported in last year's Annual Report. The average residential customer will pay \$8.25 more in real 2020-21 dollars over the 2019-24 regulatory period.

The reduced forecasts are due to electricity consumption levels being significantly lower than forecast for the first two years of the current regulatory period, resulting in lower revenues. To recover adequate revenue over the five-year regulatory period, our distribution network prices will need to increase. Reduced consumption levels are mainly due to mild weather conditions (particularly during summer 2020-21), increasing customer uptake of rooftop solar and, to a lesser extent, COVID-19 impacts.

Inclusion and diversity

Our first Reconciliation Action Plan (RAP), released in November 2020, demonstrates our ongoing commitment to reconciliation and builds on the positive steps we have taken over many years to grow relationships and create opportunities for Aboriginal and Torres Strait Islander peoples. See 'Reconciliation' (page 7).

Other highlights from our ongoing work to build an inclusive and diverse workforce included: implementing a Women from the Field Program, to connect and support women in field-based roles; commencing a Respectful Workplace Program, focussed on ensuring our workplace is safe for all employees; doubling our Australian Workplace Equality Index Score, by focussing on LGBTI actions; and completing the Access and Inclusion Index for the first time. See 'Inclusion and Diversity' (page 24).

Employee health, safety and wellbeing

Safety is a core priority. Performance continued to improve during 2020-21, with no Major Lost Time Injuries (LTIs) and a reduction in High Potential Incidents (HPIs). There was a positive 26 per cent increase in near misses reported, reflecting a strong safety culture where employees feel empowered to call out and learn from near miss incidents. See 'Health and safety' (page 22).

Our new Health and Wellbeing Strategy, released in February 2021, focuses on three pillars: mental, physical and social wellbeing. In March 2021, 51 per cent of employees participated in a wellbeing survey. The results showed a slight decrease in employees' wellbeing compared to the previous year, due to ongoing pressures from COVID-19. However, 63 per cent of respondents still felt that they were thriving. See 'Health and safety' (page 22).

For employee engagement, improvements achieved in 2019-20 were maintained in 2020-21, with 33 per cent of employees engaged. This consistency is encouraging and demonstrates our ongoing commitment to improving as an organisation that all employees can be proud of. See 'Employee engagement' (page 24).

About us



Power and people you can rely on, now and in the future.

Our core business is operating and maintaining one of Australia's largest electricity networks, across 95 per cent of New South Wales (NSW) and parts of southern Queensland, including 183,099 km of powerlines traversing 737,000 square kilometres of landmass. Serving more than 870,000 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 to deliver an acceptable Return on Capital Employed.

Our vision is '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 continuing to implement a whole of business Transformation Program to ensure we meet the changing needs of customers and communities 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.

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 each customer 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 the Far West of NSW, 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.

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

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

Our Purpose Enabling energy solutions that improve life



>870,000
electricity customers



10,500
water customers



9,700
sewerage customers



95%
of NSW and parts of southern Queensland



4.75
customers per km of powerline – the lowest customer density in the National Electricity Market



183,099 km
of overhead powerlines



1.4M
power poles



36.8 years
average age of network assets



163,417km
of powerlines in designated bushfire zones



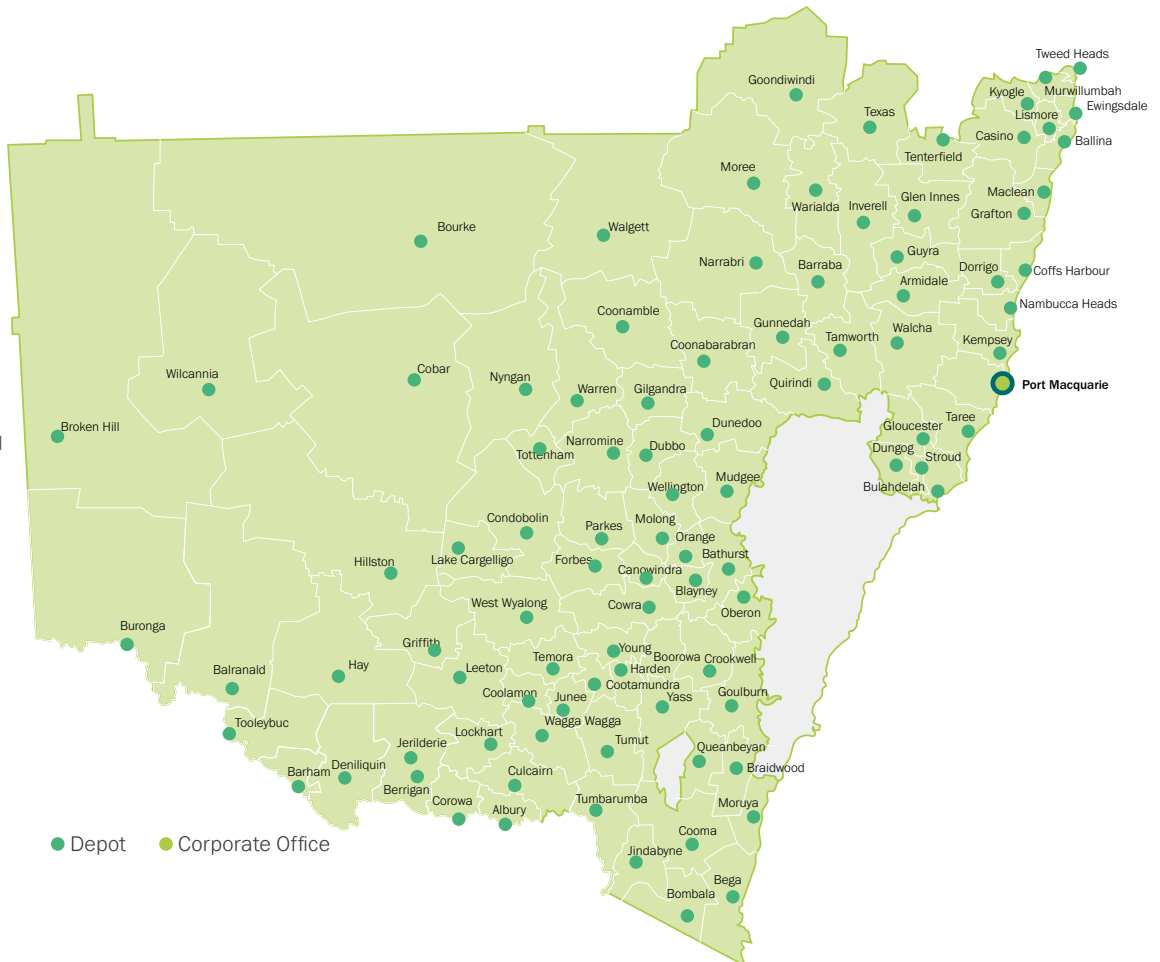
364
zone substations and 139,303 distribution substations



Approximately **3,000** employees



115 apprentices – with 29 appointed in 2020-21



Corporate Strategy

The pace of change of the electricity sector is accelerating, presenting significant opportunities and challenges for Essential Energy. As a distribution network, we deliver energy to consumers from various sources of generation through the centralised wholesale electricity market. The past year has seen significant changes in the industry and environment in which we operate, including changes within the retail sector, significant changes in key technologies (such as storage), regulatory change, and policy changes.

Our current Corporate Strategy, developed in 2018, provides direction for the capability uplift and initiative development required to adapt to the changing landscape. It focuses on four pillars, recognising the need for significant transformation of the core business while building future capabilities.

The four pillars are:

- > Strengthen the core business
- > Realise the full value of our network resources
- > Maximise the value of being connected to the grid
- > Deliver energy to customers in new ways.

During 2020-21, we made significant progress against the four pillars of the strategy. Outcomes delivered through the Transformation Program and innovation projects are detailed on page 30.

We continue to progress activities to commercialise our network assets more effectively through several strategies – including the establishment of dual-use arrangements, such as hosting telecommunications assets, and the sale of non-core assets that have been identified as being underutilised.

A strategy refresh, undertaken in 2020, affirmed the strategic direction of the business was still fit-for-purpose. From the refresh, several initiatives were prioritised, with implementation of these initiatives progressing during 2020-21.

Examples include:

- > fundamental analysis undertaken to plan and define tasks needed to progress our business objective to 'reduce the environmental impact of Essential Energy where it is efficient to do so'
- > development of capabilities needed to better integrate and optimise small-scale renewables connected to our network, through involvement in the Evolve Project
- > chairing the Industry Committee focused on developing standards for utility-grade Stand-Alone Power Systems (SAPS)
- > participation in customer studies concerning the benefit of microgrids to agribusiness
- > commencement of market engagement to support a future grid-scale battery.

In early 2021, we commenced a thorough review of our Corporate Strategy. This is particularly timely given the significant changes to the regulatory and physical environment in which Essential Energy operates. Our updated Strategy is scheduled for release by the end of 2021.

Factors influencing our strategy review:

Policy and Environment



NSW Energy Infrastructure Roadmap



COVID-19 recovery



Need for network resiliency



Customer empowerment for exporting energy into the grid



Greater customer focus



Increasing penetration of solar PV and batteries



Customer values driving change



Sustainability imperative

Competitors



Increase in generation write-downs and early retirement



Generator/Retailer diversification



New products and entrance

Technology



Increasing number of electric vehicles



Affordable storage technologies



Commercial and Industrial customer load defection



Digitisation transforming industry

Our year – delivering power and water today, preparing for tomorrow

Safe and reliable power and water during COVID-19

As an essential service provider to communities across 95 per cent of New South Wales (NSW) and parts of southern Queensland, and with employees living and working in these communities, it is vital that we continue to respond quickly and safely to the ongoing COVID-19 crisis. From the outset, our response has 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.

In the early stages of the crisis we postponed all planned outages for two weeks while we developed tools to enable the ongoing achievement of these objectives, including COVID-19 Pandemic Operating Protocols, as well as risk assessment, control and response tools. This careful and staged approach continues to enable our teams to assess risks, defer or modify planned work, and safely execute both planned and fault and emergency work. As a result, the number of planned outages per week returned to pre-COVID-19 levels by July 2020. As the COVID-19 situation evolved throughout 2020-21, we continued to maintain safe and reliable electricity and water supplies for customers, while also protecting the health and safety of our employees and the communities we serve. We continue to

regularly update our protocols to ensure alignment with current recommendations from government and health agencies.

Throughout 2020-21 we continued to engage the services of our Chief Medical Officer, to ensure the organisation had the most up-to-date health and vaccine information. With the rapidly changing COVID-19 situation the latest information continues to be provided to all employees via weekly COVID-19 updates, all-employee webinars, and up-to-date content provided on the intranet. We continue to advocate for prioritised access to vaccines for essential workers and communities in regional, rural and remote areas.

Wherever possible, all employees have been supported to work from home, with extensive guidance for safe home office setup and for physical and mental health and wellbeing. This flexible approach to working from home has been assisted by our Health and Wellbeing Strategy, supporting employees' wellbeing during the crisis. Special leave provision have been provided to allow employees every opportunity to attend COVID-19 vaccination.

Our measures to support customers and partners during the ongoing COVID-19 crisis have included:

- > voluntarily stopping disconnections for non-payment, in agreement with retailers, as the crisis escalated in June 2021
- > providing frontline employees with awareness training to increase capability to identify and provide support to customers in vulnerable

circumstances. Assistance is available to vulnerable customers through our Customer Support Policy

- > joining other Energy Charter signatories to jointly fund research into impacts of COVID-19 on customers and communities. Quarterly research insights are helping us to better understand how customers are being impacted by COVID-19 and to identify support opportunities
- > continuing to monitor COVID-19 impacts on our customers and communities through direct customer contact, regular surveys and consultation with our Customer Advocacy Group and other key stakeholders.

Another important part of our response has been the mitigation of operational risks from disruptions to our supply chains. Early on we identified critical suppliers that represented strategic risks in terms of business continuity. We engaged with these businesses to understand ongoing supply capacity and maintained close communications with our entire supply base, to help identify potential supply chain impacts, and where appropriate address risks through considered and practical mitigation strategies. To date, the commercial and operational exposure has been minimal.



Restoring safe and reliable power following major floods

The heavy rain and extensive flooding that impacted parts of NSW in March 2021 resulted in significant damage to our network, particularly on the Mid North Coast. At the height of the response, approximately 12,000 homes and businesses were without power. Across the 12-day response period, power was restored to more than 57,000 flood-affected customers. The majority of customers had power restored within seven days, with 20 customers without power until early April, due to road access issues.

To repair the network, field crews together with specialist underground crews were mobilised from local depots. Additional crews from across the network provided fatigue relief. In addition, six helicopters were used to scope network damage and support reconditioning over rivers. Much of the response focused on ensuring safe clearance, along with accurate and safe de-energisation and reconnection processes for flood-affected premises. Significantly, the response included restoring supply to four telecommunication tower sites – three by reconnection/restoration of our network and one via generators being transported to the tower via a helicopter.

To help our customers and communities recover from the crisis, we implemented a range of measures, including:

- > calling all life support customers experiencing outages to check on their welfare
- > partnering with community groups to loan small portable generators, as well as delivering more than 5,000 L of fuel to customers, to assist with running borrowed and personally owned generators
- > working with Accredited Service Providers (ASPs) to help flood-affected customers with reimbursement for reconnection costs, including reimbursing up to \$350 for premises disconnected for safety reasons (total cost in 2020-21 was \$57,952)
- > waiving reconnection fees for 593 customer premises disconnected for safety reasons



0
injuries throughout response



130+
generators supplied to flood-affected customers



5,000 L
fuel for generators delivered to flood-affected areas



237,726 km
travelled



467
outbound calls made to life support customers



Supply restored to 57,000
flood-affected customers and 4 telecommunication towers



130+
on-the-ground crew + whole-of-business support



8,086
inbound outage calls during the flood crisis



6
helicopters and 3 drones to assess damage and repair



17
trips to supply flood-affected areas with water, generators and fuel

- > pausing disconnections for non-payment in flood-affected areas
- > pausing private asset defect notifications in flood-affected areas and repairing or replacing flood-damaged or destroyed private assets on a like-for-like basis, at our expense
- > providing updates on power supply restoration face-to-face at community meetings, and through information issued by the Australian Defence Force on our behalf to isolated communities
- > distributing [Reconnecting After Flooding](#) fact sheets to ten evacuation centres, community representatives, and directly to customers whose properties were disconnected due to flood impacts
- > publishing a dedicated flood information web page (www.essentialenergy.com.au/floods).

This was an intense and challenging response involving multiple crews, with a strong focus on safety in tough conditions as well as looking after the community. Daily communications updates ensured all stakeholders, both internal and external, were kept informed with up-to-date information. Essential Energy leaders also visited local emergency hubs and worked alongside other emergency response agencies. With a cross-business collaborative team effort, the response was injury-free and pleasingly received very positive customer feedback.

Network operations

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.

Widespread flooding and the ongoing COVID-19 crisis impacted our program in 2020-21, resulting in rescheduling of some planned works. Throughout the year, the program was readjusted to account for these challenges, providing an approved position of 59,475 work tasks. A total of 55,069 work tasks were delivered, yielding a final work task delivery position of 92.6 per cent. This demonstrates an efficiency increase, along with a significant reduction for the planned maintenance backlog – demonstrating our teams’ dedication and commitment to maintaining safe and reliable power supply.

The significant interruptions also impacted contractors’ ability to deliver strategic works programs to replace streetlights and service mains. Contractors were redeployed to provide emergency assistance in Victoria, to help rebuild the network following significant storm damage in June 2020.

Asset inspection



323,534
power pole inspections (103% of the target 313,000 inspections)



23,590km
of powerlines inspected via drone inspections (up from 7,869 km last year)



56,341
drone flights by asset inspectors (up from 13,852 last year)



594,071
inspection photos taken (up from 79,159 last year)

Vegetation management



245,760
powerline spans with vegetation removed (down from 275,642 last year)



11,583
hazard trees remediated (down from 12,010 last year)



463
powerline spans treated for vegetation for bushfire inspection (down from 650 last year)

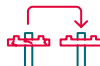
Maintenance, capital improvement and fault and emergency



20,108
planned outages (up from 11,696 last year)



24,708
unplanned outages (down from 24,950 last year)



22,613
cross arm replacements (down from 22,911¹ last year)



10,252
pole replacements



8,887
zone substation maintenance work tasks (target 9,819)



2,877
distribution substation preventative maintenance work tasks (target 2,848)



8,059
service mains tasks (target 8,730)



1,020
construction milestones (target 1,139)

Fleet



238,506
pre-operational fleet inspections (down from 284,216 last year)



34,634,744 km
travelled

Meter reading



95%
of meter reads to schedule (target of 100%)

1. 20,756 cross arm replacements in 2019-20 reported in 2019-20 Annual Report, due to a delay in reporting some tasks in 2019-20.

Major Projects

Description	Before 2020-21 (inc. overheads) (direct project \$)	2020-21 (inc. overheads) (direct project \$)	Total Cost (inc. overheads) (direct project \$)	Completion date
Terranora 66 kV polymer terminations and cables	\$3,976,415	\$613,707	\$4,590,122	Nov 2020
Wagga Wagga Morrow Street 66 kV Gas Insulated Switchgear	\$777,152	\$2,032,389	\$2,809,542	Jun 2021
Wingham Zone Substation refurbishment	\$2,889,124	\$438,404	\$3,327,528	Oct 2020
Woolgoolga Zone Substation refurbishment	\$375,537	\$1,291,463	\$1,667,000	Apr 2021

Four major projects were completed during 2020-21. Major Projects are internally funded electricity system investments with total direct costs exceeding \$1M and are driven by the need to provide a reliable and safe electricity supply.

The Terranora 66kV subtransmission network consists of 75 km of 66 kV powerlines, comprising both overhead line and underground cable sections. The subtransmission network provides supply to six 66 kV zone substations that supply 45,000 customers in the Tweed Shire Council area. A connection between an overhead line and underground cable, or an underground cable to a zone substation infrastructure is via a 'cable termination'. The cable terminations in the Terranora subtransmission network were a specific polymer type that had reached end of life and required replacement. Failure of a cable termination could possibly lead to loss of supply. A total of 126 cable terminations were replaced, along with sections of underground cable that had water ingress due to condition of the old cable terminations.

The Morrow Street 66/11 kV zone substation is a key substation in the Wagga Wagga 66 kV subtransmission network. The zone substation supplies 3,000 customers, has 66 kV interconnections with three other zone substations and is located on a small site in the northern urban area of Wagga Wagga City. The purpose of the project was to improve interconnectivity between zone substations and provide transformer protection. The project installed a 66 kV busbar/circuit breaker arrangement using gas insulated switchgear.

The Wingham 33/11 kV zone substation, built in the early 1960s, consisted of an outdoor 33 kV busbar, four 33 kV circuit breakers, two 33/11 kV power transformers and an oil-filled 11 kV indoor switchboard. The zone substation provides supply to 4,200 customers. Most of the equipment had reached their end of life and the project refurbished the site by installing a new 11 kV switchboard, one of the 33/11 kV transformers and the four 33 kV circuit breakers and associated busbar connections.

The Woolgoolga 66/11 kV zone substation, built in late 1970, consisted of an outdoor 66 kV busbar, four 66 kV circuit breakers, two 66/11 kV power transformers and an oil-filled 11 kV indoor switchboard.

The zone substation provides supply to 7,000 customers. Most of the equipment had reached end of life and the project refurbished the site by installing a new 11 kV switchboard and the four 66 kV circuit breakers and associated busbar connections.

Stage 1 (10 km in length) of the project to refurbish the 33 kV powerline between Casino and Mallangane (total length 15km) was completed in November 2020. Stage 2 of the project, to complete

the refurbishment of the final 5 km, is scheduled for completion by May 2022, after longer than expected easement negotiations with landowners and urgent fault and emergency works.

During 2020-21, seven solar farms connected to our network, at West Jemalong 50 MW, Corowa 30 MW, Junee 30 MW, Leeton (Fivebough 1) 4.99 MW and (Fivebough 2) 4.99 MW, Peak Hill 4.99 MW¹, and Trundle 4.99 MW¹.



Case Study

Asset Management Excellence Award

In April 2021, Essential Energy received an Asset Management Excellence Award from the Asset Management Council, for the fundamental changes implemented to our asset management strategies and their place in driving value in our broader Transformation Program.

The award recognised our Asset Strategies project for demonstrating value through the best balance between the elements of cost, risk and performance through our assets for our customers. The project is transforming the way we approach asset management decision making through the creation of 14 network strategies, 26 asset classes and seven implementation strategies which drive around \$400M of expenditure annually within the business.

Executive Manager Engineering David Salisbury said "We are not simply digitising existing ways of working or chasing blind 'cost out' outcomes. We are critically reviewing every aspect of our Asset Management System to ensure that we are improving customer outcomes such as safety and reliability while achieving sustainable reductions in our cost base and therefore customer charges, through the implementation of a world-class Asset Management System."

1. Connected during 2020-21, active in the market in September 2021.

Vegetation management

A new Vegetation Asset Class Strategy was approved in September 2020. The new strategy focuses our Vegetation Management Program on building trust within the community, strengthening risk mitigation measures, uplifting staff capabilities and pursuing expenditure optimisation. A complete end-to-end transformation of the program has already delivered significant benefit to customers and the organisation, including improved employee engagement, stronger relationships with local councils, reduced risk exposure to hazardous trees, and a more efficient contracted service provider model.

Future advancements will include increased digital enablement. The coming year will see a focus on enhancing vegetation inspection and hazard prioritisation using remote-sensing technology such as satellite imagery.

The Industry Guide ISSC3 Management of Vegetation in Vicinity of Electrical Assets sets the requirements for the management of risks associated with the impact of vegetation on electrical assets for the benefit of public safety, community amenity and electricity supply reliability. Essential Energy remains on track to meet its three-year commitment to the Independent Pricing and Regulatory Tribunal (IPART) for full ISSC3 compliance by 1 October 2021.

During 2021 our planned Vegetation Management Program involved the inspection of more than 73,000 km of network and trimming of approximately 600,000 trees, with total cost more than \$113.7M, to mitigate network and public safety risks related to vegetation impacting the network.

Bushfire preparation

An important part of our annual Bushfire Preparation Strategy is our pre-summer Bushfire Inspection Program. This work ensures the network in Priority 1 bushfire zones is in sound condition prior to the bushfire period start date of 1 October each year. The program complies with IPART requirements. During 2020-21 there was a significant improvement in Priority 1 work tasks being delivered across the network, resulting in more efficient delivery of higher priority tasks on the network to mitigate bushfire risk.

The 2021 inspection program ran from February to June 2021 and involved the inspection of more than 100,000 power poles across 14,500 km of network. 507 vegetation defects and 223 asset defects were identified, for rectification by 1 October 2021 to meet the compliance deadline.

Our bushfire prevention continuous improvement journey was recognised through the 2021 Bushfire Preparedness Audit conducted by AMCL on behalf of the safety regulator (IPART). The audit noted: “Commensurate with the scale of operations and inherent bushfire risk of its network area, we observed Essential Energy developing a leadership position within the industry in several bushfire prevention areas. There is an advancing level of maturity in relation to bushfire prevention strategy”. This performance is reflective of the planned and considered approach we continue to take for the management of bushfire risk through the implementation of the Bushfire Prevention Strategy.

The audit identified an action for Essential Energy to consider, relating to review of the 2019-20 bushfire season, including implementation of any learnings. Essential Energy has committed to finalising and implementing an action plan to address this audit recommendation.

The 2020 Bushfire Preparedness Audit included an action relating to management of the fire risk that might be posed by private High Voltage Customers (HVCs). In response, we introduced processes whereby HVC site owners must have their Installation Safety Management Plan independently audited. As this was a new requirement for HVCs, we undertook considerable engagement with site owners to provide assistance with the process.

We are continuing to refine our Bushfire Prevention Strategy, with focus areas including: improving governance and assurance arrangements; improving fire analytics and modelling; building a toolkit of technical controls; benchmarking and horizon scanning; and incorporating bushfire objectives into asset strategies.

The strategy also takes into account the challenges and opportunities for bushfire risk management from changing climatic conditions and changes to the way energy is delivered. For example, with the climate changing it is important to use robust modelling to understand how the fire risk profile across the network might change, and to be prepared to adapt to changes.

Case Study

Engineering award for pioneering approach to calculating the cost of bushfires

In October 2020, Ian Fitzpatrick (Manager Network Risk Strategy) received the prestigious 2020 Engineering Associate of the Year from Engineers Australia. The award recognised Ian’s outstanding leadership and contribution to the energy networks industry, in his role as an industry lead for the Energy Networks Australia IGNIS project, along with his work in electrical infrastructure and bushfire prevention. The IGNIS project pioneered an approach for energy networks to calculate the cost of bushfires that can be used for more effective network investment and to improve bushfire management.

Ian was nominated for the award by his team and his IGNIS project colleagues, from Energy Networks Australia, Bushfire and Natural Hazards Cooperative Research Centre, the University of Melbourne and TasNetworks.



Field operations improvements

A number of improvements to the management of field operations were delivered during 2020-21.

Regional stores refit

Our inventory supply chain is being streamlined by refitting all 23 regional stores holding the full range of inventory for planned and unplanned outages, and implementing a mobile technology solution. The project is bringing all fault and emergency and work-pack stock under one roof in each store, providing field teams with a one-stop-shop. The mobile inventory solution enables teams to scan inventory in and out using iPads and iPhones, for real-time and transparent inventory holdings. COVID-19 restrictions delayed the full implementation of the project during 2020-21. Five stores require upgrade to complete the project.

Drone Program

Our use of drones continued to expand during 2020-21. The Remotely Piloted Aircraft Operator's Certificate (ReOC) was approved and commenced operations from 1 July 2020, enabling the use of larger drones within Essential Energy. Also, the Asset Inspector Drone Training Program was completed by November 2020, significantly improving the inspection of Essential Energy assets, and resulting in an increase in critical defect reporting and therefore preventing possible network and public safety incidents. 181 drones are currently

in use, by the centralised drone team, asset inspectors, communications, zone substations and line crews. Drones are also being used to create 3D models of critical zone substations sites. Engineering teams are using these models to design and plan future projects, which has proven invaluable with teams working from home during the COVID-19 pandemic.

Line Leadership

The Depot Line Leadership Review is a positive performance indicator that forms the basis of monitoring depots' occupational, health and safety compliance. By aligning to audit protocols on a monthly basis, the review is driving continuous improvement and creating a results-driven safety program. Operational and depot leaders manage the program, with the objective of achieving a continuous improvement target of 90 per cent by year end.

Frontline Mobility Strategy

Our Frontline Mobility Strategy also continued to progress during 2020-21. An important part of this strategy is the in-house built and supported Field Portal mobile app. Field teams use the Field Portal to view and action network asset tasks. More than 205,000 tasks have been actioned through the tool since its launch in February 2020. Field Portal supports the reduction of manual paper-based processes and uplifts the organisation's data quality.

Functionality improvements during 2020-21 included:

- > interactive digital risk assessment to support on-site safety of our field teams
- > capture and recording of electrical tests conducted on customers' premises, with multi-user visibility, photo capture/mark up and access to historical testing results
- > ability to add field planning notes
- > viewing of drone photos
- > actioning of distribution zone substation tasks
- > access to improved customer information.

Preparations for major events

To improve our response to future major events we developed a Major Events Response hub on our intranet. The hub provides leaders and teams with online resources – including policies, processes, tools and templates – and is a central location for information sharing during events. Alongside the development of the hub, more than 300 frontline leaders and employees from supporting business areas contributed to a major event preparedness session. Leaders also completed local major event preparedness action plans following the session. The hub was an outcome from our 2019-20 bushfires response and was used for the first time to successfully support our response to the March 2021 floods. During the floods response, 650 employees visited the hub more than 5,200 times.



Case Study

Digital Hazard Identification Risk Assessment Control

The Digital Hazard Identification Risk Assessment Control (HIRAC) tool re-imagines safety for the frontline, by supporting quality on-site risk assessments and complimenting quality onsite discussions on every site, every day. It is a single mobile app, covering all work tasks for our teams, replacing 12 paper-based HIRAC books. It was designed and developed in-house, using the functionality of the Field Portal app, and is supported by a real-time reporting platform.

Development commenced in June 2020 and involved extensive internal and external consultation, to ensure a fit-for-purpose application for field staff. A 'field pilot' was deployed in March 2021, to test functionality and usability, and to ensure the app covered all work tasks our teams undertake daily. The pilot provided real-time feedback, leading to minor enhancements.

Deployment across the organisation commenced in April 2021, including virtual training sessions to focus teams on the importance of quality on-site safety assessments and discussions, as well as detailed technology training sessions. Full deployment of the app is scheduled to be completed in September 2021.

Live line work review

The temporary suspension of High Voltage (HV) Live Line and restrictions on Low Voltage (LV) Live Line work, in place since April and May 2019 respectively, were both lifted and Live Line work recommenced in June 2020. The suspension and restrictions had been in place following serious safety incidents on the Ausgrid and Essential Energy networks. The decision to resume Live Line work was made following extensive reviews of relevant work practices.

Before returning to Live Line work, employees are required to 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. These requirements were undertaken and work fully resumed by December 2020.

To support safe and sustainable performance of live work, members of the Electrical Safety Office, safety business partners and line leaders have completed 198 Live Work Audits, validating work as done versus work as written, including compliance to new work practice changes and standards.



Case Study

Streetlights LED rollout

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 their streetlights to more energy-efficient and cost-effective LED lights.

During 2020-21, LED lamps were installed on more than 47,900 streetlights. By the end of June 2021, 72 per cent of public lights in our network had been upgraded to LED, with the aim of achieving 100 per cent LED by the end of 2023-24. These LED lights typically reduce running costs for councils by 40 to 50 per cent.

Additionally, NSW Department of Planning, Industry and Environment supported our BRP by funding high residual costs associated with upgrading to LEDs lights 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 nearly \$4.75M for more than 118,000 lights.

Environment

Operating an electricity network across 95 per cent of the NSW, covering diverse landscapes – including coastal, alpine, sub-tropical, desert, forests, rainforest, as well as agricultural land and urban centres – poses many environmental challenges.

We responsibly manage environmental risks through our ISO14001 certified Environmental Management System (EMS). Continuous improvement is at the heart of the ISO 14001 standard.

During 2020-21, we finalised a four-year Environment and Sustainability Strategy, with the vision to 'reduce the complexity of environmental matters in an efficient and sustainable manner'. Key focus areas of the strategy are: environmental system improvements; sustainable resource use; and a contaminated land program.

Strategy outcomes will include:

- > Helping all parts of the business to contribute to sustainable practices, by: streamlining and enhancing our environmental impact assessment (EIA) process; reducing the length and complexity of environmental policies and procedures; and making it easier for all employees to access information from the EMS online and from mobile devices
- > Enhancing our capacity and capability to effectively manage biosecurity risks, by: providing localised biosecurity training; and engaging with community groups on biosecurity matters
- > Reducing our environmental footprint, by: optimising our fleet usage; diverting waste from landfill via recycling and re-use; investigating the feasibility of solar installations at depots; and identifying opportunities to increase the use of sustainable products, particularly in our asset management decision processes
- > Continuing to effectively manage contaminated land, by: understanding our contaminated land risks and liabilities; and remediating, managing and monitoring sites identified to be above risk thresholds.

We also developed a Heritage Asset Management Strategy (HAMS) during 2020-21, following Heritage NSW reinvigorating their engagement with state agencies to better support heritage protection. Essential Energy manages 12 heritage properties, comprising substations, power stations, field service centres and office buildings. One of the properties, Mullumbimby Power Station, is a state heritage item. The HAMS provides a whole-of-life process for managing these assets.

Contributing to rainforest regeneration

During 2020-21, we partnered with the National Parks and Wildlife Service (NPWS) to regenerate the largest remaining stand of Lowland Rainforest on Floodplain, in the Clarence Valley on Susan Island. The NPWS approached us, as an owner of electricity assets on the Island, to assist with a weeding program. The NPWS was appreciative of the contribution we made to this program, which has been highly successful in combatting weeds.

Essential Water

Our Essential Water customers have experienced a year of below average temperatures and above average rainfall, resulting in all water restrictions being lifted in March 2021. Broken Hill customers continue to be well serviced by the reliable water supply via the pipeline from the Murray River and water levels in the Darling River also remain constant and reliable.

Extensive Aboriginal and heritage surveys are currently underway, in preparation for the design and construction of a new smaller pipeline along the route of the existing Menindee to Broken Hill pipeline, as well as the new potable water pipeline to Sunset Strip from Menindee.

A new water treatment plant has been constructed at Menindee, at a cost of \$4.5M, and is expected to be operational by October 2021.

The draft pricing proposal for 2022-27 was submitted to the Independent Pricing and Regulatory Tribunal (IPART) in June 2021. It details recommended prices, ensuring fairness for customers and allowing the business to recover the majority of costs. The proposal includes the construction of a new wastewater treatment plant at Broken Hill, as well as a significant increase in water mains replacement. The Integrated Water Cycle Management Strategy issues paper is scheduled to be submitted to the Department of Planning, Industry and Environment in November 2021.

Total consumption of potable and raw water for 2020-21 was 5,470 ML – a decrease of 1,000ML (15 per cent) compared to 2019-20. This total contained 4,570 ML of potable water and 900 ML of raw water, with the consumption of potable water declining by 7.7 per cent compared to 2019-20.

Essential Water's 2020-21 Operational Works Program included:

- > renewal of 1,477 m of water mains
- > cleaning and rodding 25,333 m of sewer mains
- > sewer blockages up by 13 per cent, compared to 2019-20, predominately as a result of customers flushing unsuitable materials into toilets due to COVID-19 related toilet paper shortages.

Water licences used in 2020-21

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
WAL43418	NSW Murray Regulated River Water Source	Local Water Utility [Domestic and Commercial]	8,694 ML	For customers on the Broken Hill network

Essential Water financial performance in 2020-21

Essential Water's loss before interest and tax was \$1.5M, against a target loss of \$22.3M. This result was driven by:

- > lower impairment of assets of \$17.4M, with the capital program below budget delivery
- > government funding of \$1.5M – trade waste customers \$0.5M and recognition of drought funding \$0.8M
- > Brine Pond Decommissioning Project below budget delivery \$1.3M.

These benefits were partly offset by lower income from the sale of water (\$0.5M), due to water consumption being lower than IPART's determination allowance.

Essential Water invested \$8.3M on internally funded capital programs in 2020-21, below the target of \$26.0M. The main drivers were:

- > Consequential Works program (\$14.8M) below budget
- > Graziers Pipeline Project moved from a 'pipe-in-pipe' design to an 'in-ground' solution. This change in strategy requires

a Review of Environmental Factors (REF) to be completed, delaying the project by potentially six months

- > Mica Street Service Reservoir Replacement Program was put on hold, due to the need to address the urgent concrete works at the site, resulting in a (\$2.0M) variance
- > Menindee Water Treatment Plant Major Works (\$0.7M) below budget. This project is 95 per cent complete and is expected to be completed early in 2020-21.



Company scorecard

The Company Scorecard includes performance against targets in the Essential Energy 2020-21 Final Statement of Corporate Intent, along with performance for other key metrics.

Area	Measure	Target	Outcome
Safety	Major Lost Time Injury Frequency Rates (MLTIFR)	≤0.25	0.0
	Serious Claim Frequency Rate (SCFR)	≤2	3.3
	Total Recordable Injury Frequency Rate (TRIFR)	≤10	16.0
	High Potential Injury Frequency Rate (HPIFR)	Monitor only	6.3
	Overdue Significant Corrective Actions	0	0
People	Employee Culture Index ¹	>3.85	3.76
Network Delivery	Network Program Value Delivered	100%	100%
Customer Experience	Customer Satisfaction Index ²	≥75%	79%
	System Average Incident Duration Index (SAIDI)	≤211 min	215 min
	Life Support Breaches (Immediately Reportable)	0	4
Regulatory	Material Reportable Regulatory Breaches	0	0
Financial	Return on Capital Employed (ROCE)	3.1%	3.6%
	Operating Expenditure	≤\$512M	\$510M
	Capital Expenditure	≤\$570M	\$464M
	Net Profit After Tax (NPAT)	≥(\$32M)	\$3M
Transformation	Transformation Executive Level Milestones Achieved ³	100%	92%

1. Measured in the annual employee engagement survey. June 2021 result was 3.76. July 2020 result was 3.79.

2. New scoring methodology adopted for 2020-21.

3. Target reflects Board approved revised baseline.

Financial impacts of unforeseen events

The March 2021 NSW floods had devastating impacts on communities and customers. The financial impact to the business was approximately \$3M.

In the last reporting period, we noted that the 2019-20 bushfire season had led to significant costs. In addition, over the last 12 months we have undertaken the development and implementation of a cyber security strategy that will allow Essential Energy to meet new Independent Pricing and Regulatory Tribunal (IPART) licence conditions. However, as a result we are preparing to submit cost pass through applications to the Australian Energy Regulator (AER) for significant unforeseen costs from the changes to critical infrastructure licence conditions (approximately \$40M) and from the 2019-20 bushfires (approximately \$75M). In both cases the costs are the total actual and forecast costs over the 2019-24 regulatory period. Neither of these events were included in the 2019-24 Regulatory Proposal, so we are seeking to recoup the shortfall in revenue allowance over the 2022-24 period. We have been engaging with customers as we prepare these applications and plan to submit the applications to the AER prior to January 2022.



Supporting our people and building a workforce for the future



Health and safety

COVID-19 response

See 'Safe and reliable power and water during COVID-19' (page 13) for information about our ongoing response to the challenges posed by the COVID-19 pandemic.

Health and Safety Strategy

Initiatives from our 2020-24 Health and Safety Strategy were implemented throughout 2020-21, focusing on the five key pillars of the strategy:

- Leadership and Culture – including implementation of a Frontline Leadership Program (see page 24)
- Systems and Governance – improvements to our systems and reporting
- Critical Risks – completing a detailed review of our critical risks and controls that relate to driving, land transport and working with electricity
- Health and Wellbeing – implementing a mental health framework and implementing telehealth access to our Employee Assistance Program
- Public Safety – implementing initiatives to reduce risks to members of the public.

A Critical Control Framework, a priority action from the strategy, was used to map and verify in the field work tasks and controls for our two biggest risks: working with electricity; and driving and land transport. Critical controls were identified that operate automatically to prevent a fatality or life-threatening injury. Critical activities and tasks to support the controls were also identified and will be used to provide feedback on the health and effectiveness of the critical controls through regular reporting and dashboards.

Health and Wellbeing Strategy

We approach health and wellbeing in a holistic sense, recognising that it involves life inside and outside of work. Within our overall Health and Safety Strategy, we released a new Health and Wellbeing Strategy in February 2021, focussing on three pillars: mental, physical and social wellbeing. The purpose of the strategy is to facilitate a culture of holistic health and wellbeing where employees finish work each day healthier than when they started. A key action of the Health and Wellbeing Strategy was to review our Employee Assistance Program to ensure optimal support is always available to employees in all locations. Throughout this process we have ensured increased access to telehealth and online support.

To develop a comprehensive understanding of employees' wellbeing, a wellbeing survey was conducted in March 2021, with 51 per cent of employees participating. With many employees making changes to work and family routines due to COVID-19, it was not surprising that the results indicated the wellbeing of employees slightly decreased over the prior 12 months. Pleasingly, 63 per cent of employees felt that they were thriving, despite the challenges presented by 2020-21. The results of the wellbeing survey are now supporting the prioritisation of programs and initiatives in the Health and Wellbeing Strategy and shaping the development of team-based plans.

Safety performance

Safety is a core priority, 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 continued to improve during 2020-21, with no Major Lost Time Injuries (LTIs) and a reduction in High Potential Incidents (HPIs). There was a positive 26 per cent increase in near misses reported, reflecting a strong safety culture where employees felt empowered to call out and learn from near miss incidents. Safety performance measures are included in the Company Scorecard (page 21).

Seven incidents were reported to SafeWork NSW during 2020-21: one notifiable incident and six dangerous incidents involving Essential Energy employees. Two of the incidents were classified as Network Fatal Risk (NFR) 1 (exposure to unintended discharge of electricity), three as NFR 6 (struck by falling or moving object), one as NFR 4 (motor vehicle accident) and one as NFR 7 (incident while undertaking lifting operations). The single employee that required medical treatment returned to work.

There were no prosecutions under the *Work Health and Safety Act* during 2020-21.

Frontline safety leadership

Increased proactive safety reporting, shown by increased near miss reporting, reflects improved trust and confidence from frontline teams, built through ongoing engagement at all leadership levels. For example:

- > 100 serious incident meetings were led by operational leaders and safety business partners. Many of these meetings included impacted employees, with a focus on employee support, learnings and identification of effective preventative actions
- > 142 'Be Safe' communications were initiated by field teams. These safety communications are from the field for the field, underpinning individual and team ownership of incidents through lesson sharing
- > More than 2,700 site safety interactions were completed, with more than 750 of these involving leaders focusing on NFR work standards and controls
- > Regular briefings for all 170 operational leaders, held via Zoom every six weeks, focused on: safety performance updates; leader-led presentations on key incidents, including HPIs; and guest subject matter expert awareness and training sessions
- > Operational safety business partners and operations leaders designed, delivered, and embedded a Line Leadership Review tool, establishing a consistent approach to safety, risk and compliance management across all depots and operational sites. More than 30 Zoom training sessions were held, with support, review and validation from operational safety business partners
- > More than 20,000 face-to-face and Zoom toolbox talks, with the face-to-face interactions complying with COVID safety protocols.



Health, Safety and Environment investigations improvements

In 2020-21 we revised our Health, Safety and Environment (HSE) Investigations Procedure, to improve learning opportunities, better understand how work is performed, allow greater involvement of workers in the investigation process, and better communicate the learnings across the organisation. The revision was informed by:

- > review of the HSE investigations process and previous investigations
- > benchmarking against processes in comparable industries
- > gap analysis
- > extensive consultation with an agreed group of key stakeholders from throughout the business.

The updated HSE Investigations Procedure contains a streamlined investigations process, implementing improvement opportunities identified through the gap analysis and from feedback from key stakeholders. It also assesses external third-party options to assist with investigations during peak periods, complex investigations, or fatalities. The implementation of the new Investigation Procedure was supported by training to upskill the HSE Safety Team. The outcome of this change has been improvements to near miss reporting, investigation quality and timeframes, and action quality. There was also a seven per cent reduction in the number of HPIs in 2020-21 (compared to 2019-20).

Contractor safety

Throughout the year we continued to engage and collaborate with Contract Service Providers on Work Health and Safety (WHS) matters via our Contractor Safety Working Group. The working group met multiple times during 2020-21, providing a forum for shared learnings, collaboration, collective problem solving and innovation around WHS matters.

Also, the Vegetation Health, Wellbeing Safety and Environmental Plan was approved in April 2021. The purpose of the plan is to enable vegetation worker safety and wellbeing and embed environmental stewardship within everyday vegetation operations on and around the network.

Inclusion and diversity

Our Inclusion and Diversity Strategy 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'.

In early 2021, an audit was completed to measure progress and identify more opportunities to achieve our inclusion and diversity goals and objectives.

Key inclusion and diversity progress during 2020-21 included:

- Releasing our first Reconciliation Action Plan (RAP) – demonstrating our ongoing commitment to reconciliation and building on the positive steps we have taken over many years to grow relationships and create opportunities for Aboriginal and Torres Strait Islander peoples. For more information, see page 7
- Commencing a Women from the Field Program – which aims to help shape the future of the energy industry by connecting and supporting women in field-based roles, through regular conversations, peer and leadership support, questions and answer sessions, and a structured mentoring program
- Commencing a Respectful Workplace Program – with a focus on ensuring our workplace is safe for all employees, by embedding inclusive behaviours within the organisation. Key policies were reviewed to ensure best practice outcomes and employee offerings, and targeted training and awareness sessions were delivered in 2020-21, to ensure we are generating sustainable organisational change
- Reviewing key policies to ensure they are inclusive of all diversity groups
- Running an Inclusion Influencer course through National Association of Women in Operations (NAWO) for Inclusion and Diversity Working Group Stream Leads
- Doubling our Australian Workplace Equality Index Score, by focussing on LGBTI actions
- Partnering with Pride in Diversity to provide training sessions for ALLY awareness
- Completing our first Access and Inclusion Index, partnering with Australian Network on Disability
- Continuing to raise awareness by celebrating events virtually across our Inclusion and Diversity streams, including: Wear It Purple Day (August 2020), White Ribbon Day (November 2020), NAIDOC Week (November 2020), International Women's Day (March 2021), Harmony Day (March 2021), IDAHOBIT Day (May 2021) and National Reconciliation Week (May-June 2021).

Employee engagement

In July 2020, 75.9 per cent of Essential Energy employees completed the annual engagement survey to share their opinions, comments and suggestions on ways to make Essential Energy a better place to work. The 2020 results saw a 50 per cent increase in the number of engaged employees, from 22 per cent in 2019 to 34 per cent in 2020.

Key focus areas for improvement during 2020-21 included:

- communicating more regularly and openly across all levels of the business
- increasing the connection that employees feel between their day-to-day jobs and the organisation's vision and purpose
- growing the overall satisfaction that employees feel in terms of Essential Energy being a good place to work.

The 2021 survey was conducted in June 2021, with 77 per cent of employees participating. The results maintained the large increase of engaged employee from the previous year, with 33 per cent of employees engaged and an overall engagement score of 3.76 (out of five), compared with the Australian Company database where 19 per cent of employees are actively engaged. These consistent results are encouraging and demonstrate our ongoing commitment to improving as an organisation that all employees can be proud of.



77%

of employees participated in the 2021 survey

2021



2020



2019



2018



■ Actively disengaged ■ Not engaged ■ Engaged

Learning and development

Training response to COVID-19

In response to the COVID-19 crisis, we have actively managed training activities, including suspending training in March 2020 and establishing online programs, which were made available in April 2020. As the impact on operations was reassessed, restrictions to training were eased in November 2020, with some face-to-face internal training recommencing, with strict hygiene protocols. This easing of restrictions was extended to external training in January 2021. Authorisations to operate on or near the network were fully maintained. We continue to monitor the COVID-19 situation, with rapid adjustments made to training schedules as the situation evolves.

Leadership development

In 2020-21 we introduced a Frontline Leadership Program, designed to develop the leadership capability of frontline leaders from across the business. The program is empowering frontline leaders with practical skills, to drive engagement and cultural change, and to provide leaders with the skills and tools to help their teams to navigate organisational change and transformation. Following a pilot in October 2020, the first wave of the program commenced in February 2021, with 202 frontline leaders participating in virtual training workshops. Feedback on the program is positive and demonstrates the beginnings of return on investment.

Customer service training

Internal and external customer service is a key priority and value of the business. This has led to the development of a customer-focussed training framework and program, to help employees better understand their role in supporting customer service excellence, and to ensure they have the tools to achieve our customer experience vision of 'everyday excellence, every customer, every interaction'. The program offers a practical framework to lead and inspire the growth of a customer-centric culture across our business. Implementation commenced in September 2021.

Supported Study Program

Our Supported Study Program has been enhanced by our move to the new Enterprise Resource Planning learning platform, with 171 employees enrolled in a variety of disciplines, covering qualifications from certificate IIIs to masters degrees.

Apprenticeship, Traineeship and Graduate programs

In January 2021, we welcomed 29 new apprentices, 13 new trainees and five new engineering and ICT 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 26 powerline workers and three 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 115 apprentices, with 94 apprentice powerline workers and 21 apprentice electrical technicians (as of 30 June 2021).

The new trainees included eight asset inspection (AI) trainees. This is a one-year program, with seven trainees from the 2020 program successfully moving into permanent asset inspection roles in 2021. We also welcomed five field

operations trainees, in our one-year Indigenous Pre-Employment Program, which has been running for five years, with 19 of the 20 trainees from the first four years successfully transitioning to apprenticeships.

The five new graduates have a range of skills – engineering, ICT and data – reflecting the diversity of our future engineering needs. During the three-year program they will perform a variety of roles and undertake development supported by Engineering Education Australia.

The first cohort of six post-trade trainees completed their cable jointing qualification, with another 28 trainees continuing their training. The cohort of nine electrical technicians in training to gain their powerline worker qualification are in the final stages of completing their qualification in the coming year, with one having already completed it this year. These post-trade courses provide additional capacity in our field crews, further enhancing local crew's ability to respond to the changing energy sector.

Network training and assessment

The essential work of authorising people to work on or near the network continued throughout the year, despite the challenges of COVID-19 restrictions. This involved more than 1,870 Essential Energy employees and more than 2,000 external Accredited Service Providers (ASPs), as well as more than 950 Contracted Service Providers (CSPs), with CSPs predominantly for vegetation control. Annual regulatory refresher training, switching refresher training and role specific initial training and induction courses for approximately 3,600 internal participants were conducted using delivery techniques and procedures that mitigated COVID-19 risks.

The capacity to conduct switching initial and refresher training in regional NSW was enhanced during 2020-21, with the commissioning of a network simulation facility at Parkes and the introduction of three specialist vehicle/trailer combinations to take switching refresher training to remote depots.



Case Study

First graduates from our renewed Apprenticeship Program

In 2017 we renewed our Apprentice Training Program, with the aim of building a workforce capable of responding to the changing energy market and reflective of the communities we serve. During 2020-21, the first cohort of apprentice powerline workers from the renewed program completed their training and transitioned into ongoing roles. Of the 25 who commenced in 2017, all continue to be employed within Essential Energy – 23 graduated in 2021, one completed their training in 2018 through credit transfer from previous studies, and one withdrew from the course but moved into a different role. Additionally, one apprentice electrical technician, employed in January 2018, gained early completion in January 2019 due to credit transfer from previous studies.

Further, since 2017, 19 Indigenous pre-employment field trainees and 12 asset inspection (AI) trainees have completed their Certificate II qualification. All 19 of the Indigenous pre-employment field trainees transitioned into the Certificate III Apprentice Powerline Worker course, with 16 continuing their apprenticeship studies – three have resigned to pursue other training and career opportunities. Ten of the AI trainees have transitioned into ongoing AI roles.

These training programs demonstrate our ongoing commitment to creating rewarding career opportunities for men and women from across our network area.

Employee relations

The Essential Energy Enterprise Agreement 2018 and the Essential Energy Far West (Electricity) Enterprise Agreement 2018 have a nominal expiry date of 30 June 2021 and continue to apply to employees in Essential Energy until replaced. Essential Energy commenced the bargaining process for the Essential Energy Enterprise Agreement 2021 on 10 June 2021. Bargaining will continue until an agreement is made and approved by the Fair Work Commission. In response to COVID-19, Essential Energy has provided flexibility to certain terms of the enterprise agreements to assist employees during this period.

The Essential Water Enterprise Agreement 2019 continues to apply and has a nominal expiry date of 28 October 2022.

Supporting our customers and communities now and helping to create sustainable futures



Supporting customers and communities during COVID-19

See 'Safe and reliable power and water during COVID-19' (page 13) for information about our support for customers and communities during COVID-19.

Supporting customers and communities during floods

See 'Restoring safe and reliable power following major floods' (page 14) for information about our support for customers and communities during the March 2021 floods.

The Energy Charter

The Energy Charter is an industry-led, whole-of-sector initiative of businesses across the energy supply chain, working together to deliver more affordable, reliable and sustainable energy for all Australians.

Signatories report on progress against the Energy Charter's five principles, submitting annual disclosure statements to the Charter's Independent Accountability Panel (IAP). Disclosures and IAP reviews are publicly available from www.theenergycharterpanel.com.au/industry-disclosures.

Our 2020-21 Disclosure Statement, submitted to the IAP in September 2021, assesses our understanding and delivery of outcomes for our different customer segments and the communities we serve. Our focus this year was guided by customer and stakeholder feedback and insights from our Customer Advocacy Group, customer advocates and our senior leaders. A key initiative was embedding a customer-centric business culture, supported by customer feedback and internal customer advocacy.

Signatories are also collaborating across the energy sector on 'Better Together' initiatives, to improve outcomes for customers, with Essential Energy involved in the following initiatives:

- > Know Your Customers and Communities – driving robust and fit-for-purpose customer, community and stakeholder engagement activities, to shape business culture and decision making based on the voice of the customer
- > NSW Department of Planning, Industry and Environment Access and Pricing Package – which aims to build consensus on equitable and efficient Distributed Energy Resources (DER) access and pricing models, focused on customer-centric principles
- > Knock Before You Disconnect – working between networks and retailers to build on a trial conducted by Essential Energy, where field crews delivered letters to customers prior to disconnection advising them to contact their retailer
- > COVID-19 Customer Vulnerability Research – providing a national view on the lived experience of those impacted by COVID-19 in 2020 and 2021, and using these insights to drive better outcomes for customers in vulnerable circumstances
- > Energy Literacy for Culturally and Linguistically Diverse (CALD) Communities – creating a platform for conversations around energy to increase energy literacy in CALD communities, with the Voices for Power Project of the Sydney Alliance.

Customer Experience Strategy

In October 2020, we introduced our new Customer Experience (CX) Strategy, which sets clear pathways to embed CX improvements over the next three to five years. The strategy is helping us better understand customers and their needs, to ensure we deliver on our CX vision of 'everyday excellence, every customer, every interaction'.

Our CX performance reflects outcomes to date, with increases this year in customer satisfaction (78.3 to 79.2), value (72 to 73) and brand reputation (68.8 to 70.8) – when comparing April-June 2021 results to July-September 2020 results.

Other highlights included:

- > progressing our Empowering Customers transformation workstream, to bring the voice of the customer directly into decision making and deliver tailored CX that is responsive to immediate and changing needs
- > developing a Channel Strategy, to offer customers a range of choice in channels to communicate with us and to help us identify issues and improve customer satisfaction and ease
- > establishing a team of Customer Champions, who meet monthly to represent and embed the voice of the customer across the business, driving a customer-focused culture
- > continuing to improve our understanding of our customers, by expanding our quarterly customer satisfaction research program to include a larger sample of commercial and industrial customers, for more comprehensive feedback and better metrics
- > commencing a program of Customer Journey Mapping, to develop a better understanding of our customers' and business partners' end-to-end experience when using our services, to inform future improvements.

Customer Advocacy Group

Our Customer Advocacy Group (CAG) provides invaluable consumer and stakeholder insights and perspectives on matters relating to our business and the communities we serve. The CAG has been in place for more than 20 years, demonstrating our long-standing commitment to listening to our customers and communities. Members represent the following groups:

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

During 2020-21, four CAG meetings were held – in August and November 2020, and February and May 2021. Discussions included:

- > electricity affordability and reliability, Stand-Alone Power Systems (SAPS) and network resilience – with members suggesting looking into non-traditional assets and community partnerships, cross-industry collaboration and legislative change
- > care for local communities – with members highlighting the ongoing impact on customers of drought, bushfires, floods, and COVID-19
- > NSW Electricity Infrastructure Roadmap – with members highlighting this as a significant change to electricity generation and transmission investment in NSW and the possibility of a very different framework to the current National Electricity Market. CAG members encouraged transparency on process, costs and customer bills. Essential Energy is proactively engaging

with NSW Department of Planning, Industry and Environment on the details of the regulations and is seeking to create opportunities for customers and communities, along with distribution network opportunities.

Outside of the quarterly meetings, 2020-21 engagements included:

- > Vegetation Management Strategy – to seek feedback on moving from a compliance-based to a risk-based approach. Members highlighted the need to focus on bushfire safety in rural areas
- > Pricing and tariff trials – with members highlighting the diversity in tariff options for residential and small business customers, and that many may not be on the best pricing plans for their usage and consumption patterns
- > Energy Charter Disclosure Statement – members broadened our perspective on our levels of maturity for the Energy Charter principles and focused on the importance of outcomes being responsive to community needs and expectations.

Public safety

Our new Public Safety Strategy, implemented in October 2020, identifies opportunities to consolidate our approaches to managing public safety, including mitigating risks to the public, reducing the occurrence of major and severe injuries to the public and identifying lead measures for public safety performance prior to incidents occurring. Outcomes during 2020-21 included:

- > releasing the Look Up and Live powerline safety online mapping tool
- > launching a revised aerial marker program
- > improving incident data analysis, to identify industry trends
- > developing the ability to deliver SMS notifications containing key safety information to third parties involved in powerline contact incidents.

The number of public safety incidents increased by 10 per cent during 2020-21 (compared to 2019-20). Incidents were mostly due to cars, tipper trucks, high-load vehicles and agricultural vehicles contacting the network. A significant increase in harvest activity, and a skills shortage in the agricultural sector (due to COVID travel limitations), resulted in an increase in powerline contact by machinery, compared with prior years. This increase underlines the importance of implementing and embedding the Public Safety Strategy.

Look Up and Live powerline safety online mapping tool

In September 2020, the Look Up and Live app was launched across our network area, providing people working around or near our electricity network with tools and resources to plan for safe operations. It provides easy and free online access to overhead powerline locations and imagery. Users can search locations and overlay maps with third party mapping programs. The maps are available from www.lookupandlive.com.au or search 'Look Up and Live' on the Apple App Store or Google Play store.

Aerial marker initiative

In March 2021 a revised aerial marker program was released to help combat a rise in safety incidents with machinery operating around powerlines. The program enables third parties to make a request to purchase aerial markers at a nominal cost through Essential Energy. We install the markers at no cost. We are also partnering with SafeWork NSW to enable aerial markers to be included in the small business rebate, with eligible third parties entitled to a rebate of up to \$500 to offset the purchase of markers. The revised program has led to a significant increase in the number of aerial markers requested by third parties and fitted to powerlines where high machinery operates.

Public Electrical Safety Awareness Plan

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

- > general public – vehicle use, property maintenance, and vegetation management
- > agribusiness – agricultural and farming related activities
- > 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.

In 2020-21, we implemented a more customer-centric approach, focusing on using our website to share timely and relevant information with at-risk groups. This will deliver improvements compared to our previous approach of publishing an annual plan.

Summer safety campaign

Following the success of the 2019-20 campaign, which shared important safety messages on how to remain safe around our network during bushfires and storms, a similar approach was adopted for 2020-21.

Taking key learnings into account, the campaign was optimised with geo-targeted advertising and weather-based messaging to ensure that tailored and timely messages were served to residents, especially during times of higher forecasted risk. The campaign achieved 14 times higher interaction (38 per cent) than benchmarks, and its success has seen it used as an international case study by Amazon Advertising.

Electricity Safety Week

Electricity Safety Week, held annually in September, 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. A refresh of key safety messages to align with priority messaging was completed in 2020, with

the 'Be a Safety Star' competition modified to appeal to a range of grades and skills. 896 schools (96 per cent of primary schools from our network area) registered, representing more than 85,000 students. Through the 'Be a Safety Star' competition, students had the chance to win \$1,000 for their Parents and Citizens Associations.

Modern slavery

We are proud to be active participants in the global movement towards eradicating all forms of modern slavery. We are committed to maintaining and improving systems and processes to avoid complicity in modern slavery or human rights violations related to our own operations, our supply chain, and our services.

Our first Modern Slavery Statement, submitted to the Australian Government in December 2020, outlined our progress in 2019-20, including: risk assessment of our supply chains; updated policies and procedures to account for managing modern slavery risks – including Code of Conduct, Statement of Business Ethics and Procurement Policy and guidelines; 183 key employees completing awareness training; a supplier survey to raise awareness and transparency in our supply chains – covering suppliers that account for 35 per cent of our total spend; and no human rights breaches.

During 2020-21 we joined the Energy Procurement and Supply Association's (EPSA) consortium for modern slavery assurance, enabling us to initiate supplier assurance surveys to cover 90 per cent of our spend by June 2022. A benefit of joining the consortium is access to surveys that have already been completed by other EPSA members who engage the same suppliers. We also published a Modern Slavery Awareness Pack for suppliers on our website, to guide suppliers who are new to modern slavery. More than 1,300 employees have now completed our online training. Modern slavery considerations were also built into negotiation templates in our new Enterprise Resource Planning system. No human rights breaches were reported in our supply base during 2020-21. Our 2021 statement will be submitted in December 2021 and will be available from essentialenergy.com.au/modernslavery.

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 2020-21, four Immediately Reportable breaches were reported to the Australian Energy Regulator (AER), equivalent to the number reported in 2019-20. All four breaches related to life support customers not being notified of a planned interruption. One Quarterly Reportable breach was reported to the AER, compared to two in 2019-20. This breach related to the incorrect disconnection of a customer's premises.

Customer service performance

Our Customer Contact Centre received 261,080 calls during 2020-21, with calls answered on average within 61 seconds. Sixty-one per cent of customers used our self-service automated interactive voice response (IVR) to obtain outage information during the year, removing the need to speak directly with a team member.

Our Contact Centre team continued to work remotely during the reporting period to minimise risks associated with COVID-19, and the majority of key performance metrics improved in comparison to pre-COVID-19 outcomes.

Translation services

During 2020-21, interpreting services were provided to customers 22 times across ten different languages, at a total cost of \$719.18. 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.

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 2020-21, a total of \$541,121.59 was provided to 510 community groups and charity organisations. The three key elements of Essential Communities are Community Choices, Community Halls and the Essential Giving Program.



Community Choices provides charities, not-for-profit groups and community groups from across our 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, 120 community groups shared in \$175,000. The 2021 program saw a 75 per cent increase in the number of new groups nominated, and a 21 per cent increase in public voting when compared to the 2020 program. The 2021 program also introduced a new funding category, designed to support groups located in small communities with populations of less than 20,000 people.

Community Halls supports local halls that make up the social fabric of our regional, rural and remote communities. Eligible halls receive \$200 to support maintenance costs. In 2020-21, more than \$69,600 was shared by 348 community halls across our network area.

Community Support provides funding to community groups that make a difference in their local communities. This year \$49,900 was provided to 30 groups across our network area.

Essential Giving Program (EGP) is our workplace giving program, supporting eight charity partner organisations: Garvan Institute, Variety Children's Charity, Lifeline, Can Assist, Westpac Rescue Helicopter Service, ozED (Australian Ectodermal Dysplasia Support Group), the Children's Tumour Foundation and Royal Far West.

Employee EGP donations through regular pre-tax payroll deductions are matched by Essential Energy. In 2020-21, \$68,221.59 was donated by employees, for a total of \$218,221.58 with dollar matching including an additional donation to each charity partner. The EGP also provides dollar matching for employee-initiated fundraising, with applications reviewed by an employee and management representative committee. In addition, \$9,200 of employee-initiated fundraising was matched through the Essential Employee Giving Program, totalling \$18,400. This brings the company total for the employee giving programs in 2020-21 to \$236,621.58.



\$1,000,000

donated to charity partners through the Essential Giving Program, by employees and the business, since commencement in January 2014

Community Choices

Donations to 120 community groups	\$175,000
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Community Halls

Donations to 348 community halls	\$69,600
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Community Support

Donations to 30 community groups	\$49,900
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Essential Giving Program

Employee donations to charity partners	\$68,221.59
Essential Energy dollar matched payments and one-off donations to charity partners	\$149,999.99
Essential Employee Giving Program	\$18,400

Corporate sponsorship

Royal Far West – Ride for Country Kids	\$10,000
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Stakeholder engagement¹

Clontarf	\$20,000
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1. Essential Energy did not negotiate a new agreement with Girls Academy to replace the previous agreement, which expired in November 2020 due to Girls Academy not receiving government funding to continue operations from December 2020. Therefore, no payment was made to Girls Academy during 2020-21.



Case Study

Ride for Country Kids

Essential Energy was a proud sponsor of the 2021 Ride for Country Kids, helping to raise money for Royal Far West – an organisation that works closely with families, schools, allied health professionals and local communities to connect rural and remote Australian children with the healthcare they need.

Three Essential Energy employees took part in the ride, which was held between 2 to 4 May 2021 and covered 450 km between Dubbo and Cobar. The event raised \$535,000 for Royal Far West, of which our Essential Energy participants contributed more than \$19,000. Essential Energy also provided a \$10,000 sponsorship.

As a part of the 2021 event, we invited all Aboriginal and Torres Strait Islander children (under 18 years of age) in our network area to submit an artwork design for our Indigenous Australian Youth Art competition. The winning artwork, 'The Ngankan' by Bella aged 15, was used as the main design on the 2021 Ride for Country Kids 'Best and Fairest' cycling jersey. Bella's art represents "The Biripi Land getting healed by the Indigenous Australian land beneath us, healing the land burnt by bushfires".

Royal Far West joined as one of our charity partners in our employee Essential Giving Program during 2020-21.

Becoming an energy company for the future

Transformation Program

To respond to the rapidly evolving energy industry, changing customer expectations and advancing technologies, we continued to progress our whole-of-business Transformation Program during 2020-21. This multi-year program (through to 2023-24) is delivering efficiencies needed to maintain downward pressure on electricity prices for customers while maintaining a safe and reliable network. It 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 work required to manage our assets that delivers the best outcomes in reducing cost, and improving safety risk and performance, 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.

Outcomes delivered during 2020-21 included the following achievements:

Enterprise Resource Planning (Better Service Delivery)

The Enterprise Resource Planning (ERP) Program is delivering improvements and efficiencies to our business-critical ‘back-office’ functions – across finance, procurement, human resources and supply chain management. A new Oracle ERP solution was implemented during 2020 and 2021, with three implementation phases, in December 2020, May 2021 and August 2021. The new system consolidates multiple systems, streamlining these important functions and enabling all parts of the business to work more efficiently and effectively. The new finance system supports multiple charts of accounts, enabling us to embrace a more commercially oriented future through simplified and effective cost recovery and capture from other revenue generating activities.

BetterConnect (Empowering Customers)

The last few years has seen a significant increase in connection requests for the addition to the network of new load and new sources of generation. The BetterConnect initiative is simplifying and speeding up connections processes for both customers and our employees, through implementation of a modern workflow platform, digitisation of designs and uplifting of skills and competencies. It will reduce delays and associated costs for project completions and enable greater recovery of costs from customers who use Ancillary Network Services, allowing fairer use of our services. Cycle times for some processes will reduce significantly, and in some cases enable an instant response.

In May 2020, the BetterConnect portal was made available to Level 3 Accredited Service Providers (ASPs), enabling online submission of design and certification requests. During 2020-21, 1,854 design information requests and 978 design certification requests were submitted, by 93 ASP organisations and 271 individual users. Feedback from ASPs, via our quarterly customer survey, shows they are happy with the user-friendly portal interface and the increased transparency, with ASPs also providing ideas for making the portal even better.

Digital asset management (Identify the Right Work and the Enable the Network of the Future)

We continue to improve our digital asset management capabilities, by extracting intelligence from our data sources in order to provide automated, predictive and simulated at-scale analysis of our network. This is enabling risk-based decision-making for how we invest in and maintain our physical assets, putting us at the forefront of global best practice in asset management and improved efficiency of operational delivery.

Internal and external network designers can now work with a digital twin of our physical network assets from our Network Model and LiDAR data, and have their work automatically checked for technical compliance with standards. During 2020-21, 59 training sessions were held with more than 1,100 participants – more than 500 external users (ASPs) and almost 600 employees. By the end of 2020-21, more than 200 employees were using the new capability, along with 50 ASP organisations and 63 individual ASP users – with access to more than 1,820 km² of our Network Model and LiDAR data.

End-to-End Vegetation Management (Identify the Right Work and the Enable the Network of the Future)

Trimming or removal of vegetation near Essential Energy's network is an important investment for mitigating bushfire risk as well as maintaining a safe and reliable power supply. Led by the End-to-End Vegetation Management initiative, we developed a new risk-based compliance strategy (approved in September 2020), aligned our organisational design and capability to a 'vegetation management centre of excellence' model (approved March 2021) and implemented a new resource strategy for externally delivered areas (commenced May 2021). Through these actions, our Vegetation Management Program is being uplifted to become industry leading. See page 17 for more about our vegetation management activities.

Fleet Improvement Program (Better Service Delivery)

In December 2020 we completed the installation of In-Vehicle Monitoring Systems (IVMS) in all 1,885 of our operational fleet. Our fleet travels tens of millions of kilometres every year¹, on all road types and in all weather conditions, which makes land transportation one of our highest risk areas for safety. Completing the IVMS installation was a significant safety advancement. The system provides alerting and location details of a vehicle in distress (such as a Motor Vehicle Incident or manually activated duress), reduces incident response times and supports improved driver behaviour. We were able to complete the installation during the COVID-19 situation due to the application of strict COVID-19 fleet protocols.

The value of the IVMS was demonstrated during the widespread floods in March 2021, with our operators able to use an online map to check their location compared to flood-affected areas.

Our road safety leadership was recognised when our Bathurst depot hosted the launch of Transport for NSW's Road Safety in Your Workplace program, in May 2021. Our fleet transformation is a case study within the program, as part of an easy-to-use toolkit with best practice road safety principles that every business and organisation can adopt.

Digital Hazard Identification Risk Assessment Control (Empower Our Frontline)

The Digital Hazard Identification Risk Assessment Control (HIRAC) tool re-imagines safety for the frontline, by supporting quality on-site risk assessments and complimenting quality onsite discussions on every site, every day. It is a single mobile app, covering all work tasks for our teams, replacing 12 paper-based HIRAC books. See page 18 for more information.

Inventory optimisation and regional stores refit (Empower Our Frontline)

We are streamlining our inventory supply chain by refitting all 23 regional stores, to provide field teams with a one-stop-shop by bringing all fault and emergency and work-pack stock under one roof in each store. The project is also providing real-time stock information, for increased stock visibility and reduced waste, via a mobile inventory solution that enables teams to scan inventory in and out using iPads and iPhones. See page 18 for more information.



Case Study

Cyber and physical security uplift

In 2019 the NSW Minister for Energy imposed new licence conditions on Essential Energy aimed at protecting our electricity network from a range of external threats including cyber and physical attacks. The new conditions seek to ensure we meet the cyber and physical security standards required by the Australian Government's Critical Infrastructure Centre (CIC). Similar conditions apply to other operators of critical infrastructure throughout Australia.

Malicious cyber activity against Australian national interests is increasing in frequency, scale, sophistication and severity. In this context, it is vital that we continue to invest in and improve our cyber security capabilities.

In March 2021 we finalised a new Cyber Security Strategy, with a vision to 'promote a risk-based and measurable approach to cyber safety across the enterprise to drive security maturity and increased resilience of Essential Energy's critical functions'. The goals are:

- > protect critical assets and data
- > meet customer and regulator's expectations for cyber safety and resilience
- > embed cyber into the business transformation journey
- > instil a proactive cyber threat and risk mindset.

The strategy will shift the conversation from cyber safety being a technology problem to instead being managed as an enterprise-wide business risk.

Of related importance is uplift of physical security for our properties. In 2020-21, we commenced a Property Security Uplift Program, to:

- > install security cameras and upgrade alarm systems at our depots and zone substations
- > install new swipe card access points at depots and zone substations
- > replace mechanical keys with an electronic key system
- > introduce technology to ensure all staff have the right access to the right sites to do their job, with access monitored and recorded.

The work to install security cameras, update alarm systems and install swipe card access points was completed in June 2021. Replacement of mechanical keys with the electronic key system was successfully piloted for part of our network in May 2021. The full rollout of electronic keys, due to commence in August 2021, was postponed due to the escalating COVID-19 situation in NSW.

1. In 2020-21 our vehicles travelled more than 34 million kilometres.

Engaging with the changing energy industry

The pace of change in the energy industry is continuing to increase. The past year saw unprecedented adoption of renewable energy, rising uptake of electric vehicles and release of the NSW Government's *Electricity Infrastructure Investment Act*. These changes continue to shape customers' expectations for the provision of electricity services that are not only reliable, affordable and safe but also flexible – enabling customers to participate in electricity markets by exporting energy into the grid. Over the past year we have continued to engage with this energy transition by collaborating with government and partners and investing in trials of new technologies and processes to facilitate the transition of the network into a platform that will enable all users to share electricity.

Electricity Infrastructure Roadmap collaboration

The *Electricity Infrastructure Investment Act 2020* (NSW), which commenced in December 2020, is one of the most fundamental changes to the NSW electricity sector since the development of the National Electricity Market (NEM). It gives effect to the NSW Government's *Electricity Infrastructure Roadmap*, by providing a legislative framework to coordinate the development of Renewable Energy Zones (REZs), and is designed to manage a smooth transition to a renewables-dominated grid.

Three of the REZs are within our network area: Central-West Orana, New England and South-West. We are engaging with the NSW Department of Planning, Industry and Environment (DPIE) to optimise integration of new energy infrastructure in and around the REZs with our distribution network, and to ensure the REZs contribute to delivering safe, reliable and affordable energy for customers.

More information about the Act is in 'Material changes to New South Wales legislation' (page 91).

Stand-Alone Power Systems

Natural hazard events have significant implications for electricity networks and the economy more broadly. With the severity and frequency of extreme weather events in Australia almost certain to increase due to climate change, the importance of network resilience is likely to continue to grow. Maintaining power supply is linked to the ability of communities to absorb and recover from extreme weather events.

As part of our response to the devastating 2019-20 bushfires, we deployed Stand-Alone Power Systems (SAPS). We are using learnings from this emergency response effort to develop standard SAPS options, to enable the flexible provision of electricity to customers in remote areas, where the cost of rebuilding the network might be high. We have identified several trial locations, taking into account network configuration and economic parameters.

As part of the SAPS program, we are also investigating alternative energy options for electricity supply. This includes trialling hydrogen SAPS, which produce hydrogen on site by electrolysis of water powered by solar panels, with on-site water storage estimated to be sufficient to provide electricity for two years.

We have also taken a leadership role in discussions with the Australian Energy Market Commission (AEMC), Australian Energy Regulator (AER) and the NSW Government about establishing a framework that allows network operators to deploy SAPS in emergency response situations and where costs could be lowered for consumers. Alongside this, we are developing technical requirements for management of network performance for areas supplied by SAPS and microgrids, to enable safe and reliable implementation of regional and community microgrids where these can provide benefits to customers.

Microgrid projects

We are also working with a number of partners on microgrid projects, to better understand the feasibility of microgrids within our network. For large commercial customers, this includes working with NSW Farmers and Norco to assess the suitability of microgrids to farms, and with Queensland Farmers Federation on microgrid flow benefits. For community groups, we have partnered with Enova for their Byron Bay community microgrid study, as well as participating in two community initiatives that have received Australian Government funding to establish feasibility of microgrids to improve network resilience. Through these studies we are gaining a better understanding of customers' current and future energy needs, in order to support and facilitate future energy transitions.

Network Visibility Pilot

As more customer-installed Distributed Energy Resources (DER) connect to our network, including solar and battery storage systems, we need to determine available network capacity to meet increasing DER export demand. To address this need, we are running trials with industry, electricity retailers and other energy market participants, using existing low voltage data sources to monitor and manage the network in real time, at the lowest possible cost. We are piloting a NetVis platform that allows us to leverage this data to enable dynamic network management and increased network safety, performance and operating efficiency. During 2020-21, deployment of the platform enabled better management of voltage fluctuations and detection of safety hazards caused by broken neutral conductors.





Evolve DER Project

The Evolve DER Project aims to increase the hosting capacity of the network, to enable customers with DER to maximise their participation in energy markets, while also ensuring that the secure technical limits of electricity networks are maintained. We are collaborating with industry and academia on the ARENA/NSW Government funded project. Through multiple demonstrations and trials, the project will develop new algorithms, tools and capabilities, to identify and ease congestion within the distribution network. During 2020-21 we tested the orchestration of DER for customers participating on the trial.

Electric vehicles

To facilitate electric vehicle (EV) charging accessibility, we are participating in the national Electric Vehicle Council. We are also engaging with EV charging providers to improve charging infrastructure connections, managing network constraints to accommodate EV charging demands, investigating EV tariff opportunities, and working with regional councils on a regional charging infrastructure situation report. We are also working closely with the NSW Government on the delivery of its EV strategy to maximise consumer benefits and minimise costs.

Battery trial

We have gone to market and are evaluating options for our first network supporting battery to be trialled within an area of the network with a growing population. The trial aims to explore operating modes and partnerships in which we can better provide network services and support, such as increased network reliability and demand management, while making better use of the existing network.

Tariff trials

Affordability of tariffs for all customers is an important aspect of ensuring inclusive infrastructure and enabling access to basic services. During the reporting period, we worked with customers and stakeholders to co-design innovative tariffs to trial, aimed at improving fairness and ensuring our network delivers the products and services customers expect. This includes accommodating rapidly increasing adoption of household solar and other DER and

associated changes in how residential and small business customers source and use energy. These more cost-reflective tariffs potentially offer customers opportunities to reduce network charges in return for altering electricity consumption patterns. They will be trialled in partnership with retailers, technology providers, university researchers and behavioural economists during 2021-22.

Composite poles

We are installing poles made from composite material, which can withstand significant heat and fire damage and are also termite resistant, in high-risk areas as part of our cyclical network renewal program.

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 critical for organisations. 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 and Statement of Business Ethics sets out 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

The Board considers all non-executive directors to be independent. To ensure their independent status, all directors of Essential Energy are subject to 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 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 five 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 Committee

The Audit Committee superseded the Audit and Risk Committee, coming into effect on 27 October 2020. The Committee meets at least four times per year and assists the Board in fulfilling its responsibilities regarding matters relating to Essential Energy's financial statements and reporting, as well as the oversight of internal and external audits and internal controls. 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 in 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.

Gavin Dufty, Executive Manager, Policy and Research, St Vincent De Paul, is an independent adviser to the Committee, with particular expertise and insights into the perspective of Essential Energy's customers.

Nominations Committee

The Nominations Committee meets at least once per year. The Committee assists the Board in fulfilling its responsibilities in relation to Board succession planning, particularly regarding the balance of skills, knowledge, experience, independence and diversity on the Board, director induction and professional development programs and succession planning for the CEO and senior executives.

Risk and Cyber Security Committee

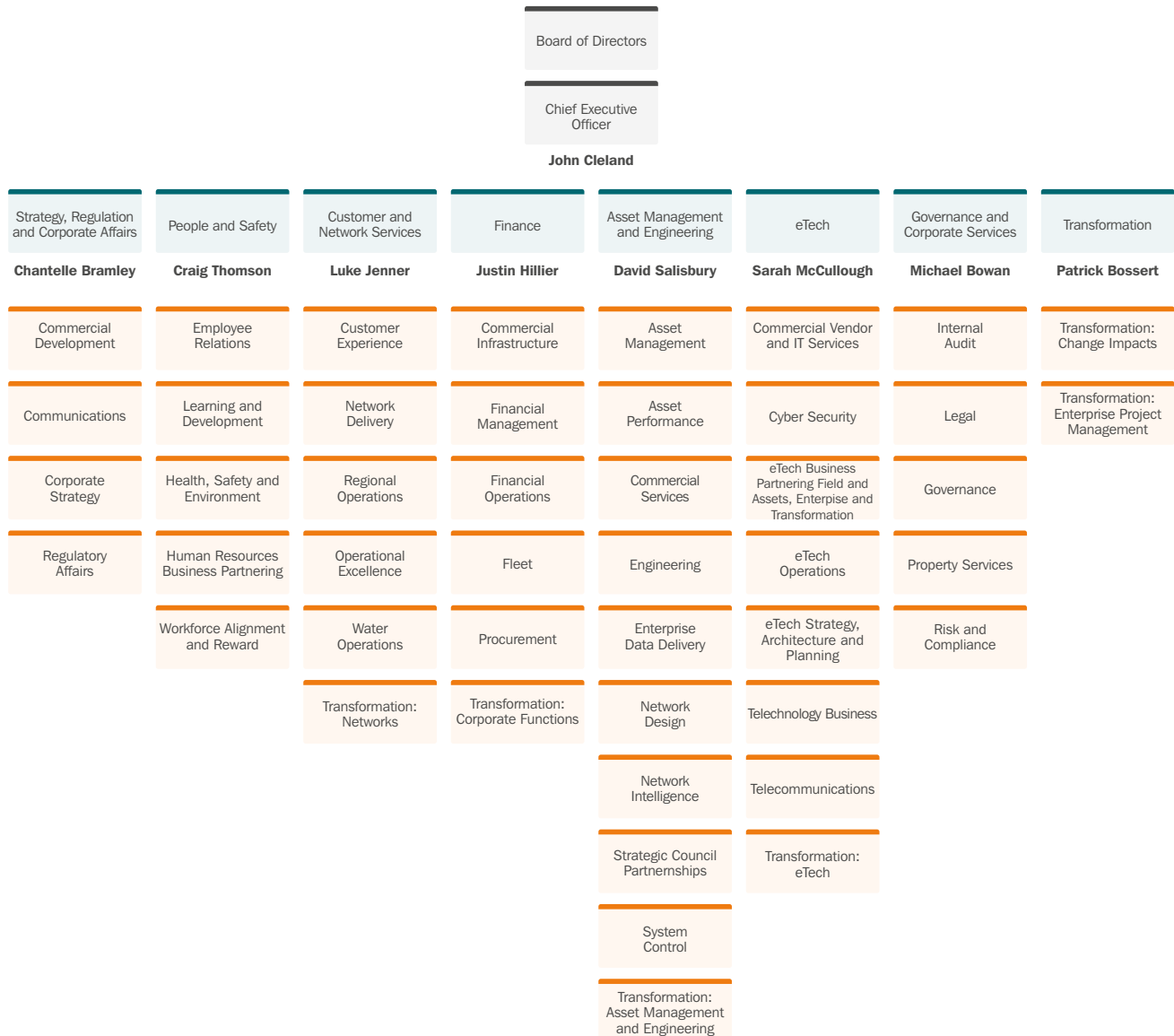
The Risk and Cyber Security Committee superseded the Audit and Risk Committee, coming into effect on 27 October 2020. The Committee meets at least four times per year and assists the Board in fulfilling its responsibilities regarding matters relating to Essential Energy's risk management, compliance, governance practices, litigation, and probity, ethics and corruption prevention. In addition, the Committee examines any other matters referred to it by the Board.

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 in its oversight and corporate governance in relation to people, safety and wellbeing, 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 2021



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 Committee ² and Chair Risk and Cyber Security Committee ²	\$7,460
Members, Audit Committee and Risk and Cyber Security 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



Doug Halley

BCom MBA
Chair

Commenced: 25 August 2020

Current Term: 25 August 2020 to 24 August 2024

- > Member, Audit Committee
- > Chair, Nominations Committee

Other Directorships

- > MMJ Group Holdings Ltd, Director



Robyn Clubb

BEd CA FFin MAICD
Non-Executive Director

(Interim Chair from 20 June 2019 to 19 June 2020, reverted to Acting Chair from 20 June 2020 to 24 August 2020)

Commenced: 15 March 2018

Current Term: 15 March 2018 – 14 March 2024

- > Chair, Risk and Cyber Security Committee
- > Member, Nominations Committee
- > Member Safety, Human Resources and Environment Committee

Other Directorships

- > Australian Wool Exchange Ltd, Chair
- > Craig Mostyn Group Ltd, Director
- > Elders Limited, Director
- > Fresh Country Farms, Chair
- > Pro Ten Limited, Chair
- > Royal Agricultural Society of NSW Foundation, Board member



Jennifer Douglas

BSc/LLB LLM MBA GAICD
Non-Executive Director

Commenced: 15 March 2018

Current Term: 15 March 2018 – 14 March 2025

- > Chair, Board Regulatory Committee
- > Member, Nominations Committee
- > Member, Risk and Cyber Security Committee

Other Directorships

- > GUD Holdings Limited, Director
- > Hansen Technologies Limited, 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 Committee
- > Member, Nominations Committee
- > Member, Risk and Cyber Security Committee

Other Directorships

- > Nil



**The Honourable
Duncan Gay**

Non-Executive Director

Commenced: 25 August 2020

Current Term: 25 August 2020 – 24 August 2023

- > Member, Board Regulatory Committee
- > Member, Nominations Committee
- > Member, Safety, Human Resources and Environment Committee

Other Directorships

- > National Heavy Vehicle Regulator, Chair
- > ARC Asia-Pacific RPAS Consortium, Director
- > Bush Children's Education Foundation, Director
- > Sir Earl Page Trust, Director
- > MU Group, Executive Advisor



**Vanessa Sullivan
(Fernandes)**

BEc(Hons), GradDip(AppFin), GAICD
Non-Executive Director

Commenced: 25 August 2020

Current Term: 25 August 2020 – 24 August 2024

- > Chair, Safety, Human Resources and Environment Committee
- > Member, Audit Committee
- > Member, Nominations Committee

Other Directorships

- > Bircher Capital, Director
- > Smart Energy Council, Director
- > Sunwater, Director
- > Centacare, Advisory Board member



John Cleland

BEc DipFinMan CA FFin, GAICD
CEO and Executive Director

Commenced: 18 July 2016

- > Member, Board Regulatory Committee
- > Attendee, Audit Committee
- > Attendee, Risk and Cyber Security Committee
- > Attendee, Safety, Human Resources and Environment Committee

Other Directorships

- > Energy Networks Australia, Director

Board and Board Committee meetings held in 2020-21

Table: 1 July 2020 to 30 June 2021 Directors' Attendance Schedule

	Board of Directors' Meetings ¹		Audit Committees		Audit and Risk ² Committees		Board Regulatory ³ Committees		Nominations Committees		Risk and Cyber Security Committees		Safety, Human Resources and Environment Committees	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Director ⁴	A	B	A	B	A	B	A	B	A	B	A	B	A	B
D Halley	11	11	4	4	-	2	-	3	1	1	-	3	-	3
R Clubb	12	12	-	2	3	3	1	2	1	1	3	3	4	4
J Douglas	12	12	-	3	3	2	4	4	1	1	3	3	1	3
J Fletcher	12	12	4	4	3	3	1	3	1	1	3	3	1	3
D Gay	11	11	-	1	-	2	3	3	1	1	-	2	3	2
V Sullivan	11	11	4	4	-	2	-	1	1	1	-	1	3	3
J Cleland	12	12	4	4	3	3	4	4	-	-	3	3	4	4

A. Indicates number of meetings held during the period the director was entitled to attend as a member of the Board or relevant Committee.

B. Indicates the number of meetings attended by the director during the period.

1. Doug Halley, The Hon. Duncan Gay and Vanessa Sullivan (Fernandes) commenced their terms on 25 August 2020.

2. The Audit and Risk Committee (ARC) was superseded by two committees, namely the Audit Committee and the Risk and Cyber Security Committee which came into effect on 27 October 2020. The final ARC meeting was held on 26 October 2020.

3. The CEO is a member of the Board Regulatory Committee and attends all other Committee meetings, except for the Nominations Committee.

4. 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.

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, indemnities were granted to the new Chair and two new directors of Essential Energy. All directors are 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 2021



John Cleland

*BEC DipFinMan
CA FFin, GAICD*

Chief Executive Officer



Patrick Bossert

BEng (Hons)

Chief Transformation Officer



Michael Bowan

BA LIB (Hons)

**General Counsel and
Company Secretary**



Chantelle Bramley

BEC (Hons), MSc, LL.M

**General Manager Strategy,
Regulation and Corporate
Affairs**



Justin Hillier

*BBus, CA, GDipAppFinInv,
FINSIA*

Chief Financial Officer



Luke Jenner

BEng (Hons), EMBA, GAICD

**General Manager Customer
and Network Services**



Sarah McCullough

*GradCertMgt(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, delegations 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 177 officers who received a total remuneration package in accordance with NSW Senior Executive Service bands, including the CEO and ELT. The number of female employees receiving a total remuneration package of SES1 or above, was 38.

General principles for remuneration of Senior Managers

Essential Energy's remuneration strategies are designed to achieve the following objectives:

- > attract, retain and motivate top calibre talent
- > ensure high standards of behaviour are in line with Essential Energy's values and Code of Conduct.
- > align executive rewards to drive business performance.

This approach incorporates the following points:

- > Essential Energy's Senior Managers are employed on individual, performance-based employment contracts
- > total remuneration for on-target performance is at the 50th percentile to market. Mercer CED methodology is used to grade positions and establish benefit levels and broad banded ranges.
- > remuneration consists of the following components:
 - Fixed Annual Remuneration (base and superannuation)
 - Variable (at risk) Remuneration - annual Short-Term Incentive.

Fixed remuneration

As a condition of employment, fixed remuneration of Senior Managers is reviewed annually effective 1 July and is based on a performance assessment 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, market benchmarks 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

Senior Managers did not receive an annual percentage increase in fixed remuneration on 1 July 2020. Total remuneration for Senior Managers, including Short Term Incentive payments, accounted for 9.5 per cent of Essential Energy's employee related expenditure in 2020-21, compared with 8.2 per cent in 2019-20.

Executive remuneration 2020-21

Name	Position at 30 June 2021	Annual Remuneration (excl. Short-term Incentive) at 30 June 2021	Short-Term Incentive 2020-21 ¹	Annual Remuneration (excl. Short-term Incentive) at 30 June 2020	Short-Term Incentive 2019-20
John Cleland	Chief Executive Officer	\$802,888	\$181,854	\$802,888	\$139,703
Michael Bowan	General Counsel & Company Secretary	\$376,537	\$68,247	\$376,537	\$47,778
Chantelle Bramley	General Manager Strategy, Regulation and Corporate Affairs	\$379,839	\$65,522	\$379,839	\$50,329
Justin Hillier ²	Chief Financial Officer	\$480,000	\$83,050	\$389,572	\$54,443
Luke Jenner	General Manager Customer and Network Services	\$418,655	\$81,742	\$418,655	\$58,716
David Salisbury	Executive Manager Engineering	\$419,220	\$76,298	\$419,220	\$54,499
Craig Thomson ²	Chief Human Resources Officer	\$420,000 ³	\$74,498	\$385,000	\$44,809
Sarah McCullough	Chief Information Officer	\$340,000	\$62,730	\$340,000 ⁴	\$35,714
Patrick Bossert	Chief Transformation Officer ⁵	\$450,000	\$43,762		

1. Short-Term Incentive payments are based on 2020-21 performance against key criteria, approved by the Board in August 2021 and paid in 2021-22.

2. The Board approved an increase to the remuneration of the Chief Financial Officer and Chief Human Resources Officer following a job sizing review of executive roles and a change in work value assessment.

3. Annual remuneration does not include accommodation expenses of \$15,564.

4. Incorrectly reported as \$344,000 in 2019-20 Annual Report. Re-stated to exclude accommodation expenses of \$4,550.

5. Hired 9 December 2020.

Senior managers by band (gender and average remuneration)

Band ¹	Gender 30 June 2021		Gender 30 June 2020		Range \$	Average remuneration 30 June 2021 ²	Average remuneration 30 June 2020 ³
	F	M	F	M			
Above Band 4 ⁴		2		1	\$562,650 +	\$773,896	\$942,591
Band 4		4			\$487,051-\$562,650	\$499,957	
Band 3	2	2	2	6	\$345,551-\$487,050	\$424,448	\$432,179
Band 2	7	12	5	10	\$274,701-\$345,550	\$297,564	\$292,956
Band 1	29	119	28	102	\$192,600-\$274,700	\$221,265	\$218,018
Totals	38	139	35	119			

1. Bands are as defined in the Public Service Senior Executive Annual Determination dated 7 September 2020 under the Government Sector Employment Act 2013. Reporting is limited to managers employed on individual employment contracts.

2. Average remuneration is based on Full Time Equivalent (FTE) Fixed Annual Remuneration (FAR) as at 30 June 2021, 2020-21 Short Term Incentive payment based on 2020-21 performance against key criteria, paid in 2021-22 for eligible employees, car allowance and rental allowance, where applicable.

3. Average remuneration is based on Full Time Equivalent (FTE) Fixed Annual Remuneration (FAR) as 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 and car allowance, where applicable.

4. 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 regularly and has adopted all recommendations.

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 recovery action plans, incident management plans and disaster recovery 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 floods in NSW in March 2021 and Essential Energy's continued response to COVID-19.

Essential Energy's Business Resilience Framework (BRF) 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 BRF includes assessments to identify critical functions requiring recovery action plans, plans for the management of specific business disruption events and incidents, and plans for the recovery of critical information, communication and technology systems.

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 is committed to the values, standards and principles outlined in its Code of Conduct including whistle-blowing protections available to individuals who report wrongdoing. 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 2020-21, Essential Energy received nine complaints in relation to corrupt conduct and assessed these as PIDs under the PID Act. No PIDs were made under a statutory or other legal obligation. There were no PIDs received in relation to government information contravention, serious and substantial waste of public money, or maladministration. Essential Energy finalised six 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 36 internal audits across the organisation, with suitable actions implemented to address key issues identified. Essential Energy's Internal Audit function continues to implement continuous improvements identified by an external quality assurance review conducted in July 2020, generally confirming conformance to the requirements of the International Professional Practices Framework and the accompanying Standards.

The Audit Committee reviews and approves 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 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	2019-20 result (restated) ¹	2020-21 result	2020-21 SCI ²	Variation to prior year	Variation to SCI
Network revenue (\$M) ³	1,265.7	1,270.7	1,274.6	5.0	(3.9)
Operating costs (\$M) ⁴	504.2	509.9	512.2	14.4	(2.3)
Earnings before interest, tax, depreciation and amortisation (EBITDA) (\$M)	664.8	703.7	670.8	38.9	32.9
Earnings before interest and tax (EBIT) (\$M)	264.1	301.2	259.5	37.1	41.7
Operating profit (loss) before tax (\$M)	(62.9)	4.0	(45.0)	66.9	49.0
Operating profit (loss) after tax (\$M)	(44.0)	3.0	(31.5)	47.0	34.5
Total distribution (dividend + current income tax expense + government guarantee fee) (\$M) ⁵	129.9	102.7	125.7	(27.2)	(23.0)
Return on capital employed (per cent) ⁵	3.3%	3.6%	3.1%	0.3%	0.5%
Return on assets (per cent) ⁶	3.0%	3.4%	2.9%	0.4%	0.5%
Return on equity (per cent) ⁶	(1.9%)	0.1%	(1.4%)	2.0%	1.5%
Capital expenditure (\$M) ⁷	467.7	464.2	570.4	(3.5)	(106.2)
Gearing (per cent) ⁶	71.5%	71.8%	72.9%	0.3%	(1.1%)

1. The 2019-20 results were restated due to prior year adjustments discussed in note 1 of the Financial Statements.

2. SCI – Statement of Corporate Intent.

3. Network revenue comprises electricity distribution revenue and water revenue.

4. Operating costs, for consistency with the SCI measure, exclude transmission use of service expense \$226.6M, Climate Change Levy expense \$57.6M, bulk water supply costs \$25.5M and other cost of sale items \$3.2M which are included in operating expenses in the Financial Statements.

5. Variance to SCI and prior year is a result of a court decision in relation to the Victorian Power Networks Decision that tax is not payable on gifted assets.

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

7. Capital expenditure excludes gifted assets.

Performance against prior year

The operating profit after tax of \$3.0M compared to a \$44.0M loss in 2019-20 was primarily a result of:

- > network revenue increased marginally due to tariff increases. Total revenue increased by \$31.4M which included \$21.4M reimbursement for the impacts of a ministerial direction issued by the NSW Government in 2019-20
- > the business incurred significant unplanned costs from the NSW bushfires in 2019-20
- > decrease in finance costs by \$29.8M as interest rates and inflation rates on indexed debt were lower than the prior year.

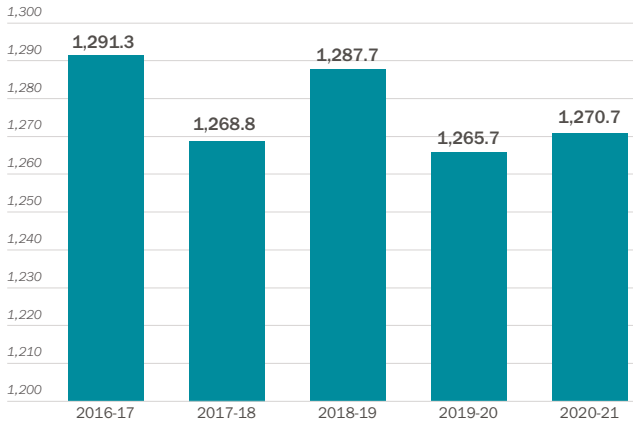
These improvements have been offset by:

- > increase in contractor expenses by \$18.0M, relating mainly to the Transformation Program
- > increase in tax expense of \$19.9M reflecting improvement in profit.

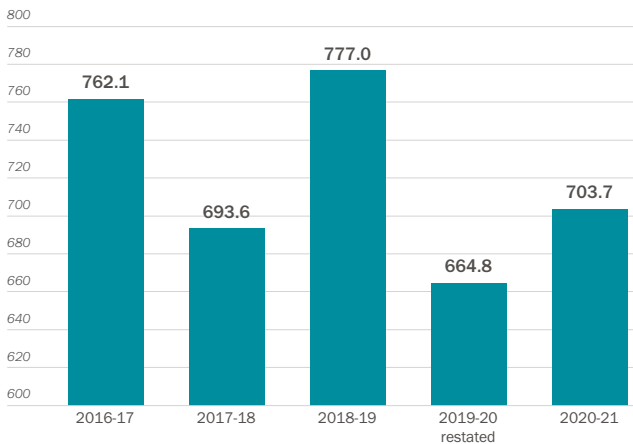
Increase in EBITDA of \$37.1M from the prior year was a result of the above listed items other than interest and tax.

Capital expenditure was \$3.4M lower than the prior year due to lower network expenditure partly offset by higher technology expenditure.

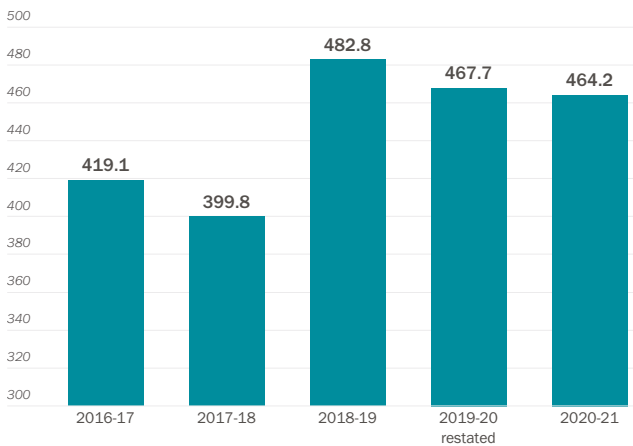
Network Revenue (\$M)



EBITDA (\$M)



Capex (\$M)



Borrowings

Total borrowings increased by \$125.5M over the year to fund the planned capital expenditure program. The gearing ratio, calculated as net debt divided by debt plus equity, increased marginally from 71.5 per cent to 71.8 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 approximately 90 per cent of debt being non-current.

Shareholder return

Return on capital employed, return on assets, and return on equity all increased compared to the 2019-20 returns due to the increase in profitability for the year.

Essential Energy's distributions to the NSW Government for 2020-21 were \$102.6M compared to \$129.9M in 2019-20. Distributions consisted of current income tax expense of \$6.4M and government guarantee fee on debt of \$96.2M. No dividend was paid or provided for 2020-21. The reduction in distributions was mainly a result of a Federal Court ruling on the tax treatment for gifted assets that occurred in the 2020-21 year, resulting in a decrease of \$22.3M in tax payable. This ruling is also applicable for future years.

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.

The profit of \$3.0M against a budgeted loss of \$31.5M was a result of:

- > higher government grant revenue of \$21.4M
- > higher capital contributions revenue of \$14.5M
- > lower operating costs of \$2.2M
- > lower depreciation of \$8.8M
- > lower finance costs of \$7.4M.

This was offset by:

- > lower network revenue of \$3.9M
- > higher tax expense of \$14.5M.

Capital expenditure was \$106.2M lower than budget. This was mainly due to lower network asset expenditure of \$43.5M and lower software expenditure of \$63.8M of which \$34.0M related to a change in accounting requirements for cloud computing. Fleet and property capital expenditure was \$5.2M below budget.

Financial Statements

For the year ended 30 June 2021

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Independent Auditor's Report

For the year ended 30 June 2021



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 by Directors', the Statement of Comprehensive Income for the year ended 30 June 2021, the Statement of Financial Position as at 30 June 2021, 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:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act) and the *Government Sector Finance Regulation 2018* (GSF Regulation)
- presents fairly the corporation's financial position, financial performance and cash flows

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 2021. 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
<p>Fair value of system assets</p> <p>At 30 June 2021, the Corporation's Statement of Financial Position reported \$8.1 billion in system assets and \$218 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.</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> • system assets are financially significant to the Statement of Financial Position • the 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. <p>Further information on the valuation techniques, inputs and sensitivity of the reported balance for system assets is disclosed in Note 15.</p>	<p>Key audit procedures included:</p> <ul style="list-style-type: none"> • obtained an understanding of the Corporation's approach to estimating the fair value of system assets • assessed 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 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.
<p>Accrued revenue from unread meters</p> <p>At 30 June 2021, the Corporation's Statement of Financial Position reported \$173 million of accrued revenue from unread meters.</p> <p>This is an estimate of customers electricity usage which had not been subject to a meter read.</p> <p>I considered this to be a key audit matter because there is significant judgement and uncertainty involved in calculating this accrual, such as the:</p> <ul style="list-style-type: none"> • 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. <p>Further information on recognition and measurement of accrued revenue from unread meters is disclosed in Note 2.</p>	<p>Key audit procedures included:</p> <ul style="list-style-type: none"> • 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 • tested the mathematical accuracy of the calculation • 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	
<p>At 30 June 2021, the Corporation's statement of financial position reported net defined benefit superannuation liabilities totalling \$17.2 million. This liability balance is provided to the Corporation by the administrator of the superannuation schemes based on independent actuarial assessments.</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> 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 valuation inputs. <p>Further information on the significant actuarial assumptions and sensitivity analysis is included in Note 23.</p>	<p>Key audit procedures included:</p> <ul style="list-style-type: none"> obtained an understanding of the processes and key controls in place supporting the: <ul style="list-style-type: none"> membership data used in the model 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.

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 GSF Act, GSF Regulations, the *State Owned Corporations Act 1989* and Treasurer's Directions. The director's responsibility also includes 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: 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

16 September 2021
SYDNEY

Statement by Directors

For the year ended 30 June 2021

Pursuant to Section 7.6(4) of the *Government Sector Finance Act 2018*, 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 *Government Sector Finance Act 2018*, the *Government Sector Finance Regulation 2018*, the *State Owned Corporations Act* and the Treasurer's directions issued under the *Government Financial Sector Finance Act*. The financial statements of the Corporation also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board and presents fairly the financial position of the Corporation as at 30 June 2021, and its financial performance and cash flows 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.

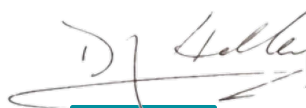
This declaration is made in accordance with a resolution of the Board.



John Cleland

Chief Executive Officer

Dated: 14 September 2021



Doug Halley

Chair

14 September 2021

Statement of Comprehensive Income

For the year ended 30 June 2021

	Notes	2021 \$M	2020 restated \$M
Profit or loss			
Network revenue from contracts with customers	2(a)	1,270.7	1,265.7
Other revenue from contracts with customers	2(b)	209.2	206.4
Total revenue from contracts with customers		1,479.9	1,472.1
Other revenue	2(c)	46.6	23.0
Total revenue		1,526.5	1,495.1
Operating expenses	3(a)	(822.8)	(830.3)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)		703.7	664.8
Depreciation, amortisation and impairment	3(b)	(402.5)	(400.7)
Earnings before interest and taxation (EBIT)		301.2	264.1
Finance costs	3(c)	(297.2)	(327.0)
Profit/ (loss) before income tax		4.0	(62.9)
Income tax (expense)/ benefit	4(a)	(1.0)	18.9
Profit/ (loss) for the year		3.0	(44.0)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/ (losses) on remeasurement of superannuation defined benefits	23(f)	34.3	(4.0)
Tax (expense)/ benefit	4(b)	(10.3)	1.2
		24.0	(2.8)
Items that will be reclassified subsequently to profit or loss			
Gains on cash flow hedges		0.3	0.4
Tax expense	4(b)	(0.1)	(0.1)
		0.2	0.3
Total other comprehensive profit/ (loss) for the year		24.2	(2.5)
Total comprehensive profit/ (loss) for the year		27.2	(46.5)

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2021

	Notes	30 June 2021 \$M	30 June 2020 restated \$M	1 July 2019 restated \$M
Assets				
Current assets				
Cash and cash equivalents	5	3.2	37.6	0.3
Trade and other receivables	6	253.8	240.8	248.5
Inventories		41.3	36.1	31.6
Prepaid income tax		24.4	12.4	—
Total current assets		322.7	326.9	280.4
Non-current assets				
Trade and other receivables		0.7	0.8	1.1
Property, plant and equipment	7	8,532.6	8,398.0	8,232.7
Intangible assets	8	162.0	163.1	180.6
Right-of-use assets	21	36.7	39.3	—
Other non-current assets		0.3	0.3	0.4
Total non-current assets		8,732.3	8,601.5	8,414.8
Total assets		9,055.0	8,928.4	8,695.2
Liabilities				
Current liabilities				
Trade and other payables	9	272.4	268.6	275.1
Contract liabilities	10	2.6	2.1	7.3
Interest bearing liabilities	11	589.2	412.9	404.6
Current tax liabilities		—	—	37.8
Provisions	12	220.8	208.1	190.4
Deferred revenue	13	2.4	5.5	12.4
Total current liabilities		1,087.4	897.2	927.6
Non-current liabilities				
Contract liabilities	10	2.6	9.9	9.9
Interest bearing liabilities	11	5,441.6	5,492.4	5,147.6
Deferred tax liabilities	4(c)	99.6	94.7	137.5
Provisions	12	56.0	93.6	85.5
Total non-current liabilities		5,599.8	5,690.6	5,380.5
Total liabilities		6,687.2	6,587.8	6,308.1
Net assets		2,367.8	2,340.6	2,387.1
Equity				
Contributed equity		130.5	130.5	130.5
Reserves		1,156.8	1,156.6	1,156.3
Retained earnings		1,080.5	1,053.5	1,100.3
Total equity		2,367.8	2,340.6	2,387.1

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2021

	Notes	Contributed Equity \$M	Asset Revaluation Reserve \$M	Hedge Revaluation Reserve \$M	Retained Earnings \$M	Total Equity \$M
Balance at 1 July 2020 as previously stated		130.5	1,157.3	(0.7)	1,024.5	2,311.6
Adjustment due to change in accounting policy	1	—	—	—	(8.7)	(8.7)
Adjustment due to correction of error	1	—	—	—	37.7	37.7
Balance at 1 July 2020 (restated)		130.5	1,157.3	(0.7)	1,053.5	2,340.6
Profit for the year		—	—	—	3.0	3.0
Other comprehensive income						
> Actuarial gains on remeasurement of superannuation defined benefits net of tax		—	—	—	24.0	24.0
> Net increase in reserves		—	—	0.2	—	0.2
Total comprehensive profit		—	—	0.2	27.0	27.2
Balance at 30 June 2021		130.5	1,157.3	(0.5)	1,080.5	2,367.8
Balance at 1 July 2019 as previously stated		130.5	1,157.3	(1.0)	1,081.8	2,368.6
Adjustment due to change in accounting policy	1	—	—	—	(5.6)	(5.6)
Adjustment due to correction of error	1	—	—	—	24.1	24.1
Balance at 1 July 2019 (restated)		130.5	1,157.3	(1.0)	1,100.3	2,387.1
Loss for the year		—	—	—	(54.5)	(54.5)
Adjustment for change in policy and correction of error	1	—	—	—	10.5	10.5
Restated loss for the year		—	—	—	(44.0)	(44.0)
Other comprehensive income						
> Actuarial gains on remeasurement of superannuation defined benefits net of tax		—	—	—	(2.8)	(2.8)
> Net increase in reserves		—	—	0.3	—	0.3
Total comprehensive profit (loss)		—	—	0.3	(46.8)	(46.5)
Balance at 30 June 2020		130.5	1,157.3	(0.7)	1,053.5	2,340.6

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2021

	Notes	2021 \$M	2020 restated \$M
Cash flows from operating activities			
Receipts from customers		1,555.8	1,536.1
Payments to suppliers and employees		(949.4)	(929.9)
Interest paid		(304.3)	(311.0)
Income tax paid		(18.5)	(73.1)
Net cash inflow from operating activities	22	283.6	222.1
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(449.9)	(474.9)
Proceeds from sale of property, plant and equipment		4.4	3.4
Net cash outflow from investing activities		(445.5)	(471.5)
Cash flows from financing activities			
Proceeds from borrowings		217.5	293.8
Repayment of borrowings		(85.6)	(1.2)
Payment of principal portion of lease liabilities		(4.4)	(5.9)
Net cash inflow from financing activities		127.5	286.7
Net decrease in cash and cash equivalents		(34.4)	37.3
Cash and cash equivalents at the beginning of the year		37.6	0.3
Cash and cash equivalents at the end of the year	5	3.2	37.6

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2021

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 *Government Sector Finance Act 2018*, the *Government Sector Finance Regulation 2018*, and the Treasurer's directions issued under the *Government Sector Finance Act 2018*. The financial statements of the Corporation also comply with International Financial Reporting Standards (IFRS's) 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. A restatement of the comparative amounts was made due to a change in accounting policy and a correction of an error. Refer to Note 2 and 3.

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).

Changes to significant accounting policy and prior period error

Change in Accounting Policy – Cloud Computing Arrangements

The International Financial Reporting Standards Interpretations Committee (IFRIC) has issued two final agenda decisions which impact cloud computing arrangements:

- Customer's right to receive access to the supplier's software hosted on the cloud (March 2019) – this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.
- Configuration or customisation costs in a cloud computing arrangement (April 2021) – this decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The Corporation's accounting policy has historically been to capitalise most costs related to cloud computing arrangements as intangible assets in the Statement of Financial Position. The adoption of the above decisions has resulted in a reclassification of these intangible assets as an expense in the Statement of Comprehensive Income, impacting both the current and prior periods presented. The expense is then allocated to direct operating and capital expenditure as an overhead which resulted in an increase in property, plant and equipment acquisition costs. Management judgement was applied in determining which applications are not controlled by the Corporation and for those determined not to be controlled whether significant integration costs associated with applications that are controlled by the Corporation had been incurred and the amount of such expenditure. The Corporation has generally not captured integration costs to a level that would justify including those costs as an intangible asset and service providers did not separate these costs as there was no requirement to account for these differently. Where integration costs were not identifiable the Corporation has expensed all costs incurred.

The updated accounting policy is included in Note 3.

Gifted Assets Revenue – Prior Period Error

An error was detected in the calculation of gifted assets fair values which is commented on in Note 2. The error has been corrected by restating the affected financial line items.

Historical financial information has been restated to account for the impact of the change in accounting policy in relation to cloud computing arrangements and the prior period error in gifted asset revenue and asset recognition. The change in accounting policy and correction of prior period error have been corrected by restating the balances at the earliest period presented (1 July 2019) and taking the adjustment through to retained earnings at that date. Comparatives have been changed to reflect the change in policy and correction of prior period error. The impact on each line item is shown in the tables below:

Impact on Statement of Financial Position (increase/(decrease) in line item)

	1 July 2019				30 June 2020			
	As previously reported \$M	Cloud computing adjustments ¹ \$M	Gifted assets adjustments ² \$M	As restated \$M	As previously reported \$M	Cloud computing adjustments ¹ \$M	Gifted assets adjustments ² \$M	As restated \$M
Property, plant and equipment	8,188.8	9.5	34.4	8,232.7	8,326.5	17.6	53.9	8,398.0
Intangible assets	198.1	(17.5)	–	180.6	193.2	(30.1)	–	163.1
Total assets	8,668.8	(8.0)	34.4	8,695.2	8,887.0	(12.5)	53.9	8,928.4
Deferred tax liability	129.6	(2.4)	10.3	137.5	82.3	(3.8)	16.2	94.7
Total liabilities	6,300.2	(2.4)	10.3	6,308.1	6,575.4	(3.8)	16.2	6,587.8
Net assets	2,368.6	(5.6)	24.1	2,387.1	2,311.6	(8.7)	37.7	2,340.6
Retained earnings	1,081.8	(5.6)	24.1	1,100.3	1,024.5	(8.7)	37.7	1,053.5
Total equity	2,368.6	(5.6)	24.1	2,387.1	2,311.6	(8.7)	37.7	2,340.6

Impact on statement of Comprehensive Income (increase/(decrease) in line item)

	30 June 2020			
	As previously reported \$M	Cloud computing adjustments ¹ \$M	Gifted assets adjustments ² \$M	As restated \$M
Other revenue from contracts with customers	183.8	–	22.6	206.4
Operating expenses	821.6	8.7	–	830.3
Depreciation, amortisation and impairment	401.8	(4.2)	3.1	400.7
Tax benefit/ (expense)	23.4	1.4	(5.9)	18.9
Loss for the year	(54.5)	(3.1)	13.6	(44.0)
Total comprehensive loss for the year	(57.0)	(3.1)	13.6	(46.5)

Impact on statement of cash flows (increase/(decrease) in line item)

	30 June 2020		
	As previously reported \$M	Cloud computing adjustments ¹ \$M	As restated \$M
Payments to suppliers and employees	(921.1)	(8.8)	(929.9)
Net cash inflow from operating activities	230.9	(8.8)	222.1
Payments for property, plant and equipment and intangible assets	(483.7)	8.8	(474.9)
Net cash outflow from investing activities	(480.3)	8.8	(471.5)

1. Change in accounting policy applied retrospectively

2. Correction of prior period error

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

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 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). Management have considered the latest available information and trends and have determined that there is not requirement for additional COVID-19 specific provisions 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. No material impacts were noted from this evaluation.

Inventories

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

Share capital

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

Current shareholders are the Treasurer and the Minister for Finance 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 policies

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

Several accounting standards, amendments and interpretations apply for the first time in the 2021 financial year but do not have an impact on the financial statements of the entity. In particular AASB 1059 *Service Concession Arrangements: Grantors* was applicable for the first time in the 2021 financial year. The Corporation has not identified any service concession arrangements.

2 Revenue

	2021 \$M	2020 restated \$M
Revenue from contracts with customers		
a) Network revenue from contracts with customers		
Network Use of System charges	1,248.0	1,243.6
Water and sewerage treatment charges	22.7	22.1
	1,270.7	1,265.7
b) Other revenue from contracts with customers		
Ancillary Services revenue	22.8	21.6
Metering Services revenue	28.7	29.5
Public lighting services charges	11.4	11.7
Capital contributions		
➤ Gifted assets and customer contributions received	117.7	121.0
➤ Recognition of prepaid capital contributions revenue ¹	6.8	5.2
Other revenue from contracts with customers	21.8	17.4
	209.2	206.4
Total revenue from contracts with customers	1,479.9	1,472.1
c) Other revenue		
Government grants – revenue grants	45.5	22.1
Lease revenue	1.1	0.9
	46.6	23.0

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 (2020: \$6.2M).

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 total revenue was not materially impacted by the COVID-19 pandemic.

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.

Correction of prior period error

During the year it was detected that the calculation methods and rates for determining the fair value of contributed assets were being applied inconsistently. Management determined that the impact represented a material error in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors and therefore the error has been corrected by restating the affected prior period comparatives and retained earnings at 1 July 2019. Management's analysis of the error included the period from 1 July 2016 to 30 June 2021. It was not practical to analyse earlier data. Refer to Note 1 for the impact on the financial statement line items.

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.

Revenue grants of \$23.2M (2020: \$20.1M) have been received from The Crown Entity of the NSW Government which operates the Restart NSW Fund. The grant is for 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. A grant of \$0.9M was also recognised relating to the NSW Government's Water Security for Regions Program, which is part of the Restart NSW Fund (refer Note 13). During the year the Corporation received \$21.4M (2020: \$nil) from the Department of Planning, Industry and Environment under Section 20P of the State-Owned Corporations Act for the cost to the Corporation of a Ministerial Direction which has been recognised as government grant revenue in the year.

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	2021 \$M	2020 restated \$M
a) Operating expenses			
Transmission use of service expense		226.6	217.6
Climate change fund contributions		56.7	56.0
Employee benefits expense ¹		260.6	252.7
Other costs of distribution of energy and other services		272.5	267.9
Debt write-offs and change in provision for expected credit losses		(1.1)	3.6
Loss on disposal of property, plant and equipment		5.2	7.6
Write-off of non-financial assets ²		—	23.0
Operating leases rentals, low value leases and short-term leases		2.3	1.9
Total operating expenses		822.8	830.3
b) Depreciation, amortisation and impairment			
Depreciation of property, plant and equipment	7	351.6	352.2
Depreciation of right-of use assets		5.0	5.0
Plant and equipment depreciation capitalised ³		(12.1)	(11.5)
Depreciation expense		344.5	345.7
Amortisation of intangible assets	8	14.1	13.9
Impairment losses ⁴	7	43.9	41.1
Total depreciation, amortisation and impairment		402.5	400.7

1. Employee benefits expense excludes \$191.7M (2020: \$209.2M) capitalised during the year as part of property, plant and equipment and intangible assets. Defined contribution superannuation expenses of \$41.8M (2020: \$41.4M) and defined benefit superannuation expenses \$4.5M (2020: \$4.3M) (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

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. Refer to Note 21 for details of leases and the lease accounting policy.

ii) Cloud computing arrangements

Cloud computing arrangements are service contracts providing the Corporation with the right to access the cloud provider's application software over the contract period. As such the Corporation does not receive a software intangible asset at the contract commencement date. A right to receive future access to the supplier's software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits.

Fees for use of application software and customisation costs are recognised as an operating expense over the term of the service contract. Costs incurred on configuration, data conversion and migration, testing and training are recognised as an operating expense as the service is recognised.

Costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets. Refer to Note 8.

Implementation costs including costs to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received. Where the cloud computing arrangement supplier provides both configuration and customisation services, judgement is applied to determine whether each of these services are distinct or not from the underlying use of the application software. Distinct configuration and customisation costs are expensed as incurred as the software is configured or customised (i.e. upfront). Non-distinct configuration and customisation costs are expensed over the Cloud computing contract term.

Non-distinct customisation activities significantly enhance or modify a cloud-based application. Judgement is applied in determining whether the degree of customisation and modification of the cloud-based application is significant or not.

During the financial year, the Corporation did not recognise any amounts as prepayments in respect of configuration and customisation activities undertaken in implementing Cloud computing arrangements which are considered not to be distinct from the access to the cloud application software over the contract term.

3 Expenses continued

iii) 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.

iv) 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.

v) Depreciation, amortisation and impairment

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

	Notes	2021 \$M	2020 \$M
c) Finance Costs			
Interest and finance charges paid or payable on loans		295.0	325.2
Interest expense from lease liabilities	21	1.6	1.7
Unwinding of discount on provisions		0.6	0.1
Total finance costs		297.2	327.0

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. These are typically those projects whose expected total project expenditure is approximately \$10M or greater. No borrowing costs were capitalised during the year (2020: \$nil).

	2021 \$M	2020 \$M
d) Maintenance expenses (included in (a) above)		
Employee benefits expense	85.3	82.9
Contracted labour and other (non-employee related) expenses	373.1	348.0
	458.4	430.9

4 Income tax

	2021 \$M	2020 restated \$M
a) Income tax recognised in profit or loss		
Current tax expense		
Current year	7.5	22.8
Adjustments for prior years	(1.1)	5.9
	6.4	28.7
Deferred tax credit		
Origination and reversal of temporary differences	(6.2)	(41.7)
Over-provided in prior years	0.8	(5.9)
	(5.4)	(47.6)
Total income tax (benefit)/ expense in profit or loss	1.0	(18.9)
Numerical reconciliation between tax expense and pre-tax net profit		
Profit/ (loss) before tax	4.0	(62.9)
Income tax at the statutory tax rate of 30 per cent (2020: 30 per cent)	1.2	(18.9)
Increase/ (decrease) in income tax expense due to:		
Over provided in previous years	(0.3)	–
Non-deductible expenses	0.1	–
Income tax (benefit)/ expense on pre-tax net profit	1.0	(18.9)
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	10.3	(1.2)
Items to be reclassified subsequently to profit or loss:		
➤ Revaluation of hedge derivatives	0.1	0.1
Income tax charged (credited) directly to other comprehensive income	10.4	(1.1)
	2021 \$M	2020 restated \$M
c) Recognised deferred tax assets and liabilities		
Deferred tax (assets) and liabilities are attributable to the following:		
Property, plant and equipment	184.7	190.1
Defined benefit superannuation benefits	(5.1)	(15.3)
Other liabilities and provisions	(79.9)	(79.6)
Other items	(0.1)	(0.6)
Net tax liabilities	99.6	94.6

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

4 Income tax continued

Movement in temporary tax differences

	1 July 2020 restated \$M	Recognised in profit or loss \$M	Recognised in other comprehensive income \$M	30 June 2021 restated \$M
Property, plant and equipment	190.1	(5.4)	—	184.7
Defined benefit superannuation liabilities	(15.3)	(0.1)	10.3	(5.1)
Other liabilities and provisions	(79.6)	(0.3)	—	(79.9)
Other items	(0.6)	0.4	0.1	(0.1)
	94.6	(5.4)	10.4	99.6

	1 July 2019 restated \$M	Recognised in profit or loss restated \$M	Recognised in other comprehensive income \$M	30 June 2020 restated \$M
Property, plant and equipment	226.7	(36.6)	—	190.1
Defined benefit superannuation liabilities	(13.5)	(0.5)	(1.3)	(15.3)
Other provisions	(75.0)	(4.6)	—	(79.6)
Other items	(0.7)	—	0.1	(0.6)
	137.5	(41.7)	(1.2)	94.6

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, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

5 Cash and cash equivalents

	2021 \$M	2020 \$M
Cash and bank balances	3.2	4.5
Money market securities and deposits	–	33.1
	3.2	37.6

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

	2021 \$M	2020 \$M
Trade receivables	52.6	53.1
Less: allowance for expected credit losses	(0.3)	(3.4)
	52.3	49.7
Accrued revenue from unread meters	172.9	165.8
	225.2	215.5
Prepayments	16.7	14.2
Other receivables	12.6	11.5
Less: allowance for expected credit losses	(0.7)	(0.4)
	253.8	240.8
The movement in the allowance for expected credit losses is detailed below:		
Opening balance at 1 July	3.8	1.5
Provision for expected credit losses	(1.0)	3.7
Write-off of debts	(0.3)	(1.4)
Release of provision	(1.5)	–
Closing balance at 30 June	1.0	3.8

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 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 2021					
Gross carrying amount		248.6	9,756.4	545.5	10,550.5
Accumulated depreciation and impairment		(31.1)	(1,666.4)	(320.4)	(2,017.9)
Net carrying amount		217.5	8,090.0	225.1	8,532.6
Net carrying amount at start of year (restated)		211.1	7,962.6	224.3	8,398.0
Purchases of assets and recategorisations		13.8	475.4	51.7	540.9
Disposals and write offs		(1.1)	(7.5)	(2.2)	(10.8)
Depreciation expense	3(b)	(6.3)	(296.6)	(48.7)	(351.6)
Impairment	3(b)	—	(43.9)	—	(43.9)
Net carrying amount at end of year		217.5	8,090.0	225.1	8,532.6
Year ended 30 June 2020 (restated)					
Gross carrying amount		236.6	9,293.8	513.0	10,043.4
Accumulated depreciation and impairment		(25.5)	(1,331.2)	(288.7)	(1,645.4)
Net carrying amount		211.1	7,962.6	224.3	8,398.0
Net carrying amount at start of year (restated)		200.0	7,828.8	204.0	8,232.8
Purchases of assets		16.1	498.4	66.4	580.9
Disposals and write offs		(0.2)	(19.4)	(2.9)	(22.5)
Depreciation expense	3(b)	(4.8)	(304.1)	(43.2)	(352.1)
Impairment	3(b)	—	(41.1)	—	(41.1)
Net carrying amount at end of year		211.1	7,962.6	224.3	8,398.0
				2021 \$M	2020 \$M
Assets under construction					
Expenditure on construction in progress at the end of the year				534.3	507.1
Historic cost of revalued assets					
The carrying amount of assets had they been carried under the cost model is:					
Land and buildings				186.2	180.0
System assets				7,525.9	7,271.5
Plant and equipment				225.1	224.3

Land and buildings include assets where a third party has an operating lease or licence to use or access a property, for example for radio towers or land surrounding a substation but not the exclusive use of the asset. These are generally incidental to our use of the asset. Assets under operating leases where the Corporation does not also have the use of the asset are immaterial.

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 last completed as 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 2021 (2020: \$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 \$8.6M (2020: \$7.5M) which was recognised in profit and loss.

The recoverable amount of the Public Lighting CGU's system assets was estimated at \$18.3M as at 30 June 2021 (30 June 2020: \$9.0M) based on a value in use valuation and applying a discount rate of 5.5%. An impairment charge of \$35.3M (2020: \$31.4M) 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.

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 2021					
At cost		80.5	126.4	56.9	260.3
Accumulated amortisation		—	(81.3)	(20.6)	(98.3)
Net carrying amount		80.5	45.2	36.3	162.0
Net carrying amount at start of year (restated)		82.0	39.8	41.3	163.1
Acquisitions and recategorisations		(1.5)	14.7	—	13.2
Amortisation	3(b)	—	(9.1)	(5.0)	14.1
Write-offs		—	(0.2)	—	(0.2)
Net carrying amount at end of year		80.5	45.2	36.3	162.0
Year ended 30 June 2020 (restated)					
At cost		82.0	112.0	56.9	250.9
Accumulated amortisation		—	(72.2)	(15.6)	(87.8)
Net carrying amount		82.0	39.8	41.3	163.1
Net carrying amount at start of year		81.8	52.9	45.9	180.6
Acquisitions		0.2	7.7	0.1	8.0
Amortisation	3(b)	—	(9.2)	(4.7)	(13.9)
Write-offs		—	(11.7)	—	(11.7)
Net carrying amount at end of year		82.0	39.8	41.3	163.1
				2021 \$M	2020 restated \$M
Intangible assets under construction					
Expenditure on development or purchase of intangible assets in progress at the end of the year:				12.3	33.2

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. Refer to Note 3 for the accounting policy for cloud computing costs.

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	4-10 years
Other intangibles	10 years

9 Trade and other payables

	2021 \$M	2020 \$M
Trade payables	20.7	19.0
Interest payable	146.7	152.7
Accruals	77.3	73.0
Payroll related payables	18.9	15.6
Other payables	8.8	8.3
	272.4	268.6

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

	2021 \$M	2020 \$M
Contract liabilities		
Prepaid capital contributions		
> Current	2.6	2.1
> Non-current	2.6	9.9
	5.2	12.0

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).

1.1 Interest bearing liabilities

	Notes	2021 \$M	2020 \$M
Current liabilities			
TCorp borrowings		583.0	406.9
Lease liability	21	6.2	6.0
		589.2	412.9
Non-current liabilities			
TCorp borrowings		5,400.4	5,448.9
Lease liability	21	41.2	43.5
Non-current portion of borrowings		5,441.6	5,492.4
Changes in liabilities arising from financing activities			
Total interest-bearing liabilities at beginning of year		5,905.3	5,552.2
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		127.5	286.7
Capitalisation of indexed bonds indexation		2.9	10.9
Movement and settlement of deferred interest		(4.6)	2.2
Movement in forward rate contracts		(0.3)	(0.4)
Total interest-bearing liabilities at end of year		6,030.8	5,905.3

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 2020	261.6	32.6	4.7	2.8	301.7
Additional provisions	13.5	0.1	2.2	0.8	16.6
Amounts used	(32.4)	(2.5)	(1.0)	(2.0)	(37.9)
Amounts reversed	(2.0)	(0.9)	(1.1)	(0.1)	(4.1)
Unwinding of discount	—	0.5	—	—	0.5
At 30 June 2021	240.7	29.8	4.8	1.5	276.8
30 June 2021					
Current	210.5	4.9	3.9	1.5	220.8
Non-Current	30.2	24.9	0.9	—	56.0
30 June 2020					
Current	194.9	6.8	3.6	2.8	208.1
Non-Current	66.7	25.8	1.1	—	93.6

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 2021 (2020: \$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 \$210.5M (2020: \$194.9M) 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.

	2021 \$M	2020 \$M
Current leave obligations expected to be settled after 12 months	171.8	158.7

The non-current provision for employee benefits includes \$17.9M (2020: \$52.0M) relating to the defined benefit superannuation liability.

12 Provisions continued

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 2.53% per cent applied.
- > Provisions for environmental rectification works which are expected to be settled between 2022 and 2023. In respect of obligations to be settled by 2022 the effect of the time value of money has been deemed to be immaterial. Where settlement is expected by 2023 a discount rate of 0.1 per cent (2020: 0.2 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 2035 and discount rates of 1.8 per cent and 1.1 per cent (2020: 1.6 per cent) have 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 2023 for the 2021 financial year cover period. Discount rates of 0.4 per cent and 0.8 per cent (2020: 0.6 per cent and 0.8 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

	2021 \$M	2020 \$M
Deferred government grants	2.0	2.9
Other deferred revenue	0.4	2.6
	2.4	5.5

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. The infrastructure was kept in a 'care and maintenance' mode until the long-term solution was in place. The funding agreement concluded in December 2020. With the final recognition of funds now complete discussions will be held with NSW Treasury to return unrecognised funding early in FY22.

Other deferred revenue

Other deferred revenue consists of receipts for services not yet provided.

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 2021 the Corporation had trade receivables of \$ 50.4 M (2020: \$51.9M) from retailers. Three retailers represented 80 per cent (2020: 76 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:

	2021		2020	
	Carrying Amount \$M	Expected Credit Loss \$M	Carrying Amount \$M	Expected Credit Loss \$M
Days past due:				
Current	47.5	—	47.7	3.1
Less than 30 days	2.7	0.2	1.4	0.3
30-90 days	0.8	0.1	3.1	—
91-180 days	0.6	0.1	0.4	—
Over 180	1.0	0.6	0.5	0.4
Total	52.6	1.0	53.1	3.8

An impairment review is performed at each reporting date considering the days past due for the groupings of customer segments with similar loss patterns, e.g. 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.

(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\$0.9M (2020: \$1.5M) and A\$0.3M (2020: 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.

14 Financial risk management continued

d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Corporation adopts a policy of ensuring that its debt portfolio is managed within a Board approved risk management framework. Interest rate risk is managed through a combination of fixed rate long term duration debts, inflation linked securities, floating rate debts and interest rate derivative instruments.

The interest rate profile for the Corporation's interest-bearing financial instruments at the reporting date was:

Carrying amount	2021 \$M	2020 \$M
Fixed rate		
Financial liabilities	(5,444.8)	(5,059.7)
Floating rate		
Financial assets	3.2	37.6
Financial liabilities	—	(2.4)
	3.2	35.2
Inflation Indexed		
Financial liabilities	(586.0)	(843.2)

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 \$2.9M (2020: \$4.2M).

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.

	2021 \$M	2020 restated \$M
Total borrowings	6,030.8	5,905.3
Less: cash at bank	3.2	37.6
Net debt	6,027.6	5,867.7
Total equity	2,367.8	2,340.6
Total capital	8,395.4	8,208.3
Gearing ratio	71.8%	71.5%

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 2021 the Corporation had an approved core debt borrowing limit of \$7,110.0M (2020: \$7,110.0M) of which \$1,127.5M was unused as at 30 June 2021 (2020: \$1,257.5M). The Corporation also has an approved New South Wales Treasury Corporation (TCorp) Come and Go Facility limit of \$250.0M (2020: \$250.0M) and approval to obtain a commercial bank overdraft facility limit of up to \$15.0M (2020: \$15.0M) to fund working capital (at 30 June 2021 a facility of \$2.0M (2020: \$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 at 30 June 2021 the Corporation continues to trade as a going concern. The TCorp Come and Go Facility had \$250.0M (2020: \$247.6M) unused and the commercial bank overdraft facility limit had \$2.0M unused (2020: \$2.0M). The core debt and Come and Go Facility borrowing limits have 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 2021					
Non derivative financial liabilities					
Fixed rate borrowings	5,444.8	6,245.5	757.8	2,435.7	3,052.0
Floating rate borrowings	—	—	—	—	—
Inflation indexed borrowings	586.0	676.2	23.9	506.6	145.7
Trade and other payables (excluding statutory payables)	256.4	256.4	256.4	—	—
	6,287.2	7,178.1	1,038.1	2,942.3	3,197.7
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

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.

14 Financial risk management continued

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 last 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 the carrying value.

The main level 3 inputs used by the Corporation for the 30 June 2021 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 uncertainty in forecasting future cashflows used for the valuation. 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, debt to equity ratio 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.

15 Fair value measurements continued

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 \$8,307.5M.

Unobservable inputs	Range of inputs (probability weighted average)	Relationship of unobservable inputs to fair value
Discount rate	+/-50 basis points	The higher the discount rate, the lower the fair value. A 50 basis point movement in the discount rate results in a \$228.5M change in the fair value.
Five-year forecast revenue	+/-10 per cent	The higher the revenue the higher the fair value. A 10 per cent movement in the revenue results in a \$418.3M 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 \$145.4M 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 \$32.6M 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 \$365.5M 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:

	Note	2021		2020	
		Carrying amount \$M	Fair value \$M	Carrying amount \$M	Fair value \$M
Financial liabilities carried at amortised cost					
Interest bearing liabilities	11	6,030.8	6,553.0	5,905.3	6,578.9

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 2021 to discount financial instruments. The interest rates used are in the following ranges:

	2021	2020
Borrowings	0.1%-5.1%	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:

	2021 \$M	2020 \$M
Short-term employee benefits	5.0	4.5
Long-term benefits	0.2	0.3
Post-employment benefits	0.1	0.1
Termination benefits	—	0.1
	5.3	5.0

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 \$96.2M (2020: \$101.2M).

TCorp

TCorp is a wholly owned NSW State owned corporation and is the central financing agency for the NSW public sector. TCorp provides debt and investments and provides other financial services to the NSW public sector. TCorp has also provided guarantees relating to workers compensation insurance and prudential requirements for the Australian Energy Market Operator (refer Note 19). Details of borrowings are disclosed in Note 11, interest costs on these borrowings were \$198.7M (2020: \$224.1M) of which \$50.4M (2020: \$51.5M) 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 \$56.7M was recognised for the current year (2020: \$56.0M) for the Climate Change Fund contribution, with \$nil owing at 30 June 2021 (2020: \$nil). During the year the Corporation received \$21.4M from the Department of Planning, Industry and Environment under Section 20P of the State Owned Corporations Act for the cost to the Corporation of a Ministerial Direction issued in August 2019 relating to workforce reductions. This has been recognised as revenue in the year.

17 Related party transactions *continued*

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 2021. 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 \$23.2M (2020: \$22.1M) with \$1.9M owing by the Crown entity at 30 June 2021 (2020: \$1.8M).

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 \$ 25.5 M was recognised in 2021 (2020: \$24.9M) of which \$2.0M (2020: \$2.0M) remained owing to Water NSW at 30 June 2021.

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

	2021 \$M	2020 \$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. Deputy State Coroner Truscott conducted an enquiry in 2020 into the cause and origin of the fire the findings of which are expected this year. A financial exposure could arise from separate civil 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 defence has been filed denying all liability. The relevant deductible (excess) applicable under the Corporation's liability insurance policy is \$10.0M.

Guarantees

	2021 \$M	2020 \$M
Guarantees provided to regulatory and statutory authorities	19.7	20.9

20 Capital commitments

	2021 \$M	2020 \$M
Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities (including GST)	76.3	83.1
GST credits	6.9	7.6

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 several 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 other increment. The assessment of lease term is reviewed at least annually. No changes were made to the lease term assumption during the year.

The Corporation has 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.

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. 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. The impairment review of right-of-use assets is performed as part of the impairment reviews at the CGU level (refer to Note 7).

Right-of-use assets under leases

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

	Land and buildings	
	2021 \$M	2020 \$M
Balance at start of year	39.3	44.3
Additions and lease modifications	2.4	-
Depreciation expense	(5.0)	(5.0)
Balance at end of year	36.7	39.3

Lease liabilities

The following table presents liabilities under leases.

	2021 \$M	2020 \$M
Balance at start of year	49.5	53.7
Additions	2.3	-
Interest expense	1.6	1.7
Payments	(6.0)	(5.9)
Balance at end of year	47.4	49.5

The following amounts were recognised in the Statement of Comprehensive Income in respect of leases where the Corporation is the lessee:

	2021 \$M	2020 \$M
Depreciation expense of right-of-use assets	5.0	5.0
Interest expense on lease liabilities	1.6	1.7
Expense relating to short-term and low-value assets	1.9	1.8
Total amount recognised in the statement of comprehensive income	8.5	8.5

The Corporation has total cash outflows for leases of \$7.9M for the year ended 30 June 2021 (2020: \$7.7M).

21 Leases continued

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

	2021 \$M	2020 \$M
Within twelve months	7.2	6.4
Twelve months or longer and not longer than five years	18.1	21.8
Longer than five years ¹	36.8	38.9
Total (including GST)	62.1	67.1
GST credits	5.6	6.1

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:

	2021 \$M	2020 \$M
Within twelve months	0.9	1.0
Twelve months or longer and not longer than five years	1.4	1.2
Longer than five years ¹	0.8	0.6
Total (including GST)	3.1	2.8
GST debits	0.3	0.3

During the year ended 30 June 2021 \$1.1M (2020: \$0.9M) 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

	2021 \$M	2020 \$M
Profit/ (loss) for the year	3.0	(44.0)
Add/ (less) non-cash items:		
Depreciation, amortisation, impairment and write-off of owned non-financial assets	402.5	400.7
Gifted assets and capital grants	(93.1)	(102.3)
Non-cash superannuation expenses	0.3	1.2
Net loss on disposal and write-off of property, plant and equipment	5.2	30.6
Amortisation of deferred interest (income)/ expense	(4.5)	2.2
Capitalisation of indexed bonds indexation	2.9	10.9
Changes in assets and liabilities:		
(Increase)/ decrease in accrued revenue from unread meters	(7.1)	(2.4)
(Increase)/ decrease in other receivables	(5.9)	10.5
(Increase)/ decrease in inventories	(5.2)	(4.5)
Increase/ (decrease) in accrued operating expenditure	3.8	(6.6)
Increase/ (decrease) in current tax balances	(12.0)	(50.2)
Increase/ (decrease) in deferred taxes liabilities	(5.4)	(41.8)
Increase/ (decrease) in other provisions	9.1	20.5
Increase/ (decrease) in contract liabilities	(6.8)	(5.2)
Increase/ (decrease) in deferred revenue	(3.2)	2.5
Net cash from operating activities	283.6	222.1

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.

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.

23 Superannuation – Defined benefit plans continued

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 2021			30 June 2020		
	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	(330.9)	313.6	(17.3)	(325.2)	273.9	(51.3)
SASS	(9.3)	10.0 ¹	0.7	(8.6)	9.4 ¹	0.8
SANCS	(0.6)	—	(0.6)	(0.6)	0.0	(0.6)
SSS	(1.9)	1.9	—	(1.9)	1.8	(0.1)
Total	(342.7)	325.5	(17.2)	(336.3)	285.1	(51.2)

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.

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.

	2021			2020		
	Total present value of obligation \$M	Total Fair value of plan asset \$M	Total \$M	Total present value of obligation \$M	Fair value of plan asset \$M	Total \$M
At 1 July	(336.3)	285.1	(51.2)	(351.4)	305.5	(45.9)
(Expense)/ income recognised in profit or loss:						
> Current service cost	(3.1)	—	(3.1)	(3.7)	—	(3.7)
> Gains/ (losses) arising from curtailments and settlements	—	—	—	7.1	(6.4)	0.7
> Interest (expense)/ income	(9.1)	7.7	(1.4)	(9.9)	8.6	(1.3)
	(12.2)	7.7	(4.5)	(6.5)	2.2	(4.3)
Income/ (expense) recognised in other comprehensive income						
Remeasurements:						
> Return on plan assets, excluding amounts included in interest (expense)/ income	—	37.9	37.9	—	(8.5)	(8.5)
> Gain/ (loss) from change in demographic assumptions	(0.2)	—	(0.2)	—	—	—
> Gain/ (loss) from change in financial assumptions	—	—	—	1.7	—	1.7
> Gain/ (loss) from change in liability experience	(2.6)	—	(2.6)	2.3	—	2.3
	(2.8)	37.9	35.1	4.0	(8.5)	(4.5)
Adjustment for effect of asset ceiling ¹	—	(0.8)	(0.8)	—	0.5	0.5
	(2.8)	37.1	34.3	4.0	(8.0)	(4.0)
Contributions by Fund participants:						
> Employers	—	4.2	4.2	—	3.0	3.0
> Plan participants	(1.8)	1.8	—	(1.9)	1.9	—
	(1.8)	6.0	4.2	(1.9)	4.9	3.0
Benefits paid	9.2	(9.2)	—	18.0	(18.0)	—
Taxes, premiums and expenses paid	1.3	(1.3)	—	1.5	(1.5)	—
At 30 June	(342.6)	325.4	(17.2)	(336.3)	285.1	(51.2)

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 \$1,967.6M (2020: \$1,808.2M) 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 2021	30 June 2020
Australian listed equities	17.9%	11.2%
Overseas listed equities	28.8%	30.0%
Property	12.6%	12.7%
Private equity	1.3%	2.0%
Infrastructure	11.1%	7.4%
Alternatives	7.9%	7.2%
Fixed income	11.6%	18.1%
Cash and short-term securities	8.8%	11.4%
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

	2021	2020
Expected salary increase rate (excluding promotional increases)	2.00 per cent for 2022 to 2026; 2.25 per cent for 2026/27; 2.50 per cent for 2027/28; 3.00% for 2028/29; 3.25% for 2029/30; 3.50% pa thereafter	2.5 per cent per annum
Rate of CPI increase	1.75 per cent for 2021/22 and 2022/23; 2.25 per cent for 2023 to 2026; 2.50 per cent for 2026/27; 2.75 per cent for 2027/28, 3.00 per cent for 2028/29; 2.75 per cent for 2029/30; 2.50 per cent pa thereafter	0.25 per cent for 2020/21, 1.50 per cent for 2021/22, 1.25 per cent for 2022/23, 1.75 per cent for 2023/24, 2.00 per cent p.a. for 2025 to 2026, 2.25 per cent p.a. for 2026 to 2030; then 2.50 per cent p.a. thereafter
Discount rate	2.83 per cent pa	2.75 per cent pa
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 defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions. The sensitivity of the Corporation's total defined benefit obligation as at 30 June 2021 to the significant actuarial assumptions is presented below. The impacts shown are with other assumptions being retained.

Actuarial assumption	Scenario of change in assumption	Relationship of unobservable inputs to defined benefit obligation
Discount rate	+/- 100 basis points	The higher the discount rate the lower the defined benefit obligation. A 100 basis point increase in discount rate results in a \$29.4M reduction in defined benefit obligation. A 100 basis point decrease in discount rate results in a \$35.0M increase in defined benefit obligation.
CPI	+/- 50 basis points	The higher the CPI rate the higher the defined benefit obligation. A 50 basis point increase in CPI rate results in a \$8.7M increase in defined benefit obligation. A 50 basis point decrease in CPI rate results in a \$8.0M decrease in defined benefit obligation.
Salary increase rate	+/- 0.5%	The higher the salary increase the higher the defined benefit obligation. A 0.5% increase in salary increase results in a \$8.9M increase in defined benefit obligation. A 0.5% decrease in salary increase rate results in a \$8.5M decrease in defined benefit obligation.
Pensioner mortality	+/- 5%	The higher the pensioner mortality rate the lower the defined benefit obligation. An increase in pensioner mortality rate using the assumption that the short-term pensioner mortality improvement factors for years 2018-2024 also apply for years after 2024 results in a \$3.4M increase in defined benefit obligation. A decrease in pensioner mortality rate using the assumption that the long-term pensioner mortality improvement factors for years post 2024 also apply for years 2018 to 2024 results in a \$2.0M decrease in defined benefit obligation.

k) Asset-Liability matching strategies

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

In respect of the STC Pooled Fund the Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

l) Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 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 2021 financial position of the Fund calculated in accordance with AASB 1056 "Superannuation Entities":

	EISS		Other		Total	
	2021 \$M	2020 \$M	2021 \$M	2020 \$M	2021 \$M	2020 \$M
Accrued benefits	279.1	267.2	8.8	8.1	287.9	275.3
Net market value of Fund assets	(313.6)	(273.9)	(13.8)	(12.3)	(327.4)	(286.2)
Net surplus	(34.5)	6.7)	(5.0)	(4.2)	(39.5)	(10.9)

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.

23 Superannuation – Defined benefit plans continued

m) Significant Actuarial Assumptions at the reporting date

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

Weighted-average assumptions	EISS	Other
Expected rate of return on Fund assets backing current pension liabilities	5% pa	6.5% pa
Expected rate of return on Fund assets backing other liabilities	5% pa	5.7% pa
Expected salary increase rate	2.3% pa for 2020/21, 2.4% pa for 2021/22, 2.5% for 2022/23, 2.9% thereafter	2.74% pa 21/22 to 25/26; 3.2% pa thereafter
Expected rate of CPI increase	1.9% pa	2.0% pa

The above economic assumptions are to be adopted for the 30 June 2021 actuarial investigation.

n) Sensitivity analysis – AASB 1056

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 2021 AASB 1056 results are presented below.

Actuarial assumption	Scenario of change in assumption	Relationship of unobservable inputs to defined benefit obligation
Expected rate of return on Fund assets backing current pension liabilities and other liabilities (discount rate)	+/- 50 basis points	The higher the discount rate the lower the defined benefit obligation. A 50 basis point increase in discount rate results in a \$8.7M reduction in defined benefit obligation. A 50 basis point decrease in discount rate results in a \$9.5M increase in defined benefit obligation.

Expected contributions	Financial year to 30 June 2022 \$M
Expected employer contributions	
> EISS	4
> Other	—

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 11 years (2020: 12 years) for the EISS, while it is 13.3 years (2020: 12.8 years) for the Pooled fund.

n) Nature of asset/liability

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

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

24 Events subsequent to reporting date

The financial statements of the Corporation for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the Board on 14 September 2021.

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 2021 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
- > Consultants¹ 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. Contractor costs of \$40.1M were incurred. The majority of costs related to Transformation, including Enterprise Resource Planning, data platform and asset strategies.

Summary of overseas travel 2020-21

No international travel was undertaken during 2020-21.

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 2020-21 Essential Energy received 11 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 2020-21, nine applications were finalised in 2020-21, and three applications were in progress at 30 June 2021. Of the nine finalised applications, full access was provided on seven occasions. With respect to the remaining applications, one was granted in part and in one instance the information requested was not held by Essential Energy. Full access was also provided for one application received in 2019-20 and finalised in 2020-21.

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 2020-21.

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	1	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)	1	1	0	0	0	0	0	0
Members of the public (other)	5	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	2	0	0	0	0	0	0	0
Access applications (other than personal information applications)	5	1	0	1	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 ¹	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
Information provided to High Risk Offenders Assessment committee	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)	9
Decided after 35 days (by agreement with applicant)	1
Not decided within time (deemed refusal)	0
Total	9

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 2021		30 June 2020		30 June 2019		30 June 2018	
	M	F	M	F	M	F	M	F
Executive Leadership Team	7	2	6	2	7	2	7	1
Non-executives	2510	525	2490	520	2500	516	2465	452
Total	2517	527	2496	522	2507	518	2472	453

Workforce diversity targets and progress at 30 June 2021

Representative Group	Essential Energy Proposed Target by 2025	Progress at 30 June 2021
Women in the organisation	35%	17.6%
Women in leadership	50%	29.3%
Aboriginal and Torres Strait Islander people in the organisation	6%	4.2%
Aboriginal and Torres Strait Islander people in leadership roles	15%	0.9%
Multicultural	3%	1.9%
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	2021
Women	50% ¹	15.9%	17.6%	17.6%	17.6%
Aboriginal and/or Torres Strait Islander People	3.3% ²	3.7%	4.0%	4.3%	4.2%
People whose First Language Spoken as a Child was not English	23.2% ³	1.9%	2.0%	2.1%	1.9%
People with Disability	5.6% ⁴	1.7%	1.6%	1.6%	1.6%
People with Disability Requiring Work-Related Adjustment	N/A	0.5%	0.5%	0.4%	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	2021
Women	100 ¹	98	98	99	101
Aboriginal and/or Torres Strait Islander People	100	82	80	82	83
People whose First Language Spoken as a Child was not English	100	113	115	115	113
People with Disability	100	98	95	96	98
People with Disability Requiring Work-Related Adjustment	100	N/A ²	N/A	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.

Multiculturalism

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

During 2020-21, there were no females from Culturally and Linguistically Diverse (CALD) backgrounds in leadership positions within Essential Energy.

Summary of the significant legislative changes between 1 July 2020 to 30 June 2021

Material changes to Commonwealth legislation

New minimum rates of pay under various modern awards

On 19 June 2020, the Fair Work Commission announced a 1.75% increase to minimum wages as part of its annual wage review. Ordinarily, minimum wage increases take effect from the beginning of the financial year, however, wage increases for a number of industries were delayed due to the impact of the COVID-19 pandemic.

New minimum rates of pay under a number of modern awards, including the Electrical Power Industry Award 2020, applied from 1 July 2020.

New minimum rates of pay under a number of other modern awards, including the Electrical, Electronic and Communications Contracting Award 2010 and Clerks – Private Sector Award 2020, were delayed and applied from the first full pay period on or after 1 November 2020.

Minimum rates of pay for Essential Energy employees covered by a Federal enterprise agreement continued to be governed by the applicable enterprise agreement.

Fair Work Amendment (Supporting Australia's Jobs and Economic Recovery) Act 2021 (Cth)

The Act introduced a number of amendments to the *Fair Work Act 2009* (Cth) in relation to casual workers.

A statutory definition of a 'casual employee' has been introduced. An employee will now be deemed casual if the employer makes no firm advance commitment to continuing and indefinite work and the employee accepts this offer and is employed on that basis.

The Act further introduces a casual conversion obligation on employers as part of the National Employment Standards to offer casual employees conversion to permanency. The obligation arises if an employee has been employed for at least 12 months, and there has been a regular pattern of hours on an ongoing basis during at least the last six months of that period and the employee could continue to work those hours as a full-time or part time employee. However, there are exceptions to the obligation to offer casual conversion, including:

- small business employers
- if an employer has 'reasonable grounds' not to make an offer to a casual employee for casual conversion.

The Federal enterprise agreements applicable to Essential Energy employees already provide for casual conversion entitlements which will operate subject to any more generous entitlements under the NES casual conversion provisions.

Finally, a requirement has been introduced for the court to offset casual loading amounts paid to an employee against any amounts later found to be owing to the employees.

Respect@Work report on sexual harassment in the workplace recommendations to be implemented

The Federal Government has indicated that it has accepted "wholly, in part or in principle" all 55 recommendations contained in Sex Discrimination Commissioner Kate Jenkins' landmark "Respect@Work" report on sexual harassment originally released in January 2021.

Proposed amendments will create stronger obligations under the *Sex Discrimination Act* to introduce a positive duty on employers to take all reasonable and proportionate measures to eliminate sex discrimination, sexual harassment and victimisation. The changes will also establish a Workplace Sexual Harassment Council to act in a leadership and advisory role.

Other proposed initiatives include:

- amending the *Fair Work Act 2009* (Cth) to define workplace sexual harassment as 'serious misconduct'
- the introduction of a 'stop sexual harassment order' equivalent to the 'stop bullying order' for the FWC
- reforms to the WHS Act to prescribe control measures for psychological risks, and provide guidelines on sexual harassment
- recommendations on best practices for non-disclosure agreements (NDAs).

To respond to the 55 recommendations, the Australian Government released 'A Roadmap for Respect: Preventing and Addressing Sexual Harassment in Australian Workplaces' (Roadmap for Respect) on 8 April 2021 which sets out its long-term commitment to preventing and addressing sexual harassment.

On 24 June 2021, the Australian Government introduced the *Sex Discrimination and Fair Work (Respect at Work) Amendment Bill 2021* (Cth) seeking to implement the Roadmap for Respect.

Material changes to New South Wales legislation

Electricity Infrastructure Investment Act 2020 (NSW)

The *Electricity Infrastructure Investment Act 2020* (NSW) commenced on 9 December 2020. The Act provides a legislative framework for coordinating the development of renewable energy zones and is designed to manage a smooth transition to a renewables-dominated grid.

The Act has several key functions including:

- giving effect to NSW's Electricity Infrastructure Roadmap, which will guide decisions on new transmission infrastructure and renewable energy generation
- establishing an Energy Security target that will be used to signal how much capacity is needed to keep the electricity system reliable over a 10 year period
- empowering the Energy Minister to declare access schemes for renewable energy zones
- empowering State Government to invest in energy efficiency measures and encourage load-shifting, as well as to vary the application of the National Electricity Law and Rules in NSW
- providing for the fast-tracking of priority transmission infrastructure projects.

Implications for Essential Energy from the Act include:

- location of renewable energy zones and impact on infrastructure
- DNSPs obligation to potentially fund (and then recover) aspects of the roadmap.

'Managing Psychosocial Hazards at Work' Code of Practice established under the Work Health and Safety Act 2011 (NSW)

Australia's first WHS Code of Practice on eliminating and minimising psychosocial risks has taken effect in NSW.

The Code provides a broad overview of psychological health risks covering all NSW workplaces and states that common physiological hazards including working environments that evoke a "physiological or stress response". An example provided is where workers are concerned about exposure to biological or chemical agents because of the lack of personal protective equipment.

The Code was informed from feedback from workplace safety experts, employers, workers and national mental health organisations.

The Code is intended to provide guidance for business owners and staff on how to avoid potential psychological hazards. The Code indicates what employers must do to protect their workers and will be used in court as evidence if workplaces fail to take their responsibilities seriously.

Material changes to Queensland legislation

There were no pertinent changes to Queensland legislation during the financial year affecting Essential Energy's operations.

National Electricity Law and National Energy Rules

Statutes Amendment (National Energy Laws) (Penalties and Enforcement) Act 2020 (SA)

The following key amendments to the National Electricity Law came into effect on 29 January 2021:

- significantly increased civil and offence penalty levels, with three tiers based on severity of contravention
- giving the AER stronger enforcement powers, including to compel the giving of oral evidence
- expanded orders the AER can seek from a court, including non-pecuniary orders.

Statutes Amendment (National Energy Laws) (Stand Alone Power Systems) Act 2021 (SA)

The South Australian Parliament has passed the *Statutes Amendment (National Energy Laws) (Stand Alone Power Systems) Act 2021 (SA)*, which allows the South Australian Minister to make rule changes to the NER and NERR to support the efficient provision of stand-alone power systems (SAPS).

These reforms follow the AEMC's 2019 and 2020 reports recommending changes to energy laws and rules to enable distributor-led stand-alone power systems when this is cheaper than maintaining a grid connection.

Submissions on the proposed SAPS changes will be considered ahead of a final rule change package going to Energy Ministers for approval in mid-2021.

Technical standards for distributed energy resources

On 25 February 2021, the AEMC made a final determination for a more preferable final rule to create an initial set of technical standards that will apply to distributed energy resources (DER) across the National Electricity Market. The rule amends the National Energy Rules to require all new or replacement micro-embedded generators connecting to distribution networks to be compliant with the DER Technical Standards. The rule comes into effect on 18 December 2021.

AER Determinations

The AER has not made any pertinent material determinations this financial year although, it has produced various guidance and other materials going to the upcoming revenue determination process and compliance of Essential Energy in the ordinary course.

Summary of significant judicial decisions between 1 July 2020 to 30 June 2021

Glover V Ozcare [2021] FWC 2989

A worker has lost a landmark mandatory vaccination case in the Fair Work Commission (FWC) where it was ruled that her dismissal was lawful and reasonable, after she refused to have a flu vaccine as directed by her employer, Ozcare in her role as a long serving care-assistant.

The employee, Ms Glover submitted that she had declined the vaccination because she had a 'genuine belief' that it may cause an anaphylactic reaction based on an alleged childhood experience.

In making its decision, the FWC gave particular regard to the fact that her role involved taking care of vulnerable clients in their home and to the submission by Ozcare that flu shots were now an inherent requirement of the employee's role.

Commissioner Hunt found that Ozcare's decision to mandate influenza vaccinations for all of its client-facing employees, without allowing any exemption was lawful and reasonable, and Ms Glover's dismissal was valid having regard to her capacity and the employer's operational requirements.

Tyndall V Kestrel Coal Pty Ltd (NO 3) [2021] QSC 119

The Supreme Court has ordered that Kestrel Coal Pty Ltd (Kestrel) was to pay \$1.5m in damages to a worker with white finger syndrome after allowing him to operate machinery with dangerous vibration level for far more hours per shift than advised by engineers and safety guidelines.

Kestrel was deemed to have breached its duty of care to the work by failing to warn him of the possibility of injury and implement a system of work that did not expose him to unsafe forces.

The worker was granted \$1,483,301 in damages, including \$875,000 in future economic loss.

The company had commissioned engineers to prepare a report assessing vibration risks posed by loaders.

The Court ruled that the company had negligently disregarded the recommendations from this report and its own safe work guidelines.

Justice Graeme Crow found that Kestrel should have conducted further testing as advised in the engineers' report, especially as they had identified the risk of workers developing hand-arm vibration syndrome.

Magistrates Court orders companies and individuals to cease contracting electrical work whilst unlicensed.

The Queensland Electrical Safety Office (ESO) warned that companies and individuals caught performing unlicensed electrical work would "always" face on-the-spot fines or prosecution.

The warning comes after Service2Go Pty Ltd was ordered by a Queensland magistrate to comply with ESO improvement notices requiring it to cease contracting for electrical work until and unless it obtained an electrical contractor licence.

The investigation uncovered that on numerous occasions the company, through its director, had contracted for and performed electrical work despite that it did not have the required licence. The company continued to contract for unlicensed electrical work despite that it had received multiple warnings and enforcement notices.

Victoria Power Networks Pty Ltd

V Commissioner of Taxation [2020] FCAFC 169

This decision concerned the tax treatment of 'gifted assets' and cash contributions made to electricity distributors in relation to 'uneconomic' connections. Uneconomic connections were described as those where it is not profitable for the distributor to provide distribution services to customers at regulated prices due to high connection costs. For uneconomic connections, the regulatory regime in Victoria was summarised as permitting the distributor to charge a customer for connection two different ways:

- Option 1: The distributor carries out the construction works and the customer is charged a cash contribution equal to the excess of the incremental costs over the connection's incremental revenue (the **shortfall**); or
- Option 2: The customer carries out the construction work with the constructed asset being transferred to the distributor. The distributor pays the customer a rebate equal to the estimated costs of construction, less the shortfall (the **rebate**).

In relation to Option 1, the Full Federal Court held that the cash contributions were received in the ordinary course of business, and therefore were assessable as ordinary income under s 6-5 of the *Income Tax Assessment Act 1997* (Cth).

In relation to Option 2, there was no dispute that s 21A of the Act applied, and therefore the value of non-cash business benefit received in the form of the gifted asset must be determined at 'arm's length' for the purpose of calculating the distributor's assessable income.

The Full Federal Court found that the concept of arm's length value must be objectively tested and requires consideration of the position of the actual recipient (i.e. the distributor) and not some notional independent party. In determining what the distributor could reasonably be expected to pay for the asset, the Court held that it would be the amount of the rebate given to the customer, as the customer and distributor deal with each other at arm's length. Therefore, as the value of the gifted asset was equal to the rebate paid, no amount of assessable income arose to the distributor.

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Glossary

AER	Australian Energy Regulator
ASP	Accredited Service Provider
Capex	Capital expenditure
DER	Distributed Energy Resources
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
IPART	Independent Pricing and Regulatory Tribunal
MLTIFR	Major Lost Time Injury Frequency Rate – frequency of major or severe 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 a reasonable likelihood of resulting in a major or severe injury to any person per million hours worked
Opex	Operating expenditure
SAIDI	System Average Incident Duration Index – average total minutes a customer is without power in a 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
TRIFR	Total Recordable Injury Frequency Rate – calculated as the number of recordable injuries per million hours worked

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