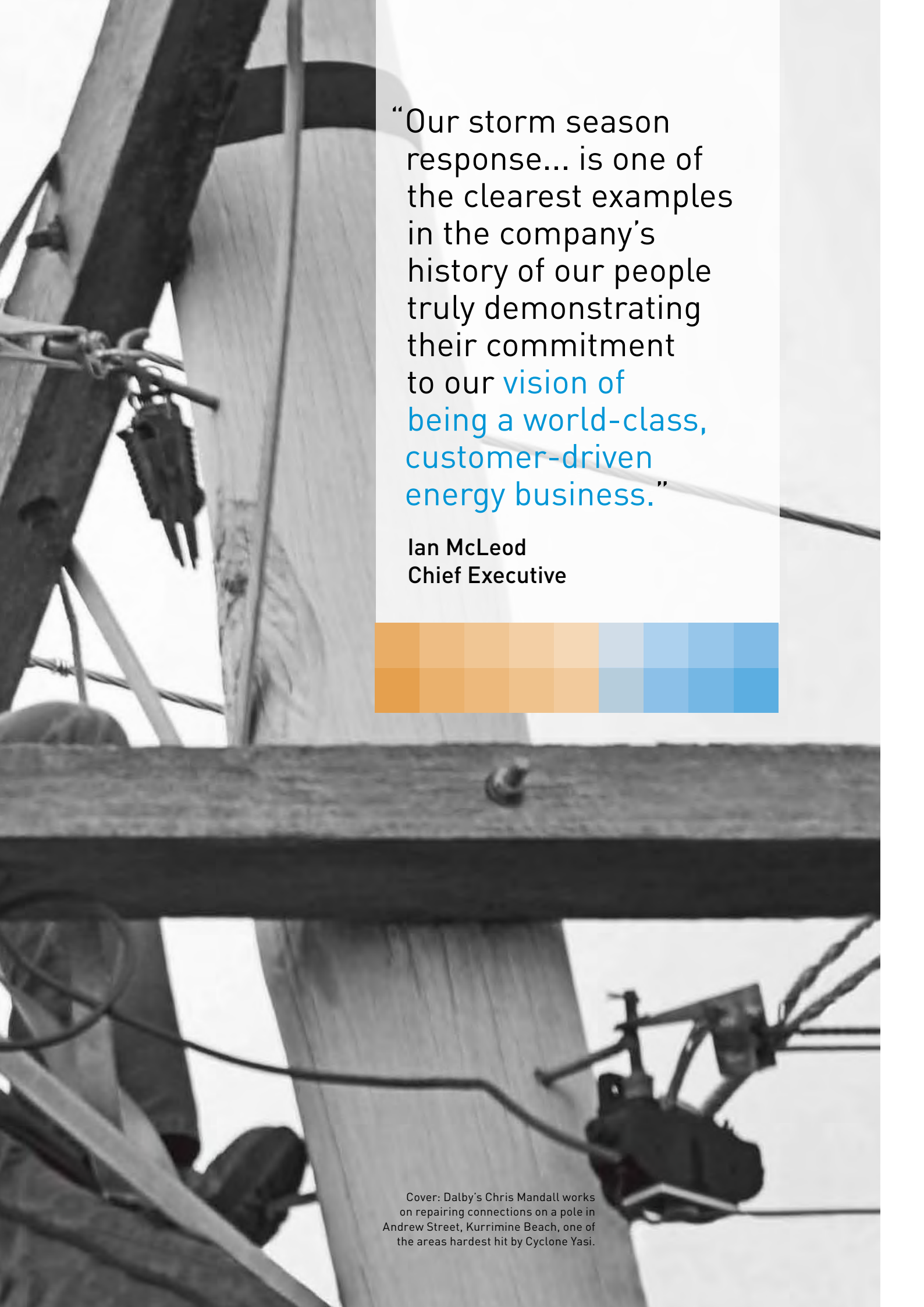


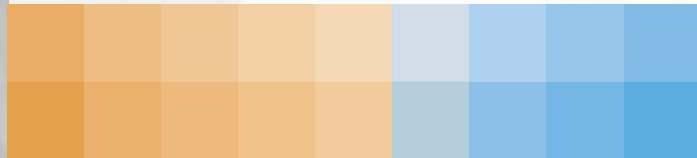
responsive. resourceful. **ready.**





“Our storm season response... is one of the clearest examples in the company’s history of our people truly demonstrating their commitment to our **vision of being a world-class, customer-driven energy business.**”

Ian McLeod
Chief Executive



Cover: Dalby’s Chris Mandall works on repairing connections on a pole in Andrew Street, Kurrimine Beach, one of the areas hardest hit by Cyclone Yasi.

ready for a record summer season



Annual Summer Preparedness Plan delivered to ensure we are

READY.

1 DECEMBER

120mm

rain in Emerald.

3 DECEMBER



CYCLONE TASHA

The Category 1 system crosses around Gordonvale on Christmas Day and moves inland to Ravenshoe.

8,500

homes and businesses are without power.

25 DECEMBER

The monsoonal trough remains stationary over land for a number of days delivering heavy rain across the state.

Disaster declared in Dalby and Theodore, and then in Emerald, Bundaberg, Central Highlands, North Burnett and Woorabinda.

27-28 DECEMBER



Fitzroy River peaks in Rockhampton at

9.2m.

5 JANUARY

Flooding throughout the South East and South West.



Flash flooding occurs in Toowoomba and down the Lockyer Valley.

10 JANUARY



DECEMBER

BOM advice "above average tropical cyclone activity this season..."

8 DECEMBER

3.2m

peak reached at Myall Creek, Dalby.

20 DECEMBER



200-600mm

of rain fell across northern and central Queensland over four days.

UP TO 27 DECEMBER

Condamine River peaks in Warwick at

7.9m.

Burnett River peaks in Mundubbera and Gaydah.

28 DECEMBER



While evacuations are underway, crews are dedicated to disconnecting the power to ensure community safety.

JANUARY



10,500

homes and businesses experience power interruptions as a result of the floods this season.

4.46m

Brisbane River peaks.

13-14 JANUARY

Ergon Energy's Brisbane billing and travel service providers flooded.

Our Brisbane-based offices and IT support offices are evacuated.

12-14 JANUARY



CYCLONE ANTHONY

The Category 2 system crosses the coast near Bowen.

15,300

homes and businesses are without power.

30 JANUARY



Response to Cyclone Anthony fast-tracked in readiness for the arrival of Cyclone Yasi.



32,210

customers contact Ergon Energy for information on the first day.

.....
3 FEBRUARY

Flooding hampers network repairs along the Cassowary Coast.

1,340

field personnel from across Australia are on the ground as part of the response.

.....
12 FEBRUARY



601,942

square kilometres of our service area has been impacted by the time the system reaches Mount Isa.

.....
EVENING
3 FEBRUARY

220

mobile generators on hand during the response effort. That's 70MVA.

.....
16 FEBRUARY



Ergon Energy's incident response team for Cyclone Yasi stands down following the completion of final asset inspections.

.....
28 MARCH

Around **520,000**

weather-related power interruptions were experienced by our customers throughout the summer storm season.



7.6m

Bungil Creek in Roma peaks, causing more localised flooding.

.....
19 APRIL

Control room personnel and field crews are again making disconnections to ensure community safety.

.....
19-23 APRIL



CYCLONE YASI

The Category 5 system reaches the Cassowary Coast and crosses overnight.

.....
2 FEBRUARY

FEBRUARY

220,000

plus homes and business are without power.

.....
3 FEBRUARY

90%

of customers have power restored in the first week.

8,950

residents are following Ergon Energy's Facebook site for restoration updates.

.....
8 FEBRUARY



25%

of Ergon Energy's employees live in the communities impacted by the disaster.



MARCH

23 days

after the event power is restored to all of the homes and businesses safe to reconnect.

.....
25 FEBRUARY



It was a summer of unprecedented natural disasters, with record flooding and the largest cyclone in living memory causing devastation across much of Queensland.

At least half the total area of our state was affected by heavy rainfall and flooding, which began in early spring. By December, entire towns were submerged, some repeatedly as the weeks went on. All up, at least 10,500 customers had their power switched off at different times simply for flood-related safety reasons.

After Cyclone Yasi crossed the coast in February more than 220,000 customers had lost power – a third of our entire customer base. In the worst affected areas the network had to be rebuilt from the ground up.

APRIL

The recovery effort after Cyclone Yasi was the biggest deployment of electrical workers in Australia's history – ensuring by the end of the first week that more than 90% of the homes and businesses impacted had their power back on.

For some customers however, it didn't end once the power was switched back on. In the aftermath of these disasters, we received record numbers of calls from customers experiencing hardship. We expanded our customer assistance program to ensure we could help during this difficult time. For more about our Cyclone Yasi response see pages 28-29.

The summer of 2011 is one that Queenslanders will never forget. It reminded us of what it means to be ready to respond, and that, by working together as a community, we can truly rise to the challenge.

responsive.

Ergon Energy is dedicated to powering regional Queensland, to being customer-driven in everything we do, whether it be responding to the impact of 'mother nature' on our network or to the changing needs of our customers.

resourceful.

We are looking for smarter ways of doing things to improve efficiency, better manage demand, and demonstrate leadership. It's about being resourceful in our response to the many challenges we face so we can provide the power supply of the future at an affordable cost.

ready.

One year in to our five year 'horizon' plan, we have made progress against our goals – it's about being ready to meet the challenges ahead. It's about embracing innovation and developing our network and services for an increasingly technology-driven world.

CONTENTS

ABOUT OUR REPORT	2
ERGON ENERGY IN PROFILE	3
THE YEAR IN SUMMARY	6
CHAIRMAN'S MESSAGE	10
CHIEF EXECUTIVE'S REPORT	12
REVIEW OF OPERATIONS	14
Customer-driven	14
Details the emphasis we are placing on being customer-driven, on being more cost-efficient and delivering increasing customer value and choice.	
Asset Management Excellence	22
Showcases how we are delivering a secure, reliable and quality electricity supply for our customers, wherever they are in regional Queensland.	
Leverage Climate Change Response	32
Highlights how we are leveraging environmental value from the community's response to climate change and from our own broader business imperatives.	
A Leader in Safety	42
Explains the many ways we are building a sustainable safety culture into all facets of our business and making safety inherent in everything we do.	
High Performance Organisation	48
Demonstrates progress towards our goal of being a high performing and commercially focused organisation, delivering economic value within a sound corporate governance framework.	
OUR ECONOMIC AND FINANCIAL PERFORMANCE	60
CORPORATE GOVERNANCE STATEMENT	64

LOOKING FOR MORE INFORMATION?

This Annual Stakeholder Report, the Annual Financial Statements for Ergon Energy Corporation Limited and its Controlled Entities (including the Directors' Report and our Financial Statements) and our reports from previous years are available online at www.ergon.com.au/annualreport

Hard copies of our reports can also be obtained by contacting us on 13 10 46.

Abbreviations, an index and common industry units of measure are provided on page 80 and the inside back cover.

ABOUT OUR REPORT

ready to report openly

Our Annual Stakeholder Report 2010/11 presents a holistic insight into the organisation's overall performance for the financial year and demonstrates the contribution that Ergon Energy is making to address the broader sustainability issues currently facing regional Queensland. The report covers Ergon Energy Corporation Limited and its subsidiary Ergon Energy Queensland Pty Ltd, as well as commentary on our other subsidiaries and joint venture. (p 64–65)



WHY WE REPORT WHAT WE DO

In line with the best-practice governance principle of timely and balanced disclosures, it is our aim to demonstrate that we are accountable and committed to continuously improving the transparency and relevance of our stakeholder communications.

Broadly, our stakeholders are our customers, the communities we work in and serve, our employees (including representative unions), our government shareholders, the regulators, our suppliers and industry associates. Individually, or as a group, these stakeholders potentially can be impacted by our operations or affect our ability to serve our customers. (p 73)

To ensure our stakeholders receive the information they want from our report, this year through in-depth interviews,

customer research, internal employee surveys and other feedback loops we reassessed our understanding of their needs and expectations. Assessing our stakeholders' information needs against the challenges we face as a business, and addressing any concerns they have in these areas, not only guides the materiality of disclosure in this report but also, ultimately, the strategic priority they are given by the business.

At Ergon Energy we believe that reporting from both a financial and non-financial perspective helps us develop a shared understanding with our stakeholders of our common objectives and encourages the adoption of more sustainable practices and actions throughout the business, by our employees, as well as by our industry and other stakeholders.

The content of this report has also been guided by the Australasian Reporting Awards criteria for best-practice reporting, as well as the Energy Supply Association of Australia's Sustainable Practices Framework. The Global Reporting Initiative's (GRI) G3 Principles of Sustainability Reporting have also been used to enhance the comparability of our reporting – to easily locate information about specific GRI indicators addressed in this report an index is available online at www.ergon.com.au/annualreport

Our aim is to continually improve our reporting and we sincerely invite your feedback through our online Feedback Form, also found at www.ergon.com.au/annualreport, or you can contact our Stakeholder and Government Relations team on 13 10 46.

ERGON ENERGY IN PROFILE

ready to serve

OUR VISION

To be a world-class, customer-driven energy business.

OUR PURPOSE

To enhance the economic and lifestyle aspirations of our customers through sustainable energy solutions.

OUR VALUES

Success is built on our SPIRIT values of:

- Safety
- Professionalism
- Integrity
- Respect
- Innovation
- Teamwork

Ergon Energy supplies electricity to around 690,000 customers (690,708 as at 30 June) across a vast operating area of more than one million square kilometres – 97% of the state of Queensland – from the state’s expanding coastal and rural population centres to the remote communities of outback Queensland and the Torres Strait.

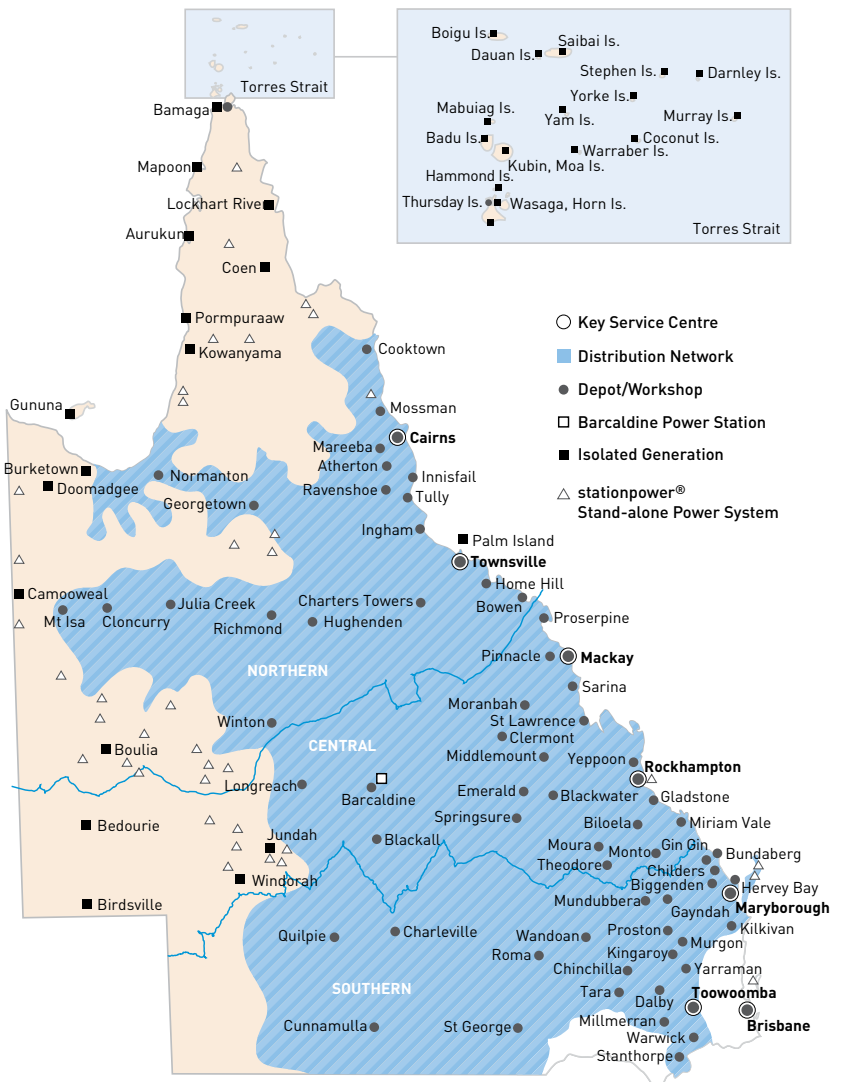
To deliver on our purpose – ‘to enhance the economic and lifestyle aspirations of our customers through sustainable energy solutions’ – Ergon Energy has around 4,700 employees (4,752 as at 30 June) located across Queensland and a total asset base of \$10.0 billion.

OUR BUSINESS

Ergon Energy is a Queensland Government-owned corporation, formed in 1999 from the six regional Queensland electricity distributors and their subsidiary retailer.

Today, our principal operating companies are Ergon Energy Corporation Limited, responsible for the distribution business, and its subsidiary Ergon Energy Queensland Pty Ltd, a non-competing electricity retailer.

Our shareholding Ministers are the Honourable Stephen Robertson, Minister for Energy and Water Utilities, and the Honourable Rachel Nolan, Minister for Finance, Natural Resources and The Arts.



The distribution business

As our distribution business – the ‘poles and wires’ – largely remains a monopoly, it is regulated by the Australian Energy Regulator (referred to through this report as the AER). Prior to 2010/11 we were regulated at the state level. The AER set the revenue we are allowed to collect for our distribution services over the current five-year control period. These charges are just one of the components that make up the price of electricity. They also operate a scheme that provides financial incentives relating to network reliability performance and service delivery.

We also operate under the Electricity Industry Code, overseen by the Queensland Competition Authority (referred to as the QCA), which sets minimum service standards for network performance. (p 31)

The retail business

Ergon Energy is not a competitive retailer, having sold our competitive retail business in 2007. Ergon Energy is only permitted by legislation, as a government-owned retailer, to sell electricity at the notified prices, that is, the government-set tariffs.

These tariffs are available to all domestic, rural and business customers who have chosen not to enter the competitive market.

These arrangements ensure that Queenslanders pay the same for their electricity, wherever they live, even though the cost to supply may be different. Customers can choose, however, to purchase their electricity from a competitive retailer at a price set by that retailer.

OUR INDUSTRY

Our industry comprises a range of private and government-owned operators, playing different and multiple functions. Together we participate in the National Electricity Market.

In this market, electricity is sold by the generators to the retailers, largely through a trading ‘pool’. The power is then supplied to homes and businesses through the transmission and distribution networks to the customer of the retailer.

Ergon Energy is unusual in the industry as it plays a role across all four links in the electricity supply chain: generation, transmission, distribution and retail.



GENERATION

A range of energy sources (coal-fired, biomass, gas, hydro and wind) are used to generate Queensland’s electricity.

Although not a major generator, Ergon Energy owns and operates a 55MW gas-fired power station at Barcardine. Through Ergon Energy Queensland Pty Ltd, it supplies power for the state-wide electricity grid.

Ergon Energy also owns and operates 33 stand-alone power stations, with local distribution networks that supply communities isolated from the main electricity grid in Western Queensland, the Gulf of Carpentaria, Cape York, various Torres Strait islands and Palm Island. We also supply and service small stand-alone power systems to cater for the needs of remote properties.



TRANSMISSION

The transmission network consists of lines that carry electricity from the point of generation over long distances and feed it into the distribution network.

While Powerlink Queensland owns and operates the high-voltage transmission network that extends the length of the Queensland coastline,

it depends on Ergon Energy’s capability and expertise to help provide and maintain its assets.

We also own and operate the 220kV network in the Mount Isa region.



DISTRIBUTION

Distribution lines then carry electricity directly to Queensland’s homes and businesses.

Electricity is delivered across regional Queensland through Ergon Energy’s network of ‘poles and wires’. The distribution network has approximately 150,000 kilometres of powerlines and one million power poles.

Around 70% of our powerlines run through rural Queensland, covering vast distances in largely unpopulated areas. Much of this part of our network, around 65,000 kilometres of line, uses the electricity distribution technology known as SWER (Single Wire Earth Return). (p 26)



RETAIL

Electricity is purchased from a retailer, who also provides a range of customer services.

There are a number of electricity retailers operating in regional Queensland – they buy electricity from the generators and on-sell it to customers.

Ergon Energy is a non-competing retailer, which means we only offer government-set tariffs to our domestic, rural and business customers. Our retail business has specialist expertise in energy trading, billing and customer service, to name a few key areas.

OUR CONTRIBUTION TO SUSTAINABILITY

Ergon Energy's priority is to provide a safe, dependable and smart electricity supply for regional Queensland. We believe delivering on this responsibility is our most important contribution to the sustainability efforts of regional Queensland communities.

Through our involvement across all elements of the supply chain Ergon Energy is playing a major part in helping regional Queenslanders address the myriad of energy-related sustainability issues. This vertical integration, which is somewhat unique in the Australian electricity industry, helps enable us to research and

develop holistic responses to issues ranging from financial hardship to climate change.

To ensure positive, longer-term outcomes for the communities we serve, Ergon Energy continues to engage with our many stakeholders around their energy needs and concerns. By creating a more sustainable organisation ourselves, we believe we can also help lead and educate our stakeholders.

We trust this report gives you a greater insight into the economic, environmental and social contribution we are providing to our customers, employees, government shareholders and other stakeholders.

OUR STATISTICS	2011
Total Customers Served	690,708
Network Area Serviced	1.7 million km ²
Employees	4,752
Power Stations (grid connected and isolated)	34
Bulk Supply Points	26
Zone Substations	378
Major Power Transformers (33kV to 132kV)	686
Distribution Transformers	91,500
Power Poles	1 million
Overhead Powerlines	
-Subtransmission	15,200km
-High Voltage Distribution	112,000km
-Low Voltage: Distribution ¹	20-25,000km
Underground Power Cable	7,000km

1. Estimate only.

THE YEAR IN SUMMARY

ready to deliver

OUR HIGHLIGHTS

Advanced our ability to manage network demand and reduce the pressure on electricity tariffs – driving savings for our customers, our business and the environment. (p 18 & 34)

Injected \$660.5 million into the network to increase capacity and improve reliability. (p 24)

Rose to the challenges of the summer storm season, demonstrating the value of our summer preparedness efforts and disaster management capability. (p 27)

Significantly improved network reliability – with the duration and frequency of outages down 21% and 24% respectively compared to 2009/10. (p 31)

Helped our customers connect more than 15,000 solar energy systems to the network, avoiding 36,000 tonnes of greenhouse gas emissions – the equivalent of taking 8,600 cars off the road. (p 37)

Achieved significant gains in developing our safety culture, evidenced by a 48% reduction in the frequency of employee lost time injuries. (p 43)

Took major steps to becoming a high-performance, information-enabled organisation. A highlight being the ROAMES project, which is set to change the way we manage the network. (p 51 & 52)

Met our profit commitment with a Net Profit After Tax of \$321.6 million, delivering a Return on Assets of 8.0%. (p 60)

FINANCIAL PERFORMANCE SUMMARY

		2010/11	2009/10	2008/09	2007/08	2006/07
Net Profit After Tax (\$'000)	^	321.6	166.5	129.3	162.9	1,198.1
Total Assets (\$'000)	^	9,974.9	8,698.3	8,011.3	7,100.5	7,715.7
Total Capital Investment (\$'000)	^	830.5	806.1	844.3	841.4	806.5
Dividends Provided For (\$'000)	^	252.6	137.5	116.6	118.4	955.4
Return on Average Assets	^	8.0%	5.7%	5.3%	5.7%	22.7%
Return on Average Equity	^	10.8%	6.4%	5.1%	6.6%	47.7%
Gearing (including reserves)	∨	56.6%	59.8%	59.1%	54.3%	50.6%
EBITDA to Interest Cover (times)	^	3.6x	3.2x	3.1x	3.7x	7.0x

FOR MORE ON OUR FINANCIAL PERFORMANCE SEE PAGES 60–63.

OUR CHALLENGES

The affordability of electricity for our customers, particularly the hardship being experienced by the vulnerable segments of our communities, remains a significant challenge for Ergon Energy.

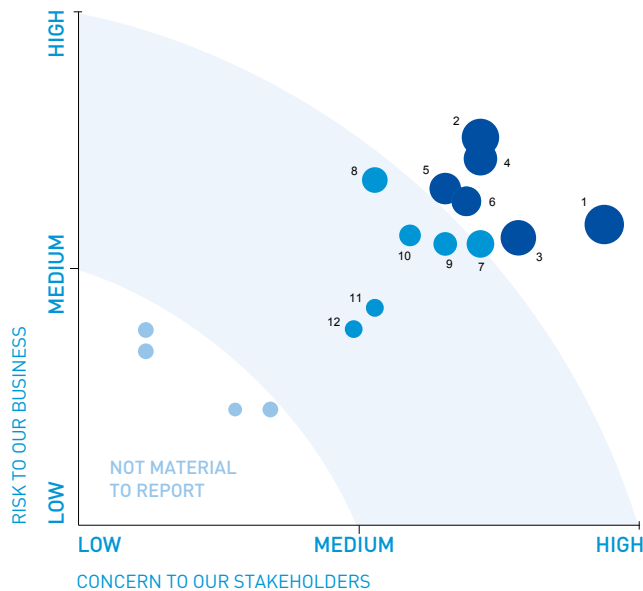
To ease the pressure on prices we are focusing on managing peak electricity demand, a key driver for network investment, and achieving operational efficiency. We are also educating our customers on the energy-efficiency measures they can take to get value for their money, and we are making sure we have a safety net in place for those in need.

At the same time, we are readying ourselves to respond to the forecast increase in electricity demand to come from the mining sector, the new growth industry of natural gas and the regional Queensland communities that will support these developments.

And there is no escaping the challenges that the summer storm season brings. Broader expectations around the reliability and the technical capability of our network are also increasing.

We also need to maintain our strategic focus on safety for our employees and the community to build on recent improvements and, it is our social responsibility to play our role in the community's climate change response.

CORPORATE RESPONSIBILITY MATERIALITY MATRIX



Although all complex issues, this matrix cross references the concerns of our stakeholders – in the areas where we believe we have a corporate responsibility – against the potential risks associated with these issues on Ergon Energy as a business.

MATERIALITY RANKING

1. Affordability of Electricity/Financial Hardship
2. Potential Growth in Infrastructure Demand
3. Disaster Response Capability
4. Workforce Health and Safety
5. Reliability and Security of Electricity Supply
6. Climate Change Impacts/Future Carbon Price
7. Community Health and Safety
8. Employee Engagement and Representation
9. Environmental Impacts
10. Local Employment and Development Opportunities
11. Diversity and Inclusion/Indigenous Rights
12. Community Project Support

OUR PERFORMANCE SUMMARY

Ergon Energy's performance targets for 2010/11, agreed with our shareholding Ministers, are detailed in our Statement of Corporate Intent (SCI). These performance measures, highlighted here with our strategic priorities, are discussed in more detail throughout the report. This section also provides an overview of our future challenges and aspirational goals.

CORPORATE STRATEGY	SUMMARY STATEMENT OF CORPORATE INTENT 2010/11		
	CORPORATE OBJECTIVES 2010/11	MEASURES	TARGETS
Customer-driven p 14-21	Meet reasonable customer expectations for service delivery and choice while delivering economic and social benefits to the community.	We will benchmark our performance with our peers across the customer dimensions of: electricity supply, customer interaction experience; corporate social responsibility and cost/affordability.	Better than peer average as measured by 'Value to Customer' survey. Guaranteed Service Levels – Network Reliability ≤ \$667,880 claims paid (6,423 claims) ¹ Guaranteed Service Levels – Other ≤ \$796,793 claims paid (21,097 claims) ¹
Asset Management Excellence p 22-31	Deliver for our customers a secure, reliable and quality electricity supply that effectively balances both commercial and customer perspectives without sacrificing safety.	Our network will perform at or below the Minimum Services Standards set in the Electricity Industry Code for the average duration and frequency that our customers are without power.	Supply Reliability Indicators: Duration (SAIDI): - Urban ≤ 149 - Short Rural ≤ 424 - Long Rural ≤ 964 Frequency (SAIFI) - Urban ≤ 1.98 - Short Rural ≤ 3.95 - Long Rural ≤ 7.40
Leverage Climate Change Response p 32-41	Leverage climate change response as both a social responsibility and as a business strengthening opportunity.	We will continue to reduce our carbon emissions to meet Queensland Government and corporate set targets. We will secure regulatory and external funding to advance energy conservation, efficiency and demand management initiatives.	Tonnes of carbon dioxide equivalent emitted ² : - Passenger and light commercial fleet ≤ 9,450.3 - Electricity use – occupied buildings ≤ 19,181 - Air travel ≤ 2,618 Demand management savings of ≥ 15MW ²
A Leader in Safety p 42-47	Target zero injuries within our workplace and wider community.	We will measure our performance against the All Injuries Frequency Rate (AIFR) and Lost Time Injuries (LTI) metrics to reduce injury levels in line with longer-term trend targets. FR=Frequency Rate DR=Duration Rate	AIFR – Employees ≤ 13.7 LTIFR – Employees ≤ 7.6 LTIDR – Employees ≤ 60.0 LTIFR – Contractors ≤ 1 Total Dangerous Electrical Events (DEEs) ≤ 995 ²
High Performance Organisation p 48-59	Be a preferred employer in regional Queensland with a high performance, professional, values-based culture. Deliver the works program on time and on budget through innovation, technology, standardisation, design and works packaging. Deliver best practice environmental outcomes.	We will further improve productivity and efficiency through successful implementation of the new organisational structure. The aggregated operating and capital works programs will be delivered on time and within budget. We will maintain our Environmental and Safety Certifications.	Improved employee productivity, performance and culture (entropy). - Opex per route kilometre ≤ \$2,410 Cost Performance Index (CPI) and Scheduled Performance Index (SPI) ≥ 1 for capital projects > \$75m regulated and \$60m unregulated. ³ AS/NZS ISO14001 Environment Standard and AS4801/ISO 18001 Safety Standards maintained.
Financial Performance & Governance p 60-79	Be a high performing and commercially focused organisation delivering economic value within a sound corporate governance framework.	We will manage our operational and capital investment expenditure within the aggregate five-year allowances used by the AER in our final 2010-15 revenue determination.	Net Profit After Tax ≥ \$300.7m Return on Assets ≥ 8.2% Actual operating expenditure within regulatory allowance. Actual capital expenditure within regulatory allowance.

1. Targets set without a benchmark due to changes in the legislation governing Guaranteed Service Levels.

2. Additional corporate (not-SCI) measures and results.

3. New indices were introduced to move the organisation towards an earned value management of works delivery performance. (p 50)

PERFORMANCE OUTCOMES 2010/11		KEY HIGHLIGHTS 2010/11	CHALLENGES AND GOALS 2010/15
'Value to Customer' ratio score three points above parity.	✓	Established a new Customer Council. (p 15)	Service – Deliver quality, cost, value and choice as appropriate to each customer segment.
Guaranteed Service Levels – Network Reliability \$114,296 claims paid.	✓	Advanced our ability to reduce pressures on tariffs. (p 16 & 34)	Customer Satisfaction – Maintain strong customer relationships so we can work together to identify and meet their future needs.
Guaranteed Service Levels – Other \$165,435 claims paid.	✓	Boosted capacity to help those in hardship. (p 18)	
		Supported ATSI reconciliation through engagement. (p 18)	
		Benchmarks strongly with community investment. (p 20)	
		Achieved the lowest level of complaints in the industry. (p 21)	
Supply Reliability Indicators:		Established criteria to assess network health. (p 23)	Reliability – Meet minimum service standards and secure optimal performance incentive results.
Duration (SAIDI):		Invested \$660.5 million to increase capacity and improve reliability. (p 24)	
- Urban ≤ 149	✓	Advanced a range of intelligent network solutions. (p 25)	Prudent and Efficient – Prudently invest and efficiently deliver the capital expenditure and operating expenditure programs.
- Short Rural ≤ 426	✓	Prepared well and met the summer storm season challenge. (p 27)	
- Long Rural ≤ 828	✓	Reduced the frequency of outages by 24%. (p 31)	
Frequency (SAIFI)			
- Urban ≤ 1.63	✓		
- Short Rural ≤ 3.53	✗		
- Long Rural ≤ 5.26	✓		
Tonnes of carbon dioxide equivalent emitted ² :		Demand management on track to avoid 54,000 tonnes of emissions. (p 34)	Demand Management – Reduce peak load growth to defer capital expenditure on our network.
- Passenger and light commercial fleet 11,422	✗	Secured up to 27MVA of demand reductions in Townsville. (p 34)	Emissions Reduction – Reduce fleet, property, travel and isolated generation emissions to meet government and internal targets.
- Electricity use – occupied buildings 18,612	✓	Solar City reduced peak demand by 32%. (p 35)	
- Air travel 2,714	✗	Helped customers connect 15,000 solar energy systems. (p 37)	
Realised peak demand savings of 17.1MW ²	✓	Reduced our operational greenhouse gas emissions. (p 40)	
		On track to be diesel free in generation by 2050. (p 40)	
AIFR – Employees & Contractors 13.7	✓	Lost time injuries frequency rate down 48%. (p 43)	Safety – Make sustained progress towards 'no one gets hurt today' in ensuring a safe workplace for our people and the broader community.
LTIFR – Employees 3.2	✓	Driving positive behavioural change through safety indicator. (p 44)	
LTIDR – Employees 62.3	✗	Ongoing safety forum with contractor workforce. (p 44)	
LTI Frequency Rate – Contractors 2.2	✗	Implemented a new integrated management system. (p 45)	
Total Dangerous Electrical Events 885 ²	✓	'No One Gets Hurt Today' goal gains loyal following. (p 45)	
		Community safety program recognised as best-practice. (p 46)	
Employee 'Have Your Say' survey 21 compared to corporate target of ≥ 12. ²	✓	Employee engagement strengthens to 71%. (p 49)	Skills and Culture – Build and foster a resilient and adaptable organisation with the skills and culture required to manage increasingly sophisticated networks, information systems and renewable energy solutions.
Annualised staff turnover 6.8% ²	✓	Moved towards earned value works delivery management. (p 50)	Information – Integrate a spatial model into business processes to enable our people to improve work practices and efficiency.
Opex per route kilometre \$2,494	✗	Property strategy lifting organisational capability. (p 50)	
Reinforcement of supply to North Mackay – CPI 3.1, SPI 1.00.	✓	Enabling performance improvement through information. (p 51)	
Increase capacity to Dalrymple Bay/Hay Point – CPI 1.6, SPI 1.00,	✓	Over 350 graduates, apprentices and trainees supported across the business. (p 52)	
Ubinet – CPI 1.2, SPI 1.00	✓	SharePoint intranet helps employees collaborate. (p 54)	
AS/NZS ISO14001 Environment Standard and AS4801/ISO 18001 Safety Standards maintained. No major breaches.	✓	Protected endangered species with corridor mapping. (p 59)	
Net Profit After Tax \$321.6m	✓	Strategy set to limit rises to network charges. (p 60)	Network Charges – Drive network charges down towards the CPI over the long term.
Return on Assets 8.0%	✗	Unregulated revenue growing from diverse solutions. (p 60)	Financial Targets – Consistently achieve financial targets that meet or better our regulatory allowance and provide a commercial return on assets.
Operating expenditure was outside the regulatory allowance due to the cost incurred in Cyclone Yasi restoration effort.	✗	Employed around 4,700 Queenslanders. (p 62)	Unregulated Business – Increase unregulated revenue while improving core business.
Capital expenditure was within the regulatory allowance.	✓	Reviewed the business insurance program. (p 76)	
		Established regular Board level diversity program reporting. (p 79)	

CHAIRMAN'S MESSAGE

Ergon Energy has an important role to play in supporting sustainability – I see a dependable, affordable electricity supply as being central to the lifestyles we enjoy today, as well as to realising the economic opportunities that lie in the future for regional Queensland.



MEETING OUR COMMITMENTS

Ergon Energy has delivered strongly this year.

Most pleasing to the Board has been the fact that the rate of lost time injuries in the workplace has almost halved.

Reliability performance has also improved dramatically with a 24% turn around in the frequency of outages despite enduring one of the most extreme weather periods in recent history. It is an achievement that demonstrates the maturity and strength of the organisation's response capability.

Looking forward we are aiming to maintain the momentum of these achievements.

We also met our financial commitments with a Net Profit After Tax of \$321.6 million.

2010/11 was the first year of the new five-year regulatory control period. This saw us come under a national regulator, the AER (previously this was a state function).

Broadly, it is the AER's role to enforce the *National Electricity Law* and the *National Electricity Rules* and to approve the amount of revenue we can earn to cover our expenses incurred throughout the regulatory control period, based on what the AER thinks is prudent and efficient.

Under this new framework, our financial returns better reflect the investment being made in the network and the increased costs of borrowing in the market place.

The profit result provides for a \$252.6 million dividend. This in part compensates the Queensland Government, as our owner, for the \$399.3 million subsidy they provide, in the form of a Community Service Obligation payment, to ensure regional Queenslanders do not pay more for electricity than their big city counterparts.

To achieve this, it is Ergon Energy's role as a retailer to offer the government's uniform electricity tariffs across Queensland.

UNDERSTANDING THE CHALLENGE

Ergon Energy's strategic challenge is clear – we need to minimise our impact on rising prices while ensuring we are able to respond to electricity demand and growing expectations around reliability and choice.

While prices are rising due to multiple and complex factors, recent increases have largely been due the investment needed to cater for more homes and businesses using more energy at peak times. This has driven the record investment in the network over recent years, and is continuing to drive our forward investment forecasts and put pressure on electricity prices.

As a result, responding to the rising cost of electricity for our customers is at the centre of our strategic response.

This is all the more important in light of the current debate around the federal government's proposed carbon price. This developing policy area is being monitored by the Board, both from a customer and business impact perspective.

ADDRESSING AFFORDABILITY

By combining a customer focus, smart technologies and demand-side management, along with efficiency and productivity improvements, we are positioning the business to limit growth in network charges to less than the Consumer Price Index over the long-term.

Although this will not take immediate pressure off prices it is a critical element of our affordability response – one that I believe is vital to sustaining the local economies and lifestyles of regional Queensland.

The goals we have set across our strategic areas of focus are all interlinked and contribute to this overarching goal – whether they relate to being customer-driven, excelling in asset management, or simply developing as a high performance organisation.

Take, for example, our current efforts to address affordability through energy efficiency education.

While this is ensuring our customers get the best possible value for what they pay for, it is also central to our demand management objectives. We are currently trialling a broad range of tools and techniques to better manage demand.

These efforts are aiming to defer or avoid costly network investment – with a target of 100MW over the current five-year regulatory control period. This is the equivalent to the electricity demand of around 20,000 houses.

It is about working with our customers so that together we reduce overall costs – short and long-term – and, as a win-win, strengthen our climate change response and reduce carbon emissions.

The other important plank of our affordability response is about having the safety nets in place to protect the vulnerable segments of the community.

The Board sees the support that is being provided to those in financial hardship as central to meeting the organisation's social responsibilities. This led to our endorsement of a bill waiver for the customers hardest hit by this year's floods and cyclones.

READY TO RESPOND TO DEMAND

At the same time as expanding our demand management tool kit, we're also continuing to invest in the network to ensure we are ready to meet the potentially dramatic increase in electricity demand foreseen by a resurgent mining sector and the new growth industry developing around our natural gas resources.

This is the contradiction of the two speed economy that we are servicing across regional Queensland. While some areas are quite stagnant, to enable growth and prosperity we are still preparing to meet a boom in infrastructure demand in the communities surrounding and supporting the mining developments.

These efforts are also being supported by engagement with our major customers to ensure we can deliver the network connections they require in a timely fashion. To meet the future demands from the resource sector in particular we are working towards greater certainty around the cost and timelines for supply and network augmentation.

“I am confident, smart technologies... fresh thinking and a shared determination to work safely and efficiently will develop further as the hallmarks of Ergon Energy in the future.”

This will see our current focus on works delivery improvement and more broadly our asset management excellence come to the fore.

A TECHNOLOGY ENABLED FUTURE

Technology is also being used to target efficiency and productivity with one of our most promising initiatives, known as ROAMES – our remote observation, automated modelling and economic simulation capability – targeting our vegetation management costs.

Ergon Energy is currently spending over \$80 million a year to address vegetation growing around powerlines. While this work is vital for both community safety and network performance, we needed to find smarter ways to respond.

In the near future, as part of the ROAMES initiative, we will be taking to the sky with two aircraft equipped with laser scanners and digital cameras. This will be the start of a year-long journey that will see the entire Ergon Energy electricity network, and any vegetation encroaching on it, mapped from the air. The efficiencies in vegetation management alone that this will deliver will save the company millions of dollars. (p 52)

The information gained as a result of this mapping process will then have the potential to deliver countless flow on benefits.

We are also working with Google to potentially transform the way the company manages its assets. Google's spatial applications will see us using simulations to help plan everything from our response to a natural disaster to the forecast growth in electricity usage in a particular area.

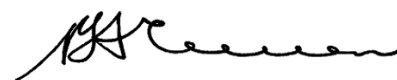
THE ERGON ENERGY OF TOMORROW

I am confident, smart technologies like those embodied in the ROAMES venture, fresh thinking and a shared determination to work safely and efficiently will develop further as the hallmarks of Ergon Energy in the future.

I see this future already forming with what has been delivered this year. And I would like to thank the Board and all of the people who worked diligently for Ergon Energy toward these achievements for their contributions.

In particular, I would also, once again, like to publicly recognise the outstanding efforts of Ergon Energy's workforce and industry partners in restoring power following this year's floods and cyclones. It really was a summer where everyone did their bit – whether in the field, behind a desk, answering a call from a customer or helping ensure Ergon Energy and its industry partners had what they needed to do the job.

It is this type of response that gives me confidence that as an organisation, Ergon Energy is ready to rise to the challenges in the years ahead.



DR RALPH CRAVEN
CHAIRMAN

CHIEF EXECUTIVE'S REPORT

Ergon Energy's focus this year has been around delivering greater customer value, lifting our asset management capability, and deploying a range of strategies to strengthen the performance of the organisation.



The 2010/11 year saw floods and cyclones bring destruction and heartache to our region, from the far north across to our remotest western communities, and right down into the state's capital.

Our response to these storm events was a big part of our year.

DELIVERING WHEN IT WAS NEEDED MOST

Despite more than 75% of our state being declared a disaster zone at one point, affecting countless communities and the lives of many of our own people, we were able, time and time again, to rapidly take steps to ensure the safety of our communities and to restore critical electricity supply.

Over the summer, weather-related events saw the power interrupted to almost 520,000 customers.

Our biggest challenge was without a doubt Cyclone Yasi.

Never before have we had to grapple with such overwhelming logistics, with such extensive damage over such a widespread area. Yet our people stepped up. They worked shoulder-to-shoulder with emergency services, as well as colleagues from across Queensland and interstate.

Every time – and there were plenty of occasions – that they encountered obstacles with access, transport, accommodation or resources they found a solution. Not everything went seamlessly, but we knew our customers needed us, so we were determined to do our very best.

This is one of the clearest examples in the company's history of our people truly demonstrating their commitment to our vision of being a world-class, customer-driven energy business.

The scale of the response effort, along with access issues in the flooded communities, however, have had an impact on the delivery of our broader works program, from our customer-requested network connections to our vegetation management program.

Getting back on track remains a focus of our management team.

Despite the challenges, however, we achieved a significant network reliability improvement this year – with the duration and frequency of outages down 21% and 24% respectively compared to last year.

Our Minimum Service Standards, set by the QCA, for the frequency of outages were met across all three powerline categories. The standards for the duration of outages were favourable for two of the three – with a 33% improvement for urban supply.

These gains have primarily been as a result of the removal of previous operating constraints on live-line works and other improvements to operational practices, however, we have also been focused on realising longer-term improvements from a suite of asset-focused initiatives.

This has included a program of replacing defective switches and investing strategically in our network's monitoring and control capability – a highlight being the integration of a telecommunications network into the electricity network.

SAFETY CENTRAL TO HIGH PERFORMANCE

We have continued to place the utmost priority this year on building a sustainable safety culture across all facets of our business. And as a result we have seen a turnaround in our performance in this area – a 48% drop in the frequency rate for lost time injuries.

The safety performance of the network also continued to improve with a reduction in dangerous electrical events.

Being a leader in safety is fundamental to our definition of high performance. This led us to establish a new Comprehensive Safety Indicator this year. It includes a range of both lead and lag indicators that are helping to drive the improved safety behaviours needed to ensure no one gets hurt.

This focus is not just about our people, it is also about the broader community. Sadly this year three community members died in separate accidents involving the network. Our sympathies go to their families and the communities they lived in.

These events are why we remain determined to provide a safe network and to get our safety messages out through our electrical safety awareness program. It is vital that the community understands the risks associated with electricity and how to interact safely with our assets.

DRIVING EFFICIENCIES INTO THE BUSINESS

We have for some time recognised that affordability would become one of the most important issues facing the industry and our customers. This has seen us doing everything possible to be efficient and keep our costs down.

We have continued to work this year jointly with Energex, our partner organisation in the Queensland electricity industry, sharing our expertise and investment capital to deliver a suite of improvement outcomes. These range from changes to our asset management approach to economies of scale in our procurement.

This partnership is also expanding further to extract maximum value from our Information and Communications Technology investment – this is about becoming an increasingly information-enabled, high performing organisation with improved decision making and more efficient business processes.

We have also continued to drive value from earlier changes to our organisational design and to lift the management control across our operations to realise productivity improvements.

These efforts have seen us finish the first year of our regulatory determination, which spans from 2010/11 – 2014/15, having largely managed our operating and capital expenditure within the parameters set by the AER.

At the same time there has been a rise in employee commitment towards the organisation and cross-workgroup cooperation. The results from the annual survey of our employees also shows that our people are also feeling more empowered to do their job. These attributes are central to high performance, and fostering a resilient and adaptable organisation.

BRINGING POWER BILLS DOWN

The year has also seen us continuing to work with our customers to find smarter solutions that help them to manage their electricity use and minimise costs.

This year our innovative *powersavvy* program, as an example, helped our off-grid communities reduce their power bills by an average of 15%, and provided us with diesel savings of over 1.5 million litres in our isolated generation area.

“Our storm season response was a big part of our year... we knew our customers needed us, so we were determined to do our very best.”

Our success in the Townsville community over recent years is also now being harnessed to deliver even greater value. Working together as an Energy Sense Community will help us reduce the investment necessary to keep pace with demand – and in the longer-term reduce the pressure on electricity prices.

By working with our customers and other stakeholders in this way, we are not only reducing costs, we are leveraging environmental value by reducing greenhouse gas emissions.

This is where the asset imperative to better manage demand, as well as the community’s broader response to climate change, come together.

These activities are both strengthening our business and meeting what we see as a social responsibility.

OUR FOCUS IN 2011/12

Looking forward, like all Queenslanders, I’m hoping the weather will be kinder than in the past 12 months so that we can push forward with our goals.

While we have achieved a lot, we are continually lifting the bar to meet our stakeholders’ expectations, especially in regard to safety, reliability, delivery and efficiency.

We will continue to lift our safety performance, as well as ensure we comply with the new laws that become applicable through the harmonisation of workplace health and safety legislation taking place nationally.

From a customer perspective, while Ergon Energy doesn’t set prices, we are committed to providing value for money in terms of reliability of supply and our service standards.

This will see the ongoing evaluation and introduction of new technologies and practices that improve network performance.

We will also meet the new requirements under the National Energy Customer Framework and continue to drive operational efficiencies into the business, by managing costs in a prudent manner and using technology to find more effective and more efficient ways of undertaking our work.

This will contribute to other government initiatives that are driving for efficiency in the electricity industry, including the initiatives in the Queensland Energy Management Plan and associated with retail tariff reform.

Achieving across these priorities is important to delivering a more sustainable and affordable electricity service for regional Queensland.

THE POWER OF WORKING TOGETHER

Ergon Energy has a highly skilled and capable geographically diverse workforce, with experts in many fields from electrical engineering to administration, and across the trades. They have also come to the organisation from many different backgrounds.

I have no doubt that this diversity is key to our ability to address the challenges ahead.

I thank all of our employees for their efforts over the past year – especially those who gave their all despite facing their own personal difficulties in the aftermath of the many natural disasters experienced across regional Queensland.

I look forward with confidence to the new financial year as we continue to demonstrate the many ways we are truly responsive, resourceful and ready.



IAN MCLEOD
CHIEF EXECUTIVE



REVIEW OF OPERATIONS

■ CUSTOMER-DRIVEN	14
ASSET MANAGEMENT EXCELLENCE	22
LEVERAGE CLIMATE CHANGE RESPONSE	32
A LEADER IN SAFETY	42
HIGH PERFORMANCE ORGANISATION	48

REVIEW OF OPERATIONS: CUSTOMER-DRIVEN

ready to listen

Our priority is to be customer-driven – providing a more cost-efficient and dependable electricity service, one that is focused on delivering increasing customer value and choice, as well as broader economic and social benefits, now and in the future.

Ergon Energy's 690,000 plus customers range from large industrial energy users to 'mums and dads'. They are not only geographically dispersed, but they have different expectations around 'level of service'. This diversity, coupled with the way they use electricity, means we need to work hard to achieve the right balance of quality, cost, value and choice for our customers.

A FOCUS ON VALUE

Since 2001, we have been using a Value to Customer metric as one of the key measures of what is important to our customers. This metric allows us to monitor how our residential customers judge value in terms of what they receive versus the price they pay. This year's results clearly highlighted the need to address the impact of rising electricity prices on our customers.

While our overall ratio score compared positively to the peer suppliers we benchmark against at 103 (where 100 is parity) – thanks to the customer interaction experience, particularly around the provision of energy solutions and advice (a strategic focus area to address affordability) – our overall value score dropped to 6.5 out of 10 from 7.0 out of 10 in 2009/10. This result was driven largely by our customers' perceptions around cost and affordability.

powersavvy Field Officer Wendy Phineasa's role has been central to engaging our isolated communities in the Torres Strait around energy efficiency – this program is about sharing the simple things that can be done to save power. (p 19)

A similar trend was reflected in the overall Value to Business score, which looks at the perceptions of our business customers. It fell to 6.0 from 6.5 in 2009/10. (see statistics on page 21)

NEW COUNCIL FOR CUSTOMER VOICE

To help us better connect with our customers, this year we launched a Customer Council. As a consultative forum, its aim is to engage with the community on customer-related challenges and opportunities around the supply of electricity to regional Queensland. It brings together representatives from Ergon Energy and nine peak organisations from across regional Queensland involved in the community services, environmental and business sectors. It allows these organisations to inform and influence our business decisions and, in turn, facilitate wider community consultation and information provision to their constituent groups.

The Council has been well received, with the first meeting held during the reporting year focusing on the priority areas of energy efficiency and affordability, service delivery, climate change, community safety and regional representation. Meetings will continue to be held quarterly.

We have also continued a suite of other customer insight initiatives to monitor satisfaction across different customer segments – see the Customer Experience Scorecard. (p 21)

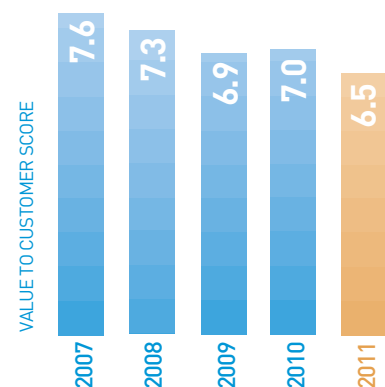
Together these efforts have provided us with an in depth understanding of what our customers' value. This is underpinning our efforts to address the cost pressures associated with our role in supplying electricity,

HIGHLIGHTS

- Established a new Customer Council
- Advanced our ability to reduce pressures on tariffs
- Boosted our capacity to help those in hardship
- Supported ATSI reconciliation through engagement
- Benchmarked strongly with community investment
- Achieved the lowest level of complaints in the industry.

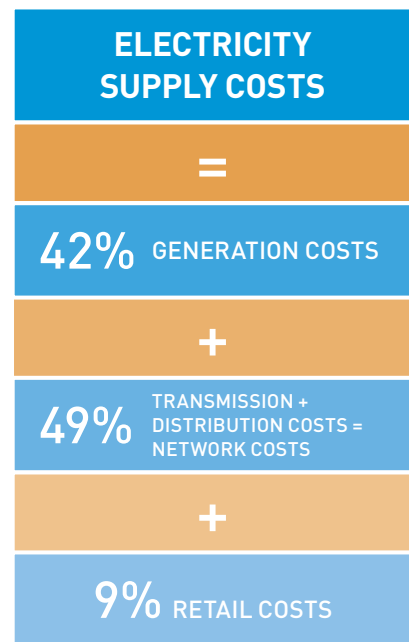
RESEARCH CONFIRMS FOCUS ON AFFORDABILITY

While customers' perceptions around cost and affordability are driving down the value they place on the service we deliver, Ergon Energy is performing above the pool of comparative suppliers we benchmark against in this area.





The inaugural Customer Council meeting: From L, General Manager Service Operations Alan Newman, Agforce representative Sue Bennetto, Executive General Manager Customer and Stakeholder Engagement Justin Fitzgerald, Linda Parmenter from QCOS, Customer Advocate Tanya Acheson, CCIQ representative Mark Menkens, Greening Australia's Bob Osborne, UDIA's Paul Spina, Lifeline representative Don Anderson and Greg Hoffman from LGAQ.



including our demand management and operational efficiencies initiatives, as well as our efforts to help our customers get greater value and to support our vulnerable and disadvantaged customers.

HELPING EASE COST PRESSURES

The recent increases in the price of electricity largely reflect the scale of investment being made across Queensland's electricity networks to meet customer-driven demand. For Ergon Energy, this investment could be up to \$4.5 billion for the current five-year regulatory control period. (p 25)

A typical household currently pays a quarterly electricity bill of around \$375.

Ergon Energy understands that rising electricity prices are just one of the cost-of-living pressures that our customers are facing but it is one we can influence. That's why we have set about positioning the business to limit increases to network charges (the main component of the end price that we can influence) to less than the Consumer Price Index (CPI) over the long-term. This is being achieved through a range of initiatives being progressed through our strategic plan, most notably our efforts to reduce peak load through demand management and alternative energy solutions, which will defer or avoid network investment.

Many of the demand management initiatives, detailed in this report, are part of our partnership with the Queensland Government to deliver the *Queensland Energy Management Plan*. This Plan outlines how, by working together, we can avoid the need for a

"We're working hard to deliver a dependable, affordable electricity supply for our customers."

new 1,000MW power station by 2020; saving more than \$3.5 billion in avoided network and generation costs.

One of the first initiatives was the change to tariff policy enabling pool owners easier access to the cheaper retail Tariff 33 electricity supply. The change means pool owners can now connect their pool pumps to off-peak electricity via a standard power point rather than having to hard-wire back to the home's electricity system. The change also means pool owners will no longer need to employ a licensed electrician to disconnect and reconnect their electricity supply when their pool filtration or sanitation systems need repair.

This barrier to the take up of Tariff 33 was identified in Ergon Energy's pool pump economiser trial in Cairns over the past year. The trial found a switch in tariff can provide a significant saving for pool owners – it is estimated customers on the Cairns trial will save about \$255 a year.

This change not only provides immediate savings to customers who switch to off-peak, but will reduce peak load on the network and delay the required capital investment and resultant tariff increases. This is just one example of how tariff reform will play a critical role in responding to demand.

TARIFF REFORM TO GIVE CHOICE

Our demand management efforts and our customers' abilities to pay may also be assisted by a new tariff structure announced by the Queensland Government in June, which currently is in consultation for implementation in July 2012. Ergon Energy is continuing to engage on this matter, following the government engaging the QCA, believing the proposed tariff structure would offer customers greater choice and reward them for using electricity (and, as a consequence, the network) more efficiently.

The proposed tariff structure reform will remove the Benchmark Retail Cost Index (BRCI) methodology currently used to set notified electricity prices and replace it with a more transparent system based on the underlying cost of supply. Other reforms being discussed include the introduction of an inclining block tariff structure for Tariff 11.

This type of tariff would encourage customers who use a lot of electricity to reduce their use without financially impacting low consumption customers.

Another proposed change is to establish a voluntary residential Time-of-Use tariff for customers who install an interval meter. This would allow prices to be varied across different times of the day and give customers an incentive to shift discretionary portions of their consumption away from higher-priced peak periods to times of the day when prices are lower.

To better understand how this would work in practice and ensure equitable outcomes, we are currently undertaking a Rewards Based Tariff Trial with volunteer residential customers from Cairns and Toowoomba. The trial, which began in early 2011, offers households incentive payments of up to \$300 over the next two years for energy usage behaviours that support the management of peak demand. Preliminary data analysis is indicating customers are willing to change their behaviour in response to the dynamic peak pricing signals being issued through the trial.

LIFTING OUR OWN OPERATIONAL EFFICIENCY

As well as identifying and trialling ways to reduce demand on the network, we have maintained our focus on operational efficiency and effectiveness.

Significant savings have been made through the year in a number of areas – through the Joint Workings program with our south-east Queensland counterpart Energex, our expertise and investment capital have been brought together to deliver a suite of improvement outcomes for our respective companies.

Initiated in 2008, this year the program has implemented a shared condition-based risk-management approach to asset replacement and developed a common network asset management framework. This work has been about shaping the future – allowing us to benchmark our maintenance activities against one another, as well as like entities around the world, to identify ongoing improvement opportunities.

The year has also seen a focus on developing shared construction and material standards. This commonality is helping us realise economies of scale with joint tendering for key plant, such as high-voltage switchgear, and to optimise inventory management. For example, two recent achievements include; the introduction of aluminium for high-voltage underground cabling, which is far more cost-effective, saving up to \$1.9 million a year; and the addition of a new design to our range of modular substations, which is expected to lead to cost savings in excess of \$2.2 million over the current five-year regulatory control period. Modular solutions are assembled cost-effectively in our workshop before being relocated to the field where needed. In the field they are quickly set up and commissioned.

To increase efficiency, safety and compliance, we have also progressed common defect classification manuals for transmission, distribution and substations. This has supported the introduction of a common hand-held automated solution for recording substation defects.

We are also working jointly to extract maximum value from our significant Information and Communications Technology investment. This partnership is about enabling us to meet the needs of our customers into the future (p 51) and realising our shared vision for a 'smart' network. (p 25)

Another highlight in the information space is our 'ROAMES' initiative, which when implemented, promises to deliver savings of around \$44 million over five years in our vegetation management space. (p 52)

To improve our operational efficiency and manage our overhead costs more broadly, we are also concentrating on improving our works delivery capability. These efforts are about streamlining workflows, cutting waste and removing unnecessary bureaucracy. (p 50)

Our financial performance is also being supported by ongoing savings from major initiatives undertaken in previous years, including our Organisation Design Review (and the late 2009 restructure) and the Depot 3PR initiative (the rollout of a purpose-built management control system across our operations, which commenced in 2008).

HELPING OUR CUSTOMERS SAVE

Ergon Energy has been running an integrated marketing strategy, 'energy sense', since April 2010. The initiative was launched to help customers reduce the size of their bills in the face of increased energy use and rising prices.

The strategy uses a mix of marketing initiatives, including television, cinema, press, collateral, outdoor, direct mail, online and community partnerships.

Energy sense shows customers ways to save money by using electrical appliances more efficiently. It demonstrates which household activities use the most power and provides an online calculator to help target activities to reduce electricity usage.

We are also continuing to provide advice on our customers' bills that shows their energy use in comparison with other customers in their area.

These efforts are starting to achieve behavioural change with more than 84% of customers showing an interest in receiving information on how to save electricity.

While 'energy sense' is all about reducing the customer impact of price rises and delivering value to customers by providing solutions and advice, it also provides the added advantage of helping us to achieve reductions in network load.

We are also showing leadership by applying energy sense to reduce electricity consumption in our own buildings. (p 40)

Making account management easier

Another initiative to help our customers manage their electricity costs is the ability to pay their bill by direct debit – weekly, fortnightly, monthly or quarterly. This year our focus was on helping customers match their direct debit payment with the typical value of their bill, to address changes to pricing and their personal consumption.

We have also had a good take-up by customers paying their electricity bills via BPay, which provides them with the convenience of paying online.

To better manage their budgets, this year also saw more than 11,000 customers pay their power bills direct from their Centrelink benefits. Called Centrepay, this initiative complements our financial hardship policy (p 18), which is designed to keep customers connected.

ASSISTING CUSTOMERS EXPERIENCING FINANCIAL HARDSHIP

The current economic conditions across regional Queensland and the widespread impact of this year's natural disasters, combined with price rises in goods and services across the board, are creating financial stress in households and businesses.

In response, we expanded the capacity of the team who deliver our customer assistance program.

After our summer of natural disasters, around 3,900 customers are now benefiting from the protection our customer assistance program provides. This equates to approximately 0.6% of our customer base.

Our customer assistance program gives general energy advice on how to reduce consumption, organises payment plans and alternative payment methods and provides direct referral to Lifeline Community Care Queensland if counselling is needed to build a customer's long-term capacity to pay.

We are also exploring ways to identify at risk and vulnerable customers early.

A dedicated 1800 number was established for customers in our hardship program. This service is free and enables customers to contact us easily to discuss their payment problems.

In light of the number of natural disasters that happened during the year, we introduced a disaster waiver program so we could provide bill relief to customers hardest hit by this year's floods and cyclones. Since being introduced in January 2011, more than 160 customers have taken up this offer with more than \$100,000 waived from their accounts.

We also continued our work with outside agencies:

- we built a closer relationship with the Department of Communities' Home Emergency Energy Assistance Scheme to support customers in need and facilitate payments for debt totalling approximately \$500,000.
- we worked with Good Shepherd Youth and Family Service to increase the awareness of their No Interest Loan Scheme available to low-income earners to purchase essential whitegoods.
- we developed our relationship with Lifeline Community Care Queensland to better identify people in hardship and to provide support for its financial literacy and energy-efficiency program.

ENGAGING WITH OUR INDIGENOUS COMMUNITIES

Ergon Energy supplies the majority of regional Queensland's Indigenous communities with power, either through the grid, via stand-alone power stations and local distribution networks, or through small stand-alone power supply systems. Our aim is to contribute to the economic and social well-being of these communities by engaging with them and through the delivery of our services to them.

As part of our Aboriginal and Torres Strait Islander (A&TSI) Community Engagement Strategy, we established a new role in the Customer Advocate Office to engage with Indigenous communities. This role is helping us to build a clearer picture of the issues and opportunities relating to our A&TSI communities.

The initial focus of this role has mainly, but not exclusively, been on improving engagement with the communities of Hope Vale, Aurukun, Doomadgee and Palm Island. These efforts will guide broader deployment of our engagement strategy. Some of the challenges being addressed to date include: land tenure, communication protocols, employee accommodation and the purchase of power cards.

We have also created two A&TSI liaison officer roles within our Customer Service area to work with stakeholders across our business, the community, government and business sectors to identify and help deliver improved services to A&TSI communities.

Our ongoing relationship with Centrelink Remote Indigenous Services is helping us to support customers experiencing difficulty paying for their electricity needs.

To further support our A&TSI Community Engagement Strategy we have established a governance structure, with both a high-level steering committee and an operational committee, to better coordinate engagement with these communities and drive the delivery of real improvements.

The goals of this strategy align with the principles of a Reconciliation Action Plan, as developed by Reconciliation Australia, the peak national body for building and promoting reconciliation. Reconciliation Australia's three main action themes are: opportunities, relationships and respect. At Ergon Energy we are working towards achieving good outcomes in each of these areas with a particular focus on community sustainability, education, employment and the provision of energy services.

ENGAGING COMMUNITIES ON OUR MAJOR PROJECTS

Recognising that communities can have significant concerns about the impact of major infrastructure, such as substations and line routes, be it existing, proposed or under construction, Ergon Energy progressed its commitment to engage with regional Queensland communities to foster understanding of its infrastructure building program.

We tested our revised model of community engagement for major capital projects through a pilot involving several such projects.

Ergon Energy seeks to integrate community impact assessment and engagement 'always and early'. Importantly, this approach introduces the principle of multi-criteria methodology for assessing community impact as early as practicable during the planning and project design phases. Regionally based subject matter experts (SME), together with SMEs from such areas as property, environment, cultural heritage and design, operate as 'virtual teams' to ensure all dimensions of the project are covered.

This commitment to community engagement is in line with our over-arching stakeholder engagement framework. (p 73)

Our *powersavvy* project, launched in 2010 to actively engage with whole communities to change the way they think about and use electricity, has created a new model for community and customer engagement.

The isolated communities' energy saving pilot has successfully demonstrated, in a largely Indigenous context, that an engagement model using a mostly personal, face-to-face approach can change behaviour.

The 12-month trial, funded through the Office of Clean Energy, aimed to significantly reduce electricity consumption, greenhouse gas emissions and the overall cost of electricity supply in Queensland's isolated communities served by diesel-fired power stations.

Energy consumption overall has been reduced by more than 15% across the pilot communities of Thursday Island, Horn Island and the Northern Peninsula Area, all located around the most northern tip of Australia. This means our customers are now saving hundreds of dollars a year off their power bills.

Around 5,500 predominantly Indigenous residents live in these communities, which is one-third of the customers served by the 33 isolated power stations. The success of the approach has led to the rollout of the program to the remaining 30 remote communities over the next three years

SUSTAINABILITY IN ACTION

- 875 households participated in a *powersavvy* home energy-saving consultation, helping them make big reductions in their power usage and therefore their power bills – some saving hundreds of dollars a year.
- Energy audits conducted with 100 large commercial customers, including government departments, recommended initiatives to save more than \$978,000 a year with most now being implemented.
- Overall the pilot is estimated to be delivering annual power station fuel savings of more than 1.5 million litres of diesel, worth approximately \$2.2 million.
- These diesel generation savings will avoid the production of more than 4,200 tonnes of greenhouse gas emissions a year.
- The trial supported local employment with five Indigenous field officers sharing their knowledge with residents.
- Following the resounding success of the pilot, *powersavvy* has been extended to the outer Torres Strait Islands with initial results showing similarly positive sustainability outcomes.



powersavvy used the principles of Community Based Social Marketing to develop a model that engaged with both residents and businesses, educating them on energy efficiency and helping them develop power-saving strategies. Here, Field Officer Wendy Phineasa (left) talks to customer Paula from Mabuia Island about some of the simple things she can do to save power at home.

“I learnt lots more because the field officers came to show me how to save energy. I’ve never read an energy saving book. I never knew why my monthly bills were \$300 to \$400. Now I’m only paying \$100 to \$200! That was because I used to leave air con on all night. *powersavvy* taught me to turn everything off and how much power the air con takes and now I am saving lots of money.”

Residential customer from independent research



Commercial customers account for 60% of electricity use in the pilot communities, so *powersavvy* focused on measures to reduce this, with some saving up to 33%.



The program has a major school education element which promotes and reinforces energy-saving behaviours at home. Using the slogan ‘be brave and save’, a team of students at Bamaga High School embarked on a school-wide energy efficiency campaign, cutting their school’s power consumption by 22% over a four-month period.



A *powersavvy* website was launched to spread the word about how to save power and money.

During the year we continued to work closely with local governments, as a key community engagement channel, to identify areas for collaboration – from energy conservation to modelling community evolution and economic activity – to improve our service delivery.

Through these relationships, consultation continued around our Community Powerline Project works. This saw \$2.3 million invested to assist local communities relocate, underground or replace overhead powerlines as part of community-owned beautification projects in Mount Isa, Cairns, Biloela, Bowen, Gin Gin and Maryborough in addition to numerous smaller projects in other regional Queensland cities and towns. We also worked with local governments throughout our disaster response activities, and as part of our ongoing Cyclone Area Reliability Enhancement (CARE) program. (p 37)

ADDING VALUE THROUGH OUR COMMUNITY PARTNERSHIPS

During 2010/11, our sponsorships and corporate donations saw us invest more than \$750,000 toward targeted social and environmental initiatives. Our strategy is to inject funds into regional Queensland for community-driven projects that deliver positive outcomes for both our business and the community as a whole.

One of the key partnerships this year was with the North Queensland Cowboys Rugby League Team. Created around the concept of 'join my team', we are using a group of Cowboys' players to support community awareness of our 'energy sense' messages. We anticipate this will lead to the adoption of more energy-efficient behaviours. This campaign is adding value to the club by assisting it to build its environmental and sustainability credentials.

Ergon Energy's \$100,000 Envirofund, launched in May 2009, also continued with 19 community-based groups bringing their energy conservation and environmental vision to life. (p 35)

Our PowerAid program saw \$172,700 donated to charities of our employees' choice throughout the year, taking the total donated since its inception in 2004 to almost \$1.8 million. The PowerAid initiative is a simple concept that involves work teams accruing points for safe work practices, which are then converted into donation dollars by Ergon Energy. (p 44)

The year also took our partnership with the Queensland section of the Royal Flying Doctor Service (RFDS) to new heights. Since 2004 more than \$5 million has been raised through the outstanding generosity of our customers and our employees – a truly humbling figure considering the financial burden of the floods and cyclones experienced across our regions this year.

Since our partnership began, more than 94,000 customers have opted to take part in the initiative. The money raised through a voluntary donation scheme supports the RFDS' aircraft replacement program and the purchase of essential medical equipment.

This year, to gauge the effectiveness of our community investments, we invested in a modelling tool developed by the London Benchmarking Group, a group of more than 100 companies working together to improve the measurement and management of community involvement. This tool captures our main community investment activities and enables us to benchmark these investments against other companies across Australia and New Zealand, especially those in the energy sector. We are pleased to say our community investment compared strongly to other organisations across a range of categories.

FOR MORE ON OUR COMMUNITY ENGAGEMENT SEE PAGE 33–39.



Social media sites, Twitter and Facebook, were introduced for the first time as disaster response community communications channel.

Our Facebook followers peaked at almost 9,000. There were more than 15,000 'comments' and 'likes' posted by followers and incredibly more than six million views of the news items.

BEING EASY TO DEAL WITH

Throughout 2010/11 we have been working on the overall customer experience. We want our customers to say 'Ergon Energy knows me and is easy to deal with'.

To support this goal, we commenced an end-to-end review of the customer experience – starting with what happens when a customer contacts us with a specific query, and then how the query moves to a service order for the business to carry out the work, through to final resolution for the customer. The aim of this work is to improve our internal processes and deliver better response times for our customers.

We also introduced more self-service transactions through our General Enquiries Interactive Voice Recognition system to allow 24/7 access for our customers to, for example, change their payment arrangements.

One of our most challenging service areas this year has been around solar energy systems, which require connection to our grid to take advantage of the solar bonus tariff. We experienced a dramatic jump in enquiries, which required significant cross-business collaboration and resourcing, as well as communicating with installers to ensure positive customer outcomes. (p 37)

We are driving a program of improvement in the major customer area. This includes a management priority on reducing turnaround times for connections (p 24–25 & 50), as well as a range of customer relationship management improvements. Our goal is to better understand the needs of these customers so we can respond more effectively.

In the process of improving our customers' experience, we are also preparing ourselves for compliance with the more stringent requirements of the National Energy Customer Framework (NECF). Ergon Energy has participated in the development of the Ministerial Council on Energy's NECF package of reforms. The Queensland Government has decided that the majority of the NECF reforms will be introduced in Queensland in July 2012. The national framework will be regulated by the AER and cover the non-economic aspects of energy retail sale and distribution connection and supply, including consumer protection.

SCORECARD

CUSTOMER EXPERIENCE

CONTACT CENTRE PERFORMANCE SOUND

The natural disasters over summer saw our National Contact Centre rise to the challenge of a dramatic increase in call volumes – with double the usual number in February alone. The centre serviced the greater call volumes during the power restoration efforts, and then managed a heightened level of enquires in the months following. This was due to three main reasons: a backlog of bill enquiries due to accounts being suspended during the response effort; the heightened level of hardship being experienced throughout the community; and the dramatic jump in solar enquiries.

As a result, the 'grade of service' for the percentage of calls answered in 30 seconds dropped between January and May. At the same time, however, we were able to maintain overall customer satisfaction, finishing the year with an above target result of 88% (compared to an average of 91% in 2009/10).

Efforts to address the resourcing challenge through recruitment, training and greater rostering flexibility saw service levels recover to finish the year above target at 72.8% (target 70%). However, the overall result for the year was 64.4% of calls answered within 30 seconds (71.2% in 2009/10).

Twitter and Facebook were introduced as disaster response community communication channels.

These social media sites were very successful in supporting our traditional customer communication channels. Our Facebook followers peaked at almost 9,000, and there were more than six million views of our news items.

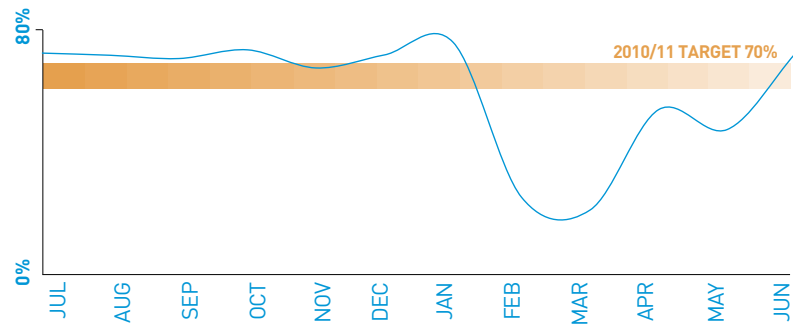
GUARANTEED SERVICE LEVELS IMPROVE

We continued to improve on delivery around our Guaranteed Service Levels (GSLs), detailed in our Customer Charter. Changes to GSL payment rules in July 2010 required us to make automatic GSL payments to customers when we failed to deliver. Previously, in most cases, the customer had to lodge a claim. Given this, we have not provided comparison results. However, process improvements have lifted our service standards and resulted in the final level of GSL payments being well below forecast. (p 8)

From an electricity distribution perspective, GSLs cover network reliability standards, as well as new connection and reconnection timeframes, wrongful disconnections, the resolution of hot water supply matters, appointments and the notification of planned interruptions. These are complemented by the retail GSLs for billing errors.

TELEPHONE GRADE OF SERVICE – CALLS ANSWERED IN 30 SECONDS

Through January to May, our customer service team experienced extremely challenging conditions, with dramatic increases in call volumes and durations due to the floods and cyclones. A high proportion of the team were personally affected by the disasters.



BENCHMARKING COMPLAINTS MANAGEMENT

The Energy and Water Ombudsman Queensland's annual complaints statistics for 2010/11 are evidence of Ergon Energy's internal complaints management systems, showing we recorded fewer unresolved complaints over the last financial year than any other electricity retailer or distributor in Queensland. Ergon Energy's combined retailer and distributor complaints represented only 6% of total complaints escalated.

Despite this, our customers were not always satisfied with how we handled complaints, with this result fluctuating between 68% and 56% toward the end of the year (average of 62% overall satisfaction throughout the year). We are working to improve this level of customer satisfaction.

Ergon Energy maintained our high conformance rating with the International Standard on Complaints Handling (AS ISO 10002), as confirmed by an independent bi-annual review.

SERVICE EXCELLENCE RECOGNISED

Ergon Energy was recognised for its commitment to customer service excellence as the Queensland winner in the State and Federal Government category at this year's Australian Service Excellence Awards. We were also highly commended in the national category for State and Federal Government.

Certification against the International Customer Service Standard, which is administered by the Customer Service Institute of Australia, was maintained. We achieved a rating in the top 5% of certified organisations and were the leading utility in 12 of 29 categories assessed.

This strong outcome was pleasing as the assessment centres on how the organisation was able to remain customer-focused through a disaster response. The assessors visited the depots of Roma and Chinchilla, and the service centre in Rockhampton. These sites all had first-hand experience of, and were able to demonstrate their response to, the severe weather events.

This commitment to external review to drive continuous improvement will see an ongoing focus on improving our support to customers in hardship and our customer service delivery capability.

SERVICE FAILURE	CLAIMS	PAYMENTS
Network Reliability	1,099	\$114,296
Other GSLs	3,701	\$165,435
TOTAL	4,800	\$279,731

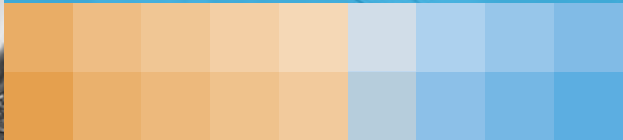
THE STATISTICS

CUSTOMER SERVICE DELIVERY		2010/11	2009/10	2008/09	2007/08	2006/07
Value to Customer – Residential Research Parity	Target ≥ 100 (peer average)	✓ 103	109	100	103	106
Value to Customer – Residential Research Score		✓ 6.5	7.0	6.9	7.3	7.6
Value to Business (research score)		✓ 6.0	6.5	na	na	na
Call Volumes to Contact Centre		^ 1.67 million	1.55 million	1.45 million	1.39 million	1.47 million
Contact Centre – Customer Satisfaction	Target ≥ 85%	✓ 88%	91%	90%	89%	85%
Contact Centre – Calls Answered in 30 Seconds	Target ≥ 70%	✓ 64%	71%	71%	74%	70%
New Connections – Average Time from Contract to Commissioning	Target ≤ 160 days	^ 218 days	162 days	165 days	173 days	na



REVIEW OF OPERATIONS

CUSTOMER-DRIVEN	14
■ ASSET MANAGEMENT EXCELLENCE	22
LEVERAGE CLIMATE CHANGE RESPONSE	32
A LEADER IN SAFETY	42
HIGH PERFORMANCE ORGANISATION	48



REVIEW OF OPERATIONS: ASSET MANAGEMENT EXCELLENCE

ready to build on success

Ergon Energy is committed to delivering a secure, reliable and quality electricity supply for our customers, wherever they are in regional Queensland – one that effectively balances both commercial and customer perspectives without sacrificing safety.

FINDING THE RIGHT BALANCE

Asset management is all about balance – the balance between ‘investing in’ and ‘driving value from’ an asset. Our strategic focus on excellence in this area recognises that this balance can only be achieved with a full understanding of the overall health of the network.

Ergon Energy’s infrastructure network is vast and complex. It comprises many individual assets, each at different stages of their useful lives. Despite this, our electricity supply network must perform at a consistent standard day in day out.

“Our goal is to manage our assets in a more sustainable way – by adopting new technologies and smarter ways of doing things.”

This is where asset management becomes central to meeting our stakeholders’ expectations. By optimising lifecycle management, we can enhance network performance and, in turn, customer satisfaction. We can also deliver more sustainable development within our funding constraints, which ultimately optimises our return on investment. Lifecycle management also delivers better safety and environmental outcomes.

Crews across southern and central Queensland undertook plenty of preventative switching during the past summer’s long-running flood crisis. Here a crew is disconnecting in Rockhampton.

The health of our network is measured by many interrelated aspects, the obvious ones being reliability and quality of supply. Others include our performance against our broader social responsibilities, notably the challenge of electricity affordability and the need to demonstrate environmental stewardship. The network’s health is also being measured by its resilience and responsiveness to external events, such as this year’s natural disasters, growth in demand and network utilisation, which are vital to meeting our financial obligations.

To ensure the health of the network we are continuing to augment and plan our capital program for future growth in demand, most notably in resource rich centres in central and southern Queensland.

We are also developing our asset management capability, changing practices and adopting new technologies in response to both the demand challenge and reliability expectations.

We are drawing on a suite of non-traditional demand-side solutions. Intrinsicly linked to our climate change response these customer-facilitated solutions are discussed in more detail in the next section.

It is all about providing a more cost-efficient, sustainable and dependable service for our customers.

THE DEMAND CHALLENGE REMAINS DESPITE MILD SEASON

Peak demand for 2010/11 was significantly lower than forecast at 2,349MW, down 8.8% on the previous summer. The total energy distributed for the year was down 5% to 14,544GWh.

HIGHLIGHTS

- Established criteria to assess network health
- Invested \$660.5 million to increase capacity and improve reliability
- Advanced a range of intelligent network solutions
- Prepared well and met the summer storm season challenge
- Reduced the frequency of outages by 24%.

These outcomes were the result of three major influences:

- milder summer conditions – the lack of high temperature days, where we normally see an increase in air conditioner use, coinciding with the energy usage patterns of a normal working week.
- natural disasters – three cyclones and a string of wet weather days significantly impacted the state’s mining operations, tourism industry and transport-dependent businesses. This was compounded when Cyclone Yasi put a significant section of the network out of service during the traditional peak demand period.
- economic drivers and behavioural change – we are continuing to monitor how demand is being impacted by the current economic climate, price rises and the growing awareness and take up of energy-efficiency measures, including home insulation, solar hot water and solar energy systems.

It has been estimated that these three factors resulted in a 270MW reduction in electricity demand compared to what could have been expected based on medium economic conditions, average weather conditions and no natural disasters.

Despite recent trends however, the potential still exists for electricity demand to increase considerably from the last peak of 2,584MW in March 2007 to a forecast of 3,554MW by 2020.

Our future infrastructure plans are based on an average growth in system-wide peak of 4.1% each year over the next 10 years, with higher than average growth expected across southern and central Queensland where a strong recovery in the resources sector is anticipated. Population growth and the continuing take up of energy-hungry appliances, such as home air conditioners, also continues to be a major factor. (p 33)

Our forecasts will continue to be reviewed regularly, at a regional level, to ensure network investment is prudent.

INVESTING WISELY IN THE NETWORK

During 2010/11, Ergon Energy invested \$660.5 million through its capital works program to deliver both network improvements and increase capacity. This investment was within our regulatory allowance. This was mainly Ergon Energy-initiated and customer-initiated electricity distribution works, however, it also included various generation projects.

The Ergon Energy-initiated capital works saw \$446.4 million invested, 2.1% (\$9.5 million) higher than 2009/10.

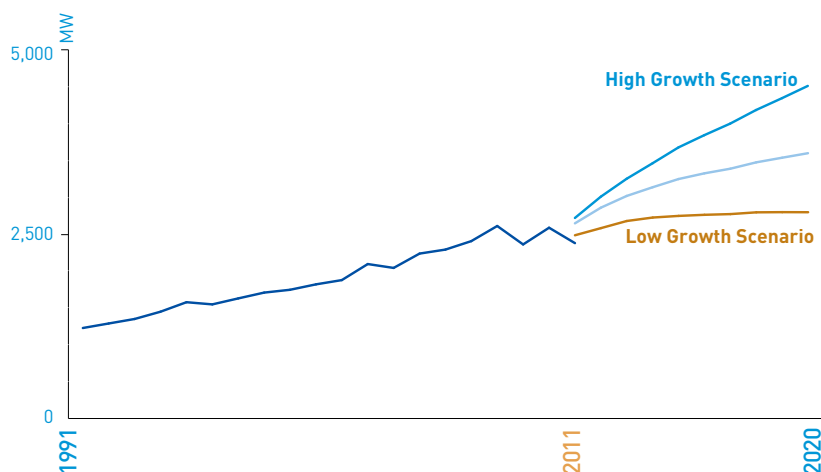
Network connections initiated by our customers saw an additional \$188.4 million invested. This was the lowest level of customer-initiated works since 2005/06, \$32.2 million lower than 2009/10.

The extended wet season and the scale of our emergency responses impacted on the delivery of the capital works program right across the state. Demand for new connections and augmentation more generally was also impacted by the uncertainty in global financial markets.

While committed to getting the program back on track, particularly the cycle times for new connections, there are no major risks across the dimensions now used to determine the health of the network.

OUR NETWORK DEMAND FORECAST

Despite the recent weakening in system-wide peak demand, in the areas of Queensland that are supporting the resources sector we are still anticipating an increase in electricity demand – this could see a system-wide peak of 3,554MW by 2020. Forecasting is reviewed regularly to ensure investment in the network is prudent.



THE STATISTICS

ENERGY USAGE SNAPSHOT	2010/11	2009/10	2008/09	2007/08	2006/07
Population of Ergon Energy's Service Area	^ 1.52 ¹ million	1.50 million	1.47 million	1.44 million	1.40 million
No. of Customers	^ 690,708	680,095	667,502	653,640	637,325
Average Electricity Use per Household	∨ 7,242kWh	7,623kWh	7,978kWh	7,893kWh	7,882kWh
Household Air Conditioning Penetration ²	- 79%	79%	71%	67%	62%
Maximum Coincident 'Peak' Demand	∨ 2,349MW	2,542MW	2,406MW	2,333MW	2,584MW
Electricity Distributed	∨ 14,544GWh	15,678GWh	15,722GWh	15,547GWh	15,294GWh
Electricity Generated by Ergon Energy	^ 117GWh	114GWh	112GWh	178GWh	199GWh

1. Estimate based on trend. 2. Queensland Household Energy Survey 2011 see page 33.

This approach to managing risk is now considered central to ensuring prudence and efficiency in investment decisions and is being used to prioritise individual projects.

Investment highlights:

A highlight of this year's program is the roll out of our \$135 million UbiNet project, a ubiquitous or all-encompassing telecommunications network. When the flagship project is complete in 2012, about 40 depots and 90 substations will be linked by a core telecommunications backbone.

The investment will help us more easily identify power network faults, meaning faster restoration to customers when faults occur. It provides the foundation for our network vision by enabling the connectivity required to service intelligent network devices, which will help us better monitor and control the power grid.

The project includes smart technologies such as state-of-the-art Point of Presence equipment and microwave radio equipment, which will allow us to pick up data and voice traffic and direct it to where it is required. To date, 44 telecommunication shelters have been constructed and 27 are in place on site. Just under 50 communication poles have been erected and 15 towers and masts have been constructed.

Other highlights of this year's capital program included:

- commissioning of the \$90 million North Mackay power reinforcement program, which increased installed transformer capacity at bulk supply points by 100MVA.
- establishment of the \$20 million Belgian Gardens and \$27 million Oonooba zone substations in Townsville, the \$23 million Jubilee Pocket zone substation in



Building our flagship telecommunications network includes the construction and installation of more than 45 telecommunication shelters, 69 communication poles and 29 telecommunication towers and masts. To get an idea of the scale of these structures, the largest mast is 90 metres high and the communication poles and largest telecommunications towers are up to 50 metres tall.



The \$90 million North Mackay Power reinforcement program, undertaken to keep pace with current and future load growth in the rapidly growing city, involved the construction of a new high-voltage line from Pioneer Valley to Glenella, construction of a new bulk supply substation at Glenella and construction of a new high-voltage feeder from Glenella to the existing North Mackay zone substation.



Southern Downs customers are enjoying the benefits of 65 kilometres of line that has been rebuilt, as well as upgrades at the Middle Ridge and Warwick substations. This work began in 2008 to address reliability issues.

Airlie Beach and the \$24 million Berserker zone substation in Rockhampton. These increased installed transformer capacity at our zone substations by 310MVA.

- significant progress made with the re-development of the \$37 million Dalby Central zone substation and Ingham's \$5 million Lannercost zone substation; together this will provide an additional 20MVA of installed transformer capacity.
- replacement of generating sets at Burketown, Jundah, Kowanyama, Windorah, Kubin, Pormpuraaw, Mabuig Island and Warraber Island power stations, as well as significant progress with the replacement of generating sets at Bedourie, Birdsville and Palm Island power stations. (p 40)
- an increased level of investment in renewing the ageing sections of the network and other reliability measures – including the commissioning of a new \$33 million high reliability 110kV line in the South West from Middle Ridge to Warwick.

FINDING SMARTER WAYS TO RESPOND

Peak demand lasts for only short intervals, predominantly in the summer months, and fluctuates from year to year. Conservatively an investment of around \$500 million over recent years has been made to meet this peak, which is experienced for just over 3% of the year or a handful of hours a day over summer.

To keep the cost of electricity down for our customers, Ergon Energy is looking for smarter ways to respond to this demand and improve asset utilisation.

Through our long-term demand management strategy, we are developing smart asset management techniques and investing in research and development into demand management technologies.

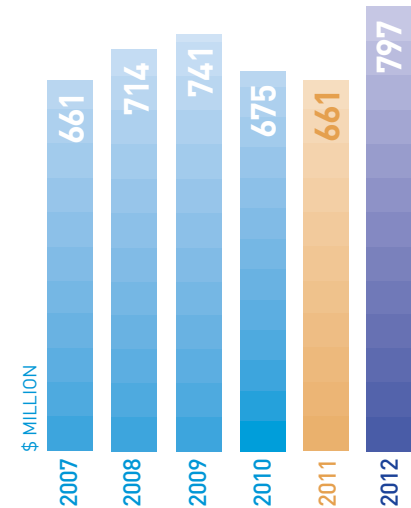
We are also encouraging our customers to change the way they use electricity through financial incentives and education. The suite of customer demand management programs and their greenhouse gas emissions reductions are discussed in the next section. (p 33 - 39)

Trialling new technologies

The technology solutions we are trialling include standby and embedded generation, improved voltage control and power factor correction and load shifting and load control, to name a few.

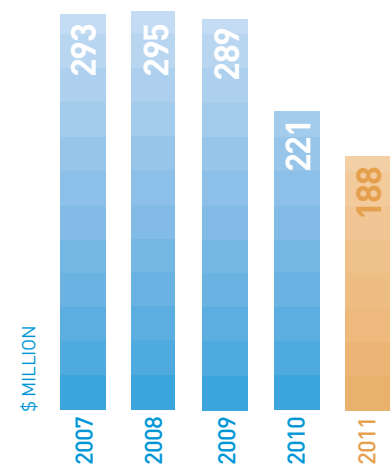
NETWORK INVESTMENT REMAINS VITAL FOR SECURITY OF SUPPLY

Network-related capital works saw \$660.5 million invested to maintain security of supply and meet customer demand. This was down slightly on the previous year due to delays associated with the extreme weather conditions and reduced customer demand for network connections.



CUSTOMER-INITIATED WORKS REMAIN DOWN

While work to meet the demand for new customer connections required \$188.4 million in investment, this was the lowest level since 2005/06. This area of our capital program was impacted by the continuing uncertainty in global financial markets, as well as the weather conditions.



Embedded generation is being targeted at supporting the network and complementing other demand management initiatives. Initially it will see a small number of strategically placed generation-ready nodes established that enable easy, rapid connection into capacity strained areas.

We are looking at technology that will allow us to carefully control voltage to the lower end of the allowable range to reduce network demand and customer energy consumption.

The use of distributed network devices, such as pole-mounted capacitors and static compensators, are being used to support power factor correction, ultimately realising their full demand management benefit through a future planned investment in a distribution management system. An increasing investment in remotely operated switches and feeder ties for load shifting is being used to improve network flexibility, and hence asset utilisation.

Taking advantage of the load under control

We are looking at how we utilise the load already controlled, through our economy tariffs, at the time of a contingency event. This is about building our knowledge and confidence in the percentage of load curtailment that can take place in a particular area.

Just under 365,000 residential customers currently benefit from these discounted off-peak tariffs. They enable us to control the load of such things as hot water systems and swimming pool pumps; to shift the time that they use electricity to outside peak times.

Our reliance on this capability, which has been developing for more than 20 years, is seeing us continuing to invest in the control devices; repairing or replacing the signal receivers that are either ageing, configured incorrectly or are compromised by a reduction in the signal strength.

Understanding changing energy usage patterns

At the same time as exploring how technology can assist us, technology is empowering our customers to take greater control of their electricity use. This is most notably demonstrated in the rapid take up of small-scale solar energy systems, which is changing the nature of our network. (p 37)

The new operating environment will require us to better understand changing usage patterns, and use time-based data to manage capacity issues and accommodate such things as the growing level of distributed generation.

We already are testing the use of Advanced Electronic Meters (AEM), which support this.

These trials are allowing us to collect data for network analysis, as well as to assess our customer response to time-of-use tariffs – see our Solar City project (p 35) and the Reward Based Tariff Trial. (p 17)

Through the Townsville Energy Sense Communities program, which incorporates many of the technologies discussed here, we are planning to install nearly 2,700 of these meters. (p 39) This will build on our knowledge of the systems and processes required to support a possible wide-scale deployment of AEMs.

Linking it together

Linking these smarts together will be our telecommunications investment. (p 24) This will also support the spatial representation of the network – with technologies such as Google Earth (p 52) – and the value of a future distribution management system.

Related to this, as an implementation partner with NBN Co, we successfully rolled out the National Broadband Network to around 2,000 premises in the western suburbs of Townsville, including parts of Aitkenvale and Mundingburra. Ergon Energy's involvement in these pilot sites has allowed us to better understand the design and construction requirements of the fibre optic network for installation on our electricity assets and given us access to first-hand intelligence on advances in communications technology.

This work has led to negotiations around a state-wide facilities access agreement.

BOOSTING SUPPLY QUALITY FOR RURAL CUSTOMERS

A major demand challenge is occurring across our rural areas. Around 70% of our powerlines run through rural Queensland. They cover vast distances of sparsely populated areas to supply some of regional Queensland's most remote townships.

More than 65,000 kilometres of what is known as SWER (Single Wire Earth Return) line is used across regional Queensland. This technology is a single wire with limited capacity that radiates out over long distances and, subsequently, has a greater likelihood of reliability and quality of supply issues. Despite its constraints, this part of our network is still growing – we are typically connecting around 5MVA of additional capacity every year.



Our innovative Grid Utility Support Systems were designed with some help from a local artist who gave them a rainforest design to blend into the environment of the Atherton Tablelands, where tourism is an important part of the local economy.

In an effort to cost-effectively improve the safety, capacity, utilisation and reliability of the SWER network, we are deploying a comprehensive program to embed the latest design standards into the network. This includes advancing our switching capability so that when a fault occurs it does not impact the whole line.

Power quality, encompassing such issues as voltage dips, extended outages, momentary interruptions and voltage flicker, is an issue that has grown in significance with the take-up of sensitive electronic consumer goods. We are enhancing power quality by installing 500 new technology low-voltage regulators on the network.

To address capacity constraints in a cost-effective way we are continuing to trial targeted demand management measures with customers on SWER networks. Our efforts across the four trial SWER networks are yielding significant savings for both the local rural property owners and Ergon Energy. This program supports capital works improvements catering for the continuing load growth on the SWER network.

Technology also is being used to help manage peak demand and improve supply quality and reliability in a 12-month trial that has seen two energy storage systems commissioned in Far North Queensland. Called GUSS (Grid Utility Support Systems), these systems are being housed in a small shipping container and are made up of an inverter, battery storage, intelligent control and communications technology.

Thirty Redflow battery storage units have also been installed and trialled across a number of regional areas.



Helicopters were used to inspect lines before the summer brought its wild weather. This saw photographs of the powerlines from aerial inspections like this one, undertaken by Townsville-based duo of Transmission Live Linesperson Jim Gauvin and Linesperson/Cable Joiner Nathan Brown, used to pinpoint any potential trouble spots that needed attention.

This technology can moderate network load and improve quality by charging when network demand is low and feeding stored energy back into the grid when demand peaks. The system also has the potential to provide back-up supply during network outages.

We are also investigating technologies such as energy storage solutions, electronic meters and enhanced network controls on the Wambo Creek SWER near Chinchilla as a test bed for the future development and integration of these innovations.

We have continued a broader power quality monitoring program with more than 1,750 network monitoring units now installed. This is allowing us to respond more proactively to quality of supply issues. As a result, in the national power quality survey, our improvements benchmarked positively against other distributors in Australia.

The outcomes of these efforts will be used to develop our broader SWER improvement strategy.

THE STATISTICS

SECURITY OF SUPPLY		2010/11	2009/10	2008/09	2007/08	2006/07
Investment in the Network	Target ≤ \$792.6m	✓ \$660.5m	\$674.9m	\$741.1m	\$713.8m	\$660.6m
Additional Transformer Capacity - Bulk Supply Points	✓	100MVA	220MVA	168MVA	77MVA	200MVA
Additional Transformer Capacity - Zone Substations	^	310MVA	118MVA	231MVA	146MVA	157MVA
Higher Security Level:						
- Bulk Supply Substations	^	77%	70%	57%	57%	48%
- Zone Substations	^	85%	80%	78%	78%	81%

SUMMER PREPAREDNESS PROVES INVALUABLE

Our Summer Preparedness Plan for 2010/11 outlined a whole-of-business strategy for dealing with the extreme weather risks of the storm season and the potential for peak demand to increase substantially over summer.

The plan was published on our internet page to provide transparency of our commitments. It outlined a range of specific deliverables that have since proved to be invaluable in preparing us for this challenging part of our year. These actions, both the new and routine, centre on:

- continued investment into the network
- enhancements to our emergency management response capability
- customer and stakeholder engagement.

As discussed earlier, investment in the network is critical to ensuring that capacity can meet peak demand on the hottest of days or in times of equipment maintenance or failure.

In 2010/11, we again lifted overall security of supply at our bulk supply substations – 77% now have the higher ‘N-1 level of security’, up from 70% in the previous year. N-1 is a higher level of security than has been historically applied in our planning – it means that supply can be maintained even if a major element at the site fails. Of our zone substations, 85% now meet the specified targeted security of supply load levels, up from 80%.

Investment is also important for reliability – this year, \$7.4 million was invested to underground key strategic overhead lines in cyclone-prone communities. (p 37)

We have also continued to build up our contingency plant and equipment, from skid mountable substations and mobile generation to smaller inventory items, to ensure we are equipped to deal with the next inevitable natural disaster that comes our way.

The challenges of the 2010/11 season came from a series of major weather events that impacted across the state throughout the summer (see inside front cover). It started with Queensland experiencing the wettest spring since records commenced in 1900, with near triple the average rainfall. Then came the first cyclone of the season, Tasha, on Christmas Day, followed by more flooding. By January, floodwaters covered around 600,000 square kilometres of Ergon Energy’s supply area – the worst flooding seen in 100 years. Locations such as Dalby, St George and Condamine flooded several times.

As the floodwaters moved into the South East, we were there with reinforcements to help our fellow electricity distributor Energex with its massive task of restoring power. We also needed to enact business continuity plans when our Brisbane-based billing mail-house operations flooded and our CBD and IT support offices had to be evacuated.

Then, in late January, Cyclone Anthony crossed the coast followed closely by Cyclone Yasi, which is showcased in the following case study. But still, the rains did not relent – as late as mid-April, we were facing yet more flooding in the South West.

Ergon Energy’s response to these weather events truly demonstrated the professionalism of our emergency response and, in many ways, the increasing resilience of our network. The limited number of safety incidents in the communities impacted also confirmed that our electrical safety messages, and broader customer and stakeholder engagement around the challenges associated with the summer season, are being heard. (p 46)

The summer storm season was extraordinary. Never before have we faced such an extended season of major weather-related events, overwhelming logistics and extensive asset damage over such a wide area.

Cyclone Yasi – the largest system in living memory – was the most notable event of the summer from an electricity supply perspective.

Yasi crossed the Queensland coast over Mission Beach in Far North Queensland as a category-five cyclone in early February. It was more than 600 kilometres wide and at its height had wind speeds of 295 kilometres an hour – well above the wind rating our lines are designed to withstand.

The damage caused to the network saw nearly a third of our customer base without power – more than 220,000 homes and businesses.

The three-week restoration effort is believed to be the largest single deployment of electrical field workers in Australia's history. Crews worked in extremely difficult conditions of heat, humidity and rain.

At the peak of the response, there were around 1,340 personnel and support staff on the ground, as well as many hundreds more involved in the effort from Ergon Energy offices across the state.

On the day following Cyclone Yasi's crossing, customers made a record 32,212 calls to Ergon Energy – three times the number of calls received on a normal business day.

In the three weeks, more than 210,000 calls were made to our contact centre. Despite the automated messages assisting a large number of callers, more than 130,000 calls were handled personally by our customer representatives.

We used mobile generators in those communities hardest hit so basic services could be maintained while we repaired the network. More than 220 generators (with 70MVA in capacity) were on hand to support the response.

Key to our efforts was keeping people safe and supporting our employees so they could get the 'lights' back on as quickly and efficiently as possible.



The hardest hit region was the Cassowary Coast, including the communities of Tully, Mission Beach and Cardwell (the highway through Cardwell is pictured here during the restoration). Yasi, however, was far reaching, affecting many regional Queensland communities from Cooktown to Sarina and west to Mount Isa.



Field crews worked long hours, frequently at heights – like Todd Twidale from St George working here in Tully – in very difficult operating conditions, making fatigue management a critical element of the restoration effort.



The response saw around 600 kilometres of electricity cable and conductor line and almost 2,300 poles and cross arms brought in to rebuild lines like this one near Tully – as well as around 25,000 fuses, 6,700 insulators and 350,000 bolts, screws, brackets and clamps.



Twenty-two companies from around Australia helped Ergon Energy with the restoration effort. At the peak, more than 560 personnel from other utilities, partner companies and suppliers were working shoulder-to-shoulder with our employees, both in the field and behind the scenes, to help restore power and hope to the communities that bore the brunt of the storm. We cannot thank them enough.

Here Energex crews are being given a comprehensive safety briefing in Innisfail prior to going out into the field.



More than 96% of customers in the Ingham and Townsville area were without power. The vegetation damage across Townsville, as pictured, was substantial.

Since the event, in partnership with the Townsville City Council, we engaged Greening Australia to investigate the tree damage. This has helped us to better understand which species hold up best against a cyclone – this will guide our vegetation management decisions in the future, as well as better inform the community about the most suitable choices to plant.



Ergon Energy made nearly 4,900 accommodation bookings as employees were moved in and out of impacted areas. Throughout the restoration effort, more than 71,000 meals and 100 pallets of bottled water were organised for crews.

Michelle Bishop and Rover Arnold began their days doing barbecue breakfasts at the Tully depot as part of this massive effort!



Harold Pratt from Mission Beach – like many members of the community – praised the crews working in the heat and humidity to restore power.

“The Ergon guys are great – doing a top job in very tough conditions ... I don’t believe it would have been possible for the crews to work any harder or any faster. They’re brilliant.”



Dani Mahmut and Geoff Bowes were invited to represent Ergon Energy when the then Prince William visited Cairns – it was one of the many moments that our central role in assisting communities impacted by Cyclone Yasi recover was publicly recognised.

RELIABILITY IMPROVEMENT A PRIORITY

An integrated reliability improvement plan was developed in late 2010 to better coordinate our efforts and address reliability performance. It included both operational and asset-focused initiatives.

This work is the cornerstone of our commitment to keeping pace with rising customer expectations, achieving our targets under the AER's Service Target Performance Incentive Scheme (STPIS) and meeting the requirements of the QCA's Minimum Service Standards. (see over)

The reliability performance gains achieved this year have been as a result of the removal of previous operating constraints put in place around our live-line works, as well as a range of other changes to our operational practices.

This operational response has included a major effort centred on planned outage management, including improvements to works scheduling, reporting processes and tools, and increasing the use of mobile generators. This has also included improvements to works packaging, which is when different activities are bundled together to minimise supply interruptions.

There has also been a strong focus on our unplanned outage management. As well as generally raising the priority on minimising response times, this focus has included reviewing fault crew resourcing and comparing restoration performance by location to identify improvement opportunities.

Further improvement will be realised over the longer-term from asset-focused initiatives largely centred on expanding the functionality of the network.

This has included outworking the replacement of a large number of defective switching devices, both Air Break Switches and Ring Main Units. A number of in-service failures of these devices led to network operation restrictions being put in place in April 2009. These switches account for around one-third of those in service across the network so their defects have significantly reduced our ability to isolate sections of the network to carry out planned maintenance and fault restoration.

During the year, we also continued the accelerated upgrade of our network monitoring and control capability with the installation of SCADA (Supervisory Control and Data Acquisition) technology into our zone substations. This gives us the ability to monitor loads and other system parameters remotely from our operational control centres and to carry out switching to either avoid an outage or restore supply as quickly as possible following an interruption. This investment program, and the developing Ubinet telecommunications network, will provide the foundation for the distribution management system capability planned.

The plan is also seeing targeted asset replacement programs for the worst-performing feeder lines.

This work is being supported by a continuous improvement focus across information and technology.

For example, our Enterprise Resource Planning system is improving the management of maintenance work through improvements to the availability of timely data; our Geographic Information System (GIS) and FdrSTAT (outage information) systems are being complemented by Google Earth allowing us to undertake greater analysis of outages and develop targeted, reliability-focused maintenance and improvement programs of work.

In addition, we identified a range of 'smart' technologies, such as intelligent switches and fault indicators, for the network that are either being deployed or trialled. These new and emerging technologies will support both demand management and reliability performance.

Cumulatively, these measures aim to achieve the level of network resilience and performance needed to meet our current and future customer expectations and our regulatory obligations.

VEGETATION MANAGEMENT THE FAST TRACK

The management of vegetation around powerlines is critical to ensure community safety and reduce interruptions to supply. This work is a major element of our preventative maintenance program.

Our vegetation management program was accelerated in 2008 after a major review identified a growing backlog in rural vegetation clearing and treatment. This year, we continued to 'fast track' the program with \$82 million invested to clear almost 490,000 spans of powerlines, close to half our entire network.

To meet the accelerated timeline, we are using a narrower clearing profile and concentrating our efforts on removing vegetation from the immediate zone around lines. Over subsequent vegetation management cycles, we will extend the clearing zone out again to achieve longer-term effectiveness. We remain confident that we will be able to address this backlog as planned before the end of 2012.

We are also using biodiversity modelling to better target vegetation management practices for cost effectiveness and improved environmental outcomes. In the coming year, this will see us use leading-edge aerial observation technologies and sophisticated computer modelling to inform our planning decisions. Known as the ROAMES initiative, this will reduce the time-consuming task of travelling the entire line to identify vegetation issues. It will also provide more accurate estimates of regrowth and density to better formulate appropriate vegetation management methods. (p 52)

We also continued our Plant Smart partnership with Greening Australia this year, engaging them to investigate how different tree species held up against Cyclone Yasi. These findings will help guide our vegetation management decisions, and already are informing the community about the best trees to choose for landscaping.

The Plant Smart initiative engages with councils, nurseries, schools and community groups to inform them about the management and planting of suitable low-growing species near powerlines in their areas.

To develop better field practices in vegetation management, the partnership is continuing with additional field surveys to monitor vegetation management techniques and measure the long-term impacts of our program on biodiversity. Greening Australia also provided information and advice on identifying and managing threatened species found in the field.

FOR MORE ON OUR ENVIRONMENTAL PERFORMANCE SEE PAGES 57-59 & 78.

SCORECARD

NETWORK PERFORMANCE

Overall network reliability performance has improved significantly – with the duration and frequency of outages down 21% and 24% respectively compared to 2009/10.

Minimum Service Standards (MSS), set by the Electricity Industry Code of Queensland for the frequency of outages (SAIFI) were met across all three feeder categories of urban, short rural and long rural.

Outage duration (SAIDI) performance was favourable for two of the three categories – with a 33% improvement in urban supply. The short rural result was the only measure outside the limits. This was due to the pronounced impact of Cyclone Tasha on short rural performance in late December 2010. Our ability to recover from this position was significantly hampered by the onset of state-wide flooding, which extended restoration timeframes.

A dramatic turnaround in planned outages, which allow us to work on the network, was achieved by reinstating live-line work practices (suspended for about 10 months in 2009 to enable safety concerns to be addressed) and progressively replacing defective Air Break Switches.

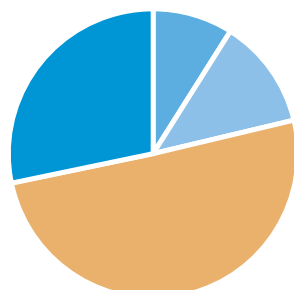
Unplanned performance, which indicates the resilience of the network, remained comparable to 2009/10 across all six categories despite one of the most sustained extreme weather patterns in recent history.

To normalise the statistics, eight Major Event Days were excluded from our performance statistics as per the requirements of the Code, seven were weather-related. However, the effects of the major events extend beyond the days declared. Since Cyclone Yasi, for example, a program of planned outages has continued to remedy cyclone-related defects. The progressive impact of much of the regional Queensland floods was also not excluded.

Running parallel with our requirement to meet the MSS set by the Code is the AER's Service Target Performance Incentive Scheme (STPIS). This framework provides a financial incentive for Ergon Energy to improve unplanned outage performance – the impact of the summer season has meant only two out of the six targets have been achieved. (p 77)

PROFILE OF THE DISTRIBUTION NETWORK (FEEDER LINES)

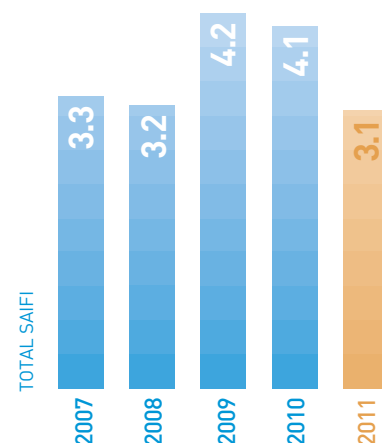
Ergon Energy's reliability challenges are both common to the industry and unique – over 443,000 of our customers are supplied through non-urban lines with limited redundancy in the event of a fault.



- Isolated 9%
- Long Rural 12%
- Short Rural 48%
- Urban 27%

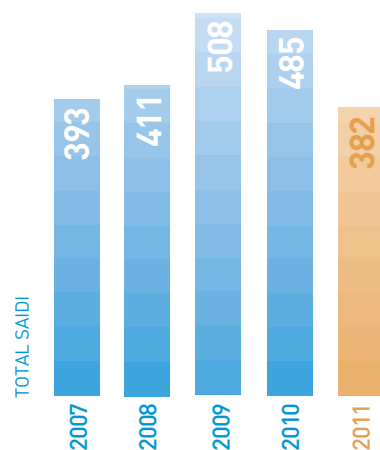
FREQUENCY OF OUTAGE SHOWS MAJOR IMPROVEMENT

Changes to operational practices, and our asset-focused initiatives, have reduced the overall frequency of outages by 24%. This work is part of our commitment to achieving performance levels as close as possible to Minimum Service Standards.



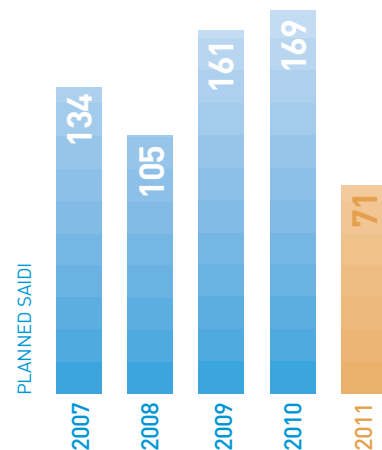
DURATION OF OUTAGES DOWN DESPITE STORM SEASON

There was a 21% improvement in the overall outage duration, despite the floods leading to extended restoration timeframes. The scale of the Cyclone Yasi response effort also impacted our ability to maintain response times across the state.



DRAMATIC IMPROVEMENT IN PLANNED OUTAGES

The dramatic turnaround in planned outage performance has been realised by the reinstatement of live-line work practices, which were suspended for about 10 months in 2009 to enable safety concerns to be addressed.



THE STATISTICS

NETWORK RELIABILITY PERFORMANCE	2010/11 MSS	2010/11 Result	2009/10 Result	2008/09 Result	2007/08 Result	2006/07 Result
Duration Index (SAIDI)						
- Urban Distribution	≤ 149	✓ 149	222	217	179	172
- Short Rural Distribution	≤ 424	✓ 426	544	609	457	448
- Long Rural Distribution	≤ 964	✓ 828	999	1,108	1,030	957
Frequency Index (SAIFI)						
- Urban Distribution	≤ 1.98	✓ 1.63	2.25	2.33	1.85	1.82
- Short Rural Distribution	≤ 3.95	✓ 3.53	4.58	4.93	3.49	3.71
- Long Rural Distribution	≤ 7.40	✓ 5.26	7.19	7.73	6.40	6.60

* Reporting based on the Minimum Service Standard (MSS) exclusion criteria outlined in the Electricity Industry Code <http://www.qca.org.au/files/ER-Industry-Code-DME-EICV9-0611.pdf>



REVIEW OF OPERATIONS

CUSTOMER-DRIVEN	14
ASSET MANAGEMENT EXCELLENCE	22
■ LEVERAGE CLIMATE CHANGE RESPONSE	32
A LEADER IN SAFETY	42
HIGH PERFORMANCE ORGANISATION	48

REVIEW OF OPERATIONS: LEVERAGE CLIMATE CHANGE RESPONSE

ready to leverage positive action

Ergon Energy is leveraging our customers' and other stakeholders' actions, as well as our broader business imperatives, to respond to climate change. We see this as both a social responsibility and a business strengthening opportunity.

RESPONDING TO THE CHALLENGE

Ergon Energy's Climate Change Response Plan 2010-2015 is built around:

- leveraging the climate change responses of our stakeholders, especially our customers, as well as our other business imperatives, to deliver greater mutual benefit than would have resulted from us operating alone
- mitigating greenhouse gas emissions, from our own operations and those associated with our customers' electricity use
- adapting our network and our business more generally to withstand climate impacts and facilitate our customers' responses to climate change.

OUR CUSTOMERS ARE READY

To enable us to work with our customers and achieve a win-win outcome, this year we undertook a major piece of research into electricity use in Queensland households.

It confirmed regional Queensland's love affair with air conditioners and energy-intensive appliances is continuing to grow. That is, comfort and lifestyle are winning in the battle to curb electricity demand. However, it also found about one in five Queenslanders want more information to better understand electricity tariffs, peak demand and how to manage energy use and save money.

Magnetic Island identities Don and Barbara Kinsey have reduced their energy use by more than 30%, thanks to support from our Solar City project, showing by working together we can make a difference. (p 35)

Carried out with Energex, the survey of almost 3,500 home owners across Queensland was the most comprehensive snapshot undertaken to date into our customers' electricity use and energy-saving attitudes.

Around air conditioner usage in the Ergon Energy region the survey found:

- 79% of homes have air conditioning, with an average of 2.7 units per household. This is forecast to average 83% by 2012/13, with more than three units per house, however, northern Queensland is expected to hit 90% penetration by the end of this year
- The forecast for air conditioner penetration is in line with other lifestyle purchases, such as plasma and LCD televisions, and the growing popularity in home design for a dedicated 'media room'. 70% of the systems across the state are split systems, typically three to four years old
- The proportion of those who use their air conditioner most of the time over summer decreased from 17% in 2009/10 to 12% in 2010/11. But only 40% of customers are using the ideal '25°C' setting on those really hot days
- Around one-third of householders with air conditioning or electric heating are willing to change their behaviour if incentivised by pricing strategies aimed at reducing peak electricity demand. But personal comfort is still the strongest motivator for when they turn on the air conditioner.

HIGHLIGHTS

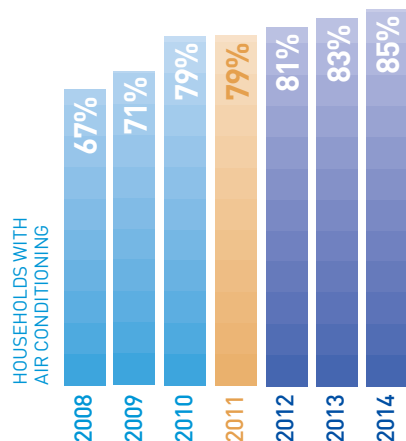
- Demand management on track to avoid 54,000 tonnes of emissions
- Secured up to 27MVA of demand reductions in Townsville
- Solar City reduced peak demand by 32%
- Helped customers connect 15,000 solar energy systems
- Reduced our operational greenhouse gas emissions
- On track to be diesel free in generation by 2050.

Other interesting statistics from the survey included:

- Regional Queenslanders are more likely to use the clothesline instead of the dryer than those in the South East, and they have a higher uptake of solar hot water systems, particularly among older residents, with a 14% increase this year
- 68% of Queensland homes have at least one flat-screen television, with this expected to rise as more than 60% of households intend to purchase one or more
- While 76% of regional Queensland homes have ceiling fans, households in regional Queensland are less likely to have insulation compared to the South East
- 98% of respondents said climate change/environmental impacts, while not a primary motivator, were a strong secondary motive to changing their energy use.

AIR CONDITIONING UPTAKE IS DRIVING DEMAND

79% of homes now have air conditioning – with almost three units installed – and the take-up is continuing. It is expected that 85% of homes will have air conditioning by 2013/14 – an almost 20% increase in just six years.



The detail of this research allows us to work with our customers and stakeholders to encourage behaviours that conserve energy and, in turn, save our customers money, take the pressure of the network and achieve positive environmental outcomes.

The research already is being used to refine our customer communications, especially our 'energy sense' campaign, which includes a focus on air conditioner use to build a greater awareness of energy efficiency. (p 17)

DEMAND MANAGEMENT DELIVERS ENVIRONMENTAL GAINS

Ergon Energy is placing a major focus on managing peak demand to improve network utilisation and investigate opportunities for value-adding services for customers beyond the meter box. These efforts will deliver environmental benefits.

This focus extends across the entire business and includes playing an active role in understanding the challenges and maximising the opportunities associated with climate change awareness and policy to add shareholder and customer value. To manage peak demand we are:

- encouraging our customers to change the way they use electricity, through financial incentives and education
- using smart asset management techniques and investing in research and development into demand management technologies (discussed under Asset Management Excellence p 25).

By supporting investment options and solutions to reduce peak demand, which occurs for just a few hours on a few days over the summer period, Ergon Energy seeks to delay or avoid the significant expenditure required to meet that peak demand.

We are delivering 30 demand management projects, a number of which are highlighted below, to realise network, customer and environmental benefits. The program delivered 17.1MW of peak demand energy savings for 2010/11, well above the targeted 15MW.

Part of this program is funded by our partner, the Queensland Government, through its Office of Clean Energy. The funding of \$17.8 million is on track to deliver \$10 million a year in savings on customer bills, defer more than \$111 million of future network construction and avoid more than 54,000 tonnes of greenhouse gas emissions annually – the equivalent of taking 12,800 cars off the road.

“Energy conservation is the most cost-effective way to reduce emissions and, at the same time, it takes pressure off the network.”

Every demand management initiative undertaken has delivered a return to customers greater than the value of the public funds committed, with on average every dollar spent putting eight times the value back into the pockets of these customers.

Commercial and industrial initiatives make good sense

On average, the cost of supplying 1MVA in network capacity to a commercial customer is \$3 million over 20 years in present value terms. This is made up of \$800,000 generation, \$700,000 transmission and \$1,500,000 distribution costs. This expense makes the deferral of new infrastructure vital to limit growth in network charges to less than CPI over the long-term.

Our commercial and industrial demand management program is targeting customer savings of 50GWh per annum. At current prices, this equates to around \$9.6 million in savings to the customers participating in this initiative upon achieving load reduction milestones.

Armed with this knowledge, as part of our Townsville Network Demand Management trial we have targeted commercial and industrial customers and secured commitments from 31 customers to reduce their electricity demand by up to 27MVA, 7MVA in excess of the targeted 20MVA. In January 2011, we began our Toowoomba Power Factor Correction Pilot. That project has identified a further 9.6MVA of opportunities, almost double the initial 5MVA target.

Helping our residential customers save

By leveraging our customers' concern around price and the environment we are aiming to change the way our residential customers use energy. We are securing our customers' long-term participation and support for our residential initiatives by offering appropriate incentives and engaging customers by deploying community engagement programs to raise awareness of how customers can save money by changing behaviour and tariffs.

With air conditioner penetration increasing, demand for air conditioner growth-related capital expenditure is expected to be over \$1 billion over the five-year regulatory control period. We have completed trials in air conditioning direct load control and are now assisting the market to develop a standard air conditioning direct load control product offering – a demand-enabled air conditioner – that will meet Australian Standards (AS4755). We believe these demand-enabled air conditioners will be able to operate at a lower electrical input during peak demand periods with no noticeable difference to customers' comfort levels.

Pool pumps make a significant contribution to peak load due to their high energy consumption. The average pool filtration system contributes 1.1kW to network load and frequently is operated in peak demand periods. By working with the Queensland Government, we have been successful in leveraging regulatory changes that will deliver long-term benefits to pool owners. (p 16)

The 'Energy Savers' program continued in Mackay and Mount Isa to investigate how best to use existing incentives to ensure high customer participation in energy conservation and demand management programs.



Energy and Water Utilities Minister Stephen Robertson is 'sold' on Ergon Energy's work in reducing peak demand on constrained parts of the network. St Anthony's Catholic College Townsville Captains Tianne Killoran and Mitchell Baker accept a cheque for reducing the college's peak demand by 110kVA from Minister Robertson.



Thanks to advice from the Solar City team, Magnetic Island residents, Pete and Tania, reduced their electricity use by 114kWh over the year, which included a 51% reduction in the first month of making changes to the way they use electricity.



The Magnetic Island Solar Skate Park's 100kW photovoltaic system was commissioned this year. As well as being the largest solar array in Queensland, it will provide solar shade for skate park users, a family barbecue and picnic pavilion, a sporting team visitors pavilion and a stage for community presentations.

Preliminary analysis shows that by providing information and tools, such as the ClimateSmart Home Service, to residential customers they have been able to reduce their consumption by 1,400MWh annually. We are now identifying other locations to roll-out this program to achieve maximum network benefit.

A focus on educating households about sensible energy use and peak demand was central to the landmark Rewards Based Tariff Trial undertaken in Cairns and Toowoomba this year. (p 17) We also continued to promote our off-peak retail tariffs (Tariff 31 and 33) to build on the 70% of homes in Ergon Energy's network already taking advantage of them for hot water savings. (p 26)

Working with, and in, our community

The \$32 million Townsville Solar City project has continued its success. The program involves distributed solar technologies (including solar hot water and photovoltaic technologies), energy efficiency, load management, advanced

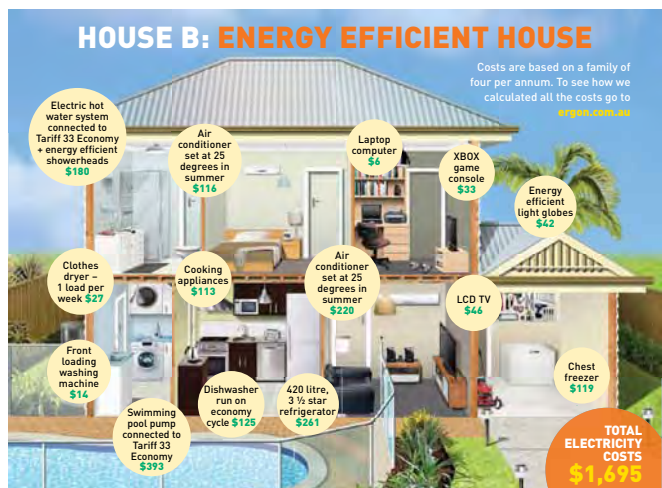
electronic meters and cost-reflective pricing in large-scale grid-connected urban sites to trial new sustainable models for electricity supply and use.

So far, the Solar City project has conducted energy assessments with almost 80% of the households and commercial businesses on Magnetic Island, installed more than 1,500 advanced electronic meters and 640kW of solar photovoltaic distributed generation. The analysis of the data gathered shows the success of key initiatives across the effectively engaged community, including the reduction in energy consumption by 39%, the reduction in peak demand by 32% and savings of 27,735 tonnes of greenhouse gas emissions compared to the business-as-usual forecast. It has allowed us to defer by at least eight years a \$17 million investment in an additional undersea cable.

Ergon Energy is taking the knowledge and expertise developed through Solar City and other energy conservation,

demand management and technology innovation trials and applying it to a live capital deferral opportunity on the mainland to enable Townsville to become a true Energy Sense Community. (p 39) We are also extending our successful off-grid **powersavvy** program. (p 19)

Ergon Energy's Envirofund has again drawn great interest from community groups, schools and non-profit organisations across Queensland. The program has seen 32 not-for-profit community groups and organisations in regional Queensland share \$200,000 in funding since 2009. Grants have been awarded to widely diverse projects, such as a mobile energy education trailer in South West Queensland, rehabilitating injured endangered turtles in Cairns, solar heating a barramundi tank at a Townsville school, establishing organic community gardens in Toowoomba and rehabilitating the Bargara foreshore near Bundaberg.



Providing energy saving advice is seen as central to providing customer value. In this issue of our customer newsletter, The Wire, one of many communication channels we invest in, we brought together all of the energy savings ideas to compare a non-efficient house with an energy efficient house without compromising the household's lifestyle.

The 'Wise Up to Energy Use Week' at the South Burnett Energy Centre in Nanango, launched with a community day in June 2011, took place thanks to Ergon Energy funding.

The event showcased sustainable product displays from local suppliers – including one of the Mitsubishi iMiEV electric vehicles being trialled by Ergon Energy and an LED bulb promotion to encourage the installation of energy-efficient light bulbs – and provided Ergon Energy electrical safety and energy sense advice, as well as full access to the new South Burnett Energy Centre. The day also included a special Queensland Arts Council performance of 'Unplugged', the Ergon Energy-sponsored energy conservation performance for children about how the choices they make impact on the environment.

The community day was followed by a week-long schools program that provided almost 300 local students with an introduction to energy conservation at school, at home and at the energy centre, which displays a range of energy efficiency materials and houses the generators that once powered Nanango.

SUSTAINABILITY IN ACTION

- Built capacity in the local community, with the tools now available to reduce energy consumption and realise financial savings for themselves, their businesses and the community.
- Reductions in energy consumption through the long-term behavioural change that will be achieved by introducing energy conservation to local school children.



Ergon Energy man and General Manager Service Delivery Southern Region Paul Jordan were at the 'Wise Up to Energy Use Week' community day to challenge the community to think about their energy usage now and in the future.

COLLABORATING TO DRIVE CLIMATE OUTCOMES

We believe we can deliver maximum value to both Ergon Energy and our stakeholders by using our combined resources to leverage climate change action.

We are partnering with the Queensland Government to deliver the *Queensland Energy Management Plan*, which includes the proposed tariff reform discussed earlier. (p 16) It contains 28 initiatives that complement our internal efforts to better manage electricity consumption and peak demand, with the ultimate aim of ensuring Queenslanders continue to enjoy a reliable supply of electricity wherever they live.

The plan includes the establishment of a single reference point for energy information that will provide free advice on a diverse range of issues including; climate control and air conditioning; energy efficient lighting; hot water systems alternatives and load control options; energy efficient house wiring; and, solar photovoltaic purchase and connection. Planning for this web-based Energy Information Portal, led by Ergon Energy and Energex, is well under way.

This initiative recognises that it will continue to be difficult to drive behavioural change and realise our demand management goals if our customers don't have easy access to energy conservation information.

Ergon Energy is also working within the whole-of-government Strategic Energy Efficiency Policy for Queensland Government Buildings and the associated Carbon Reduction Strategy for Government Office Buildings, which have established mandatory energy reduction targets.

We are also working with the Queensland Government to deliver energy efficiency outcomes in the built environment. The Urban Land Development Authority (ULDA), a government authority, is working with us to ensure that houses on ULDA estates are designed and constructed to minimise energy use and reduce peak demand. The ultimate aim of this collaboration is to prove that lower demand dwellings can be established on ULDA sites in Townsville, Mackay and Gladstone with a view to reducing the infrastructure requirements to supply power to these sites. Actions range from ensuring separate circuitry is made available in all new buildings to enable things like hot water, pool pumps, washing machines and dryers to be connected to off-peak tariffs, to educating residents about the costs benefits of adopting energy conservation and demand management features in new dwellings.

Ergon Energy is securing regulatory and external funding to advance energy conservation, efficiency and demand management initiatives through allocations from the Australian and Queensland Governments, as well as the allowance in our distribution determination. Ergon Energy has around \$100 million available for energy conservation and demand management initiatives over the current five-year regulatory control period.

Material regulatory issues, such as the proposed changes to the retail tariff arrangements (p 16), continue to be pursued with our government partners.

In addition, we are working with our peak body to ensure that the development and implementation of a future price on carbon by the Australian Government occurs in such a way as to have the least possible impact on our customers.

In relation to any possible future price on carbon we are also continuing to monitor any impact of the valuation of the portfolio of hedge contracts held by our retailer, Ergon Energy Queensland Pty Ltd and to ensure an appropriate energy trading strategy. (p 72)

Our employees are rising to the challenge

An organisation's achievements can only be as successful as its employees' efforts, and our people are increasingly making decisions in their personal and professional lives to respond to climate change.

This is particularly the case for our fleet, air travel and electricity use where Ergon Energy staff have made inroads into our emissions reductions through a commitment to energy efficient work practices. While the business is providing the tools to reduce energy consumption, our employees are doing the hard work to achieve these outcomes. (p 40)

More than 600 of our employees contribute through Ergon Energy Green Team activities volunteering their time to actively support a range of community-based environmental initiatives.

National Tree Day in mid-2010 focused on weeding and mulching activities at seven sites across the state, with around 5,500 trees and grasses planted in partnership with community groups. The team continued its outstanding support for Clean Up Australia Day, with more than 130 volunteers collecting more than 228 bags of rubbish.

The Green Team also raised nearly \$13,000 for Landcare groups. Funding went to several projects, including vital research into the protection of the Mary River Turtle and the rare and endangered Grassland Earless Dragon on the Darling Downs. The Green Team also ran a colouring competition among the children of Ergon Energy employees to celebrate World Environment Day and delivered a mobile recycling program during National Recycling Week, with nearly \$1,400 going to the Cerebral Palsy League.

ADAPTING TO MEET CLIMATE CHALLENGES

Ergon Energy is showing leadership in mitigating its greenhouse gas emissions, showcased in the following scorecard. However, the reality is that regardless of how successful we are we will have to continually adapt to changing conditions.

It is said that cyclones are becoming more intense and will move further south, consequently rain events may become more widespread and cause more flooding. At the same time, drought conditions are expected to increase in many areas. Add to this more strings of hot days that will encourage increased air conditioner penetration and use, which will create higher demand for electricity.



With help from local Ergon Energy Green Team members, their families and volunteers from the Gladstone community, Green Team Co Leader for Capricornia Noel Crosbie shows off his handiwork.

Showing we CARE

Over the past decade, through the Cyclone Area Reliability Enhancement program – known as CARE – we have been building resilience into our network to better absorb the impact of storms and cyclones. This preparation proved vital in our restoration response following Cyclone Yasi.

The program, in coastal areas from Mackay north involves placing essential electricity supply underground – to hospitals, water treatment plants, sewerage plants and emergency centres – and taking action to make our overhead network more robust. It saw \$7.4 million invested through major projects completed or significantly progressed in Gordonvale, Townsville, Ayr and Mackay.

Finding smarter solutions

The increased customer interaction with the distribution network, through the proliferation of solar energy systems and the future possibility of electric vehicles, discussed next, as well as changes to climate change policy and a future price on carbon, are all requiring a well considered response from Ergon Energy.

This is where our asset management excellence programs and climate change response come together. By working towards the smart grid of the future, we can better adapt as a business, while achieving environmental outcomes.

Embracing solar – and a new world

More than 15,000 regional Queensland homes went solar this year – twice as many systems as what were connected to the network a year ago. The rate of take up was particularly steep towards the end of the year, largely driven by the fact that the Australian Government's solar rebate was being reduced on 1 July 2011 and that the eligibility for the Queensland Government's Solar Bonus Scheme was being restricted to systems with inverters of 5kW or less from 8 June 2011.

The total generating capacity of the now 20,000-plus units is more than 45MW, effectively avoiding an estimated 36,000 tonnes of greenhouse gas emissions a year, the equivalent to taking 8,600 cars off the road.

Ergon Energy paid these customers \$6.6 million this year through the Solar Bonus Scheme feed-in tariff for the renewable energy that their systems exported to the grid.

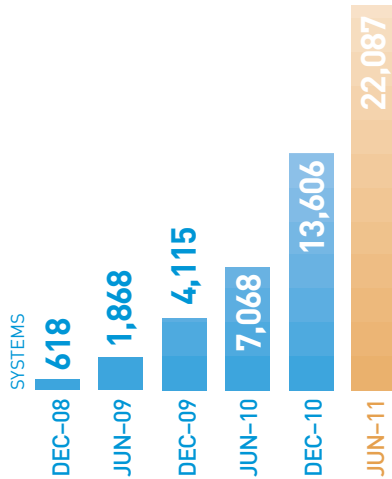
To keep up with the rate of connections, we dedicated significant resources and streamlined our connection processes. We also worked closely with our stakeholders, including the government and the solar installers, to facilitate smoother connection processes.

Ergon Energy is also working closely with the government to ensure minimum product and installation safety standards. We're helping to shape the Australian standard for inverters for grid connection of small-scale energy generation (including solar) and storage equipment.

At the same time we have been working to mitigate any potential network issues.

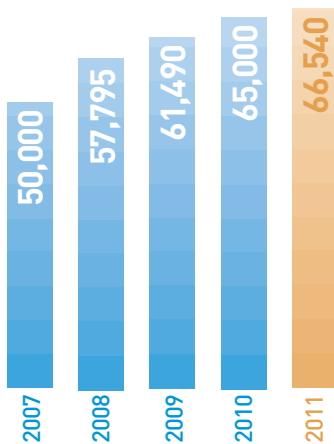
OUR CUSTOMERS EMBRACE SOLAR BY CHOICE

Australian Government rebates and the Queensland Government's Solar Bonus Scheme have driven a significant increase in installation of solar photovoltaic systems across the network.



CLEAN ENERGY SUPPORT INCREASES

As well as an increasing number of customers reducing their energy usage and investing in solar energy, an increasing number continued to support our renewable energy product.



To minimise potential problems, inverter systems sized above certain thresholds require a rigorous technical assessment before connection. To meet the expectations of customers installing these systems, we developed a tool to simulate the voltage rise caused by a planned solar energy installation to give us the results within hours. Previously technical assessments for larger systems involved complex modelling that took days.

The new tool is helping us to understand the impact of solar clusters on our network to avoid quality of supply issues in the future.

We have been working with Energex on this shared challenge by developing a power quality planning matrix, as well as a Joint Network Performance Standard and Voltage Management Standard. These will help provide our customers with consistent quality of supply and network performance.

In addition, customers continued to purchase Clean Energy, Ergon Energy's accredited renewable energy product.

RESEARCHING THE FUTURE TODAY

To better understand the dynamics of a future network where solar and energy storage technologies will be more prolific, as will the challenges around both managing demand and quality of supply, this year we launched the state's first major electric vehicle trial.

Considering an electric vehicle's energy load is roughly equal to an average house, we need to understand how and when motorists will recharge them and the affect of this on the network. We are looking at ways to use the excess energy stored in the vehicle's battery at the end of the day, to supplement a household's energy consumption and reduce network peak demand through our load management capability.

The trial involves five Mitsubishi i-MiEVs, which stands for I series Mitsubishi Innovative Electric Vehicle. These vehicles are plug-in, all-electric hatchbacks, boasting zero drive-time carbon emissions. They can be fully charged in a domestic environment in less than seven hours. However, in the future, commercial fast charge stations are expected to reduce this time to about 15 minutes. The trial also includes two converted vehicles based on a Mazda 2 and VW Caddy van.



The five i-MiEV we are trialling will help us identify the benefits and the challenges associated with this technology and, ultimately, allow us to support customers who may want to drive them in the future. The i-MiEV will be the first mass-production electric vehicle available for purchase in Australia.

The electric vehicle could well be part of the house of the future – one with energy storage batteries, solar on the roof, a customer interface to monitor and control your electricity usage in real-time and smart appliance, all installed as normal practice.

To learn more about how this will work we are creating this future – called the Smart Lifestyle Home – at Horseshoe Bay on Magnetic Island as part of our Solar City project. (p 35) The house will feature the latest in smart appliances, solar energy production and energy-efficient products to demonstrate how residents can monitor, produce and control their energy use. Work on the Smart Lifestyle Home will inform the future connection of a range of sophisticated information technologies to our electricity grid.

The Energy Sense Communities program being rolled out in Townsville consists of 'Smart Asset Management Capital Deferral' and 'Network of the Future' initiatives supported by stakeholder, community and customer engagement programs.

A knowledge framework is being developed to ensure outcomes are captured and shared. The initiatives have considered network-side and customer-side solutions in a complementary way to deliver capital deferral value for Ergon Energy, as well as customer benefits and enhanced learning opportunities.

The program's objective is to find cost-effective and sustainable technologies to better address rising electricity demand. It will help to develop and prove the technology that will allow customers to play a more active role in how they consume, produce or store energy in the future.

The use of smart asset management techniques and technologies to defer planned network investments, including the Mount St John and Bohle Plains zone substations if feasible, will maximise the value of the 2010-15 capital expenditure plan.

The outcomes from Energy Sense Communities will not only inform future program initiatives but will help inform future submissions for funding, both externally and through our regulatory framework.



Ergon Energy has joined with the Townsville City Council to lead the way with energy conservation and sustainability in the city. Here Townsville Mayor Les Tyrell joined North Queensland Cowboys centre Brent Tate to start painting our 'energy sense' message onto a local billboard.

SUSTAINABILITY IN ACTION

- About 30 integrated initiatives, including demand management techniques, distributed energy resources such as solar power and energy storage systems, network automation, smart customer applications and community programs, are either reviewed or scoped for roll out over the next four years.
- The initiatives, consistent with the Network Vision 2030, aim to manage the electricity network more efficiently, meet reliability service standards and find suitable alternatives to meet rising demand.
- Builds on the knowledge already gained through Ergon Energy's experiences with the Townsville Solar City project and the broader energy conservation and demand management program, as well as a portfolio of technology trials.
- Utilises and potentially extends existing partnerships in Townsville to deliver benefits for residential customers, the commercial and industrial sector and Ergon Energy's own electricity network.

SCORECARD OUR EMISSIONS

Despite a small reduction in the key greenhouse gas emissions associated with our operations, it remains difficult to reduce emissions yet meet growing electricity demand.

Ergon Energy's greenhouse gas emissions, both direct and indirect, are equal to around 6.2% of the emissions associated with our customers' electricity use. We therefore not only have a responsibility to help customers reduce their electricity-related emissions but also to reduce our own emissions.

A key step forward has been the enhancement of our greenhouse gas emissions data collection systems and database. In part, this ensured Ergon Energy complied with the legislative requirements of the *National Greenhouse and Energy Reporting Act 2007*, but it also supported other internal and external reporting requirements. These database reports provide us with deeper insights into the impacts of our operations and help ensure emissions reduction initiatives are focused on the highest priorities.

Ergon Energy met our liability for Renewable Energy and Gas Electricity Certificates. [p 78]

STRATEGIES TO LOWER SCOPE 1 – DIRECT EMISSIONS

Operating 33 diesel-fired generation plants in communities isolated from the main grid accounts for the majority of our direct, or Scope 1, greenhouse gas emissions. Diesel fuel accounts for more than half the cost of isolated generation and the fluctuation in diesel prices is a risk factor we are actively mitigating.

Part of our response is to replace diesel generators with renewable sources. We currently have two wind turbines on Thursday Island, five solar concentrator dishes at Windorah and a geothermal generator at Birdsville. The latter is being upgraded to enable it to provide in excess of 720MWh of renewable energy, avoiding up to 500 tonnes of emissions a year. [p 58]

Biodiesel B5 blend (5% biodiesel and 95% diesel) has been successfully introduced to five isolated systems for use in the diesel generating sets at Birdsville, Bedourie, Boulia, Jundah and Windorah. The blend is now sourced from Rocklea in Queensland, using tallow, soy and canola feedstock. Ergon Energy will begin to explore using higher blends, such as B20 (20% biodiesel and 80% diesel), and expanding its use into more locations. In addition, our *powersavvy* program, which achieved significant gains in electricity and greenhouse gas reductions this year, is being rolled out to all of our isolated communities. [p 19]

Compliance with the shareholding Ministers' requirement to purchase accredited greenhouse gas emissions offsets for 2010 air travel and for passenger and light commercial vehicles below specified Green Vehicle Guide ratings, occurred in December 2010. We have also supported the Queensland Government's QFleet ClimateSmart Policy by adopting the same targets. We were on target to achieve a 15% reduction in emissions from our passenger and light commercial vehicles by 31 December 2010 (based on a 2006/07 baseline), through purchasing a higher proportion of four-cylinder, diesel and/or more fuel-efficient vehicles, purchasing a higher proportion of E10 petrol (10% ethanol blend) and reducing vehicle numbers. However, due to operational requirements, achieving that target was not possible. Since January 2011, we have been offsetting 50% of all passenger and light commercial vehicles emissions, with a plan to reach 100% in 2020.

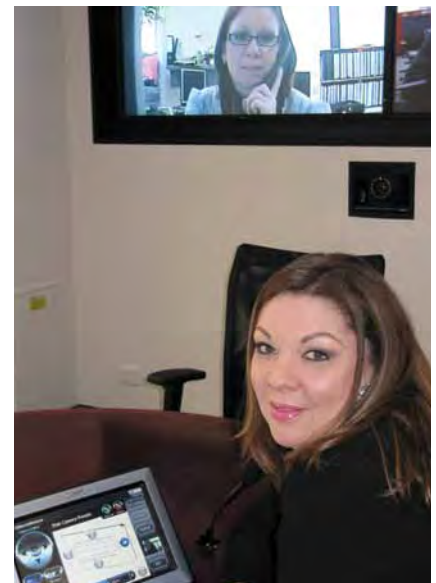
STRATEGIES TO LOWER SCOPE 2 – INDIRECT EMISSIONS

An obvious but unavoidable consequence of the electricity supply process is that some energy is lost, largely in the form of heat from powerlines, but also from electrical equipment and unmetered installations. Emissions attributed to these losses made up around 85% of our emissions inventory in 2009/10. Network loss data for 2010/11 was not available at the time of finalising this report, however, in 2009/10, 5.32% of the energy entering our network was lost.

We occupy more than 108 buildings, including 83 depots, to support maintaining a safe and reliable power supply. Our new buildings are being designed and built to a 5 Star Green Star rating and 4.5 star NABERS (National Australian Built Environment Rating System) rating. Building design features are contributing to Ergon Energy's commitment to reducing our environmental footprint. [p 58]

From a 2009/10 baseline, Ergon Energy has established targets of reducing electricity-related emissions by 5% by 2012 and 20% by 2014. We bettered this year's target of 2.5% in emission reductions by more than double. Achieving this target will be easier in the future as we apply our Environmentally Sustainable Design approach to future building fabric and fit out and commit to operating our buildings in line with the sustainable requirements.

In addition, detailed facilities studies have been undertaken at Ergon Energy's major sites and energy audits at smaller sites and depots. These studies and audits will support Ergon Energy in reducing its energy consumption and a planned program of work in the coming years.



Ergon Energy employee Sammy Tynan is a fan of video-conferencing, and others are catching on. It saves time and hassle at the airport and is helping minimise our carbon footprint

STRATEGIES TO LOWER SCOPE 3 – INDIRECT EMISSIONS

As a regional distributor with a geographic footprint approximately the size of France and Germany combined, air travel is a critical part of our business. In 2009/10 we had reduced emissions from employee air travel by 24% ahead of our target of a 20% reduction by 2010/11. However, this year, we fell behind the target by 3.6%. Since July 2008, Ergon Energy has offset 100% of emissions associated with employee air travel. In the past two years, the number of video-conferencing hours per month has almost tripled from 300 to 850 hours.

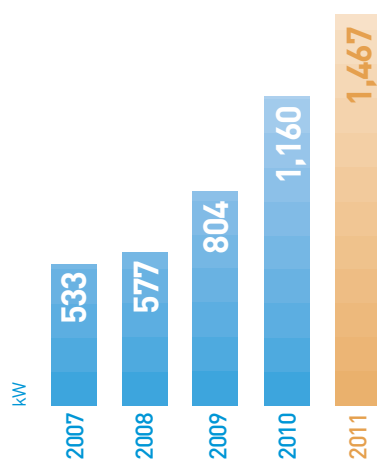
THE STATISTICS

EMISSIONS (tCO ₂ -e)		2010/11	2009/10	2008/09	2007/08	2006/07
Greenhouse Gas Emissions from Fleet, Air Travel and Electricity Use – Tonnes of Carbon Dioxide Equivalent	▼	40,644	43,137	43,835	45,369	41,082
Building Electricity Use per Employee – Tonnes of Carbon Dioxide Equivalent	▼	3.923	4.63	4.66	5.34	4.68
Scope 1¹ – Direct Emissions						
- Isolated generation	▼	75,258	76,711	76,295	80,996	82,192
- Vehicle fleet – passenger and light commercial	▼	11,422	11,442	9,829	10,640	11,118
- Vehicle fleet – other	▼	7,896	7,906	9,703	8,281	7,143
Scope 2 – Indirect Emissions						
- Network losses		na ²	833,886	794,829	840,883	886,950
- Electricity use – occupied buildings	▼	18,6123	21,325	21,275	23,192	19,398
Scope 3 – Indirect Emissions						
- Air travel	▼	2,714	2,464	3,028	3,256	3,423

1. Scope 1, 2 and 3 emissions are as defined in the Greenhouse Gas Protocol, developed by the World Resources Institute and the World Business Council for Sustainable Development.
2. Network losses, and accordingly emissions associated with them, have not been calculated at the time of publication.
3. This year property data was refined to remove unoccupied but metered substations and radio huts, from the scope of properties for which Ergon Energy has emissions reduction targets.

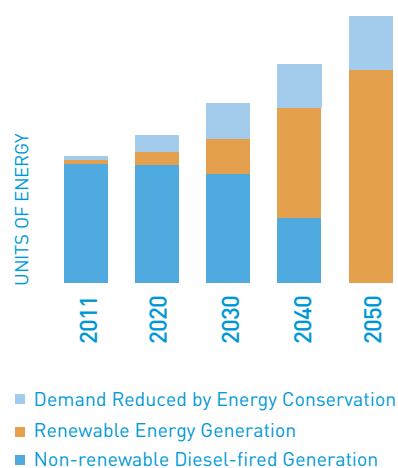
RENEWABLE ENERGY GENERATION INCREASING

Renewable energy generation capacity (including geothermal, wind and solar photovoltaic systems) is increasing as part of our commitment to reducing greenhouse gas emissions.



THE PLAN FOR DIESEL-FREE GENERATION IN OUR ISOLATED COMMUNITIES BY 2050

Ergon Energy is on track to meeting its target to replace all non-renewable diesel use in isolated communities by 2050.





REVIEW OF OPERATIONS

CUSTOMER-DRIVEN	14
ASSET MANAGEMENT EXCELLENCE	22
LEVERAGE CLIMATE CHANGE RESPONSE	32
■ A LEADER IN SAFETY	42
HIGH PERFORMANCE ORGANISATION	48

REVIEW OF OPERATIONS: A LEADER IN SAFETY

always ready to be safe

Ergon Energy is committed to ensuring the health and safety of our people and the community. This has meant taking a critical look at our performance over recent years, and retaining a priority on building a sustainable safety culture across the business – a culture where safety is inherent in everything we do.

WORKPLACE SAFETY MEASURING UP

Ergon Energy has made significant gains in improving workplace health and safety, evidenced by a 48% improvement in our Lost Time Injury Frequency Rate (LTIFR) for employees. This was a drop from 6.1¹ injuries per one million labour hours in 2009/10 to 3.2 per one million hours. Our Lost Time Injuries Duration Rate dropped from 100.9 to 62.3; this measure being an indicator of injury severity.

These reductions saw us land on target for our key corporate safety indicator, the All Injuries Frequency Rate (AIFR) for employees – with a positive move from 14.1 in 2009/10 to 13.7. This indicator is particularly challenging as it includes both LTIFR, as the more common industry measure, and the frequency rate for medical treatment injuries.

Our Dangerous Electrical Event Frequency Rate (DEEFR) for employees also improved – from 5.3 in 2009/10 to 4.9. A number of these events were directly related to the extraordinary period following Cyclone Yasi. Still, we are targeting further improvement around high-voltage switching, access and polarity work practices.

Our commitment to improving our performance against all these measures aligns with our goal to take the organisation's safety performance into the top quartile of the electricity distribution industry-recognised benchmarks and our aspirational goal to achieve zero injuries in our workplace.

At the Electricity Supply Industry Field Days at Wagga Wagga, Line Services Bundaberg and Operations Rockhampton challenged the best. Here, Craig Royan and James Roberts compete in the live low-voltage cross-arm change event. (p 47)

While we recognise more work needs to be done to sustain the progress made this year, we are confident this will be achieved.

Reflecting these positive results and the management of injuries and safe return to work, the number, duration and cost of workers compensation claims continued to decrease – despite an increase in the total wages and the WorkCover industry rate.

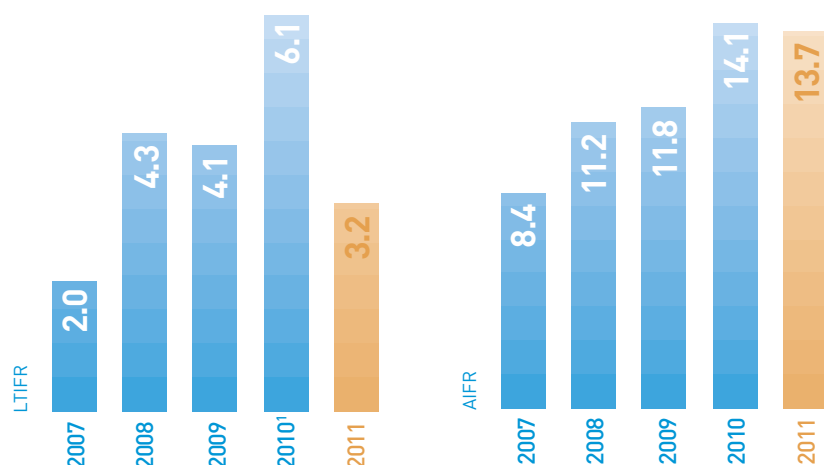
A NEW ERA OF HEALTH AND SAFETY

Our Safety Management Plan for 2010-15 is steering Ergon Energy toward a new era in safety performance. The plan outlines the key elements considered critical to the organisation becoming a leader in safety.

2010/11 SAW A DRAMATIC DROP IN LOST TIME INJURIES

Efforts to build a sustainable culture, our safety management skills and safety leadership has supported a dramatic drop in the number of injuries requiring time away from work.

1. 2010 result adjusted due to changes in the status of a number of injuries changes since the previous report.



HIGHLIGHTS

- Lost time injuries frequency rate down 48%
- Driving positive behavioural change through safety indicator
- Ongoing safety forum with contractor workforce
- Implemented a new integrated management system
- 'No One Gets Hurt Today' goal gains loyal following
- Community safety program recognised as best-practice.

DROP IN LOST TIME INJURIES BEGINS TURNAROUND

The drop in lost time injuries has resulted in the first signs of improvement in our all injuries measure. While the improved management of injuries and safe return to work has supported this, we are confident the turnaround is a sign that the actions being taken across the business are gaining momentum.

THE STATISTICS

SAFETY PERFORMANCE			2010/11	2009/10 ¹	2008/09	2007/08	2006/07
All Injuries Frequency Rate – Employees	Target ≤ 13.7	✓	13.7	14.1	11.8	11.2	8.4
Lost Time Injuries Frequency Rate – Employees	Target ≤ 7.6	✓	3.2	6.1	4.1	4.3	2.0
Lost Time Injuries Duration Rate – Employees	Target ≤ 60.0	✓	62.3	101.0	56.9	58.6	18.5
Lost Time Injuries Frequency Rate – Contractors	Target ≤ 1.0	^	2.2	0.6	1.6	0.5	2.4
Average Cost of WorkCover Claims		✓	\$1,691	\$4,520	\$3,359	\$5,241	\$6,606
Compensable Claims Frequency Rate		✓	2.9	4.3	3.2	na	na
Total Dangerous Electrical Events (DEEs)	Target ≤ 955	✓	885	894	1,037	1,143	1,009
– Unassisted Asset Failure (within Ergon Energy's control)		✓	374	394	342	363	378
– Assisted Asset Failure (outside Ergon Energy's control)		^	511	500	695	780	631
Dangerous Electrical Events Frequency Rate – Employees		✓	4.9	5.3	3.2	3.6	5.7
Community Electrical Safety Incidents		✓	303	310	439	588	584

1. 2010 result adjusted due to changes in the status of a number of injuries changes since the previous report.

As we implement this plan, we will consolidate efforts to build a sustainable safety culture – strengthening the relationship between Ergon Energy's broader cultural program and our safety goals.

To drive positive safety behaviours, a new Comprehensive Safety Indicator (CSI) has been developed and is progressively being rolled out through the business. It uses a series of lead (proactive) and lag (reactive) indicators to measure a team's safety performance, including, as examples, the AIFR and behavioural measures around incident reporting. The CSI, which is being monitored, is being used to reward those teams that perform strongly with gold, silver and bronze award plaques presented annually. (p 47)

In our Above and Beyond employee reward and recognition program (p 55), 'Always Safe' became a new award category. The selection criteria for the award is based on the five Always Safe pillars (see illustration) and the behavioural anchors (committed, courageous and reliable) developed to support the inclusion of safety as one of our SPIRIT values. (p 3)

These initiatives build on the recognition provided through our PowerAid program, which allows employees to earn points for their work group through positive safety behaviours, which are then converted into real charity donation dollars. (p 20)

SAFETY MANAGEMENT A PLATFORM FOR LEADERSHIP

Throughout the year we focused on improving our safety management competence – as a key building block to achieving safety leadership at Ergon Energy.

More than 600 executive and middle managers participated in a tailored Safety Management and Leadership Program. This program is based on the premise that you need to be a good safety manager – delivering on day-to-day safety activities such as hazard reporting, workplace inspections and incident investigations – before you can be a good safety leader.

“Our goal is to be a leader – to take our safety performance into the top quartile of industry-recognised benchmarks.”

This year's natural disasters highlighted the importance of safety management in ensuring that we did not succumb to the pressure to get power back on quickly at the risk of injuring our employees. This was where, during our Cyclone Yasi response, the 'Daily Muster' played a vital role. The safety briefing was used at the start of each day to drive home the importance of the safety basics, such as risk assessments, fatigue management and incident reporting, and the need to do them well.

During the event there were no serious injuries, despite the challenging conditions, the scale of the response and the fact that many of the people involved had never worked in tropical, post-cyclone conditions.

Our leadership program is building on the significant investment in the Zero Incident Process (ZIP) program. Since 2004, more than 50% of the workforce and 70% of the field workforce have completed this psychologically-based program. Safety, being key to a high performing team, is also embedded in our workgroup leader coaching program. (p 79)

Online safety testing has become part of the selection process for qualified tradespeople, assessing their safety knowledge and focus and determining how they can support the organisation's safety goal.

New training facilities in Rockhampton and Brisbane have helped us outwork our commitment to safety by ensuring practical competence through training. (p 53)

SHARING LESSONS LEARNT TO ADDRESS SAFETY

Disappointingly, our contractor lost time injury frequency rate performance rose from 0.6 to 2.2 with three lost time injuries occurring during the year.

To address this, we have been workshopping solutions with our contractor organisations, most notably around vehicle safety and apprentice management. The focus has been on collaboration – on sharing the safety lessons learnt across our respective organisations. This has provided the opportunity to develop a safety forum, to meet regularly with the aim of driving ongoing safety improvements.



ALWAYS speak up - don't look the other way

ALWAYS make time for safety

ALWAYS lead by example

ALWAYS look out for yourself and your workmates

ALWAYS think of your family and loved ones



The Australian Stockman's Hall of Fame Pink Ride in the Outback was a fitting backdrop for a \$4,470 PowerAid donation to support breast cancer research. Longreach Work Group Leader Mick Bicschel handed over the cheque to cancer survivor and National Breast Cancer Foundation ambassador Sharon Cohrs.

The contractor lost time injury frequency rate compares to the Energy Network Association's published 2009/10 industry average of 4.03.

Ergon Energy is also continuing to work with the Electrical Safety Office (ESO) to drive safety improvements through the audit process. The 'entity audit' conducted by the ESO resulted in Ergon Energy being given full compliance for this mandatory certification, as well as positive feedback from the ESO Auditor on the knowledge of our people in the field, particularly around risk management. We also maintained certification to AS4801/ISO 18001 Safety Standards.

The surveillance audit of last year's Board-endorsed five-point plan (a summary of safety activities underway across the business) conducted by external auditors in April 2011 noted significant safety improvements as a result of actions completed to date and no non-conformances. Ergon Energy's Safety Management Plan for 2010-15 builds on these activities.

NEW SYSTEM A FOUNDATION FOR IMPROVEMENT

The implementation of a new Health, Safety and Environment Integrated Management System (HSE IMS) has streamlined the processes of our safety, environment and cultural heritage functions.

The HSE IMS was developed after considerable consultation with employees and a major process review to establish a single, coordinated approach that reduces bureaucracy, improves accountability and lays a strong foundation for all employees, managers and contractors to consolidate and improve performance.

We have improved the integration of the HSE IMS with other key management systems, such as our human resource and risk management systems.

Made up of a range of critical standards, it provides a formal, documented approach to the way risks are managed. These reference documents cover such topics as managing audits, incidents and injuries.

Improvements have been made to our investigations and reporting framework and the supporting eSafe system.

The Incident Cause Analysis Method (ICAM) investigation process, introduced for serious incidents in late 2008, was extended to cover less serious 'Class 3' investigations. This is helping us to look broadly at 'local area' and 'whole-of-business' factors, such as communication, training, operating procedures, performance drivers, organisational culture and equipment, which may result in failures and contribute to incidents.

Improvements to the eSafe system, used to collate our safety information in one depository, are lifting the effectiveness of incident analysis. The growing quality of information is giving us a holistic view of our highest risk areas and the solutions that can make a genuine difference in reducing the number of safety incidents.

These system improvements will support compliance with Australia's nationally harmonised workplace health and safety laws, due to come into effect in January 2012. This will see a uniform set of safety standards and protection for all Australian workers, simplifying compliance requirements for Ergon Energy where we have employees working outside Queensland or when interstate crews are brought in to Queensland to work.

The new *Work Health and Safety Bill 2011* will replace the current *Workplace Health and Safety Act 1995* and give rise to new work health and safety regulations and codes of practice and lead to a number of changes to the *Electrical Safety Act 2002*. We are finalising our assessment of the impact of these changes on our operations and taking action to ensure a smooth transition.

'NO ONE GETS HURT TODAY'

To engender the employee commitment needed for Ergon Energy to be a leader in safety, we launched the simple safety challenge 'No one gets hurt today' in mid 2010.



This achievable goal aims to help our employees tune in to the specific safety challenges they may face during the working day and beyond.

The 'No one gets hurt today' message is being supported by quarterly targeted safety campaigns focused on specific safety themes. To date these have included manual handling, risk management and electrical safety. These have been supported by fact sheets, internal safety videos, safety meetings and site visits.

These activities aim to encourage employees, supervisors and managers to work collaboratively to reduce the number of incidents and injuries associated with each theme.

By working with our own people to deliver the 'No one gets hurt today' message, it has gained an extremely positive and loyal following from employees, evidenced by our internal communications research survey results, which found that 98% of employees have a good understanding of the Always Safe pillars and associated behaviours.

Safe Work Australia Week 2010

To reinforce the importance of being Always Safe at peer-to-peer level we supported Workplace Health and Safety Queensland's annual safety event 'Safe Work Australia'. This turned into one of the most successful events of its kind for us.

The internal theme for the week-long event was manual handling, which was outworked through numerous employee-led activities aimed at raising awareness of manual handling hazards specific to Ergon Energy offices and depots.

Other activities included an interactive safety poster competition, which asked employees to develop their own messages around being Always Safe. This brought more than 50 team entries, featuring emotive and poignant messages highlighting a strong commitment to safety.

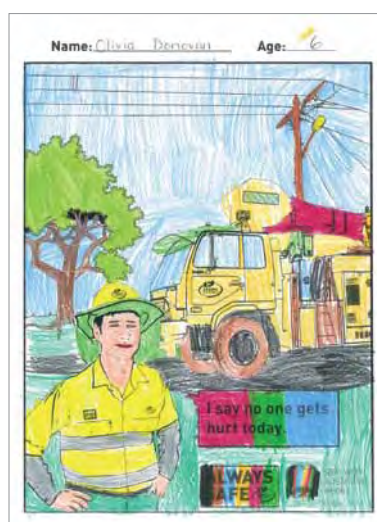
We also lifted engagement by sponsoring our best safety performers to participate at the premier safety event, the Electricity Industry Field Days, in May 2011. (see over)

FOCUS ON COMMUNITY SAFETY RECOGNISED

Our Community Electrical Safety Awareness Plan (CESAP) was recognised as the 'best solution to an identified electrical safety issue' by Workplace Health and Safety Queensland at its WorkSafe Awards in October 2010. It also won the Australian Marketing Institute's 'Marketing Communications Business to Business' award.

Underpinned by a detailed analysis of annual incident data, CESAP has evolved each year to address known community electrical incident problem areas using awareness campaigns targeted at industry sectors or extreme risk activities. This has seen community electrical safety incidents halved over recent years, however, there is no room for complacency.

Tragically, over the past year, two people were killed in separate incidents at Cloncurry and Yungaburra when the cranes they were assisting inadvertently contacted overhead lines. A third person was killed when a roller he was using to paint a large outdoor sign contacted overhead powerlines.



As part of Safe Work Australia Week, we ran a children's colouring competition to encourage employees to talk with their families and friends about the importance of coming home safely at the end of each day. Entries were received from as far north as Thursday Island and west to Mount Isa.

Despite these fatalities and an increase in serious incidents, the actual number of incidents has remained relatively stable even with the increased activity across the agricultural sector, as a result of positive growing conditions and increases in reconstruction following flooding and cyclone damage.

Targeting major 'at risk' industries

Worryingly, however, there have been increases in safety incidents in some of the 'at risk' industries, most notably the road transport industry, up 18% over the past 12 months. Smaller increases were seen in the agriculture and aviation industries. This was balanced out by the reduction of incidents in earthmoving (down 21%) and electrical (down 70%); these relate to electricity theft, illegal wiring and DIY activities.

These incidents have wide-ranging impacts; tragic consequences for individuals and families, cause significant community disruption, financial strain on employers and cost to Ergon Energy and customer impacts due to unplanned outages.

In response, Ergon Energy again has collaborated with a range of external organisations such as AgForce, Canegrowers, Farmsafe, the Local Government Association of Queensland, Workplace Health and Safety, Cotton Australia, the Electrical Safety Office, Energex and Dial Before You Dig to share strategies for reducing electrical safety incidents.

We have also participated in major industry events, such as FarmFest, NQ Field Days and Agro Trend distributing more than 90,000 individual items of 'Look Up and Live' campaign material.

These efforts have been supported by our awareness campaigns, such as our 'Look Up and Live' overhead powerlines safety communications, which are both mass market and targeted at specific industry groups.

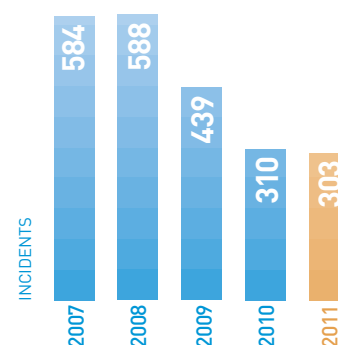
Our Always Safe around the Home communications are continuing to educate households about electrical safety focus on the most frequent causes of electrical safety incidents – 'Don't Do It Yourself' – and more general tips.

While safety is our overwhelming priority, our goal is also to address the impact of safety on network performance. In 2010/11, more than 65,000 customers had their supply interrupted through incidents where members of the community had come in contact with the network.

COMMUNITY SAFETY CONSOLIDATES

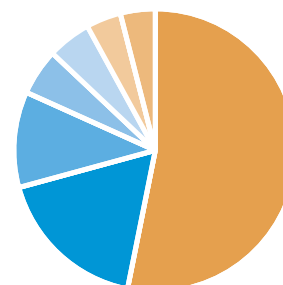
Since our Community Electrical Safety Awareness Plan commenced in earnest in 2007/08, there has been a dramatic reduction in network safety-related incidents. This year, the number of incidents remained steady despite an increase in activity across the agricultural sector and associated activity in aviation and transport.

* 2010 result adjusted since the previous report.



INDUSTRIES AT RISK FROM ELECTRICITY NETWORK RELATED INCIDENTS

The major 'at risk' industries from a community safety perspective are road/transport, agriculture and earth moving. We are building awareness in these areas by collaborating with their peak bodies, participating in industry specific events and targeting our communication activities.



- Road transport 160%
- Agriculture 53%
- Earthmoving 33%
- Aviation 16%
- Vegetation management 15%
- Building/construction/demolition 12%
- Other 12%

TARGETED ACTION IMPROVING SAFETY

To respond to specific health and safety concerns we also have a range of other activities underway.

Addressing network safety

While network safety has improved over recent years in line with network investment, we are committed to finding more ways to target asset failure and the risk of injury, both to our employees and the community.

Our field safety champions showed their true mettle on the national stage at the Electricity Supply Industry Field Days in May 2011.

The two-day event held at Wagga Wagga brought together professionals from the electricity, water, mining and rail industries to test their skills in workplace safety and learn the latest about health, safety and the environment as it relates to their everyday roles.

Ergon Energy's new Comprehensive Safety Indicator was used to select six of our highest performing teams to compete at the earlier Ergon Energy-wide field safety day in Townsville for short-listing for this premier event. Crews from Lines Services Bundaberg and Operations Rockhampton were successful, chosen because of their professionalism, first-class performance and outstanding safety record.

Teams from various companies showcased their expertise across a range of activities, including pole-top rescues, cable jointing, live-line techniques, hazard and risk assessment, manual handling and first aid.



With the Ergon Energy field safety day behind them, our two top performing teams had their sights set on the national safety competition to be held at Wagga Wagga. They are shown here, with the judges and their fellow competitors.



SUSTAINABILITY IN ACTION

- Built an understanding of the lead and lag indicators used in the new CSI and the safety behaviours that drive results.
- Recognised teams that have not only achieved an outstanding safety record, but who also do all of the proactive things to ensure a safe working environment.
- Maintained skill levels in critical safety procedures from pole top rescue, CPR and field risk management, and kept Ergon Energy informed of the latest safety developments and products.

At left: At the national event, Line Services Bundaberg was awarded first place in the 'manual handling challenge' and 'the risk assessment task', as well as third place in 'live cross-arm change'. Operations Rockhampton was awarded second place in the 'manual handling challenge'. Here Jay Wilkins competes in one of the challenges.

These include increasing our focus on our assets whole-of-life cycle management (p 23), and refinements to our maintenance philosophies, which are being made possible with improvements to data integrity. (p 51)

Managing manual handling risks

Improvements to network design standards and engineering controls are also being made. As an example, this is being used to address manual handling injuries in our workforce. A common misconception is that musculoskeletal injuries occur because employees don't do the right thing. Our analysis has shown, however, that in Ergon Energy the main risk factors are excessive force (including heavy lifting), repetitive tasks and awkward postures. One way we are addressing this risk is by applying ergonomic principles to change the design of our padmount transformers to allow better access to components, including the ring main unit.

At the centre of these changes to network design has been the introduction of a new participatory approach to managing manual handling risks. This collaboration with employees and the Electrical Trades Union has allowed us to look closely at how high-risk manual handling tasks can be eliminated or minimised.

We have equipped our employees with a better understanding of ergonomic principles, which is now informing decisions around the procurement of tools and equipment. Through consultation, we are aiming to ensure work schedulers appropriately balance the requirements of the task, the skills and experience of the crew and the customers' requirements. Providing adequate time to complete a task is seen as critical to avoiding injury.

It is about enabling employees to make safe choices.

Equipping our people to be fit for work

The importance of our people being in a physically, mentally and emotionally healthy state – being 'fit for work' – has seen the phasing in of a comprehensive drug and alcohol testing regime and zero tolerance when undertaking high risk tasks. This followed a campaign the previous year to educate employees about the impact of drugs and alcohol on a person's fitness for work.

This, and our Employee Assistance Program, which provides confidential counselling to employees and family members to address work and personal challenges, is about ensuring our employees can perform their duties effectively and in a manner that does not threaten their own, or other's, safety or health. This support was particularly important for those personally impacted by Cyclone Yasi.

We have continued other proactive health initiatives for our employees, including flu vaccinations. To protect our people and support our ability to maintain services to customers through the flu season, 1,545 field and office employees accessed the voluntary vaccinations.



Manual task-related incidents have been the target of much of our safety program this year. In the past five years, 64.5% of our workers' compensation claims have been in this area.



REVIEW OF OPERATIONS

CUSTOMER-DRIVEN	14
ASSET MANAGEMENT EXCELLENCE	22
LEVERAGE CLIMATE CHANGE RESPONSE	32
A LEADER IN SAFETY	42
■ HIGH PERFORMANCE ORGANISATION	48

REVIEW OF OPERATIONS: HIGH PERFORMANCE ORGANISATION

ready to adapt

Ergon Energy's goal is to be a preferred employer, with a high performing, professional, values-based culture, achieving best-practice outcomes across all areas. It's about creating an organisation that is responsive, resourceful and ready to adapt and thrive in a changing world.

Ergon Energy has around 4,700 employees (4,752 as at 30 June). They work and live across the breadth of Queensland, from the most northern and western reaches of the state to the population centres along the coast, as well as in the South East corner.

For a full workplace profile see page 56.

This section of our report discusses how we are supporting our people to build a high performance organisation – one that is resilient and adaptable, with the skills required to meet our challenges, and one that is increasingly information-enabled.

The report then looks more generally at our people and environmental initiatives.

DEVELOPING AS A HIGH PERFORMANCE ORGANISATION

Ergon Energy's cultural journey is about introducing and embedding new ways of doing things that will enable us to rise to meet our future challenges. We are transforming our business to ensure we are efficient and effective so that we can deliver on our customers' and stakeholders' expectations.

We are continuing to determine the skills, behaviours and engagement required to deliver high performance.

Technology improvements are helping Sarah Callaghan and Deanna Ede improve our customer service experience. Our representatives can be navigating up to 10 applications during a single interaction so a reliable operating environment is a service imperative. (p 51)

This understanding of high performance is driving our people strategy and initiatives to ensure our employees are able and willing to meet our immediate and future challenges head-on (especially in the area of workplace safety).

This will remain a focus over the coming years. It is about ensuring our people are equipped with the necessary leadership capability, mindset and competencies required to successfully implement and embed transformational systems, processes and behaviours, including increasingly sophisticated assets and information systems.

A key initiative this year has been the rollout of the Work Group Leader Program; designed to enhance the engagement and overall performance of our field-based teams. These roles are seen as critical to the success of Ergon Energy, particularly in the areas of safety, leading our people and meeting our customers' needs. More than 150 employees, located across Ergon Energy's service area, have participated in the program – which includes a formal education component, individually tailored development plans and structured coaching. This year has seen the use of 360-degree feedback from supervisors, peers and subordinates to target their development plans.

The program was introduced in early 2010 with the first graduates receiving their Diplomas of Management in November 2010. The program is complemented by a broader 'peer-to-peer' mentoring initiative, as well as a range of other leadership programs.

HIGHLIGHTS

- Employee engagement strengthens to 71%
- Moved towards earned value works delivery management
- Property strategy lifting organisational capability
- Enabling performance improvement through information
- Over 350 graduates apprentices and trainees supported across the business
- SharePoint intranet helps employees collaborate
- Protected endangered species with corridor mapping.

These efforts are targeting our performance management capability, which is helping to address safety performance. They are also helping to manage and keep talent, recognise employees and manage individual performance more broadly.

We also have been rolling out a high performing teams program across the organisation to develop the team behaviour required to drive high performance.

The results of our employee 'Have Your Say' survey saw employee engagement move positively to 71%, up from 67%. This important measure is being used to track progress towards our goal of building and fostering a resilient and adaptable organisation.

It measures the extent to which employees identify being committed to the organisation, how hard they're prepared to work and how long they will remain with the business.

Our aim is to harness the positive cultural attributes displayed during our flood and cyclone response, where the organisation responded to the shared goal of power restoration for our customers with a sense of urgency, clear accountabilities and a focus on safety. This will help us build the skills and culture required to manage increasingly sophisticated networks, information systems and renewable energy solutions.

Improving our works delivery capability

We are targeting significant improvements in the delivery of our work program to lift our performance and meet future challenges. The success of works delivery is dependent on all phases, from inception through execution to closure. Therefore, we recognise that these improvements can only be achieved if underpinned by the cultural attributes of management accountability, employee responsibility and business-wide collaboration.

The Works Delivery Improvement Program is a set of related actions aimed at boosting our capability. The improvement actions are each being championed by senior managers to ensure follow-through and provide the potential to learn along the way. Our initiatives range from quick wins designed to accelerate current works delivery, through to substantial projects (such as the replacement of our works estimating tool) and improvements in the use of technology.

The actions are broadly about streamlining workflows, cutting waste and unnecessary bureaucracy and improving performance. They are also playing an important role in embedding the 'new way of working' put in place with the Organisational Design Review in 2009. While there have been significant efficiency gains since this review, there are still specific works delivery gaps to be addressed. This work is especially important in light of the slow start in delivering some key aspects of the five-year works program (p 24), due to the significant impact of major weather events.



The new \$26 million complex in Mackay will bring the benefits of a centralised presence to the Mackay region. It features an eco-link space incorporating natural lighting and a combination of air conditioning and natural ventilation to provide an open-plan meeting area to help foster the cross-workgroup relations central to a high performance culture.

Improving the longer-term transparency of the works program will enable more strategic workforce and contracting decisions and greater flexibility when responding to emergency events or customer-related requests. The improvement program is moving us toward a single approach to using our Enterprise Resource System and the availability of consistent information for decision-making, which supports Ergon Energy's strategic asset management approach.

“We're ensuring our people have the knowledge, tools, skills and leadership they need to serve our customers effectively and efficiently.”

Our goal is to boost our capability while maintaining a sustainable level of corporate-wide performance that ultimately drives down costs. However, due to the scale of our Cyclone Yasi response, these efforts are not yet reflected in this year's operational performance measures.

To support this work we are moving towards the use of earned value management of works delivery performance, which will use the Cost Performance Index and Scheduled Performance Index. These were introduced for our biggest projects this year, which showed positive outcomes (p 8), and will be extended to our other priority projects next year.

In addition, an innovation and continuous improvement framework and set of tools have been developed to better sustain innovation and improvement efforts. To ensure success, ongoing monitoring will be

undertaken against the Innovation Maturity Model, which enables gaps to be identified, assessed and actions put in place to make continuous improvement a part of the way we manage the business.

Improving service delivery through improved facilities

As part of a long-term property strategy, Ergon Energy is co-locating field and office-based employees and improving workplace facilities to lift our service delivery capability and deliver ongoing operational efficiencies, as well as reduce leased sites. This has seen the delivery of major construction projects in Rockhampton and Mackay this year, as well as property projects in Gladstone and Hervey Bay.

The new building in Mackay will allow the consolidation of staff, both operational and office based, into one central location. In coming years, this will help us realise greater productivity and, by facilitating improved communication among key staff, aid planning and investment decisions.

In Rockhampton, we undertook a major makeover of the old power house on the banks of the Fitzroy River to create a new training centre. This purpose-built facility will allow us to deliver training to both our staff and apprentices and to external organisations, as well as provide office accommodation for up to 70 employees who were previously housed in a mix of temporary office accommodation throughout Rockhampton.

Our new buildings are being designed and built to a 5 Star Green Star rating and 4.5 star NABERS (National Australian Built Environment Rating System) rating. (p 40 & 58)

THE STATISTICS

OPERATIONAL PERFORMANCE		2010/11	2009/10	2008/09	2007/08	2006/07
Workforce Utilisation	Target \geq 80%	- 82 %	82%	81%	79%	73%
Operating Expenditure per Kilometre ¹	Target \leq \$2,410	^ \$2,494	\$2,157	\$2,094	\$2,120	\$2,009

1. 2010/11 calculated using the AER's standard control services definition of operating expenditure and the 2009/10 kilometres of line (2010/11 were not confirmed at time of publication). This year's results are not directly comparable to previous years due to definition differences between the QCA and the AER.

INFORMATION ENABLEMENT KEY TO HIGH PERFORMANCE

The Internet, with its easy access to information, is making the way we communicate, navigate and research more efficient. By providing ready access to corporate information, it is also increasingly enabling productivity improvements.

This is driving Ergon Energy's vision to be an information-enabled organisation in which relevant, timely and accurate information is readily accessible to staff in the field or office work locations to enhance decision making, business processes and organisational performance.

Our focus on information enablement is gaining momentum with this year's efforts around developing high performing teams starting to create the capability and the 'thirst' for information. This is seen as vital for successful information enablement, which will be central to achieving more efficient operations and asset management, and ultimately position the business to maintain network charges to less than CPI over the long-term.

To take this forward Ergon Energy is progressing a large Information and Communications Technology (ICT) program as a Joint Working initiative with Energex. (p 17) This will see a potential combined investment of around \$240 million over the next four years. To deliver maximum business value from this investment we are undertaking the detailed planning needed to deploy an integrated ICT program.

This work, known as the Business Information and Blueprinting Program, is taking the systems aspects of our respective business plans to the point where tightly-defined projects can be recommended for approval as an integrated set in late 2011, as part of an integrated program of people/process/systems/information change.

IBM has been engaged to help deliver the program, with the goal of extracting maximum value from our significant combined investment. This engagement is ensuring we are bringing in best-practice insights from around the world.

Ergon Energy sees this investment as vital to our future ability to meet the needs of our customers and the broader sustainability challenges our communities face. A key to the success of this is an easy-to-use intuitive user interface for accessing quality information.

Our goal to be an information-enabled organisation is driving our current investment in such things as the all encompassing telecommunications network, 'UbiNet', which will underpin the future connection of a range of sophisticated information technologies to our electricity grid. (p 24) It also supports the development of our remote observation, automated modelling and economic simulation capability and partnership with Google, which will integrate spatial information into business processes, as showcased on page 52.

We already are seeing how technology can drive improvement across the business. For example, in the use of field force automation to support efficiency in our maintenance program (p 17); our earlier investment in an Enterprise Resource Planning system showing returns in supporting works planning; and, the use of network performance data to target reliability improvements.

Technology improvements in our customer service area are helping address systemic issues and reduce employee frustrations and customer wait times as slower technologies are being retired. Our National Contact Centre received a technology makeover this year, with 150 computers and associated peripheral items replaced in a major deployment over a four-week period.



All smiles after the asset renewal program... SPARQ'S Aka Nugawela, National Contact Centre (NCC) Team Leader Pauliene May, SPARQ's Andrew Gibbons, NCC rep Brooke Scott and Service Channels Technology Advisor Scott Merrill.

Our service representatives can navigate up to 10 applications during a single customer interaction, so the new, fast, and reliable operating environment is a service imperative.

INVESTING IN DEVELOPING OUR PEOPLE

Ergon Energy's workforce is highly skilled, with expertise across a range of specialist fields from electrical engineering to administration, and across the technical trades.

Our operational requirement for a high level of both technical and non-technical expertise has led to an investment of more than \$28 million in training and development over the past year.

This provided for a broad range of employee training and development, from regulations training, such as CPR and first aid, to advanced leadership development. Approximately 9,000 training courses were delivered across the year to more than 37,000 participants. In addition, more than 3,000 online training programs were completed, covering a broad range of topics from fire safety to risk management. Other development opportunities provided included coaching and secondments.

To ensure we are able to meet the skills requirement of tomorrow, we commenced a Training for the Future initiative this year. This consists of a range of project initiatives that will develop a whole-of-business training capability framework, optimise training administration and scheduling and establish improved governance arrangements through a steering committee.



The first of two high-tech observation aircraft is now in the air undergoing its final flight tests under the watchful eye of the Civil Aviation Safety Authority and Seabird Aviation.

These aircraft are promising to transform our approach to asset management and potentially revolutionise aerial observation technologies in Queensland. Equipped with laser scanners, digital cameras and flight assist system (FAS), they have been specially designed to be flown at higher altitudes than normal aerial observation aircraft, increasing the overall safety of the operation and minimising community impact, while maintaining the ability to capture high-precision data.

The aircraft will be used to inspect the entire Ergon Energy electricity network annually commencing this year – some 150,000 kilometres of powerlines. Called ROAMES, the venture will initially target vegetation management to transform this important preventative asset maintenance activity. Through greater efficiencies in this area alone, this project will save the company millions of dollars.

The airborne laser scanning and imagery capability will deliver high resolution 3D models of our network and its surrounding environment.

The data gathered from the flights will then be processed and generated into spatial models and made available to support business operations via Google Earth and Google Maps.

This data will be managed and delivered from the recently launched 'cloud-hosted' Google Earth Builder service – Ergon Energy, along with the United States Department of Defence group National Geospatial Intelligence Agency, are the first two clients for this new technology.

ROAMES stands for Remote Observation Automated Modelling Economic Simulation.

SUSTAINABILITY IN ACTION

- **By surveying the network from the air and using specialised software and algorithms to process the data, we will in effect be inspecting the entire network every year identifying where vegetation is encroaching on the network.**
- **By using spatial models to scope and schedule treatment of vegetation, we expect to save about \$44 million over five years, and ultimately improve power supply reliability and community safety in regional Queensland.**
- **ROAMES could also be used to deliver other government cost savings and broader community benefits – including the development of a precision positioning framework and improvements to the state's digital cadastre. The potential use and benefits of this new technology are limited only by our imaginations.**



Seabird Aviation's Don Adams and his son Peter have spent three decades developing the aircraft which will be used by ROAMES. Don is a veteran in the aviation industry and has used his experience to create a more affordable alternative to helicopters for aerial observation roles. Here he is showing Chief Executive Ian McLeod one of the planes under construction.

Developing our leaders

Our focus for 2010/11 included an ongoing investment in leadership development, from the Work Group Leader Program through to the Senior Leadership Development Program. The whole-of-business succession program, Horizon 2 Leaders, has also continued.

A new Safety Management and Leadership Program was deployed during the year, which focused on providing managers and supervisors with clarity around their roles as safety leaders in the business. (p 44)

Turning our graduates into high quality employees

Ergon Energy's graduate program is continuing to provide high quality employees through a three-year graduate development program, where they receive training and exposure to a variety of relevant disciplines. Ergon Energy is currently supporting 19 recent bachelor degree graduates in the disciplines of electrical and civil engineering, accounting, customer service and human resources to help them transition into professional roles within the business. Ten graduates have successfully completed the program and are now in positions throughout the business, including in engineering, customer service and finance roles.

An additional 12 graduates are scheduled to enter the program next financial year. Fifteen Ergon Energy Scholarships have been awarded to high performing students.

Each graduate is paired with a business mentor to best ensure success and is completing the program with accreditation from their relevant industry body. As well as developing their core professional skills, the program is giving each graduate exposure to a cross-section of the business through rotational placements.



Ergon Energy's new \$14 million training and development facility in Glenmore Road was officially opened in May this year. Constructed on the site of the original Rockhampton Powerhouse, it retains many historical features including the brick façade and gantry crane in the former engine room.

Recruiting home-grown apprentices and trainees

Our apprentice and trainee program continues to succeed, with 271 apprentice and 65 trainees currently in the business. In 2011, 61 new apprentices commenced from a record 2,650 applications, with another 85 due to start in 2012. Many of these recruits are from, and are now based in, the smaller towns of regional Queensland, including Biloela, Chinchilla, Kilkivan, Quilpie and Tully. This means they have not had to leave their homes to find work and they are gaining valuable skills in a good, solid trade.

We have a mix of mature-aged apprentices and teenagers straight from school in the program, which historically achieves a 98% completion rate. Twenty-four apprentices and 10 trainees completed their training this year and have continued in the business. Since 2002, Ergon Energy has turned out more than 570 qualified tradespersons.

Revamping our training facilities

There has been a significant investment this year in our training and development facilities. In Rockhampton, our new facility is a one-stop shop for the delivery of our training requirements, including technical, field, safety, corporate and customer contact training. A pole training yard will be completed here soon.

Our Brisbane training facilities also received an upgrade, with training rooms established at the Eagle Farm office and a new apprentice pole training yard constructed at Northgate. A new training yard built at Dalby will provide much needed additional facilities for switching training.

DIVERSITY IN THE WORKPLACE

Our vision is to have a workforce diverse in thought, experience, culture and personality – one where our diversity is contributing positively to our overall performance as an organisation.

We are aiming to achieve this through our Diversity Program 2010-15, which is about ensuring the attitudes and behaviours of our employees actively create and respect an inclusive work environment – a workplace where everyone has an opportunity to fully participate and be valued for their distinctive skills, experiences and perspectives.

This commitment has seen significant changes to the diversity of our workforce over recent years (as shown in the table). It has also seen a positive move in our Have Your Say employee survey results – the scorecard for questions around our diversity moved positively from 'amber' in 2010 to 'green' in 2011.

Attracting a diverse application pool

By increasing the diversity of the applicant pool, the diversity program aims to attract and recruit a workforce that is representative of Queensland's overall population and our customer base.

One of our target areas is the recruitment of Aboriginal and Torres Strait Islanders (A&TSI). To better support these recruitment activities, and a more coordinated community engagement approach, we have established a new role for an A&TSI community engagement specialist. (p 18) While this role has a broad whole-of-business perspective, it is also supported specifically by our A&TSI employment specialist.

The purpose of this role is to develop and deliver strategic initiatives that draw more attention from the A&TSI community and result in increased recruitment and retention of A&TSI employees.

We also reviewed our employee value proposition to help us better understand and define what employees, potential and current, value by each segment group. This work is helping us address organisational gaps, and supporting the development of our employment brand, ultimately allowing us to attract the right talent from our diverse community.

Retaining a representative workforce

The diversity program aims to assist the retention of a workforce that is representative of the broader community, by creating an inclusive supportive culture that offers flexible work choices.

A key initiative is Ergon Energy's Women in Leadership program. The purpose of the program is to enable women with leadership potential to develop their leadership skills, which, in turn, supports retention and builds a pipeline for future female senior managers. It also assists in attracting women to the business.

The inaugural Women in Leadership program came to a close this year with much praise from the six participants. Since then, a second cohort has commenced – 11 employees from across the business are now participating in regular 'community of practice' sessions, a formal leadership development program and mentoring, as well as taking part in valuable networking opportunities across the business.

The gender profile of our workforce is shown on page 54 and 56.

Managing an intergenerational workplace

With the age composition of our workforce changing we are facing a range of intergenerational issues. These include a 'bubble' of employees moving into retirement or wanting to go part-time, many in critical business roles, to higher separation rates for staff with one to three years' tenure in comparison to the rest of the organisation.

THE STATISTICS

OUR PEOPLE		2010/11	2009/10	2008/09	2007/08	2006/07
Number of Employees	^	4,752	4,630	4,634	4,489	4,192
Employee 'Have Your Say Survey' Index	^	20	13	na	14	13
Employee 'Have Your Say Survey' – Employee Engagement	Target ≥ 70% ^	71%	67%	na	na	na
Staff Turnover (annualised)	∨	6.8%	7.2%	6.6%	8.5%	13.3%
Women in the Workforce	^	1,197	1,132	1,138	1,071	899
Women in Upper Management	∨	20%	21%	13%	12%	11%
Women in Middle Management	^	21%	19%	20%	21%	18%
Aboriginal & Torres Strait Islanders in Entry Level Positions	^	77	66	57	41	24

To support our ageing workforce, over the year we implemented Our Future Focus program within our Asset Management area. The program includes practical intergenerational and career transition initiatives, including succession planning, which aim to both support our employees and mitigate future resourcing risks. This program will soon be tailored and rolled out to other areas of the business.

To attract a younger staff and better design our workforce of the future, we are targeting Generation Z candidates as they finish their formal education.

We are including these changing age profile considerations in our policies and people-related process and practices to mitigate these age demographic risks.

The age profile of our workforce is detailed on page 56.

Creating a fair and supporting environment

In demonstrating our commitment to creating an inclusive culture, our focus continues to be around eliminating bullying, harassment and discriminating behaviour.

This year has seen the formation of a number of working groups to look at prevention and effective management of bullying and harassment. The working groups comprise human resources staff, union representatives and Sexual Harassment Anti-discrimination Officers (SHADO). Of the recommendations made to date, the most notable has involved simplifying the workplace resolutions model to promote early and local resolution of issues. This model is being implemented throughout the business.

ENGAGING WITH OUR PEOPLE

Employee engagement, through meaningful consultation is critical to our success. This is reflected in the significant investment made in employee engagement activities, which aims to share information openly and honestly, listen and respond to employee concerns and celebrate success.

Our employee 'Have Your Say Survey' is the key corporate feedback tool used to understand where things are working well across the business and where improvements can be made.

As well as showing a strong level of employee commitment, the survey indicated that our employees feel more empowered to do their jobs. The top reasons they stay with Ergon Energy include 'working in a good team', 'feel my job is secure', 'working conditions compared with other organisations' and 'I like the type of work I do'.

With positive results in 'cross work group cooperation', 'performance culture', 'lifestyle balance' and 'pay and benefits', the 78% of the workforce who took part in this year's survey lifted the overall dashboard result from a net positive score of 13 to 20.

Despite the strength of the above results, the survey identified room for improvement in 'appreciation shown to them', 'prepared to put in extra effort to improve' and employees seeing 'effort wasted in their work group'. These results are now driving improvement plans across the business.

Building an understanding of our strategy

Ergon Energy invests significant resources in building employee understanding of our corporate strategy and, ultimately, greater ownership of our strategic direction.

Our Board of Directors continued to make workplace visits, most notably during the emergency response to Cyclone Yasi. Following each Board meeting, articles and updates on strategic matters were published in our internal communication channels.

Early in the year, a state-wide roadshow was used to communicate the strategic vision for the current five-year regulatory period to employees. Hosted by executive managers, this roadshow provided the face-to-face opportunities needed to gain a better understanding of Ergon Energy's strategic direction.

Modernising our communication channels

The significant investment in our established internal communication channels at whole-of-business, business unit and functional levels continued. The diverse nature and the geographic spread of our business make these channels vital for our people to understand their role in the bigger picture, as well as the impact and value of their individual and team efforts.

Our employees' growing preference for a two-way dialogue is driving efforts to modernise our cross-business communication channels.

The most significant change has been the revamp of the Ergon Energy intranet with the new collaborative platform SharePoint. Its self-authoring technology provides each business unit with the opportunity to upload on to their own sub-sites and share information both within their own teams and with the broader business. The new home page of the intranet has links to corporate information, including a staff directory, the latest news, process documents, travel booking system, e-Library, employee services – acting as a one-stop-shop employee information tool.



Ergon Energy's reward and recognition program, *Above and Beyond*, is in its seventh year. It has again played an important role in defining the expectations of employees. Deserving employees were nominated across seven categories. Charleville's Brent Alexander and Daley Clarke, with Toowoomba's Steve Boland, were honoured with the Outstanding Achievement award for saving a child from floodwaters.

We have also seen the newest internal channel, *DailyMail* – a daily email bulletin keeping our employees updated on everything from safety notices and operational news to job vacancies – increase in popularity with 69% of employees saying it is their main source of information. *DailyMail* supports two-way communication across the business and, importantly, gives employees a voice through the weekly 'mailbag' and feedback mechanisms.

The other platforms for our internal communications include:

- **Daily Musters Team Briefs** – daily and monthly catch-ups for employees held at a work group level that allow local and topical issues to be discussed openly.
- **Monthly Business Brief** – a monthly bulletin uploaded to the senior management team SharePoint site from the Chief Executive. This brief features updates on high-profile and business-critical activities and latest performance measures.
- **Team Brief DVD** – a bi-monthly production available to all employees featuring Chief Executive and safety messages, along with project updates, presentations and previews of business activities.
- **eConnect** – a bi-monthly A4 colour magazine, highlighting the human side of business operations and posted to each employee's home.

BENEFITS TO ATTRACT AND RETAIN EMPLOYEES

We aim to continue to attract and retain high calibre employees across regional Queensland by offering them employee benefits, health and wellbeing initiatives, achievement rewards and a high performing, safe work environment.

The majority of Ergon Energy's employees (98%) are covered by the Ergon Energy Union Collective Agreement 2008, a Federal Workplace Agreement, which expires on 22 September 2011. A number of executive and senior managers are on individual employment contracts.

At the time of writing, Ergon Energy was negotiating a replacement enterprise agreement that will set out employees' wages and conditions for the next four years. These negotiations are being undertaken in the context of the Queensland Government's Government-Owned Corporation Wages Policy, which sets boundaries for wage increases in new collective agreements. They also need to take into account the AER's revenue determination for 2010 to 2015, which sets the funds we have available to run the business. (p 4)

At the bargaining table for the enterprise agreement there are a number of representatives, including Ergon Energy, union representatives and any other nominated employee representative. If an employee is a member of a union eligible to represent them, this union automatically acts as their bargaining representative. However, for the first time, employees can now nominate either themselves or another person to act as their representative at the negotiations.

To help keep all employees up to date as we progress towards a new agreement a new dedicated enterprise agreement intranet site has been established.

The site includes a forum for employees to discuss progress towards the new Agreement, as well as regular newsletter updates.

Promoting constructive workplace relations

Ergon Energy continues to encourage and promote constructive workplace relations with our stakeholders in our industry unions.

To foster a reasonable and effective relationship, these unions had the opportunity to escalate concerns and outwork solutions through the Ergon Energy Consultative Committee, the Regional Consultative Committee and other consultative mechanisms as applicable. The frequency that these committees meet varies from monthly to quarterly.

All of the matters of dispute this year were resolved through workplace level negotiation, the grievance and disputes settlement procedure and Fair Work Australia.

Our blue and white collar workforces are represented by: the Australian Municipal, Administrative, Clerical and Services Union (AMACSU); the Automotive, Metals, Engineering, Printing and Kindred Industries Union Queensland (AMWU); the Association of Professional Engineers, Scientists and Managers, Australia (APESMA); the Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia (ETU Division); and, the Construction, Forestry Mining and Energy Union (Mining and Energy Division Queensland) (CFMEU).



Area Operations Manager Charlie Casa recognised the Normanton depot's 13 years without a lost time injury. Here he is pictured with Normanton Technical Serviceperson Rob Poulton, Powerworker Ron O'Brien, TSP Paul Danaher and Work Group Leader Graeme Regan. This result has been achieved despite operating across the Gulf in some of the toughest terrain and most variable seasonal conditions in Queensland.

THE WORKFORCE PROFILE

	Power Worker		Technical Service-person		Supervisor		Electrical System Designer/ Advisor		Para-Professional		System Operator or Controller		Administrative employee		Professional and Managerial		Senior Manager		TOTAL		
Examples of positions included in these classifications	Power Station Attendant		Electrical Fitter		Work Group Leader		Electricity Systems Designer		Substation Design		Network Controller		Personal Assistant		Area Operations Manager		General Manager				
	Power Worker		Live Linesperson		Scheduler		Estimating Officer		Para-professional		Network Operations Officer		Meter Reader		Business Analyst		Group Manager				
	Team Member Warehouse & Distribution		Apprentice Distribution Powerline		Technical Trainer & Assessor		Trainee Electricity Systems Designer		Civil Technical Officer				Project Coordinator		Trader		Executive General Manager				
									Asset Inspection Auditor				Customer Care Representative								
Year	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	
All Employees	282	291	1,282	1,268	371	367	103	98	552	574	62	63	1,071	1,071	847	964	60	56	4,630	4,752	
By Region																					
Northern	133	135	494	497	143	143	34	32	234	245	30	31	393	393	348	400	18	14	1,827	1,890	
Central	60	65	311	302	100	92	30	29	181	180	32	32	338	345	186	210	10	11	1,248	1,266	
Southern	73	74	412	412	110	112	39	37	127	138	0	0	241	232	106	122	7	8	1,115	1,135	
Brisbane	16	17	65	57	18	20	0	0	10	11	0	0	99	101	207	232	25	23	440	461	
By Gender																					
Female	3	3	6	7	4	5	6	5	43	46	0	0	815	821	247	302	8	8	1,132	1,197	
Male	279	288	1,276	1,261	367	362	97	93	509	528	62	63	256	250	600	662	52	48	3,498	3,555	
By Age																					
<25	3	4	242	221	2	0	17	10	37	38	0	0	92	91	21	18	0	0	414	382	
25 ≤ 35	41	43	398	410	51	53	26	28	140	156	12	9	332	325	175	205	0	0	1,175	1,229	
35 ≤ 45	61	63	274	274	118	115	20	18	138	139	26	26	254	263	283	329	12	10	1,186	1,237	
45 ≤ 55	87	92	245	230	132	118	24	26	142	138	18	21	248	239	257	292	35	34	1,188	1,190	
55 ≤ 65	80	79	112	121	64	74	16	16	86	91	6	5	131	139	104	111	13	12	612	648	
65 +	10	10	11	12	4	7	0	0	9	12	0	2	14	14	7	9	0	0	55	66	

Note: These figures include permanent, fixed term, casual employees and apprentices as at 30 June not Full Time Equivalents.



Hannah Gardner, is participating in our three-year graduate development program, rotating through the customer-focused areas of the business to gain the experience she needs to develop her career. (p 52)

In addition to meeting our corporate responsibilities towards our people, we also see environmental performance as a key responsibility and central to being a high performance organisation.

PROTECTING LOCAL ENVIRONS

Ergon Energy is committed to leadership in environmental and cultural heritage performance. We promote compliant, responsible and sustainable environment and cultural heritage operating principles and practices. Through these performance drivers we aim to show leadership for the benefit of current and future generations.

Building cultural heritage awareness

Throughout 2010/11, we have focused on giving effect to our pledge to be a leader in cultural heritage. This commitment, given our state-wide presence, is key to recognising the diverse cultural heritage artefacts found in our region, understanding when to consult with Indigenous representatives and, ultimately, minimising the impact of our works.

For greater business visibility and procedural representation, as part of ISO 14001, cultural heritage has been embedded in the new health, safety and environment integrated management system. [p 45] We have also expanded the cultural heritage information and photographic image library on our company intranet to help build employee knowledge in this area.

To give employees easy access to current and required heritage information from one platform, a dedicated data layer has been created in our Geographic Information System. This data is being upgraded through the procurement of cultural heritage-related data sets that cover the area across the border south of Stanthorpe and into New South Wales where we have network assets and by the addition of additional Indigenous cultural heritage data sets from the Queensland Government's Department of Environment and Natural Resources.

Working sensitively to protect biodiversity

With our stated undertaking being to protect the environment, preserve biodiversity and support nature conservation, we have delivered programs in the areas of biodiversity protection, bushfire mitigation and weed control.

We have continued our powerline corridor mapping program to ensure minimal impact from the operation of our infrastructure located in environmentally sensitive areas, including national parks, state forests, nature refuges and world heritage areas.

Since 2006, we have carried out ecological surveys of 2,100 kilometres of powerlines containing 190 protected sites – only around 500 kilometres of line remain to be mapped by our target of 2013. The success of this mapping in identifying threatened species and weeds is illustrated in the case study on page 59.

During the year we consulted extensively with the Queensland Government to ensure the organisation was taking the appropriate steps to protect biodiversity in areas not covered in our existing codes of practice for protected areas. Operationally, we are securing 60 hectares of protected vegetation to offset 51 hectares of clearing required for Agnes Waters and other Wide Bay infrastructure projects. This will protect endangered and of-concern vegetation, essential habitat for koalas and the vulnerable wallum froglet.

As part of protecting biodiversity, we take measures to minimise the impact when planning our work. On one line route, upon finding two plant species with a conservation status of 'vulnerable', we were able to avoid damage to one species. Protection of the other species, *Rhaponticum australe* (Austral Cornflower) involved relocating plants and propagating several hundred plants by Greening Australia. Eighty of these plants were established adjacent to the relocated individuals to satisfy offset obligations. Those remaining were distributed to community and school groups to raise the profile of the species and increase population numbers around the local area.

Targeting bushfire mitigation

To assist in improving the electricity industry's bushfire mitigation activities and plans, we participated in a Queensland Government committee set up to look at the Victorian Government's response to recommendations from the Victorian Bushfire Royal Commission.

Although the risk of bushfires in Queensland is lower than in Victoria, we are reviewing our overall strategy and maintenance practices. This will help us better position ourselves to respond to bushfires and reduce the likelihood of our assets initiating fires in the future.

Ergon Energy is using improved data on bushfire hazards, received from the Queensland Fire and Rescue Service, to target our efforts. We have improved hazard classification so that the specific location of an asset drives the maintenance practices applied.

Weed control activities increase

Weeds are a key area of environmental concern, with their growth rates across Queensland accelerating after state-wide flooding and the impacts of Cyclone Yasi. As a result, weed control activities relating to our construction and maintenance programs increased significantly this year.

This included addressing the invasive and potentially destructive weed *Stevia ovata*. Known as Candy Leaf, it was identified by Ergon Energy around powerlines near Ravenshoe in Far North Queensland on 2009. The treatment of the infestation, in conjunction with Powerlink Queensland, Energex, Biosecurity Queensland and Tableland councils, was highly praised by the regulatory authorities for its speed and effectiveness.

Our weed management strategy aims to limit the introduction of declared plants and priority weeds into new areas of the network and prevent the spread of existing infestations through risk assessment, the deployment of site-specific Environmental Management Plans and compliance with vehicle wash-down protocols.

Details of our environmental incidents are provided on page 78.

BEST PRACTICE USE OF RESOURCES

Ergon Energy is committed to its role in conserving the world's resources by adopting efficiency and waste minimisation initiatives and, more broadly, through operational improvements and better asset investment decisions.

This year the works program saw the purchase of more than 10,300 new poles (compared to over 5,760 in 2009/10) and more than 2,120 transformers (compared to over 1,600 in 2009/10) – the increase was partly due to the massive network rebuild required after Cyclone Yasi.

Our use of resources is largely related to the scale of our capital infrastructure program, making our demand management efforts as critical to improving resource utilisation (whether materials or energy) as it is to minimising cost pressures for our customers. Demand management is at the centre of our strategic plan, core to being customer-driven (p 16), asset management excellence (p 25) and our climate change response. (p 33)

Following the roadmap to sustainable supply

Ergon Energy is looking to advance corporate, community, local industry and environmental sustainability outcomes through its procurement activities.

We make procurement decisions in line with the principles in a sustainable procurement roadmap developed, with our involvement, by an electricity industry consultative committee. This has led to the adoption of a range of sustainable procurement business rules that are helping to support sustainability, achieve value for money and reduce costs through recycling and end-of-life disposal methods.

One of the biggest resource-related challenges we face is the future availability of timber power poles. More than five million timber power poles are in use in Australia, and demand is increasing.

To ensure a sustainable and secure power pole pipeline, we are now growing our own renewable supply. We are doing this through our own native forests where sustainable logging, and revegetation, along with broader environmental benefits can go hand in hand.

To take this strategy to maturity we are undertaking a detailed lifecycle assessment of our pole population, specifically defect rates, to enable us to more accurately model requirements and supply into the future.

We currently have 3,700 hectares of forest under management and we are very close to harvesting our first power poles. The Silver Lining Foundation, established by the National Indigenous Centre for Enterprise Development, is playing a role in the management of this acreage, assisting with thinning, weed control and revegetation.

This year we progressed negotiations for a number of new properties at various centres in South East Queensland and Northern New South Wales to continue to diversify our property portfolio.

Ergon Energy is also investigating the potential for recycling the large annual number of decommissioned power poles that are either left in the field, given away or discarded as waste to landfill. We are also working with Forest and Wood Products Australia and the Queensland Government to test the suitability of different plantation hardwood species as power poles and to find new ways to improve the decay and termite resistance of the eucalypt timbers that we use.

We are also undertaking detailed lifecycle analysis of our power stations to better manage these assets.

Improving waste management

As part of our day-to-day activities we manage both industry specific and general waste. In replacing overhead conductors, for example, we generate waste from discarded conductors and cable drums holding the new conductor through to food packaging for workers' meals.

Ergon Energy is moving towards reducing waste – through the application of the waste hierarchy *avoid, reduce, reuse, recycle and dispose* – to minimise the amount of waste sent for disposal to landfill. We are also considering offsets for the waste we generate as a corporate responsibility to not only reduce the impact of climate change on Queensland, discussed earlier, but also other environmental impacts.

Across our business this year, we recovered more than 870 tonnes of scrap metal, including copper, aluminium and steel for recycling (compared to 800 tonnes in 2009/10), and more than 315 tonnes of old transformers for recycling (530 tonnes in 2009/10) – providing an economic return of more than \$2 million. More than 369,000 litres of oil has been recovered from our assets and disposed of to licensed facilities. Of this, approximately 100,000 litres was processed for reuse as transformer oil.

Targeting green star rating

As part of our commitment to reducing our environmental footprint, our new buildings are being designed and built to the best-practice environmental green-star rating. (p 40) As well as cutting our energy use, as already discussed, this will help minimise our water consumption. The design features include building management systems (controls lighting, cooling and air ventilation); double-glazed windows; energy efficient appliances; on-site solar generation; and, rainwater collection tanks (providing water for gardens and toilets).

The other area where we are undertaking water management is in our stand-alone generation plant. In Birdsville, we operate a small geothermal power station that provides 80kW of power to the remote community – one of the few low-temperature geothermal power stations in the world. It draws from a free-flowing bore, which has existed for more than 75 years, into the Great Artesian Basin. After flowing through the heat exchanger and driving the generation process, the water is channelled into a cooling pond before being directed into the town's water supply and lagoon. Expansion plans (p 40) for the site this year led to extensive investigations into options for secondary water use. While no options have been identified yet, investigations will continue.

Ergon Energy also uses water from a dam filled with non-potable water from a nearby creek for evaporative cooling in our solar farm in Windorah. Our diesel power stations also use water, though to a much lesser extent.

Environmental mapping of more than 2,100 kilometres of our powerlines that traverse our national parks, state forests, nature refuges and world heritage areas – as part of our obligations under the Queensland Electrical Industry Code of Practice for the Maintenance of Electrical Corridors in Queensland Parks and Forests – has seen us identify and record valuable site-specific information about the plants, animals and habitats requiring protection.

This data has been used to develop detailed environmental management plans for each powerline corridor. These plans proved invaluable in our Cyclone Yasi response, enabling us to readily provide critical environmental information to field crews, many of whom had little experience in tropical areas prior to assisting in this response.

The corridor management plans, which are linked to our Geographical Information System, list the details of rare and threatened species in each area, as well as declared weeds or plants of concern, habitat features, safe places to carry out vehicle wash-downs and cultural heritage data. They also show designated access routes, watercourses and other environmental information.

SUSTAINABILITY IN ACTION

- The corridor mapping program to date has identified more than 55 species of endangered, vulnerable and near-threatened flora species, as well as 144 different weed species.
- More than 95 habitat features have been compiled, such as fallen logs, tree hollows and bird nests. Some of these are used by endangered species, such as the Julia Creek Dunnart and Mahogany Glider.
- The knowledge gained has led to the adoption of best-practice standards for the management of natural, cultural and aesthetic values within electricity corridors.



Through our mapping we have identified 144 different weed species from more than 1,100 individual records of weed infestations, including the first Australian recording of the weed *Stevia ovata* or Candy Leaf.



With an estimated population of only 1,500-2,000 Mahogany Gliders left, it is vital we operate with sensitivity in their habitat areas. Between the Cardwell Range and north of Tully, which was badly hit by Cyclone Yasi, we are helping restore nesting boxes and feeding stations for this endangered species.

Image sourced from Wikimedia Commons.

OUR ECONOMIC AND FINANCIAL PERFORMANCE

ready to add value

Ergon Energy is delivering economic value, within a sound corporate governance framework, both through our business success and the service we deliver. We also contribute economically through local employment and purchasing, and through the support of local economic development initiatives.

Ergon Energy's economic goals, articulated within our strategic plan, are around achieving our financial targets and a commercial return on assets by delivering operational efficiencies and increasing unregulated revenue in areas aligned with our core business. At the same time, through our strategic plan, we are working toward limiting increases in network charges to less than CPI over the long-term.

AN ABOVE TARGET PROFIT RESULT

Ergon Energy delivered above target financial results with a consolidated group Net Profit After Tax (NPAT) of \$321.6 million – above the \$300.7 million target agreed with the Queensland Government in our Statement of Corporate Intent – and an Earnings Before Interest and Tax (EBIT) of \$744.1 million (target of \$743.6 million). This saw our Return on Assets increase to 8.0%. [p 63]

The strength of our financial results was achieved while delivering an \$830.5 million capital works program, \$660.5 of which was to increase the capacity and improve the reliability of the network, and despite the scale of our response to the challenges of the storm season.

Our regulatory framework sets the revenue appropriate for the sustainability of our operations, including both a return on and return of the asset base, based on the prevailing economic conditions.

The increase in returns recognises the substantial investment made in the network over and above the amount allowed for in prior regulatory periods, together with the investment that will be made throughout the current period, as well as the operating costs associated with maintaining the network.

Ergon Energy's main operating entity, Ergon Energy Corporation Limited, achieved a NPAT of \$316.1 million, \$15.4 million above budget.

The financial results of our retailer, Ergon Energy Queensland Pty Ltd, were above expectations with an NPAT of \$73.9 million, primarily due to favourable performance relative to the industry benchmarked retail cost to serve. At the same time, there has been a reduction in the volume and cost of energy purchases.

The profit result was also supported by a commitment to meet our efficiency targets and deliver within the allowances of the regulatory determination. [p 17]

We are also growing non-regulated revenue through activities that support our core business. This has included the success of our subsidiary Ergon Energy Telecommunications Pty Ltd, which has continued to grow its wholesale telecommunications services with the supply high-speed data connectivity to the mining sector. [p 64]

HIGHLIGHTS

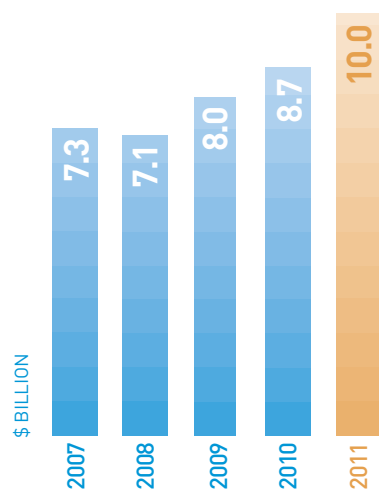
- Strategy set to limit rises to network charges
- Delivered above target profit result of \$321.6 million
- Unregulated revenue growing from diverse solutions
- Employed around 4,700 Queenslanders.



Following the delivery of two modular switch rooms to Northern Territory Power and Water Corporation at a site at Katherine, our Banyo workshop received several more orders for modular switch rooms. The modular switch rooms are just one source of unregulated revenue being realised by capitalising on our core business activity.

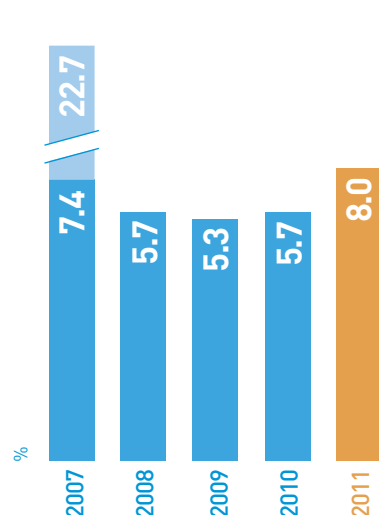
ASSET VALUE GROWS WITH INVESTMENT IN THE NETWORK

The massive investment in the network over recent years, and this year's \$660.5 million investment in the network, has ensured we have kept pace with demand and lifted our total asset value to \$10.0 billion.



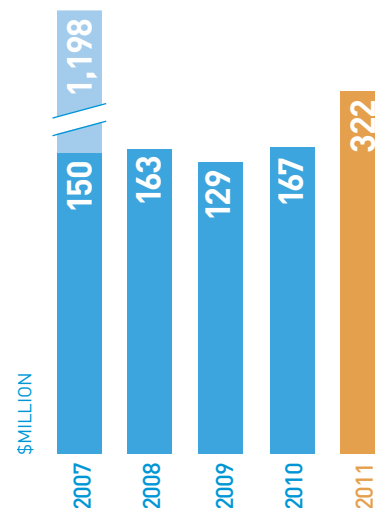
RETURN ON ASSETS NOW SET NATIONALLY

The increase in return recognises the investment made in the network over and above what was allowed for in the prior regulatory period, and the cost of capital, as determined by the AER. (p 63)



PROFIT RECOGNISES ASSET INVESTMENT

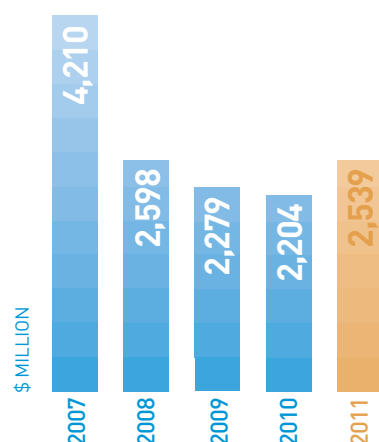
This year's \$321.6 million profit has allowed for a \$252.6 million dividend to the Queensland Government. This in part compensates the \$399.3 million Community Service Obligation payment made by the Government to cover the cost of supplying our customers in regional Queensland.



* The 2006/07 results include a significant contribution from the sale of our contestable retail operations that year.

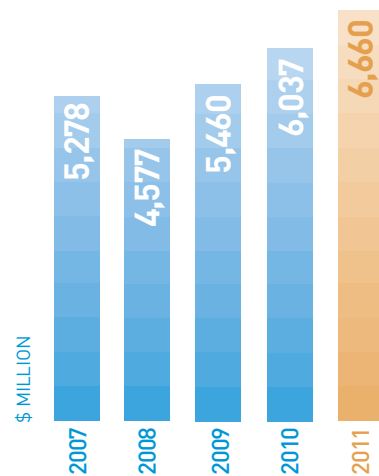
REVENUE INCREASED WITH BENCHMARKED SERVICE FEE

Ergon Energy revenue increased, primarily due to our retailer receiving a more cost reflective customer service fee. This fee is adjusted annually through a process that benchmarks the organisation's costs incurred to service our customer base.



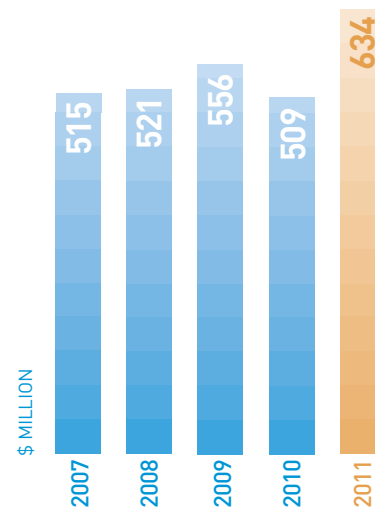
LIABILITIES GROW IN LINE WITH ASSET VALUE

Ergon Energy's total liabilities increased to \$6,660.0 million this year – up \$623.4 million in line with the growth in our total asset value. This has decreased our gearing at 56.6%.



EXPENDITURE REFLECTS CYCLONE RESPONSE

Despite expenditure being up on last year, due to the large scale response to the storm season, efficiency gains have seen the longer-term trend relatively stable despite business growth and escalating wages.



OUR FINANCIAL STATEMENTS EXPLAINED

This section explains the key line items from our financial statements that contributed to our profit result, detailed on the previous pages, and provides the definitions and trends for our financial performance ratios.

Where does our revenue come from?

Ergon Energy's total revenue and other income for the year was \$2,538.5 million, an increase of \$334.8 million compared to 2009/10.

Our revenue sources include energy sales of \$1,516.0 million, distribution revenue of \$223.3 million from our non-retail customers and customer contributions towards the electricity distribution network of \$112.2 million.

Ergon Energy also received a Community Service Obligation payment for 2010/11. This subsidy – this year totalling \$399.3 million – is compensation from the Queensland Government for the cost of servicing our electricity customers that is not covered by the revenue collected from customers through the state's uniform electricity tariff schedule.

Ergon Energy's regulated revenue, for the use of our electricity distribution network, is determined by the AER, and is recovered via the application of network charges to customers and embedded generators connected to the network. The charges are billed to both our retail business and the retailers of customers who have entered the contestable market in regional Queensland. The AER also regulates certain payments by our customers for capital contributions towards network extensions and other services.

What are our main expenditures?

Ergon Energy's operating expenses provide a significant economic contribution to Queensland. We employ around 4,700 Queenslanders – with total payroll costs of \$531.00 million – in addition to a large contractor base – with contract payments totalling \$143.3 million. Ergon Energy adheres to the State Purchasing Policy and encourages local sourcing.

Operating expenses amounted to \$634.0 million. This was 11.0% above budget and up \$125.4 million compared to last year, largely due to the scale of response required by the storm season, most notably Cyclone Yasi. However, expenditure over the longer-term is relatively stable despite business growth and escalating wages.

To supply our customers with electricity we incur a number of major expenses – for 2010/11 electricity purchases totalling \$577.8 million and the transmission network charges paid to Powerlink Queensland totalling \$268.4 million.

What assets do we own?

In 2010/11, Ergon Energy's total asset base increased in value by \$1,276.6 million to \$9,974.9 million. Property, plant and equipment are the major components of our asset base, at \$8,775.5 million, which includes mostly regulated electricity network assets.

Ergon Energy revalued its property, plant and equipment assets as at 30 June 2011, resulting in an increase of \$774.7 million. Ernst and Young were engaged to perform an independent income-based valuation of all asset categories with the exception of the isolated generation and distribution assets.

At the end of June 2011, \$279.2 million was held as cash, consistent with normal business operations.

FINANCIAL SUMMARY FOR ERGON ENERGY CORPORATION LIMITED (CONSOLIDATED)

	2010/11	
		\$million
OUR REVENUE		
Revenue and Other Income	^	2,538.5
OUR EXPENDITURE		
Network/Electricity Purchases	∇	-846.2
Operating Expenses	^	-634.0
Depreciation Expense	^	-314.2
Finance Charges	^	-293.7
OUR PROFIT		
Earnings Before Tax	^	450.4
Tax Expense	^	-128.8
Net Profit After Tax	^	321.6
OUR ASSETS		
Current Assets	∇	1,011.7
Non Current Assets	^	8,963.2
Total Assets	^	9,974.9
OUR LIABILITIES		
Current Liabilities	∇	967.1
Non Current Liabilities	^	5,692.9
Total Liabilities	^	6,660.0
Net Assets	^	3,314.9
INVESTMENT		
Total Capital Investment	^	830.5
DIVIDENDS		
Dividends Provided For	^	252.6
Dividends to Net Profit After Tax	∇	79%

FINANCIAL RATIOS

	2010/11	
Return on Average Assets		
Reflects the efficiency of our assets to generate earnings. = Earnings Before Interest & Tax/Average of opening & closing asset balances x 100.	^	8.0%
Return on Average Equity		
This represents the returns generated on the money the Queensland Government, as our shareholder, has invested in Ergon Energy. = Net Profit After Tax/Average of opening & closing equity x 100.	^	10.8%
Gearing (including reserves)		
Our gearing demonstrates the prudential level to which our activities are funded by owner's funds versus borrowed funds. = Debt/Debt + Equity x 100.	∇	56.6%
EBITDA to Interest Cover (times)		
Shows our ability to adequately meet the interest on current borrowings. = Earnings Before Interest, Tax, Depreciation & Amortisation/Finance charges.	^	3.6x

1. The 2006/07 results include a significant contribution from the sale of our contestable retail operations that year.
2. \$370.6 million relates to the return of the proceeds on the sale of Powerdirect.
3. Return on average assets ratio revised based on recalculated total assets.

2009/10	2008/09	2007/08	2006/07 ¹
\$million	\$million	\$million	\$million
2,203.7	2,279.1	2,598.3	4,209.6
-925.9	-1,037.7	-1,419.1	-1,903.4
-508.6	-555.7	-521.1	-514.9
-290.9	-277.8	-248.0	-251.4
-243.4	-223.4	-180.1	-253.9
234.9	185.5	230.0	1,283.7
-68.4	-55.2	-67.1	-85.6
166.5	129.3	162.9	1,198.1
1,128.2	1,030.9	779.2	1,613.2
7,570.1	6,980.4	6,321.3	6,102.6
8,698.3	8,011.3	7,100.5	7,715.7
1,035.0	777.9	659.9	1,475.5
5,001.9	4,682.2	3,916.8	3,802.4
6,036.9	5,460.1	4,576.7	5,278.0
2,661.4	2,551.2	2,523.8	2,437.7
806.1	844.3	841.4	806.5
137.5	116.6	118.4	955.4 ²
83%	90%	73%	80%

2009/10	2008/09	2007/08	2006/07 ¹
5.7%	5.3%	5.7%	22.7% ³
6.4%	5.1%	6.6%	47.7%
59.8%	59.1%	54.3%	50.6%
3.2x	3.1x	3.7x	7.0x

This commentary is not intended to be comprehensive. For full disclosures please refer to the full Annual Financial Statements for Ergon Energy Corporation Limited and its Controlled Entities available online at www.ergon.com.au/annualreport

What do we owe (our liabilities)?

Ergon Energy's total liabilities increased to \$6,660.0 million this year with funds drawn down used for our capital works programs and cash flow requirements. The largest individual liability is our interest bearing loan with Queensland Treasury Corporation of \$4,314.7 million.

The second largest liability is the net deferred income tax liability of \$1,345.4 million. Some of our other key liabilities include current payables due to creditors (\$110.1 million), current employee benefits (\$143.9 million) and other financial liabilities (\$154.8 million), mainly from hedging and trading activities.

Ergon Energy's long-term corporate credit rating has been maintained at AA. This credit rating is influenced by the global economic environment and its impact on the Queensland Government's expected revenue.

What was our capital investment?

Ergon Energy delivered an \$830.5 million capital works program (compared to \$806.1 million in 2009/10). The regulated component of our capital works program was within the five-year regulatory control period allowance – this included the \$660.5 million invested in increasing the capacity and improving the reliability of the network. (p 24)

What return do we give to our owners?

The strength of Ergon Energy's profit result will enable the payment of significant dividends of \$252.6 million in 2011/12, to our shareholding Ministers and through them to the Queensland Government. This payment, ultimately, benefits the people of Queensland.

Dividend Policy – Ergon Energy's dividend policy requires the Board to recommend, taking into account the investment return its shareholders expect, a dividend of 80% of profit adjusted for unrealised fair value gains or losses on financial instruments. This is paid on the basis of its shareholders agreeing to provide the necessary funding for approved projects, the maintenance of Ergon Energy's approved capital structure and the organisation's operational viability.

OUR CORPORATE GOVERNANCE STATEMENT

ready and accountable

Ergon Energy operates within a corporate governance framework that provides a comprehensive process for managing the business with integrity and in the best interests of our stakeholders. This is supported by ethical leadership, risk assessment and performance management.

Ergon Energy's corporate governance practices have been developed in line with the *Australian Stock Exchange (ASX) Corporate Governance Principles and Recommendations*, as well as the *Queensland Government's Corporate Governance Guidelines for Government Owned Corporations* – an overview of our governance practices in line with these principle follows. We follow 'if not, why not' reporting practices identifying any recommendations we have not followed, explaining our position and how our practices accord with the 'spirit' of the relevant Principle to show that we understand the relevant issues and have considered the impact of our approach. Additional information is available online at www.ergon.com.au/annualreport and www.ergon.com.au/about-us/company-information/corporate-governance

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Our company structure

Ergon Energy's principal operating companies during 2010/11 were Ergon Energy Corporation Limited and its subsidiary, Ergon Energy Queensland Pty Ltd.

Ergon Energy Corporation Limited, a wholly Government-owned corporation, is governed by the provisions of the *Corporations Act 2001*, except as otherwise provided by the *Government Owned Corporations Act 1993*.

Ergon Energy Corporation Limited's responsibilities under its Distribution Authority and the *Electricity Act 1994 (Qld)* are to allow, as far as practical, connection to its supply network on fair and reasonable terms and to operate, maintain and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply of electricity to its customers.

Ergon Energy Queensland Pty Ltd provides electricity retail services to customers in Ergon Energy's retail area. As a Government-owned 'non-competing' electricity retailer, Ergon Energy Queensland Pty Ltd can only offer customers the government-set electricity tariffs (notified prices) as determined by the QCA.

Ergon Energy's other subsidiary is Ergon Energy Telecommunications Pty Ltd, trading as Nexium Telecommunications – a licensed telecommunications carrier offering wholesale high-speed data capacity. Nexium's business has continued to grow its wholesale services to external commercial business during 2010/11. It has also delivered a range of internal services for Ergon Energy's operational communications network, SCADA network and Wide Area Network diversity project. During 2010/11, a change to Nexium's Constitution was approved by the shareholding Ministers allowing Nexium to sell services directly to government agencies and Government-owned corporations as a telecommunications retailer.

HIGHLIGHTS

- Conducted ethics and fraud survey
- Commenced assurance map/ three-year internal audit plan
- Reviewed the business insurance program
- Employee and Industrial Relations Plan approved for upcoming Union Certified Agreement
- Established regular Board level diversity program reporting.

The activities of the subsidiary companies are overseen by their own boards, which in the case of Ergon Energy Queensland Pty Ltd consists of senior executives of the parent company and for Ergon Energy Telecommunications Pty Ltd directors of the parent company.

These subsidiary Boards, which meet regularly, have adopted the Directors Code of Conduct applicable to the Ergon Energy Corporation Limited Board and applicable Ergon Energy management and governance policies as amended from time to time.

Ergon Energy Corporation Limited is also a shareholder in a joint venture with Energex Limited – SPARQ Solutions Pty Ltd, which provides Information and Communication Technology (ICT) solutions and services to both Ergon Energy and Energex. The focus of the joint venture this year has been to continue to support the business’s strategic priorities and help reduce operating costs, with a focus on integrating ICT into the business, delivering effective services efficiently and improving business performance through ICT. A Business and Information Blueprinting Program has been initiated to develop project proposals and business cases for the information enablement phase of the five-year transformation program. This program, discussed on page 51, aims to ensure that the decisions on the systems investments are business-driven, align with the business strategy and deliver maximum value.

The Board of SPARQ Solutions Pty Ltd has a Corporate Governance Manual, which includes a Code of Conduct based on those approved by its shareholders. Detailed shareholder agreements guide the governance of this company with its Board, comprising executives from both Ergon Energy Corporation Limited and Energex Limited, who meet on a quarterly basis.

THE BOARD OF ERGON ENERGY CORPORATION LIMITED

Ergon Energy’s Board of Directors is responsible for the corporate governance of the organisation. Directors of the Board are appointed by Queensland’s Governor-in-Council, in accordance with the *Government Owned Corporations Act 1993*, for a set term of office. This acts as a review mechanism for enhancing Board performance, allowing new members to be selected on a regular basis for their expertise and ability to contribute on behalf of our regional Queensland customer base.

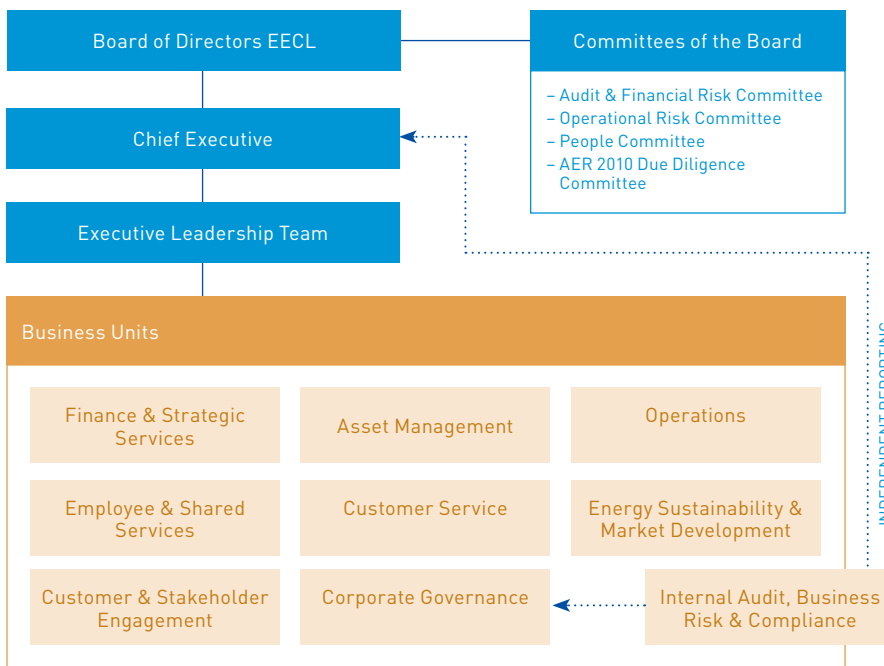


Directors received a tour of facilities at Seabird Aviation, Hervey Bay, where aircraft are being manufactured to support the ROAMES project.

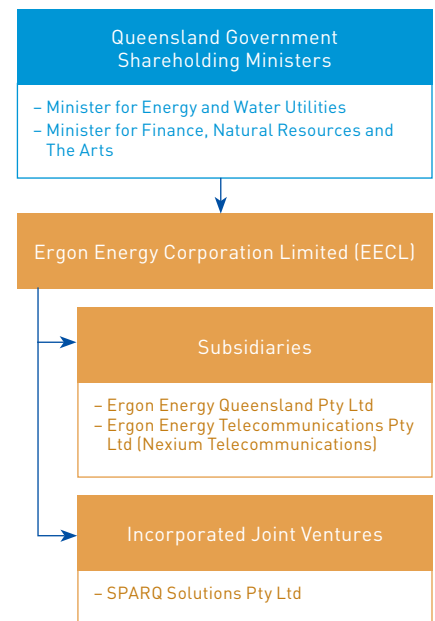
Tony Mooney who resigned in July 2010 was reappointed to the Board in November 2010, the remaining Directors were appointed prior to the year in review. The Board has overall responsibility for the management of the company’s business and affairs. It delegates functions to management, however, specifically reserves certain matters for the Board. These matters are outlined in a Board Charter and a policy document; Delegation of Powers. The Board Charter can be found on our website.

continued on page 70

OUR ORGANISATIONAL STRUCTURE



OUR COMPANY STRUCTURE



THE BOARD OF DIRECTORS



DR RALPH CRAVEN
BE PhD FIEAust FIPENZ FAICD CPEng

CHAIRMAN
Independent Non-Executive Director

One of the industry's most respected and in-demand figures, Dr Craven has a professional background which encompasses the energy and resources sector, commodity trading and regulatory complexities, bringing formidable expertise in the international energy industry to the Chairmanship. From 1995 until 1997, he was the CEO of the energy retailing company established to enable Ergon Energy's predecessors to enter the competitive electricity retail markets, which in 1999 was incorporated into what is Ergon Energy today. From 2003 until 2007, Dr Craven was CEO of the New Zealand Government-owned Transpower, which owns and manages the National Grid and also operates the wholesale electricity market. He was Executive Director of NRG Asia-Pacific, responsible for its investments in the Asia-Pacific region, and served Shell Coal as General Manager of its international power and energy portfolio.

For a four-year period to the end of 2007, Dr Craven was Chair of d-cypha Trade Ltd, a company which has exclusive management rights to all Sydney Future Exchange energy-related futures and options products used by participants in the Australian National Electricity Market. Dr Craven is a board member of the International Electrotechnical Commission, which is the leading global organisation that prepares and publishes international standards for all electrical, electronic and related technologies. Dr Craven is Chair and independent non-executive director of Tully Sugar Limited and non-executive director of Windlab Systems Pty Ltd. He is also a director of Ergon Energy Telecommunications Pty Ltd and a member of all of Ergon Energy's Board Committees.

JOHN BIRD
FCPA FAICD FTIA FAIST

DEPUTY CHAIRMAN
Independent Non-Executive Director

As a Registered Company Auditor, Mr Bird provides considerable experience and direction to Ergon Energy in his role as Deputy Chairman and Chairman of the Board's Audit and Financial Risk Committee, as well as Chairman of the AER 2010 Due Diligence Committee. Mr Bird is also a director of Ergon Energy Telecommunications Pty Ltd. He was formerly a Managing Partner in Brown and Bird Certified Practising Accountants in Mackay. Mr Bird is Chair of the Queensland Labor Group of Companies and of ESI Financial Services Pty Ltd and is Deputy Chairman of Electricity Supply Industry Superannuation (QLD) Ltd. He previously served as Deputy Chairman of the electricity retailer Ergon Energy Pty Ltd for a period of seven years.

	First Appointed	Reappointment Date	Current Term of Appointment	Term in Office To Date
Dr Ralph Craven	1 October 2008		3 years	3 years
John Bird	9 November 2006	1 October 2010	3 years	5 years
Susan Forrester	1 October 2008	1 October 2010	3 years	3 years
Gary Humphrys	1 October 2009		3 years	2 years
Wayne Myers	5 July 2001	1 October 2008	3 years	10 years
Helen Stanton	1 July 2005	1 October 2010	3 years	6 years
Tony Mooney	1 October 2008	1 November 2010*	3 years	2 years

*Tony Mooney resigned 20 July 2010 and was reappointed on 1 November 2010 under the same Term of Appointment.



From far left to right: Dr Ralph Craven, John Bird, Susan Forrester, Gary Humphrys, Wayne Myers, Helen Stanton & Tony Mooney.

SUSAN FORRESTER
EMBA BA LLB (Hons) FAICD

Independent Non-Executive Director

Originally trained as a banking and finance lawyer, Ms Forrester brings to the Board more than 20 years of commercial experience in the legal, governance and human resource areas, spanning the public and private sectors. This experience was gathered while in executive management roles in corporate treasury and professional services firms (legal, consulting and architecture) during which time she completed an Executive MBA with Melbourne Business School, specialising in change management and strategy. Ms Forrester serves as a non-executive director on the Boards of Shine Lawyers Ltd (where she serves on their Audit and Risk Committee), Gold Coast Parklands and the Brisbane Festival Pty Ltd. Ms Forrester is the practice leader of the strategy and executive practices of the corporate governance consultancy Board Matters Pty Ltd. She is also a member of Ergon Energy's People Committee and Audit and Financial Risk Committee.

GARY HUMPHRYS
CA GAICD

Independent Non-Executive Director

Mr Humphrys brings more than 35 years of experience in the energy and mining industries to the Board. A chartered accountant, he has held senior executive roles in both the private and public sectors across a range of disciplines, including finance and accounting, treasury, taxation, IT, procurement, risk management and audit. In recent years, Mr Humphrys has undertaken Board and related committee roles in the water, energy, mining and health industries. He is currently Chairman of the SEQ Water Grid Manager and a director of St Vincent's Health Australia Ltd. He is a member of Ergon Energy's Audit and Financial Risk Committee, as well as the People Committee.

WAYNE MYERS
MAICD Independent

Non-Executive Director

Mr Myers is currently the Managing Director of Dinorden Pty Ltd – a business consulting service. He has worked in the Information Technology and Telecommunications industry for more than 30 years. Mr Myers is Chairman of Logan Development Working Group and Australian Water (Queensland) Pty Ltd. Mr Myers is a member of Ergon Energy's AER 2010 Due Diligence and Operational Risk Committees and Chair of the People Committee. Mr Myers is also Chairman of Ergon Energy Telecommunications Pty Ltd.

HELEN STANTON
BE GAICD

Independent Non-Executive Director

Ingham-based engineer Ms Stanton is an independent business improvement consultant, specialising in strategy implementation, business process analysis and change management. Previously a Senior Operations Engineer and Six Sigma Leader at BHP Billiton, she has had responsibilities ranging from managing major engineering projects to coordinating business improvement and strategy development. Ms Stanton is a member of the Australian Institute of Mining and Metallurgy and Australian Institute of Company Directors. She chairs Ergon Energy's Operational Risk Committee and is a member of Ergon Energy's AER 2010 Due Diligence Committee.

TONY MOONEY
BEEd BA (Hons) FAICD

Independent Non-Executive Director

Mr Mooney brought extensive experience in infrastructure, economic development, community engagement and regional government to Ergon Energy's Board. Mr Mooney served the Townsville City Council as an elected representative for more than 30 years. During his 19 years as Mayor, Mr Mooney oversaw a period of unprecedented sustainable urban and infrastructure development which transformed Townsville into a booming regional centre. As Mayor, he championed a partnership with Ergon Energy which helped win the bid to be part of the Australian Government's Solar Cities Program. He previously served on the Local Government Superannuation Board and as a director of the Port of Townsville and NQ Water. He is a member of Ergon Energy's Operational Risk Committee.

OUR EXECUTIVE LEADERSHIP TEAM



IAN McLEOD

FAIM

CHIEF EXECUTIVE

Ian McLeod is responsible for the business's overall direction and priorities and, ultimately, for meeting the financial and service delivery expectations of our customers, the community and our shareholders. Since he joined the business in 2000, Ian has brought extensive electricity industry experience to Ergon Energy: experience gained through management roles in the private contracting industry Powercor Australia and the State Electricity Commission of Victoria. With a strong focus on strategy and safety, over recent years Ian has been instrumental in the development and delivery of Ergon Energy's customer service, energy conservation, demand management and asset excellence objectives. Ian is a director of Energy Supply Association of Australia and is Chairman of Ergon Energy Queensland Pty Ltd and SPARQ Solutions Pty Ltd.

JOHN HOOPER

BEcon (Accounting) CPA FAIM

CHIEF FINANCIAL OFFICER

John Hooper is responsible for managing the profitability and sustainability of all aspects of the business through the provision of finance, asset owner, strategy development and regulation functions. John has significant accomplishments in financial and general management. He has worked for a diverse range of businesses, including large public corporations and private businesses. John is a director of Ergon Energy Queensland Pty Ltd and SPARQ Solutions Pty Ltd.

NEIL LOWRY

BEng GradDip Mgmt RPEQ

EXECUTIVE GENERAL MANAGER, ASSET MANAGEMENT

Neil Lowry is responsible for Ergon Energy's asset management strategy and network performance, as well as for defining the program of work across the distribution business to maximise the efficient and effective management of its assets. Neil has extensive engineering, operational, retail, customer service and management experience, having worked in the Queensland electricity industry for more than 36 years. Neil is very active in the Central Queensland community with a long involvement in training and education.

PETER BILLING

EXECUTIVE GENERAL MANAGER, OPERATIONS

Peter Billing is responsible for the operational effectiveness of Ergon Energy's distribution business, including all aspects of delivering the program of work that effectively brings Ergon Energy's asset management planning to fruition. Peter brings a wealth of industry, leadership and change management experience from trade roles to management. He was directly involved in the transformation of the electricity industry in South Australia through deregulation and the associated organisational restructuring. Peter is committed to the regional Queensland community; he is on the boards of a number of regional development bodies and Energy Skills Queensland.

PHILIP KEOGAN

BA (Hons) and GradDipAppFin F Fin

EXECUTIVE GENERAL MANAGER, ENERGY SUSTAINABILITY AND MARKET DEVELOPMENT

Philip Keogan is responsible for leading the development and deployment of Ergon Energy's non-traditional 'smart' network and 'beyond the meter' energy solutions. Philip's focus is on finding sustainable ways to provide our customers with a dependable, affordable electricity supply into the future. He brings considerable product development and strategic investment experience to Ergon Energy's management team, gained from a career with senior positions in a number of leading infrastructure service providers, including Jemena and Optus.



From far left to right: Ian Mcleod, John Hooper, Neil Lowry, Peter Billing, Philip Keogan, Mal Leech, Roslyn Baker, Justin Fitzgerald, Graeme Finlayson, Peter Effeney

MAL LEECH

GradDipBusAdmin BEng

EXECUTIVE GENERAL MANAGER, EMPLOYEE AND SHARED SERVICES

Mal Leech is responsible for shared services and 'people-related' functions including health, safety and environment, human resources, industrial relations, training and development, organisational development, change management and program management of business improvement initiatives. Mal Leech has more than 11 years' industry experience following a career in management consulting, human resources and engineering.

ROSLYN BAKER

BCom MBA GAICD

EXECUTIVE GENERAL MANAGER, CUSTOMER SERVICE

Roslyn Baker is responsible for service strategy and delivery to customers, including the operations of our major customer interface, the National Contact Centre; and for Ergon Energy's franchise retail operations in the National Electricity Market. Roslyn has considerable business and customer service experience. She was previously Chief Executive Officer of the Australian Technical College North Queensland and has held numerous senior positions representing the business sector, establishing franchise networks and within petroleum retailing.

JUSTIN FITZGERALD

MComm GradDipStats BBus MAMI

EXECUTIVE GENERAL MANAGER, CUSTOMER AND STAKEHOLDER ENGAGEMENT

Justin Fitzgerald is responsible for customer and other stakeholder engagement, promoting customer and stakeholder understanding and insights throughout the business and championing the brand and corporate reputation. Justin brings extensive industry knowledge and a strong appreciation of stakeholder expectations to Ergon Energy's strategic challenges and social responsibility agenda, especially in the area of disaster management and the business's response to climate change. Justin is a director of Ergon Energy Queensland Pty Ltd and SPARQ Solutions Pty Ltd.

GRAEME FINLAYSON

BA(Hons)/LLB(Hons) MBA

GENERAL COUNSEL AND COMPANY SECRETARY

Graeme Finlayson is responsible for managing the requirements of the Ergon Energy Board, providing risk management and legal services and monitoring the high level compliance functions across Ergon Energy. Graeme joined Ergon Energy in 2008 and brings with him broad-ranging private and public sector experience. Graeme has held senior in-house commercial legal roles and worked with some of Australia's top national law firms. In addition to his formal qualifications as a company secretary, Graeme has held senior executive positions, operational roles and directorships in some of Australia's largest and fastest growing organisations, including Queensland Rail and the Gold Coast City Council.

PETER EFFENEY

BEngHons BSc MBA GAICD

CEO SPARQ SOLUTIONS

Peter Effeney is the Chief Executive Officer of SPARQ Solutions, Ergon Energy's Information and Communications Technology (ICT) joint venture with Energex. His responsibility on the executive leadership team is to ensure that Ergon Energy's ICT strategy and the ICT services that SPARQ Solutions provides are aligned with the business's strategic priorities and deliver maximum value. Prior to leading the formation of SPARQ Solutions, Peter held various management, engineering and ICT roles within Ergon Energy.

Senior management performance

The Board sets Key Performance Indicators (KPIs) for the Chief Executive, which link to the strategic objectives of the organisation; these are formulated based on the Statement of Corporate Intent. (p 8) The Board then reviews the performance of the Chief Executive and the group based on the achievement of these KPIs. During the reporting period, a performance evaluation of senior executives was conducted in accordance with this process. This process cascades down through the organisation.

Representing Ergon Energy

The importance placed on maintaining an in-depth understanding of our operations, and being able to represent regional Queensland, is also reflected by the commitment of the Board and management to visiting different parts of Ergon Energy's service area. During 2010/11 visits were made to Queensland's Wide Bay and Burnett region, Mackay, Townsville and Toowoomba with visits to Mackay Sugar, Racecourse Mill, Hay Point, Louisa Creek, Cherbourg community, Wondai Silver Lining Nursery, Kingaroy depot, Hervey Bay new depot site and Seabird Aviation. These trips have allowed engagement with Ergon Energy's employees and business partners, as well as with local community representatives.

The Executive Leadership Team

The Executive Leadership Team (ELT) is profiled on page 68. There has only been one change this year. With the departure of Jim Chisholm, Philip Keogon was recruited from outside the organisation to the position of Executive General Manager, Energy Sustainability and Market Development.

In line with the cultural goals set for the organisation, this year the ELT has had a focus on developing as a high performing team. They have also been focused on realising the value from the changes made as a result of the Organisation Design Review in late 2009, to better enable the business to efficiently and effectively deliver benefits to its customers, shareholders and community, now and in the future.

The Chief Executive Officer of SPARQ Solutions has remained a member of the ELT. Representation at this level is ensuring that technology solutions are fully integrated with Ergon Energy's strategic imperatives.

Investment Review Functions

For the development and prioritisation of investment programs the ELT is supported by internal approval processes, including the Investment Review Committee (IRC) and the Network Investment Review Committee (NIRC).

The IRC operates at a business-wide, strategic level to ensure an appropriate balance between asset investments, customer service, product and asset research and development and business change within the investment portfolio. The NIRC facilitates the efficient and effective management of all network asset-related capital and operating expenditure in accordance with the Asset Management Plan.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

All of the Directors of the parent company and Ergon Energy Telecommunications Pty Ltd, including the Chairman, are non-executive directors. The independence of Directors is assessed by the Board against the five criteria listed in the *ASX Corporate Governance Principles and Recommendations*. When making the assessment, materiality is judged on a case-by-case basis by reference to each Director's individual circumstances. All of the Directors are considered by the Board to be independent.

To assist with the discharge of Directors' duties, the Board has established committees to consider and respond to particular issues faced by Ergon Energy, many of which are around regional Queensland sustainability challenges, such as workplace health and safety, community safety, environmental matters, disaster management and other people issues, such as Equal Employment Opportunities.

The Audit and Financial Risk Committee, Operational Risk Committee, People Committee and the AER 2010 Due Diligence Committee each operate according to a charter. These charters are summarised, along with a statement of the key activities undertaken by each committee during 2010/11, where the committees are discussed in this statement. The membership of each committee and the number of meetings attended by each Director, while in office, are shown in the table following.

The Directors of Ergon Energy Queensland Pty Ltd are executives of the Ergon Energy group and are not independent as assessed against *ASX Best Practice Recommendation 2.1*, further the role of the Chairman and the Chief Executive Officer is exercised by the same individual. While the Board has a number of committees, discussed in detail in this statement, it does not have a nomination committee as the Directors are appointed by Queensland's Governor-in-Council, in accordance with the *Government Owned Corporations Act (1993)*.

Board performance

The Board reviews its own performance and that of the Committees of the Board at least every two years to ensure they are working effectively. This includes overall board performance, roles, functions, relationships, process and continuing improvement, as well as the role of the Board in setting direction and monitoring achievement of strategic objectives.

The ongoing provision of timely and relevant information to the Board is of critical importance in enabling the Directors to effectively discharge their duties in accordance with the requirements under the *Government Owned Corporations Act 1993* and the *Corporations Act 2001*. The structure, format and content of the board agendas presented to the Directors for consideration and decision, and the board paper format, quality, content and timeliness of issue is reviewed on an ongoing basis with a formal review conducted on an annual basis.

A performance review of the Board and its members was undertaken in June 2009. The review supports the systems in place to ensure that the Board is delivering best practice outcomes for the business. The report by the consultants engaged to conduct the review concluded that "the Ergon Board appears to be a functioning group of individuals all of whom have experience, expertise and talents to bring to bear on the decision-making processes at Ergon." The report also detailed other areas of strengths and listed some key areas for improvement. Further workshops were held with the consultants during 2010/11 to progress implementation of the recommendations from the 2009 performance review.

Access to quality advice

The Directors' Code of Conduct provides for each Director to have the right to seek independent professional advice at the company's expense, subject to the prior approval of the Chairman. The Board has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the company's expense, such legal, accounting or other services, consultants or experts from time to time as it considers necessary in the performance of its duties.

The company has entered into a Deed of Access and Indemnity with each Director, giving them right of access to all documents that were provided to them during their term in office, and for a period of 10 years after ceasing to be a Director and to indemnify them to the extent allowed by law in respect of certain liabilities that they may incur as a result of, or by reason of, being a Director.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Ergon Energy embraces ethical business practice as a fundamental part of the organisation's culture. It is critical to supporting our corporate values and, therefore, to realising our strategic plans and, ultimately, our vision. The Board and management are committed to conducting all business activities legally, ethically and with strict observance of the highest standards of integrity and propriety. To meet this commitment, sound corporate governance practices and policies have been adopted by the Board and implemented at all levels of management. Each Director is expected to have regard for these practices and policies in the performance of their duties as a Director of the company.

The Board of Ergon Energy has a Board Charter and a formal Directors' Code of Conduct and Conflicts of Interest Guidelines to assist with these governance objectives.

The Corporations Act 2001 applies to Ergon Energy Corporation Limited and the other companies in the group. Accordingly, the statutory duties of Directors apply and the Board follows normal procedures for the disclosure of Directors' standing interests and material personal interests, and how to deal with them. The Board reviews the register of Directors' interests at each meeting and all new declarations of interest by Directors are brought to the attention of the other Directors.

Code of conduct and integrity mechanisms

Ergon Energy has updated its policies in line with legislation that has given the state's Crime and Misconduct Commission (CMC) the power to investigate suspicions of official misconduct. *The Integrity Act 2009* that came into force on 1 January 2010 also requires chief executives of government-owned corporations to notify the CMC of official misconduct. The updated policy documents include the Fraud and Official Misconduct Policy, Employees Code of Conduct Policy, Employees Code of Conduct Standards Procedure and Reportable Conduct Guidelines. These changes were communicated to staff through our internal communication channels.

A Fraud Risk Assessment was undertaken across the company to identify key fraud risk areas and highlight areas for potential control improvements.

Ergon Energy's employees are expected to act appropriately and practice ethical behaviour. This expectation comes directly from the Board and is supported by our continuing focus on embedding corporate values in the employee Code of Conduct Standards. Our code, which applies to all employees, is available on the intranet and is reinforced regularly, is intrinsic to our learning and development programs, such as the Management Foundations and other leadership development programs, as well as the Leadership Capability Centre that was established to objectively assess the behaviour of developing managers.

We have also continued to operate the FairCall Service, established in 2003, as a means by which staff, contractors and members of the public can report unethical conduct, breach of corporate policy – such as the Code of Conduct – or suspected fraud. The service is fully supported by the business, is independently operated and reflects the principles embodied in the *Public Interest Disclosure Act (2010)*, *Whistleblowers Protection Act (1994)* and various whistleblowers' protection standards, ensuring fairness to all concerned.

All allegations lodged using the FairCall Service are referred to the Manager Internal Audit for investigation and, where these are substantiated, appropriate disciplinary measures are applied. During the year, four allegations were received, but after investigation, no disciplinary measures were required.

The Manager Internal Audit is also the liaison officer for referring any suspicions of official misconduct to the CMC and overseeing any investigations and reporting the results of the investigations to the CMC.

BOARD COMMITTEE MEMBERSHIP AND MEETING ATTENDANCE

	Board Meetings		Audit & Financial Risk Committee		AER 2010 Due Diligence Committee		People Committee		Operational Risk Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held
R Craven	20	21	6	7	2	2	5	5	4	4
J Bird	21	21	7	7	2	2			1	1
S Forrester	20	21	2	4			4	5		
T Mooney	12	13	0	1					1	2
G Humphrys	21	21	7	7			4	5		
W Myers	19	21			1	2	5	5	3	4
H Stanton	21	21			2	2			4	4

Supporting Diversity

Ergon Energy also has a Diversity Policy, which is implemented through the diversity program as a part of Ergon Energy's People Strategy, to support an inclusive workplace culture. Details on the measures and our achievements related to diversity can be found on pages 53–54.

As part of the Board appointment process shareholding Ministers consult broadly across government, including the Queensland Government Office of Women, which maintains a register of women as suitable board candidates.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Ergon Energy has a robust structure to independently verify and safeguard the integrity of our financial reporting, as well as a comprehensive external and internal audit process. (p 75)

Audit and Financial Risk Committee

The Audit and Financial Risk Committee operates under a formal charter approved by the Board, which is available on our website, and receives reports from the executives, as well as independent external auditors. It approves and monitors Ergon Energy's in-house internal audit program to provide ongoing assurances on financial integrity, financial risks, regulatory reporting and compliance issues.

Committee's focus in 2010/11: The annual internal audit plan was approved by the committee who requested that a three year rolling internal audit plan be prepared to gain further assurance that the key material risks within the organisation were subject to audit or review where appropriate and necessary. Consultants were engaged to prepare an assurance map summarising by functional area, the key strategic and corporate risks and detailing the level of assurance cover provided/required. The assurance map is being used to identify and prioritise potential areas for review and audits for inclusion in a three-year rolling audit plan.

The committee reviewed the statutory financial accounts for the Ergon Energy Group and the supporting management representation letters and recommended that the Board adopt the financial accounts and Directors' Report.

REPRESENTATIONS



Our Auditing process is structured to ensure financial integrity, financial risks, regulatory reporting and compliance issues are subject to audit and review from the business through the Audit and Financial Risk Committee to the Board, with external review. The hierarchy of representations made to and by the committee, as part of the process to adopt the financial accounts and Directors' Report, is shown in the diagram above.

When reviewing the statutory financial accounts the committee received the following assurances from the external auditors;

"Our audit procedures were focused on those areas of activities that are considered to represent the key audit risks and focus areas identified in our audit strategy document and through discussions with management during the course of our audit. We are satisfied that these key areas of focus have been addressed appropriately and are properly reflected in the consolidated financial report."

The external auditors undertook an assessment of internal controls and reported to the committee that during the performance of our controls testing certain control deficiencies were noted which have been reported to management. None of these are considered to be significant in nature and as such we have not identified any material weakness in internal controls relating to the prevention and detection of fraud and error which would impact upon our ability to provide our opinion on the financial report. No matters relating to fraud concerning either employees or management has come to our attention.

The lodgement of the Australian Financial Services Licence report to the Australian Securities and Investment Commission was overseen by the committee and it endorsed the certification that during the financial year Ergon Energy has complied with all the financial requirements under its licence and the requirements relating to trigger points.

The committee reviewed the independence of the external auditors and were satisfied that the provision of non-audit services, during the year, by the Queensland Audit Office or its delegate was compatible with the general standard of independence of auditors imposed by the *Corporations Act 2001*.

Against the background of government announcements and delays on the introduction of an Emissions Trading Scheme and/or a Carbon Price, the Committee focused its attention on the valuation of the portfolio of hedge contracts held by the retailer Ergon Energy Queensland Pty Ltd. The basis for valuation of carbon was confirmed by the external auditors as having been appropriately addressed.

The committee reviewed and endorsed the energy trading strategy which provides the framework for electricity hedging with a strategic objective of limiting the financial risk of participating in the electricity wholesale market.

The Regulatory Reporting Statements prepared for lodgement with the AER were reviewed by the committee and it provided a representation to the Board that the committee had received all necessary management representations, made all appropriate enquiries of management and was satisfied that the Directors' Responsibility Statement in respect to the preparation and content of the Regulatory Reporting Statements could be signed.

An overview of the various corporate governance processes and mechanisms used in SPARQ Solutions, our ICT services provider, was considered by the committee to form an opinion that the provision of these services were being appropriately managed in the interests of Ergon Energy.

Management actions in response to findings from an ethics and fraud survey conducted to provide a foundation to promote strong corporate governance, financial probity and ethical practices were endorsed by the committee.

With the passing of the *Integrity Act 2009*, which extended coverage of the Crime and Misconduct Commission (CMC) to government-owned corporations from 1 January 2010, the committee received regular reports from the Manager Internal Audit on the matters referred to the CMC and noted that the number of matters referred remained low and that none were considered by the CMC to be significant enough to warrant its investigation. These were dealt with on the basis of advice to the CMC of internal investigations managed by internal audit.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

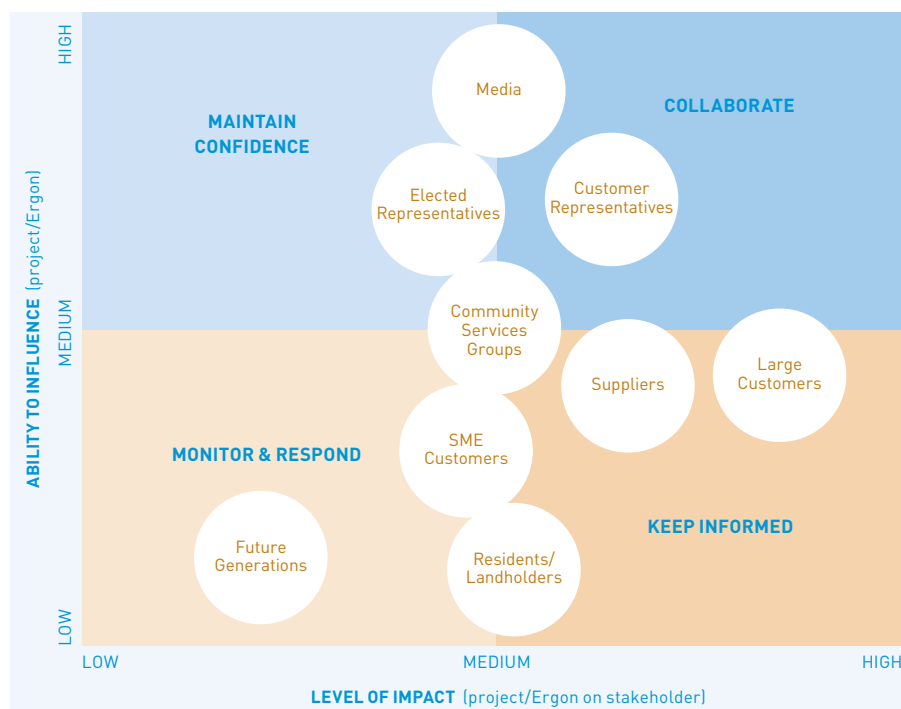
Stakeholder engagement

Broadly, our stakeholders are our customers, the communities we work in and serve, our employees (including representative unions – see page 55), our government shareholders, the regulators, our suppliers and industry associates. One of the key principles of our Stakeholder Engagement Policy is that all our stakeholders have a right to be informed about our activities in a timely and accurate manner and to be engaged.

Our commitment to this principle has led this year to the application of the accountability principles contained in the global AA1000 Stakeholder Engagement Standard, namely inclusivity, materiality and responsiveness, to enable our stakeholders' collective participation in identifying issues and finding solutions. This is increasing the discipline given to determining the level of disclosure appropriate to the issues we face and the degree of involvement desired by our stakeholders.

By clearly understanding our stakeholders' needs and expectations we are better able to make informed decisions, deliver on our business priorities, grow our business and maintain our 'licence' to operate.

PERSPECTIVE FOR CONSIDERING ENGAGEMENT STRATEGY



Our primary stakeholder groups are broken down into specific subgroups or individuals who could potentially be impacted by our activities or could affect our ability to serve our customers. Our corporate stakeholder engagement framework is being used to systematically identify those stakeholders relevant to particular business challenges based on their ability to influence business outcomes and the level of impact that our activity could have on a stakeholder group. The framework helps us to assess the issues and implications and ensure an appropriate level of engagement.

It also helps us better define our corporate social responsibility and support our stakeholders' social, economic and environmental goals. It is this understanding that has helped define the content of this report and the perception of the materiality of the challenges we face. (p 7) The prominence that affordability has in our strategic and operational plans (p 15-19) and the energy conservation/demand management customer partnerships that we are developing (p 33-39) are just two of many examples we have provided throughout this report that demonstrate how our stakeholders are shaping and driving our business decisions.

Government shareholder reporting

The Board and the executive engage with the Queensland Government via regular briefings and through the reporting regime prescribed by the *Government Owned Corporations Act (1993)*. This ensures that the operation and strategic direction of the business is consistent with the Government's energy policy and generally meets the expectations of our shareholder.

Ergon Energy also has established policies that cover our communication obligations to the Government around our performance targets, public safety, probity, occupational health and safety, employment practices, privacy and environmental protection.

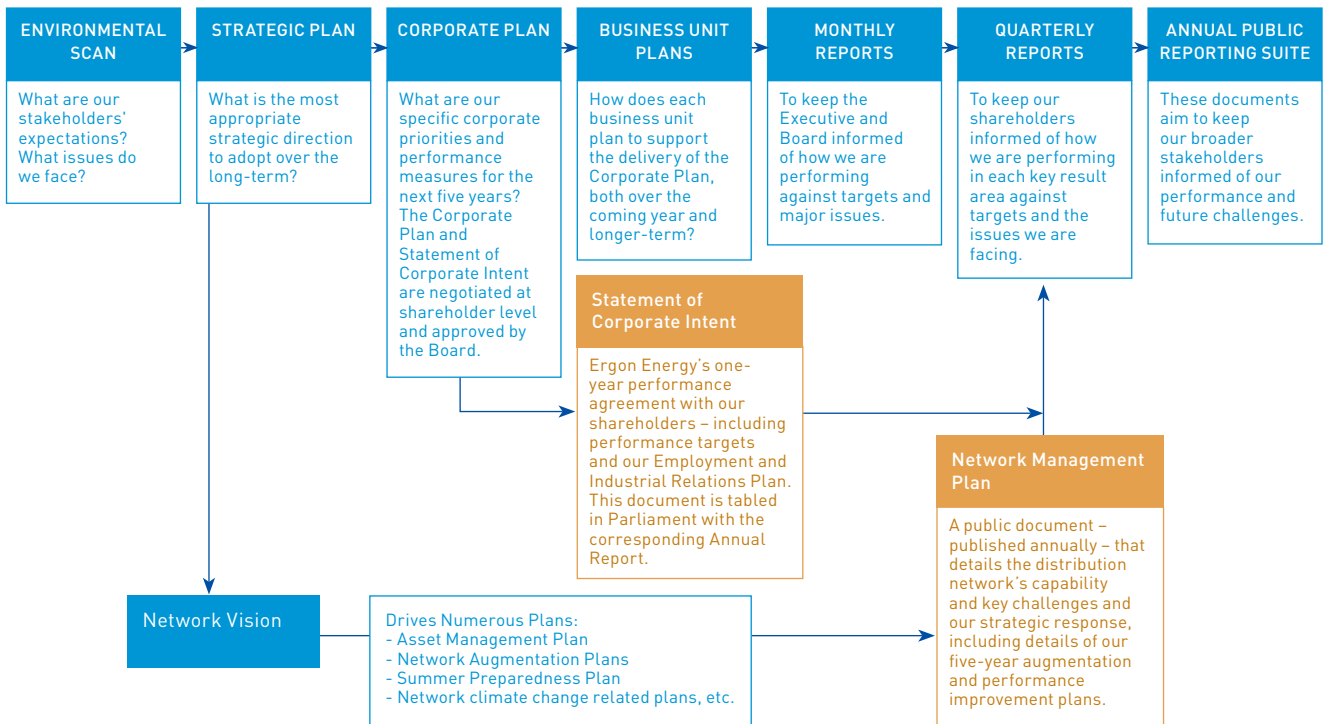
The business has established dedicated teams to manage government and regulatory relationships and to respond to reporting requests.

In line with the continuous disclosure obligations that apply to listed companies under the *ASX Listing Rules*, we ensure that our shareholding Ministers are kept informed regarding any information concerning the business that may be material in nature.

Strategic planning and reporting cycle

Our strategic planning framework is covered here particularly as it relates to the Statement of Corporate Intent and the Network Management Plan, as the key documents that cover Ergon Energy's performance commitments to its stakeholders.

ANNUAL STRATEGIC PLANNING AND REPORTING CYCLE



Our Strategic Plan, which is reviewed annually, aligns with other long-term planning documents, including the Network Vision, to provide an overarching framework to guide the business and the formulation of its annual performance commitment and network plans. Ergon Energy uses a strategic planning model that corresponds to the regulatory control periods. 2010/11 saw the commencement of a new regulatory control period with the AER's Queensland Distribution Determination for 2010/11 to 2014/15 forming the foundation for the next five years.

Ergon Energy documents its corporate performance commitment for each financial year within its Statement of Corporate Intent (SCI – see summary p 8). As a government-owned corporation, this document is in effect our performance agreement, which outlines our corporate objectives, strategies and targets for our shareholding Ministers – the Minister for Energy and Water Utilities and the Minister for Finance, Natural Resources and The Arts. These commitments form the basis of our quarterly shareholder reporting.

The Network Management Plan (NMP) is a rolling five-year plan, prepared in accordance with section 2.3 of the Queensland Electricity Code. It is a public document that is published online annually to detail how Ergon Energy will manage and develop its network with the objective of delivering an adequate, economical, reliable and safe connection of electricity supply to our customers. The NMP also reports on the previous year's network performance to our stakeholders in more detail than this report.

Right to information

With the passing of the *Right to Information Act 2009* and the *Information Privacy Act 2009*, a Right to Information and Privacy Officer was appointed to manage applications for information and the publication of non-personal information which is considered to be of significant interest to the wider public. This role is also responsible for ensuring the processes for collection and managing personal information complies with the National Privacy Principles as prescribed in the *Privacy Act 1988 (Cth)*.

A key objective of the *Right to Information Act 2009* is the implementation and maintenance of the ongoing process of the release of information into the public domain in accordance with government expectations and legislative obligations. The information released is available at <http://www.ergon.com.au/about-us/right-to-information>

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Ergon Energy respects the rights of shareholding Ministers as the ultimate owners of the business. We are committed to not only complying with legislative requirements and policies as determined by the Queensland Government but demonstrating our commitment to go beyond them through the application of contemporary governance practices.

The Board has approved a Disclosure to Shareholders Policy and a Communications Strategy Guideline which embodies these commitments.

We work in a collaborative fashion with our shareholding Ministers to deliver the best outcomes for the business. The Chairman and Chief Executive have regular meetings with shareholding Ministers and their representatives, as part of a broader government engagement program, to ensure there is active dialogue throughout the year.

Directions and notifications

Under Part 10 of the *Government Owned Corporations Act 1993* the reserve powers of the shareholding Ministers provide that they may in the public interest notify Ergon Energy, as a government-owned corporation, of a public sector policy that is to apply to the corporation (section 114) and may also give a written direction to Ergon Energy (section 115) or a direction to amend the Statement of Corporate Intent (section 108):

- In June 2011, a direction was made by the Queensland Government under section 108(4) of the Government Owned Corporations Act 1993 requiring Ergon Energy to modify the 2011/12 draft Statement of Corporate Intent to the effect that the impact of the Australian Competition Tribunal decision on gamma of May 2011 should be removed from Ergon Energy's Pricing Proposal for 2011/12, and as a result, the Benchmark Retail Cost Index Final Decision (BRCI) for 2011/12. The impact was that we did not seek to recover the additional \$40.9 million in revenue arising from the decision.
- In June 2011, a direction was made by the Queensland Government under section 115 of the Government Owned Corporations Act 1993 requiring Ergon Energy not to make a cost pass-through application to the AER in respect to the 2010/11 financial impact of the natural disaster (approximately \$41.8 million).

Ergon Energy did not receive any notifications under section 114 of the *Government Owned Corporations Act 1993*.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Risk management activities and compliance

Ergon Energy recognises that effective risk management and compliance frameworks are necessary to meet the expectations of our shareholding Ministers, customers, the community and other stakeholders. Critical to this is that our Directors and management are able to demonstrate an understanding of the business risks and compliance obligations and that these are being efficiently and effectively managed.

The primary objectives of Ergon Energy's risk management and compliance frameworks are to:

- facilitate the achievement of the organisation's corporate objectives and strategies
- validate and confirm that the overall strategic direction of the business is appropriate
- identify business priorities and allocate resources effectively and efficiently
- assist in discharging legal and regulatory requirements and meeting the expectations of stakeholders
- identify and maximise opportunities for growth and diversification.

To give effect to its risk management and compliance commitments, Ergon Energy has established policies on these and other areas (e.g. Health and Safety and Environment) and implemented a risk management framework based on the Joint Australia/New Zealand Risk Management Standard: AS/NZS ISO 31000:2009, and a compliance program based on the Australian Compliance Standard AS 3806:2006. In developing these policies, elements and attributes of the Committee of Sponsoring Organisations Internal Control Framework and Enterprise Risk Management Framework have been drawn on where appropriate.

Ergon Energy has also developed a Standard for Corporate Risk Management, Corporate Risk Management Guideline and Corporate Risk Assessment Tables. The standard sets out the principles that Ergon Energy must follow to achieve effective risk management, emphasises and provides guidance on how risk management should be implemented and integrated into Ergon Energy through the creation and continuous improvement of a framework and describes a process for managing risk. The guideline supports the standard by providing practical guidance on how to implement the risk management process referred to in the standard. The tables provide uniform risk management criteria to support consistent risk-based assessments in Ergon Energy and are to be used in conjunction with the Standard and Guideline.

External and internal audit

Ergon Energy submits to a number of external audits in pursuit of world-class practice and, in some cases, to gain or retain the certification we need to do business, such as Quality Assurance ISO 9001 certification for our Transmission and Project Services. Other audits we regularly undergo include Australian Standard 4801 Occupational Health and Safety, Electrical Safety Legislation, International Customer Service Standards and Environmental Standard ISO 14001. Many of these provide external assurance of the performance statements made in this report.

Ergon Energy's annual accounts and financial statements were audited by a representative of Deloitte Touche Tohmatsu (Deloitte), as delegate of the Auditor-General of Queensland, to meet government and regulatory reporting requirements. The scope of our internal audit function covers all of Ergon Energy's operations, either directly or through auditors contracted by the organisation or its subsidiaries.

Our internal audit function helps us accomplish our objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Ergon Energy Internal Audit Charter is established by the authority of the Ergon Energy Audit and Financial Risk Committee. In addition, we conduct a number of operational audits to assess the risks and adequacy of processes and controls over assets, systems and activities.

This year's plan included audits of vegetation management, pole inspections, recruitment, selection and induction processes, obsolete stock and sponsorship and corporate hospitality. These reviews focused on documenting and testing key controls including management and approval processes. Other audit reviews covered specific risk areas such as cultural heritage, Renewable Energy Certificates and the Franchise Energy Risk Policy.

The Manager Internal Audit reports for administrative purposes to the General Counsel/Company Secretary but retains unrestricted access to the Chief Executive to discuss any matter relating to the finances or operations of Ergon Energy. Internal Audit also ensures its independence by reporting to the Audit and Financial Risk Committee on progress against the Internal Audit Plan and resolution of issues raised in reports. The Manager Internal Audit also has access to the Board of Directors through the Audit and Financial Risk Committee Chair.

During the year the development of an assurance map/three-year internal audit plan also commenced for 2011-2014 with a focus was on ensuring that key corporate risks are addressed and audit efficiency and effectiveness is maximised .

AER 2010 Due Diligence Committee

The AER 2010 Due Diligence Committee assists the Board to fulfil its corporate governance and oversight responsibilities by reviewing and reporting to the Board on the due diligence process conducted in relation to the preparation and outcomes of the regulatory proposal submitted to the AER.

Committee's focus in 2010/11:

An analysis of the Distribution Determination handed down by the AER was reviewed by the committee together with a report on lessons learned from the preparation of the Regulatory Proposal and areas for potential improvement with the next regulatory re-set.

The committee endorsed the initiation of an application for a merits review and judicial review proceedings to challenge aspects of the AER Final Distribution Determination.

Operational Risk Committee

The Operational and Risk Committee assists the Board in its response to business and operational risks and oversight responsibilities in relation to health and safety, including community safety, as well as environmental risks and exposures, and insurance and claims management.

Committee's focus in 2010/11:

Safety for employees and members of the public remained a major focus of the committee. It endorsed the adoption of a single comprehensive safety indicator which includes a mixture of lead and lag indicators combined with weightings to provide a single number for comparing safety performance across the business. The use of the indicator will enable the business to gauge where it is at on its safety journey. (p 44) Reports on class 1 incidents were reviewed and lessons learnt from these incidents and actions taken to improve behavioural safety performance issues. Reports were also received on the progress on the proposed harmonisation of Australia's workplace health and safety laws and the impacts that this will have on the company's operations. (p 45)

The committee endorsed a whole-of-business management plan for meeting Minimum Service Standards (MSS) and Service Target Performance Improvement Scheme (STPIS) targets during the 2010-15 regulatory term.

The introduction of emerging technologies, such as smart grid, distributed generation and storage technologies, that will add complexity to the distribution network was reviewed by the committee. These technologies will bring with them both opportunities for improvements to the way the distribution network provides customers electricity requirements but also will bring some risks that will need to be managed.

The company's Operational Resilience Framework was reviewed by the committee. This included Disaster and Emergency Management Plans, Disaster Management Exercises, and Memoranda of Understanding for Mutual assistance with Energex.

Following Cyclone Ului (Category 3) in March 2010, the committee commissioned an external review into Ergon Energy's preparation and response in relation to cyclone events. The improvement actions implemented following the review assisted in preparing the company to deal with the impacts of and the restoration efforts required for severe Cyclone Yasi in February 2011.

Workshops were conducted to review the Corporate Risk Profile and Business Unit Risk Profiles. The Corporate Risk Profile contains the key risks that have the potential to significantly affect the achievement of Ergon Energy's vision, objectives and strategies. The key risks are subject to regular review by the committee. Risk appetite statements are being developed to document the level of risk that the company will accept for risks included in the Corporate Risk Profile and Business Unit Risk Profiles.

The committee reviewed regular reports on the effectiveness of the systems for monitoring compliance with legislation and regulations with particular emphasis on key risk areas, including; electricity industry legislation workplace health and safety, environmental protection, employment and equal opportunity, trade practices, the *Government Owned Corporations Act 1993*, Corporations' Law, privacy, consumer protection legislation, native title and cultural heritage, and development and planning legislation.

The oversight of risk management was extended through the review of the insurance program to determine an appropriate level of risk transfer in the form of insurance cover, and the level of risk retention through deductible limits and self insurance for selected asset categories and public liability.

Risk management activities and compliance

During 2010/11, the following risk management and compliance activities were undertaken by Ergon Energy:

- **Risk Management Framework:** A review was undertaken by management and reported to the Board on the effectiveness and efficiency of Ergon Energy's risk management framework for managing its material business risks and to support the assurances provided by the Chief Executive Officer and Chief Financial Officer, in accordance with section 295A of the *Corporations Act 2001*, that the framework is founded on a system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.
- **Insurance Program:** The review of Ergon Energy's 2010/11 Insurance Program was undertaken to ensure cost effective coverage of the organisation's insurable risks.

This was particularly relevant in light of the natural disasters across the state.

- **Risk Profiles:** Ergon Energy's Corporate Risk Profile and Business Unit Risk Profiles were reviewed and updated. As part of this process a review of the organisation's Corporate Risk Profile and risk management and compliance frameworks was performed to align the risk profiles with Ergon Energy's Corporate Plan and Business Unit Plans.
- **Risk Appetite and Risk Assurance:** Work commenced on developing risk appetite statements for key risks included in Ergon Energy's Corporate Risk Profile which will set the level of risk Ergon Energy is prepared to accept in pursuing its corporate objectives and strategies. The work on risk assurance focused on developing the risk assurance map to show the assurance activities performed in relation to key corporate risks and also assist with the development of a three-year internal audit plan.
- **Energy Trading Performance:** Performance has been consistent. As a measure of hedge performance, being the realised Long-Term Energy Procurement (LEP) position, we produced an end-of-year position of \$2.0 million negative, compared to 2010 when the year ended \$0.9 million positive. Steady improvements have been made to the risk management around energy trading. Of note, a deal capture system project is nearing completion and is expected to be finalised in 2011. This project will improve the quality and timeliness of data and support efficient reporting on risk matters to all levels of management, including the Board. In addition, we have renewed contracts for generation for the isolated Mount Isa-Cloncurry network.
- **Increasing Market Participation:** Ergon Energy has managed increasing activity in the National Electricity Market. More than 4,000 distribution customers are now with other retailers and there are 21 retail participants in regional Queensland. While this may be small compared to the customer base, it has increased significantly during the last year.
- **Harmonisation of Workplace Health and Safety Laws:** Work is being undertaken to ensure compliance as the laws come into effect. (p 45)

- **National Energy Customer Framework (NECF):** Ergon Energy has participated in the detailed development of the Ministerial Council on Energy's NECF, through discussions at both state and national level. NECF is a national framework, regulated by the AER, covering the non-economic aspects of energy retail sale and distribution connection and supply, including consumer protection. The Queensland Government has decided that the majority of the NECF reforms will be introduced in Queensland on 1 July 2012. NECF involves the creation of a new *National Energy Retail Law*, *National Energy Retail Rules*, *National Regulations* and amendments to the *National Electricity Rules*. These instruments will replace many of the state-based obligations to which Ergon Energy is currently subject, including as contained in the *Queensland Electricity Industry Code*, *Electricity Act 1994* and *Electricity Regulation 2006*.
- **Performance against the Service Target Performance Incentive Scheme:** On July 1, 2010 the AER introduced a new set of service performance targets through the Service Target Performance Incentive Scheme (STPIS). Under the Scheme, the AER applied reliability measures to Ergon Energy relating to unplanned outages (including service fuse and beyond outages for individual customers) as well as a customer service target specifically in relation to National Contact Centre telephone answering performance. If Ergon Energy performs better than its targets in a financial year it earns a reward in the form of an incremental revenue increase two years after the actual performance is reported. Conversely, if actual performance is worse than STPIS targets a financial penalty is incurred. The reward or penalty for each year (in aggregate across the STPIS parameters) is currently capped at 2% of Ergon Energy's regulated revenue. For 2010/11, this equates to about \$27 million that could be earned, or returned to customers through a revenue reduction in 2012/13. Based on the final audited service performance statistics for 2010/11 an annual revenue adjustment will occur in the 2012/13 financial year.

The most notable compliance matters during 2010/11 included:

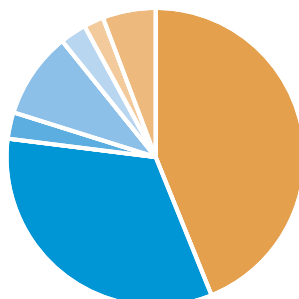
- **Compliance with the Electricity Industry Code (the Code):** While there was an improvement on the previous years result, which was a significant achievement considering the summer of natural disasters, Ergon Energy's network performance for 2010/11 was unfavourable for one of the six Minimum Service Standards (MSS) categories that it is required to meet under clause 2.4.2 of the Code (as set by the QCA). Ergon Energy views its MSS performance very seriously and will continue to use its best endeavours to achieve performance levels that are as close as possible to these service expectations. (p 31) On 16 November 2010, the QCA issued Ergon Energy with a Warning Notice pursuant to section 120Q of the *Electricity Act 1994 (the Act)* following the failure by Ergon Energy to meet five of its six MSS limits in 2008/09 and again in 2009/10, largely due to safety-initiated operating constraints. Ergon Energy has exceeded last year's Service Level performance under the Electricity Industry Code. A significant amount of work has also been done to ensure our customer service activities are in accordance with the Code. Subsequent auditing, both independently and internally, has identified a high level of code compliance in areas such as disconnection processes and application of Guaranteed Service Levels. There has also been a sustained improvement in service order completion for activities, such as new connections and special meter reads. The average completion YTD was 99.2% compared to 98.7% in 2009/10. The result was achieved despite the reported impact of natural disasters.

- Renewable Energy and Gas Electricity Certificates:** Ergon Energy met its liability for Renewable Energy and Gas Electricity Certificates (RECs and GECs). In April 2011, Ergon Energy lodged its 2010 calendar year Liability Self Assessment Report by the due date. Ergon Energy Queensland met 100% of its liability for GECs that were surrendered to meet its 2010 GEC compliance requirements. Our compliance requirements are equivalent to the purchase of 15% of our customers' energy requirements from Queensland gas-fired generation. Ergon Energy Queensland was also liable for RECs that were surrendered on 14 February 2011 to meet its 2010 franchise load REC compliance requirements. EEQ is also liable under the Small-scale Renewable Energy Scheme for small-scale generation certificates under the *Renewable Energy (Electricity) Act 2000* and the accompanying *Renewable Energy (Electricity) Regulations 2001*. Ergon Energy has met the first two quarters of liability, purchasing the required volume in the traded market.
- Safety Prosecutions and Infringement Notices:** In 2010/11 Ergon Energy received one fine relating to a prosecution under the *Electrical Safety Act 2002* and one fine relating to a prosecution under the *Workplace Health and Safety Act 1995*. No convictions were recorded in relation to the incidents. Ergon Energy received one infringement notice and fine from the Electrical Safety Office in relation to an electrical safety incident.
- Personal Injury Claims:** In 2010/11 Ergon Energy received three Personal Injury Claims from external parties and Ergon Energy staff and contractors under the *Personal Injuries Proceedings Act 2002* and paid an amount of \$307,354. We also received four WorkCover common law claims from staff and paid out \$925,000 in damages in the financial year. At the time of publication, five common law claims remained in progress.

- Environmental Compliance:** Ergon Energy continued to maintain certification of its Environmental Management System to AS/NZS ISO 14001 in 2010/11. This year Ergon Energy implemented a new Health, Safety and Environment Integrated Management System to better streamline the processes of our safety, environment and cultural heritage functions and improve their integration with the business. (p 45)
- Ergon Energy's incident management framework classifies incidents using a four-level scale. For environment or cultural heritage impacts, a Class 1 incident is a major impact involving a sensitive environment or a breach of cultural heritage legislation resulting in significant financial penalties. A Class 4 incident is classified as a minor localised impact, requiring minimal or no remediation.
- A total of 141 incidents with an environment or cultural heritage impact were reported. Of these, 11 were Class 3 and 130 were Class 4 impact. Ergon Energy had no incidents resulting in a Class 1 or 2 environment or cultural heritage impact and there have been no breaches of the *Environmental Protection Act* requiring enforcement action by the Queensland Government's Department of Environment and Resource Management (DERM).

ENVIRONMENTAL INCIDENTS

Our most frequent environmental incidents involve birds, bats and small animals, such as snakes, contacting our powerlines.



- Fauna management 61%
- Oil & fuel management 46%
- Soil management 4%
- Vegetation management 13%
- Waste management 4%
- Air emissions 3%
- Other 8%

Ergon Energy has maintained a focus on contaminated sites with arrangements for managing contaminated land assessment and remediation reviewed and updated. A comprehensive list has been developed to assist prioritising affected sites. Evaluation and remediation is under way at several locations.

Ergon Energy has worked cooperatively with DERM to manage changing statutory obligations, particularly in the areas of: responding to consultation requests regarding a number of proposed statutory declarations and strategies; negotiations regarding approval processes and obligations under the *Nature Conservation Act 1992* and *Sustainable Planning Act 2009*; development of the Queensland Government Biodiversity Offset Policy; and active participation in the departmental simplification of the regulatory framework project.

- Customer Privacy:** We are continuing to protect the privacy of personal information collected and used during our operations in accordance with the National Privacy Principles (NPPs) contained in the *Privacy Act 1988 (Cth)*. All of the repositories that hold our customer data are governed by strict data security systems and procedures to protect the personal information from misuse and loss and from unauthorised access, modification or disclosure. During 2010/11, we received seven complaints relating to customer privacy matters. Six were unfounded and the remaining one was resolved.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Ergon Energy recognises that to attract and retain the people necessary to deliver on the company's strategic plan and achieve its vision, salaries and salary packaging must be competitive, flexible and performance orientated.

As part of our Human Resources Policy, we have a remuneration framework considered to be attractive by both prospective and current employees. This policy is designed to attract high calibre employees, retain employees, incorporate current industry benchmarks and ensure employees are aware of what they need to do to contribute to team and organisational goals.

The remuneration strategy involves the allocation of at-risk payments based on performance at the company, business unit and individual level. Details of remuneration to non-executive Directors and executives are reported in the Annual Financial Report (available online), consistent with the requirements of Australian Accounting Standard AASB 124. The eligibility of executives for an at-risk or variable component is directly linked to both the overall performance of the company and their individual efforts against a range of key indicators. This is in line with the performance agreement made through our Statement of Corporate Intent. Any at-risk payment is contingent upon the Board's assessment of the company's overall performance and, consistent with the provisions of Ergon Energy's Executive Remuneration Guidelines, their approval of the payment of 'at risk'.

Directors are remunerated separately from the executive. Directors' emoluments, as a Board or committee member, are set by the Queensland Government, while reimbursement was made for expenditure incurred in performing their roles as directors of the company. Executive directors do not receive additional payment for their role as director of a company. Non-executive directors of the company do not participate in any variable reward or at-risk plan and are not eligible for retirement benefits other than for statutory superannuation.

People Committee

The People Committee assists the Board in developing a strategic, long-term and sustainable approach on issues relating to people working for Ergon Energy and fulfilling the Board's oversight responsibilities in relation to remuneration, performance management, industrial relations, employee engagement, organisational culture and learning and development.

Committee's focus in 2010/11:

The committee reviewed the Chief Executive's performance and received reports on performance reviews of senior executives. It also endorsed the remuneration and benefits program designed to ensure that the remuneration and benefits offered to employees remain relevant to the updated company strategy and emerging market conditions.

The Employee and Industrial Relations Plan for the upcoming year was endorsed by the committee. The 2011/12 plan outlines the organisational philosophy for managing our people, for managing industrial relations and for negotiating the next round of the Union Certified Agreement to replace the current agreement which expires in September 2011. (p 55) It also defines the 'people' elements critical to the delivery of organisational objectives including the resources, skills and culture required to execute the corporate strategy, including the competencies needed to support strategic priorities.

The committee endorsed management's actions to improve the Have Your Say Survey results for the three key elements of employee engagement namely 'empowered', 'appreciated' and 'committed'.

Regular reports were reviewed on the progress around the delivery of the diversity program and endorsing plans to overcome barriers to meeting its objectives. The diversity program is based on a commitment to attract and recruit a workforce that is representative of Queensland's overall population/Ergon Energy's customer base through increasing the diversity of the applicant pool and creating a recruitment strategy that is attractive to more applicants from under represented groups.

The Human Resources Quarterly Report provided the committee with relevant information to review matters on employee engagements and separations, turnover, leave accruals, absenteeism and rehabilitation. The committee endorsed a strategy to reduce the level of excess accrued leave as a means of managing the work/lifestyle balance of employees.

A review was undertaken of Training and Development strategies and activities based on four key focus areas; safety in training, quality training and development, efficiency and effectiveness and customer service with the objective of developing a highly skilled and competent workforce.

ENTERTAINMENT AND HOSPITALITY

In furthering Ergon Energy's business interests and working to achieve its corporate goals, from time to time entertainment and hospitality is provided to employees, clients, customers and community groups. Reasonable limits have been observed during 2010/11 for aggregate event expenditure and expenditure per head, taking into account the nature of the event.

At the request of shareholding Ministers the Statement of Corporate Intent includes information on Corporate Entertainment and Hospitality. For 2010/11, the following entertainment and hospitality expenses over \$5,000 were:

EVENT NAME	INVESTMENT
Southern Employee Christmas Function – Toowoomba (Dec 2010)	\$9,100
Brisbane Employee Christmas Function – Brisbane (Dec 2010)	\$6,020
Central Employee Christmas Function – Rockhampton (Dec 2010)	\$12,628
Far North Employee Christmas Function – Cairns (Dec 2010)	\$8,036
North Employee Christmas Function – Townsville (Dec 2010)	\$5,428

ABBREVIATIONS

A&TSI	Aboriginal and Torres Strait Islander	GECs	Gas Electricity Certificates	NPPs	National Privacy Principles
AEM	Advanced Electronic Meters	GIS	Geographic Information System	NPAT	Net Profit After Tax
ABS	Air Break Switch	GRI	Global Reporting Initiative	NIRC	Network Investment Review Committee
AER	Australian Energy Regulator	GUSS	Grid Utility Support Systems	NMP	Network Management Plan
ASX	Australian Stock Exchange	GSL	Guaranteed Service Level	QCA	Queensland Competition Authority
BRCI	Benchmark Retail Cost Index	HSE IMS	Health, Safety and Environment Integrated Management System	RECs	Renewable Energy Certificates
CESAP	Community Electrical Safety Awareness Plan	ICAM	Incident Cause Analysis Method	RFDS	Royal Flying Doctors Service
CSI	Comprehensive Safety Indicator	ICT	Information and Communications Technology	SPI	Scheduled Performance Index
CPI	Cost Performance Index	ISO	International Organisation for Standards	STPIS	Service Target Performance Incentive Scheme
CMC	Crime and Misconduct Commission	IRC	Investment Review Committee	SHADO	Sexual Harassment Anti-discrimination Officers
CARE	Cyclone Area Reliability Enhancement program	KPIs	Key Performance Indicators	SWER	Single Wire Earth Return
DERM	Department of Environment and Resource Management	LEP	Long-Term Energy Procurement	SCI	Statement of Corporate Intent
EBIT	Earnings Before Interest and Tax	MSS	Minimum Service Standards	SME	subject matter experts
ESO	Electrical Safety Office	NABERS	National Australian Built Environment Rating System	SCADA	Supervisory Control and Data Acquisition
ELT	Executive Leadership Team	NECF	National Energy Customer Framework	ULDA	Urban Land Development Authority

INDEX

account payment options	17	distribution business,	4, 60, 64	network, quality of supply	26
affordability, electricity	7, 10-11, 13, 15-19	electricity		network, reliability	7, 10, 12, 30-31, 77
air conditioner use	23, 33-34	dividends	61-63	network, spatial	11, 26, 51-52
apprentice / traineeships / graduates	52-53	efficiencies, operational	10-11, 13, 17, 49-51	representation	
asset base	3, 61-63	electric vehicles	38	operating expenses	61-63
asset management	11, 22-31	electricity, Ergon Energy's use of	40-41, 50, 58	profit	10, 60
excellence		emissions greenhouse gas	40-41	property strategy	40, 50, 58
awards received	21, 46, 47, 55, inside back cover	employee development	51-53	purpose, our	3
biodiversity, protecting	57, 59	employee engagement / communications	7, 36-37, 44-45, 47, 49-50, 54	regulatory environment	4, 10, 13, 20, 45, 77
Board committees	71, 72, 76, 79	employee harassment anti-discrimination	54	renewable energy	16, 37-38, 40-41, 58, 78
Board of Directors	65-68, 70	employee, diversity	7, 13, 53-54, 72	research and development / new technologies	11, 24, 25-26, 32-41, 64
bushfire mitigation	57	employee, remuneration	55, 78-79	resources, use of	57-58
capital investment, network	24-25, 61-63	employee, representation / relations	55	retail business, electricity	4, 60-62, 64
carbon price, future	7, 10, 36	employees / workforce profile	3, 7, 49, 62	revenue	61-63
climate change response	7, 13, 32-41	employees, Indigenous	53	right to information	74
community engagement, energy conservation	33-39	employees, intergenerational	53-54	risk management	75-77
community engagement, Indigenous	7, 18, 19	employees, women	53	safety, community electrical	7, 13, 46
community engagement, major infrastructure	18	energy trading performance	77	safety, workplace health and	7, 10, 12, 13, 42-47
community project support	7, 20, 35-36	entertainment and hospitality	79	service area, our	3, 5
Community Service Obligation payment	61, 62	environmental performance	7, 30, 32-41, 57-59, 78	shareholding Ministers	3
companies, operating	3, 64-65	ethical decision making	71	social media, use of	21
complaints management	21	executive leadership team	68-70	solar energy	20, 37-38
corporate governance, ASX principles of good	64-79	external and internal audit	75	stakeholders, our (engagement / reporting / rights)	2, 73-74
cost of electricity / tariffs	4, 16	financial performance	60-63	Statement of Corporate Intent	8-9, 74
credit rating	62	financial reporting	62, 72	storm season	inside front cover, 11,
cultural heritage protection	57	generation, electricity	4, 24, 25, 40-41, 58	preparedness/response	12, 13, 27-29, 37
customer experience	20-21	guaranteed service levels	21, 77	strategic objectives	8-Sep
customer privacy	78	high performance organisation	12-13, 48-59	strategic planning and reporting cycle	73-74
customer, energy use	23-24, 33-34	information and communication technology	13, 51-52, 65	sustainability / corporate responsibility	2, 5, 7, 13, 19, 39, 47, 52, 58, 59, 70
customer, hardship	18	insurance program	76	transmission network	4
customer, insights/research	14, 20-21, 33-34	investment review functions	70	vegetation management	11, 30, 52
customer-driven priority	14-21	leadership development	44, 49, 52	vision & values, our	3
customers, helping them save	13, 17-19, 33-39	liabilities	61-63	waste management	58
Customers, our	3-6, 15	load control	26	water, use of	58
demand for infrastructure	7, 11, 23-25	network control	5	weed control	57
demand management	11, 13, 16-17, 19, 34-36	network statistics	5	workforce, profile	56
demand, peak	23-24	network, health of / inspection	23, 27, 52	works delivery	11, 50, 20, 25
directions and notifications	75				

COMMON INDUSTRY UNITS OF MEASURE

SAIDI	System Average interruption Duration Index. Network reliability performance index, indicating the total minutes, on average, that customers are without electricity during the relevant period (minutes).	LTIDR	Lost Time Injury Duration Rate. Total days lost due to injuries per million hours worked over the 12 month reporting period. Lost Time Injuries Progressive Days Lost x 1,000,000 / Exposure Hours	kV	kilovolt – one kV equals 1,000 volts
SAIFI	System Average Interruption Frequency Index. Network reliability performance index, indicating the average number of occasions each customer is interrupted during the relevant period (interruptions).	DEEFR	Dangerous Electrical Event Frequency Rate. A safe work practice measure that tracks Dangerous Electrical Events (DEEs) associated with work done by our employees (DEEs x million / exposure hours). Dangerous Electrical Events (DEE) x 1,000,000 / Exposure Hours	W	watt – a measure of the power present when a current of one ampere flows under a pressure of one volt
Customer Minutes	Customer minutes is a measure of the number of customers interrupted multiplied by the duration of a power outage or outages, incorporating any staged restoration.	V	volt – the unit of potential or electrical pressure	kW	kilowatt – one kW equals 1,000 watts
AIFR	All Injury Frequency Rate – measured as number of injuries per million hours worked. Lost Time Injuries (LTI) + Medical Treatment Injuries (MTI) x 1,000,000 / Exposure Hours	VA	volt ampere – volt amperes are the ‘apparent power’ and are the product of the voltage applied to the equipment times the current drawn by the equipment. The VA rating is limited by the maximum permissible current, and the watt rating by the power-handling capacity of the device	MW	megawatt – one MW equals 1,000 kilowatts
LTIFR	Lost Time Injury Frequency Rate. Number of lost-time injuries per million hours worked over the 12 month reporting period. Lost Time Injuries (LTI) x 1,000,000 / Exposure Hours	kVA	kilovolt ampere – one kVA equals 1,000 VA	kWh	kilowatt hour – the standard ‘unit’ of electricity which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour
		MVA	megavolt ampere – one MVA equals 1,000 kVA	MWh	megawatt hour – one MWh equals 1,000 kilowatt hours
				GWh	gigawatt hour – one GWh equals 1,000 megawatt hours or one million kilowatt hours
				HV	high voltage – alternating current above 1,000V
				LV	low voltage – alternating current above 32V and not exceeding 1,000V
				tCO2-e	tonnes of carbon dioxide equivalents

KEY SERVICE CENTRES

Cairns

109 Lake Street
CAIRNS QLD 4870

Townsville (Registered Office)

22 Walker Street
TOWNSVILLE QLD 4810

Mackay

23 Cemetery Road
WEST MACKAY QLD 4740

Rockhampton

Cnr Fitzroy and Alma Streets
ROCKHAMPTON QLD 4700

Maryborough

97-99 Adelaide Street
MARYBOROUGH QLD 4650

Toowoomba

Cnr South and Hampton Streets
TOOWOOMBA QLD 4350

Brisbane

61 Mary Street
BRISBANE QLD 4000



Ergon Energy's Annual Stakeholder Report 2009/10 maintained Silver benchmarking standard in the Australian Reporting Awards.

This report is printed on certified carbon neutral paper stock.



ANNUAL STAKEHOLDER REPORT 2010/11

Customer Service

13 10 46

7.00am – 6.30pm, Monday to Friday

Faults Only

13 22 96

24 hours a day, 7 days a week

Life-Threatening Emergencies Only

Triple zero (000) or 13 16 70

24 hours a day, 7 days a week

Office of the Customer Advocate

Customer Advocate

PO Box 15107 Brisbane QLD 4002

customer.advocate@ergon.com.au

Ergon Energy Corporation Limited

ABN 50 087 646 062

Ergon Energy Queensland Pty Ltd

ABN 11 121 177 802

ergon.com.au

