Annual Report 2021-22

An energy company for the future

About this report

About this report

Essential Energy's Annual Report details financial, operational, and safety performance for the 2021-22 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 50.

Cost for report production

The external cost to produce this report was $23,930 excluding GST.

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31 October 2022

The Hon. Matt Kean MP
Treasurer
Member for Epping
GPO Box 5341
SYDNEY NSW 2001

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

Dear Ministers

SUBMISSION OF ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

We are pleased to submit Essential Energy's Annual Report outlining financial, operational and safety performance for the year ended 30 June 2022.

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 Infrastructure, the Minister for Lands and Water, 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

The multi-year Transformation Program continues to focus on delivering improved operational performance and real reductions in network charges.

The past year has brought considerable opportunities for Essential Energy, as well as many challenges. Throughout, employees have continued to demonstrate strong commitment to ensuring a safe and reliable power supply for the company's more than 880,000 customers.

The ongoing COVID-19 pandemic led to widespread restrictions and record numbers of cases. Essential Energy's thorough planning throughout the pandemic, including the development of comprehensive protocols to mitigate the impact of the virus on operations, while ensuring the health and safety of employees and communities, served all stakeholders well.

The flood events across the North Coast of New South Wales (NSW) and southern Queensland in February and March 2022 sadly broke the record books. The February event brought unprecedented amounts of rain, causing major flooding and widespread devastation, leading to much of northern NSW and southern Queensland being declared a natural disaster zone. Essential Energy's Lismore and Murwillumbah depots were flooded, with the Lismore depot almost entirely submerged. The flooding damaged or destroyed thousands of houses and businesses, and more than 69,000 customers lost power supply. Electrical infrastructure across many towns in the Northern Rivers was inundated, including Essential Energy's Lismore South zone substation and throughout the Lismore Central Business District. Network services were fully restored after seven weeks of a safe, steady and sustainable response by Essential Energy crews. However, it will take more than a year to complete permanent repairs to the zone substation sites and distribution infrastructure.

Essential Energy supported a number of local employees who themselves lost homes or experienced significant damage to family properties. The eagerness of employees to assist with the response notwithstanding personal challenges was testament to their strength and resilience, and that of their communities.

Essential Energy's Sustainability Strategy, released in 2022, strengthens our commitment to ensuring operations are environmentally, economically and socially sustainable – in line with customers' expectations and the need for a reliable and resilient energy network as the nation and the industry transition to net zero. The strategy focuses on three strategic pillars, covering the breadth of Essential Energy's value chain, and will be delivered through eight commitments – enabling the business to maximise positive impact for sustainability, while continuing to deliver on core business objectives. The Board is proud of the progress made to date for sustainability and looks forward to ongoing achievements within this vital area.

The multi-year Transformation Program continues to focus on delivering improved operational performance and real reductions in network charges. Achievements this year included finalising the implementation of a new Enterprise Resource Planning system, rolling out a digital Hazard Identification Risk Assessment Control (HIRAC) tool, selecting and commencing development of the new Enterprise Asset Management system, as well as real progress on cyber and physical security to protect critical infrastructure.

Progress continued on the deliverables outlined within the Inclusion and Diversity Strategy, cementing the ongoing commitment to building an inclusive and diverse workforce reflective of the communities that Essential Energy serves, and where all people can bring their whole selves to work. This included the ongoing implementation of the Reconciliation Action Plan and release of an Aboriginal and Torres Strait Islander Recruitment and Retention Strategy, Cultural Learning Strategy, and a Cultural Protocols Policy.

Essential Energy continued to support local communities through the Essential Communities Sponsorship Program. 290 community groups and charity organisations received support, alongside the ongoing commitment to charity partners through the Employee Giving Program. It was pleasing to also see community support extending to providing a group of regional students with the opportunity to attend the Stand Tall Camp in January 2022. For the students, who face challenging circumstances, the camp provided a safe environment to relax and develop new friendships, while also connecting with and learning from positive mentors and role models.

Safety is a core value, with the goal to continuously improve safety practices and performance at Essential Energy. During 2021-22, the inhouse-built digital HIRAC was deployed to all field operations teams. The app, which moved 12 paper-based HIRAC books to a digital approach, is empowering better onsite safety-based conversations. With more than 116,000 digital HIRACs completed since deployment (to 30 June 2022), data insights are contributing to a proactive approach to safety learning. Accompanied by a safety mindset model, the HIRAC supports individuals and teams to stop, think, assess, and re-assess onsite safety.

Despite the challenges of 2021-22, Essential Energy's financial performance improved on the previous year, resulting in a net profit after tax of $31.2 million. This result was achieved during a period where significant investment is being made to ensure the network will meet the needs of customers in the rapidly changing energy industry, along with additional costs from the North Coast floods and COVID-19 pandemic.

Essential Energy carries land, buildings, and network assets at fair value in its financial statements. The 2021-22 annual valuation resulted in an increase in the carrying value of these assets by a total of $1,050M. This increase is primarily a result of the regulatory framework for electricity distributors, whereby assets are indexed for inflation, which was high during 2021-22 and this is expected to continue in 2022-23.

I sincerely thank all employees for their hard work and dedication throughout 2021-22, as well as Essential Energy's shareholders and stakeholders for their ongoing support. I am confident that through the efforts of employees, working with stakeholders and shareholders, Essential Energy will continue to be an energy company that meets the needs of customers now and into the future.

Doug Halley
Chair

From the CEO

Our refreshed Corporate Strategy, released in November 2021, positions our distribution network at the centre of the energy ecosystem, and focuses on driving value for the households and businesses we serve.

As our business continues to adapt to the rapidly changing energy industry, our people remain key to becoming an energy company for the future, as well as continuing to provide safe and reliable power for the 1,500 communities we serve. I am proud of our employees' dedication, professionalism, resilience and willingness to serve our customers – unwavering through the ongoing COVID-19 pandemic, as well as during the devastating North Coast floods in February and March 2022.

Our refreshed Corporate Strategy, released in November 2021, positions our distribution network at the centre of the energy ecosystem, and focuses on driving value for the households and businesses we serve. By prioritising activities that generate increased use of our network – encouraging more load onto our network and facilitating new generation connections – we are well positioned to capture opportunities that create value for customers and communities.

The past year has seen agreement at all levels of our nation on the transition to net zero. In this context, the NSW Government's Net Zero Plan and Electricity Infrastructure Roadmap are bringing new opportunities to customers and businesses across our network area. The release of our first Sustainability Strategy, in 2022, was a significant step for us as a business. Our work to progress Stand-Alone Power Systems (SAPS), microgrids, storage, network visibility and to optimise network performance is contributing to our ongoing effort to become an energy company for the future. It is exciting to look forward to the ways in which we will support increasingly electrified and digitised communities, including the growing demand for electric vehicles and digital infrastructure.

In the midst of this change, we continue to listen to and engage with our customers – growing our understanding of their needs and desires for their energy futures. Customer engagement for our 2024-29 regulatory submission highlighted that customers want a safe, reliable and affordable network – one that is both resilient and sufficiently flexible to accommodate new and emerging technologies. To date, our consultation process has included almost 350 hours of face-to-face engagement with multiple customers and stakeholders, to help shape our draft regulatory proposal. The rich conversations and feedback throughout this process have resulted in a draft proposal that addresses our customers' expectations on how Essential Energy should operate as a modern network.

Sadly, the past year saw devastating floods across the North Coast of NSW and southern Queensland. In our network area, a total of 69,603 customers lost power, from Bundjalung Country (Tweed Heads) in the north to Gumbaynggir Country (Coffs Harbour) in the south. Our safe, steady and sustainable response involved 210 local employees and 215 travelling employees from 30 locations across NSW, along with support from all parts of the business.

The South Lismore zone substation suffered significant damage due to complete inundation. Temporary repairs were made, however, it will take more than 12 months to completely repair the substation with permanent works to ensure a robust and long-term power supply. The Lismore Central Business District was a focus area for our response, with the entire underground network underwater for days. More than 50 padmount and chamber stations, switching units and cabinets were tested, repaired, or replaced; along with 98 under-awning mains boxes and cubicles. Our focus remained on customers' needs, with on-the-ground teams visiting impacted areas and working with customers – as part of our Customer Support Program, which will provide long-term support for communities as they recover.

Despite the devastation and heartache experienced by many, community and local volunteer organisations provided valuable support for Essential Energy's remediation efforts – including providing facilities for storage and repairs of electrical equipment, as well as accommodation and food provisions for our teams on the ground.

Safety is a core value, with all employees empowered to 'make safety their own'. Safety performance continued to improve during 2021-22, with no Major Lost Time Injuries (LTIs), a 40 per cent reduction in High Potential Incidents (HPIs), a 29 per cent reduction in Total Recordable Injuries (TRIs), and a 23 per cent reduction in Network Fatal Risk (NFR) 4 (Motor vehicle accident) near misses.

Everyone in Essential Energy is also committed to keeping the public safe around our network. Over the past year, additional effort was applied to our program for public safety education and awareness – due to the understanding that COVID-19, combined with bumper grain harvests, could lead to a potentially fatal combination of inexperienced and tired rural and regional workers. We remain steadfast in our efforts to educate and encourage the entire community to treat the electricity network as a potentially fatal risk, and to plan and take precautions around it – particularly those who work more frequently near our powerlines.

We continue to build a workforce that reflects the communities we serve and is capable of responding to the future needs of the industry and our customers. In January 2022, 44 new apprentices joined our business, along with seven new trainees and four new Engineering and Information, Communication, Technology graduates. As of 30 June 2022, the total number of apprentices in our business was 130, along with seven trainees and eight graduates. In June 2022 we celebrated the graduation of 58 apprentices from the 2017 and 2018 intakes – a significant achievement from our work to expand the program, which commenced in 2017. Since 2001, more than 1,300 apprentices have joined the business as apprentices. It is also encouraging to see the program contributing to a more diverse organisation.

Our Aboriginal and Torres Strait Islander Career Pathways Program continues to provide career opportunities for Aboriginal and Torres Strait Islander people, and is one of which we at Essential Energy are very proud. Trainees from the first Pre-Employment Traineeship cohort in 2017 were amongst the graduating apprentices in June 2022. Providing career opportunities is a key pillar in Essential Energy's Reconciliation Action Plan (RAP). Alongside our Inclusion and Diversity Strategy, the RAP is helping to ensure our organisation better represents the communities we serve and provides opportunities for people to succeed and enjoy a respected and valued career within regional and rural NSW, no matter their background.

The energy industry, and society as a whole, will continue to experience enormous change over the coming years. With clear strategies in place, which are ambitious and yet achievable, as well as very committed and capable employees, I am confident that Essential Energy is well placed to continue on its journey to become an energy company for the future.

I sincerely thank and commend all employees, as well as our customers, communities and stakeholders for all their contributions over the past year, as we work together to create a sustainable future.

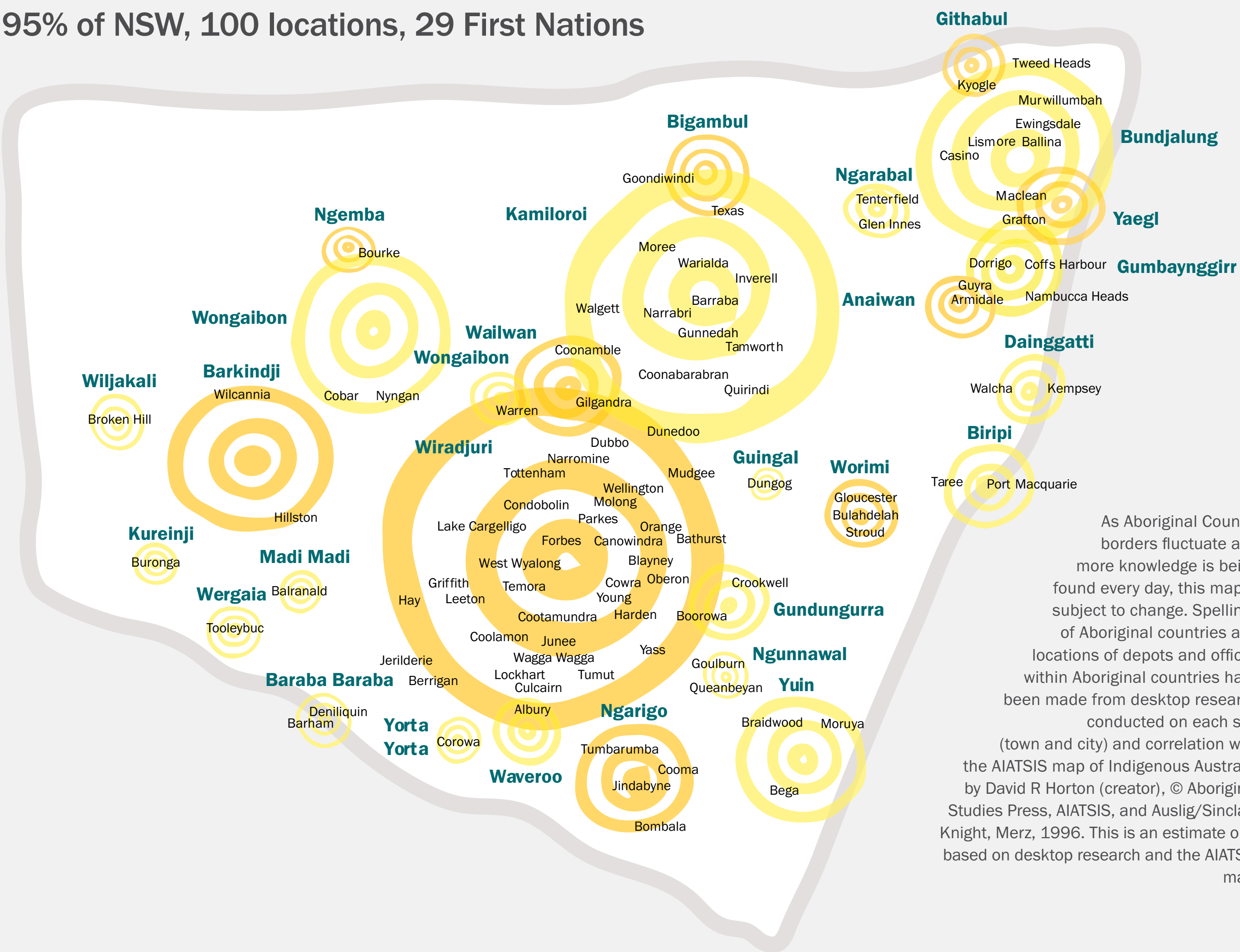
John Cleland
Chief Executive Officer

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 Bunjalung 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.

Page banner artwork: created by the employee-led Aboriginal and Torres Strait Islander Working Group, with representatives from across the business – "a vibrant, positive, hopeful and inspiring painting, reflecting our commitment and connection to country, culture, community and each other".

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.

Reconciliation progress

Our Reconciliation Action Plan (RAP) demonstrates 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 people. 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 yet sustainable program of activities, which seek to empower social, economic and cultural wellbeing, with many opportunities for employees to get involved.

Highlights from our progress toward reconciliation throughout 2021-22 include:

Career opportunities

In September 2021, we released an Aboriginal and Torres Strait Islander Recruitment and Retention Strategy, to continue to grow our organisation as an attractive career choice for Aboriginal and Torres Strait Islander people – to attract new candidates and retain existing employees in both technical and non-technical roles, while providing support for growth, development and success. One measure of the success of the strategy will be growth in Aboriginal and Torres Strait Islander people's participation in our workforce (to six per cent) and in leadership roles (to five per cent).

An early outcome from the strategy was the completion of an Employee Voice Report, which was compiled by listening to the experiences of Aboriginal and Torres Strait Islander employees – from attraction through the recruitment process, to access to professional development and whether they feel supported in their roles. External Aboriginal and Torres Strait Islander workforce strategy and culture experts compiled the report by conducting confidential interviews with Aboriginal and Torres Strait Islander employees. Outcomes from the report will inform our ongoing efforts to improve career opportunities for Aboriginal and Torres Strait Islander people.

Sixteen Aboriginal and Torres Strait Islander people joined our business as apprentices or trainees in January 2022, bringing the total number of Aboriginal and Torres Strait Islander apprentices and trainees to 30 and the total number of Aboriginal and Torres Strait Islander people in our business to 145 (at 30 June 2022). The 16 new apprentices and trainees have access to culturally appropriate mentoring, via the Barranggirra Mentoring Program, to ensure successful retention and completion of training and improved post-training employment outcomes.

Three employees from the first Aboriginal and Torres Strait Islander Pre-Employment Traineeship intake in 2017, and another two from the 2018 intake, successfully graduated from their apprenticeships in June 2022. Since 2017, 30 Aboriginal and Torres Strait Islander people have joined as pre-employment trainees, with 25 going on to join our Apprenticeship Program. Currently, two people are undertaking their pre-employment traineeship and 15 people are continuing their apprenticeship studies.

During the year we received an exemption from the NSW Anti-Discrimination Board to advertise, designate and recruit up to 10 positions per year for Aboriginal and Torres Strait Islanders only. This means we can now promote career opportunities directly to Aboriginal and Torres Strait Islanders people.

Two undergraduate university students joined our Aboriginal and Torres Strait Islander Scholarships Program in May 2022. Scholarships provide financial support and work experience opportunities. We currently support four students, from two regional universities, who are studying engineering, law and communications.

Business opportunities

During 2021-22 we procured $709,000 of services directly from Aboriginal and Torres Strait Islander businesses – for traffic management, building and property infrastructure, Aboriginal and Torres Strait Islander recruitment expertise and cultural learning.

As part of National Reconciliation Week 2022 activities, we featured a video interview with a representative from one of these Aboriginal and Torres Strait Islander businesses, speaking about the benefits and opportunities associated with procuring through Aboriginal and Torres Strait Islander businesses. Promoted amongst employees, customers and stakeholders, the video encouraged increased procurement of Aboriginal and Torres Strait Islander businesses.

Cultural awareness

Our Cultural Learning Strategy, released in December 2021, aims to increase understanding, value and recognition of Aboriginal and Torres Strait Islander cultures, histories, knowledge and rights through cultural learning. Initiatives to grow cultural awareness amongst employees include promoting cultural learning opportunities to all employees and highlighting the RAP and Aboriginal and Torres Strait Islander Protocols Policy with all new employees.

The Aboriginal and Torres Strait Islander Protocols Policy was developed by the internal Aboriginal and Torres Strait Islander Working Group during 2021-22. It provides a range of guidance, including how a Welcome to Country differs from an Acknowledgement of Country, how to respect Aboriginal and Torres Strait Islander peoples when speaking and writing, and how to have respectful conversations about culture.

During Reconciliation Week 2022, online learning was made available to all employees. The learning experience used short films and animations to share real stories to provide insights and experiences about inclusion, culture, the impacts of colonisation, and moving forward on reconciliation.

Acknowledgement of Country continued to become 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. Acknowledgement of Country was also added to our website, including a brief Acknowledgement on every page, to recognise the 29 First Nations upon whose land we live and work, and all Aboriginal and Torres Strait Islander peoples across Australia.

About us

Our Values

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

Our 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 880,000 customers – homes, hospitals, schools, businesses and community services – Essential Energy is an economic enabler for regional, rural and remote NSW 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, alongside implementing a whole-of-business Transformation Program, to ensure we keep meeting the needs of customers and communities as we become an energy company for 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 9,600 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.

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

>880,000
electricity customers

10,500
water customers

9,600
sewerage customers

95%
of NSW and parts of southern Queensland

4.8
customers per km of powerline – the lowest customer density in the National Electricity Market

183,099km
of overhead powerlines

1.4M
power poles

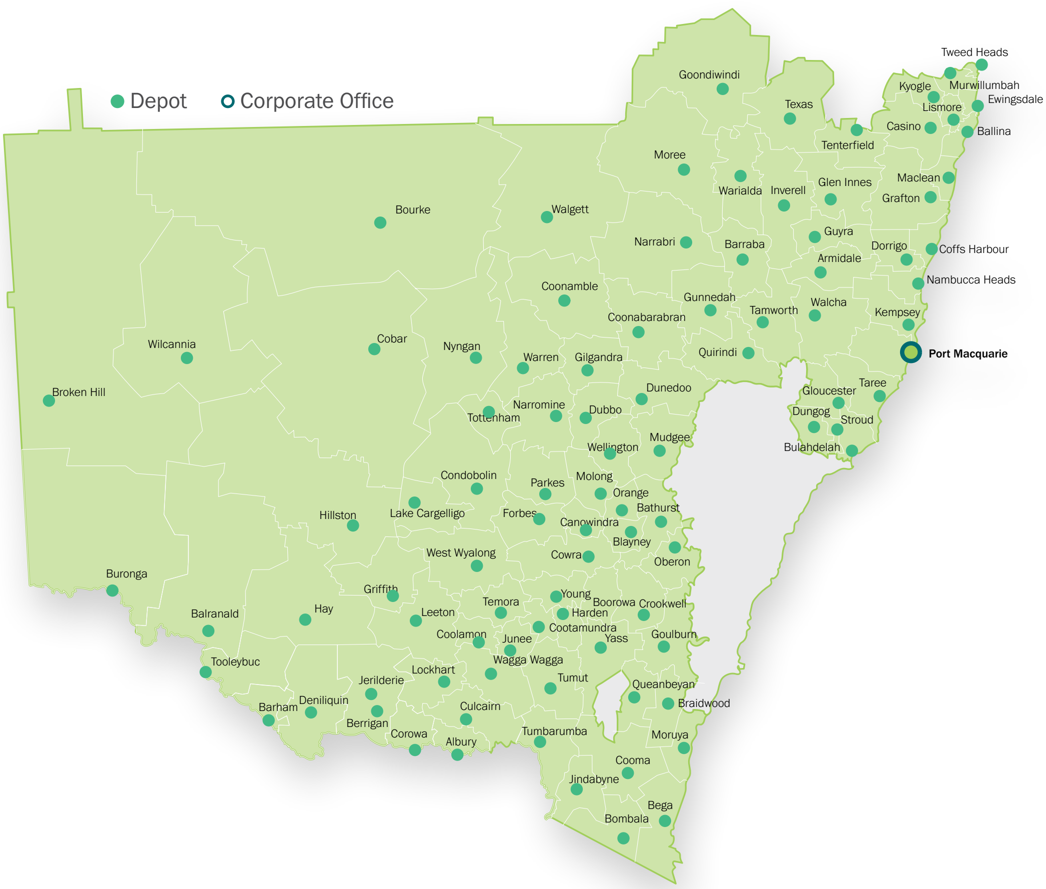
36.8 years
average age of network assets

163,417km
of powerlines in designated bushfire zones

364
zone substations and 139,303 distribution substations

3,100
employees

130
apprentices – with 44 appointed in 2021-22



Corporate Strategy

While Essential Energy's vision, purpose and objectives are clear, how we optimally achieve these continues to evolve. What best meets our customers' future needs today was not possible yesterday. This means we must ensure our Corporate Strategy remains fit for purpose.

In 2021, the Board and Executive Leadership Team conducted an extensive review of the external landscape, technological possibilities, economic trends, and enabling NSW policy. This review illustrated how an electricity distribution network can best fit into the future, recognising the pace of change of the electricity sector is accelerating, presenting significant opportunities and challenges for Essential Energy. This culminated in a refresh of our Corporate Strategy.

The new strategy reaffirms our desire to empower communities to share and use energy for a better tomorrow by enabling the energy platform to support the future needs of our customers in regional, rural and remote communities. It sets a clear direction for driving asset utilisation, keeping network charges affordable, facilitating grid connections, and reducing barriers to adopting electric vehicles (EVs). The strategy also aims to add greater value to regional, rural and remote communities, by expanding into underserviced, unregulated activities.

The new strategy positions Essential Energy to deliver on our commitments to the economic prosperity and development of regional NSW through four pillars:

1. Strengthen the core and enable the network
Continue to modernise the core business, building greater efficiency and resilience for customers through stand-alone power systems (SAPS) and other non-network solutions, while developing functionality to dynamically manage generation and consumption of electricity to meet customer needs in a rapidly changing energy transition.

2. Drive connections and load
Proactively support industries to benefit from electrification and streamline the process to connect to the grid, so that customers can seamlessly integrate to the network regardless of size or location across our network area.

3. Facilitate electric vehicle adoption
Lead communities in the adoption of EVs by facilitating the deployment of the necessary infrastructure and services across regional and rural NSW.

4. Enable smart communities and new customer solutions
Enhance our service offering to rural and regional communities by leveraging our infrastructure and expertise to facilitate and deploy smart technologies and associated infrastructure.

2024-29 Regulatory Proposal progress

We continue to engage with customers and stakeholders as we progress the 2024-29 Regulatory Proposal. The proposal is due to the Australian Energy Regulator (AER) by January 2023. It must clearly outline our business plans for 2024-29, the service levels and outcomes we intend to deliver, and the funding we will need to do so. The AER will assess our proposal, reflect on any subsequent refinements we make, and publish a final determination in April 2024.

As reflected in our Corporate Strategy there are challenges and opportunities for our network in the future, and this aligns with what we heard during customer engagement for the proposal, which began in 2020. To date, our consultation process has included almost 350 hours of face-to-face engagement, equating to more than 6,500 hours of customers' and stakeholders' time, to help shape our draft regulatory proposal. Customers have told us their top priorities are safety, network reliability, service affordability and customer service. They also want us to be future-focussed and to innovate in ways that encourage, rather than limit, the growth of renewable energy generation and storage. New concepts and concerns raised during customer engagement, and which we have taken on board, include adding the concept of 'resilience' to reliability to help our network and communities better survive extreme weather and related events, such as floods and fires. To that end, customers expressed support for more investment in composite poles, undergrounding of network infrastructure, microgrids, SAPS; and generators, portable SAPS, and portable solar streetlights. Additionally, support was expressed for new staff to work with councils, communities and critical infrastructure asset providers, to help these stakeholders to develop resilience plans.

Another new idea raised was to consider the idea of 'collective benefit' and to ensure there is a level of fairness in how network costs and benefits are shared between customers. As a result, we are investigating transitioning to more cost-reflective pricing, including two-way prices. Customers also felt we needed to add climate change as a specific risk to consider, which we have done.

In September 2022, we released the draft proposal, to obtain further feedback, which will inform our final proposal, for submission to the AER in January 2023. Through extensive customer engagement we are working to ensure our submission reflects our customers' priorities and vision for the future, as well as meeting the regulatory and business requirements of the Regulatory Proposal.

Factors influencing our strategy review:

Policy and Environment

- COVID-19 recovery
- NSW Energy Infrastructure Roadmap
- Customer empowerment for exporting energy into the grid
- Need for network resiliency
- Disadvantaged rural customers

Customers and stakeholders

- Greater customer focus
- Sustainability imperative
- Customer values driving change
- Increasing penetration of solar PV and batteries

Competitors

- Increase in generation write-downs and early retirement
- Generator/Retailer diversification
- New products and entrance

Technology

- Increasing number of electric vehicles
- Commercial/Industrial customer load defection
- Digitisation transforming industry
- Affordable storage technologies

Sustainability

Sustainability Strategy

As we become an energy company for the future, we are committed to making our operations environmentally, economically and socially sustainable – in line with society's increasing expectations, to support the industry and customers in the transition to net zero, and in the context of increasingly severe climate events (droughts, bushfires, floods and storms).

In 2021-22, we developed our first Sustainability Strategy, to guide us in generating positive value for all stakeholders and in addressing our most pressing sustainability issues. Continuing to provide customers with accessible, reliable and resilient energy is central to the strategy. This outcome is underpinned by three strategic pillars, covering the breadth of our value chain and delivered through eight commitments – the areas in which we can make the biggest impact, while continuing to deliver on our core business objectives.

The strategy builds on our strong foundation of existing sustainability-related activities, and leverages key sustainability themes in the Corporate Strategy: increasing network resilience and reliability, renewable energy uptake and facilitating electric vehicle (EV) adoption. It expands upon these themes, through commitments and initiatives that respond to a broader scope of social, environmental and economic risks and opportunities.

Strategy development and materiality assessment

Our first step in developing a coordinated strategy was to complete a strategic review of current initiatives, along with a market scan, peer analysis and independent materiality assessment – to identify and prioritise our sustainability issues. This prioritisation was key to the strategy as we have many current initiatives spread across our operations that contribute to environmental, economic and social sustainability.

Material sustainability topics were quantitatively and qualitatively analysed through the materiality assessment process, using the Global Reporting Initiative (GRI) guidelines. This involved an analysis of internal and external information to define and prioritise material sustainability topics. Contributors to the review included executives, senior leaders, employees, regulators and our Customer Advisory Group.

Seventeen topics were identified as material to Essential Energy, and these were prioritised according to:

- importance of the topics to Essential Energy's stakeholders
- impact of the topics on Essential Energy's business performance.

From this assessment, the topics were grouped according to priority:

01

Priority topics – access and reliability; climate risk and resilience; affordability; employee value proposition; community investment and engagement; energy and emissions; legal and regulatory compliance

02

Ongoing importance – health, safety and wellbeing; data privacy and cyber security; innovation, technology and collaboration; corporate governance and business ethics; biodiversity and land use

03

Monitor and manage – inclusion and diversity; sustainable and responsible procurement; modern slavery and human rights; water management; waste management.

A key outcome was the identification of our three sustainability pillars.

Over the coming year we will continue to implement the strategy by embedding sustainability into our business decisions and driving improvement initiatives. As we help facilitate the transition to a low carbon economy, we will take up new opportunities to create positive impact for our customers, communities and stakeholders.

Sustainability governance

The Essential Energy Board has ultimate accountability and oversight of the Sustainability Strategy. The Executive has accountability for specific commitments within the strategy, supported by a Sustainability Steering Committee and Sustainability Working Group. The sustainability function is working with business areas to champion sustainability-related issues and opportunities, drive performance, and transparent reporting – to deliver the ambitions identified in the strategy.

Three sustainability pillars and eight commitments

Responding to climate change

- **Building climate resilience and partnering to minimise disruptions during crisis** – by future-proofing assets, providing our customers with alternate energy solutions and responding to climate events
- **Facilitating the net zero transition** – by supporting electrification, including electric vehicle penetration and scaling and optimising network connections
- **Decarbonising our operations** – by electrifying our fleet, leveraging renewables and actively managing line losses in the way we build, operate and maintain the network

Empowering our people

- **Ensuring the safety and wellbeing of employees** – through our health and wellbeing program and leading health and safety standards
- **Championing an inclusive, supportive and growth-oriented culture** – by promoting our values and building a diverse and accountable workplace

Resilient
Accessible
Reliant

Enabling regional development and resilient communities

- **Assisting regional business and communities** – through partnerships, advocacy, engagement and tech-enabled solutions, to provide reliable and efficient connections
- **Ensuring sustainable and resilient supply chains** – by responding to social and environmental vulnerabilities in our supply chains and integrating sustainability into our procurement decisions
- **Protecting cultural heritage** – through engagement with Aboriginal and Torres Strait Islander groups, guardians and landowners and managing risks in culturally significant areas

Responding to climate change

Our physical assets and infrastructure, as well as the communities we serve, are exposed to the impacts of climate change. Given this, our responsibilities include ensuring our network remains resilient and assisting communities in regional NSW to remain resilient, particularly those most vulnerable to climate change. We also have opportunities to contribute to limiting climate change, by helping to decarbonise our operations and the energy and transport industries.

Across 2021-22, we progressed our understanding and management of climate change related impacts and opportunities. We commenced modelling and scenario analysis of climate change impacts on our network and communities, identified key risks, and continue to adjust our operations to improve our resilience. For the first time, we are reporting to the Task Force on Climate-related Disclosures (TCFD). We continued to collaborate with partners to develop and trial new technologies and processes to support the net zero transition.

Facilitating the net zero transition

Supporting the increasing demand for renewable energy sources to connect to our network is key to our efforts to facilitate the net zero transition. Growth in connections has been dramatic over the past decade, and this continued in 2021-22. In total, renewables delivered almost 28 per cent of total network load – continuing the year-on-year growth over the past decade (see figure 1).

For the first time, installed capacity from renewables exceeded maximum network demand – with renewables able to deliver more than 100 per cent of peak demand if conditions are favourable. However, peak demand typically occurs after the sun goes down, which means solar generation does not match the energy demand peak during any 24-hour period. The opportunity for network operators like Essential Energy is to maximise the capacity for the network to import renewable energy from large and small-scale distributed resources. During 2021-22 we continued to invest in developing a range of approaches to take up this opportunity, including smarter network management and providing customers with alternate renewable energy solutions.

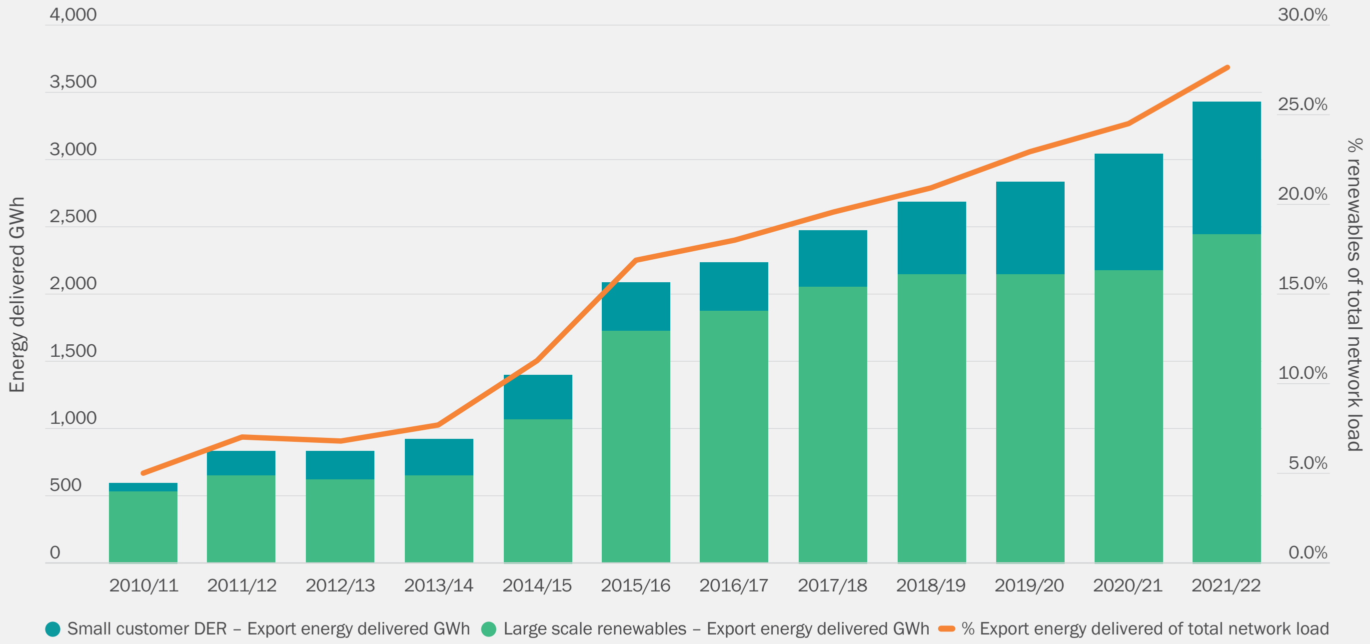


Figure 1. Growth in export energy delivered to the Essential Energy network from large and small-scale renewables.

Smarter network management to optimise benefits from renewables

To continue enabling customers' increasing uptake of renewables, while avoiding significant network infrastructure investment, or restrictive limits on customers' ability to export to the network, new approaches are needed. Without coordination, distributed (renewable) energy resources (DER), including rooftop solar and commercial solar farms, can result in two-way energy flows that may threaten the operational limits of distribution networks.

One new approach is the use of dynamic operating envelopes (DOEs) to coordinate DER. Sensors and network models are used to calculate and allocate available network capacity in real time – maximising customers' ability to export to the network while ensuring network stability. Currently, static export limits are used – maintaining network integrity in all conditions, but also excessively limiting customer exports. DOEs enable dynamic export limits that respond in real-time to generation capacity and network demand. This radically improves the ability for networks to support greater customer uptake of renewables.

The evolve DER project led the world in developing DOEs and demonstrating benefits through real-world trials. The three-year project concluded in April 2022. It was an industry-wide collaboration, with Essential Energy working with all other NSW and Qld DNSPs, the NSW Government, university researchers and energy industry technology companies.

An Essential Energy trial used a feeder that connects approximately 120 customers. Without DOEs, total energy exported from customers through the feeder to the network was 340 MWh for a year. With 80 per cent of customers using DOEs, total energy exported increased to more than 600 MWh for a year – a 76 per cent increase.

Outcomes are being used by Essential Energy and other Australian and international network operators to inform next steps for DOE adoption. Implementation of project outcomes will be a key element within Essential Energy's 2024-29 regulatory proposal. For example, technology investment is required to transition network-wide data modelling capabilities, needed to industrialise DOEs, into a business-as-usual activity.

Alongside the evolve DER project, we continued to progress our network visibility project during 2021-22. Lack of visibility into how our customers consume, generate and export energy in a low voltage environment is a significant impediment to building a smart network. Improved network visibility, through data on voltage and other crucial network performance measures, is critical as we evolve into sharing energy across a dynamic, smart network – including increased uptake of DER and electrification of transport and industry. Partnering with Future Grid, we are using cyber-integrated utility software to navigate our network and visualise installed smart meters and meter data at the transformer and feeder level. A pilot implementation – with more than one hundred users from our network planning, compliance and operations teams – developed and realised valuable use cases to support improved business decisions in the context of supporting the increasing uptake of renewables across the network.

Supporting electric vehicle uptake

Facilitating EV adoption is a key priority within our corporate and sustainability strategies. During 2021-22 we supported the NSW Government's Electric Vehicle Strategy by: providing our network information to customers through the NSW Electric Vehicle Fast Charging Infrastructure Master Plan map; and hosting an EV Charging Infrastructure working group to support and co-ordinate private charging infrastructure deployment.

We also continued to participate in the national Electric Vehicle Council; held workshops with EV charging providers to improve charging infrastructure connections; worked with regional councils on a regional charging infrastructure situation report; managed network constraints to accommodate EV charging demands, as part of our connections process; and continued to investigate EV tariff opportunities.

Large-scale renewable connections (as at 30 June 2022):

42
total connections (4 new connections in 2021-22)

1.2
GW total capacity (18.2 per cent increase since 2020-21)

2,449
GWh delivered (12.8 per cent increase since 2020-21)

19.7%
energy delivered of total network load (2.2 per cent higher than 2020-21)

Growth in small-scale renewable connections (as at 30 June 2022):

23,564
total connections (8.2 per cent increase since 2020-21)

26.5%
of total customers (1.8 per cent higher than 2020-21)

1.375
GW total capacity (17.3 per cent increase since 2020-21)

991
GWh delivered (14.2 per cent increase since 2020-21)

8%
energy delivered of total network load (1 per cent higher than 2020-21)

Building climate resilience

Providing customers with alternate renewable energy solutions

Stand-alone power systems (SAPS) provide an alternative means of delivering safe, reliable and renewable power to remote and fringe-of-grid customers. To realise the full value of this alternative approach, we have been working to trial and better understand a diverse fleet of SAPS solutions, to provide customers with the most suitable means of supporting their energy needs.

In June 2022, we were the first in Australia to deploy a fully-renewable Hydrogen SAPS, which uses a combination of solar panels and liquified Hydrogen to provide reliable power. The demonstrator trial will run for 18 months, allowing us to collect and assess real-world data on Hydrogen SAPS performance, to understand the role of the technology within our SAPS program.

In another first for Australia, during 2021-22 we undertook evidence-based social and behavioural research for SAPS, to underpin our SAPS customer engagement strategy and test preconceived views on barriers to SAPS adoption. The study gathered insights from 300 potential SAPS customers from our network area, providing a clear understanding of perceived barriers, concerns and doubts. It will help to identify clear value propositions and attractive incentive structures and inform our conversations with industry stakeholders to facilitate greater SAPS adoption.

At a larger scale, microgrids, which are community-scale energy systems, can provide more local resilience, supporting customers during the event of outages or network reliability events. Microgrids link individual solar systems, large-scale solar farms and community storage. As the energy market and technologies evolve, the viability of microgrids continues to improve. During 2021-22 we continued supporting external parties in their own microgrid studies.

The Southcoast Microgrid Reliability Feasibility Program (SμRF) is researching the impact of microgrids on community attitudes, power reliability and network resilience, with Australian Government funding support. Essential Energy is member of the SμRF consortium, along with the Southcoast Health and Sustainability Alliance community group, the Australian National University, and technology partner Zepben. The project will conduct a community-led design of future energy systems, to quantify the value of reliability. It will also model the operation of eight microgrids across the region, undertake a holistic assessment of implementation costs, explore business models and regulatory innovations – improving feasibility of implementation. We are providing network knowledge to the program, and by participating will be able to develop data driven solutions to improve network reliability and resilience.

We also continued to work with NSW Farmers and the Queensland Farmers Federation on microgrid feasibility studies during 2021-22.

Network-scale batteries is another technology being developed to assist with decarbonising local energy systems. They provide an alternative for managing evolving network conditions, as the market increasingly moves to connected renewables, rather than investing in potentially higher-cost new network infrastructure. During 2021-22, we commenced developing our first network battery solution, with deployment scheduled for 2022-23. In conjunction with the trial, we will also trial new tariffs, which are more reflective of the two-way nature of the local energy landscape enabled by network batteries.

Reducing bushfire risks and vegetation risks for our network

Reducing bushfire risk for our network infrastructure, and managing vegetation close to our network, are both key to our efforts to build climate resilience, minimise disruptions during crises and future-proof our assets. Our 2022 Bushfire Inspection Program included inspection of 14,858 km of our network. 2,262 vegetation defects and 105 asset defects were identified, for rectification by 1 October 2022, prior to the commencement of the 2022-23 bushfire season. With wet weather restricting site access, 688 vegetation defects remained open as at 1 October 2022 – these are being completed as site access becomes possible. See Bushfire preparation' (page 26). Our 2021-22 Vegetation Management Program inspected 71,010 km of network and trimmed 439,061 trees to mitigate network and public safety risks related to vegetation impacting the network. See 'Vegetation management' (page 26).

Photo: Essential Energy switching station at Sebastopol Solar Farm

Decarbonising our operations

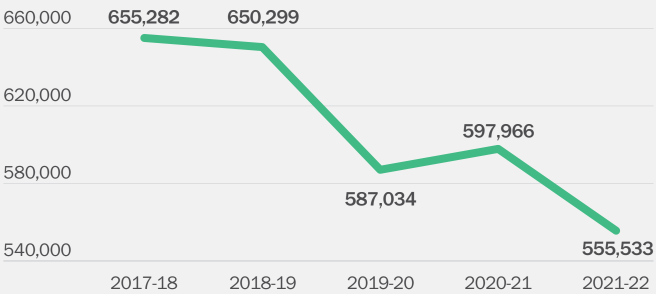
Reducing our greenhouse gas emissions

Our operations to deliver safe, reliable and affordable power and water consumed 2,653,139 GJ in 2021-22 (5.4 per cent lower than in 2020-21). We also produced 35 GJ in 2021-22 (down from 266 GJ in 2020-21) from a generator at Broken Hill which has now been sold. Our fleet travelled 32.5 million km in 2021-22 – down 6.3 per cent from 2020-21, which was mostly due to COVID-19 travel restrictions. Scope 1 and 2 greenhouse gas (GHG) emissions in 2021-22 were 555,533 tC02-e, which was approximately seven per cent (or 42,433 tC02-e) lower than in 2020-21. This reduction was driven by the following factors:

- 10 per cent reduction in transport fuel use
- 7 per cent reduction in Electricity Network Line Loss – due to decreases in electricity consumption by network customers, lower distribution loss factors and reduced NSW emission factors (2.4 per cent lower than in 2020-21)
- 6 per cent reduction in electricity used in buildings and sites due to reduced emission loss factors and improvement measures such as the use of solar energy across the Water business.

Essential Energy has reduced its Scope 1 and 2 greenhouse gas emissions over the past four years by almost 100,000 tonnes CO2-e – from 655,282 tC02-e in 2017-18 to 555,533 tC02-e in 2021-22 (see Figure 2).

Figure 2: Scope 1 and 2 GHG Emissions (Tonnes CO2-e)



Over the coming year, we will be developing targets to manage climate-related opportunities and risks. We will complete a baseline measurement of Scope 3 greenhouse gas emissions and develop a decarbonisation pathway that includes strategies to address Scope 1, 2 and 3 emissions.

Electrifying our vehicles

We are shifting our passenger vehicles to electrified options – predominantly plug-in hybrid EVs (PHEVs) and petrol-electric hybrids – when vehicles are due for replacement. We currently have 30 passenger vehicles, of which 10 are PHEVs and 12 are petrol-electric hybrids.

It will be some time before electrified options for commercial light and heavy vehicles meet our mass, distance and availability requirements. In the interim, we are developing and testing electrified concepts specific to the needs of our fleet. For example, we are jointly partnering with a regional NSW business to develop a hybrid-drive mobile elevated working platform, with an electrified power train for the hydraulic plant and a conventional drive train for the truck.

Replacing all streetlights with energy-efficient LED lamps

Over the past year we continued to work with the 86 local government councils across our network area to upgrade streetlights to more energy-efficient and cost-efficient LED lights. At the end of 2021-22 we had replaced more than 142,000 lights and remain on schedule to replace all 165,000 lights by the end of 2022-23. When complete, the change to LED lights will reduce councils' greenhouse gas emissions by approximately 46,000 tC02-e/MWh per year. See 'Streetlights' (page 26).

Landfill disposal of the obsolete lighting equipment from the upgrade to LED lights was estimated to cost a minimum of $1.6 million. To prevent this waste from going to landfill, and to remove this cost, we negotiated an agreement with our LED installation contractor to separate redundant lamps from light heads and send 100 per cent of these components for recycling, at zero cost to Essential Energy. Metal is melted down for re-use and the plastic is made into other extruded plastics.

Repurposing and recycling waste materials

During the reporting period 2,660 tonnes of waste materials from our operations were recycled; which was 35 per cent of our total waste volume. Of the recycled materials 2,014 t were non-hazardous materials and 646 t were hazardous materials. Recycled materials included: scrap metal (827 t); wooden poles (714 t); oily water (644 t); paper and cardboard (157 t); soil (88 t); green waste (66 t); concrete poles (28 t); secure documents (22 t); co-mingled recycling (4.6 t); lamps/globes (1.1 t); waste oil (0.8 t); chemicals (0.3 t); batteries (0.2 t); porcelain (0.2 t); and septic waste (109 KL). 5,041 t of non-recyclable materials were disposed of safely, including asbestos, burnt copper-chrome-arsenate (CCA) timber, oily rags, contaminated soil, poles and general waste.

Machinery and equipment no longer required by Essential Energy were sold as second-hand items at 30 auctions during 2021-22. This included: more than 350 iPads and iPhones; old streetlights (obsolete due to the LED replacement program); old fleet machinery; tools and equipment (including generators, chainsaws and toolboxes); and office furniture.

Excess items were also provided to charity organisations. For example, 150 iPads were provided to students in vulnerable circumstances from 10 schools in western NSW, in October 2021. This initiative was a partnership with charity and government organisations. The charity organisation Uniting and the NSW Department of Education identified students who would most benefit from the devices. Aboriginal community support organisation Kari and Dubbo Opportunity Hub donated SIM cards and internet credit. The provision of iPads was particularly useful given the ongoing challenges due to COVID-19 restrictions – enabling students to continue schooling during stay-at-home orders and to stay connected with their families.

Task Force on Climate-related Financial Disclosures

In 2021-22, Essential Energy was part of a pilot for assessing climate risk and opportunity using the Task Force on Climate-related Financial Disclosure (TCFD) framework. The NSW Government launched the pilot for a number of government agencies and State-Owned Corporations as part of the Net Zero Plan Stage 1: 2020-2030 Implementation Update. Our first TCFD statement outlines our approach to addressing climate related risks and opportunities, including governance, strategy, risk management, metrics and targets. The statement is available from www.essentialenergy.com.au/TCFD.

Enabling regional development and resilient communities

Our support for regional, rural and remote communities goes beyond providing safe, reliable and affordable power and water. We have a role in supporting our customers and communities to create sustainable futures. This includes continuing to work to keep downward pressure on network charges, providing career pathways for people living in regional areas, and supporting local community groups and vulnerable community members.

Assisting regional business and communities

Affordable energy supply

In real terms ($FY22), our network charges for a typical residential customer have decreased by 38.5 per cent since their peak in 2012-13 of $1,203 per annum. This means a typical residential customer's annual distribution network charge reduced to $739 in 2021-22 – a saving of $464 per annum. Over the same period, a typical small business customer has achieved an annual saving of $2,221, or 41.8 per cent.

Unforeseen events (extreme weather events and licence condition changes) have impacted our costs over the 2019-24 period, with resulting AER-approved increases in customer charges during 2022-23 and 2023-24. As a result, a typical residential customer will pay an extra $22 in each of the two years, and a typical small business customer an extra $83 (see 'Financial impacts of unforeseen events' on page 29 for more information). Despite these events, our business reforms over the 2014-19 and 2019-24 regulatory periods have meant that network charges in real terms continue to be much lower than they were a decade ago.

Supporting regional communities

Beyond providing affordable energy, our broader efforts during 2021-22 to assist regional communities, including those in vulnerable circumstances, included:

- Essential Communities Sponsorship Program – more than $662,000 was provided to 290 community groups and charity organisations (see page 36 for more details)
- Energy Charter – continuing to work with partners to deliver more affordable, reliable and sustainable energy for all Australians, by contributing to a range of 'Better Together' initiatives (see page 34 for more information)
- North Coast floods response – providing a range of support mechanisms for customers affected by the devastating floods in February and March 2022 (see page 20)
- Career pathways – our ongoing efforts to maintain a highly skilled workforce that reflects the diverse communities we serve included recruitment of 44 new apprentices, seven new trainees and four new graduates, in early 2022 (see page 32 for more details). In total, 130 apprentices, seven trainees and eight graduates are currently in our business (as at 30 June 2022) – working, living and contributing to regional communities across our network area.
- Public safety – implementing our Public Safety Strategy, including commencing regular public safety behaviour and awareness research and developing a Public Safety Plan for Essential Water (see page 35).

Enabling smart regional communities and new customer solutions

The fourth pillar of our Corporate Strategy aims to enhance our service offering to rural and regional communities by leveraging our infrastructure and expertise to facilitate and deploy smart technologies and infrastructure. We can do this using our:

- 1.4 million power poles and just over 68,000 streetlight poles to facilitate 5G network and smart city expansion
- 1,500 km of dark fibre network (currently unused fibre optic cable) in regional and remote NSW
- 170 towers to enable roll-out of mobile and wireless networks.

During 2021-22 we delivered a high-speed fibre network for the Parkes Special Activation Precinct. This network now provides secure, scalable and high-speed ethernet and internet, improving digital connectivity in the region and benefiting local businesses.

Ensuring sustainable and resilient supply chains

Our work to respond to social and environmental opportunities in our supply chains and to include sustainability in our procurement decisions included:

- Procurement from Aboriginal and Torres Strait Islander businesses – during 2021-22 we procured $709,000 of services directly from Aboriginal and Torres Strait Islander businesses (see 'Reconciliation', page 7). Procurement process improvements during the year made it possible for the first time to track this information, with all new suppliers able to identify as supporting minority groups during registration.
- Modern slavery – continuing to work with employees, suppliers and partners to improve systems and processes to avoid complicity in modern slavery or human rights violations related to our own operations, our supply chain and our services (see 'Modern slavery', page 36).

Protecting cultural heritage

During 2021-22, we continued to engage with the Biamanga Board of Management and the NSW National Parks and Wildlife Service on the effective management of our assets contained on land within the control of the Biamanga Board of Management, on the NSW South Coast – providing certainty on how we manage assets on lands that hold special value to the Biamanga Board of Management and the broader local Aboriginal community.

We also continued to work with Energy Charter partners (see page 34) on the First Nations Engagement Better Together initiative.

With our network spanning the lands of 29 First Nations, we continue to explore opportunities to improve our engagement with local Aboriginal and Torres Strait Islander groups and to manage risks in culturally significant areas, including for vegetation management and network design.

Empowering our people

People are core to our business, and we are committed to creating a work environment where our people feel respected, empowered and valued. We want to create a truly diverse, equitable and inclusive environment.

Ensuring the safety and wellbeing of employees

Safety is a core value, and our employees are empowered to 'make safety their own' – protecting their safety and looking out for their colleagues and the communities we serve. Safety performance continued to improve during 2021-22, with no Major Lost Time Injuries (LTIs), a 40 per cent reduction in High Potential Incidents (HPIs) and a 29 per cent reduction in Total Recordable Injuries (TRIs). A decrease in near misses reported was characterised by a 23 per cent reduction in Network Fatal Risk (NFR) 4 (Motor vehicle accident) near misses. See 'Safety performance' (page 30).

Our Health and Wellbeing Strategy is designed to facilitate a culture of holistic health and wellbeing where employees finish work each day healthier than when they started – with initiatives to assist employees in proactively managing their physical, mental and social wellbeing. See 'Health and Safety Strategy' (page 30) for more details.

Championing an inclusive, supportive and growth-oriented culture

Our Inclusion and Diversity Strategy, updated in 2021-22, 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'. Key inclusion and diversity (I&D) progress during 2021-22 included: continuing to implement our Reconciliation Action Plan – releasing an Aboriginal and Torres Strait Islander Recruitment and Retention Strategy, Cultural Learning Strategy, and a Cultural Protocols Policy; delivering a Respectful Workplace Program during October 2021 – to coincide with National Mental Health Month and National Safe Work Month – to ensure our workplace is safe for all employees; and our employee-led I&D working groups continuing to raise awareness by celebrating significant international and national events. See 'Inclusion and Diversity' (page 31) and 'Reconciliation' (page 7) for more information.

Our business

Strengthening our core and enabling the future

Safe and reliable power and water during COVID-19

Throughout 2021-22, we continued to provide customers with safe and reliable electricity and water supplies, despite the dynamic nature of the COVID-19 pandemic, as well as the 2022 influenza season, natural disasters and significant weather events. Key to our ongoing success is our focus on three key objectives, which were put in place at the start of the pandemic:

- protect the health and wellbeing of our employees, contractors, suppliers and their families
- minimise the risk of our workplace being a potential source of infection into the broader community
- minimise the risk of operational disruption to electricity and water supply.

We continued to achieve these objectives throughout 2021-22 by operating under our COVID-19 Pandemic Management Plan and Pandemic Operating Protocols. With the easing of government restrictions, we updated and simplified the protocols, transitioning to ongoing business as usual settings, while monitoring cases and new variants as they emerged.

The easing of restrictions enabled more employees to return to working in offices, if they chose to do so. Many employees continued working from home, which the organisation continued to support. Alternatives to face-to-face interactions and travel were also used where possible. This flexible approach to hybrid working (home and office) was assisted by our Health and Wellbeing Strategy, supporting employees' physical, mental and social health and wellbeing.

To ensure employees and their families stayed up to date with the latest information and medical advice, COVID-19 updates were provided via regular and timely emails to all employees, along with all-employee webinars with our Chief Medical Officer. Special leave provisions were provided to make it easy for employees to obtain COVID-19 vaccinations. Sufficient supplies of Rapid Antigen Tests (RATs) were secured to allow employees to test themselves prior to attending work and if they were experiencing symptoms of COVID-19.

During the Delta and Omicron variant outbreaks, we introduced high-risk protocols, in addition to government and health restrictions and guidelines.

These protocols included minimising travel and face-to-face interactions to protect the wellbeing of our employees and the community, and prioritising completion of critical works by risk assessing planned work prior to commencing any scheduled outages.

To reduce the risk of COVID-19 being transmitted among our employees and local communities during the North Coast flood response, all employees assisting with the response completed RATs every second day, and if they developed COVID-19 symptoms.

To minimise the impact of planned power outages on students sitting their High School Certificate trial exams in August 2021, we implemented a comprehensive process under our Pandemic Management Plan. Reviews took place to assess possible impacts on schools and local communities from planned outages. Customers used an online form to identify that a student might be impacted by a particular planned outage. Where it was identified a year 12 student would be impacted by an outage that needed to proceed, due to safety or reliability risks, we supported customers by providing generators.

Restoring safe and reliable power following major floods

The largest floods ever recorded across the North Coast of New South Wales occurred on 28 February 2022. These floods had devastating impacts for many of our customers and employees, from Bundjalung Country (Tweed Heads) in the north to Gumbaynggirr Country (Coffs Harbour) in the south. Communities impacted included Woodburn, Coraki, Lismore, Ballina, Tumbulgum, Murwillumbah, Broadwater, Condong and Wardell.

The flooding damaged or destroyed thousands of houses and businesses, and a total of 69,603 individual customers lost power supply (including from further flooding on 28 March). Much of northern NSW and southern Qld was declared a Natural Disaster Zone.

With the Lismore Central Business District (CBD) under water for several days, significant network damage occurred. Flood water inundated depots and zone substations, including at Murwillumbah and Lismore.

The Lismore depot was completely submerged. Equipment at the South Lismore and Lismore University zone substations was destroyed.

We enacted our emergency response plan, with 210 local employees and 215 travelling crew members, from 30 locations across NSW, mobilised to undertake network damage assessment and repairs.

On 28 March 2022, a second flood event impacted the area, specifically Lismore and rural surrounds, with this event larger than the 2017 March-April floods.

During the events, some employees lost their homes and properties, however thankfully all remained safe with Essential Energy providing support.

Supporting customers and communities was central to our response. With our crews working in very challenging conditions a 'whole-of-business response' approach was taken to both floods, with a central theme of being 'safe, steady and sustainable'. Three flood response hubs were established, located at Goonellabah Sports Club (near Lismore), Ballina depot and Maclean depot. These hubs provided support to the community and impacted employees, and were resourced by employees from across the state.

With floodwaters slow to recede, the main challenge facing teams was access – due to flooded rivers, swollen creeks, landslides, washed away roads and impassable bridges. Specialised equipment (including excavators, all-terrain vehicles, helicopters and drones) was instrumental in the response – providing access to tasks and restringing of powerlines in many inaccessible rural areas.

Dedicated community relations employees visited evacuation centres and community hubs were established at Lismore, Ballina, Woodburn and Coraki. These employees were also able to liaise with Essential Energy's Contact Centre to assist customers on the ground when they needed it most.

Communications to customers and stakeholders included daily operational response updates for stakeholders and media, and 24 related media interviews. These updates were also provided on our website, with 21,000 page views during the flood response period (18,000 more than previous flood responses). Daily social media updates provided real-time information to customers and the community and demonstrated (via photos and videos) the conditions and actions being taken. Social media marketing campaigns focussed on safety messaging, along with local radio advertising and 12 message billboards with rotating messaging – for Lismore, Coraki and Ballina.

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

- calling all life support customers experiencing outages to check on their welfare, and offering generators to life support customers without power for longer than ten days, and $200 fuel cards
- offering eligible flood-impacted business customers compensation for the reasonable cost of generator hire, fuel, delivery and connection
- providing generators where required, along with support guidelines for businesses – including to Telstra in Lismore CBD
- establishing a three-step electricity reconnection process, with posters and safety fact sheets provided to customers, supported by messages on roadside electronic signs – allowing field crews to focus on restoration work
- reimbursing up to $350 of costs to reconnect premises disconnected for safety reasons, where they needed to engage an Accredited Service Provider (ASP), and waiving the ASP Certificate Compliance of Electrical Works (CCEW) cost for customers in flood-affected post codes
- waiving network access charges for the entire billing period where customers premises were impacted by flooding
- pausing disconnections for non-payment to flood-affected customers
- 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 cost
- pausing estimated meter reading for uninhabitable houses and buildings
- contributing $600 to help flood-affected customers with reimbursement for power supply connection within two years
- engaging our Employee Assistance Program provider, LifeWorks, to offer crisis support for flood-affected customers and community members.

Network services were fully restored to customers after seven weeks of a safe, steady and sustainable response. However, it will take more than 12 months to complete permanent repairs to our zone substation sites and distribution infrastructure.
As customers rebuild, we are continuing to support reconnection to the network.

North Coast NSW floods response

2,215
Hazard Identification Risk Assessment Controls (HIRACs) completed

6,980
properties de-energised for safety

5,409
properties re-energised after safety inspections

69,603
customers affected by power outages

1,408
Life support customers affected by outages

50
padmount and chamber stations, switching units and cabinets tested, repaired or replaced

113
under-awning mains boxes, cubicles and assets tested, repaired or replaced

2
depots flooded

Multiple patrols
air, water and ground patrols used to assess damage and repair – including helicopters and drones

50,172
litres of fuel used

210
local employees involved in the response, plus whole-of-business support

215
travelling employees from 30 locations

348
fleet vehicles used for restoration

Transforming our business to become an energy company for the future

Our multi-year Transformation Program, which will continue until 2024, is central to delivering pillar one of the Corporate Strategy – strengthen the core and enable the network – and fundamental to our progress as an energy company for the future. Through the program, the increasing digitalisation of many tools and processes has created significant improvements in efficiency and effectiveness. For customers, it is delivering improvements that enable a safe and reliable network now and for the future, as well as facilitating downward pressure on electricity prices.

Highlights from 2021-22 include:

Automated and tailored outage messaging

New and enhanced software was delivered to enable the Customer Contact Centre to override standard outage messages when more detailed information was needed on the website. Better linkages between internal systems allowed an improved customer and employee experience. Call takers were provided with additional information from other systems, to reduce the need to switch between applications and assist in reducing Average Handling Times for customer calls. Improved outage-related information was also delivered to customers through the Interactive Voice Response (IVR) system and the website.

Ancillary and Network Services fee recovery

Approved charges were applied for costs incurred by Essential Energy to inspect work by an Electrical Contractor requiring submission of a Certificate of Compliance for Electrical Work. Additional fees were also introduced for some Low Voltage Connection Applications. These fees – approved by the Australian Energy Regulator (AER) as part of our 2019-2024 regulatory process – are charged using a new online payment gateway allowing upfront billing for customers who require these services. All charges adopt a ‘user pays principle’ that provides a benefit through lower network charges to other customers who do not require these services.

Application and hosting modernisation

The Application and Hosting Modernisation Initiative delivered 22 work packages to provide current, supported and streamlined IT applications and infrastructure – reducing risk exposure, improving compliance, and enabling Essential Energy to operate in an efficient fiscal manner, while ensuring optimal functionality.

Asset, network and system strategies

New and improved asset, network and system strategies were delivered to ensure alignment to the Corporate Strategy and its objectives. Underpinned by a set of tools and models, these strategies demonstrate network knowledge, drive value-based decision-making, control risk, maximise investment opportunities, and outline requirements to manage the influence of environmental factors on the network. Network strategies address key characteristics or qualities the network must have/deliver. These included network safety, bushfire prevention, future network, power quality and connections strategies. Asset class strategies focus on asset types, for example poles, conductors, and vegetation. System strategies were outlined for overhead, underground, zone substation, secondary systems, and public lighting. The system strategies bring together groups of assets that interact most closely with one another, each functioning as a sub-system of the network.

Customer journey mapping

Customer journey maps were created to better understand the current and potential future state journeys of customers and business partners when interacting with Essential Energy. Journey maps were created for ASPs, commercial and industrial customers, connected customers, new connections for real estate developers and renewable developers, councils, Essential Water customers, master subtractive metering, planned and unplanned outages, prosumers, vegetation management, residential customers, retailers, small-to-medium enterprises, and telecommunications. These maps are now being used to improve customer experience through the prioritisation of key areas of process improvement and resourcing.

Digital twin designs and automated checks against standards

Our industry-leading approach to using digital twins for our network assets is improving our efficiency and providing digital modelling support in asset management. Internal and external network designers were trained to use new digital modelling techniques that create new line designs connected to our digital twin network, built from light detection and ranging (LiDAR) data. Proposed assets from these line designs are also checked for technical compliance with standards, certifying proposed digital twin models for construction similar to construction plans. The digital twin model of poles and wires was applied at a large scale across the entire Essential Energy network in December 2021, to consistently assess risks and to gain insights on forecast network performance.

End-to-end connection request improvements

ASPs and Electrical Contractors were onboarded into a new connections portal. The first release of the portal went live in June 2022 and included low voltage connection enquiries and applications. Over the next 12 months the portal will be expanded to provide a customer-centric connections experience across all low and high voltage applications, work management, testing, and quality assurance processes. The portal is underpinned by self-service and automation to streamline the connections process.

Enterprise resource planning enhancement

The final release of an enterprise resource planning tool, in August 2021, transitioned internal and external users to perform finance, procurement and supply chain tasks in one system. Employees can now requisition goods and services and receipt them using self-service, and project managers will have better visibility of their financials. This provides the benefit of strategic resource management to enable better financial, workforce, and resource planning. Suppliers also have the benefit of a supplier portal within the system to communicate and transact with Essential Energy more easily. This will streamline ‘back of house’ processes, data management, and reporting. Being cloud-based, the solution also provides access to the latest software via quarterly updates.

Digital Hazard Identification Risk and Assessment Control rollout

The digital Hazard Identification Risk and Assessment Control (HIRAC) and electrical testing tools, housed in the inhouse built Field Portal app, was successfully deployed to all field operations teams during 2021-22 – moving 12 paper-based HIRAC books to a digital approach. Built and delivered internally, the project and resulting tool was testament to strong collaboration between project, safety, operations, and technology teams. It shifted a compliance-based activity to one focused on what matters: mindset and better safety-based conversations. Large volumes of HIRACs are now being digitally documented using a consistent and simplified process with open questions. During 2021-22, more than 112,000 HIRACs and almost 11,000 premises-related electrical tests were completed within the application, with data insights contributing to a proactive approach to safety learning. Accompanied by a safety mindset model, the HIRAC supports individuals and teams to stop, think, assess, and re-assess onsite safety.

In October 2021, the digital HIRAC was presented with a highly commended award for an outstanding solution to a high-risk work health and safety issue, as part of the Safework NSW 2021 Awards. It was also a finalist in the Best Industrial Project Award category for iTnews Benchmark Awards 2022.

Investment optimisation

A new system, Copperleaf C55, was delivered to manage key defined and reactive capital investments for network expenditure. The system supports employees to deliver a consistent ‘one system’ approach to apply risk and value and has created visibility of capital investments flowing through the end-to-end pipeline of works. 115 defined and reactive capital investment processes, plus 24 system workflows were delivered as part of the project. The 2021-22 statement of works was optimised through Copperleaf C55, and an investment tracking report and document storage solution also delivered.

ISO 55001 certification achieved

We were formally accredited and certified to ISO 55001 for our Asset Management System (AMS) in January 2022. ISO 55001 is the international standard for developing, implementing and maintaining an AMS. It defines asset management as the coordinated activity of an organisation to realise value from its assets.

Achieving accredited certification demonstrates use of this system to make the best decisions for customers, balancing cost, risk, and performance of the network. Certification was received with no major or minor non-conformities, which is achieved by few businesses globally. This significant achievement also ensured compliance with an IPART licence condition, ahead of the February 2022 deadline.

Enterprise Asset Management solution

Over the past year, significant progress was made on a major project to replace our Enterprise Asset Management (EAM) solution. Aligning to the Corporate Strategy, replacing our current end-of-life system with a modern, cloud-based solution that strengthens our business capabilities across our electricity network assets and works value chain, is key to ensuring a strong business core that will serve us well into the future. The number of assets we manage stretches into the millions. A systemised approach to managing these assets over their entire lifecycle is important to delivering an efficient service for our customers. It also will ensure our asset management practices are optimised and prepared for the digitised, decentralised and decarbonised energy ecosystem future ahead of us.

During 2021-22, the discovery phase was completed for the initiative. This phase focused on the development of end-to-end asset and works management business process designs, to ensure the solution design meets the unique needs of our business and other existing key systems. The EAM solution is scheduled to ‘go live’ in 2023.

Uplifting cyber security

Uplifting our cyber security posture continued to be a focus through the delivery of a comprehensive cyber program aligned to Australian Energy Market Operator’s (AEMO’s) Cyber Security Framework. A strong focus on people, through a program of education and awareness was designed in partnership with business areas. Tailored online training was developed, including a module on keeping our critical environment secure. Cyber safety experience conversations continue to take place with field visits and Toolbox Talks. Regular communications also continue to be issued, covering cyber security tips, trends and the evolving landscape. A number of cyber-attack exercises were completed throughout the year, as well as regular email phishing simulations. Mitigations against cyber security risks included the development of a cyber risk management framework to elevate organisation wide cyber risk awareness and visibility.

Risk valued work

The Risk Valued Work Initiative developed processes for identifying and deprioritising low value work that does not on its own justify a trip to site for treatment. The primary focus was on safely reducing planned outage impacts for customers by quantifying the risk of treating both existing and future tasks. Where possible, this work is then deferred, to be reviewed at the next inspection.

Strategic workforce planning

A strategic workforce planning project was completed, to develop workforce planning principles, methods, governance, team roles and responsibilities. Workforce segmentation and criticality assessments were completed, and two workforce planning pilots undertaken. A workforce analytics dashboard and roadmap were also delivered, to enable enterprise-level scaling of workforce planning.

Standardising jobs

The Standard Jobs Initiative developed a framework for the top 20 most common network tasks – to enable safe, consistent and optimised works delivery for field teams. The Top 20 standard jobs were added to a works calendar, along with evaluation of how standard jobs are currently undertaken. From this, a catalogue will be developed, covering labour, equipment, materials and other requirements to create a standard and optimised approach to works delivery.

Field Portal update

Our inhouse built Field Portal app, which all employees can access via iDevices, continued to be improved during 2021-22. The app enables the ability to view a geographical representation of our entire network, along with customer/premises information. Team members can also action network tasks from within the app. It has also been expanded to include selected distribution zone substation tasks, and tasks specific to bulk programs of work. This has resulted in the data error rate dropping from 15 per cent (using the previous paper-based approach) to 0.03 per cent, because of structured and logic driven data capture.

Due to the high accuracy of data collected in the field, we have been able to significantly streamline backend processes. To June 2022 we have achieved straight through processing for 95 per cent of our in-field actioned tasks.

An improved process for managing the de-energisation and re-energisation of premises due to safety concerns was recently implemented. This process links in-field data capture with real-time status reporting, works lifecycle management, and safety compliance. It also provides critical information to our internal Customer Contact Centre. This process enhancement was extremely valuable during the North Coast floods in February and March 2022.

Vegetation Management Strategy in action

In July 2021, Essential Energy signed a Memorandum of Understanding (MOU) with Coffs Harbour City Council. The MOU captured the shared goals and responsibilities of both organisations in managing trees near powerlines within the Coffs Harbour area.

This agreement was a demonstration of Essential Energy's new Vegetation Management Strategy in action – a transformation initiative delivering significant financial, economic, and qualitative benefits for customers.

Urban streetscapes are an important part of our local communities and working with Councils will ensure the right trees are planted in the right areas. The new approach aims to create better landscapes; maintain electricity affordability, worker and public safety; reduce complaints; and improve reliability of electricity supply.

As part of the agreement, trees that require constant trimming and are considered incompatible with the network will be removed over time. They will be replaced with appropriate low-growing vegetation species or vegetation planted away from the network for environmental offset.

Work is now underway to establish further MOUs across the network area.

See page 26 for more vegetation management reporting.

Network maintenance

Building, operating and maintaining one of Australia's largest electricity distribution networks requires a significant operational program, to monitor the health of network assets, undertake preventative maintenance and respond to faults and emergencies.

During 2021-22, our programs have been impacted by protected industrial action, COVID-19, multiple widespread wet weather events, and significant flooding on the North Coast. Throughout the year, the program was readjusted to account for these challenges. While total work volumes delivered shows an overall reduction due to the above events, the work delivered has been prioritised to reduce critical network risk, demonstrating Essential Energy's dedication and ongoing commitment to maintaining safe and reliable power supply.

These 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 Lismore, to help rebuild the network following the significant flooding event in February 2022.

Asset inspection:

280,419
power pole inspections (target 305,000 inspections)

23,731 km
of powerlines inspected via drone inspections (up from 21,906 last year)

58,256
drone flights by asset inspectors (down from 58,750 last year)

875,415
inspection photos taken (up from 576,140 last year)

Vegetation management:

173,883
powerline spans with vegetation removed (compared to 245,760 last year)

6,822
hazard trees remediated (down from 11,853 last year)

3,868
bushfire vegetation spans reinspected (up from 1,982 last year)

Fleet:

301,208
pre-operational fleet inspections (up from 238,506 last year)

32,454,007
kilometres travelled

Maintenance, capital improvement and fault and emergency:

17,468
planned outages (down from 20,108 last year)

28,119
unplanned outages (up from 24,708 last year)

14,571
cross arm replacements (down from 22,613 last year)

8,883
pole replacements (down from 10,252 last year)

8,566
zone substation maintenance work tasks (target 9,466)

2,886
distribution substation preventative maintenance work tasks (target 3,153)

7,685
service mains overhead replacement (contractors) (target 7,350)

965
construction milestones (target 1,299)

Meter reading:

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

Major Projects

Description	Before 2021-22 (direct project $)[1]	2021-22 (direct project $)	Total Cost (direct project $)	Completion date
Narrandera zone substation refurbishment	$1,058,583	$370,181	$1,428,764	Dec 2021
Bathurst 66/11kV zone substation switchboard replacement	$3,891,349	$18,488	$3,909,837	Jun 2021[2]

Two Major Projects were completed since the 2020-21 reporting period: Narrandera zone substation refurbishment and Bathurst 66/11kV zone substation switchboard replacement. 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 Narrandera zone substation, constructed in 1965, supplies approximately 3,000 customers in the township of Narrandera and surrounding rural network. The zone substation is supplied by two 66kV feeders – one originating out of TransGrid owned Yanco 132 substation and the other from the Wagga Wagga 66kV network. There is no 11kV backup supply to the area from another zone substation. The zone substation required refurbishment due to condition-based issues for the equipment, such as potential explosive failure associated with older bulk oil filled 11kV zone substation switchboards. Essential Energy considers maintaining these older switchboards as an unacceptable safety risk. This constraint was rectified through installation of a new 11kV switchboard in place of the existing 11kV switchboard including feeder protection relays.

The Bathurst 66/11 kV zone substation provides supply to approximately 8,000 customers in Bathurst and surrounding rural areas. It was built by the Electricity Commission of NSW in the mid-1960s, with a Westinghouse 11kV indoor switchboard manufactured in 1966. This switchboard also required replacement due to safety and condition-based issues. This issue was rectified by installing an additional circuit breaker and new 11kV switchboard and building.

In the 2020-21 Annual Report, it was reported that stage 2 of the project to refurbish the 33 kV powerline between Casino to Mallanganee was scheduled for completion by May 2022. It was not completed during 2021-22, due to significant wet weather, protected industrial action, and COVID-19 impacts. It is now scheduled to be completed during 2022-23.

Solar farm connections

During 2021-22, two solar farms connected to our network: Sebastopol Solar Farm 90 MW, and Hillston Solar Farm 85 MW. Two more, Peak Hill 4.99 MW and Trundle 4.99 MW, became active in the market in September 2021, but were connected during 2020-21.

Hillston Solar Farm

The Hillston 85 MW Solar Farm, located near Hillston in central NSW, was connected to the Essential Energy network and fully commissioned in March 2022, via the 132/33kV Hillston zone substation. It can power up 48,000 homes, generate 23,500 MWh of clean energy annually, and reduce 160,000 tonnes of CO2 emissions per year.

The surrounding region has a significant number of large-scale renewables. As a result, the Australian Energy Market Operator (AEMO) has developed a sequencing and batching process to successfully manage the integration of generation projects into the network in this region. This meant that the Hillston Solar Farm was initially committed to significant system strength remediation via an extensive special protection system and synchronous condenser. These requirements would have added 12 months to the development of the facility, along with $7M in additional construction costs. Essential Energy worked with the developer to ensure these requirements could be excluded, via detailed tuning of the plant control system – removing the need for the additional time and cost. Essential Energy also played a key role in supporting the solar farm throughout commissioning, contributing to the farm achieving 100 per cent output in a record time of four months – most similar projects require between seven and 13 months to achieve 100 per cent output.

1. In the 2020-21 Annual Report, column headings incorrectly stated that costs included overheads.
2. The Bathurst 66/11 kV zone substation switchboard replacement was completed in June 2021, however the project was not included in the 2020-21 Annual Report. Consequently, the project is included in this report.

Vegetation management

New multi-year vegetation management contracts commenced in July 2021, for areas where vegetation is not serviced by Essential Energy depots. The northeast of the network is now serviced by TreeServe, the central north by ETS Infrastructure Management, and the central and southeast areas by Asplundh Tree Experts. Vegetation in the far western areas, such as Broken Hill and Buronga, is managed by Essential Energy depots.

Unprecedented rainfall in most of the state caused delays to completion of some vegetation management works, due to inability for vehicles to traverse unsealed roads or access tracks. Despite these challenges, our planned Vegetation Management Program inspected 71,010 km of network and trimmed 439,061 trees – mitigating network and public safety risks related to vegetation impacting the network.

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 successfully met its three-year commitment to the Independent Pricing and Regulatory Tribunal (IPART) for full ISSC3 compliance by 1 October 2021. Maintaining full compliance and reducing vegetation related risks to public safety and network reliability are core objectives of Essential Energy's vegetation management strategy and associated vegetation management plan.

The current information management system used to manage vegetation inspection and treatment tasks has reached the end of its service life. It is being replaced with a more advanced system to enable improved user functionality, greater data insights and linkage into the enterprise asset management system. Procurement of the new vegetation information management system is expected to be completed in 2022-23.

For more vegetation management information, see 'Vegetation Management Strategy in action' (page 23).

Bushfire preparation

An important part of our annual Bushfire Preparation Strategy is our Pre-Summer Bushfire Inspection (PSBI) Program. This work ensures the network in Priority 1 bushfire zones is in sound condition prior to the official bushfire period start date of 1 October each year. The program complies with IPART requirements.

This program is an annual program, and in 2022 was conducted between February and July, covered 14,858 km of network in 31 depot areas. 2,262 vegetation defects and 105 asset defects were identified, for rectification prior to the commencement of the bushfire season.

During 2021-22 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.

To improve our understanding of bushfire risk, we have undertaken a project to model the fire risk arising from the operation of the electricity network using economic and statistical modelling techniques. The output of this modelling will be integrated into our asset management decision making for inspection, renewal planning and task prioritisation to manage bushfire risk. In addition to modelling current bushfire risk, we are also undertaking a project to model risk arising from future climate change scenarios, to understand how our network-initiated fire risk might change in the future.

The Reedy Swamp fire occurred near Tathra on 18 March 2018, with a coronial inquest following. From the findings handed down by the coronial inquiry on 21 December 2021, we have committed to the implementation of the recommendations that relate to us and our network. We will track the delivery of the recommendations through our Bushfire Risk Management Working Group.

We continue to scan the industry for improved practices that may deliver improvements in the management of bushfire risk. An example is our ongoing participation in the International Wildfire Risk Management Consortium, an organisation of peers where we can learn from the experience of national and international peers and collaborate in international learning teams. We have trialled alternative expulsion drop out fuse technologies as a potential control for bushfire risk, and will be undertaking wider-scale field trials in the upcoming year.

The advancement of our bushfire prevention improvement journey was externally verified through the 2022 Bushfire Risk Management Audit, conducted by AMCL Pty Ltd on behalf of our technical and safety regulator (IPART). Timely completion of pre-summer bushfire inspections and resultant tasks prior to the commencement of the bushfire season was identified as a strength. Proactive management of tasks identified through asset and vegetation inspection on the basis of risk was another strength. So too was continued improvement of our Electricity Network Safety Management System (ENSMS), providing assurance of the effective management of bushfire risk across the network.

In response to the 2021 Bushfire Preparedness Audit conducted by AMCL on behalf of IPART, we have implemented an action plan for learnings from the 2019-20 bushfire season, and are tracking the delivery of these actions through the Essential Energy Bushfire Risk Working Group.

Streetlights

Public lighting plays an important role in providing safe, secure and attractive public areas for both pedestrians and vehicles. Essential Energy is responsible for the maintenance and billing of around 165,000 streetlights for 86 local government councils across NSW and parts of southern Queensland.

We are continuing to work closely with councils on a Bulk Replacement Program to upgrade their streetlights to more energy-efficient LED lights, which typically reduce running costs by 40 to 50 per cent.

During 2021-22, we completed a total of 23,307 LED upgrades and spot replacements. 87 per cent of the streetlights we manage have now been upgraded to LED lights.

Materials supply issues and crew reassignment to assist with network repairs following flood damage in northern NSW in March 2022 significantly impacted the upgrade program roll-out in the short term. However, we remain on track to complete 100 per cent of upgrades by the end of 2022-23.

For more information, see 'Replacing streetlights with energy-efficient LED lamps' (page 16).

Essential Water

Our Essential Water customers have experienced another year of below average temperatures and above average rainfall, with March seeing the highest rainfall recorded in a 24-hour period. Broken Hill customers continue to be well serviced by the reliable water supply via the pipeline from the Murray River. Levels in the Darling River also remain constant and reliable, with much of the year experiencing minor to moderate flooding.

A new water treatment plant has been commissioned at Menindee, at a cost of $4.6M, supplying the town with high quality drinking water.

Independent Pricing and Regulatory Tribunal (IPART) released their draft determination on Essential Water's 2021 pricing proposal in June. Essential Water will review the draft determination and provide a submission, followed by attendance at IPART's public hearing and stakeholder meetings. IPART is scheduled to release the final determination in late 2022. Price changes will not take effect until January 2023, which is a delay of six months due to COVID-related resourcing constraints impacting IPART's timetable.

The Integrated Water Cycle Management Strategy issues paper was completed in June 2022, and is now awaiting approval from the Department of Planning and Environment (DPE). It outlines our 30-year strategy for the provision of appropriate, affordable, cost-effective, and sustainable urban water services that meet community needs and protect public health and the environment. It aligns with the DPE IWCM Strategy Check List.

A detailed review of the Drinking Water Management System was carried out by NSW Health, with the final report expected to be received in late 2022.

Imperial Lake Dam decommissioning

The Imperial Lake Dam was constructed in 1888 and later augmented in 1967 to include a larger retention basin. Essential Water took ownership of the dam in 2000, as an emergency water supply for Broken Hill. NSW Dam Safety rated the dam as a 'High C', meaning that it was at high risk of failure in a flood event. To mitigate this risk the lowest cost option was to cut a slot through the dam wall, for the dam to act as a low-flow weir. The dam is no longer required as an emergency water supply for Broken Hill, due to the Murray pipeline. Decommissioning works began in January 2022 and were completed in March 2022, with direct project costs $527,000. Landcare has expressed an interest in acquiring the property.

Water consumption and operational works

Total consumption of potable and raw water for 2021-22 was 5,263 ML – a decrease of 207 ML compared to 2020-21. This total contained 4,342 ML of potable water and 921 ML of raw water, with the consumption of potable water decreasing by five per cent compared to 2020-21.

Essential Water's 2021-22 Operational Works Program included:

- Renewal of 550m of water mains
- Cleaning and rodding 25,037m of sewer mains
- Repair of 17 mains bursts.

Water licences used in 2021-22

Licence	Source	Description	Volume	Comment
WAL8584	Lower Darling Regulated River Water Source	Local Water Utility Domestic and Commercial	262 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 2021-22

Essential Water's profit before interest and tax was $4.5M, against a target loss of $23.9M. This result was driven by:

- Lower impairment of assets of $26.1M, with the capital program below budget delivery
- Operating Expenditure $0.8M favourable to budget
- Operating Income $2.1M favourable to budget – being made up of Customer Sales $1.0M, Bulk Water Pipeline Reimbursement $0.7M and Other Operating Income $0.4M

Essential Water invested $1.8M on internally funded capital programs in 2021-22, $16.6M below target. The main drivers for the underspend were contractor availability due to COVID-19 restricting travel to Broken Hill, other ongoing COVID-19 related issues and supply chain restraints.

Environment

We effectively manage environmental aspects and risks across our vast network through the implementation of an ISO 14001 certified Environmental Management System (EMS). Complying with relevant laws and regulations is an essential feature of ISO 14001. During 2021-22 the statutory planning framework was updated, together with the consolidation of several state environmental planning policies. In response to these changes, we updated our procedures and processes for determining appropriate planning pathways and complying with environmental impact assessment obligations.

Environmental considerations are also a component of our AS5577 compliant Electricity Network Safety Management System (ENSMS). During 2021-22, the EMS was modified and updated to integrate with the ENSMS, reducing the number of standalone documents and creating a more logical and intuitive user experience.

Engaging with local Aboriginal communities is key to our efforts to advance reconciliation. Over recent years, we have been engaging with the Biamanga Board of Management and the NSW National Parks and Wildlife Service on the effective management of our assets contained on land within the control of the Biamanga Board of Management, on the NSW South Coast. Clear, open, and transparent engagement has assisted in building strong connections with the local Aboriginal community and has provided certainty on how we manage assets on lands that hold special value to the Biamanga Board of Management and the broader local Aboriginal community.

Selwyn Ski Resort

The devastating 2020 bushfires destroyed the 11kV electricity supply to Selwyn Ski Resort, located within the Kosciusko National Park. Prior to the bushfires, electricity was supplied to the resort by a 43km powerline, which extended across undulating and sensitive environmental land.

Rather than simply replacing the powerline, we reconsidered the optimal way to supply the resort with power. The resulting solution involved connecting to TransGrid's Cabramurra supply point – reducing the length of the powerline to 11km and maximising the use of existing disturbed road corridors, thereby reducing our environmental impact.

Financial impacts of unforeseen events

Major natural disaster events and new licence condition obligations have given rise to unforeseen costs not included in Essential Energy's 2019-24 Australian Energy Regulator (AER) revenue determination. To the extent possible, we have minimised the costs proposed to be recovered from customers.

Following discussions with retailers and customer advocates on price impacts, in September 2021 we submitted applications to the AER to pass through to our customers the costs associated with two events – $75M for network repair of 2019-20 bushfire damage and $40M to cover strengthening physical and cyber security to comply with critical infrastructure Licence Conditions changes.

In March 2022, the AER approved $69 million for bushfire recovery and $35 million for licence condition compliance, with costs to be recovered in distribution network charges over two years from 1 July 2022 (as preferred by customer advocates). As a result, a typical residential customer will pay an extra $22 in each of the two years, and a typical small business customer an extra $83.

During 2021-22, the northern NSW floods caused significant disruption and damage to our distribution network in affected areas. Replacements and refurbishment of assets impacted by the floods cost approximately $30M. The abnormally wet weather also impacted our ability to perform planned capital and maintenance works as access to sites was limited. This contributed to a reduction in capital and operating costs relative to Statement of Corporate Intent expectations, including vegetation management.

Company Scorecard

The Company Scorecard includes performance against targets in the Essential Energy 2021-22 Final Statement of Corporate Intent, along with performance for other key metrics.

Area	Measure	Target	Outcome
Safety	Major Lost Time Injury Frequency Rate (MLTIFR)	0.3	**0.0**
	Serious Claim Frequency Rate (SCFR)	≤2	**3.6**
	Total Recordable Injury Frequency Rate (TRIFR)	≤10	**13.9**
	High Potential Injury Frequency Rate (HPIFR)	Monitor only	3.7
	Overdue Corrective Actions	0	**0**
People	Employee Culture Index [1]	>3.82	**3.75**
Network delivery	Network Program Value Delivered	100%	**79%**
Customer experience	Customer Satisfaction Index	≥77%	**81%**
	System Average Incident Duration Index (SAIDI)	≤211 min	**218 min**
	Life Support Breaches (Immediately Reportable)	0	**1**
Regulatory	Material Reportable Regulatory Breaches	0	**0**
Financial	Return on Capital Employed (ROCE)	≥3.6%,	**4.0%**
	Operating Expenditure	≤$842M	**$836M**
	Capital Expenditure	≤$562M	**$466M**
	Net Profit After Tax (NPAT)	≥$9M	**$31M**
Transformation	Transformation Executive Level Milestones Achieved	≥100%	**88%**

1. Measured in the annual employee engagement survey. June 2021 result was 3.76. June 2022 result was 3.75. See 'Employee engagement' (page 32) for more information.

Our people

Support now and building for the future

Health and safety

COVID-19 response

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

Health and Safety Strategy

Our 2022-25 Health and Safety Strategy, approved during 2022, contains six focus areas:

- **Build safety capabilities** – develop safety capability and accountability at all levels of the organisation
- **Improve systems and governance** – improve and simplify the Health, Safety and Environment (HSE) management system and reporting
- **Refocus critical control** – drive and embed focus on critical risks and application of critical controls
- **Promote mental health and wellbeing** – deliver an evidence-based, holistic health and wellbeing framework, driven by continuous improvement
- **Prioritise public safety** – build awareness of the hazards associated with contact with the electricity network
- **Advance land transport** – improve focus and understanding on the safety risks related to land transportation activities.

Throughout 2021-22 the following initiatives were completed against the previous Health and Safety Strategy:

- **Leadership and culture** – an organisational safety diagnostic was undertaken to help guide the development of the new and approved Health and Safety Strategy, identifying key focus and priority areas to develop a strong safety culture
- **Systems and governance** – risk and obligations modules were added to TotalSAFE, our system for capturing data for safety incidents, near misses, concerns, audits and inspections
- **Critical risks** – effectiveness verification exercises were developed, and a pilot program commenced to provide assurance and test the effectiveness of our HSE critical control framework
- **Health and wellbeing** – strategy initiatives were implemented (see below)
- **Public safety** – see page 35 for details

As part of the Health and Safety Strategy, our Health and Wellbeing Strategy is designed to facilitate a culture of holistic health and wellbeing where employees finish work each day healthier than when they started.

To support leaders and employees in proactively managing their mental wellbeing, resources were created during 2021-22, including a wellbeing conversation tool and mental health resource tool. Employee Assistance Program resources were also actively promoted, resulting in almost eight per cent of employees accessing the program in 2021, up from five per cent in 2020.

Employees were encouraged to foster their physical wellbeing through injury prevention, with a warm-up and stretch campaign implemented, supported by 'how to' videos. Also, a network of employees adopted the role of Injury Prevention Ambassadors, to encourage their colleagues to perform their roles in such a manner that prevents injuries from occurring.

Our IGNITE health educational program continued, with topics including: setting up your day for success; staying socially connected; and sleeping better. The program also expanded into IGNITE Healthy You, providing employees with consultations by a nutritionist and an exercise physiologist, to develop their own nutrition and exercise plan.

Safety performance

Safety is a core value, and our employees are empowered to 'make safety their own' through personal commitment – 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, with all employees as conscientious safety leaders.

Safety performance continued to improve during 2021-22, with no Major Lost Time Injuries (LTIs), a 40 per cent reduction in High Potential Incidents (HPIs) and a 29 per cent reduction in Total Recordable Injuries (TRIs). A decrease in near misses reported was characterised by a 23 per cent reduction in Network Fatal Risk (NFR) 4 (Motor vehicle accident) near misses. This highlights the positive impact of a number of driving related programs, implemented over recent years, including: In Vehicle Monitoring System, Fleet Inspection and Audit System, fleet replacement and improved load and equipment restraints, and driving safety internal communications.

Safety performance measures are included in the Company Scorecard (page 29).

One incident involving Essential Energy employees was reported to SafeWork NSW during 2021-22. The incident was classified as Network Fatal Risk (NFR) 1 (exposure to unintended discharge of electricity). The single employee affected did not require any medical treatment and returned to work.

There were no prosecutions under the *Work Health and Safety Act* during 2021-22.

Frontline safety leadership

Following the introduction of a digital Hazard Identification, Risk Assessment and Controls (HIRAC) in March 2021, replacing paper-based HIRACs, employees have completed more than 116,000 digital HIRACs (to 30 June 2022). Of these, 82 per cent included one or more photos of Network Fatal Risks (NFRs) present on the worksite – providing a clear view of hazards at nearly 100,000 worksites that frontline teams have visited. Also, 45 per cent were revisited during onsite task completion, to mitigate safety risks. Digital HIRAC reports provide valuable insights to support continual improvement of onsite safety, risk awareness and greater engagement with frontline teams.

During 2021-22, toolbox talks reverted to face-to-face delivery, in line with our COVID-19 Operating Protocols. Daily toolbox talks continue to be a key focus point for depot teams to ensure they are set up for a safe day of work. The talks also provide opportunities to discuss trending issues, safety concerns and to debrief the prior day's work.

Operational teams also took on responsibility for depot assurance and risk review audits, from the Internal Audit team. This established three lines of defence in assurance: frontline assurance/checks; reviews of risk assessments by subject experts; and internal/external audit. It also supports coaching, mentoring and continual improvement of processes. The Operational Assurance and Risk Review program will continue to include all 96 depots and will introduce zone substations and Essential Water to the program.

Contractor safety

Throughout the year we continued to engage and collaborate with Contract Service Providers at various meetings on Work Health and Safety (WHS) matters, providing a forum for shared learnings, collaboration, collective problem solving and innovation around WHS matters. Also, training sessions continued to be delivered to employees, providing information and tools in relation to WHS contractor management responsibilities.

Following a number of incidents and near misses related to aerial works, we reviewed our contractor management practices for aerial service providers, with improvements to be implemented in the coming year.

Inclusion and diversity

Our Inclusion and Diversity Strategy, updated in 2021-22, 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'.

Key inclusion and diversity (I&D) progress during 2021-22 included:

- Establishing and monitoring targets to measure the impact of our I&D programs on the makeup of our workforce
- Embedding I&D goals into our performance management processes, to build employee capability
- Receiving an exemption from the NSW Anti-Discrimination Board to advertise, designate and recruit up to ten positions per year for Aboriginal and Torres Strait Islanders only, to help grow Aboriginal and Torres Strait Islander workforce participation rate to six per cent
- Implementing our Reconciliation Action Plan (RAP), including developing an Aboriginal and Torres Strait Islander Recruitment and Retention Strategy, Cultural Learning Strategy, and a Cultural Protocols Policy (see page 7 for more information)
- Promoting our Early Talent Pathways Program through our diversity partners and supporting our Aboriginal and Torres Strait Islander Apprentices and Trainees with a whole-of-life mentoring program
- Awarding two Aboriginal and Torres Strait Islander Scholarships to undergraduate university students, bringing the current total of supported students to four
- Measuring baseline data in all our I&D streams in conjunction with external partners, to build on results from last year and inform the development of action plans to impact and promote inclusion across the organisation. Partners include National Association of Women in Engineering, Australian Network on Disability, Pride in Diversity and Reconciliation Australia
- Delivering a Respectful Workplace Program during October 2021 – to coincide with National Mental Health Month and National Safe Work Month – to ensure our workplace is safe for all employees
- Continuing to raise awareness by celebrating events virtually across our I&D streams, including: NAIDOC Week (July 2021), Wear It Purple Day (August 2021), Diwali (November 2021), White Ribbon Day (November 2021), International Women's Day (March 2022), Harmony Day (March 2022), IDAHOBIT Day (May 2022) and National Reconciliation Week (May-June 2022).

See page 96 for workforce diversity targets and progress as at 30 June 2022.

Employee engagement

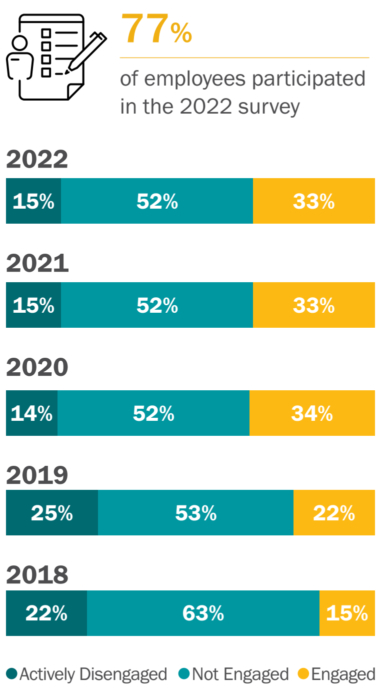
In June 2021, 77 per cent of Essential Energy employees completed the annual engagement survey to share their opinions, comments and suggestions on ways to make Essential Energy a better place to work. The percentage of engaged employees was marginally down on the previous year's result, from 34 per cent to 33 per cent. However, it was significantly higher than the Gallup Australian Company database, where 19 per cent of employees were engaged. The overall engagement score was 3.76 (out of five), down slightly from 3.79 in July 2020.

Feedback, which included 1,845 individual comments, highlighted opportunities for Essential Energy to continue to improve. Key focus areas for improvement during 2021-22 included:

- communication
- facilitating more productive and meaningful conversations for goals and development
- defining our future ways of working
- ensuring simplicity in new systems and technologies
- provide more and different learning, development and training opportunities
- strengthening accountability for performance.

The 2022 survey was conducted in June 2022, with 77 per cent of employees participating again. Overall engagement remained consistent with 2021 results, with 33 per cent of employees engaged – again, significantly higher than the Gallup Australian Company database, where 19 per cent of employees were engaged. The overall engagement score remained consistent, at 3.75. This year's survey included additional health and wellbeing questions, given the importance of wellbeing to how employees feel at work. Feedback included 3,040 individual comments (including 1,028 comments specific to wellbeing), highlighting opportunities for Essential Energy to continue to improve over the coming year. These consistent year-on-year results are encouraging and demonstrate that while nationally engagement levels are declining, Essential Energy remains committed to improving as an organisation that all employees can be proud of.

Engagement results



Learning and development

Training response to COVID-19

In response to the COVID-19 pandemic, we actively managed training delivery, including suspending non-critical training and establishing online delivery options in 2021, allowing authorisations to operate on or near the network to be fully maintained. COVID risk assessments were conducted and reassessed throughout the year to ensure adequate hygiene protocols were in place for both training and the related participant travel. We continue to monitor the COVID-19 situation, with rapid adjustments made to training schedules as the situation evolves.

Leadership development

In 2021-2022 we continued to build the capability of frontline leaders across the business, with 329 employees completing the Frontline Leadership Program. Building on this successful program, our Leadership Development Strategy has expanded the offer to leaders across multiple levels of the organisation. Program design was completed for programs for new middle leaders, for deployment from July 2022.

Customer service training

Over 400 employees have completed core modules of the Customer Focus Training Program, to build their customer centricity capability and to help deliver our customer experience vision of 'everyday excellence, every customer, every interaction'. The training experience provides learners with practical tools to effectively manage and improve customer interactions and written communication.

Employee learning offer

As part of creating an achievement and growth-oriented culture, an employee learning offer 'Learn & Grow' was launched, to provide all our employees with focused learning options to help develop their skills, core behaviours and career. Included in the offer are self-paced learning, virtual classroom workshops and supported study.

Apprenticeship, Traineeship and Graduate programs

January 2022 saw the commencement of 44 new apprentices, seven new trainees and four new Engineering and Information and Communications Technology (ICT) graduates, as part of our ongoing commitment to building a workforce capable of responding to the needs of the future, and reflective of the diverse communities that we serve.

The new apprentices included 41 powerline workers, a considerable increase over the previous few years, 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. As of 30 June 2022, we had 130 apprentices, with 119 apprentice powerline workers and 11 apprentice electrical technicians.

Six asset inspector trainees from the 2021 cohort successfully moved into permanent roles at the end of 2021 – five as asset inspectors and one as an apprentice powerline worker. Five new asset inspector trainees commenced their one-year training in 2022.

Five field operations trainees joined our one-year Aboriginal and Torres Strait Islander Pre-Employment Program in 2021, with three of these people successfully transitioning to apprenticeships in 2022. One did not complete the traineeship and one did not transition to an apprenticeship. The number of new trainees joining the program in 2022 was again five, with three moving directly into the apprentice powerline worker program before commencing the traineeship.

Four new participants joined the Graduate Program in 2022, bringing the total number of employees in the three-year program to eight. The new graduates come from a range of disciplines – data, asset management, cyber security, and digital development – reflecting the diversity of our future professional needs. The program includes development activities supported by Engineering Education Australia, as well as a variety of roles within the business.

Currently in our business:

130	7	8
apprentices	trainees	graduates

Post-trade courses provide additional capacity in our field crews, further enhancing local crews' ability to meet the future needs of the changing energy sector. For example, underground distribution capability is being developed through the cable jointing qualification, with 27 trainees continuing their training during 2021-22, and another nine to commence soon. A further 20 electrical technicians are in training to gain their powerline worker qualification, with the first cohort graduating during 2021-22.

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 1,830 Essential Energy employees and more than 2,200 external Accredited Service Providers (ASPs), as well as more than 800 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 also completed during 2021-22.

The capacity to conduct switching initial and refresher training in regional NSW was further enhanced during 2021-22, with the commissioning of a network simulation facility at Parkes and the introduction of five specialist vehicle/trailer combinations to take switching refresher training to remote depots.

Training centres are preparing for the future needs of the workforce with installation of training facilities for Stand-Alone Power Systems (SAPS).

Employee relations

The Essential Energy Enterprise Agreement 2018 and the Essential Energy Far West (Electricity) Enterprise Agreement 2018 nominally expired on 30 June 2021. Both enterprise agreements were renegotiated during 2021-22. The Essential Energy Enterprise Agreement 2021 came into operation on 28 February 2022 and the Essential Energy Far West (Electricity) Enterprise Agreement 2021 came into operation on 22 June 2022. Both enterprise agreements are for a three-year period and provide for a 3 per cent increase to wages and allowances in year one, applying from 1 July 2021. A further 2.5 per cent increase in wages will apply in years two and three, with an additional superannuation increase of 0.5 per cent in both years.

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

Our customers and communities

Support now and preparing for the future

Supporting customers and communities during floods

See ‘Restoring safe and reliable power following major floods‘ (page 19) for information about our support for customers and communities during major floods in February and March 2022.

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.

A strategic three-year review of the charter by signatories and key stakeholders, including market bodies and regulators, confirmed its value as the only forum that focuses on customers across the whole supply chain. Stakeholders generally agree that the most valued aspects are collaboration, building trusted relationships and knowledge sharing to improve customer outcomes. A key recommendation was to prioritise and strengthen cross-industry ‘Better Together’ initiatives and outcomes.

Essential Energy is currently involved in the following ‘Better Together’ initiatives:

- Transitioning Communities
- Landholder and Community Engagement
- First Nations Engagement
- Life Support
- Knock Before Disconnect
- Communal Content Hub
- Know Your Customers and Communities
- Family Violence
- Disaster Resilience.

In line with other review recommendations, signatories will continue to publicly report on progress against the Energy Charter’s five principles. However, the Independent Accountability process has been replaced with a decentralised accountability framework leveraging existing signatory consultation structures, rather than through an Independent Accountability Panel.

Our 2021-22 Disclosure Statement, submitted to our Customer Advocacy Group and published on our website to invite public comment in September 2022, details our customer-centricity performance during the reporting period.

Our focus this year has been on embedding a new Corporate Strategy that promotes progressive, integrated, stable energy transition to a decarbonised future, planned in response to evolving customer expectations, market demands and regulatory complexities.

Expansion of our existing Customer Experience Strategy into a dedicated Customer Strategy is embedding organisation-wide customer focus and facilitating customer-led business transformation. A new customer focus training program is inspiring a customer-centric culture and giving every employee the tools they need to improve customer experience in a dynamic energy environment.

Customer Strategy

During 2021-22 we expanded our existing Customer Experience Strategy into a dedicated Customer Strategy, which matures our customer understanding and ensures our operations meet customers’ evolving needs and expectations in a dynamic energy landscape.

The new strategy promotes a customer-centric focus across our Corporate Strategy pillars. Refined customer segmentation delivers in-depth understanding of who our customers are and what they value.

Ongoing analysis of service gaps is facilitating customer-led business transformation – helping us to prioritise and develop new energy capabilities, tools and technologies.

To support the strategy, we:

- completed customer journey mapping for key customer segments and partners and identified 16 high-priority customer experience improvement projects
- engaged with customers and stakeholders to determine more appropriate regulatory customer service measures
- began progressively personalising our customer communications and enhancing engagement through multiple digital channels.

Our customer experience performance reflects outcomes to date, with increases across the past year in customer satisfaction (79.2 to 80.7) and brand reputation (70.8 to 71) and value remaining stable at 73, when comparing April-June 2022 with April-June 2021 results.

Customer Advocacy Group

Our Customer Advocacy Group (CAG) provides valuable 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 2021-22, four CAG meetings were held – in August and November 2021, and February and May 2022. Discussions included:

- **COVID–19 and caring for local communities** – the importance of Essential Energy continuing to work with industry and community-based organisations to understand and support employees and customers experiencing vulnerability, and continuing to implement safe work practices to keep communities safe
- **Public safety** – collaborating on fit-for-purpose safety information, in particular working around powerlines in the agriculture industry
- **NSW Electricity Infrastructure Roadmap** – areas of focus being planning and design on agricultural land, cost impact on consumer bills and transparency for consumers, and community participation in energy generation
- **Essential Energy's 2024-29 Regulatory Proposal** – feedback on the development of the proposal, including engagement strategies and highlighting the importance of building a shared energy future by embracing the energy transition.

Outside of the quarterly meetings, 2021-22 engagements included:

- **Sustainability Strategy** – perspectives on the relative priority of sustainability topics, to inform the development of the strategy
- **Energy Charter Disclosure Statement** – feedback on the programs and initiatives that create a customer-centric framework, and encouragement to meet growing customer expectations and the transformation changes in the energy industry
- **2024-29 Regulatory Proposal** – participation in 'collaboration collective' sub-groups to guide investment plans and co-design decisions in the development of the proposal
- **Pricing and tariff trials working groups** – to develop fair pricing mechanisms and work with customers and stakeholders to minimise bill impact and inform the 2024-29 Regulatory Proposal.

Public safety

Our Public Safety Strategy 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 delivered during 2021-22 include:

- implementing public safety behaviour and awareness research
- developing a Public Safety Plan for Essential Water
- continuing to partner on the Look Up and Live powerline safety planning tool
- continuing to implement the aerial marker program
- running an employee competition to generate ideas for new public safety initiatives, and to continue to raise awareness amongst employees of the importance of public safety
- improving incident data analysis, to identify industry trends
- delivering SMS notifications containing key safety information to third parties involved in powerline contact incidents
- increasing stakeholder engagement with key industry groups, such as Cotton Australia, NSW Farmers, Aerial Application Association of Australia, GrainCorp and SafeWork NSW, including collaboration and sharing of resources to share electricity safety messages to members.

The number of public safety incidents increased by 2.09 per cent during 2021-22, compared to 2020-21. Incidents relating to agribusiness, aviation and transport were the largest contributors to the increase in terms of at-risk groups, with the most common incident involving the public driving vehicles, and the public performing work driving or operating tipper trucks, high- load vehicles and agricultural vehicles and contacting the above ground electricity network, such as overhead conductors, power poles and pillars.

Public safety behaviour and awareness research

During 2021-22 we commenced public safety behaviour and awareness research across communities in our network area, with baseline research in September and October 2021, and smaller-scale follow-up research in February 2022. The research aimed to:

- determine customer awareness in relation to how to be safe around our electricity network
- understand customer behaviour when interacting around electrical infrastructure
- identify opportunities to increase public safety awareness in communities with low awareness
- determine the most effective methods for safety communications and advertisements.

Key findings from the research included:

- more than 83 per cent of customers surveyed know what to do when they spot a fallen powerline
- 98 per cent think that a fallen or broken powerline is 'live' and they should stay clear
- 86 per cent of customers correctly answered that they should stay at least 8m or greater from fallen powerlines
- more than 60 per cent of customers have an emergency plan for losing power during a bushfire or storm.

These insights will be used for public safety planning and education. Twice-yearly research is planned for the coming years.

Public Electrical Safety Awareness Plan

As part of the Public Safety Strategy, our Public Electrical Safety Awareness Plan 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 2021-22 digital advertising for public safety increased, supported by print publications and radio. Further improvements were made to our website, providing a hub of safety information for the community. Content optimisations were made to improve our search engine ranking for those seeking online electricity safety information.

Summer safety campaign

During 2021-22 we ran a summer safety advertising campaign, to share important messages on how to remain safe around our network during bushfires and storms. The effectiveness of the campaign was recognised by the fact that it won the Drum Awards for Digital Advertising Asia-Pacific 2021.

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. In 2021, 891 schools (97 per cent of primary schools from our network area) registered for the program.

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.

Highlights during 2021-22 included:

- Submission of our second Modern Slavery Statement to the Australian Government in December 2021, highlighting our progress during 2020-21
- Collaboration across the energy sector, via the Energy Procurement and Supply Association (EPSA), to share insights and matters on modern slavery assurance
- Engagement of a leading practice business data gathering and intelligence entity, to assist in supply chain mapping and targeting improvement areas
- 94.3 per cent of our supply base addressable spend has now been assurance surveyed for modern slavery for the first time – a significant achievement building on our 2021 position of 32 per cent
- 474 key suppliers, ranging across many different spend categories, have responded to our assurance surveys
- 60 key suppliers have been subject to an independent assessment of their respective supply chains to assess ‘origins of manufacturing’ for higher risk countries. This assessment mapped product components and subcomponents manufacturing locations across 43 countries. The assessment found no evidence of modern slavery related breach or lawsuits on any of the suppliers in secondary databases
- Five key material supplier relationship meetings were conducted to explore insights into what each supplier is doing to ensure their supply chains are free of modern slavery, and to share practices and opportunities for collective improvement
- Continued employee awareness and education. 2,469 employees have now completed online modern slavery awareness training, tailored for our employees
- No human rights breaches were reported in our supply base during 2021-22.

Our 2022 statement will be submitted in December 2022 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 Retail Law and Rules. In 2021-22, one immediately reportable breach was reported to the Australian Energy Regulator (AER), a reduction from four reported in 2020-21. The breach related to life support customers not being correctly notified of a planned interruption. No Quarterly Reported breaches were reported to the AER in 2021-22, down from one in 2020-21.

Customer service performance

Our Customer Contact Centre received 248,671 calls during 2021-22, with calls answered on average within 63 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 FY20-21 whilst also maintaining productivity and customer satisfaction.

Translation services

During 2021-22, interpreting services were provided to customers 12 times across three different languages, at a total cost of $535.48. 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 our network area through a range of funding opportunities. The three key elements of Essential Communities are Community Choices, Community Support, and the Essential Giving Program. A total of $662,244 was provided to over 290 community groups, stakeholders and charity organisations during 2021-22.

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. This year, our Community Hall Program was integrated into the Community Choices Program. Groups are nominated by the community and selected via online voting that is open to all members of the public. The 2022 program saw more than 300 nominations received, with a 79% increase in the number of new groups nominated since 2020-21. More than 113,000 votes were received. Funding was awarded based on the highest number of votes within 20 geographic zones and three funding categories:

- standard zone funding – five funding allocations in each of the 20 zones, ranging from $1,100 to $2,500
- small communities funding – two $500 funding allocations for each of the 20 zones for groups who reside in a community with less than 10,000 people
- community hall funding – eight $300 funding allocations for each of the two zones for community halls.

A total of $242,000 was shared by 239 community groups.

Community Support provides funding to community groups that make a difference in their local communities. This year $59,977.70 was provided to 31 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 2021-22, $76,346.54 was donated by employees. Dollar matching included an additional donation to each charity partner, for a total donation of $226,346.48. The EGP also provides dollar matching for employee-initiated fundraising, with applications reviewed by an employee and management representative committee. $4,460 of employee-initiated fundraising was matched, totalling $8,920. The EGP company total in 2021-22 was $235,266.48.

Stand Tall Summer Camp

As a part of our Essential Communities Sponsorship Program we proudly supported ten students, in years seven to ten, from the Bundarra (NSW) region to attend Stand Tall Summer Camp, held near Karuah in January 2022.

The camp provided young people who are going through challenging times with a safe environment to relax and develop new friendships, while also being supported by positive mentors and role models. They participated in a range of fun activities, including hiking, swimming and team activities. They also heard from speakers, who shared encouraging and challenging information to help build frameworks of hope and encouragement.

A member of our Community Relations Team joined the camp for a day, to meet the young people and share information about staying safe around the electricity network. Skipping, with eight metre ropes, was used to convey the message to always stay at least eight metres away from fallen or damaged powerlines or power poles.

The original plan for the camp was for a larger group of young people to attend the camp at Chowder Bay on Sydney Harbour, however these plans were interrupted by COVID-19. Despite this interruption, it was great for the young people sponsored by Essential Energy to join the camp at Karuah.

Community Choices	
Donations to 239 community groups	$242,000.00
Community Support	
Donations to 31 community groups	$59,977.70
Essential Giving Program	
Employee donations to charity partners	$76,346.54
Dollar matched payments and one-off donations to charity partners	$149,999.94
Employee-initiated fund raising (including dollar matching)	$8,920.00
Corporate sponsorship	
Royal Far West – Healthy Kids Bus Stop – Bourke Community Sponsor	$5,000.00
Stand Tall Summer Camp	$10,000.00
NSW Farmers	$20,000.00
Stakeholder engagement	
Clontarf	$30,000.00
Aboriginal and Torres Strait Islander Scholarships	$20,000.00
STARS Foundation	$20,000.00

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 Essential Energy'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 Essential Energy. It gives direction and exercises judgment in setting Essential Energy'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 Essential Energy and leads the Executive Leadership Team (ELT) in delivering the 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 Treasurer of NSW and Minister for Energy, and the Minister for Finance and Employee Relations. 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. Terri Benson has declared potential conflicts of interest in relation to her directorship with the Birdon Group. Jennifer Douglas has declared potential conflicts of interest in relation to her directorship with Hansen Technologies Limited until 28 February 2022, and GUD Holdings. The Honourable Duncan Gay has declared potential conflicts of interest in relation to his directorships with Bush Children's Education Foundation. Vanessa Fernandes (Sullivan) has declared potential conflicts of interest to her directorship with AGL Energy. 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 Benson, Ms Douglas, the Honourable Duncan Gay and Ms Fernandes (Sullivan) as independent directors.

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 outlined below. Each Committee acts in accordance with a charter endorsed by that committee and approved by the Board setting out matters relevant to the composition, responsibilities, authority and reporting of the Committee.

Audit Committee

The Audit Committee meets at least four times per year. The Committee 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, monitoring regulatory risk 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 remunerated 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 meets at least four times per year. The Committee 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 remunerated adviser to the Committee, with a particular expertise in safety matters.

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 [1]	$3,000

1. Base fee 2. Additional fee

Organisation structure as at 30 June 2022

Board of Directors

John Cleland
Chief Executive Officer

Assets and Operations
Luke Jenner
Chief Operating Officer
- Asset Engineering Risk and Compliance
- Asset and Operational Excellence
- Enterprise Asset Management
- Network Investment and Maintenance
- Network Services
- Operations
- Strategy and Future Development
- System Control

Corporate Affairs
Chantelle Bramley
Executive General Manager Corporate Affairs
- Communications
- Corporate Strategy
- Regulatory Affairs
- Sustainability

Customer and Commercial
Justin Hillier
Chief Commercial Officer
- Finance Operations
- Corporate Finance Procurement
- Customer
- Corporate Services Transformation
- Commercial
- Telecommunica-tions Business Unit

eTech
Sarah McCullough
Chief Information Officer
- Strategy, Architecture and Planning
- Commercial Vendor and Information Technology Service Management
- Cyber Security
- eTech Business Partnering
- eTech Operations
- eTech Transformation

Governance and Corporate Services
Michael Bowan
General Counsel and Company Secretary
- Internal Audit
- Legal
- Governance
- Property Services
- Risk and Compliance
- Secretariat

People and Safety
Amalie Smith
Chief Human Resources Officer
- Employee Relations
- Learning and Development
- Health, Safety and Environment
- Human Resources Business Partnering and Organisational Development
- Human Resources Services
- Workforce Alignment and Reward

Transformation
Patrick Bossert
Chief Transformation Officer
- Business Change
- Enterprise Delivery Office
- Enterprise Data Transformation
- Portfolio Master Scheduling
- Business Architecture
- Portfolio Reporting Analysis

Essential Energy Board of Directors

Doug Halley
BCom MBA
Chair

Commenced:
25 August 2020

Current Term:
25 August 2020
to 24 August 2024

Committees
- Member, Audit Committee
- Chair, Nominations Committee

Other Directorships
- Hygrovest Ltd, Director

Terri Benson
BBus (Act), CPA, GAICD
Non-Executive Director

Commenced:
28 April 2022

Current Term:
28 April 2022
to 27 April 2025

Committees
- Chair, Audit Committee from 27 May 2022
- Member, Nominations Committee from 28 April 2022
- Member Risk and Cyber Security Committee from 27 May 2022

Other Directorships
- Birdon Group, Managing Director

Robyn Clubb
BEc CA FFin MAICD
Non-Executive Director

Commenced:
15 March 2018

Current Term:
15 March 2018
to 14 March 2024

Committees
- 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
- FCFA Management Leasing Pty Ltd, Chair
- Pro Ten Limited, Chair
- RAS Foundation Ltd, Chair
- Royal Agricultural Society of NSW Foundation, Councillor

Jennifer Douglas
BSc/LLB LLM MBA GAICD
Non-Executive Director

Commenced:
15 March 2018

Current Term:
15 March 2018
to 14 March 2025

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

Other Directorships
- GUD Holdings Limited, Director
- Hansen Technologies Limited, Director (until 28 February 2022)
- Judo Bank Pty Ltd, Director
- Judo Capital Holdings Limited, Director
- Peter MacCallum Cancer Foundation, Director
- St Kilda Football Club, Director

John Fletcher
BSc, MBA
Non-Executive Director
Resigned, effective
13 May 2022

Commenced:
13 October 2016

Current Term:
13 October 2016
to 13 May 2022

Committees
- Chair, Audit Committee until 13 May 2022
- Member, Nominations Committee until 13 May 2022
- Member, Risk and Cyber Security Committee until 13 May 2022

Other Directorships
- Nil

The Honourable Duncan Gay
Non-Executive Director

Commenced:
25 August 2020

Current Term:
25 August 2020
to 24 August 2023

Committees

- 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 until 29 September 2021
- Bush Children's Education Foundation, Director
- Ministerial Advisory Committee on Freight, Chair
- Sir Earle 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
to 24 August 2024

Committees

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

Other Directorships

- AGL Energy Limited, Director
- Bircher Capital, Director
- Centacare, Advisory Board member
- Eco Markets Australia, Director
- Niche Environment Heritage, Director
- Smart Energy Council, Director until 30 July 2021
- Sunwater, Director

John Cleland
BEc DipFinMan CA FFin, GAICD
CEO and Executive Director

Commenced:
18 July 2016

Committees

- 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 and Deputy Chair

Board and Board Committee meetings held in 2021-22

Table: 1 July 2021 to 30 June 2022 Directors' Attendance Schedule

	Board of directors' meetings		Audit committee meetings		Board regulatory committee meetings		Nominations committee meetings		Risk and cyber security committee meetings		Safety human resources and environment committee meetings	
Director[1]	A	B	A	B	A	B	A	B	A	B	A	B
D Halley	11	11	6	6	–	4	2	2	–	4	–	4
T Benson[2]	2	2	1	2	–	–	–	–	–	–	–	–
R Clubb	11	11	–	1	–	–	2	2	4	4	4	4
J Douglas	11	11	–	–	4	4	2	2	4	4	–	1
J Fletcher[3]	9	9	5	5	–	–	2	2	4	4	–	1
D Gay	11	11	–	2	4	4	2	2	–	1	4	4
V Sullivan	11	11	6	6	–	2	2	2	–	3	4	4
J Cleland[4]	11	11	6	6	4	4	2	2	4	4	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. All directors have the right to attend all Committee meetings, as per the Committee Charters, except when the Committee Chair determines conflict of interest in relation to matters to be discussed by the Committee
2. Terri Benson was appointed to the Board of Directors on 28 April 2022, and appointed as Chair of the Audit Committee and a member of the Risk and Cyber Security Committee on 27 May 2022
3. John Fletcher resigned from Essential Energy Board of Directors, effective 13 May 2022
4. The CEO is a member of the Board Regulatory Committee and attends all other Committee meetings

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, an indemnity was granted to a new director 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 2022

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, LLM
Executive General Manager Corporate Affairs

Justin Hillier
BBus, CA, GDipAppFinInv, FINSIA, GAICD
Chief Commercial Officer

Luke Jenner
BEng (Hons), EMBA, GAICD
Chief Operating Officer

Sarah McCullough
GradCertMgt(InfoTech), MBA(Comp), GAICD
Chief Information Officer

Amalie Smith
MBA (Log&SupChaMgt), GradCertBusMgt, GAICD
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 207 officers. Total remuneration packages are outlined in tables on page 44.

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 in line with market trends 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 ELT. The remaining Senior Managers are reviewed by either the CEO or relevant Executive.

Remuneration percentages

For Senior Managers' fixed remuneration, a 2.5 per cent average increase was implemented from 1 July 2021. Total remuneration for Senior managers, including Short Term Incentive payments, accounted for 10.9 per cent of Essential Energy's employee related expenditure in 2021-22, compared with 9.5 per cent in 2020-21.

Executive remuneration 2021-22

Name	Position at 30 June 2022	Annual Remuneration (excl. Short Term Incentive) at 30 June 2022	Short Term Incentive 2021-22 [1]	Annual Remuneration (excl. Short Term Incentive) at 30 June 2021	Short Term Incentive 2020-21
John Cleland	Chief Executive Officer	$822,960	$202,448	$802,888	$181,854
Michael Bowan	General Counsel & Company Secretary	$422,790	$77,213	$376,537	$68,247
Chantelle Bramley	Executive General Manager Corporate Affairs	$460,000	$77,377	$379,839	$65,522
Justin Hillier [2]	Chief Commercial Officer	$541,200	$100,399	$480,000	$83,050
Luke Jenner [3]	Chief Operating Officer	$514,500	$93,521	$418,655	$81,742
Sarah McCullough	Chief Information Officer	$357,000	$66,625	$340,000	$62,730
Amalie Smith	Chief Human Resources Officer [4]	$365,000	$64,125		
Patrick Bossert	Chief Transformation Officer [5]	$461,250	$60,381	$450,000	$43,762
Anthony Mitchell	Acting Chief Transformation Officer [6]	$330,000	$40,333		

1. Short Term Incentive payments are based on 2021-22 performance against key criteria, approved by the Board in August 2022 and paid in 2022-23.
2. Chief Financial Officer until 31 October 2021. Appointed Chief Commercial Officer on 1 November 2021.
3. General Manager Customer and Network Services until 31 October 2021. Appointed Chief Operating Officer on 1 November 2021.
4. Appointed 29 November 2021.
5. Extended leave in 2021-22.
6. Acting Chief Transformation Officer from 27 January 2022.

Senior managers by band (gender and average remuneration)

Band [1]	Gender 30 June 2022 F	Gender 30 June 2022 M	Gender 30 June 2021 F	Gender 30 June 2021 M	Range $	Average remuneration 30 June 2022 [2] $	Average remuneration 30 June 2021 [3] $
Above Band 4 [4]		3		2	$576,700+	$758,343	$773,896
Band 4	1	2		4	$499,251-$576,700	$519,671	$499,957
Band 3	2	3	2	2	$354,201-$499,250	$406,791	$424,448
Band 2	5	18	7	12	$281,551-$354,200	$308,781	$297,564
Band 1	45	128	29	119	$197,400-$281,550	$224,701	$221,265
Totals	**53**	**154**	**38**	**139**			

1. Bands are as defined in the Public Service Senior Executive Annual Determination dated 5 August 2017 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 2022, 2021-22 Short Term Incentive payment based on 2021-22 performance against key criteria, paid in 2022-23 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 2021, 2020-21 Short Term Incentive payment based on 2020-21 performance against key criteria, paid in 2021-22 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 unplanned events.

This approach has been successfully used for major incidents during the reporting period including floods in NSW in February 2022 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. Risks are insured through either the commercial insurance market or Insurance and Care NSW where appropriate. 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 System (FCCS) 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 FCCS 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 2021-22, Essential Energy received two 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 five 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 29 internal audits across the organisation, with suitable actions implemented to address key issues identified. Essential Energy's Internal Audit function undertakes yearly quality reviews in accordance with the function's quality assurance and improvement program, 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	2021-22 result	2020-21 result	2021-22 SCI[1]	Variation to prior year	Variation to SCI
Revenue ($M)	**1,603.1**	1,526.5	**1,580.1**	76.6	23.0
Operating expenditure ($M)	**836.1**	822.8	**841.8**	13.3	(5.7)
Earnings before interest, tax, depreciation and amortisation (EBITDA) ($M)	**767.0**	703.7	**738.3**	63.3	28.7
Earnings before interest and tax (EBIT) ($M)	**353.0**	301.2	**305.8**	51.8	47.2
Operating profit (loss) before tax ($M)	**44.7**	4.0	**13.2**	40.7	31.5
Operating profit (loss) after tax ($M)	**31.2**	3.0	**9.2**	28.2	22.0
Total distribution (dividend + current income tax expense + government guarantee fee) ($M)	**105.2**	102.7	**114.4**	2.5	(9.1)
Return on capital employed (per cent)[2]	**4.0%**	3.6%	**3.6%**	0.4%	0.4%
Return on assets (per cent)[2]	**3.7%**	3.4%	**3.6%**	0.3%	0.1%
Return on equity (per cent)[2]	**1.1%**	0.1%	**1.0%**	1.0%	0.1%
Capital expenditure ($M)[3]	**465.6**	464.2	**561.6**	1.4	(95.9)
Gearing (%)	**66.0%**	71.8%	**73.2%**	(5.8%)	(7.2%)

1. SCI – Statement of Corporate Intent.
2. Return ratios include customer contributions (including gifted assets).
3. Capital expenditure excludes gifted assets and lease right of use asset additions.

Performance against prior year

The operating profit after tax for the year was $31.2M, compared to a $3.0M profit in 2020-21. This improvement was primarily a result of:

- Higher revenue due to 2021-22 tariffs including $56M under-recoveries of revenue from prior years and to cover increased transmission costs, higher gifted assets and customer contributions revenue of $21.4M, lower vegetation management expenditure and lower employee expenses due to higher bond rates reducing the value of leave provisions
- This was partly offset by higher transmission costs (recovered in revenue), depreciation, finance expenditure and taxation costs.

The increase in EBITDA of $63.3M from the prior year was mainly a result of the higher revenue.

Borrowings

Total borrowings increased by $84.5M over the year (including capitalised indexation and movements in deferred interest, premiums and discounts) to fund the planned capital expenditure program. The gearing ratio, calculated as net debt divided by debt plus equity at year end, decreased significantly from 71.8 per cent to 66.0 per cent due to a revaluation of property, plant and equipment increasing the company's reserves. 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 2020-21 returns due to increase in profitability for the year.

Essential Energy's distributions to the NSW Government for 2021-22 marginally increased to $105.2M compared to $102.7M in 2020-21. Distributions consisted of current income tax expense of $7.3M and government guarantee fee on debt of $97.9M. No dividend was paid or provided for 2021-22.

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.

Profit of $31.2M against a budgeted profit of $9.2M was a result of:

- revenue increasing by $23.0M
- a reduction in operating expenses of $5.7M
- a reduction in depreciation, amortisation and impairment of $18.6M due to lower impairment of non-electricity system assets and below budget capital expenditure.

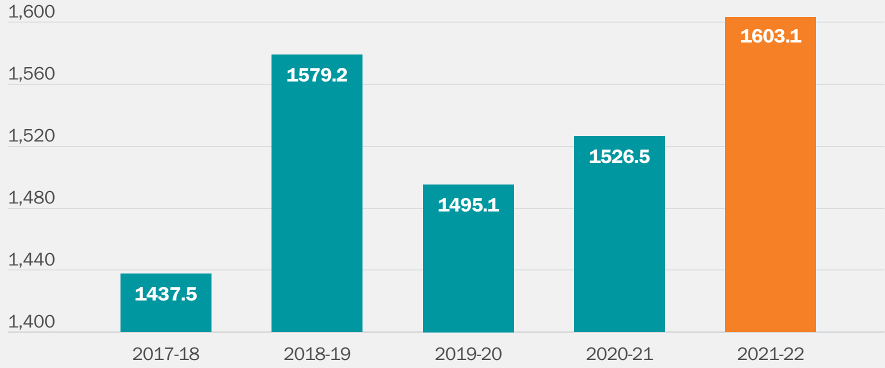
Offset by:

- an increase in finance costs of $15.8M
- an increase in tax expense of $9.5M.

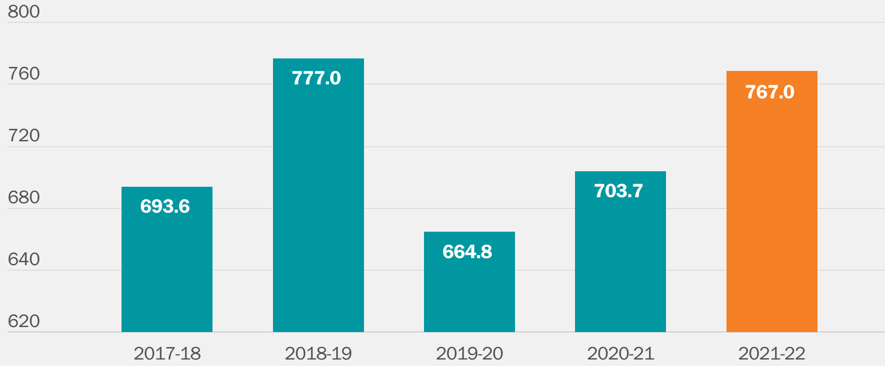
Capital expenditure was $95.9M lower than budget. This was mainly due to:

- Network electricity works delivery within 2021-22 has been broadly affected by widespread wet weather, significant flooding and some protected industrial action
- Network water capex was $27M below budget due to site shutdowns and restrictions on travel for contractors. The planned graziers pipeline project ($12M) has been delayed
- Fleet and property expenditure was also disrupted due to supply and travel restrictions.

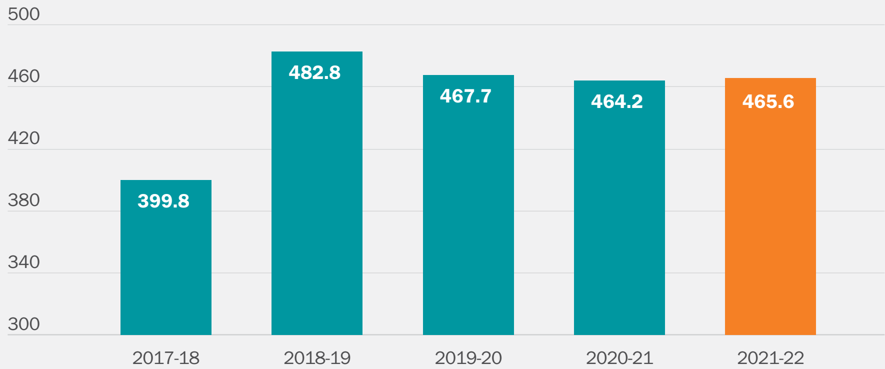
Total Revenue ($M)



EBITDA ($M)



Capex ($M)



Financial statements

For the year ended 30 June 2022

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For the year ended 30 June 2022

AUDITOR-GENERAL
NEW SOUTH WALES

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 2022, the Statement of Financial Position as at 30 June 2022, the Statement of Changes in Equity and the Statement of Cash Flows, for the year then ended, notes comprising a Statement 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), the Government Sector Finance Regulation 2018 (GSF Regulation) and the Treasurer's Directions
- 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 [Comments]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.

Level 19, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000
GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | mail@audit.nsw.gov.au | audit.nsw.gov.au

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 2022. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

Key Audit Matter	How my audit addressed the matter
Fair value of system assets	
At 30 June 2022, the Corporation's Statement of Financial Position reported $9.3 billion in system assets and $235 million of land and buildings (collectively 'system assets') measured at fair value. System assets are highly specialised and accounted for 98 per cent of the total property, plant and equipment balance. I considered this to be a key audit matter because: • system assets are financially significant to the Statement of Financial Position • 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. Further information on the valuation techniques, inputs and sensitivity of the reported balance for system assets is disclosed in Note 15.	Key audit procedures included the following: • obtained an understanding of the Corporation's approach to estimating the fair value of system assets • assessed whether the DCF model: – incorporated all key assumptions and inputs relevant to valuing system assets of an electricity distribution entity – 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.
Accrued revenue from unread meters	
At 30 June 2022, the Corporation's Statement of Financial Position recorded $187 million of accrued revenue from unread meters. This is an estimate of customers electricity usage which has not been subject to a meter read. I considered this to be a key audit matter because there is significant judgement and uncertainty involved in calculating this accrual, such as the: • amount of electricity loss in transit between the distribution network and the end customer • different rates and types of revenue charges (for example network access, solar feed-in and demand charges) for residential and commercial customers • complexity in estimating electricity usage across a large customer base, which can be influenced by many factors including weather and individual circumstances. Further information on recognition and measurement of accrued revenue from unread meters is disclosed in Note 2.	Key audit procedures included the following: • obtained an understanding of the processes and key controls the Corporation has in place to determine the estimated unbilled electricity usage charges • reviewed reasonableness of the key assumptions for electricity loss factors, energy consumption and charges used to determine the unbilled network usage charges • tested the mathematical accuracy of the calculation • assessed the historical accuracy of the estimate against subsequent actual billings.

Directors' 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 Directors' responsibility also include such internal control as the Directors determines are 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

19 September 2022
SYDNEY

Statement by Directors

For the year ended 30 June 2022

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 Direction issued under the *Government Sector Finance Act 2018*. 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 2022, 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.

Yours sincerely,

Doug Halley
Chair

John Cleland
Chief Executive Officer

Dated: 15 September 2022

Statement of Comprehensive Income

For the year ended 30 June 2022

	Notes	2022 $M	2021 $M
Profit or loss			
Network revenue from contracts with customers	2(a)	**1,341.5**	1,270.7
Other revenue from contracts with customers	2(b)	**235.9**	209.2
Total revenue from contracts with customers		**1,577.4**	1,479.9
Other revenue	2(c)	**25.7**	46.6
Total revenue		**1,603.1**	1,526.5
Pass-through costs	3(a)	**(304.5)**	(283.3)
Operating expenses	3(b)	**(519.3)**	(534.3)
Loss on disposal or write-off of non-financial assets	3(c)	**(12.3)**	(5.2)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)		**767.0**	703.7
Depreciation, amortisation and impairment	3(d)	**(414.0)**	(402.5)
Earnings before interest and taxation (EBIT)		**353.0**	301.2
Finance costs	3(e)	**(308.3)**	(297.2)
Profit before income tax		**44.7**	4.0
Income tax expense	4(a)	**(13.5)**	(1.0)
Profit for the year		**31.2**	3.0
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on remeasurement of superannuation defined benefits	23(f)	**21.7**	34.3
Gain on revaluation of system assets and land and buildings	7 & 8	**1,050.0**	–
Reversal of revaluation reserve on disposal of assets		**(6.0)**	–
Income tax expense relating to these items	4(b)	**(319.7)**	(10.3)
		746.0	24.0
Items that will be reclassified subsequently to profit or loss			
Gains on cash flow hedges		**0.3**	0.3
Income tax expense relating to these items	4(b)	**(0.1)**	(0.1)
		0.2	0.2
Total other comprehensive profit for the year		**746.2**	24.2
Total comprehensive profit for the year		**777.4**	27.2

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2022

	Notes	30 June 2022 $M	30 June 2021 $M
Assets			
Current assets			
Cash and cash equivalents	5	**2.4**	3.2
Trade and other receivables	6	**275.3**	253.8
Inventories		**45.4**	41.3
Prepaid income tax		**—**	24.4
Total current assets		**323.1**	322.7
Non-current assets			
Trade and other receivables		**6.5**	0.7
Property, plant and equipment	7	**9,727.3**	8,532.6
Intangible assets	8	**156.0**	162.0
Right-of-use assets	21	**33.1**	36.7
Other non-current assets		**0.3**	0.3
Total non-current assets		**9,923.2**	8,732.3
Total assets		**10,246.3**	9,055.0
Liabilities			
Current liabilities			
Trade and other payables	9	**289.7**	272.4
Contract liabilities	10	**2.9**	2.6
Interest bearing liabilities	11	**585.9**	589.2
Current tax liabilities		**0.9**	—
Provisions	12	**202.2**	220.8
Deferred revenue	13	**2.1**	2.4
Total current liabilities		**1,083.7**	1,087.4
Non-current liabilities			
Contract liabilities	10	**23.3**	2.6
Interest bearing liabilities	11	**5,529.4**	5,441.6
Deferred tax liabilities	4(c)	**425.7**	99.6
Provisions	12	**33.0**	56.0
Total non-current liabilities		**6,011.4**	5,599.8
Total liabilities		**7,095.1**	6,687.2
Net assets		**3,151.2**	2,367.8
Equity			
Contributed equity		**130.5**	130.5
Reserves		**1,887.9**	1,156.8
Retained earnings		**1,132.8**	1,080.5
Total equity		**3,151.2**	2,367.8

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2022

	Contributed Equity $M	Asset Revaluation Reserve $M	Hedge Revaluation Reserve $M	Retained Earnings $M	Total Equity $M
Balance at 1 July 2021	130.5	1,157.3	(0.5)	1,080.5	2,367.8
Profit for the year	—	—	—	31.2	31.2
Other comprehensive income					
Actuarial gains on remeasurement of superannuation defined benefits net of tax	—	—	—	15.1	15.1
Net increase in reserves net of tax	—	730.9	0.2	6.0	737.1
Total comprehensive profit	—	730.9	0.2	52.3	783.4
Balance at 30 June 2022	130.5	1,888.2	(0.3)	1,132.8	3,151.2
Balance at 1 July 2020	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 net of tax	—	—	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

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2022

	Notes	2022 $M	2021 $M
Cash flows from operating activities			
Receipts from customers		1,617.4	1,555.8
Payments to suppliers and employees		(976.5)	(949.4)
Interest paid		(260.3)	(304.3)
Income tax received/(paid)		18.0	(18.5)
Net cash inflow from operating activities	22	398.6	283.6
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(452.7)	(449.9)
Proceeds from sale of property, plant and equipment		21.0	4.4
Net cash outflow from investing activities		(431.7)	(445.5)
Cash flows from financing activities			
Proceeds from borrowings		76.0	217.5
Repayment of borrowings		(40.0)	(85.6)
Payment of principal portion of lease liabilities		(3.7)	(4.4)
Net cash inflow from financing activities	11	32.3	127.5
Net decrease in cash and cash equivalents		(0.8)	(34.4)
Cash and cash equivalents at the beginning of the year		3.2	37.6
Cash and cash equivalents at the end of the year	5	2.4	3.2

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2022

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 TPP21-7 *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.

The financial statements are presented in Australian dollars which is the Corporation's presentation and functional currency. 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).

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 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 no 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 Employee Relations on behalf of the NSW Government. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Corporation. The $2 share capital is included in Contributed Equity in the Statement of Financial Position.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Other accounting polices

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

New and revised accounting standards and Australian Accounting Interpretations

No new accounting standards and interpretations apply for the first time in the 2022 financial year. Two new accounting standard amendments apply but do not have an impact on the financial statements of the Corporation.

2. Revenue

	2022 $M	2021 $M
Revenue from contracts with customers		
a) Network revenue from contracts with customers		
Network Use Of System charges	**1,317.9**	1,248.0
Water and sewerage treatment charges	**23.6**	22.7
	1,341.5	1,270.7
b) Other revenue from contracts with customers		
Ancillary Services revenue	**24.8**	22.8
Metering Services revenue	**28.3**	28.7
Public Lighting services charges	**11.4**	11.4
▸ Gifted assets and customer contributions received	**139.1**	117.7
▸ Recognition of prepaid capital contributions revenue [1]	**2.3**	6.8
Other revenue from contracts with customers	**30.0**	21.8
	235.9	209.2
Total revenue from contracts with customers	**1,577.4**	1,479.9
c) Other revenue		
Government grants – revenue grants	**24.6**	45.5
Lease revenue	**1.1**	1.1
	25.7	46.6

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 $6.0M (2021: $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 and Environment.

The Corporation's total revenue was not materially impacted by the COVID-19 pandemic.

ii) Capital contributions

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

The performance obligation in these arrangements is satisfied at a point in time, being at the time the customer is connected to the network or the Corporation takes control of the asset. Cash capital contributions are initially recorded as liabilities. Once the network asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to revenue, and the asset is recognised as property, plant and equipment at cost.

Contributions of non-current assets are recognised as revenue and an asset when the Corporation gains control of the asset. The fair value of contributed assets is recognised as property, plant and equipment at the date at which control is gained and the assets are ready for use.

iii) Other revenue from contracts with customers

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

iv) Other Revenue

Government Grant Revenue

Government grants represent assistance by NSW Government and NSW Government agencies in cash or non-cash resources in return for past or future compliance with certain conditions. Where government grants are received in advance, they are recognised in the Statement of Financial Position as deferred revenue when they are received and are subsequently recognised as revenue when the Corporation complies with the conditions attaching to them, in accordance with AASB 120 Accounting for Government Grants and Disclosure of Government Assistance.

Grants that compensate the Corporation for the cost of an asset or revenue foregone are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

Grants that compensate the Corporation for expenses incurred are recognised as revenue in profit or loss in the same period in which the expenses are incurred or revenue foregone.

Non-cash resources are recognised at their fair value.

Revenue grants of $24.6M (2021: $23.2M) 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 in 2021 relating to the NSW Government's Water Security for Regions Program, which is part of the Restart NSW Fund (refer Note 13). In 2021 the Corporation received $21.4M from the Department of Planning and Environment under Section 20P of the State-Owned Corporations Act for the cost to the Corporation of a Ministerial Direction which was recognised as government grant revenue in that 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	2022 $M	2021 $M
a) Pass-through costs			
Transmission use of service expense		**248.5**	226.6
Climate change fund contributions		**56.0**	56.7
Total pass through costs		**304.5**	283.3
b) Operating expenses			
Employee benefits expense [1]		**261.3**	260.6
Other costs of distribution of energy and other services		**253.3**	272.5
Debt write-offs and change in provision for expected credit losses		**4.7**	(1.1)
Operating leases rentals, low value leases and short-term leases		**—**	2.3
Total operating expenses		**519.3**	534.3
c) Loss on disposal or write-off of non-financial assets			
Loss on disposal of property, plant and equipment		**12.6**	5.2
Gains and losses on modification of leases [2]		**(0.3)**	—
		12.3	5.2
d) Depreciation, amortisation and impairment			
Depreciation of property, plant and equipment	7	**374.2**	351.6
Depreciation of right-of use assets	21	**5.0**	5.0
Plant and equipment depreciation capitalised [3]		**(16.0)**	(12.1)
Depreciation expense		**363.2**	344.5
Amortisation of intangible assets	8	**23.3**	14.1
Impairment losses [4]	7	**27.5**	43.9
Total depreciation, amortisation and impairment		**414.0**	402.5

1. Employee benefits expense excludes $187.7M (2021: $191.7M) capitalised during the year as part of property, plant and equipment and intangible assets. Defined contribution superannuation expenses of $43.9M (2021: $41.8M) and defined benefit superannuation expenses $2.7M (2021: $4.5M) (Note 23(f)) (before capitalisation) were incurred.
2. The expense reflects gains and losses arising from amendment of lease terms and expected option periods
3. Plant and equipment depreciation capitalised – 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.

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.

e) Finance Costs

	2022 $M	2021 $M
Interest and finance charges paid or payable on loans	**208.4**	198.8
NSW Government competitive neutrality fee	**97.9**	96.2
Interest expense from lease liabilities (Note 21)	**1.5**	1.6
Unwinding of discount on provisions	**0.5**	0.6
Total finance costs	**308.3**	297.2

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 (2021: $nil).

f) Maintenance expenses (included in (b) above)

	2022 $M	2021 $M
Employee benefits expense	**58.6**	85.3
Contracted labour and other (non-employee related) expenses	**370.2**	373.1
	428.8	458.4

4. Income tax

	2022 $M	2021 $M
a) Income tax recognised in profit or loss		
Current tax expense		
Current year	7.6	7.5
Adjustments for prior years	(0.3)	(1.1)
	7.3	6.4
Deferred tax expense/ (credit)		
Origination and reversal of temporary differences	5.9	(6.2)
Over-provided in prior years	0.3	0.8
	6.2	(5.4)
Total income tax expense in profit or loss	13.5	1.0
Numerical reconciliation between tax expense and pre-tax net profit		
Profit before tax	44.7	4.0
Income tax at the statutory tax rate of 30 per cent (2021: 30 per cent)	13.4	1.2
Increase/ (decrease) in income tax expense due to:		
Over provided in previous years	—	(0.3)
Non-deductible expenses	0.1	0.1
Income tax expense on pre-tax net profit	13.5	1.0
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	6.5	10.3
► Revaluation of system assets and land and buildings	315.0	—
► Revaluation reserve reversal	(1.8)	—
	319.7	10.3
Items to be reclassified subsequently to profit or loss:		
Revaluation of hedge derivatives	0.1	0.1
Income tax charged directly to other comprehensive income	319.8	10.4
c) Recognised deferred tax assets and liabilities		
Deferred tax (assets) and liabilities are attributable to the following:		
Property, plant and equipment	502.1	184.7
Defined benefit superannuation benefits	(3.3)	(5.1)
Other liabilities and provisions	(73.1)	(79.9)
Other items	—	(0.1)
Net tax liabilities	425.7	99.6

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

Movement in temporary tax differences

	1 July 2021 $M	Recognised in profit or loss $M	Recognised in other comprehensive income $M	30 June 2022 $M
Property, plant and equipment	184.7	4.2	313.2	502.1
Defined benefit superannuation liabilities	(5.1)	(4.7)	6.5	(3.3)
Other liabilities and provisions	(79.9)	6.8	—	(73.1)
Other items	(0.1)	—	0.1	—
	99.6	6.3	319.8	425.7

	1 July 2021 $M	Recognised in profit or loss $M	Recognised in other comprehensive income $M	30 June 2022 $M
Property, plant and equipment	190.1	(5.4)	—	184.7
Defined benefit superannuation liabilities	(15.3)	(0.1)	10.3	(5.1)
Other 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

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

	2022 $M	2021 $M
Cash and bank balances	**2.4**	3.2

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

	2022 $M	2021 $M
Trade receivables	**59.7**	52.6
Less: allowance for expected credit losses	**(3.4)**	(0.3)
	56.3	52.3
Accrued revenue from unread meters	**186.9**	172.9
	243.2	225.2
Prepayments	**13.0**	16.7
Other receivables	**20.2**	12.6
Less: allowance for expected credit losses	**(1.1)**	(0.7)
	275.3	253.8
The movement in the allowance for expected credit losses is detailed below:		
Opening balance at 1 July	**1.0**	3.8
Provision for expected credit losses	**4.7**	(1.0)
Write-off of debts	**(1.2)**	(0.3)
Release of provision	**—**	(1.5)
Closing balance at 30 June	**4.5**	1.0

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 2022					
Gross carrying amount [1]		235.0	9,827.1	497.3	10,559.4
Accumulated depreciation and impairment [1]		(0.3)	(552.7)	(279.1)	(832.1)
Net carrying amount		234.7	9,274.4	218.2	9,727.3
Net carrying amount at start of year		217.5	8,090.0	225.1	8,532.6
Purchases and re-categorisations of assets		0.4	552.0	37.0	589.4
Disposals and write offs		(0.2)	(30.2)	(1.4)	(31.8)
Depreciation expense	3(d)	(8.2)	(323.5)	(42.5)	(374.2)
Revaluation		25.2	1,013.6	—	1,038.8
Impairment	3(d)	—	(27.5)	—	(27.5)
Net carrying amount at end of year		234.7	9,274.4	218.2	9,727.3
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		211.1	7,962.6	224.3	8,398.0
Purchases of assets		13.8	475.4	51.7	540.9
Disposals and write offs		(1.1)	(7.5)	(2.2)	(10.8)
Depreciation expense	3(d)	(6.3)	(296.6)	(48.7)	(351.6)
Impairment	3(d)	—	(43.9)	—	(43.9)
Net carrying amount at end of year		217.5	8,090.0	225.1	8,532.6

1. Accumulated depreciation on system assets and land and buildings was eliminated against gross carrying value on revaluation at 30 June 2022 in accordance with NSW Treasury Policy TPP21-05 Valuation of Physical Non-Current Assets at Fair Value.

	2022 $M	2021 $M
Assets under construction		
Expenditure on construction in progress at the end of the year	388.5	534.3
Historic cost of revalued assets		
The carrying amount of assets had they been carried under the cost model is:		
Land and buildings	179.4	186.2
System assets	7,721.4	7,525.9
Plant and equipment	218.2	225.1

Land and buildings include assets where a third party has an operating lease or license 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 $1,000 (2021: $600) are expensed as acquired.

Management judgement is required in the assessment of the types of costs that are directly attributable to the construction of the Corporation's property, plant and equipment. Satisfying the directly attributable criteria requires an assessment of those unavoidable costs that, if not incurred, would result in the property, plant and equipment not being constructed. Directly attributable overheads are allocated to the cost of construction of an asset based on direct cost of capital projects as a proportion of total direct project costs.

Property, plant and equipment transferred from customers, developers or Government agencies is initially measured at fair value at the date on which control is obtained.

ii) Measurement after initial recognition

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

System assets and land and buildings

System assets comprise physical assets which make up infrastructure used directly for the distribution of electricity, provision of public lighting, and water and sewerage infrastructure.

System assets and land and buildings are stated at fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. The fair value of system assets and land and buildings is determined using an income approach.

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

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

- Use of an estimate of likely future cash flows for five years to be derived based on financial forecasts;
- The time value of money, represented by the current market risk-free rate and the price for bearing the uncertainty inherent in the asset, as encapsulated in the discount rate; and
- A multiple of the forecast regulated asset base (RAB) at the end of the forecast period used as a proxy for the terminal value. The terminal RAB multiple is determined with reference to market observable multiples.

System assets and land and buildings are comprehensively valued at least every three years. In other years an interim management valuation is performed at each reporting date to ensure the net carrying value of system asset and land and buildings does not differ materially from their fair value. An interim formal valuation is undertaken where there is an indication that the valuation may differ materially from the carrying value. A comprehensive valuation was completed as at 30 June 2022.

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 profit or loss. Revaluation decrements are recognised in 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 2022 (2021: $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 $2.2M (2021: $8.6M) which was recognised in profit or loss.

The recoverable amount of the Public Lighting CGU's system assets was estimated at $21.5M as at 30 June 2022 (30 June 2021: $18.3M) based on a value in use valuation and applying a discount rate of 5.5%, An impairment charge of $25.3M (2021: $35.3M) has been recognised in profit or 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

The useful lives of system assets were reviewed and updated prospectively from 1 August 2021 with the introduction of a new fixed asset register which allowed a more granular level of recording. 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. With effect from 1 August 2021 where expenditure is incurred on the replacement of a component of an asset or other works are performed which are expected to extend the expected useful life of an asset the costs are added to the underlying asset and the life of the asset is extended. 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:

	Current	Comparative
Buildings	40 years	40 years
Leasehold improvements	Lesser of term of lease or useful life	Lesser of term of lease or useful life
System assets	10–55 years [1]	7–50 years
Plant and equipment	3–20 years	3–20 years

1. Extended by up to 20 years on refurbishment where the asset has less than 20 years of useful life remaining, limited to a maximum total life of 100 years.

8. Intangible assets

	Notes	Easements $M	Computer software $M	Other $M	Total $M
Year ended 30 June 2022					
At cost		**91.6**	**94.7**	**61.3**	**247.6**
Accumulated amortisation		**—**	**(65.0)**	**(26.6)**	**(91.6)**
Carrying amount		**91.6**	**29.7**	**34.7**	**156.0**
Net carrying amount at start of year		**80.5**	**45.2**	**36.3**	**162.0**
Acquisitions and re-categorisations		**—**	**1.8**	**4.4**	**6.2**
Amortisation	3(d)	**—**	**(17.3)**	**(6.0)**	**(23.3)**
Revaluation		**11.2**	**—**	**—**	**11.2**
Retirements		**(0.1)**	**—**	**—**	**(0.1)**
Net carrying amount at end of year		**91.6**	**29.7**	**34.7**	**156.0**
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		82.0	39.8	41.3	163.1
Acquisitions		(1.5)	14.7	—	13.2
Amortisation	3(d)	—	(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

	2022 $M	2021 $M
Intangible assets under construction		
Expenditure on development or purchase of intangible assets in progress at the end of the year:	**21.1**	12.3

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

	2022 $M	2021 $M
Trade payables	45.6	20.7
Interest payable	142.6	146.7
Accruals	66.6	77.3
Payroll related payables	25.7	18.9
Other payables	9.2	8.8
	289.7	272.4

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

	2022 $M	2021 $M
Contract liabilities		
▸ Current	2.9	2.6
▸ Non-current	23.3	2.6
	26.2	5.2

Contract liabilities

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

Contract liabilities include amounts invoiced to customers for the construction of assets ($23.3M) and which will be recognised on completion of the asset. Also included are contributions by public lighting customers up to 30 June 2009 intended to fund the replacement of assets at the end of their life ($2.9M). For public lighting the revenue is recognised once the Corporation has replaced the asset.

11. Interest bearing liabilities

	Notes	2022 $M	2021 $M
Current liabilities			
TCorp borrowings		580.0	583.0
Lease liability	21	5.9	6.2
		585.9	589.2
Non-current liabilities			
TCorp borrowings		5,491.5	5,400.4
Lease liability	21	37.9	41.2
Non-current portion of borrowings		5,529.4	5,441.6

	2022 $M	2021 $M
Changes in liabilities arising from financing activities		
Total interest-bearing liabilities at beginning of year	6,030.8	5,905.3
Net cash flows from proceeds from and repayments of borrowings and lease liabilities	32.3	127.5
Capitalisation of indexed bonds indexation	13.6	2.9
Movement and settlement of deferred interest	38.4	(4.6)
Movement in forward rate contracts	0.2	(0.3)
Total interest-bearing liabilities at end of year	6,115.3	6,030.8

Borrowings are unsecured and repayable in full on various maturity dates. For more information about the Corporation's exposure to interest rate risk and liquidity risk see Note 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 2021	240.7	29.8	4.8	1.5	276.8
Additional provisions	51.7	6.0	1.9	1.2	60.8
Amounts used	(35.3)	(4.9)	(1.4)	(1.6)	(43.2)
Amounts reversed	(56.6)	(2.2)	(0.9)	—	(59.7)
Unwinding of discount	—	0.5	—	—	0.5
At 30 June 2022	200.5	29.2	4.4	1.1	235.2
30 June 2022					
Current	**191.6**	**5.6**	**3.9**	**1.1**	**202.2**
Non-Current	**8.9**	**23.6**	**0.5**	**—**	**33.0**
30 June 2021					
Current	210.5	4.9	3.9	1.5	220.8
Non-Current	30.2	24.9	0.9	—	56.0

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 2022 (2021: $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 2021 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 $191.6M (2021: $210.5M) is presented as current, since the Corporation does not have an unconditional right to defer settlement for any of these obligations. However, based on experience, the Corporation does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts, included in the current provision for employee benefits, reflect leave that is not expected to be taken or paid within the next 12 months.

	2022 $M	2021 $M
Current leave obligations expected to be settled after 12 months	**147.4**	171.8

The non-current provision for employee benefits includes $0.5M (2021: $17.9M) relating to the defined benefit superannuation liability.

iii) Environmental and asset rectification

This provision category includes three main items:

- A provision to remediate assets which are no longer compliant with current regulations ($18.5M). The provision is based on one of several options which assumes a completion date of 2029 with a discount rate of 3.5 per cent applied (2021: 2.53 per cent).
- Provision for lease make good costs expected to be incurred on termination of existing leases ($2.5M).
- Provisions for various environmental rectification works which are expected to be settled within the next two years ($2.4M).

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 2025 for the 2022 financial year cover period. Discount rates of 3.6 per to 4.5 per cent (2021: 0.4 per cent to 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

	2022 $M	2021 $M
Deferred government grants	**2.0**	2.0
Other deferred revenue	**0.1**	0.4
	2.1	2.4

Deferred government grants

The Corporation has received NSW Government Grant monies under the NSW Government’s Water Security for Regions Program, which is part of the Restart NSW Fund which has been set up to improve water security for regional New South Wales. Project components associated with drought related emergency water supply, include the construction and operation of desalination facilities and associated infrastructure and water treatment. 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. The balance is to be refunded to the NSW Government.

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 approves 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 2022 the Corporation had trade receivables of $54.3M (2021: $50.4M) from retailers. Three retailers represented 61 per cent (2021: 80 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:

	2022		2021	
Days past due	Carrying Amount $M	Expected Credit Loss $M	Carrying Amount	Expected Credit Loss $M
Current	**49.5**	**—**	47.5	—
Less than 30 days	**3.8**	**3.1**	2.7	0.2
30-90 days	**2.8**	**0.2**	0.8	0.1
91-180 days	**1.0**	**0.3**	0.6	0.1
Over 180	**2.6**	**0.9**	1.0	0.6
Total	**59.7**	**4.5**	52.6	1.0

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 and increases in electricity prices 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$0.7M (2021: $0.9M) and A$0.1M (2021: A$0.3M) within a US dollar denominated bank account to cover contractual obligations for purchases to be settled in US dollars.

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

d) Interest rate risk

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

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

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

	2022 $M	2021 $M
Carrying amount		
Fixed rate		
Financial liabilities	(5,524.0)	(5,444.8)
Floating rate		
Financial assets	2.4	3.2
Financial liabilities	(2.3)	–
	0.1	3.2
Inflation Indexed		
Financial liabilities	(589.0)	(586.0)

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 (2021: $2.9M).

e) Capital risk management

The Corporation's objectives are to establish and maintain an efficient capital structure based on a target credit rating. 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.

	2022 $M	2021 $M
Total borrowings	6,115.3	6,030.8
Less: cash at bank	2.4	3.2
Net debt	6,112.9	6,027.6
Total equity	3,151.2	2,367.8
Total capital	9,264.1	8,395.4
Gearing ratio	66.0%	71.8%

f) Liquidity risk

Liquidity risk is the risk of difficulty in ensuring the availability of sufficient funds to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Corporation's liquidity risks are managed by our treasury function considering cashflow forecasts against the availability of readily accessible standby facilities and other funding arrangements.

As at 30 June 2022 the Corporation had an approved core debt borrowing limit of $7,110.0M (2021: $7,110.0M) of which $1,041.2M was not utilised as at 30 June 2022 (2021: $1,127.5M). The Corporation also has an approved New South Wales Treasury Corporation (TCorp) Come and Go Facility limit of $250.0M (2021: $250.0M) and approval to obtain a commercial bank overdraft facility limit of up to $15.0M (2021: $15.0M) to fund working capital. At 30 June 2022 no facility was in place (2021: $2.0M) but an offset banking arrangement exists with NSW Treasury. 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 2022 the Corporation continues to trade as a going concern. The TCorp Come and Go Facility had $247.7M (2021: $250.0M) not utilised at 30 June 2022. 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 2022					
Non derivative financial liabilities					
Fixed rate borrowings	5,524.0	6,310.9	695.6	2,465.6	3,149.7
Floating rate borrowings	2.3	2.3	2.3	—	—
Inflation indexed borrowings	589.0	702.7	66.5	478.1	158.1
Trade and other payables (excluding statutory payables)	272.3	272.3	272.3	—	—
	6,387.6	7,288.2	1,036.7	2,943.7	3,307.8

	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

The amounts disclosed above for borrowings are the contractual undiscounted cash flows. These disclosed contractually committed cash flows will not differ from the timing and the amounts expected to be incurred for these liabilities, however liabilities will change for floating borrowings and inflation indexed borrowings due to changes in market rates and CPI inflation rates.

g) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Corporation may use derivative financial instruments, such as forward currency contracts and forward interest rate contracts, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. Refer to note 14(c) for details of foreign currency hedges in place.

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 and intangible assets 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
- Easements

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, land and buildings and easements 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, system assets and easements, are disclosed in Note 7 and Note 8.

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 Committee is briefed on the valuation at least annually. A comprehensive valuation was performed as at 30 June 2022, in which the Corporation engaged external, independent and qualified valuers to review the valuation prepared by management. A comprehensive valuation is performed and reviewed at least every three years. An interim formal valuation 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 2022 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, inflation rates and discount rates to determine fair value. A terminal value based on RAB multiple is also used. 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 were discounted using a discount rate of 5.5% (2021: 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 resulted from the COVID-19 pandemic and inflationary pressures experienced in 2022 and expected in future years.
- The terminal RAB multiple is determined with reference to market observable multiples.

iii) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements of system assets, land and buildings and easements which had a fair value of $9,600.7M.

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 $257.9M change in the fair value.
Consumer Price Index (CPI)	+/- 50 basis points	The higher the CPI rate, the higher the fair value. A 50 basis point movement in the CPI rate results in a $193.3M 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 $437.1M 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 $148.0M 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 $13.6M 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 $409.6M change in fair value.

c) Disclosed Fair Values

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

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

		2022		2021	
	Note	Carrying Amount $M	Fair Value $M	Carrying Amount $M	Fair Value $M
Financial liabilities carried at amortised cost					
Interest bearing liabilities	11	**6,115.3**	**5,858.6**	6,030.8	6,553.0

Fair value of borrowings is calculated based on discounted expected future principal and interest cash flows at the current market interest rates that are available to the Corporation for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant (level 2).

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

Interest rates used for determining fair value

The Corporation uses the NSW Treasury Corporation (TCorp) yield curve as at 30 June 2022 to discount financial instruments. The interest rates used are in the following ranges:

	2022	2021
Borrowings	**1.0%-4.4%**	0.1%-5.1%

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 Employee Relations, 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(b)) are as follows:

	2022 $M	2021 $M
Short-term employee benefits	**5.0**	5.0
Long-term benefits	**—**	0.2
Post-employment benefits	**0.4**	0.1
Termination benefits	**0.4**	—
	5.8	5.3

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 $97.9M (2021: $96.2M).

New South Wales Treasury Corporation (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 $208.4M (2021: $198.7M) of which $44.6M (2021: $50.4M) was owing at year end. Borrowing facilities provided by TCorp are disclosed in Note 14.

NSW Department of Planning and Environment

The NSW Department of Planning and Environment administers the Climate Change Fund. The Corporation is required to contribute a gazetted annual amount to the Department of Planning and Environment for the Climate Change Fund. An expense of $56.0M was recognised for the current year (2021: $56.7M) for the Climate Change Fund contribution, with $nil owing at 30 June 2022 (2021: $nil).

Crown Entity

The Crown Entity of the NSW Government administers the Restart NSW Fund which is funding several infrastructure projects within NSW. The Crown Entity has provided revenue grants to the Corporation during 2022. 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 $24.6M (2021: $23.2M) with $0.5M owing by the Crown entity at 30 June 2022 (2021: $1.9M).

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 $25.6M was recognised in 2022 (2021: $25.5M) of which $2.2M (2021: $2.0M) remained owing to Water NSW at 30 June 2022.

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

	2022 $M	2021 $M
Audit Office of New South Wales		
Audit of financial statements	0.5	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 and delivered findings in December 2021. The findings noted that the origin was in a powerline easement and the cause being powerlines igniting vegetation when in contact with the ground. 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 any 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

	2022 $M	2021 $M
Guarantees provided to regulatory and statutory authorities	20.0	19.7

20. Capital commitments

	2022 $M	2021 $M
Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities (including GST)	47.5	76.3
GST credits	4.3	6.9

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	
	2022 $M	**2021 $M**
Balance at start of year	**36.7**	39.3
Additions	**2.0**	2.4
Retirements and lease modifications	**(0.6)**	—
Depreciation expense	**(5.0)**	(5.0)
Balance at end of year	**33.1**	36.7

Lease liabilities

The following table presents liabilities under leases.

	2022 $M	2021 $M
Balance at start of year	**47.4**	49.5
Additions	**2.0**	2.3
Interest expense	**1.5**	1.6
Lease modifications	**(1.5)**	—
Payments	**(5.6)**	(6.0)
Balance at end of year	**43.8**	47.4

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

	2022 $M	2021 $M
Depreciation expense of right-of-use assets	**5.0**	5.0
Interest expense on lease liabilities	**1.5**	1.6
Expense relating to short-term and low-value assets	**—**	1.9
Total amount recognised in the statement of comprehensive income	**6.5**	8.5

The Corporation has total cash outflows for leases of $5.6M for the year ended 30 June 2022 (2021: $7.9M).

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

	2022 $M	2021 $M
Within twelve months	**6.2**	7.2
Twelve months or longer and not longer than five years	**22.2**	18.1
Longer than five years [1]	**29.4**	36.8
Total (including GST)	**57.8**	62.1
GST credits	**5.3**	5.6

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:

	2022 $M	2021 $M
Within twelve months	**0.9**	0.9
Twelve months or longer and not longer than five years	**1.6**	1.4
Longer than five years [1]	**0.8**	0.8
Total (including GST)	**3.3**	3.1
GST debits	**0.3**	0.3

During the year ended 30 June 2022 $1.1M (2021: $1.1M) was recognised as rental income in profit or loss.

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

22. Reconciliation of cash flows from operating activities

	2022 $M	2021 $M
Profit for the year	**31.2**	3.0
Add/ (less) non-cash items:		
Depreciation, amortisation, impairment and write-off of owned non-financial assets	**414.0**	402.5
Gifted assets and capital grants	**(130.0)**	(93.1)
Unrealised losses on foreign currency balances and derivatives	**0.3**	–
Non-cash superannuation expenses	**(1.5)**	0.3
Net loss on disposal and write-off of property, plant and equipment	**12.3**	5.2
Amortisation of deferred interest (income)/ expense	**38.4**	(4.5)
Capitalisation of indexed bonds indexation	**15.8**	2.9
Changes in assets and liabilities:		
Decrease/(increase) in accrued revenue from unread meters	**(14.0)**	(7.1)
Increase in other receivables [1]	**(9.1)**	(5.9)
Increase in inventories	**(4.1)**	(5.2)
Increase in accrued operating expenditure	**17.3**	3.8
Increase/ (decrease) in current tax balances	**25.3**	(12.0)
Increase/ (decrease) in deferred taxes liabilities [1]	**6.3**	(5.4)
(Decrease)/ increase in other provisions [1]	**(24.0)**	9.1
Increase/ (decrease) in contract liabilities	**20.7**	(6.8)
Decrease in deferred revenue	**(0.3)**	(3.2)
Net cash from operating activities	**398.6**	283.6

1. Adjusted for items taken directly to reserves.

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 2021. The next actuarial valuation is due as at 30 June 2024.

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 2021. The next actuarial valuation is due as at 30 June 2024.

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 no curtailments and settlements during the year due to member exits.

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 2022			30 June 2021		
	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	(286.1)	292.0	5.9	(330.9)	313.6	(17.3)
SASS	(7.0)	7.6	0.6	(9.3)	10.0 [1]	0.7
SANCS	(0.5)	—	(0.5)	(0.6)	—	(0.6)
SSS	(1.5)	1.5	0.1	(1.9)	1.9	0.0
Total	(295.2)	301.2	6.0	(342.7)	325.5	(17.2)

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.

	2022			2021		
	Total Present Value of Obligation $M	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	(342.6)	325.4	(17.2)	(336.3)	285.1	(51.2)
(Expense)/ income recognised in profit or loss						
▸ Current service cost	(2.3)	–	(2.3)	(3.1)	–	(3.1)
▸ Interest (expense)/ income	(9.4)	9.0	(0.4)	(9.1)	7.7	(1.4)
	(11.7)	9.0	(2.7)	(12.2)	7.7	(4.5)
Income/ (expense) recognised in other comprehensive income						
Remeasurements						
▸ Return on plan assets, excluding amounts included in interest (expense)/ income	–	(18.4)	(18.4)	–	37.9	37.9
▸ Gain/ (loss) from change in demographic assumptions	(6.9)	–	(6.9)	(0.2)	–	(0.2)
▸ Gain/ (loss) from change in financial assumptions	56.7	–	56.7	–	–	–
▸ Gain/ (loss) from change in liability experience	(8.3)	–	(8.3)	(2.6)	–	(2.6)
	41.5	(18.4)	23.1	(2.8)	37.9	35.1
Adjustment for effect of asset ceiling [1]	–	(1.4)	(1.4)	–	(0.8)	(0.8)
	41.5	(19.8)	21.7	(2.8)	37.1	34.3
Contributions by Fund participants						
▸ Employers	–	4.2	4.2	–	4.2	4.2
▸ Plan participants	(1.7)	1.7	–	(1.8)	1.8	–
	(1.7)	5.9	4.2	(1.8)	6.0	4.2
Benefits paid	17.8	(17.8)	–	9.2	(9.2)	–
Taxes, premiums and expenses paid	1.5	(1.5)	–	1.3	(1.3)	–
At 30 June	(295.2)	301.2	6.0	(342.6)	325.4	(17.2)

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.

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 $1,835.2M (2021: $1,967.6M) at reporting date. Some EISS Pool B assets are invested in accordance with member investment choices. Pool B assets invested in the Energy Investment Fund but not subject to member investment choice are included in the table below. The percentage invested in each asset class at the reporting date is:

As At	30 June 2022	30 June 2021
Australian listed equities	**17.5%**	17.9%
Overseas listed equities	**19.9%**	28.8%
Property	**15.8%**	12.6%
Private equity	**2.5%**	1.3%
Infrastructure	**12.7%**	11.1%
Alternatives	**15.3%**	7.9%
Fixed income	**10.7%**	11.6%
Cash and short-term securities	**5.6%**	8.8%
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

	2022	2021
Expected salary increase rate (excluding promotional increases)	2.50% pa	2.00% for 2022 to 2026; 2.25% for 2026/27; 2.50% for 2027/28; 3.00% for 2028/29; 3.25% for 2029/30; 3.50% pa thereafter
Rate of CPI increase	4.00% for 2022/23, 5.50% for 2023/24, 3.00% for 2024/25 and 2025/26, 2.75% for 2026/27 and 2027/28, 2.50% pa thereafter.	1.75% for 2021/22 and 2022/23; 2.25% for 2023 to 2026; 2.50% for 2026/27; 2.75% for 2027/28, 3.00% for 2028/29; 2.75% for 2029/30; 2.50% pa thereafter
Discount rate	5.30% pa	2.83% pa
Pensioner mortality	The pensioner mortality rates used are as per the triennial valuation of the scheme as at 30 June 2021	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 2022 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 $19.3M reduction in defined benefit obligation. A 100 basis point decrease in discount rate results in a $26.0M 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 $6.3M increase in defined benefit obligation. A 50 basis point decrease in CPI rate results in a $5.7M 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 $5.5M increase in defined benefit obligation. A 0.5% decrease in salary increase rate results in a $5.2M 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 $1.7M 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 $1.0M 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 2021. 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 2022 financial position of the Fund calculated in accordance with AASB 1056 "Superannuation Entities":

	EISS		Other		Total	
	2022 $M	2021 $M	2022 $M	2021 $M	2022 $M	2021 $M
Accrued benefits	289.7	279.1	8.1	8.8	297.8	287.9
Net market value of Fund assets	(292.0)	(313.6)	(12.7)	(13.8)	(304.7)	(327.4)
Net surplus	(2.3)	(34.5)	(4.6)	(5.0)	(6.9)	(39.5)

Contribution recommendations

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

Division B	Division C	Division D	Additional Lump Sum
multiple of member contributions	per cent member salary	multiple of member contributions	$M per annum
1.9	2.5%	1.64	nil

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

m) Significant Actuarial Assumptions at the reporting date

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

	EISS	Other
Weighted-Average Assumptions		
Expected rate of return on Fund assets backing current pension liabilities	5.3% pa	7.0% pa
Expected rate of return on Fund assets backing other liabilities	5.3% pa	6.2% pa
Expected salary increase rate	2.3% for 2022/23, 2.4% for 2023/24, 3.2% pa thereafter	3.15% for 22/23, 3.62% for 23/24, 2.87% for 24/25, 2.74% for 25/26 and 3.2% pa thereafter
Expected rate of CPI increase	2.2% pa	4.8% for 21/22 and 2.5% pa thereafter

The above economic assumptions were 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 2022 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 $9.5M reduction in defined benefit obligation. A 50 basis point decrease in discount rate results in a $10.2M increase in defined benefit obligation.

Expected contributions	Financial Year to 30 June 2023 $M
Expected employer contributions	
▸ EISS	3.9
▸ Other	–

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation is 11 years (2021: 11 years) for the EISS, while it is 11.3 years (2021: 13.3 years) for the Pooled fund.

o) Nature of asset/liability

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

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

24. Events subsequent to reporting date

The financial statements of the Corporation for the year ended 30 June 2022 were authorised for issue in accordance with a resolution of the Board on 15 September 2022.

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 2022 financial statements. There are no known other events that would impact on the state of affairs of the Corporation or have a material impact on these statements up to that date.

End of audited financial statements

Appendices

Disclosure of approved exemptions

Exemptions have been granted by the Treasurer under Section 41BA of the *Public Finance and Audit Act 1983* (PFandAA) so that the financial reporting requirements which apply are broadly consistent with the Corporations Act reporting requirements given that the entity is competing in the National Electricity Market.

The following specific disclosures are not required to be made as a result of the exemptions:

- Budgets s.7 (1)(a)(iii) ARSBA ch. 7 ARSBR
- Report of Operations s.7 (1)(a)(iv) ARSBA
- Management and Activities Schedule 1 ARSBR
- Research and Development Schedule 1 ARSBR
- Human Resources Schedule 1 ARSBR
- Consultants[1] Schedule 1 ARSBR
- Land Disposal Schedule 1 ARSBR
- Consumer Response Schedule 1 ARSBR
- Payment of Accounts Schedule 1 ARSBR
- Time for Payment of Accounts Schedule 1 ARSBR
- Report on Risk Management and Insurance Activities Schedule 1 ARSBR
- Disclosure of Controlled Entities Schedule 1 ARSBR
- Investment Management Performance ch. 10 ARSBR
- Liability Management Performance ch. 11 ARSBR.

1. Contractor costs of $37.9M were incurred. The majority of costs related to Transformation initiatives and the 2024-29 Regulatory Proposal.

Summary of overseas travel 2021-22

Purpose of Travel	Names of Employees	Organisation Visited	Cities	Country	Date of departure from Australia	Date of return into Australia
Accenture Australian Industry Innovation Workshop/International Utilities and Energy Conference	Justin Hillier	Accenture	Nice, Rome	France/Italy	17/6/2022	24/6/2022
Accenture Australian Industry Innovation Workshop/International Utilities and Energy Conference	Luke Jenner	Accenture	Nice, Rome	France/Italy	17/6/2022	24/6/2022

Government Information (Public Access) Act 2009

Government Information (Public Access) Act 2009

The *Government Information (Public Access) Act 2009* (NSW) (GIPA Act) establishes 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 2021-22 Essential Energy received seven formal access applications for information pursuant to the GIPA Act. The formal applications received were from members of the public (or their legal representatives) and private sector businesses.

In response to the formal access applications received in 2021-22, five applications were finalised in 2020-21, and two applications were withdrawn. No applications were in progress at 30 June 2022. Full access was also provided for three applications received in 2020-21 and finalised in 2021-22. Of the eight finalised applications in this reporting period, full access was provided.

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 decisions made pursuant to the GIPA Act during the reporting year 2021-22.

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 whethe information is held	Application withdrawn
Media	0	0	0	0	0	0	0	0
Members of Parliament	0	0	0	0	0	0	0	0
Private sector business	2	0	0	0	0	0	0	0
Not for profit organisations or community groups	0	0	0	0	0	0	0	0
Members of the public (application by legal representative)	2	0	0	0	0	0	0	1
Members of the public (other)	4	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 whethe information is held	Application withdrawn
Personal information applications [1]	2	0	0	0	0	0	0	1
Access applications (other than personal information applications)	6	0	0	0	0	0	0	1
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

1. A personal information application is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

Table C: Invalid applications

Reason for invalidity	Number of applications
Application does not comply with formal requirements (section 41 of the Act)	0
Application is for excluded information of the agency (section 43 of the Act)	0
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	0
Invalid applications that subsequently became valid applications	0

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

	Number of times consideration used [1]
Overriding secrecy laws	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	0
Excluded information	0
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial code of conduct	0
Aboriginal and environmental heritage	0
Information about complaints to Judicial Commission	0
Information about authorised transactions under Electricity Network Assets (Authorised Transactions) Act 2015	0
Information about authorised transaction under Land and Property Information NSW (Authorised Transaction) Act 2016	0
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)	8
Decided after 35 days (by agreement with applicant)	1
Not decided within time (deemed refusal)	0
Total	**8**

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 2022		30 June 2021		30 June 2020		30 June 2019	
Gender	M	F	M	F	M	F	M	F
Executive Leadership Team	6	3	7	2	6	2	7	2
Non-executives	2,536	539	2,510	525	2,490	520	2,500	516
Total	**2,542**	**542**	**2,517**	**527**	**2,496**	**522**	**2,507**	**518**

Workforce diversity targets and progress as at 30 June 2022

Representative Group	Essential Energy Proposed Target	Progress at 30 June 2022
Women in the organisation	30% [1]	17.9%
Women in leadership	50%	32.7%
Aboriginal and Torres Strait Islander people in the organisation	6%	4.5%
Aboriginal and Torres Strait Islander people in leadership roles	5% [1]	1.8%
Multicultural	3%	1.8%
DisAbility	3%	1.5%
LGBTI	6%	0.4%

1. Updated from targets reported in the 2020-21 Annual Report, to align with targets in the Essential Energy Inclusion and Diversity Strategy 2022-23.

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

Workforce Diversity Group	Benchmark	2019	2020	2021	2022
Women	50% [1]	17.6%	17.6%	17.6%	17.9%
Aboriginal and/or Torres Strait Islander People	3.3% [2]	4.0%	4.3%	4.2%	4.5%
People whose First Language Spoken as a Child was not English	23.2% [3]	2.0%	2.1%	1.9%	1.8%
People with Disability	5.6% [4]	1.6%	1.6%	1.6%	1.5%
People with Disability Requiring Work-Related Adjustment	N/A	0.5%	0.4%	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	2019	2020	2021	2022
Women	100 [1]	98	99	101	104
Aboriginal and/or Torres Strait Islander People	100	80	82	83	84
People whose First Language Spoken as a Child was not English	100	115	115	113	116
People with Disability	100	95	96	98	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 substantial legislative changes for 1 July 2021 to 30 June 2022

Material changes to Commonwealth legislation

***Sex Discrimination and Fair Work (Respect at Work) Amendment Act 2021* (Respect at Work amendments) under the *Fair Work Act 2009* (Cth)**

Introduction of Stop Sexual Harassment orders and Prohibitions on sex-based harassment and discrimination

In September 2021, the Respect at Work amendments to the *Fair Work Act 2009* (Cth) came into force. These amendments confirmed that sexual harassment at work can be a valid reason for dismissal, including dismissal without notice, under the *Fair Work Act 2009* (Cth).

The amendments also extended *Fair Work Act 2009* (Cth) provisions to allow eligible workers to apply to the Fair Work Commission (FWC) for an order to stop the sexual harassment from 11 November 2021. Corresponding amendments to the *Sex Discrimination Act 1984* (Cth) included new provisions that expressly provide that it is unlawful to harass a person on the ground of their sex.

Entitlements to miscarriage leave introduced

From 11 September 2021, the *Fair Work Act 2009* (Cth) entitles both full-time and part-time employees to up to two days of paid compassionate leave:

- if they or their current spouse or de facto partner has a miscarriage; or
- if they experience a stillbirth or death of a child or immediate family or household member of the employee.

The amendment also provided for two days of unpaid leave for casual employees in the above circumstances.

Material changes to New South Wales Legislation

***Modern Slavery Act 2018* (NSW)**

The Modern Slavery Act 2018 (NSW) commenced on 1 January 2022, three years after its enactment. One of the consequences of that is that Essential Energy is required to prepare a modern slavery statement, which was completed during the 2021/2022 financial year.

Environmental Planning and Assessment (Development Certification and Fire Safety) Regulation 2021 (NSW)

The Environmental Planning and Assessment (Development Certification and Fire Safety) Regulation 2021 (NSW) commenced on 1 January 2022 and sets out requirements for a number of certifications and inspections required under the *Environmental Planning and Assessment Act 1979* (NSW) (EP&A Act) – such as construction certificates, occupation certificates, fire safety statements and certification and subdivision certificates, as well as duties and obligation of principal certifiers. The Regulation adopts similar approaches to inspection and certification of building work and development to those previously set out in the general Regulation made under the EP&A Act.

SafeWork NSW statement of regulatory intent for COVID-19 revised

On 21 January 2022, SafeWork NSW revised its statement of regulatory intent for the COVID-19 pandemic without including explicit protections for employers that do not mandate coronavirus vaccinations.

The first statement of regulatory intent for the pandemic was released by SafeWork in March 2020, outlining plans to 'take a reasonable and proportionate response' to enforce compliance with certain WHS duties where a duty holder is constrained by COVID-19 issues.

These duties included:

- participating in face-to-face training and practical hands-on training demonstrations
- maintaining records in prescribed formats
- securing access to health surveillance clinics
- testing emergency plans
- complying with 'other regulatory requirements'.

The revised statement adds the section 38 duty to make notifications to this list.

State Environmental Planning Policy (Biodiversity and Conservation) 2021 (NSW)

State Environmental Planning Policy (Biodiversity and Conservation) 2021 (NSW) (SEPP) commenced on 1 March 2022, and regulates the clearing of native vegetation on rural and non-rural land, koala management and habitat protection and a range of development controls for certain categories of development and development in certain areas (for example the River Murray Area, within the Sydney Drinking Water Catchment, Foreshores and Waterways Areas). The SEPP introduces planning principles and creates a number of vegetation panels and planning advisory committees.

State Environmental Planning Policies for Certain Precincts

The following State Environmental Planning Policies (SEPPs) commenced on 1 March 2022 and set out objectives, permitted and prohibited development and other planning controls for the precincts to which they relate:

- State Environmental Planning Policy (Precincts—Central River City) 2021 (NSW)
- State Environmental Planning Policy (Precincts—Eastern Harbour City) 2021 (NSW)
- State Environmental Planning Policy (Precincts—Regional) 2021 (NSW) (Regional Precincts SEPP)
- State Environmental Planning Policy (Precincts—Western Parkland City) 2021 (NSW)

The Regional Precincts SEPP declares a number of 'Activation Precincts' (which currently include the Parkes, Wagga Wagga and Moree Activation Precincts) which have been identified as areas suitable for a wide range of development. Master plans are prepared for such precincts and planning processes, and simplified and streamlined to promote development in these areas.

State Environmental Planning Policy (Resilience and Hazards) 2021 (NSW)

State Environmental Planning Policy (Resilience and Hazards) 2021 (NSW) (R&H SEPP) commenced on 1 March 2022, and replaces *State Environmental Planning Policy No 33—Hazardous and Offensive Development* (NSW) and aspects of State Environmental Planning Policy (Coastal Management) 2018 (NSW), both of which have since been repealed. While the R&H SEPP remakes many of the provisions of these previous SEPPs, it also modernises some processes and guidelines for hazard and risk assessment for development in NSW.

***State Revenue and Fines Legislation Amendment (Miscellaneous) Act 2022* (NSW) – Transfer Granting Easements**

On 19 May 2022, the *State Revenue and Fines Legislation Amendment (Miscellaneous) Act 2022* (NSW) (Amending Act) introduced duty on certain transactions that result in a change in beneficial ownership of dutiable property. Revenue NSW has issued a guide to the Amending Act which confirms (amongst other matters) that the grant of an easement for consideration is dutiable on the greater of the consideration and the unencumbered value of the easement and payable by the transferee. This is a new head of duty as previously the grant of an easement (for consideration or otherwise) was not dutiable in NSW. These changes take effect for transactions entered into on or after 19 May 2022.

Material changes to Queensland legislation

There were no relevant changes to Queensland legislation during the financial year affecting Essential Energy's operations. However, the following code and standard commenced.

New Scaffolding Code of Practice commenced

The Scaffolding Code of Practice 2021, made under the Queensland *Work Health and Safety Act 2011*, commenced on 1 July 2021. Key changes from the outgoing 2009 scaffolding code include new requirements to:

- have engineers sign-off on certain scaffolds
- provide suitable access areas for emergency stretchers
- conduct more frequent tests of high-stress components
- provide smaller steps (no higher than 300mm) between landings, however this specific requirement commenced in May 2022

In Queensland, compliance with an approved Code of Practice (or an equivalent standard of health and safety) is mandatory under the Queensland *Work Health and Safety Act 2011*.

New solar safety standard commenced with transitional provisions: AS/NZS 5033:2021

In November 2021, the Queensland Electrical Safety Office (ESO) announced transitional arrangements for Standards Australia's revised Standard, AS/NZS 5033:2021 Installation and safety requirements for photovoltaic (PV) arrays, which officially replaced the 2014 version in 2022.

The Standard outlines safe practices for workers and businesses in the solar panel installation industry, and complements the 'Wiring Rules'.

The revision includes several 'significant updates', Standards said recently.

National Electricity Rules and National Energy Rules

National Energy Retail Amendment (access, pricing and incentive arrangements for distributed energy resources) Rule 2021 No. 4

On 21 October 2021, the Australian Energy Market Commission (AEMC) published version 30 of the National Energy Retail Rules which incorporated Schedule 2 of the National Energy Retail Amendment (Access, pricing and incentive arrangements for distributed energy resources) Rule 2021 No. 4.

The final rules have been amended to integrate Distributed Energy Resources (DER) more effectively, such as small-scale solar and batteries more efficiently in the grid, and have three key components:

- clear obligations on distribution businesses to support more DER connecting to the grid
- ensuring distribution businesses offer a range of options to encourage solar owners to limit solar waste, save money and benefit the grid
- strengthening customer protections and regulatory oversight by the Australian Energy Regulator (AER)

Integrated Energy Storage Systems Rule

On 9 December 2021, the AEMC published version 175 of the National Electricity Rules, which incorporated Schedule 7 of the National Electricity Amendment (Integrating energy storage systems into the National Electricity Market (NEM)) Rule 2021 No. 13 (Energy Storage Systems Rule) and Schedules 2 and 3 of the National Electricity Amendment (Compensation for market participants affected by intervention events) Rule 2021 No. 14 (Compensation Rule).

The Energy Storage Systems Rule addressed issues the Australian Energy Market Operator (AEMO) identified with how grid-scale batteries, aggregations of smaller batteries, and new business models with a mix of technologies behind the connection point (hybrid facilities), register and participate in the NEM. The rule is intended to increase clarity and transparency for all stakeholders, remove barriers to entry for storage and hybrid facilities, and support the transition to an electricity system where more storage is needed to support variable renewable energy.

The Compensation Rule incorporated frequency control ancillary services into the automatic compensation framework in the National Electricity Rules, and amends the formula for calculating energy compensation for market customers with scheduled loads.

New rules allow distributors to roll out stand-alone power systems in the National Electricity Market

In February and March 2022, the AEMC published new rules allowing stand-alone power systems (SAPS) serving individuals and communities to be built within the NEM. This is relevant to Essential Energy's remote customers who may be better served by a solution that it not grid-connected.

Australian Energy Regulator Determinations

Determination on *NSW Government's jurisdictional scheme application*

On 9 December 2021, the AER determined that the NSW Department of Planning, Industry and Environment scheme established under section 58(1) of the *Electricity Infrastructure Investment Act 2021* (NSW) is a jurisdictional scheme.

The scheme is part of NSW's Electricity Infrastructure Roadmap and allows for costs associated with the *Electricity Infrastructure Investment Act 2021* (NSW) to be recovered through NSW Distribution Network Service Providers (DNSPs). NSW DNSPs will accordingly be able to claim attributable adjustments to their allowable revenue.

Determination on Essential Energy's 2019–20 bushfire season cost pass through

On 21 March 2022, the AER published its determination on Essential Energy's cost pass through application to recover costs associated with restoration work required after the 2019–20 bushfire disasters in northern and southern NSW.

The AER approved a total of $31.3 million that Essential Energy can pass through to its customers over two years starting in 2022-23.

The determination was a reduction of $2.5 million from the application as the AER was not satisfied that some costs (fleet costs and vegetation management costs) were sufficiently justified or were incurred solely due to the bushfires.

Determination on Essential Energy's critical infrastructure licence conditions cost pass through

On 31 March 2022, the AER published its determination on Essential Energy's cost pass through application to recover costs associated with new licence conditions which require it to strengthen its cyber and physical security across its distribution network (critical infrastructure licence conditions).

The AER approved a total of $30.6 million that Essential Energy can pass through to its customers over two years starting in 2022-23.

The determination was a reduction of $2.6 million from the application, as the AER was not satisfied that some costs (perimeter fencing, vegetation management, and contingency costs) were incremental to business-as-usual costs and therefore incurred solely as a consequence of the pass-through event.

In addition to the above determinations, the AER has produced various discussion papers, guidance notes and other materials in the 2021-2022 financial year which are relevant to Essential Energy's distribution determination process and general compliance.

Ring-fencing

AER granted class waiver of distribution ring-fencing guideline for Central-West Orana Renewable Energy Zone

On 29 March 2022, the AER granted a class waiver under the Electricity Distribution Ring-fencing Guideline to DNSPs. The class waiver applies to the provision of network services for the planned Central-West Orana Renewable Energy Zone (REZ) and relates to the circumstance where Energy Corporation NSW selects a DNSP as a Network Operator for that REZ, allowing that DNSP to service that REZ without having to ring-fence its business.

Summary of significant judicial decisions between 1 July 2021 to 31 May 2022

SafeWork NSW v Saunders Civilbuild Pty Ltd [2021] NSWDC 605; SafeWork NSW v Saunders Civilbuild Pty Ltd [2021] NSWDC 526; SafeWork NSW v Saunders Civilbuild Pty Ltd [2021] NSWDC 505

This case is another example of a recent trend in case law where Courts have narrowed the extent to which a principal is able to rely on the expertise of a specialist contractor it has engaged in relation to the performance of their safety duties.

The District Court of NSW has found construction company, Saunders Civilbuild Pty Ltd (Saunders), guilty of breaching its primary duty of care to workers under the NSW WHS Act, following an incident where a truck driver engaged by Saunders was fatally injured after falling from the back of a truck from which he was unloading an excavator and timber piles.

The Court found that prior to the incident, Saunders had prohibited workers from accessing the back of trucks during loading as a control to mitigating the risk of falling from height. However, this control was not recorded in the relevant Safe Work Method Statements (SWMS), nor did Saunders take any reasonably practicable steps to communicate the prohibition in its safety management system. The Court found that documenting the prohibition into the SWMS would have had a 'demonstrable impact on safety'.

In earlier proceedings, Saunders had also sought a permanent stay of proceedings, contending that the use of the 'and/or' conjunction in the pleadings gave rise to an inappropriately large number of alternative combinations. The pleadings included paragraphs such as 'The risk was the risk to workers, in particular Mr Williams and/or Mr Edwards, suffering serious injury or death as a result of falling from height whilst loading and/or unloading materials from the back of a truck and/or trailer of a heavy combination vehicle. However, the Judge Scotting found that the large number of alternative allegations was non-problematic and rejected the application for a stay.'

SafeWork NSW v Arkwood (Gloucester) Pty Limited [2022] NSWDC 89

Arkwood (Gloucester) Pty Limited (Arkwood) has been found guilty in the District Court of NSW for breaches of the WHS Act arising from an incident where two workers sustained serious electric shock injuries after the crane they were working from came into contact with overhead power lines. The worker that was operating the crane at the time of the incident was unlicensed.

The charge brought by SafeWork NSW alleged that Arkwood failed to take reasonably practicable measures to eliminate or minimise the risk of the crane coming into contact with energised overhead powerlines, including failing to conduct a risk assessment, develop a SWMS, instruct workers to undertake a joint safety assessment of the work, and ensure that a qualified dogman was present and a spotter was available to identify the location of powerlines.

Arkwood had pleaded not guilty to the charges and argued that it was entitled to rely upon the expertise and discretion of its specialist subcontractor, Highlands Cranes, regarding safe operation of the crane. It also argued that it had directed Highlands to supply a crane operator and dogman for the work, and that there was nothing to put anyone from Arkwood on notice that the crane operator was unlicensed and incompetent.

Judge Russell acknowledged that where a task 'demonstrably falls outside the expertise' of a person conducting a business or undertaking (PCBU), and an independent contractor appeared to be performing its work carefully and safely 'then it would ordinarily be difficult to conclude that the PCBU has breached the duties imposed upon it by the legislation'. In upholding the charge, however, the Court rejected Arkwood's claim that it could wholly rely on Highlands in relation to safe operation of the crane, finding that:

- the work undertaken in relation to the incident was within the scope of Arkwood's responsibilities
- Arkwood workers actually checked for power lines and recognised they posed a danger
- whilst physical operation of the crane was left to the crane operator, Arkwood through its workers had the ability to stop any work that was being performed in an unsafe manner
- the measures alleged by SafeWork were reasonable practicable measures that Arkwood should have taken

COVID-19 Vaccination Decisions

There have been a number of decisions handed down in the past 12 months relating to an employer's directions or policies requiring employees to receive COVID-19 vaccinations in order to perform or attend work. Generally, judgments have been in the employer's favour, with courts and tribunals upholding vaccination directions or policies:

Communication, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia v Essential Energy [2021] FWC 6128

In October 2021, the Fair Work Commission (FWC) rejected Essential Energy's bid to extend the warning notice period for protected industrial action by the Communications, Electrical and Plumbing Union (CEPU) for three days to five days on the basis of exceptional circumstances due to the impact protected industrial action may have on disrupting 'essential services'.

Whilst the FWC concluded Essential Energy 'plainly conducts a business that provides an essential services', the FWC found that the exceptional circumstances did not justify extending the notice period. This is due to:

- Essential Energy's operations manager conceding during cross-examination that three days would be sufficient if the employer started planning for potential industrial action in advance.
- Essential Energy had produced insufficient evidence about the workers it would have available to perform any emergency work during protected action, for example, of the density of CEPU membership and implications on how many employees might participate in the protected action. For example, 5 per cent of the relevant workforce participating in industrial action would have much less impact on disruptions to essential services than 95 per cent of workers participating, such as to not amount to 'exceptional circumstances' justifying the extension of notice period.

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Glossary

AER	Australian Energy Regulator
ASP	Accredited Service Provider
Capex	Capital expenditure
DER	Distributed Energy Resources
DOE	Dynamic Operating Envelope
EAM	Enterprise Asset Management
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Electric vehicle
GHG	Greenhouse gas
HIRAC	Hazard Identification Risk Assessment Control
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
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
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
TCFD	Task Force on Climate-related Financial Disclosure
TRIFR	Total Recordable Injury Frequency Rate – calculated as the number of recordable injuries per million hours worked

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